

Bolton

Alert

April 2020

COVID-19 Impact on Governmental Pension Plans

The Coronavirus (COVID-19) pandemic has been evolving quickly and new circumstances and information are unfolding each day. As always, Bolton is committed to serving our clients and keeping you informed and prepared for what is coming. One major effect of the pandemic in the US has been the free fall in the stock markets and the lowering of interest rates by the Federal Reserve. These two factors have combined to take back the accumulated investment gains many pension plans have enjoyed over the last several years. Adding to the concern, many governmental employers have a June 30 fiscal year, limiting the timeframe for a recovery to take effect. A second source of concern is the impact on public safety staff from their high exposure positions. Compounding these issues, many governments will have other large expenses and could see a decline in revenue from lost taxes as the economy struggles.

We think that investment losses will have the biggest impact on pension cost but there are other factors. There may be mortality gains (more deaths than normal) and public safety unions may push for line-of-duty benefits (either death or disability) for COVID-19 related outcomes. Groups like retirees also will likely have higher medical claim costs that will impact OPEB liabilities.

What can be done now?

In times of crisis, we all want to take action to try to mitigate or fix the problem. While we cannot turn back the clock to avoid the market losses, there are steps we can take to put our pension plans and our organizations in the best position going forward.

- **Avoid emotional or fear-based investment decisions.** Stay in touch with investment advisors and keep to your investment policies. While rebalancing into equities may seem counterintuitive today, such strategies have proven advantageous in the past for recovery.
- **Review investment mix and net cash flows** to ensure ongoing benefit payments can be made without causing larger losses (some fixed income investments have become less liquid and are incurring higher trading costs as a result of the crises).
- **Communicate with key stakeholders** about the likely impact on balance sheet liabilities. Discussing the issues now can make this “old news” when the CAFR is published.
- **Work with your actuaries** to review budgets and discuss your options for managing your contributions requirements and objectives.

Looking ahead

Institutional shutdowns such as school, library, or college closures can put many hourly staff out of work. Additionally, a significant proportion of public sector employees are on the front lines in this crisis including healthcare workers, police, fire, EMTs, and corrections officers. They are often directly exposed to illness and injury, and their strong presence is needed at a time when they may have family members who are sick. Consider:

- Preparing for higher numbers of staff on leave for themselves or a family member.
- Enhancing disability and sick leave provisions to provide peace of mind for front line staff.
- Providing for employee contributions to continue to the plan during enforced shutdowns.

Some entities that provide essential services are also looking at the feasibility of recalling recently retired employees to provide supplemental staffing. Doing so can trigger plan administration issues that should be evaluated before taking such action.

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Bolton is here to help

Bolton is here to help and is working on ideas and actions that can prepare our clients for the challenges the COVID-19 pandemic presents. Each employer is different and will likely have different obstacles to overcome and resources to solve them. Extending amortization periods, smoothing asset returns, and phasing into the ADC are all possibilities. We believe modeling the level and timing of a recovery is key to helping decision makers take all appropriate action.

If you have any questions or concerns about what is happening with your pension financing and accounting please contact your Bolton consultant or Tom Vicente (443.573.3918), Tom Lowman (443.573.3909) or Jim Ritchie (443.573.3924).