

May 2020

Challenges to Transitioning Back to Normal

Pension plan sponsors and their Trustees are working to adapt to the emerging landscape being sculpted by local meeting restrictions, a depressed economy and financial market disruptions. In addition, they are grappling with how COVID-19 related illnesses and deaths impact their pension programs.

Our not-so-normal world today includes:

- Dealing with multiple communication platforms like Zoom and GoToMeeting,
- Redefining open meeting rules,
- Having most of the staff working remotely while trying to process new retirements and answer retiree questions, and
- Dealing with difficult decisions such as rebalancing assets in an extremely volatile market.

Transitioning includes:

- Heading back to the office in stages while planning for a potential second wave,
- Evaluating existing policies and protocols that may warrant review in light of lessons learned for the COVID-19 experience,
- Starting to focus on budget shortfalls where pension costs are just one of many challenges that plan sponsors face, and
- Trying to decide if (or which) COVID related deaths or disabilities are service related.

The two issues we explore further are the impact of pension costs on budget shortfalls and impact of COVID-19 related deaths and disabilities on pension costs.

Pension Costs and Budget Shortfalls

The vast majority of FY2021 budgets will be based on actuarial valuations that do not reflect recent investment losses (e.g. July 1, 2019 or January 1, 2020 valuation dates.) On the other hand, FY2020 accounting statements with end of year measurement dates will reflect the more recent losses on balance sheets. FY2021 cash management challenges are largely due to losses of revenue that are already a major challenge for finance departments, who are grappling with cutbacks in staff and services as well as hoping for Federal relief.

Higher pension cost will start to materialize in FY2022. While “asset smoothing” techniques will delay the full impact, we can expect serious discussions of whether to:

- Delay lowering discount rates which had been trending down,
- Extend amortization periods, and
- Pay less than the full Actuarially Determined Contributions

Challenges to Transitioning Back to Normal

These conversations will be part of Trustee meetings this fall with the assistance of actuarial projections, which are already being produced for many plans. Making projections without knowing the potential or extent of a recovery may prove to have limited value, but planning is important. Understanding the magnitude of different outcomes can help with early conversations about the options that are available. Budget directors, who are often members of pension Boards, will find that managing these two roles will be more difficult this year than any other normal year, but they will not be alone. Even union trustees, who are trying to save jobs, will have many conflicts they will need to reconcile.

COVID Related Deaths and Disabilities

Most plans provide immediate and larger benefits to survivors or members for line-of-duty deaths and disabilities. A plan with 1,000 active public safety members might average one line-of-duty death per year and often none in many years. The number of line-of-duty disabilities per 1,000 active members vary greatly by plan, but certainly are much more common than line-of-duty deaths. Some frontline workers, from public safety employees to transit workers, have died as a result of the virus and likely more will. In the past, line-of-duty deaths have been very rare for non-public safety employees, where you might find one such death out of every 10,000 employees per year.

Some plan sponsors and Trustees may decide that their plan provisions already allow the survivors of COVID fatalities to qualify for line-of-duty death benefits. Many States have “presumptive” rules where certain diseases (e.g., certain cancer for firefighters) are presumed to be service connected. Some of the larger cities (New York and Chicago) are pushing for their local governments or state to classify COVID cases in this category, particularly for public safety. Trying to create such rules for transit workers but not office workers (who may be in the same non-public safety plan) will create some interesting debates.

COVID related disability benefits are less clear. We expect that most COVID sufferers will return to their normal duties. Some questions to ask:

- Will some plans experience COVID related disabilities and, if so, what?
- How common are COVID related disabilities?
- When will we be able to adjudicate these claims?

These are all good questions that will challenge Trustees this year, and Bolton’s consultants are available to help Trustees navigate the complex questions which have emerged from the COVID pandemic. If you have any questions or need any assistance, please contact Jim Ritchie at (443) 573-3907 and jritchie@boltonusa.com or Tom Vicente at (443) 573-3918 and tvicente@boltonusa.com.