

Retirement Benefits: Implications for employers in India due to COVID-19

Key impact of COVID-19

- Financial impact on business and cashflow
- Fluctuations in liabilities and expense due to volatility and uncertainty in market conditions
- Concern among trustees, sponsors and members due to drop in retirement fund values
- Increased employee expectations of more flexibility in working styles
- Stock market-related concerns among employees, especially those nearing retirement

Plan design review

- Increased willingness among employees to opt out or reduce contributions to improve in-hand cashflow position
- Expected increase in long-term leave liabilities post COVID-19 due to lower leave utilisation by employees during the lockdown

Financial impact on defined benefit obligations

- Increase in liabilities due to low discount rates
- Significant movement in employee benefit liabilities / expense due to short-term events such as lower voluntary attrition, salary freezes and redundancies
- Higher leave accumulation due to low utilisation amid the COVID-19 lockdown

Ongoing governance

- Preparation for online / video trustee meetings
- Disruptions in vendor-led operations, including helplines, because of resourcing issues



What could be the key objectives for employers?

Short term (tactical)

- Identify opportunities to preserve cash.
- Prepare for implications of workforce changes.
- Mitigate adverse reactions regarding savings and investments due to economic downturn.
- Develop potential options for employees financially affected by workforce actions and economic downturn.

Long term (strategic)

- Take a holistic view of wellbeing, financial security and effectiveness of savings and retirements plans.
- Address mid- and long-term impact on employees' financial and emotional wellbeing due to stress and concerns about economic conditions and job security.
- Improve long-term resiliency of retirement plans for participation, investment options, flexibility to meet diverse needs, and impact of economic, health and other crises.

Cashflow management

- Scope to defer or reduce annual contributions for funded gratuity schemes
- Opportunity to defer in-service encashments

Investments

- Significant funding gaps and uncertainty among trustees, members due to market volatility and drop in equity-linked funds

Member communication and wellbeing

- Increase in employee queries on fund options and retirement savings
- Potential fund switches by concerned employees
- Guidance to retiring members on available savings options and investment of lump sum payouts

Potential action for employers

Plan design review

- Consider options within the NPS design to provide more flexibility to employees
- Review the leave policy to mitigate long-term liability impact – for e.g. encourage / mandate employees to avail more leaves in the short term
- Exercise caution while amending the leave policy, as leave requests may grow manifold once lockdown restrictions ease
- Introduce new features in the leave policy for special events, such as family care leave

Portfolio



Cashflow preservation

- For funded (insured) gratuity funds, conduct an independent review of insurer contribution statements to assess flexibility in contribution schedules
- Negotiate a more flexible contribution calendar with the fund manager / insurer
- Review actuarial assumptions used for contribution schedules in light of the current economic scenario
- Consider existing options to defer contributions toward superannuation plans, subject to trust rules
- Review the leave policy to defer short-term payouts

Financing



Investments

- For self-managed funds, conduct an investment strategy review or ALM study in 2020 in light of the current circumstances
- For insurer-managed funds, review a longer-term strategy of ULIP vs traditional products
- Provide independent, unbiased financial advice and communication to NPS users on a longer-term investment strategy

Financial impact on defined benefit obligations

- Evaluate the impact on actuarial liabilities from sudden movements in discount rates
- Assess the potential impact of short-term events, such as projection of employee benefit liabilities
- Review actuarial assumptions to ensure their feasibility / relevance in the long term
- For exempt provident funds, estimate returns to assess any potential shortfall

Analytics, Insights & Reporting



Ongoing governance

- Monitor government actions and address the impact of new legislation
- Review the governance framework and trustee meeting arrangements
- Review quorum requirements and proxies to ensure meetings can proceed
- Develop an emergency succession plan for trustees
- Assess the status of electronic documentation for the trust, including consolidation of past trust deed and rules

Administration and Operations



Active third-party vendor management

- Review and update risk registers and business continuity plans with vendors
- Evaluate the overall infrastructure of all vendors
- Create business process documents for all critical stages of the benefits cycle

Talent Experience



Member communications and wellbeing

- Draft a technology-assisted communication strategy to reach NPS members
- Assess the effectiveness of financial wellbeing initiatives for employees
- Use active, agile employee listening strategies to address financial concerns
- Deploy a nimble communication plan on leave utilisation with an aim to control long-term leave accumulation by employees

At-retirement support

Address the issues facing retiring members through education / guidance