

Private & Confidential

The Right Honourable Rishi Sunak MP
Chancellor of the Exchequer
No 11 Downing Street
London SW1A 2AB

31 March 2020

Subject: Response to COVID19

Dear Chancellor

On behalf of Mercer, a global human resources consulting and actuarial firm which works with thousands of pension schemes to pay pensions to millions of UK pensioners, I would like to thank you and the Government for the steps already taken to protect our country at this time. I also urge you to support immediate further action to mitigate the unprecedented challenges to the UK pension system caused by the COVID-19 pandemic.

Our Chief Actuary has been in correspondence with the Pensions Regulator on steps which could be taken to alleviate the extreme pressures now faced by employers with defined benefit pension schemes. Mercer welcomes the guidance issued by the Regulator on 20 and 27 March, which gives some direction on how pension trustees should respond to the impact of COVID-19 and to employers in distress. However, we believe this guidance should be extended further. Employers must be able to prioritise shorter term cash flow to keep businesses afloat, and to support the immediate needs of employees. Pension schemes are long term financial obligations, with pension payments typically made over many decades into the future, and the diversion of vital capital into them at this time will impede companies facing immediate cash flow crises. We are advocating for a balance between the shorter term needs of plan sponsors with the longer term goal of supporting retirement futures for millions of people. Without proper balancing, both the short term needs and the longer term goal are likely to be compromised to the detriment of beneficiaries.

We believe the UK Government needs to take urgent action to allow employers to defer all deficit recovery payments to defined benefit pension schemes for at least six months. If deficit recovery contributions that would ordinarily be payable over the next six months were allowed to be spread over the following three years, it should be possible for much needed capital to be temporarily allocated to keeping businesses afloat without compromising the long term financial security of pension

schemes. While pension scheme deficits are a concern, scheme funding is a long term financial endeavour and schemes, and capital markets, should have time to recover. Businesses may not, risking huge demands on the Pension Protection Fund. You have already signalled the Government's intention to provide substantial support to British industry. It would be quite unfortunate if this unprecedented effort were to be undermined by capital demands from pension schemes. It has to be in all of our interests that, as a country, we give whatever support is necessary to help employers and employees first and foremost survive the effects of COVID-19.

In recent weeks, Mercer has been contacted by many clients seeking urgent advice on how to manage their pension and benefit strategies through the pandemic. We will continue to work closely with our clients to support them in navigating the challenges of COVID-19, immediately and in the longer term. We are also ready and willing to assist you in developing solutions to address these vital issues, and in any other capacity where we can offer guidance. If it would be helpful to facilitate a virtual meeting, please let us know.

We thank you for your consideration and look forward to your reply.

Sincerely,



Sylvia Pozezanac
UK CEO