Housing Bulletin – February 2018

Sixth bulk transfer from SHPS announced

Earlier this month Southern Housing Group became the sixth organisation to leave SHPS by a bulk transfer of assets and liabilities.

The following article was written by Sam Mullock, an actuary in our housing team, and appeared in the February edition of Social Housing Magazine.

"Why are some organisations leaving SHPS – and what does this mean?

The news that Clarion has left the Social Housing Pension Scheme (SHPS) by transferring its share of the assets and liabilities to an alternative defined benefit (DB) pension scheme has made headline news in the industry.

More bulk transfers are expected this year, including Bromford. Given the SHPS actuarial valuation results due at the start of March, many associations will review their pension strategy in the first half of 2018.

Why consider a bulk transfer?

The primary reason for a bulk transfer from SHPS is increased control over the costs and risks associated with your organisation's DB pension promises.

What does that mean in practice? Well, one example is deficit contributions. SHPS is facing its fifth valuation in a row with an increased deficit. If an organisation wanted to take a more prudent approach and benefit from paying more contributions now (to reduce the risk of increased costs in the future) then this is not possible in SHPS.

Another example is investment strategy. The assets (and liabilities) of SHPS are held in one single fund, and are not separately ring-fenced for each participating employer. This means that one investment strategy is set which aims to be appropriate for the whole of the SHPS, rather than looking at what might be considered appropriate investments for each employer. If your liabilities are significantly more or less mature than the average employer in SHPS then you may decide your organisation is better served by a bespoke investment strategy more tailored to your liabilities and objectives.

Finally, on the liability side, the number of members taking transfer values from the DB section of SHPS to a defined contribution (DC) scheme has increased six fold over the last three years. Employers can benefit more directly from this increase in transfers (and decrease in defined benefit liability and potentially deficit) if they have their own scheme.

On the downside…

There are significant disadvantages as well. A bulk transfer is a considerable undertaking. The shortest time so far for a bulk transfer from a multi-employer scheme within TPT is around one year. This can mean a large amount of management time dealing with the bulk transfer and you not only need to pay for advice from your actuaries and lawyers but also the costs of SHPS's actuaries and lawyers.

Some advantages	Some disadvantages
✓ Greater control over future DB pension financial strategy	× One-off costs and management time of agreeing the transfer
✓ No longer subject to 'last man standing' risks	× Cost of settling orphan debt
✓ No longer disadvantaged by cross-subsidies	× No longer benefit from cross-subsidies
✓ If you have more than one DB scheme, consolidate them all, reducing costs	× Higher ongoing expenses if running a new scheme
✓ No longer subject to multi-employer cessation debt requirements	× More management time needed on own standalone scheme

How many will there be?

To make a bulk transfer feasible you need to have both a critical mass of DB liabilities in SHPS and the financial strength to support your own DB scheme. In practice, we think less than 10% of SHPS employers will be in this position.

The biggest 40 employers in SHPS are responsible for around 40% of the liabilities. However, not all of these employers will want to transfer and run their own defined benefit scheme. This means we might see at most 10 to 20 more transfers in the next few years.

The majority of bulk transfers so far have been to a new section with TPT Retirement Solutions (formally known as The Pensions Trust). However, it is possible to transfer to a scheme outside TPT.

The decision on whether to remain in TPT depends on whether you already have a standalone DB scheme, whether you can accept the trustee friendly powers in the TPT rules and whether you are happy to manage the more complex bulk transfer process to exit TPT entirely. In addition, staying with TPT might mean there is a trustee preference for a similar funding or investment strategy to SHPS.

Impact on those who stay

Bulk transfers are generally good news for the remaining employers. The transferring employer takes their share of the assets and liabilities – and therefore their share of the deficit.

There are two important positives for remaining employers. The transferring employer is required to at least pay their share of the deficit for "orphan liabilities", improving the funding position of SHPS. In addition, the reduction in liabilities reduces cross-subsidy and last-man standing risks for remaining employers.

The DB section of SHPS has more than 470 employers and more than £4.5bn in assets; in our view SHPS will remain a very large scheme that is able to share costs and risks even after an increase in bulk transfers.

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Impact on members

The key point from the member's point of view is that the pension benefits they have earned are protected. They will receive at least equal benefits in the new scheme as they would have received in SHPS. The only difference is that these benefits will be paid from a different scheme.

However, members have increased exposure to the insolvency of their employer. If a scheme has only one sponsoring employer, failure of the employer is likely to result in benefit reductions and possibly entry into the Pension Protection Fund. Within SHPS, benefits would continue to be paid in full after an employer's insolvency.

One of the common misconceptions about bulk transfers is that employees need to stop earning DB pension and move to a DC scheme. This is not true. What pension scheme to offer your employees is a separate decision and does not need to be impacted by a bulk transfer. For example, Bromford have announced that the DB section of their new scheme will be open to all staff, including those joining the company.

What now?

Bulk transfers are a normal way for organisations to manage their DB pension liabilities and they are a regular occurrence in the private sector. There will be further bulk transfer from SHPS and due to the high profile organisations likely to be involved, these bulk transfers will hit the headlines. However, arguably the biggest issue for the sector is how organisations manage pension costs and risks rather than where."

SHPS valuation results and employer forums run by TPT

TPT have published a new timetable for the 30 September 2017 actuarial valuation – with the results now delayed until May 2018.

We understand the SHPS employer forums will go ahead as planned in March (but will now not contain full details of the 30 September 2017 actuarial valuation results). The list of forums is given below. To book visit: https://www.eventbrite.co.uk/o/tpt-retirement-solutions-16501123933

Date	Location	Date	Location
2 March	**Birmingham**	9 March	**London**
5 March	**Leeds**	12 March	**London**
6 March	**Cardiff**	13 March	**Leeds**
7 March	**Exeter**		

Our March bulletin will include news and views from the employer forums.

Save the date! 27th March 2018 in Birmingham

First Actuarial are jointly presenting a seminar with Anthony Collins Solicitors with special guests from Bromford. More details to be announced shortly.

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Would you like to discuss SHPS?

First Actuarial provide independent advice to more SHPS employers than any other firm.

If you would like to discuss the areas explored in this bulletin, then please contact your usual First Actuarial consultant or any of the First Actuarial Housing Team.

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