Housing Bulletin – January 2018

Auto-enrolment – A call to action!

Our September 2017 bulletin provided a detailed summary of the areas that need to be considered to ensure compliance with the next stages of auto-enrolment. In particular, the increased contribution rates required to defined contribution (DC) schemes from April 2018. This bulletin is a 'call to action' to remind employers of actions that are now required.

Increased Contribution Rates from 6 April 2018

For employers using the 'set 2' definition of pensionable earnings (i.e. usually, basic salary), the total contribution payable to a DC scheme from 6 April 2018 must be at least 5%, with the employer paying at least 2% of this total.

Many employers are planning to pay more than this minimum with, in our experience, the most common structure being a matched rate (i.e. member 2.5% + employer 2.5%). However, some employers are paying even more generous rates.

We would expect employers to have already made a decision as to the minimum rate that they will use from April 2018 and the structure of rates if members wish to pay more. If you have not decided on this structure yet then **urgent action** is needed.

Notifying SHPS (or other provider)

The majority of employers in the housing sector are using SHPS DC as their auto-enrolment scheme.

SHPS require employers to confirm their April 2018 rates **by Friday 19 January 2018** (at the latest). This is done by using the online questionnaire provided by SHPS in December 2017 and your 16-digit access code.

Make sure that you notify SHPS (or other provider) in time otherwise they cannot guarantee that their system will be updated and they may default to the minimum contribution rates (resulting in extra cost later to correct this).

Member Communication

With member and employer rates increasing from April 2018, it is important that you **communicate** these changes with members appropriately **in advance**. This will ensure that it is not a surprise to members when their contributions change.

Employers will also need to consider whether **member consultation is required?** Depending on what information has already been provided to staff, their terms and conditions and the structure of the changes which are to take place, different requirements may apply.

If you are implementing from 1st April (rather than 6th April), does this require consultation?

If you (and members) are paying more than the minimum rates, have you consulted with staff and taken account of the feedback provided?

A template letter is available on The Pensions Regulator's website – but is this sufficient given your particular changes?

We are aware of different legal views and different approaches being taken across the sector, so you should consider your approach carefully. We can advise on a suitable approach and help you produce effective and compliant member communication.

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Future Proof Your DC Scheme Design

The legislative requirement to increase minimum rates from April 2018 (and again in April 2019) is resulting in many employers reviewing their overall DC scheme design.

Such a review would be expected to consider your budget, current staff pension choices, expected benefit outcomes and how any higher DC rates available fit in with the revised minimum auto-enrolment rates. It is also important to consider if any inconsistencies exist between the auto-enrolment rates and any higher rates available.

Benchmarking across the sector is also a helpful tool to use as part of compiling information for boards when deciding on these rates.

Is it time for a detailed 'DC pension review' of both rates and provider?

Further Considerations

Employers using qualifying defined benefit schemes for auto-enrolment are likely to be able to continue these schemes unchanged. However, there are other areas which may need further consideration.

The use of **Salary Sacrifice** for the payment of member contributions is growing rapidly across the sector. The clear 'win win' for employers and members becomes even more compelling when higher member contributions rates apply.

Tax Allowances are a key consideration for longer servers and higher earners. Do your arrangements make suitable provision to protect members from unexpected tax liabilities? Are you providing staff with the support they need to understand their tax postion?

Is 2018 the time to strengthen your pension governance arrangements?

Best practice is to ensure pension issues are regulary monitored and discussed by scheduling regular pensions governance reports and meetings. This mitigates risk and avoids unwelcome surprises. We help housing associations do this with our **f1rstwatch service**. More details about f1rstwatch are in our August 2017 bulletin (or ask one of our housing team for more details).

Would you like to discuss your 2018 pension strategy?

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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