Housing Bulletin – October 2018

SHPS results are out and July extension agreed

The much awaited 2017 valuation results for the Social Housing Pension Scheme ("SHPS") were released this week, and whilst deficit contributions will go up for many employers in April 2019, a request from the Employer Committee ("EC") to delay increases to future service costs to July 2019 has been accepted by the Scheme Committee ("SC").

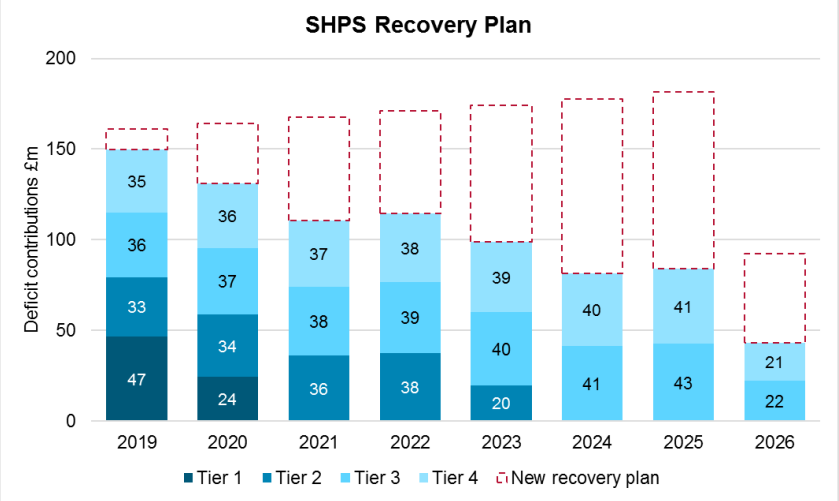
HEADLINES

- The funding level has improved to 75% (from 70% at 30 September 2014).
- The funding deficit has increased to £1.52bn (from £1.32bn at 30 September 2014, and is the fifth valuation in a row that the deficit has increased).
- The current recovery plan is being discarded and deficit contributions will be reallocated in proportion to each employer's share of the liabilities.
- The new recovery plan starts on 1 April 2019 and ends on 30 September 2026. On average, employers will see an immediate 10% increase in deficit contributions and a 50% increase in total deficit contributions over that 7.5 year period.
- Scheme administration expenses will be broadly 7% higher from 1 April 2019, and remain fixed for the next three years.
- The cost of future benefits is increasing by around 30% for all Final Salary and CARE sections. These increases are effective from 1 July 2019.
- The 'closed scheme surcharge' will reduce from 2.5% of salary to 1.1% of salary.
- The EC and SC are to review the benefit structures available, with any possible changes to be implemented from April 2020.

Deficit contributions from 1 April 2019

To clear the deficit of £1.52bn, higher deficit contributions will come into effect from 1 April 2019, with employers seeing an immediate increase of around 10% on average. However, due to the removal of the current 'tier' structure and the reallocation of deficit contributions on a 'full share of liability' basis, some employers will see much higher increases, whilst some employers will see a reduction in deficit contributions in 2019.

But, as the chart shows, additional deficit contributions over the 7.5 years to 30 September 2026, means total deficit contributions for employers will be 50% higher on average.



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Future service contribution rates from 1 July 2019

Despite adopting a lower salary increase and lower post-retirement life expectancy assumptions, the SC's decision to increase the level of prudence in the investment return assumption has led to significant increases in the future service contribution rates across all defined benefit ("DB") sections.

DB section	Sept 2014 Valuation	Sept 2017 Valuation	Increase (as % of salary)
Final Salary 60ths	20.6%	27.2%	6.6%
Final Salary 70ths	17.7%	23.4%	5.7%
Final Salary 80ths	15.5%	20.5%	5.0%
CARE 60ths	16.7%	22.1%	5.4%
CARE 80ths	12.6%	16.7%	4.1%
CARE 120ths	8.6%	11.3%	2.7%

These increases will be offset slightly for employers who have closed all DB sections to new entrants, with the reduction in the 'closed scheme surcharge' from 2.5% to 1.1% of salary.

And a much-welcomed concession on the part of the SC was to delay implementation of the increases to future service costs by 3 months, from 1 April 2019 to 1 July 2019.

What happens next?

SHPS have confirmed their deadline to be notified of any change to employee's contributions and/or to close DB sections, is 30 April 2019 if you want to make these changes from 1 July 2019. Working backwards from this deadline of 30 April 2019, doesn't give much time for management and Boards to consider what to do, and formally consult any changes with staff.

Our August 2018 bulletin sets out a 5-step plan to make pension changes.

Employers are reminded that changes can take place at any 1st of the month (as long as at least 60 days' notice is provided to SHPS). Indeed, over the coming months the EC intends to review whether the current benefit structures remain appropriate, and if any changes are agreed, these could be implemented in April 2020.

If you can't wait that long, employers are already becoming more sophisticated in how they share risks with staff, by combining the DB sections and the DC section to offer staff a "Pension plus Pot" option. Let us know if you'd like to know more about this option.

How First Actuarial can help

First Actuarial provides independent, pensions advice to more SHPS employers than any other firm. We can also help you plan, prepare and present consultation material to staff, which could include letters, group presentations and/or one-to-ones with those most affected.

To discuss your pension strategy, or any other pension matters, please contact your usual First Actuarial consultant, or any one of our nationwide team of housing consultants.

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