Housing Bulletin – December 2018

SHPS DC Section – Life Cover Changes

After an initial announcement at the recent employer forums, SHPS have now issued details of how life cover will be paid for in the future, plus confirmation that the current 3 times multiple of salary life cover will no longer be compulsory through the scheme.

This announcement will require all employers to consider how they fund life cover for their staff, whether to continue to do this through SHPS and (potentially) budget for extra costs. This will follow the increase to the minimum auto-enrolment contributions rates which are effective from April 2019 (further detail below).

What is the current position?

Currently, members of SHPS DC are automatically covered for a lump sum benefit of 3 times salary on death in service. All members of SHPS DC have this life cover benefit 'built in' to their benefits and there is currently no option for an employer to 'turn this off' or vary the level of cover.

The current cost of this life cover is 0.45% of salary (or £1.50 per £1,000 of cover provided). This cost is automatically deducted from the employer contribution payable. For example, if a member's contribution rate is 4% matched by 4% from their employer, only 7.55% of the total of 8% is currently invested for the member's retirement benefits.

What changes are SHPS introducing?

From 1 July 2019, the cost of life cover will no longer be deducted from the employer contribution. Instead, it will be payable in addition to the standard employer contribution rate.

At the same time, the cost of 3 times salary life cover will reduce from 0.45% to 0.345% of salary (a new cost of £1.15 per £1,000 of cover).

SHPS have also announced that, with effect from 1 October 2019, employers will have the option to vary the level of life cover provided. However, the same level of cover must be provided to all their SHPS DC members and any proposed change needs to be decided (and SHPS notified) by 30 April 2019.

What does this mean for employers?

From 1 July 2019, there will be an additional employer cost of 0.345% of salary for all SHPS DC members (unless it is decided to reduce employer contributions and undertake the necessary 60-day consultation in advance, subject to auto-enrolment minimum).

However, with SHPS life cover no longer being compulsory, with effect from October 2019, employers will have a series of options, from either opting in or out of the life cover within SHPS DC, or potentially choosing a different level of cover.

In addition, employers will need to consider whether providing life cover via SHPS DC is the most cost-effective route, or whether quotations should be obtained from different insurers. Using another insurer will inevitably require additional administration from employers, but cost savings may well make that worthwhile, particularly for employers with a younger workforce. And of course, if employers end up selecting against the scheme, SHPS might end up having to push up their rates to allow for an older population being covered.

Auto enrolment

Linked to the above changes (as it affects SHPS DC costs) is the required increase in minimum auto-enrolment contributions from April 2019.

For employers using the 'Set 2' definition of earnings, this will mean increasing total contribution rates to at least 8% from April 2019 (with at least 3% being paid by the employer). However, different contribution options are available to meet the above minimums with many employers intending to split the 8% minimum in a different way.

Employers should be planning now for the above rate changes, budgeting for extra pension costs going forward and keeping members informed. Many employers are carrying out pension presentations to help their staff understand the effect of these changes and how the extra cost is offset by tax relief (and potentially salary sacrifice).

SHPS have recently emailed employers asking for confirmation of the auto enrolment contribution structure that they intend to operate from April next year. TPT require a reply by 31 January 2019, and are charging £250 for any new grades (i.e. new contribution structures) you decide to introduce.

2019 Corporate Accounting Changes – Indicative impact reports have now been issued to those employers that commissioned this work from TPT. These reports estimate the impact as at 30 September 2017. Please speak to one of our team if you would like to understand how market movements may have impacted the accounting deficit and the flexibilities you have in respect of your 31 March 2019 FRS102 assumptions.

Merry Christmas!!

Looking ahead, 2019 will be another busy year for pensions with employers undertaking consultation exercises following the delayed SHPS results, the LGPS valuation process commencing at the end of March and auto enrolment increases from 6 April.

But before all that, we hope you can find time for a little rest and relaxation over the Christmas break. On behalf of everyone at First Actuarial, we wish you a merry Christmas and a happy and healthy New Year!

How First Actuarial can help

First Actuarial provides independent pensions advice to more social housing 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 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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