Housing Bulletin – March 2019

SHPS: Take control of your accounts

In our July 2018 bulletin we explained that employers who participate in the Social Housing Pension Scheme ("SHPS") will need to provide full disclosures in their accounts with effect from 31 March 2019.

Historically, TPT have not been able to provide 'sufficient information' for SHPS employers to allow defined benefit ("DB") accounting to be applied. Instead, in accordance with FRS 102, the majority of employers have accounted for SHPS as a defined contribution ("DC") scheme and recognised a liability equal to the present value of the employer's deficit contributions.

The impact of moving to DB accounting is likely to result in significantly higher accounting deficits for many employers hitting the balance sheet, and changes to the charges passing through the income and expenditure account. There is also likely to be a large item to account for the transition from DC accounting to DB accounting – although, it has recently been confirmed that this should be recognised in other comprehensive income ("OCI") and the relevant date to apply this adjustment is 1 April 2018.

This bulletin tells you how TPT will help and what you can do yourself to take control of your SHPS accounting.

Assumptions

Accounting for SHPS using a defined benefit ("DB") approach requires a lot more assumptions than accounting using a defined contribution ("DC") approach.

Assumptions fall into two categories: (i) financial assumptions, which include…

TPT proposed assumptions at 31 March 2018	Discount rate	Inflation (RPI)
Duration:		
10 years	2.40% pa	3.15% pa
14 years	2.50% pa	3.20% pa
…	…	…
30 years	2.60% pa	3.05% pa
Inflation (CPI)	RPI less 1.0%	
Earnings growth	CPI plus 1.0%	

And (ii) demographic assumptions, which include…

TPT proposed assumptions at 31 March 2018	Males	Females
Life expectancy from age 65:		
- Pensions (currently aged 65)	21.7 years	23.4 years
- Non-pensions (currently aged 45)	23.1 years	24.7 years

Take control

Crucially, the assumptions for FRS 102 are the responsibility of you, as the directors of the participating employer. Not the Scheme Actuary, not SHPS, and not TPT. You.

Furthermore, TPT is unable to advise individual employers, other than to propose a standard set of assumptions for all employers to use. Under FRS 102, there is only limited prescription on how the assumptions are derived and no definitive right answer. As such, there is a range of assumptions that could be deemed appropriate and different actuaries and auditors may (and often do) take different views.

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So, for example, if you think the proposed earnings growth assumption (i.e. CPI plus 1%) is too high (or too low) for your workforce, or you think your employees will live longer (or shorter) than the average scheme member, then you can use a different assumption, subject to approval from your auditor. If you participate in the Local Government Pension Scheme ("LGPS") you may also wish to consider using consistent assumptions for SHPS, i.e. use the same earnings growth for all staff.

The new disclosures mean that for the first time your Board can regularly see the magnitude of your assets and liabilities in SHPS – potentially meaning more scrutiny on how these are being managed. We expect this to lead to more widespread consideration of bulk transfers and other liability management exercises to manage and reduce accounting deficits.

How TPT will help

TPT's online disclosure model will soon be made available to employers with a defined benefit obligation in SHPS. The model will provide sufficient information for DB accounting for year-ends from 31 March 2019 and is expected to launch on 13 May 2019.

The model will allow you to change some of the assumptions to see the impact on your results. TPT have also produced some useful documents which can be found here:

Useful documents:

Standard set of assumptions (shown overleaf as at 31 March 2018):
https://www.tpt.org.uk/docs/default-source/schemes/shps/accounting-disclosures/cass-shps-accounting-assumptions-report-31-3-18-to-28-2-19-updated

Transition from DC accounting to DB accounting:
https://www.tpt.org.uk/docs/default-source/schemes/shps/accounting-disclosures/nhf-sfha-chc-nifha-joint-guidance-on-the-move-to-db-accounting

Other useful documents:
https://www.tpt.org.uk/schemes/shps-db-employer/accounting/shps-accounting-disclosures?utm_source=linkedin&utm_campaign=mesad&utm_content=shps

How First Actuarial can help

First Actuarial can advise you on alternative assumptions for use in TPT's modeller and help provide justification for you to share with your auditors. We can also help you with your longer-term strategy to manage and reduce your accounting deficit.

First Actuarial provides independent, pensions advice to more housing associations than any other firm. To discuss this bulletin, 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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