Housing briefing, November 2020
The calm waters before SHPS arrive

Our themes this month are strategy and governance, words that get thrown around all the time…and rightly so.

We are currently sitting in the sweet spot between LGPS and SHPS valuations; LGPS contributions are set now until 2023 and the SHPS valuation results are almost upon us. However, there are 'choppy waters' approaching for both schemes.

This period of relative calm is the perfect time to stop, look around, and see where your pension strategy is. Is it rock solid and future-proofed? Or are you fearing the next piece of pension news will lead to more change?

Regulators are like buses…

The housing regulator's latest Sector Risk Profile landed this month and, as always, there are some wise words on pensions – this time emphasising our very own Pensions Regulator.

> *"Boards should understand the potential implications for changed contribution levels arising from the Pensions Regulator's defined benefit funding Code of Practice consultation."*

Whilst Defined Benefit ("DB") schemes are prudently assessed every three years by the trustees and their advising actuaries, another hurdle to jump over is on its way. The Pensions Regulator is very keen on long-term thinking (as are we) and is very keen for trustees to have long term objectives (as are we), although much of this thinking is about closed private sector DB schemes which are planning their end game.

But SHPS is different (as are we), it is still open, an all too rare thing today in the private sector. So how will the Regulator's end-game thinking tally with open schemes? With the new Pension Schemes Bill waiting for parliamentary ping-pong, we're still not completely sure.

However, what we do know is that the SHPS valuation is underway, financial conditions are difficult and the trustees will, of course, want to comply with the Regulator's direction of travel – which could mean even more prudence, and even more expensive pensions for employers.

> *"Although most providers have taken a proactive approach to managing this risk, Boards should seek independent legal [and actuarial] advice, where appropriate, to understand their risk exposure and impact on cash flow arrangements."*

We have taken the liberty of inserting "*and actuarial*" in the extract above. Where financial risk is exposed and cash is flowing we would expect an actuary to be on hand to help employers manage those risks.

On a positive note, it is very pleasing to hear that most providers are actively managing risks. And we are very happy to say that many providers are using First Actuarial to help them. Our structured f1rstwatch governance service is doing what we set it up to do, help housing associations keep control of pensions matters before they have a chance to get away.

Time to MOT test your pension governance

"*Be prepared*" is a sensible strategy to adopt, wisely echoed by both the Scout movement and Scar from the Lion King.

Now is the perfect time to go back to basics and make sure your internal governance process is well-oiled to deal with what lies ahead.

We recommend pension training for board members (and executive teams) to make sure they are well-placed to handle the next pension challenge.

If you have a robust pension strategy in place, great – the principles are in place to make transparent decisions. If not, then we recommend reviewing the current approach and setting a vision for the future.

DB? Or not, DB? That is (often) the question

SHPS DB is very flexible for employers, with benefits varying from 1/60th to 1/120th. As actuarial valuations have come and gone, employers have gradually been moving down the benefit levels to retain DB with an affordable price tag.

Based on our approximate calculations, it is likely to be another valuation with an increased deficit and further cost increases for future Final Salary and Career Average benefits.

Another option is a bulk transfer out of SHPS to a standalone DB scheme where you have more control – both on funding your legacy obligations and funding new benefits. The number of housing associations which have transferred out of SHPS are now in the mid-teens, and there will be more.

The LGPS is a very generous DB pension scheme with no benefit flexibility for employers. As our October briefing outlined, light is shining through a gap in the door as new flexibilities have been introduced offering housing associations a new way to end active membership.

But that is not to say that associations should run for the door and end LGPS accrual, the reward from the LGPS is a valuable benefit and an excellent recruitment and retention tool. As always, there is a balance to be stuck between costs, risk and reward.

Pension governance doesn’t stop at DC

You may only offer DC pension savings to staff, or DC is the only provision offered to new staff. Regardless, we highly recommend regularly reviewing your DC provision to see how it measures up to the wider market. How are the investments performing? Are the management charges competitive? How good is the practical support for both the employer and members?

We rate DC providers as part of our f1rstwatch governance service, which will help you provide a scheme offering the best value for money.

Don’t let the Growth Plan grow out of control

30 September 2020 was not just ‘SHPS valuation day’, it was also Growth Plan valuation day – another multi-employer scheme operated by TPT which providers have commonly used. Whilst we expect the overall funding position to be more stable in the Growth Plan, it has a further problem – the growing proportion of orphan liabilities left behind by employer exits.

We often find that housing associations deal with their main pension issues of the day, and the Growth Plan gets left down the priority order. We recommend that you use this opportunity assess your obligations and take action, and we are available to help you mitigate your risks in the scheme which often plays second fiddle to SHPS.

We strengthen our Housing Team

Martin Harlow has joined First Actuarial from XPS Pensions Group, bringing his diverse experiences of helping providers manage SHPS and LGPS liabilities, and of change management projects.

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How First Actuarial can help you

First Actuarial provides independent advice to more housing associations than any other firm. If you would like to discuss pensions with us, then please contact your usual First Actuarial consultant or any of our nationwide housing specialists.

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