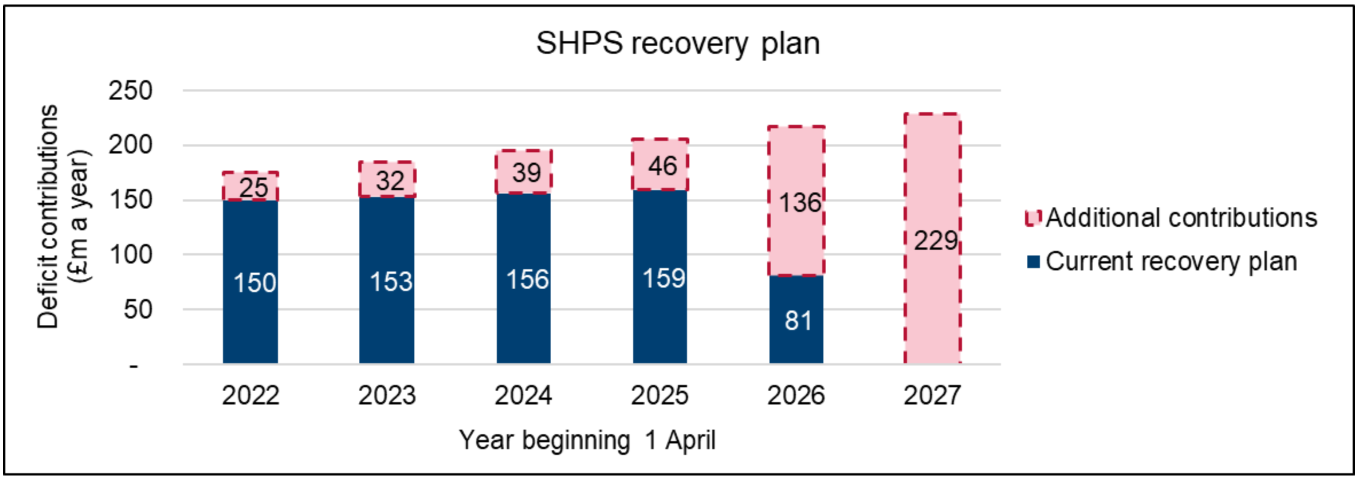
Housing briefing, August 2021
SHPS valuation results – Hike in deficit contributions and future service rates

In this briefing, we discuss the results of the 2020 SHPS valuation. Headlines are:

- The funding level has improved to **77%** at 30 September 2020 (up from 75% at the 2017 valuation)
- The funding deficit, however, has increased slightly to **£1.56bn** (from £1.52bn at the 2017 valuation)
- The recovery plan has been extended by 18 months, meaning that deficit contributions are now expected to be paid until 31 March 2028 (rather than September 2026)
- Total deficit contributions will increase **from £150m to £175m a year** from April 2022 (i.e. an average increase of 17%). These payments will increase at **5.5% a year** from April 2023
- Increases for individual employers will depend on how their liability share has changed since 2017
- From April 2022, **the cost of future accrual will increase by around 50%**. For example, final salary 1/60th benefits will increase by 14% of salary, and CARE 1/120th will increase by 5.5% of salary
- The fixed employer charge of £1,900 pa is unchanged. The per-member charge of £75 pa will increase to £77 per member from April 2023, and £79 per member from April 2024
- The 'closed scheme surcharge' will reduce from 1.1% to 0.3% of salary from 1 April 2022.

Deficit contributions from 1 April 2022

To clear the deficit of £1.56bn, the Scheme and Employer Committees have agreed to a combination of higher contributions and an extension to the recovery plan. Total contributions will increase from £150m a year to £175m a year from April 2022 (an average increase of 17%), with individual employers seeing higher or lower increases depending on how their liability share has changed since 2017. For example, those open to accrual are likely to see higher increases. Total contributions under the new recovery plan will be over £500m more than previously expected. The current recovery plan and additional contributions are shown in the chart below.



Future service contribution rates from 1 April 2022

Future service contributions will rise by around 50% from April 2022, mainly because of a fall in the yield on government bonds since the last valuation. Changes to assumptions have also contributed to the increase (including higher assumed commutation factors and a change in the approach to setting the discount rate).

Section	Current cost	Cost from April 2022	Increase (as % of current cost)	Increase (as % of salary)
Final salary 1/60th	27.2%	41.2%	51%	+14.0%
Final salary 1/70th	23.4%	35.4%	51%	+12.0%
Final salary 1/80th	20.5%	31.1%	52%	+10.6%
CARE 1/60th	22.1%	33.0%	49%	+10.9%
CARE 1/80th	16.7%	24.9%	49%	+8.2%
CARE 1/120th	11.3%	16.8%	49%	+5.5%

The **'closed scheme surcharge'** applicable to employers that have closed all Defined Benefit (DB) sections to new entrants will reduce from 1.1% to 0.3% of salary from April 2022.

What happens next?

Given the limited time for organisations to agree and implement any changes with effect from 1 April 2022, we recommend that boards start asking the following questions:

1. **What will the impact be on my organisation?**
   Boards should look at how the increase in deficit contributions and (where relevant) future service costs fit into future business plans. Some employers will see larger increases than others, depending on how their liability share has changed since the last valuation and how many staff are building up DB benefits.

2. **What options do we have?**
   Boards should look at the options for managing future service costs including closing DB sections and/or sharing costs with staff. Affordability appeals exist for employers that can't afford higher deficit contributions.

3. **When can any changes be implemented?**
   TPT has confirmed it needs to be notified about changes to DB sections and/or contribution rates by 31 January 2022, for these to take effect from 1 April 2022. As most organisations will need to run a 60-day staff consultation before notifying TPT, boards need to consider their pension strategy as soon as possible.

Possible timetables for consultation

In the table below we set out two notional timetables – one with changes effective from 1 April 2022, and one with changes postponed by three months to allow more time to receive advice and make decisions, albeit recognising that employers would need to meet the increased future service costs in full between April 2022 and July 2022.

	Changes 1 Apr 2022	Changes from 1 Jul 2022
Board receives advice on pension strategy and agrees final proposal	Sep 2021 / Oct 2021	Dec 2021 / Jan 2022
Consultation with staff on changes to benefit section and/or contribution rates	Nov 2021 / Dec 2021	Feb 2022 / Mar 2022
Agree final decision following consultation	Jan 2022	Apr 2022
Benefit/contribution changes confirmed to TPT	31 Jan 2022	30 Apr 2022
Benefit/contribution changes take effect	1 Apr 2022	1 Jul 2022

We have already closed to future pension build-up – is there anything we can do?

Even if your organisation has closed all its DB sections of SHPS to future pension build-up, there are still a number of areas you should consider:

- **Understand the results**
  Boards should ensure that they understand the valuation results and the reasons for the change in position since the last valuation. Risk registers may need to be updated accordingly.

- **Consider liability management**
  The allocation of deficit contributions by liability share means that liability management exercises – such as early retirement exercises, commutation of small pensions and transfer value exercises – can be beneficial both in relation to reducing your share of total deficit contributions at future valuations and to improving your annual accounting position. Different liability management exercises will be appropriate for different member profiles, and a cost/benefit analysis of all options is essential.

- **Consider bulk transfers**
  Many organisations have bulk-transferred out of SHPS, and it's good governance for boards to understand and consider all options available, including the risks that bulk transfers pose to employers left behind.

- **Firstwatch governance**
  It is also good governance to regularly (e.g. annually) review your pension arrangements to keep them competitive in the sector and to monitor ongoing and future costs and risks. First Actuarial's firstwatch service provides an affordable package of essential pension resources for housing associations, ranging from annual governance updates to employee financial wellbeing programmes.

How First Actuarial can help

We provide independent pensions advice to more housing associations and SHPS employers than any other firm. We can help you prepare and present consultation material to staff, including presentations for 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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