

Questions and Answers from the Employer Forums

The following questions were raised at the Employer Forums held in Birmingham, London, Leeds and Bristol in June 2009.

1. Why is the surcharge being applied to employers operating the Local Government Pension Scheme (LGPS)?

What about employers who are required to offer LGPS under the terms of a Large Scale Voluntary Transfer (LSVT) or contract?

The SHPS Pensions Committee is seeking to protect SHPS from the situation where other pension schemes are offered in competition with SHPS.

The Committee does not intend to introduce change that causes employers difficulty and will review the situation where 'open' membership of LGPS has been agreed as part of an existing contract.

The surcharge will only apply where LGPS is operated on an 'open' basis, not when LGPS is 'closed'.

2. The actuarial valuation now assumes that investment in equities will continue for five years after retirement. Is this change being made by other pension schemes?

It is a relatively unusual move in the UK, but SHPS is not alone in making this change and is only able to do so because of the strong employer covenant.

3. Will employers still have to pay the monthly past service deficit contribution of 4.4% of pensionable salaries after April 2010?

The 4.4% monthly payment stops when we move to the lump sum collection of the past service deficit and will be included in that lump sum amount.

4. Are the Self Administered Pension Schemes (SAPS) mortality tables being used by a lot of other pension schemes?

Yes, about 90% of the schemes undertaking actuarial valuations are now using the SAPS tables.



5. Where will SHPS be in five years time?

There will be changes in pensions generally. The MPs pensions will have to be dealt with first, then the public sector. Any change from DB will not happen straight away. When change is made it may not apply to everyone, perhaps just to new joiners at first. DB schemes will be around for some time to come.

6. You said that the SHPS Pensions Committee is going to be more proactive regarding investments, what does that mean?

The Committee wants a better understanding of the day-to-day implementation of the investment strategy and to have greater influence over the implementation of that strategy.

7. Are any statistics available regarding the move to DC generally, and for SHPS in particular?

A paper has been prepared for the SHPS Pensions Committee regarding the trend towards DC in the corporate sector. A copy will be placed on the SHPS website at www.shps.org.uk and can be accessed via the following link:

Document Library > Valuation and Benefits Review - Consultation Documents

8. Is there any indication of how contribution rates for employers and employees are moving following the removal of the 50/50 requirement?

There is no indication yet. Some statistics regarding contribution bands (not contribution rates for individual employers) will be included in the 2011 annual review (the first to be published after the figures are known).

9. The valuation date of 30 September 2008 was not a good time to be calculating the scheme deficit. Could the date have been moved?

No the date could not be moved. The SHPS Pensions Committee have tried to minimise the initial impact by taking a lower starting point for the deficit repayments.

10. Does the equity investment return assumption include reinvested income?

Yes, this is correct.

11. For investment return and in particular for continuity of revenue streams why not lend back in to the sector?

There may be a problem with security. Also, it would depend on the investment manager concerned and how tradable the bonds would be in the market place. There is also a 5% limit on self investment, so the amount available would be restricted.

12. Should a cap be applied to the salary for exiting Chief Executives to avoid a large increase in the final year?

Nothing specific is being planned by SHPS. This is a matter in the control of employers.

13. Can The Pensions Trust's Growth Plan still be used for AVCs, especially in view of the underlying guarantee?

Yes and bear in mind that there is also a potential s75 issue in the future.

14. What is the current take up for the existing benefit structure?

There are about 24,000 active members and about 3,500 of those are in the CARE benefit structure.

15. Do you have a feel for who is going to move to DC and whether it will be for new entrants only or an overall change?

This is very difficult to assess. Two large employers wanted to move to DC and have already moved. It really depends on the employer. 75% of the respondents to our questionnaire said that they wanted to see a DC benefit structure introduced, but only 25% of employers responded to the questionnaire.

16. There has been a significant increase in the s75 debt figures between 2005 and 2008, is this likely to continue in future?

The increase between 2005 and 2008 was partly due to the impact of the new Statement of Recommended Practice (SORP) and partly because of the impact of the Lehman's collapse on equities and bonds. This collapse has continued since September 2008 and we could see a drop on the s75 figure when confidence returns. Currently (June 2009) the s75 figure is higher than in September 2008.

17. Will the deficit payments be reviewed if the results of the 2011 actuarial valuation are favourable?

Yes, the SHPS Pensions Committee will review the payment schedule if the results of the valuation permit. They could reduce the term and maintain the level of payment or vice versa. The decision will be made at that time.

18. Is it possible to operate salary sacrifice with SHPS?

Yes, but please contact The Pensions Trust early in the process to ensure that the correct arrangements are made.

19. The FRS17 statements were received later than usual this year. This seems to happen each valuation year – can they be sent earlier?

Apologies for the delay in sending the details this year. The FRS17 figures will be with you by the end of May at the latest in future.

20. The DC benefit structure does not seem to be completely portable?

Agreed, the DC benefit structure is not as portable as a personal pension or stakeholder pension. This is because it is part of SHPS and so is an occupational pension scheme. The member is unable to continue to make contributions after they leave employment, unless they transfer to another SHPS employer who operates the DC benefit structure. Leavers can choose to transfer their fund to the pension scheme operated by their new employer, or to a personal pension or stakeholder pension in their own name.

21. How will the past service deficit be collected?

Details are set out in the 'Employer Consultation Guidance Notes' booklet available on the SHPS website at www.shps.org.uk and can be accessed via the following link:

Document Library > Valuation and Benefits Review - Consultation Documents

22. Why is the inflation assumption used for the valuation so high considering current inflation rates?

Headline inflation for September 2008, the valuation date, was 5.0% which is higher than that used in the valuation. However, the inflation rate used in the valuation is a long-term estimate. It is not set by reference to short-term inflation figures; instead it is set with reference to financial markets projections of inflation and also takes into account the Bank of England's target rate of inflation.

