



House Policies and Rules Employer Guide



Scottish Housing Associations' Pension Scheme



Administered by
The Pensions Trust

House Policies and Rules



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1. Introduction

The **Scottish Housing Associations' Pension Scheme** (the Scheme) was established in 1978 as the SFHA Retirement and Death Benefits Scheme. Since 1993 the Scheme has operated as a scheme within The Pensions Trust (which administers schemes for charities and voluntary organisations).

From small beginnings – there were 18 employers and 108 members at the end of the first year – the Scheme has developed into an industry-wide scheme with 159 employers and around 8,000 members (as at 2011). The Scheme is a centralised occupational pension scheme providing defined benefits, relating to both final salary and career average revalued earnings, together with death-in-service and death-in-retirement benefits.



The **Scottish Housing Associations' Pension Scheme Committee** (the Committee) was established in 1993 when the administration of the Scheme was transferred to The Pensions Trust. Under its Terms of Reference, the Committee retains the power to withdraw the Scheme from The Pensions Trust and re-constitute the Scheme as a stand-alone pension scheme. This would effectively terminate the current Scheme and the Committee would have to be reformed as Trustees under the provisions of the Trust Deed and Rules of any new future scheme, as was the case prior to administration of the Scheme being transferred to The Pensions Trust in 1993.

The Committee has overall responsibility for ensuring the Scheme is well managed and administered. The Committee has a specific responsibility in relation to the interests of employers which operates alongside its fiduciary responsibility to act in the best interests of the members.

The Committee is a Sub-Committee of the Board of Directors of Verity Trustees Limited (the Trustee of all the schemes within The Pensions Trust).

The members of the Committee are expected to conduct their business in accordance with the principles of trusteeship for pension schemes.

The Committee has responsibility for a number of operational functions under the broad areas of administration, business development, investment, actuarial and audit & finance.

Key functions of the Committee include:

- (i) to approve benefit options, including contribution rates and procedures relating to transfers;
- (ii) to approve new employers joining the Scheme;
- (iii) to ensure proper administration of the Scheme, including membership records and benefit statements etc;
- (iv) to approve the funding strategy. This includes consultation on the asset allocation strategy which is determined by Verity Trustees;
- (v) to approve triennial and interim valuation reports; and
- (vi) to approve House Policies and Rules or other provisions for the Scheme.

In addition to these specific functions the Committee monitors the work of The Pensions Trust in relation to the Scheme. This includes: quarterly reviews of the administration of the Scheme and the investment performance, periodic independent value for money reports and regular monitoring of the terms of the Service Agreement between the Committee and The Pensions Trust.

Membership of the Committee comprises: five members elected by members; five members elected by employers; and up to three co-opted members. Elections are held every two years.

2. Working Principles

In the conduct of its business the Committee seeks to adopt the following approach to its work:

- **To be proactive:** To take the initiative in addressing the many issues confronting pensions generally and the Scheme specifically. The Committee is particularly concerned to take the lead in key areas of primary interest to both employers and members.
- **To consult:** In recent years the Committee has undertaken a series of major consultations involving both employers and members. The statutory duty to consult with members now lies with employers. Consultation however,

remains an important process in identifying key issues and opinions and will continue to be afforded high priority as an integral element in the Committee's management of the Scheme.

- **To be pragmatic:** The world of pensions has become increasingly complex. Within the plethora of rules, regulations and practices the Committee seeks to adopt a practical common sense approach.
- **To promote fairness:** In a multi-employer scheme like the Scottish Housing Associations' Pension Scheme there can be many different and potentially conflicting interests. In its management of the Scheme the Committee seeks to promote the concept of fairness, to do what is fair and reasonable having due regard to all the circumstances and plurality of interests.

3. Employer Responsibilities

In January 1997 the Committee introduced a voluntary Code of Practice for participating employers. From this time adoption of the Code has been a requirement of membership for new employers. The Code of Practice sets out a number of obligations.

These obligations, updated to meet the current arrangements within the Scheme, remain as primary responsibilities of every employer within the Scheme.

These responsibilities are:

- To designate the categories of employees eligible for membership of the Scheme, or any other pension arrangements to be offered to staff.
- To offer membership of the Scheme through one of five approved benefit options, to all eligible employees and to encourage them to join.

- As a general policy, not to make an employer contribution towards a stakeholder or a personal pension for any employee who would otherwise be designated as eligible for membership of the Scheme.
- To recognise the common interests and common obligations implicit in the group scheme and act in that spirit.
- From time-to-time to assist the Committee and The Pensions Trust in promoting the Scheme to maintain its long-term strength and viability.

The Committee considers these responsibilities to be fair, reasonable and necessary to maintain the integrity and financial strength of the Scheme. The Committee will use the powers vested in it to secure adherence to these responsibilities and, as appropriate, to apply sanctions for non-adherence. These issues are fully addressed in the following House Policies and Rules.

4. House Policies and Rules

(i) Benefit Options

From April 2011, each employer has an extended range of benefit options and flexibility to offer more than one 'open' option to employees.

Policy

The five benefit options available from 1 April 2011 are as follows:

Final Salary with 1/60th accrual

Career Average Revalued Earnings (CARE) with 1/60th accrual

Career Average Revalued Earnings (CARE) with 1/70th accrual

Career Average Revalued Earnings (CARE) with 1/80th accrual

Career Average Revalued Earnings (CARE) with 1/120th accrual

In addition death-in-service and death-in-retirement benefits are provided.

Rules

An existing employer that does not meet the current eligibility criteria for entry to the Scheme i.e. a Registered Social Landlord with at least 100 units of housing stock – must provide security for its liabilities in the Scheme or offer only the CARE 120ths benefit option.

From April 2011 an employer can, if it wishes, offer more than one open benefit option. As at April 2011 an employer could have up to three open benefit options depending on the choices made from April 2008.

For example, an employer might have Final Salary 60ths and CARE 70ths for pre-April 2011 joiners, and CARE 80ths as its default option from 1 April 2011; the employer may, if it wishes, allow new joiners from April 2011 to choose between the three options.

There will be occasions where an employer changes from the Final Salary option to one of the CARE options. When this happens, members' benefits in the Final Salary option will continue to revalue in line with increases to their pensionable earnings. This is reflected in the relevant contribution rate.

If an employer elects to maintain their existing option(s) for their existing members, but adopts a new CARE benefit option for new entrants, existing members can elect to change to the new CARE benefit option. Any such change will be subject to any time constraints set by the employer. The Pensions Trust cannot process backdated requests, and needs a month's notice of a member changing to a different benefit option. The change must be effective from the 1st of a month.

Employers will have regular opportunities to review and, as appropriate, change the benefit option(s) for their organisation. The operative date for any change will be the first day of April in any given year. A minimum of three months'

written notice must be given in respect of any change to the benefit option arrangements.

Any proposed changes to the benefit options of an organisation's pension scheme must have due regard to its Terms and Conditions of Employment. Please note: The obligation on employers to consult with their employees on pensions arises from the Pensions Act 2004.

Employers are encouraged to take legal advice before entering into consultation on possible changes to the pension scheme affecting their employees.

(ii) Contribution Rates

Policy

The future service contribution rate for each benefit option will be determined by the Committee at each actuarial valuation.

The future service contribution rates in operation with effect from 1 April 2011 are:

**Final Salary with 1/60th accrual
19.2% of pensionable earnings**

CARE with 1/60th accrual 17.1%

CARE with 1/70th accrual 14.9%

CARE with 1/80th accrual 13.2%

CARE with 1/120th accrual 9.4%

These contributions are split 50:50 between employer and member, though employers will be able to pay a higher proportion if they wish.

Where an employer offers more than one open benefit option, the employer may (at its discretion) require the member to pay the difference in contributions between the employer's default option and the (more expensive) option chosen by the member. The most the member can be required to pay is the

member contribution for the option chosen, plus the difference between the employer contribution for the default option and the employer contribution for the option chosen.

Apart from CARE 120ths the benefit options are contracted-out of the State Second Pension so members and employers pay lower National Insurance Contributions.

Past service deficit rate

The past service deficit rate payable with effect from 1 April 2011 is calculated separately and is based on the employer's pensionable salary roll as at 30 September 2009, the last valuation date. The amount is equivalent to 10.4% of pensionable salaries as at 30 September 2009, increased for earnings inflation, and is converted to a fixed annual amount, payable monthly alongside future service contributions and any surcharge or loading (see below). The annual amount is increased on each 1 April by 4.5%, the earnings increase assumption used in the valuation.

Employers are notified in January each year of the total deficit contribution payable from the following April.

Surcharges

A surcharge or 'loading' is applied to employers who have closed the Scheme to new entrants.

The surcharges from 1 April 2011 are:

Final Salary with 1/60th accrual 3.5%

CARE with 1/60th accrual 3.5%

CARE with 1/70th accrual 3.0%

CARE with 1/80th accrual 2.6%

CARE with 1/120th accrual 1.8%

Rules

Standard contribution rates are split as follows for each benefit option:

Benefit Option 1 – Final Salary with 1/60th accrual

Employers will pay 9.6% plus deficit contributions; plus a closed scheme loading if applicable
Members will pay 9.6%

Benefit Option 2 – CARE with 1/60th accrual

Employers will pay 8.6% plus deficit contributions; plus a closed scheme loading if applicable
Members will pay 8.5%

Benefit Option 3 – CARE with 1/70th accrual

Employers will pay 7.4% plus deficit contributions; plus a closed scheme loading if applicable
Members will pay 7.5%

Benefit Option 4 – CARE with 1/80th accrual

Employers will pay 6.6% plus deficit contributions; plus a closed scheme loading if applicable
Members will pay 6.6%

Benefit Option 5 – CARE with 1/120th accrual

Employers will pay 4.7% plus deficit contributions; plus a closed scheme loading if applicable
Members will pay 4.7%

Please note: This option is not contracted-out of the State Second Pension. Members (and employers) will pay full rate National Insurance Contributions and will build up rights to State Second Pension.

General points to note:

Employers may choose to pay more than 50% of the future service contribution rate if they wish.

Where an employer offers more than one open benefit option, the employer may (at its discretion) require the member to pay the difference in contributions between the employer's default option and the (more expensive) option chosen by the member. The most the member can be required to pay is the member contribution for the option chosen, plus the difference between the employer contribution for the default option and the employer contribution for the option chosen.

The past service deficit rate payable with effect from 1 April 2011 is calculated separately and is based on the employer's pensionable salary roll as at 30 September 2009, the last valuation date. The amount is equivalent to 10.4% of pensionable salaries as at 30 September 2009, increased for earnings inflation, and is converted to a fixed annual amount, payable monthly alongside future service contributions and any surcharge or loading (see below). The annual amount is increased on each 1 April by 4.5%, the earnings increase assumption used in the valuation.

The past service deficit amount and calculation basis will continue to be reviewed at each actuarial valuation.

(iii) Member Movements

Policy

When a member moves from one participating employer to another they will be allowed to join a benefit option that is open to new entrants with the new employer. However, the treatment of benefits earned to the date of transfer will depend on the application of the Rules following.

Rules

Voluntary Transfers:

Members moving voluntarily from one employer to another, both of whom participate in the Scottish Housing Associations' Pension Scheme, will be able to have their membership treated as continuous as long as the new employer operates one open benefit option and the member rejoins the Scheme within 30 days. Where the break in membership exceeds 30 days, a new membership number will be allocated and the previous membership will be deferred. (An employer who has closed the Scheme to new entrants will not be able to admit these members into the Scheme.)

The member will join a benefit option that is open to new entrants with the new employer.

For the avoidance of doubt, on transferring to another employer, a member who was previously in the Final Salary option does not retain the right to remain in this option if it is not open to new entrants. This applies regardless of the fact that existing members with the same employer may have been permitted to retain the Final Salary option.

When a member moves voluntarily from one participating employer to another which is a closed employer that member will not be allowed to continue in the Scheme. If the new employer wishes to admit the member they must re-open (and promote) the Scheme to all employees.

TUPE Transfers:

Where both employers participate in the Scheme, existing members, on transferring, will be allowed to continue in their chosen benefit option. New members after the transfer may only join an open benefit option being offered by the receiving employer.

Where both employers participate in the Scheme but the receiving employer is closed to new entrants, transferring members will be allowed to continue in their chosen benefit option with the receiving employer paying the appropriate contribution loading.

Where one employer does not participate in the Scheme advice should be sought from the Scheme Secretary at an early stage.

TUPE transfers also raise a number of issues which again tend to be specific to each set of circumstances. It is strongly recommended that advice and information be obtained from the Scheme Secretary at an early stage.

Aggregation of Service:

The Scheme rules prior to 1 April 2008 permitted aggregation of multiple periods of membership if this would produce a greater benefit when the member reached retirement. This option has been changed with effect from 1 April 2008.

Any periods of membership which begin on or after 1 April 2008 cannot now be combined with earlier periods of membership.

(iv) Closed Scheme and Withdrawal from the Scheme

Policy

An employer who closes the Scheme to new entrants will be classified as operating a closed scheme policy.

An employer who closes the Scheme to new entrants AND to future accrual for existing active members will be deemed to have withdrawn from the Scheme.

An employer who no longer has active members in the Scheme, and who is not offering it to new entrants will be deemed to have withdrawn from the Scheme on the date the last active member leaves.

Rules

An employer who offers one of the five benefit options available from 1 April 2011 to new entrants will be deemed not to have a closed scheme.

If the Scheme is closed to new entrants but existing active members continue to accrue benefits a surcharge will be imposed to reflect the

fact that this section of the membership will likely be ageing faster than that of an employer who continues to offer the Scheme to new entrants.

The surcharge is currently applied to the pensionable salaries of active members. The Scheme Actuary reviews the amount of the surcharge on a regular basis. The next review is scheduled for 30 September 2012. The current surcharges range from 1.8% to 3.5% of pensionable earnings. Please refer to the section on contribution rates on page 6.

An employer who closes the Scheme to new entrants and to future accrual for existing active members will be deemed to have withdrawn from the Scheme.

Legislation determines that withdrawal from the Scheme triggers what is termed an Employer Debt. In this situation an employer will be required to meet the cost of securing the pensions of their current, deferred and pensioner members together with their share of 'orphan' liabilities not attributable to a participating employer. The cost will be determined on the basis of the Scheme Actuary's estimate of the cost of securing the benefits by the purchase of annuity contracts from an insurance company (the buy-out basis). The Scheme is in deficit on the buy-out basis and there are insufficient assets within the Scheme to meet these liabilities. The employer will be required to meet the shortfall. The cost is likely to be substantial.

An employer will also be treated as withdrawing from the Scheme (in line with current legislation) if contributions are no longer being paid into the Scheme by, or on behalf of, any active members and the employer no longer has any categories of employees who are eligible to join the Scheme. In this situation the Employer Debt position is triggered and the provisions of Rule 3 apply.

Despite offering the Scheme to new entrants, an employer may cease to have active members in the Scheme due to natural staff turnover. In this situation the employer will be treated as having withdrawn on the date that it ceased to employ any active members. Regulations provide for a 'period of grace' which allows an employer to

continue in the Scheme provided the employer notifies the Trustee of the intention to enrol a member within the following 12 months. If after 12 months the employer still has no active members, then it will be deemed to have withdrawn from the Scheme.

To take advantage of the 'period of grace' provisions, the employer must give notice to The Pensions Trust within one month of its last active member leaving the Scheme. Giving notice to The Pensions Trust can be done by completing the Standard Notice Form that is available on the Scheme's website www.shaps.org.uk. If notice is not received within one month of the last active member leaving, the employer will not be able to take advantage of the 'period of grace' provisions and will immediately be liable for a withdrawal debt.

Please note: Employers are strongly recommended to contact the Scheme Secretary at The Pensions Trust prior to taking any action which may trigger a withdrawal from the Scheme. Care needs to be taken following mergers, transfers of engagements and group re-organisations which could potentially lead to an employer being deemed to have withdrawn from the Scheme.

Mergers and Group re-organisations raise many issues which tend to be specific to each business transaction. Transfers of engagements trigger an event leading to an Employer Debt liability. Group re-organisation can also trigger such a debt if an organisation which is a Scheme employer ceases to exist. It is therefore strongly recommended that employers seek clarification of the position from the Scheme Secretary at The Pensions Trust at an early stage in the process.

5. Glossary of Terms

Active Members – members participating in the Scheme and for whom contributions are being paid into the Scheme.

Assets – these are the investments held by the Scheme used to fund the liabilities. These include equities, bonds, property and cash.

Default Benefit Option – where an employer offers more than one open benefit option, the default option represents the employer's 'standard' offering; where employees choose another option the employer may require the member to pay the difference in contributions between the default option and the option chosen.

Defined Benefit – a benefit calculated with reference to a formula, e.g. 1/60th of Final Salary for each year of membership. Benefits can be determined in advance subject to an assessment of the member's final earnings.

Liabilities – these are the value of the pensions earned in the Scheme at a given date. These include pensions in payment, deferred pensions in respect of members who have ceased to be active members and pensions earned by active members up to the given date.

Live Benefit Option – a benefit option operated by an employer before 1 April 2011 for employees who joined the Scheme prior to that date and who can continue to accrue benefits in it. From April 2011 a 'live' benefit option can be open or closed to new entrants i.e. 'open live' or 'closed live'.

New Entrants – members of staff who are prospective new members of the Scheme.

Open Benefit Option – a benefit option operated by an employer which is offered to current and new entrants. As at April 2011 an employer could have up to three open benefit options depending on the choices made from April 2008. For example, Final Salary 60ths and CARE 70ths for pre-April 2011 joiners, and CARE 80ths as its default option from 1 April 2011; the employer allows new joiners from April 2011 to choose between the three options.

Participating Employer – an employer who has employees who are members of the Scheme. The employer must have active members to be a participating employer; otherwise the employer will be deemed to have withdrawn from the Scheme.

Past Service Deficit – the deficit which exists at the date of valuation, being the shortfall between the market value of the assets at that date and the assessed value of the liabilities.

Past Service Deficit Contribution – this part of the overall contribution represents the cost of eliminating the deficit over a period of time as agreed with The Pensions Regulator and the Scheme Actuary. It is payable in addition to the cost for each benefit option.

Pensionable Earnings – is basic salary or wages and can include childcare vouchers.

The Scheme – the Scottish Housing Associations' Pension Scheme.

6. Contacts

Scheme Administrator

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6 Canal Wharf
Leeds
LS11 5BQ

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Fax: 0113 234 5599
Email: enquiries@thepensiontrust.org.uk

Scottish Housing Associations' Pension Scheme Secretary

Susan Wardlaw

Susan is the Scheme Secretary for the Scottish Housing Associations' Pension Scheme Committee and should be the first point of contact for employers with any non-administration type queries, for example where an employer requires assistance with organisational change and the implications for their participation in the Scheme.

Tel: 0131 200 6159
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Scottish Housing Associations' Pension Scheme Administration Team

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Administration Manager

Simon Stead

Simon manages the overall scheme administration function at The Pensions Trust and should be contacted with administration queries where a resolution cannot be provided by the Administration Team responsible for the Scottish Housing Associations' Pension Scheme.

Tel: 0113 394 2721
Email: simon.stead@thepensiontrust.org.uk

Explore the Scheme's website.

It is easy to use and has lots of helpful information, for employers and employees including:

- Details of the benefits available.
- Forms and literature available to download.
- Online pension calculator.
- Administration guides for employers.
- Key contact details.

www.shaps.org.uk



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Visit the Scottish Housing Associations' Pension Scheme's website today at
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