

shps

Employer Consultation Guidance Notes



Social Housing Pension Scheme



Administered by
The Pensions Trust

Employer Consultation Guidance Notes



Contents

Introduction - Page 3

Benefit Structures - Page 3

- Benefit structures
- Other options considered
- eBusiness
- Benefit structures in practice
- Current and new members – switching options
- Contribution rates
- Consultation with employees
 - Pre consultation stage
 - Post consultation stage
- Employer Form of Authority
- Default position
- Future changes to benefit and contribution structures

Actuarial Valuation Results - Page 8

- Valuation assumptions
- Key valuation results

Contribution Rates - Page 9

- Future service rate
- Past service rate
- Accounting disclosures
- Combined contribution rates
- DC benefit structure contributions
- Surcharges
- Calculating your overall contribution rate
- Member contribution rates
- Age related member contributions

Transfers in - Page 15

Members Information - Page 15

- Important Information for Members leaflet
- Additional information material for active members
- Letters to deferred and retired members

Further Information and Assistance - Page 16

- Documents
- Online calculators
- Helpline
- Written enquiries
- Regional Employer Forums
- 'Face to face' assistance
- House Policies and Rules

Appendices - Page 17

- A Consultation
- B Decision Tree
- C Surcharge Flowchart

Introduction

During the Autumn of 2008, the SHPS Pensions Committee undertook a consultation exercise with all employers participating in the Social Housing Pension Scheme (SHPS), seeking their views on a number of issues affecting pensions in anticipation of the results of the 30 September 2008 triennial valuation.

Employer meetings were also held during October 2008 to assist in gauging the opinions and concerns of employers.

Some of the main themes that emerged from the employer consultation exercise were:

- The need to control and provide some predictability of pensions costs.
- The need to continue to provide a choice of benefit structures, and to extend that choice, in particular to introduce a lower-cost pensions option.
- The demand for a Defined Contribution (DC) structure within SHPS.
- A willingness to share some of the Scheme risks with employees.

The SHPS Pensions Committee has considered all of the responses to the consultation exercise and, as a result, from 2010 each employer within SHPS will have an extended choice of benefit/funding structures to offer to their employees.

A letter outlining the choices was sent to employers in April 2009. Changes have been made to these notes to reflect clarifications made and to answer questions raised since that letter was issued.

The next stage of the Benefit Review is to present those choices in detail to employers, enabling them to consult with their employees to determine which benefit structures should be adopted.

Benefit Structures

Since April 2007 SHPS has offered a limited range of benefit structures. The outcome of this recent Review is to extend the benefit structures further to provide a wider range of pension solutions for SHPS employers.

It is important to stress that any benefits built up by members under SHPS before the date of any future change cannot be reduced. Any changes made will apply to benefits provided from 2010.

Benefit structures

From 2010, each employer within SHPS will have an extended choice of benefit/funding structures.

There will be five core benefit structures:

- the existing Final Salary structure with a 1/60th accrual;
- the existing Career Average Revalued Earnings (CARE) structure with a 1/60th accrual;
- a new Final Salary structure with a 1/80th accrual;
- a new CARE structure with a 1/80th accrual; and
- a new Defined Contribution (DC) structure.

All of the benefit structures have been designed to qualify as 'exempt' from the requirements to auto-enrol into Personal Accounts due to be introduced from 2012.

Please refer to the section 'Benefit structures in practice' for an explanation of how employers may utilise different benefit structures for different groups of employees, and the restrictions that will be applied in order to avoid undue complexity.

Information sheets outlining the different benefit structures have been prepared (enclosed with these Guidance Notes), together with tables providing details, on a comparative basis, of the pensions which members would earn under the Final Salary and CARE benefit structures. Copies of the documents are available to download from the SHPS website at www.shps.org.uk

The new Final Salary and CARE benefit structures will come into operation from April 2010. The DC benefit structure will require significant changes to the IT and administration systems, including the requirement for on-line submission of contribution and leaver data by employers. To allow for this, the DC benefit structure will be introduced from October 2010.

Employers intending to adopt the DC benefit structure with effect from October 2010 will be able to continue to offer DB benefit structures between April and October 2010.

The existing 1/70th Final Salary benefit structure has not been selected by many employers. This benefit structure will continue for those employers who already offer it if they wish to continue with it, but from 1 April 2010 it will not be open to new employers.

Other options considered

As advised in the initial letter issued in April 2009, the SHPS Pensions Committee decided against the introduction of a CARE benefit structure with 1/100th or 1/120th accrual as part of this Review on the basis of cost. These benefit structures would be 'contracted-in', requiring higher National Insurance contributions from both employer and employee (approximately 3% and 1.9% respectively). However, the SHPS Pensions Committee may reconsider these options at a later date.

eBusiness

As part of the Review there will be a phased introduction of The Pensions Trust's eBusiness solution to all SHPS employers. Moving to eBusiness has been identified as a means of reducing the long-term administration costs of SHPS for the benefit of all employers and members alike. All employers electing the DC benefit structure will be required to submit all monthly/four-weekly contribution data using the eBusiness solution from 1 October 2010. It is hoped that all SHPS employers will have implemented the eBusiness solution by the end of 2010. Over the next few months The Pensions Trust will contact your organisation about eBusiness and the planned roll out to your organisation.

Benefit structures in practice

Although there will be five benefit structures to choose from (six if your organisation currently uses the Final Salary 70ths benefit structure), there are some restrictions on how employers can use them. These restrictions have been applied to try to avoid undue complexity for employers and members.

The following definitions may assist employers in understanding the choices available:

- Current members are members of SHPS as at April 2007.
- New members are members of SHPS between April 2007 and March 2010.
- Future members are members (including existing employees who are not currently SHPS members) joining post 2010; April 2010 for DB and October 2010 for DC.

An 'open' benefit structure is a benefit structure 'open' to future members as well as current and new members.

A 'live' benefit structure is a benefit structure continuing to be offered to current and new members but is not 'open' to future members. Whilst these benefit structures are not 'open' to new members, they continue to be 'live' in that benefit continues to accrue in them for those employees who are already members.

Employers may offer only one 'open' DB benefit structure at any one time to future members plus, if they wish, the DC benefit structure.

Employers may continue to operate different 'live' benefit structures for current and new members. If an employer currently operates different benefit structures for its current and new members, those benefit structures could be maintained (in the same way as in 2007).

The full range of benefit structures from 2010 is shown in the table below:

Member Group	Current Benefit Structure	Options for 2010, or later
Current members as at April 2007	One of Final Salary 60ths, Final Salary 70ths* or CARE 60ths on either an 'open' or 'live' basis.	<ol style="list-style-type: none"> 1) Continue with existing benefit structure. 2) Move to the existing benefit structure offered for new members (if different). 3) Move to a new 'open' DB benefit structure for current, new and future members.
New members between April 2007 and March 2010	One of Final Salary 60ths, Final Salary 70ths* or CARE 60ths on either an 'open' or 'live' basis.	<ol style="list-style-type: none"> 1) Continue with existing benefit structure. 2) Move to a new 'open' DB benefit structure for current, new and future members.
Future members (including existing employees who are not currently SHPS members) joining post April 2010 for DB and October 2010 for DC		<ol style="list-style-type: none"> 1) Continue to offer the existing 'open' DB benefit structure. 2) Move to a new 'open' DB benefit structure for current, new and future members.
SHPS DC benefit structure from October 2010		<ol style="list-style-type: none"> 1) SHPS DC can be operated at the same time as any 'open' or 'live' DB benefit structure.

* As mentioned earlier, employers already offering the Final Salary 70ths benefit structure may continue to use it; however it will not be available as a benefit structure to new employers from 1 April 2010.

Members moving from DB to DC may remain in DB between April and the end of September 2010.

A 'Decision Tree' to aid decision making is included as Appendix B.

Example

If an employer presently operates Final Salary 60ths accrual for current members at 1 April 2007 and CARE 60ths for new members (since April 2007), then this same employer could (from 2010) operate the two existing bases for its current and new members in those benefit structures and then operate (say) CARE 80ths for future members.

Its current and new members (of either Final Salary 60ths or CARE 60ths) could elect (if personal finances dictated) to join the CARE 80ths benefit structure for future service, as this is the only ('open') benefit structure that is offered for future members within their organisation.

Current and new members – switching options

If an employer decides to retain a Final Salary (or CARE 60ths) benefit structure for current and new members, but adopts a CARE and/or DC benefit structure for future members, then some current and new members may wish to change from their existing benefit structure to the new benefit structure. This is outlined in the example above. The reason for making this change would normally be the lower member's contribution rate in the new benefit structure.

A current or new member can make this type of change. However, it is strongly recommended that a member considering such a change should be encouraged to seek independent financial advice before making a final decision. (Please note that neither The Pensions Trust nor the SHPS Pensions Committee are authorised to give financial advice to members.) Once the decision is implemented, the individual will not be able to change back to their previous benefit structure.

Contribution rates

It is up to individual employers, in consultation with their employees, to set employer/member contribution rates for each benefit structure specific to their own organisation. Please refer to the 'Contribution Rates' section on page 9.

Within each 'open' or 'live' benefit structure, the same contribution basis must apply in respect of all the members in that benefit structure.

As part of this Review an employer may choose a CARE or DC benefit structure for future benefit provision for existing members currently in a Final Salary benefit structure. In this case, each member's accrued benefits under the Final Salary benefit structure up to the date of change (April 2010 CARE, October 2010 DC) will continue to increase in-line with their pensionable earnings until they leave the Scheme. This will be reflected in the past service contribution rate.

If an employer chooses the DC benefit structure for future provision for members who are currently in CARE, then the benefits built up to

the date of change will increase in-line with RPI up to 5% until they leave the Scheme. Again, this will be reflected in the past service contribution rate.

Consultation with employees

The requirement for employers to enter into consultation with their employees regarding proposed changes to their scheme is shown in Appendix A of these Guidance Notes.

Statutory consultation may be required if employers are going to change the accrual rate and/or the type of benefit structure (for example from Final Salary to CARE or DC, or from CARE to DC) and/or the member contribution rate with effect from 2010.

Whether or not there is a statutory requirement, consultation is good practice and may be required as part of an employer's 'duty of mutual trust and confidence'. All employers are therefore recommended to undertake some form of appropriate consultation.

The SHPS Pensions Committee cannot undertake the consultation work on behalf of employers, nor are they, or The Pensions Trust, able to give advice. It is therefore necessary for employers to set in place a consultation process in-line with their own established procedures. Consultation may involve trade unions, works councils and employee representative groups as appropriate.

- **Pre consultation stage**

Employers will need to determine, in accordance with their procedures, the approach to benefit structures and funding arrangements (contribution rates) which they intend to take.

Before entering into any consultation process, employers should assess their position in relation to employees' Terms and Conditions of Employment, to their organisation's governance arrangements and to legislation.

- The SHPS Pensions Committee strongly recommends that employers take advice from their employment solicitors on any consultation and proposed amendments to employee terms and conditions.

If consultation with employees is to be meaningful, then specific benefit structures and funding arrangements cannot be predetermined. However, the areas of benefits and funding on which the employer wishes to consult, and particularly any proposed changes, should be clearly set out for employees.

The timetable for consultation should tie in with your organisation's Committee or Board meeting timetable, to allow approval of final benefit and funding structures in time for notification to The Pensions Trust by the required date of 30 November 2009.

- **Post consultation stage**

On completion of the employee consultation stage, and having had due and proper regard to the representations of employees, employers must decide on benefit structure(s) for both existing and new employees together with the related funding arrangements, i.e. employer and member contribution rates.

Employer Form of Authority

Employers are required to notify their chosen benefit/funding structures, whether Final Salary, CARE or DC, by no later than 30 November 2009.

Please note that employers may choose to retain their existing benefit structure(s), in which case confirmation of the employer/member contribution rate split will still be required as the funding requirements of the Scheme have changed.

An 'Employer Form of Authority' is enclosed with this mailing. The Form should be completed and returned by all employers, whether or not there is to be any change to their pension arrangements. The Form must be signed by the Chair and the Secretary of the employer.

Default position

If an employer does not return their 'Employer Form of Authority' by 30 November 2009 then a default position will apply to that employer. The default position will be that the employer will retain their existing benefit structure(s) and any increase in the total contribution rate will be fully met by the employer, with the members' contribution rate being held at its present level.

Future changes to benefit and contribution structures

It is recognised that employers must have regular opportunities to review and, as appropriate, change their benefit and contribution structures.

After 1 April 2010, an employer will be permitted to change their benefit structures offered from the first day of any month, subject to confirmation that statutory consultation (if required) has taken place and adequate notice being given in writing to The Pensions Trust, as follows:

- three months' notice will be required for any change to a DB benefit structure; and
- six months' notice will be required in order to introduce the DC benefit structure.

Revised procedures for this process will form part of the updated 'House Policies and Rules' booklet available in January 2010.

Actuarial Valuation Results

The key assumptions and results of the 30 September 2008 triennial actuarial valuation, and a comparison with the 2005 valuation, are summarised below. A fuller report on the valuation results will be issued when the Scheme Actuary's report has been finalised.

Valuation assumptions

The principal financial assumptions underlying the three-yearly valuation are:

Valuation Date	30 September 2005 Nominal % p.a.	30 September 2008 Nominal % p.a.
Price inflation	2.5%	3.2%
Valuation discount rates		
- pre retirement	7.2%	7.8%
- non pensioner post retirement	4.8%	6.2%
- pensioner post retirement	4.8%	5.6%
Pensionable earnings growth	5% for 5yrs, 4% thereafter	4.7%
Pension increases		
- Pre 88 GMP		0.0%
- Post 88 GMP	2.5%	2.8%
- Excess over GMP		3.0%

In addition, latest mortality research, backed up by SHPS' own experience has been taken into account.

Key valuation results

The provisional valuation results are:

	30 September 2005 £m	30 September 2008 £m
Market value of assets	1,278	1,527
Liabilities	1,561	2,190
Deficit	(283)	(663)
Funding level (assets/liabilities)	82.0%	69.7%

During the past three years, since the last triennial valuation, the major factors influencing the performance of the fund and their contribution to the deficit shown above were:

- Investment performance towards the end of the period was not good and the results are significantly worse than anticipated (shortfall £315 million).
- Mortality assumptions have been strengthened (shortfall £193 million).
- Financial assumptions have been beneficial (surplus £171 million).

Contribution Rates

The total (employer and member) contribution rate payable to SHPS is made up of various components and potentially includes the future service rate, the past service rate and, if appropriate, a surcharge rate. Details of the revised rates are as follows:

Future service rate

The future service rate is the cost of providing future benefits. The total (employer and member) rates to be applied for future service from 1 April 2010*, expressed as a percentage of pensionable salaries, are:

*1 October 2010 for the DC benefit structure.

Benefit Structure	Future Service Rate (%)
Final Salary benefit structure with 1/60th accrual	17.8
Final Salary benefit structure with 1/70th accrual	15.4
Career average (CARE) benefit structure with 1/60th accrual	14.9
Final Salary benefit structure with 1/80th accrual	13.5
Career average (CARE) benefit structure with 1/80th accrual	11.9
DC (minimum)	6.0

Past service rate

The provisional results of the actuarial valuation (see 'Actuarial Valuation Results' for a summary) reveal that the Scheme had a deficit of £663 million as at 30 September 2008. The deficit at the previous valuation in 2005 was £283 million.

Following consultation with employers (in November 2008) on financial issues and, notably, on the treatment of deficit recoveries in future, there was very substantial support for defining in value terms the deficits attributable to each employer.

The SHPS Pensions Committee has accepted this and it has been decided to relate the past service deficit rate as a value equal to 7.5% of the pensionable payroll for each employer at 30 September 2008 (the valuation date), increasing by 4.7% each year. The 4.7% increase allowance is the future earnings increase assumption used by the Scheme Actuary in the valuation.

The existing past service deficit contribution rate of 4.4% of pensionable salaries (included in the 7.5% above) will continue to be payable by the organisations participating in the Scheme at the date of the previous valuation (i.e. 30 September 2005) until 30 September 2020, in-line with the current arrangements. (This will continue to be collected until March 2010 based on actual pensionable salaries, and from April 2010 on the new basis described above.)

An additional past service deficit contribution will be required to fund the increase in deficit identified at this valuation. This is assessed at 3.1% of notional pensionable salaries (pensionable salaries at 30 September 2008) and will be payable as from 1 April 2010, in addition to the existing 4.4%. The total past service deficit contribution is therefore 7.5% of pensionable salaries as at 30 September 2008. If the valuation assumptions are borne out in the future, this contribution will eliminate the deficit over 13.5 years, by 30 September 2023. SHPS will be drafting a 'recovery plan' to reflect this.

This past service deficit contribution rate of 7.5% of pensionable salaries as at 30 September 2008 will be payable by the organisations participating in the Scheme at the date of the previous valuation (i.e. 30 September 2005).

Each organisation will be notified annually of what its past service contribution is, and this will be collected monthly in addition to the future service rate and any surcharge. Changes will be made from 1 April each year.

Those organisations which have joined SHPS since 1 October 2005, and are in the transitional period before payment of past service deficit contributions is required, will be contacted separately.

Accounting disclosures

Some employers have asked whether the multi-employer exemption from full implementation of the accounting standard FRS 17 will be affected by the new approach to collecting deficit contributions.

Having consulted a leading firm of auditors in the housing association sector, our view is that the proposed change in methodology for calculating deficit contributions from April 2010 does not alter the substance of the previous calculation, and does not in itself require any change in the basis of pension accounting within the financial statements of sponsoring employers.

The decision as to whether to take the exemption available remains a matter for employers to agree with their own auditors.

The SHPS' website content on FRS 17 and accounting for pensions will be updated in due course to reflect this advice.

Combined contribution rates

The contribution rates, expressed as a percentage of pensionable salaries, required to fund the total past and future service costs of the existing benefit structures, are set out below:

Benefit Structure	Contribution Rate		
	Future service expressed as a % of Actual Pensionable Salary	Past service expressed as a % of Notional Pensionable Salary	Total
Final Salary benefit structure on a 1/60th accrual	17.8	7.5	25.3
Current rate	17.6	4.4	22.0
Final Salary benefit structure on a 1/70th accrual	15.4	7.5	22.9
Current rate	15.3	4.4	19.7
Career average (CARE) benefit structure on a 1/60th accrual	14.9	7.5	22.4
Current rate	14.1	4.4	18.5
Final Salary benefit structure on a 1/80th accrual	13.5	7.5	21.0
Career average (CARE) benefit structure on a 1/80th accrual	11.9	7.5	19.4

Notional pensionable salary is pensionable salary as at 30 September 2008 indexed annually in-line with the salary growth assumption in the valuation and does not alter to account for leavers or new joiners.

Benefit Structure	Contribution Rate		
	Future service expressed as a % of Actual Pensionable Salary	Past service expressed as a % of Notional Pensionable Salary	Total
DC - prior DB service (minimum)	6.0	7.5	13.5
DC - no prior DB service (minimum)	6.0	0.0	6.0

These rates will be payable from 1 April 2010, except for DC future service which will commence from 1 October 2010. For Final Salary and CARE benefit structures, employers, in consultation with their employees, will determine the split of the total contribution rate between members and the employer. (For DC, please refer to 'DC benefit structure contributions'.) The requirement for the employer to meet at least 50% of the contribution will be removed from 2010. Age-related contributions can be maintained or introduced if employers, in consultation with their employees, so determine. (Please refer to 'Age related member contributions'.)

DC benefit structure contributions

For employers choosing the DC benefit structure, the past service deficit contribution of 7.5% will only be payable by those employers who currently offer one of the defined benefit structures and were in SHPS before 30 September 2005. Employers who joined between 30 September 2005 and 30 September 2008 will be contacted separately. New employers to SHPS with no DB members will not pay past service deficit contributions.

For the DC benefit structure, and in anticipation of the introduction of Personal Accounts in 2012, the minimum contribution rate for the DC benefit structure has been set at 6% (3% member and 3% employer). Non-contributory arrangements for members where the employer elects to provide the same level of overall contribution are permitted, but will have to be reviewed in the light of Personal Accounts regulations as they become available.

The DC contribution rate is to be based on the SHPS definition of pensionable earnings. It is not intended to adopt the 'banded earnings' approach which will apply to the State Personal Accounts Scheme.

The minimum member contribution will rise to 5% from 2012 to comply with the Personal Accounts requirements. It is not yet clear how a non-contributory arrangement will be dealt with under Personal Accounts, but details will be made available nearer the time so that employers remain compliant.

The employer contribution rate for the DC benefit structure will not be phased in, but will be set at a minimum of 3% (or 6% if a member non-contributory benefit structure is chosen) from October 2010. Both employers and members may pay more than the 3% minimum. For example, employers may wish to match members' contributions up to a certain level, or contribute at a multiple (such as 2:1) of members' contributions, as determined in consultation with their employees.

The approach to member and employer charges for the DC benefit structure is being finalised, but charges are likely to be in three parts:

- a one-off set-up fee, payable by the employer;
- an annual administration fee per member, payable by the employer, which will include the cost of life assurance; and
- an annual management charge (expressed as a percentage of funds invested), deducted from the member's fund. Any charges deducted from a member's personal account will be shown on the annual benefit statement.

The DC benefit structure does not provide an ill-health pension, so employers should consider whether they need separate permanent health insurance or income replacement insurance.

Surcharges

At present, employers not offering SHPS DB to new employees (or who operate alternative pension arrangements alongside SHPS), pay a surcharge to recognise that the average age of their SHPS members will increase more quickly than for an employer continuing to offer SHPS to all new employees. This surcharge is currently 3% of pensionable salaries.

The surcharge rate has been reviewed by the Scheme Actuary and is to be maintained at 3%. However, a discounted surcharge may be payable in certain circumstances as detailed in Appendix C. This should be noted especially if a DC benefit structure is to be offered, whether through SHPS or elsewhere. The rate of surcharge (and discount arrangements) will be reviewed at the next valuation in 2011.

From 1 April 2010, the operation of the surcharge will be extended to those organisations which continue to offer the Local Government Pension Scheme, to new employees, as an alternative to SHPS.

Calculating your overall contribution rate

An Excel spreadsheet to assist employers in calculating the overall contribution rate for each benefit structure can be downloaded from the SHPS website at www.shps.org.uk

SOCIAL HOUSING PENSION SCHEME EMPLOYER CONTRIBUTION MODELLER

Please complete yellow highlighted cells.

STAGE 1 - Please complete the following questions about your current participation in SHPS:

Question 1 - Do you currently pay a surcharge because you have previously closed to new entrants? - select Y or N from drop down list N

Question 2 - Do you currently pay deficit contributions because you joined SHPS before 30 September 2002? - select Y or N from drop down list Y

Question 3 - Enter the estimated total pensionable salaries at April 2010 of your current membership in the existing benefit structures together with the (average) member contribution rate in the yellow boxes below:

	60ths FS	60ths CARE	70ths FS	Total
Estimated Pensionable salaries at 1 April 2010 £000s pa	1000.0	1000.0	1000.0	3000.0
Member contribution rate %	5.0	5.0	5.0	

Using the above information, the estimated annual cost of your **current** SHPS pension structure based on membership at 1 April 2010 is:

£000s pa	60ths FS	60ths CARE	70ths FS	Total
Future service cost	176.0	141.0	153.0	470.0
Plus surcharge	0.0	0.0	0.0	0.0
Total SHPS future service cost	176.0	141.0	153.0	470.0
Plus deficit contribution pa				132.0
Less total member contributions	50.0	50.0	50.0	150.0
Total employer contribution to SHPS				452.0
Less approximate employer's N.I. contracted-out rebate				90.0
Net employer cost, pre tax relief £000s pa				362.0

STAGE 2 - Please complete the following questions about your participation in SHPS from April 2010:

Look at the following table to see whether any surcharge will apply according to your policy for future new entrants:

New entrant policy	% of surcharge applying
SHPS DB only open to new entrants	0%
SHPS DB and SHPS DC open to new entrants	0%
SHPS DB and non-SHPS DC open to new entrants	50%
Only SHPS DC open to new entrants	50%
No new entrants to SHPS	100%

Question 4 - Enter the surcharge % applying to you from the above table - select 0, 50 or 100 from drop down list 0%

Question 5 - Your annual post April 2010 deficit contribution as notified to you by The Pensions Trust £000s 160.0

Question 6 - If you are considering a DC section complete the following questions:
 Your average total DC contribution rate (member and company) 6.0 %
 Your average Member DC contribution rate 3.0 %

Question 7 - From April 2010 what will be the amount, if any, of the total pensionable salary in the final salary, CARE and DC sections together with your proposed member contribution rates for each section, in the yellow boxes below:

	60 FS	60 CARE	70ths FS	80ths FS	80ths CARE	DC	Total future pensionable salary	Your current total pensionable salary for comparison
Estimated Pensionable salaries at 1 April 2010 £000s pa	0.0	0.0	0.0	1000.0	1000.0	1000.0	3000.0	3000.0
Member contribution rate %	0.0	0.0	0.0	5.0	5.0			

STAGE 3 - The results showing your total SHPS related pension cost before and after 1 April 2010

Using the above information, the estimated annual cost of your **future** SHPS pension structure based on membership at 1 April 2010

£000s pa	60ths FS	60ths CARE	70ths FS	80ths FS	80ths CARE	DC	Total	Your current cost for comparison
Future service cost	0.0	0.0	0.0	135.0	119.0	60.0	314.0	470.0
Plus surcharge	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total SHPS future service cost	0.0	0.0	0.0	135.0	119.0	60.0	314.0	470.0
Plus deficit contribution pa							160.0	132.0
Less total member contributions	0.0	0.0	0.0	50.0	50.0	30.0	130.0	150.0
Total employer contribution to SHPS							344.0	452.0
Less approximate employer's N.I. contracted-out rebate							60.0	90.0
Net employer cost, pre tax relief *							284.0	362.0

* Important note: The net cost above assumes a change in benefit structure applying from 1 April 2010. As the DC section will not be introduced until October 2010 the actual annual cost in the first year may be different if you are introducing a DC section.

Based on the overall contribution rate you will need to determine how much will be paid by members.

Member contribution rates

For DB benefit structures, employers, in consultation with their employees, will determine the split of the contribution rate between members and the employer.

The existing requirement that an employer pays at least 50% of the total contribution rate will be removed from 1 April 2010.

In anticipation of the introduction of Personal Accounts in 2012, the minimum member contribution rate for the DC benefit structure has been set at 3% of pensionable earnings. This is expected to rise to 5% in 2012 to reflect the Personal Accounts requirements. As stated in 'DC benefit structure contributions' above, non-contributory arrangements providing the same level of overall contribution are permitted, but will have to be reviewed in the light of Personal Accounts regulations as they become available.

Age related member contributions

Employers, in consultation with their employees, may decide to continue to maintain the age band arrangements or to change to a single contribution rate for all members.

Currently there are three age bands, namely (1) under 30 years, (2) 30-39 years and (3) 40 years and over. Employers who maintain the age band arrangement within their organisation must continue with the existing age bands.

Employers, in consultation with their employees, will determine the split of the contribution rate between members and the employer. When the average member contribution has been agreed, the member contribution should be calculated for each age band. The following table is an example only to assist employers in making this calculation:

Basis	Average	Under 30	30-39	40 and over
Final Salary with 1/60th accrual	9.0%	7.4%	8.4%	9.4%
Final Salary with 1/70th accrual	7.9%	6.3%	7.3%	8.3%
CARE with 1/60th accrual	7.5%	5.9%	6.9%	7.9%
Final Salary with 1/80th accrual	7.1%	5.5%	6.5%	7.5%
CARE with 1/80th accrual	6.4%	4.8%	5.8%	6.8%

The same ratios as above should be adopted by employers when setting the age band contributions. Thus the age band distribution around the average member rate should be:

Under 30 years	-1.6%
30-39 years	-0.6%
40 years and over	+0.4%

The employer future service contribution rate will be the total future service contribution rate less the chosen average member contribution rate.

Transfers in

SHPS will not accept transfers into the Final Salary or CARE benefit structures with effect from 1 April 2010. This measure is intended to protect employers and the Scheme; many other private sector schemes have taken the same step.

Members are being advised of this change in practice in the leaflet 'Important Information for Members' due to be issued in the next few weeks.

Please ensure that your Human Resources Team is aware of this development and its implications both for current Scheme members and for future recruitment exercises.

Any transfers 'in progress' at 1 April 2010 will be honoured but strict time limits will be applied to the member decision making process.

From October 2010 members may be able to transfer previous benefits into the DC benefit structure of SHPS, subject to certain conditions being met. As the DC benefit structure is not contracted-out, it will not accept transfers in respect of contracted-out pension rights.

If members want to investigate a transfer, the 'Transfer Form of Authority' can be downloaded from the SHPS website at www.shps.org.uk

Members Information

Important Information for Members leaflet

The SHPS Pensions Committee has prepared an information leaflet for members on the current Review and developments within the Scheme. A copy of the leaflet, which will be issued to all active members shortly after these Guidance Notes have been issued, is enclosed with this mailing. As the leaflet meets some of the requirement to 'provide information' as part of a consultation process, you may wish to make reference to it in your consultation material.

Additional information material for active members

Information sheets outlining the different benefit structures have been prepared (enclosed with these Guidance Notes), together with tables providing details, on a comparative basis, of the pensions which members would earn under the Final Salary and CARE benefit structures. Copies of the documents are available to download from the SHPS website at www.shps.org.uk

Calculators for each of the benefit structures are available on the SHPS website at www.shps.org.uk

Letters to deferred and retired members

Deferred and retired members of SHPS are not affected by this Review and the changes being introduced in 2010. A letter providing this reassurance will be sent to deferred members and pensioners shortly after the mailing to active members has been issued.

Further Information and Assistance

Documents

The SHPS Pensions Committee has commissioned a range of documents designed to assist employers as they consider the benefit structures available and then consult with their employees. Some have been produced in hard copy and others are available to download from the SHPS website at www.shps.org.uk. The documents available are:

- **Information Sheets**
Information sheets outlining the different benefit structures have been prepared (enclosed with these Guidance Notes), together with tables providing details, on a comparative basis, of the pensions which members would earn under the Final Salary and CARE benefit structures (available on the website only).
- **Employer FAQs**
(Available on the website only.) This document covers some of the key areas employers may wish to consider prior to deciding which benefit structures and contribution rate proposals to discuss with their employees.
- **Consultation Template**
(Available on the website only.) Employers may be required to provide information and consult with affected members. The template outlines areas which need to be included and provides a framework to help you draft your consultation documents.
- **Information and Consultation of Employees Regulations 2004**
(Available on the website only.) Extracted from the Information and Consultation Regulations, this document explains how employers can calculate whether they have had, on average, 50 or more full-time equivalent employees in the 12 months prior to consultation.
- **DWP Guidance on Consultation**
(Available on the website only.) This is provided as a link to a DWP document which provides guidance on the consultation regulations and how to comply with their requirements.

Online calculators

(Available on the website only.) The calculators allow employees and Scheme members to assess how they might be affected by changes to their Scheme.

Helpline

A helpline for employers is available to help with queries relating to these Guidance Notes. The helpline number 0845 121 7234 will be operated by staff of The Pensions Trust between the hours of 10.00 and 16.00, Monday to Friday. Employers are requested to note that the helpline is intended primarily to provide more information or clarification on key areas within these Guidance Notes. Please note that the SHPS Pensions Committee and The Pensions Trust are not authorised to give advice to employers on the selection of their benefit structures and funding arrangements. In these matters, employers should take independent professional advice.

Written enquiries

Any queries relating to the Review should in the first instance be addressed to SHPS Review at The Pensions Trust, Verity House, 6 Canal Wharf, Leeds LS11 5BQ or by email to shpsreview2010@thepensionstrust.org.uk

Regional Employer Forums

Regional Employer Forums are taking place in June 2009. An invitation was enclosed with the letter sent to employers in April 2009.

'Face to face' assistance

Neither The Pensions Trust nor the SHPS Pensions Committee are able to give direct advice on an organisation's long-term pensions strategy. However, if employers wish to consider issues further, 'face to face' meetings can be arranged with representatives of The Pensions Trust at its office in Leeds in July 2009. An organisation wishing to arrange a 'face to face' discussion should contact Pamela Land at The Pensions Trust. To arrange a meeting you should, email pamela.land@thepensionstrust.org.uk or telephone: 0113 394 2687.

House Policies and Rules

The new DB benefit structures and funding arrangements will be introduced from 1 April 2010 and the new DC benefit structure from 1 October 2010. A number of the proposed changes will require either new House Policies and Rules to be written or amendments to be made to the existing House Policies and Rules. This work is in progress, and the revised document will be available in January 2010.

Appendix A - Consultation

Why might consultation be required?

If your organisation is considering making a 'listed change' (see below) to the benefit structures being offered under SHPS, then you may be required to consult with employees affected by this change – either because of your organisation's own requirements, or because of the Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006 (as amended) and the Occupational and Personal Pension Schemes (Consultation by Employers) (Modification for Multi-employer Schemes) Regulations 2006 (the Regulations).

The Department for Work and Pensions (DWP) has published guidance on the Regulations. A copy is available on the SHPS website at www.shps.org.uk or on the DWP's website at www.dwp.gov.uk/publications/dwp/2005/occ_pen_schemes/occ_personal_pens_schemes_regs06.pdf

Listed changes

The Regulations and the DWP guidance specify the changes which trigger the requirement to provide information and to consult.

The listed changes most likely to be relevant to SHPS employers include:

- Increasing member contributions in some or all cases.
- Reducing the rate of future accrual of benefits to some or all members (e.g. from Final Salary 60ths to Final Salary 80ths).

- Changing the basis for determining future accruals (e.g. from Final Salary 60ths to CARE 60ths).
- Changing the Scheme to provide some or all money purchase benefits (e.g. introducing the DC benefit structure for any current employees).

There may be very few employers considering making the following listed changes:

- Closing SHPS to some or all new members (but active members will remain in the Scheme).
- Stopping future accruals in SHPS to some or all members.
- Introducing contributions for some or all SHPS members where there had not previously been a member contribution.

Contractual position

If a 'listed change' to the Scheme is contemplated, it is important that you assess the position carefully. Your organisation may or may not have statutory obligations (see below). However, there may be obligations under internal procedures, or governance arrangements, relating to employees' Terms and Conditions of Employment (in particular with the provision of, and changes to, pensions and related benefits) and/or the conduct of consultation.

Please take legal advice if you are in any doubt about the contractual position.

Does my organisation need to consult?

There is no statutory obligation to consult for employers having fewer than 50 employees – though your organisation's governance requirements or your employees' Terms and Conditions of Employment may require some form of non-statutory consultation.

If you have 50 or more employees, then you must consult with 'affected members' and/or their representatives – see below.

Do we have 50 or more employees?

If your organisation has never employed 50 or more employees, then the position is clear. However, if your organisation employs some part-time employees, or has increased or decreased its workforce during the last 12 months, the position is less straightforward and another set of regulations comes into play. Regulation 4 of the Information and Consultation of Employees Regulations 2004 (Statutory Instrument 2004 no. 3426) specifies how the average number of employees must be calculated. The wording of Regulation 4 can be downloaded from the SHPS website at www.shps.org.uk

What is an ‘affected member’?

‘Affected members’ are current members of SHPS, plus all employees who are eligible (per their contract of employment) to join SHPS if they wish to.

We have to consult – how do we do this?

Where there is more than one participating employer, the person or body proposing the change (in this case, the SHPS Pensions Committee) must give written notice to each employer. The letter issued in April 2009 gives this written notice.

Each employer with active or prospective members affected by the change (see above) must provide information to those members and their representatives, and consult those members or their representatives. The intention is that employees should fully understand their pension scheme and the effect that changes will have on it and their future pension provision.

The areas on which the employer wishes to consult should be established and clearly set out for employees.

Some employers may prefer to let employees choose what path the organisation should take. The employer would provide information and consult on this basis. In either case, if consultation is to be meaningful, then the outcome cannot be determined in advance.

Providing information

Before the consultation starts, employers must provide information in writing to all employees who are ‘affected members’ as defined above (that is, active or prospective members, but not deferred members or pensioners).

Employers must also provide the information to, and consult with, one or more of the following employee representatives:

- Representatives of an independent trade union recognised by the employer for collective bargaining.
- Any representatives elected or appointed by employees under the Information and Consultation of Employees Regulations 2004.
- Other representatives of active and prospective members who have been elected for the purposes of participation in any consultation.

Where no representative has been appointed, the employer must consult directly with the affected members.

The information to be provided to the affected members and their representatives must:

- Be in writing.
- Be provided before the consultation starts.
- Describe the proposed change and the effect, or likely effect, of the change on the Scheme and its members.
- Include any relevant background information.
- Indicate the timescale for implementing the change to SHPS.
- Specify the date set for the end of the consultation or for the submission of written comments (this must be at least 60 days after the consultation starts).
- Be accessible in terms of format (a note on a payslip directing employees to an employee intranet is not acceptable if most employees do not have access to a PC at work) and content (plain English, no pensions jargon if possible) to enable the affected members and their representatives to study the proposed change(s) and give their views to the employer on the impact on members.

Consultation material

The SHPS Pensions Committee has prepared an 'Important Information for Members' leaflet and a template for employers to adapt to suit their consultation requirements and timescales. Used together, these documents will help employers to comply with the statutory requirement to 'provide information'. The template and the information leaflet are available to download from the SHPS website at www.shps.org.uk

- **Consultation**

Statutory consultation will begin and end on the dates specified in the information provided (see above) – the process must last at least 60 days.

During consultation, the DWP expects the employer and those being consulted to work together in a spirit of co-operation. The DWP considers that consultation will include an exchange of views and dialogue between the parties (source – DWP guidance).

At the end of the 60-day period, the employer must consider any comments received before deciding whether or not to change the benefit structure selected for employees' future pension provision. If no comments are received by the end of the period, the consultation is regarded as complete.

- **Non-statutory consultation**

Where governance arrangements or terms and conditions require non-statutory consultation, it is likely that the arrangements for consultation will be specified. If this is not the case, then employers may adapt the statutory process to suit. A minimum period of 30 days consultation would seem to be reasonable in these circumstances.

What happens next?

On completion of the consultation stage, and/or having considered employees' comments and representations, employers must decide whether to make any changes to the benefit structure(s) offered to its employees under SHPS. If your organisation will continue to offer the current benefit structure(s) for both existing and new employees, please complete and return the 'Employer Form of Authority' enclosed. A further copy can be downloaded from the SHPS website at www.shps.org.uk

If your organisation wishes to change the benefit structure(s) for existing and/or new employees, please complete and return the 'Employer Form of Authority'. A further copy can be downloaded from www.shps.org.uk

What happens if we don't comply with the Regulations?

If an employer wants to change the benefit structure(s) for existing and/or new employees and does not comply with the statutory requirements (if any) applicable to its particular circumstances, then affected members or their representatives may complain to The Pensions Regulator. The employer may be fined up to £50,000.

If the SHPS Pensions Committee is aware that an employer has not complied with the Regulations, then it will be unable to authorise the change in the benefit structure for existing and/or new employees.

Deadline

Completed 'Employer Form's of Authority' must be received by The Pensions Trust by 30 November 2009. Failure to return the completed form by this deadline will mean that the revised benefit structures will not be available from the earliest date. Any future changes will only be possible in accordance with agreed timescales for making future changes.

Appendix B - Decision Tree

Key

Current

Current members as at April 2007.

New

New members between April 2007 and March 2010.

Future

Future members (including existing employees who are not currently SHPS members) joining post 2010, April 2010 for Defined Benefit and October 2010 for Defined Contribution.

Members moving to Defined Contribution may remain in Defined Benefit between April and the end of September 2010.

Open

The benefit structure is 'open' to **future** members.

Live

The benefit structure is continuing to be offered to **current** or **new** members but is not 'open' to **future** members.

Do you currently offer the same benefit structure to **current** and **new** members? For example, CARE 60ths to **current/new** members?

No See page 21.

Yes

Do you want to offer the same benefit structure to **future** members as you offer to **current** and **new** members? For example all members being on the same benefit structure?

No See page 22.

Yes

If you have decided to offer **current/new/future** members the same benefit structure, do you want to change away from, for example, CARE 60ths?

No

Yes

- In this example, you want to stay with CARE 60ths for **current/new/future** members. You have one 'open' benefit structure, CARE 60ths.
- Consult with employees regarding the split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for one 'open' benefit structure (for **current/new/future** members).

Finish

- Decide which benefit structure you want to offer to **current/new/future** members, for example, move from CARE 60ths to CARE 80ths. You then have one 'open' benefit structure, CARE 80ths.
- Consult with employees regarding the change in benefit structure and split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for one 'open' benefit structure (for **current/new/future** members).

Finish

Do you currently offer the same benefit structure to **current** and **new** members? For example, CARE 60ths to **current** and **new** members.

No

Do you want to continue to offer **current** and **new** members the existing benefit structures? For example, Final Salary 60ths for **current** members and CARE 60ths for **new** members?

No See page 23.

Yes

Do you want to offer **future** members the same benefit structures as **new** members, for example, CARE 60ths?

Yes

No

- In this example, you want to stay with Final Salary 60ths for **current** members and CARE 60ths for **new/future** members. You have one 'live' benefit structure, Final Salary 60ths and one 'open' benefit structure, CARE 60ths.
- Consult with employees regarding the split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for one 'live' benefit structure (for **current** members) and one 'open' benefit structure (for **new/future** members).

Finish

- Decide which benefit structure you want to offer to **future** members. For example, you choose CARE 80ths for **future** members, your **current** members continue on Final Salary 60ths and your **new** members continue on CARE 60ths. The benefit structures for **current/new** members are both 'live' benefit structures and the benefit structure for **future** members is the 'open' benefit structure.
- Consult with employees regarding the change in benefit structure and split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for two 'live' benefit structures (one for **current** members and one for **new** members) and one 'open' benefit structure (for **future** members).

Finish

Do you want to offer the same benefit structure to **future** members as you offer to **current/new** members, i.e. all members being on the same benefit structure?

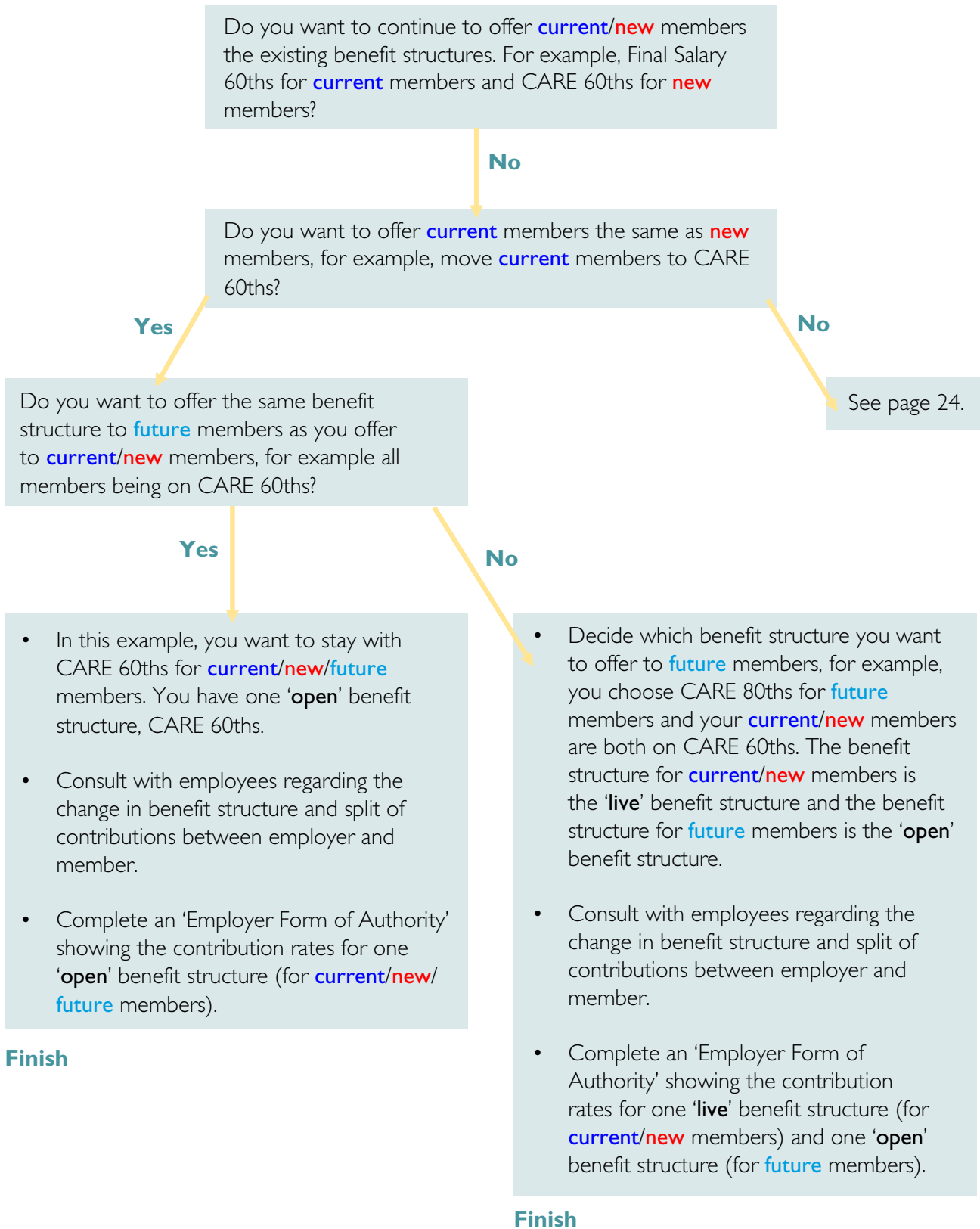
No



- Decide which benefit structure you want to offer to **future** members, for example, you choose CARE 80ths for **future** members and your **current** and **new** members continue on CARE 60ths. The benefit structure for **current/new** members is the '**live**' benefit structure and the benefit structure for **future** members is the '**open**' benefit structure.
- Consult with employees regarding the change in benefit structure and split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for one '**live**' benefit structure (for **current/new** members) and one '**open**' benefit structure (for **future** members).

Finish

From page 21



Do you want to continue to offer **current/new** members the existing benefit structures. For example, Final Salary 60ths for **current** members and CARE 60ths for **new** members?

No

Do you want to offer **current** members the same as **new** members, for example, move **current** members to CARE 60ths?

Yes

No

See page 24.

Do you want to offer the same benefit structure to **future** members as you offer to **current/new** members, for example all members being on CARE 60ths?

Yes

No

- In this example, you want to stay with CARE 60ths for **current/new/future** members. You have one 'open' benefit structure, CARE 60ths.
- Consult with employees regarding the change in benefit structure and split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for one 'open' benefit structure (for **current/new/future** members).

Finish

- Decide which benefit structure you want to offer to **future** members, for example, you choose CARE 80ths for **future** members and your **current/new** members are both on CARE 60ths. The benefit structure for **current/new** members is the 'live' benefit structure and the benefit structure for **future** members is the 'open' benefit structure.
- Consult with employees regarding the change in benefit structure and split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for one 'live' benefit structure (for **current/new** members) and one 'open' benefit structure (for **future** members).

Finish

Do you want to offer **current** members the same benefit structure as **new** members, for example move **current** members to CARE 60ths?

No

- Decide which benefit structure you want to offer to **current/new** members. For example, you stay with Final Salary 60ths for **current** members and change to CARE 80ths for **new** members.
- Do you want to offer the same benefit structure to **future** members as you offer to **new** members, for example **new/future** members being on CARE 80ths?

Yes

No

- In this example, you want to stay with Final Salary 60ths for **current** members and CARE 80ths for **new/future** members. The benefit structure for **current** members is the **'live'** benefit structure and the benefit structure for **new/future** employees is the **'open'** benefit structure.
- Consult with employees regarding the change of benefit structure and split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for one **'live'** benefit structure (for **current** members) and one **'open'** benefit structure (for **new/future** members).

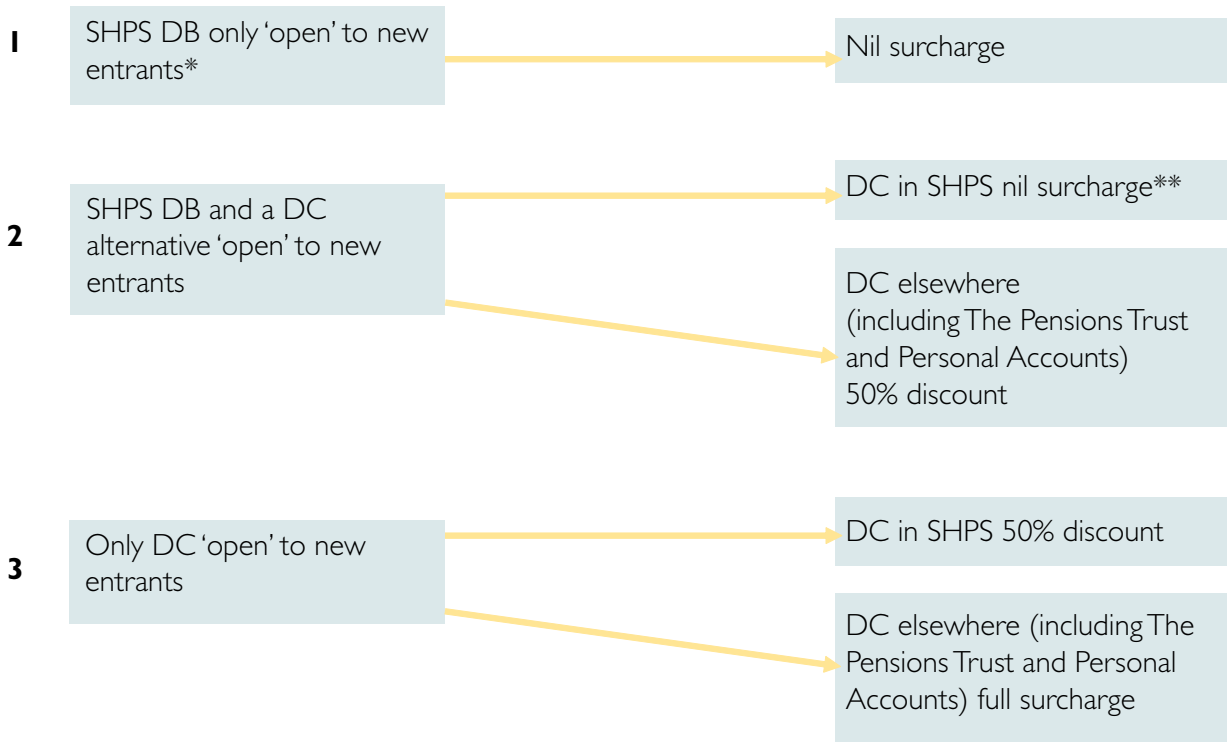
Finish

- Decide which benefit structure you want to offer to **future** members, for example, you choose Defined Contribution for **future** members, your **current** members are on Final Salary 60ths and **new** members are on CARE 80ths. The benefit structures for **current** and **new** members are both **'live'** benefit structures and the benefit structure for **future** members is the **'open'** benefit structure.
- Consult with employees regarding change in benefit structure and split of contributions between employer and member.
- Complete an 'Employer Form of Authority' showing the contribution rates for two **'live'** benefit structures (for **current** and **new** members) and one **'open'** benefit structure (for **future** members).

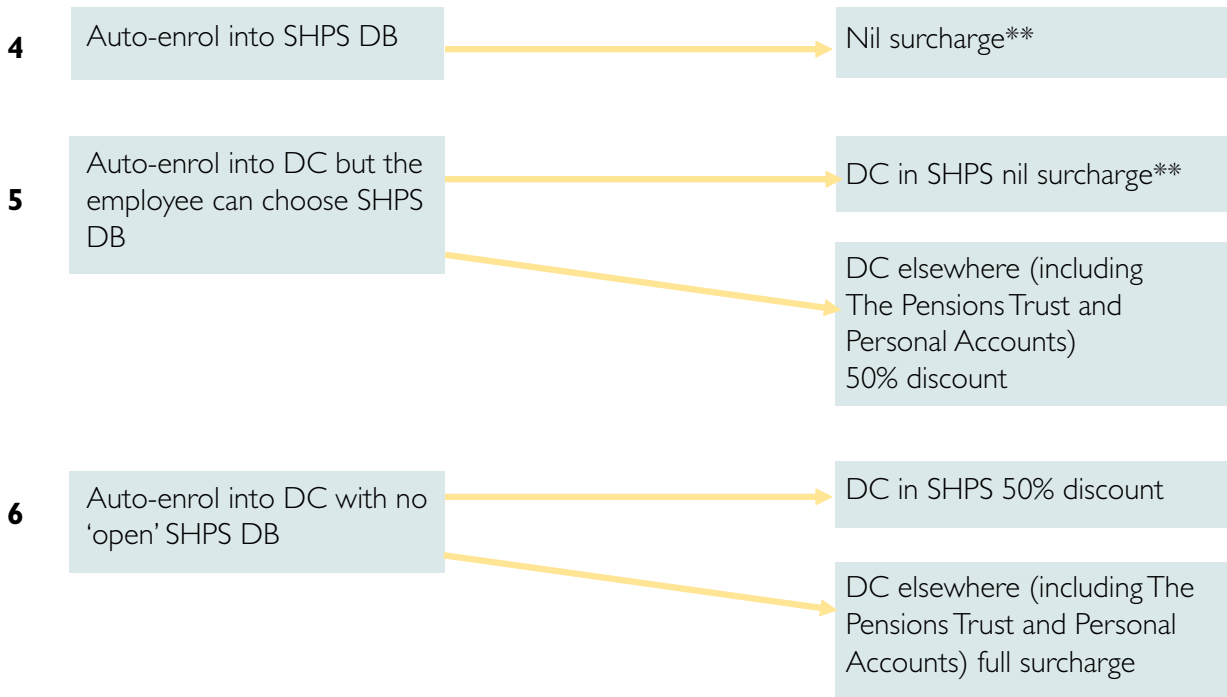
Finish

Appendix C - Surcharge Flowchart

Current



On auto-enrolment, either with or prior to Personal Accounts



* If an employer offers both LGPS and SHPS DB the surcharge with a 50% discount will apply.

** If a surcharge is not applied initially, the SHPS Pensions Committee reserves the right to apply one at a later date.

Notes

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