

Frequently Asked Questions

Past Service Deficit

1. Where employers introduce one of the new offerings e.g. DC, why is there a past service charge when this element of the Scheme is completely new?

The past service charge relates to the cost of funding the final salary benefits members have already built up in the Scheme. The member's final salary benefit will still be linked to final salary when they retire and the CARE benefit will still have Retail Prices Index (RPI) increases in deferment.

2. Does the past service charge for existing elements cover the deficit over time because if nobody takes up the new benefit structures the deficit has to be covered anyway?

The past service deficit payment will only be payable in respect of employees who were members of either the final salary or CARE benefit structures at the time of the valuation, 30 September 2008.

3. If we decided to give members a choice between SHPS DB and SHPS DC pensions, would the 7.5% past service contribution rate apply to DC members, more than doubling the cost of the benefit structure. However this is at the same time as permitting a non-SHPS DC benefit structure with only a 1.5% surcharge?

Does the new DC pension have a minimum contribution to the employer of 13.5% and not 6% as the letter (dated 17 April 2009) says? If so, does that mean that the employer has to contribute half of the 6% plus all of the 7.5% past service – or possibly only part of the 7.5%?

The past service deficit payment will only be payable in respect of employees who were members of either the final salary or CARE benefit structures at the time of the valuation, 30 September 2008, and is because the member's final salary benefit will still be linked to final salary when they retire and the CARE benefit will still have RPI increases.

For the non-SHPS DC benefit structure this link to final salary will not be maintained and the past service deficit contribution would still be payable if these employees had past final salary or CARE benefits in SHPS, together with any surcharge due.

The future service cost is 6%. The past service deficit is payable in addition, only for employees who were members of a DB benefit structure prior to joining the DC benefit structure.

It is anticipated that employers will pay for the past service deficit, but that is a matter for consultation between employers and their employees.



4. Is there a SHPS/legal view as to whether the 7.5% must be paid by employers or can it be shared?

The SHPS Pensions Committee expect that the past service deficit will be met as part of the employer's contribution to the Scheme.

5. The second paragraph of 'Past service rate' on page 9 of the 'Employer Consultation Guidance Notes' booklet states that deficits will be determined according to the pensionable payroll of each employer – is there any change here?

The deficit will be determined according to the pensionable payroll for each employer as at 30 September 2008 rather than the pensionable payroll for current active members, as is currently the case. The 7.5% will be applied to the 30 September 2008 figure.

6. The briefing implies a change as it acknowledges that there was support for defining in value terms the deficits attributable to each employer - is this happening?

The SHPS Pensions Committee decided not to change the basis of calculating the employer past service deficit because of concerns that this could impact on the FRS17 position.

7. What does the proposal 'increasing by 4.7% per annum. The 4.7% is the future earnings increase assumption...' mean?

The current 4.4% past service deficit contribution has been applied to active members' pensionable salary each month, as part of the employer/member contribution rate. In future, the past service deficit contribution will be applied to pensionable salaries as at 30 September 2008 and collected monthly as part of eBusiness.

This amount will be increased each year from 30 September 2008 in line with the salary growth assumption used in the 30 September 2008 valuation, 4.7%.

8. If an employer decided to continue to provide pension benefits for existing staff who are members of the Scheme, on the existing 1/60th accrual basis, but closed that benefit structure to new staff joining the Scheme, with new staff joining the Scheme only being offered DC, then would the 7.5% contribution to the past service deficit apply to those new staff participating in the DC benefit structure?

No, if a new member of staff (i.e. new recruit or existing employee who has not yet joined) joins the SHPS DC benefit structure the employer will not be liable to pay the 7.5% deficit contribution in respect of the new members. All contributions paid for new members will be pure money purchase and invested accordingly less charges etc.

The 7.5% deficit contributions will be determined based on salary roll at 30 September 2008 (adjusted in line with the valuation salary growth assumption) and in effect be payable only in respect of the DB members contributing to the Scheme at that date.

Surcharge

9. Does the surcharge rate of 3% for closed schemes remain the same?

Yes, that is correct.

10. The footnote in Annex C of the 'Employer Consultation Guidance Notes' booklet refers to 50% of the surcharge applying to employers offering Local Government Pension Scheme (LGPS) and SHPS DB. Has this always been the case or is this new?

This is new. Until now employers have been able to offer membership of either SHPS or LGPS without being liable for a surcharge.

11. SHPS reserves the right to apply a surcharge in future where SHPS DB and SHPS DC are offered, which is completely understandable. However, the letter dated 17 April 2009 reflects the aim of employers to have predictability of costs. Does SHPS therefore have any comments/observations about the sustainability of the 0%/1.5%/3% surcharge into the future?

The level of the surcharge is one of the issues considered by the Scheme Actuary as part of the actuarial valuation. There are a number of factors influencing the level of the surcharge; average age of members, the level of surplus/deficit in the Scheme.

12. The position we were moving to before receiving the letter dated 17 April 2009 was to offer only the Personal Accounts Scheme or SHPS DC to employees for their first two years (unless new employees were already in a DB scheme) and then offer the option of moving to the SHPS CARE DB pension. But is the position that we would have to pay 3% + 7.5% = 10.5% employer's contribution and then a surcharge, which makes the SHPS DC not attractive in terms of cost to benefit?

The contribution for the DC is 13.5%, it only accounts for 6% for the employee?

Offering DC for the first two years of employment (unless already in a DB scheme) and then the option of the SHPS DB pension – how does that affect the level of surcharge?

The future service cost is 6%. The past service deficit is payable in addition, only for employees who were members of a DB benefit structure at 30 September 2008. Annex C of the 'Employer Consultation Guidance Notes' booklet sets out the surcharge that would apply in different situations.

13. A reduced 50% surcharge is levied for DC within SHPS, whereas the full surcharge is payable if you use another DC provider - could SHPS be open to a claim for unfair competition?

SHPS is an occupational 'trust-based' DC scheme, rather than being a 'contract-based' scheme. It is not in competition with the arrangements offered by other providers. It is just another benefit structure offered within SHPS. As such, the SHPS Pensions Committee has the power to determine the contribution rates and hence can set the surcharge accordingly. As set out under the Scheme Rules the Committee has the power to set the overall contribution rates - which can include the surcharge. See Rule 5.4 (page 124) of the Scheme Rules.

14. Does example 2 from Annex C of the 'Employer Consultation Guidance Notes' booklet comply with SHPS requirements and does it avoid the surcharge applicable in example 3 (50% discount)?

Yes it does, the only difference to example 1 is that new employees can have CARE 80ths, rather than final salary 60ths. The same comments apply regarding existing employees opting to reduce costs by moving to DC in the future. Again this meets the same requirements as example 2 – so no surcharge applies at present.

Contribution Rates

15. The table on page 11 of the 'Employer Consultation Guidance Notes' booklet sets out various contribution rates. I assume that these are the total contribution rates with the split between employer and employee being a decision for the employer?

That is correct.

16. We also understand that employee benefits are protected and their contribution rate will not change as we only have members in final salary or CARE 60ths?

The benefit earned to date is protected, but both benefits and contributions can be changed for the future. The past service deficit contribution rate has increased. Employers should decide the benefits to be provided in future and the level of contributions to be paid by employees during the consultation process.

17. We mention that the minimum contribution is 6% (split 3% member/employer) rising in line with Personal Accounts etc. from 2012. Would SHPS be happy with the option of the employer effectively paying the full contribution (i.e. non contributory on behalf of the member) provided the overall contribution met the required minimum, based on full salary rather than the band earnings proposed for Personal Accounts?

There is no objection to this approach if an employer wanted to go down this route. The situation would have to be reviewed to ensure that the requirements of Personal Accounts are met for 2012.

Cessation Events – S75

18. Do you have details of the legislation and/or the particular rules that govern the requirements in relation to a cessation event?

A cessation event would be triggered if an employer ceases to have any members actively contributing to **SHPS**. The important point is that the event relates to SHPS.

The new DC benefit structure offered by SHPS will give organisations a means to manage the potential S75 employer debt. Based on legal advice we have received, provided an organisation has members contributing to the DC benefit structure, the employer debt would not be triggered on ceasing to have members contributing to the DB benefit structure.

Pensions Bulletin, Issue 5, Fact Sheet 4 provides further details, please [click here](#).

19. Is a cessation payment still required under the 'The Occupational Pension Schemes (Employer Debt) (Amendment) Regulations 2005'?

Yes, and this will be considerably more given the revised funding levels. It only becomes an issue if you cease active membership for all staff.

20. Assuming a cessation payment is due when an association leaves the Scheme completely are you able to provide an update on the indicative cost of leaving SHPS completely?

Yes, in due course we will have details as at 30 September 2008. The amount actually payable would be determined as at the point of withdrawal.

21. Over time should a point be reached when an employer has no active members of a DB structure that is open to new employees, and only have active members in the DC structure. Will this trigger a deficit funding levy or crystallize a deficit payment relating to the final salary benefit structures?

The legal advice we have received confirms that provided an employer has active members in the DC benefit structure the final salary debt will not be triggered, until such point as they cease to have any active members in the DC benefit structure. The point to note is that the debt does not go away, it will just not be triggered.

22. Does this mean that so long as the associations have no active members of the final salary benefit structures there is no further liability for past service deficits?

Past service contributions will be paid at the new 7.5% rate of 30 September 2008 pensionable salaries from 1 April 2010 regardless of whether DB or DC benefits are provided from 2010.

If you move to DC for the future you will not build up any further past service liability in respect of future service, but you may build up further amounts if the valuation assumptions do not work out in practice (i.e. investment returns/mortality etc.) in respect of the DB service up to the point of changing to DC.

Copies of Documents

23. Would it be possible to receive an electronic Word document copy of the Chair's letter dated April 2009 and the attached Appendix so that it can be inserted into a board or management report being prepared as a result of the Valuation and Benefits Review?

Yes, to download copies from the SHPS website, please [click here](#).

Scheme Rules

24. Is The Pensions Trust's, 'Trust Deed and Rules' dated 25 September 2007 still current and is it the governing document for SHPS?

The Trust Deed and Rules were updated at 1 July 2008. These rules are generic and SHPS is subject to a Scheme Document which details the options that apply. Copies of the Trust Deed and Rules and Scheme Document are available on request.

Closed Schemes

25. I have received your information regarding the SHPS Valuation and Benefits Review however we closed our scheme in March 2008 - how does this affect us?

There are a number of decisions that will need to be made:

- The future service cost of the final salary 60ths, final salary 80ths and CARE 60ths benefit structures have all increased. Employers need to decide, in consultation with employees, what the employer and member contributions will be from 1 April 2010.
- The past service deficit payments have increased and the way the deficit is collected has changed. You may want to take this into account when setting the amount of the employer/member contributions.
- New benefit structures, final salary 80ths, CARE 80ths and DC have been introduced. Employers who have closed SHPS may want to consider whether they want to open membership to one of the new SHPS benefit structures.

Personal Accounts

26. Do you have any information about the statutory requirements relating to Personal Accounts, including references to the relevant legislation, the required implementation dates and contribution levels?

Yes, previous issues of Pensions Bulletin provide details. To view Pensions Bulletin on the SHPS website, please [click here](#).

Questions from the SHPS Pensions Committee meeting, September 2009

27. Will the final salary link be retained if members elect to move from final salary to CARE or DC benefit structures?

Since the changes introduced in 2007, any member instigated switches from final salary 60ths to a CARE benefit structure have resulted in the final salary link being maintained in respect of the benefits accrued whilst a member of the final salary 60ths benefit structure. The SHPS Pensions Committee agreed that this practice would also be followed in the future in the event that a member moves from a final salary benefit structure to the DC benefit structure.

28. Can an employer choose to opt out of the provision of death-in-service benefits for employees in the DC benefit structure of the Scheme?

Employers will not be allowed to opt out of the provision of death benefits for members of the DC benefit structure. This is a valuable benefit for members and their families and the provision of this benefit by the Scheme distinguishes it from the benefits that Personal Accounts will offer from 2012. The benefit is low cost at 0.2% of pensionable earnings. This will be deducted from the normal employer contribution paid in respect of members of the DC benefit structure, on a monthly basis.

29. Can an employer select the same benefit structure for each group of members, (current, new and future) but have different contribution rates applying to each group?

The Committee agreed that this scenario would be permitted. They have handed over decisions regarding the contribution splits to employers so did not feel they were able to apply conditions to the freedom employers have in this regard.

30. Can more than one open DB benefit structure be offered?

The Committee agreed that an employer is only able to offer one open DB benefit structure and the DC benefit structure alongside. Employers are not permitted to open DB benefit structures on a temporary basis for distinct groups of members.

Other questions

31. What if I am unable to return the Form of Authority by 30 November 2009?

The deadline for returning the Form of Authority advising The Pensions Trust of your selected benefit structure is 30 November 2009. This date will allow sufficient time for the options to be analysed and implemented to be effective from 1 April 2010. In specific circumstances, at the request of employers, the Committee has agreed to a short extension of this deadline to fit with dates of Board meetings where the decisions will be ratified.

If you are unable to return your completed Form of Authority by 30 November 2009 the default option will apply. There will be no change to your current benefit structure and the member contribution rate will remain at the current level. The employer contribution will be adjusted to reflect the revised contribution rates applying for future service from April 2010. The past service deficit contribution will be payable in addition together with any surcharge, where applicable.

If your form is received shortly after 30 November 2009, The Pensions Trust will review the choices made and will confirm back to you the date from which the changes can be effective. Where possible The Pensions Trust will look to include the DB changes from 1 April 2010. It is very unlikely that any forms received after 31 December 2009 can be implemented for 1 April 2010. Employers will be notified if their options cannot be processed immediately.

The changes introduced as part of the 2010 Benefit Review relaxed the dates at which employers are able to change benefit structure or contribution rates. Details are included on page 7 of the Employer Consultation Guidance Notes.

32. Can members choose to move between all benefit structures offered by their employers?

Members can move from a 'live' benefit structure to the 'open' benefit structure offered by their employer. The Committee recognises that greater flexibility between benefit structures would be welcomed by members and employers. Once the 2010 changes have been implemented and are established the Committee will revisit the question of introducing greater flexibility from a date in the future.

33. What options did employers select as a result of the review?

The results of the major review of the benefit structures and funding arrangements of SHPS are now available as the options selected by employers and members with effect from 1 April 2010 have been implemented.

From 1 April 2010 there are five DB structures:

1. Final Salary 1/60th accrual
2. Final Salary 1/70th accrual (available only to employers who selected this benefit structure in 2007)
3. Final Salary 1/80th accrual
4. CARE 1/60th accrual
5. CARE 1/80th accrual

A DC benefit structure is being introduced from 1 October 2010.

Employers can operate one open DB structure along with the DC benefit structure. Different DB structures can be maintained for existing members if desired.

A summary of the options selected is shown below:

Benefit Structure	Number of employers offering this as an open benefit structure from 1 April 2010	Number of employers offering this as a live benefit structure from 1 April 2010
Final Salary 1/60th	173	350
Final Salary 1/70th	40	29
CARE 1/60th	203	63
Final Salary 1/80th	31	3
CARE 1/80th	77	7
DC (from 1 October 2010 or later)	261	-

There are ten employers who have elected to close all DB structures to future accrual and provide future pension benefits on a DC basis only for all staff.

There are a further 90 employers who will offer DC as the only benefit structure for new staff but will maintain the DB structures for staff who are already DB members.

34. We have selected the DC benefit structure to be available for our employees from 1 October 2010. When will the DC literature be available?

The majority of the information regarding the DC benefit structure will be web-based and be available through the SHPS website. A new DC website is being constructed which is aimed at members, potential members and employers. Development is underway and the site is expected to be launched on 31 August 2010.

There will be a small amount of printed literature available which will summarise the main features of the DC benefit structure. This is also expected to be available by 31 August 2010.

35. Where can we find guidance regarding the administrative procedures required for the DC benefit structure?

The information available on the new DC website will include an online process guide which will set out the actions the employer and member needs to take in a number of typical situations. In addition some DC HR Employer Forums are planned for September 2010 at various locations throughout the UK. Details regarding this and how to book your place was issued mid June 2010.

