



# Social Housing Pension Scheme (SHPS) Employer Forums 2009

Presented by:

**Nick Horne – SHPS Pensions Committee**

**Steven Robinson – Scheme Actuary, HSBC**

**Logan Anderson – Head of Customer Relations, The Pensions Trust**

**Paul Coward – Account Manager, The Pensions Trust**

June 2009

# Agenda

- Nick Horne:
  - Major Review overview
- Steven Robinson:
  - 30 September 2008 Valuation Results
- Logan Anderson:
  - Background & New Benefit Choices
- Paul Coward:
  - House Policies & Rules update
  - Group Structures & Mergers – Update on SHPS policy
- Open Forum – Questions & Answers



# Major Review Overview

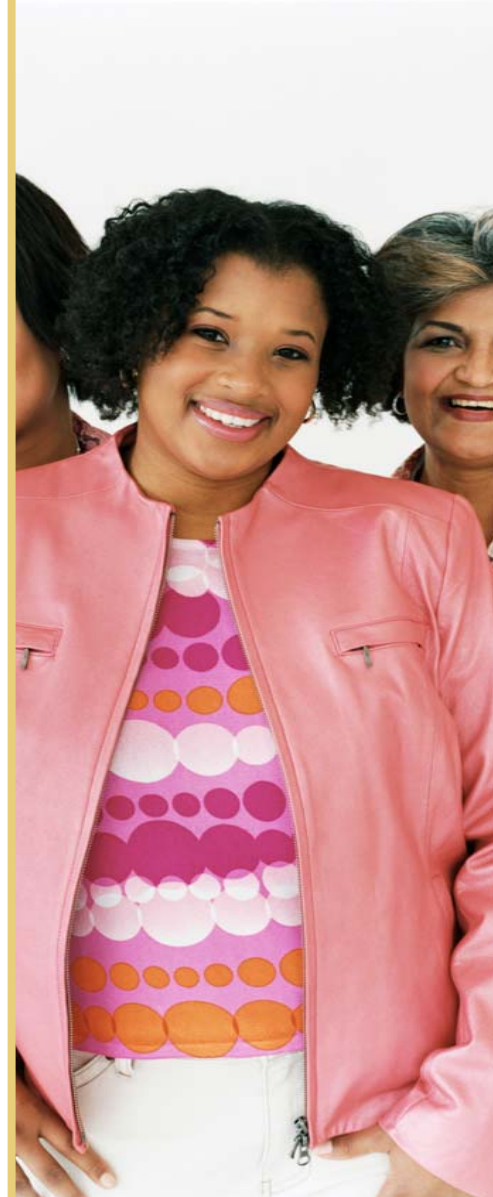
Presented by:

**Nick Horne – SHPS Pensions Committee**

# Major Review - Background

- Choice introduced from 1 April 2007
- Opportunity for further review of benefit options
- Extensive consultation with all employers Autumn 2008
- 30 September 2008 valuation results now available
- Extension of choice from 2010, including DC

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# Employer feedback – Consultation 2008

- Desire for greater predictability of costs
- Pensions still rated as valuable part of reward package
- Most wanted lower cost options for lower paid
- Most would not offer present benefit structure under auto-enrolment
- Most would prefer SHPS to offer low cost solution rather than proposed Personal Accounts from 2012
- Large majority want SHPS DC section alongside DB
- Large majority would pay minimum 5% employer contribution to DC
- No great interest in risk sharing / hybrid alternatives
- Strong support for SHPS brand

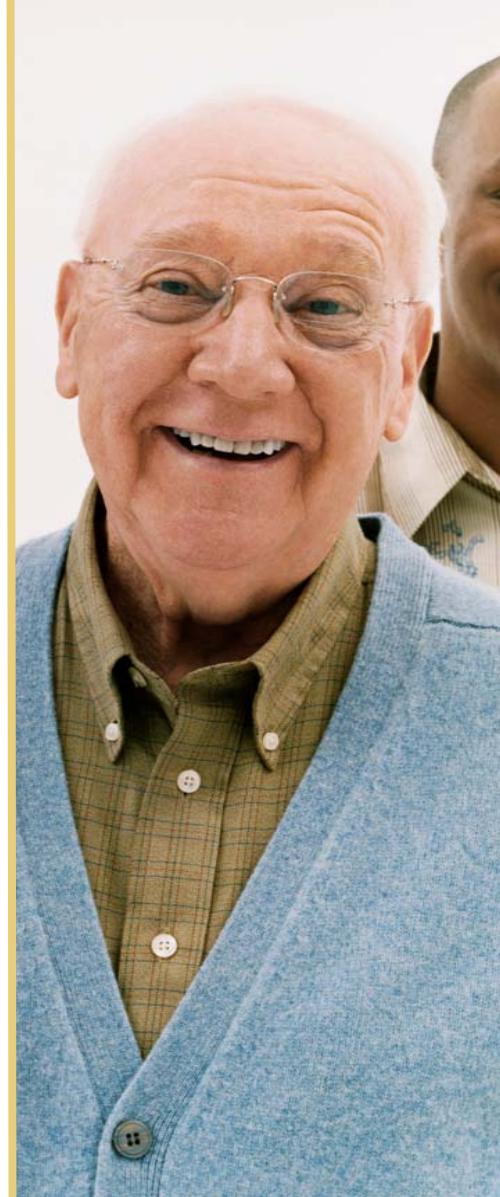
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# Valuation and benefit review

## Key issues

- Investment markets
- Mortality
- Recovery Periods
- Deficit Recovery methods
- De-risking Section 75 debt via SHPS options
- Options for lower paid

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# Valuation and benefit review

## Main outcomes

### Valuation

- Increased costs – past and future service
- Adjusted deficit recovery method

### Benefit options

- 2 new DB choices from 1 April 2010
- DC option from 1 October 2010

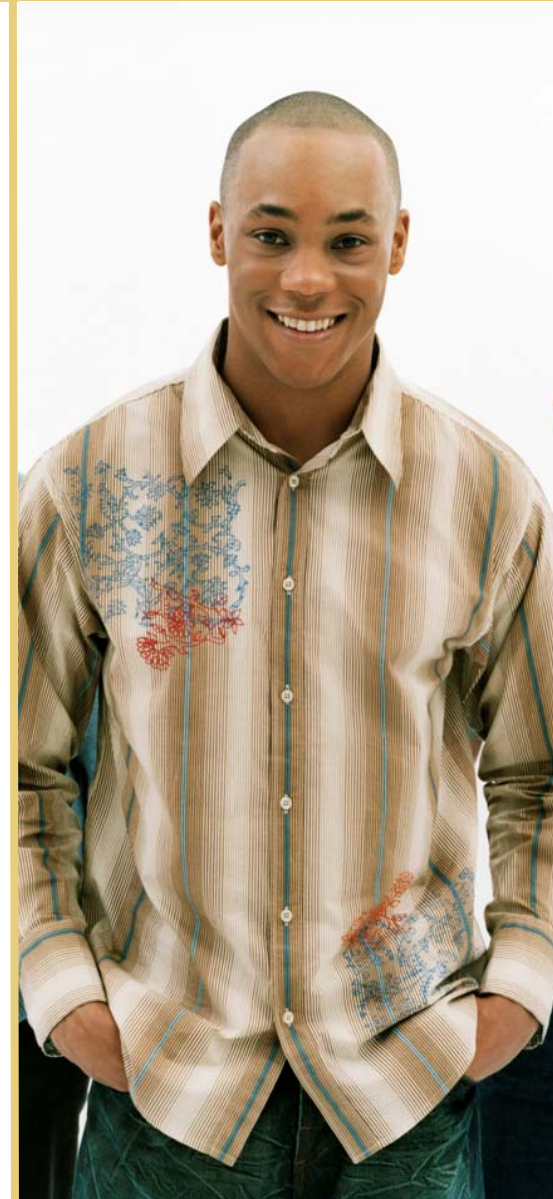
### Administration

- Transition to 'E-business'

# Help

- Employers
  - Letter – April 2009
  - Employer Guidance Notes – June 2009
  - Today
  - SHPS website
    - Consultation templates
    - Benefit section ‘flyers’
  - Helpline
  - “Face to face” at The Pensions Trust
  - External advisers
- Members
  - Information leaflet (generic)

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# 30 September 2008 Valuation Results

Presented by:

**Steven Robinson – Scheme Actuary, HSBC**

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# New Benefit Options

Presented by:

**Logan Anderson – Head of Customer Relations,  
The Pensions Trust**

# New Benefit Options

- Thinking Behind New Options
- Personal Accounts
  - Overview
  - Detail and Impact
- New SHPS Options and Costs
- Some Points to Consider

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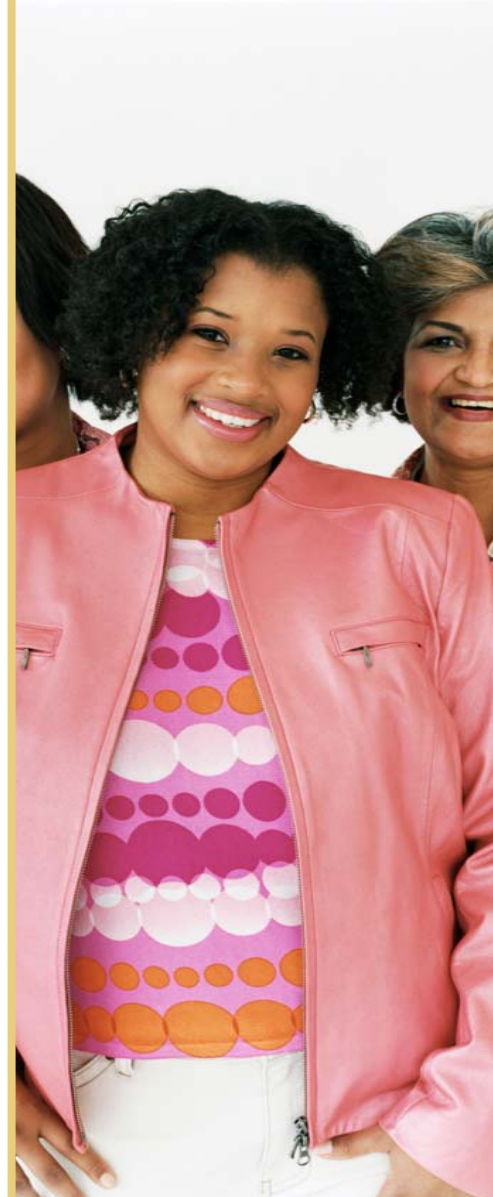
# Thinking behind the new options

- Pension costs are increasing – “it’s a fact of life!”
- Extended choice to manage costs
  - Employers
  - Members
- Anticipating the introduction of Personal Accounts from 2012
- Managing S75 debt – a driver for some

# Personal Accounts - Overview

- 'A new way to save'
- Pensions Act 2008
- Phasing in from 2012
  - **auto-enrolment**
  - into a '**qualifying scheme**'
  - and payment of '**minimum contributions**'
- All UK employers expected to be subject to 'duties' by 2014
- Monitoring and enforcement by The Pensions Regulator

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# Personal Accounts

- Contributions - Qualifying Earnings
  - Gross earnings between £5,035 and £33,540
  - Reviewed each year. Expected to rise in line with general earnings
- Employer
  - 3% of qualifying earnings
- Employee
  - 5% of qualifying earnings
- Phasing
  - Year 1 = 1% employer 1% employee
  - Year 2 = 2% employer 3% employee
  - Year 3 = 3% employer 5% employee

# Personal Accounts

- Employer duties
  - Phasing in from October 2012
  - Auto-enrolment aged 22 but under state pension age
  - Staff who ‘opt out’ to be re-enrolled at regular intervals
- Alternatives – Qualifying schemes
  - DC contributions of at least 8% of ‘qualifying earnings’
  - DB = if meets contracting out requirements or provides at least 1/120<sup>th</sup> accrual
  - SHPS must be recognised as a qualifying scheme if employers are to keep members in it post 2012....  
.....but it needn't be used for auto-enrolment going forward

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# Personal Accounts – Impact...

- Facts about the scheme
  - Trust-based occupational scheme
  - PADA responsible for setting it up
- So where do Personal Accounts fit in?
  - Intended to ‘complement, and not replace’ existing schemes
  - Most UK employers don’t have an existing scheme (especially ‘micro businesses’ - chip shop, hairdresser, etc)
  - Personal Accounts will be ‘qualifying scheme of last resort’
  - Enable employers to comply with the employer duties
- SHPS Employers.....
  - .....will need to determine own policy

# The new SHPS options

Employer options from 1 April 2007	PLUS from 1 April 2010	PLUS from 1 October 2010
1/60 <sup>th</sup> Final Salary 1/70 <sup>th</sup> Final Salary 1/60 <sup>th</sup> CARE (contracted-out)	1/80 <sup>th</sup> Final Salary 1/80 <sup>th</sup> CARE (contracted-out)	Defined Contribution (DC)  (contracted-in)

- 1/70ths final salary option to close to new employers from 1 April 2010
  - Low demand
  - Maintained for existing

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# Other considerations

- DB options
  - CARE 100<sup>ths</sup> (contracted-in)
  - CARE 120<sup>ths</sup> (contracted-in)
  - Impact of contacting-in makes options less attractive
- Hybrid option
  - Feedback – Communications too onerous for members
- LPI reduction to 2.5%
  - Marginal cost savings, but discounted at this stage

# Total Costs – Future Service

Option	Existing rate	Rate from 1 April 2010
1/60 <sup>th</sup> Final Salary	17.6%	17.8%
1/70 <sup>th</sup> Final Salary	15.3%	15.4%
1/60 <sup>th</sup> CARE	14.1%	14.9%
1/80 <sup>th</sup> Final Salary	n/a	13.5%
1/80 <sup>th</sup> CARE	n/a	11.9%

Option	From 1 October 2010
DC	<p>Minimum 6% (3% employer / * 3% employee)</p> <p>* Rising to 5% from 2012 Personal Accounts introduction</p>

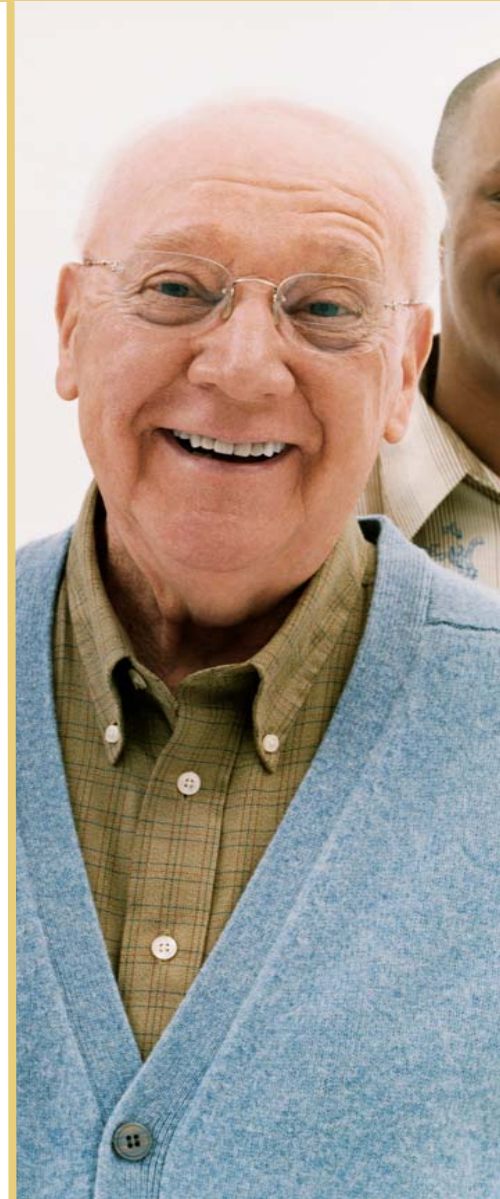
# Costs – Past Service

- Deficit Rates
  - Existing 4.4% payable until 30 September 2020
  - New 3.1% payable until 30 September 2023
- Change in collection basis from 1 April 2010
  - Total deficit of 7.5% of salaries linked to salaries @ 30 Sept 2008
  - Increasing by 4.7% each year
  - Ensures correct contributions paid to clear deficit
- For future DC employers the 7.5% will be payable only where DB benefits have been offered

# Costs – Surcharge

- Existing 3% surcharge where employer
  - Closed to new members
  - Operates alternative 'open' pension options (except LGPS)
- From 1 April 2010
  - Revised extended basis
  - Reduced (50%) surcharge where SHPS is supported
  - LGPS to be included (50% surcharge rate)

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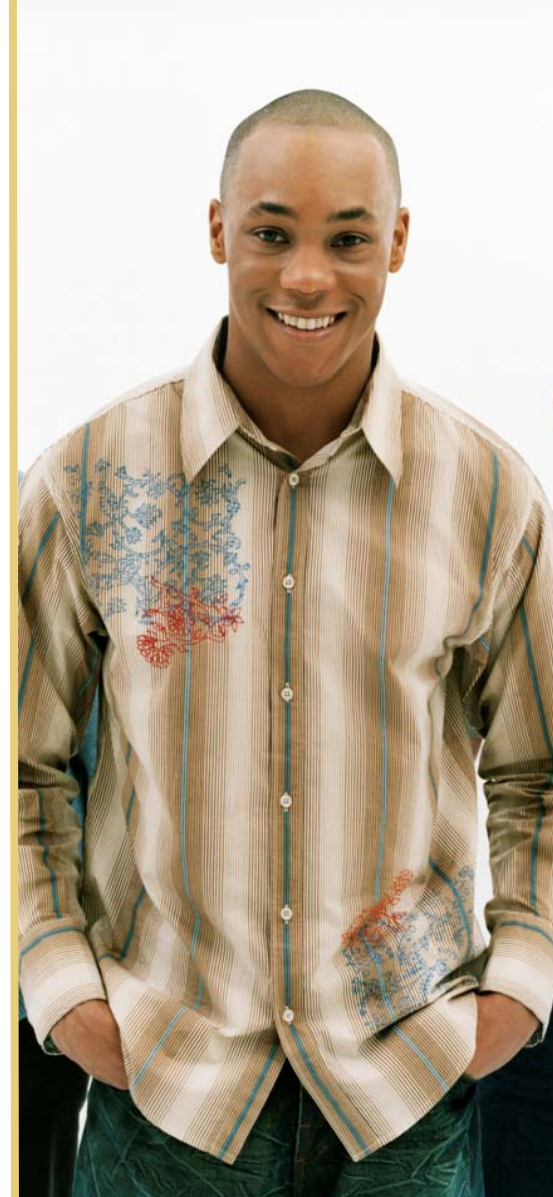
# Defined Contribution - Overview

- From 1 October 2010
    - Pure DC
    - 8 Investment fund choices, reviewed annually
    - Default and Lifestyling options
    - Minimum 6% contribution (3% Employer / \* 3% member)
    - Contributions based on full salary
    - Competitive AMC / charging structure
    - 3 x salary life assurance
    - Annuity purchase via Open Market Option
    - Web based via e-business
- \* Rising to 5% from 2012 Personal Accounts introduction

# Managing S75 debt

- Currently employer debt triggered when last active member leaves DB membership
- For SHPS DC employers:
  - Debt not triggered
  - Debt doesn't go away
  - Need to have at least active DC members
- DC gives option to manage debt over long term

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# DC – Impact on member benefits

- No impact on past service benefits
  - Final salary service - still linked to final salary
  - CARE benefits - still linked to RPI (max 5%)
- Moving to DC
  - At employer instigation - No impact on past service
  - Member “opt-out” – Treated as deferred

# Consultation

- SHPS
  - April 2009 – Letter from SHPS Chair
  - Revised Guidance Notes – expected June 2009
  - Generic consultation templates to be provided
  - Member communication – expected June 2009
  - Telephone Helpline
  - Employer Forums – June 2009
  - ‘Face to Face’ at The Pensions Trust – July 2009
- Employers
  - 60 day staff consultation required for any change where more than 50 staff
  - Existing employer/ Union practices

# Some points to consider

- How will you manage the review of SHPS?
  - Share pain of cost increases with staff?
  - Consideration of revised choices
    - Existing staff
    - New recruits
- Will you use SHPS for auto-enrolment from 2012?
- Recruitment and retention – Is pensions an issue for you?
- Consultation with staff
- Timescales

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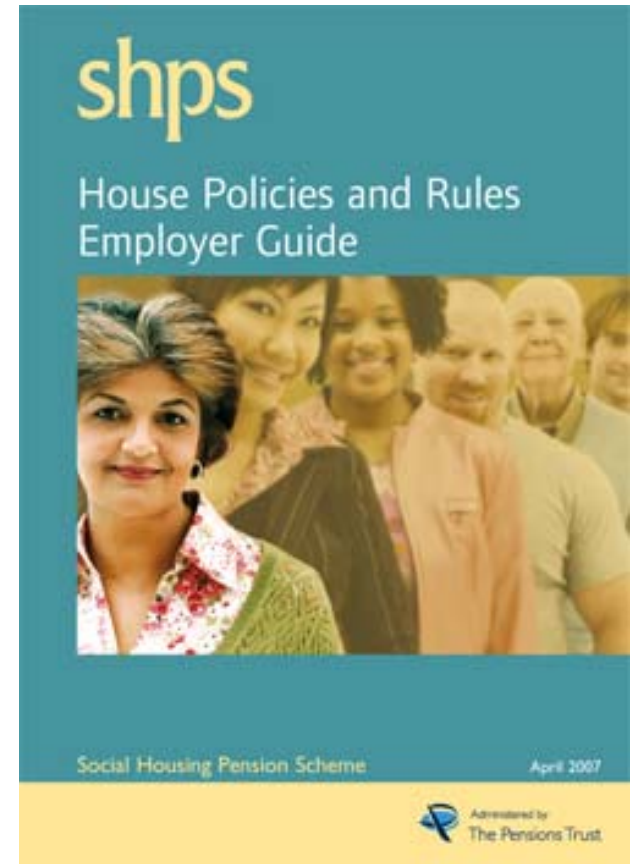
# House Policies & Rules - Update

Presented by:

**Paul Coward – Account Manager, The Pensions Trust**

# House Policies & Rules

- Existing Guide issued April 2007
- Included changes and consolidated practice following 2007 changes
- To be revised in light of new benefits options – expected to be available January 2010



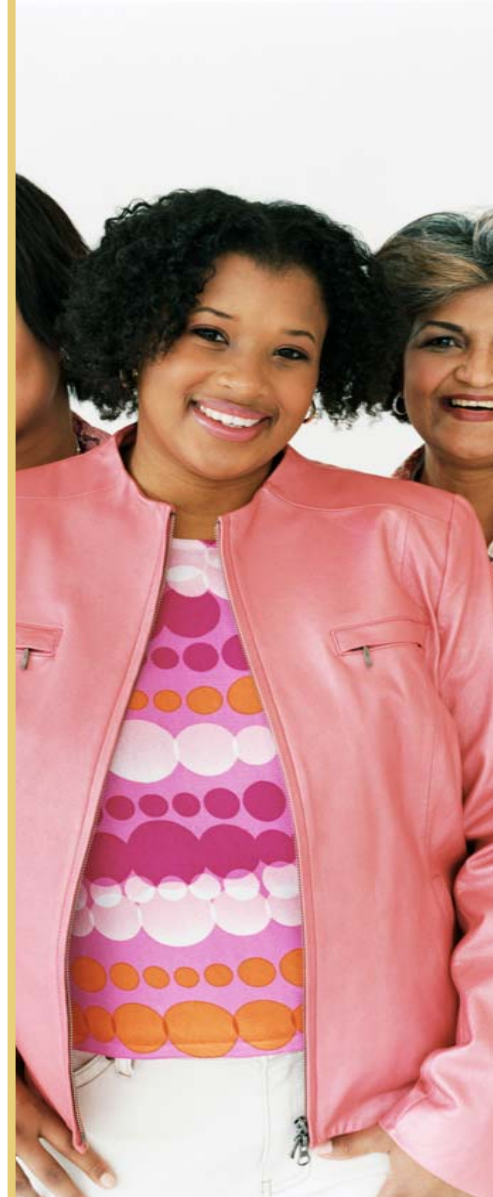
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# House Policies & Rules

- Working principles of SHPS Committee
  - To be proactive
  - To consult
  - To be pragmatic
  - To promote fairness

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# Benefit Structures

## Existing

- Can operate different structures for active members and new entrants

## New

- Maintain existing 'live' options
- Can now operate alternative DB benefit structure from April 2010 plus DC from October 2010

# Changes

## Existing

- Can change benefit structures from 1 April each year provided notification to Pensions Trust by 30 September preceding

## New

- Can change benefit structures from any first of the month provided:
  - 3 months notice for DB changes
  - 6 months notice to introduce DC

# Contributions

## Existing

- Employer must pay minimum of 50% of contributions
- Changes to member contributions from 1 April provided notice received by The Pensions Trust by preceding 28 February

## New

- 50% employers requirement removed from 1 April 2010
- Minimum employer contribution of 3%
- Can change member contributions from
  - any first of the month
  - 2 months notice given to The Pensions Trust
- Age banded member contributions can be maintained

# Changes

## Existing

- All pre-CARE service still linked to final salary

## New

- All pre-CARE or DC service still linked to final salary
- Ongoing final salary or CARE members can switch to CARE or DC on individual basis at any time agreed with employer
- Once a final salary member has switched to CARE or DC they cannot revert back
- If member 'opts out' of final salary membership in favour of future DC final salary link lost

# Member Movements

## Existing

- Membership maintained provided new employer:
  - Operates open benefit structure
  - Pays the past service deficit contribution for member
  - Treats all such transferring members the same

## New

- Membership maintained provided new employer:
  - Still operates related active benefit structure
  - Treats all such transferring members the same
  - Past service retained by previous employer

# Transfer Values - External

## Existing

- External transfer values accepted
  - Final Salary – added years
  - CARE – Fixed pension
  - Contracted out / in accepted

## New

- Option to transfer external benefits to DB section to be discontinued from 1 April 2010
- Transfers in progress will be honoured provided member responds in agreed timescales
- Future transfers to DC section
  - Only contracted in benefits will be accepted
  - Invested in line with member wishes unless otherwise advised by member

# TUPE Transfers etc

## Existing

- Permitted to open benefit structures

## New

- Benefit structure & contribution rate harmonisation issues
- Each case to be considered on its own merits – size etc
- Generally to current ‘active’ benefit structures
- Contact TPT to agree basis

# Closed employers

## Existing

- Closed to new members – subject to 3% surcharge

## New

- Option to reopen on a DB or DC basis
- Nil surcharge if open on revised DB basis
- 50% reduced surcharge where open for DC
- 3% surcharge maintained for closed employers

# E-business

- All employers to move to web based solution
  - Online data submission
  - Online validation
  - Reduce data risks
- Long term administration cost reductions
- Phased transition by The Pensions Trust
  - A condition for DC benefits in advance of October 2010

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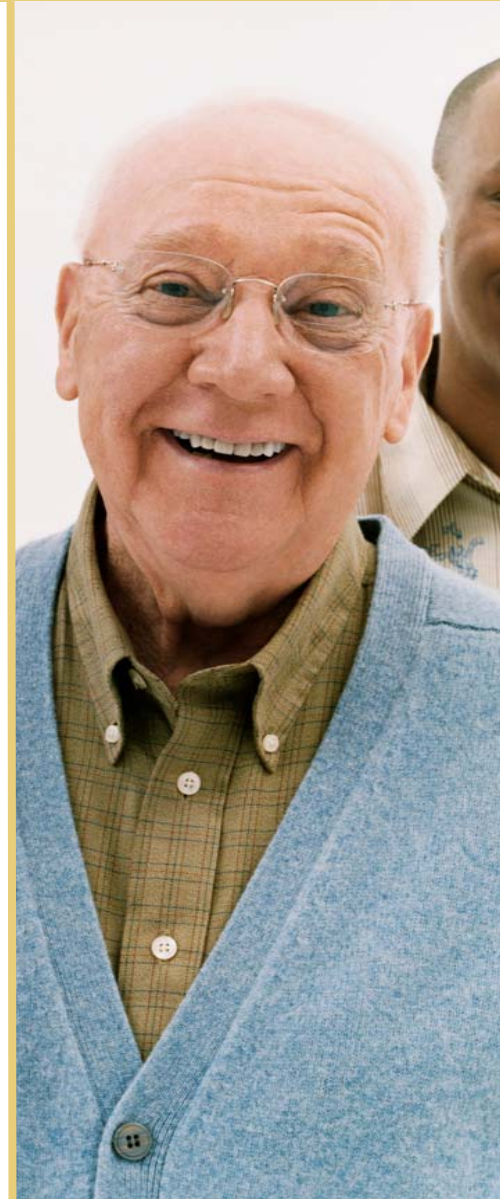
# Points of principal

- Same member contribution rates for same benefit structure
- Offer same options to all staff
- Augmentation still possible for pre December 2006 members
- Bulk transfers still possible on agreed terms

# House Policies & Rules.....

- It's a 'work in progress'
  - Issues will come up
  - Seek to be pragmatic and fair
  - To be finalised by January 2010

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## Group Structures & Mergers – Update on SHPS policy

Presented by:

**Paul Coward – Account Manager, The Pensions Trust**

# To recap

- Employer Debt on Withdrawal Regulations
  - Section 75 of the Pensions Act 1995
- September 2005 – Full insurance company buy-out basis:
  - Prudent
  - Element of Profit
- Aims of Regulations:
  - Security of Member Benefits
  - Prevent employers from ‘dumping’ liabilities
- Last Man Standing Scheme:
  - If an employer can’t pay, the remaining employers pick up the liability

# Apportionment - Background

- Withdrawing employer's share apportioned to another SHPS employer
- Receiving employer must also participate
- Security required to guarantee liabilities
- Forms of security
  - Ring fenced bank account
  - Bond
  - Commercial property
  - Housing property – subject to consent

# Apportionment – New option

## New

- Can now take place before or after the cessation event
- Independent covenant assessment - PwC
  - Demonstrate strength of covenant
  - Provide details of 'Business case' and 'Financial Position'
  - Establish whether impact on 'the SHPS employers' in question is 'at least neutral'
  - Assessment will feed in to 'Funding Test' when SHPS considers apportionment
  - If confirmed – no security required
  - If inconclusive – SHPS reserve right to insist on security to apportion liabilities
  - Costs to be met by employer

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# Amount of security – New policy

## Existing

- Deficit on “buy-out basis”

## New

- Difference between “100% Technical Provisions and buy-out basis\*”
  - Proportion will be less as excludes past service deficit
  - \* Difference increased to 110% where property used as security



## What's next?

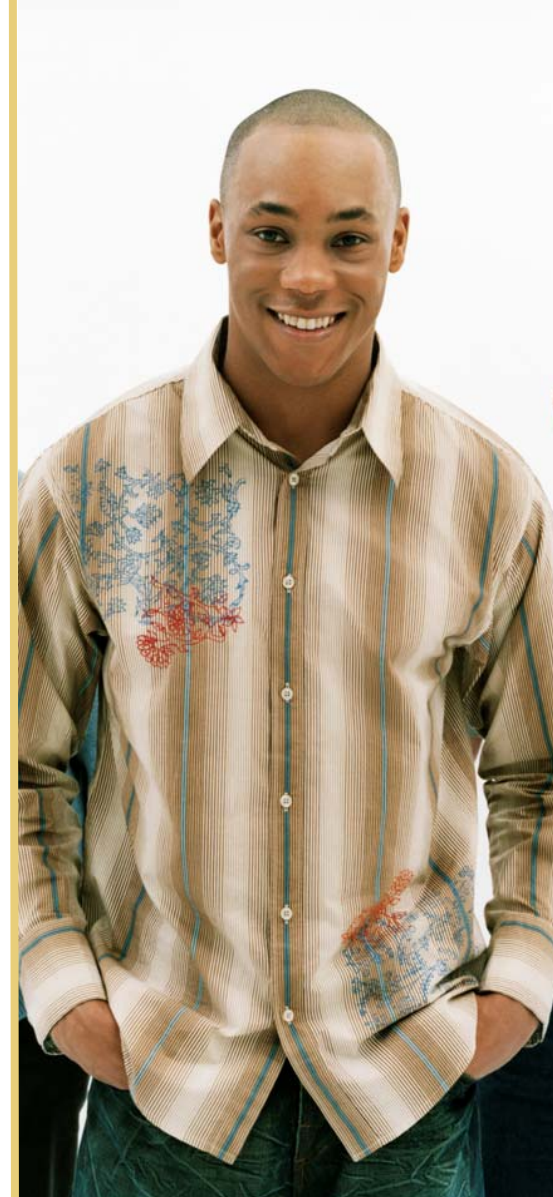
Presented by:

**Nick Horne – SHPS Pensions Committee**

# What's next for you?

- Information gathering
- Consider the options / costs
- Internal Governance discussions
- Consultation with staff
- Ratify decisions
- Form of Authority
  - To be returned by 30 November 2009

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# What's next for the Committee?

- Monitoring feedback
- Signing off the valuation by 31 December 2009
- Overseeing the changes to administration systems
- Ongoing valuation and funding issues
- Investment strategy

# Summary

- Employer Duties and Personal Accounts from 2012
  - Will change the pensions landscape
  - Will they happen?
- SHPS from 2010
  - Enhanced offering
  - More options will appeal to employers and staff
  - Will apply for Personal Accounts 'qualifying scheme' status from 2012
- Pension costs are increasing
  - 'it's a fact of life!'
  - Challenge for employers and members alike

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# Open Forum – Questions & Answers



# Thank You

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