shps

Defined Benefit (DB)

Employer Guidance Notes

30 September 2014 Actuarial Valuation and Benefits Review

July 2015

Provided by The Pensions Trust

Contents

Introduction

The SHPS Pensions Committee (the Committee) commenced a consultation exercise during the Autumn of 2014, with all employers that participate in the Social Housing Pension Scheme (SHPS or the Scheme), in relation to the 30 September 2014 triennial actuarial valuation, including the consideration of potential changes to the future SHPS benefit offering.

In November 2014, the Committee held a series of Employer Forums to provide information, including an overview of the economic financial conditions that were likely to impact the funding of the SHPS defined benefit (DB) section at the 30 September 2014 valuation date. Ahead of the forums the Committee issued the 'Employer Consultation Document', during October 2014, setting out possible changes to the future SHPS benefit offering.

The Forum discussions and the valuable feedback received (as summarised in Appendix A) have helped the Committee shape its views, particularly with regard to the benefit structures to be effective from 1 April 2016.

Following receipt of the preliminary valuation results an initial high level letter was issued to employers in March 2015 outlining the key actuarial valuation results and decisions made by the Committee, including the future allocation of the expenses of running SHPS. This document now provides further information on the:

- 30 September 2014 triennial valuation assumptions and key results – Section 1.
- Changes to be implemented to the DB section from 1 April 2016 – Section 2.
- Overall future contribution requirements, including plans to recover the increased deficit and future scheme expenses – Section 3.
- Member contribution rates – Section 4.
- Guidance on consultation with staff – Section 5.
- Help and further assistance – Section 6.

In Appendix B to this document we have also included some wider UK pensions background information to assist you.

The Committee is conscious of the need for employers to fulfil governance requirements and consult with employees. In order to implement any change to benefit structures and contribution rates from 1 April 2016 **the required Employer Form of Authority must be received by The Pensions Trust by 31 January 2016**, otherwise the default position described below will apply.

Default position

If an employer does not return a completed Employer Form of Authority to The Pensions Trust by **31 January 2016** then a default position will apply to that employer. The default position will be that the employer will retain its existing benefit structure(s) and any increase in overall contributions will be met by the employer in full (incorporating the benefit changes outlined in Section 2 of this guide), with the member contribution rate(s) being held at the present level. Any future benefit structure or contribution rate changes will only be possible in accordance with The Pensions Trust's agreed timescales for making future changes.

These Guidance Notes should aid your dialogue with your Boards and staff. If you have any queries on the content of this document you should contact The Pensions Trust. Please refer to Section 6 for contact details.

Section 1

30 September 2014 triennial valuation results

The SHPS funding position is formally assessed every three years. In addition, the Committee monitors the funding position on a regular basis, and each year receives a funding update from the Scheme Actuary.

The process adopted for the 2014 triennial valuation has included:

- ongoing monitoring of each participating employer, via the Employer Financial Assessment process that has been in operation since 2011, to establish whether employers can reasonably continue to provide defined benefit accrual;
- an independent assessment of the overall financial covenant offered to SHPS by all the participating employers; and
- a detailed review of the key actuarial assumptions used to value the accrued benefits (the past service liabilities) and the future contribution rates (future service liabilities).

Overall SHPS financial covenant

Using the collective information gathered via the Employer Financial Assessment process, the Committee commissioned KPMG to undertake an assessment of the financial covenant afforded to SHPS by all the SHPS participating employers. Based on the evidence collated and reviewed KPMG has confirmed a 'low' risk covenant applies to SHPS as a whole.

The assessment of covenant is material, as the strength of employer covenant dictates the key financial assumptions used for the actuarial valuation and also influences the Recovery Plan required to make good the funding deficit. The strength of covenant is also taken into account when considering the approach to the SHPS investment strategy.

Key actuarial valuation assumptions

An essential aspect of the 30 September 2014 actuarial valuation is the agreement of a set of key actuarial and financial assumptions. After taking appropriate advice for the 30 September 2014 valuation the Committee agreed a set of key assumptions. A comparison with the 2011 valuation is provided below.

Valuation Date/Assumption	30 September 2011 (previous valuation) % p.a.	30 September 2014 (current valuation) % p.a.
Price inflation	2.9% (RPI) 2.4% (CPI)	3.1% (RPI) 2.2% (CPI)
Valuation discount rates – pre retirement – post retirement	 7.0% 4.2%	 5.9% 3.3%
Pensionable earnings growth (annual)	2.5% for 3 years then 4.4%	4.2%

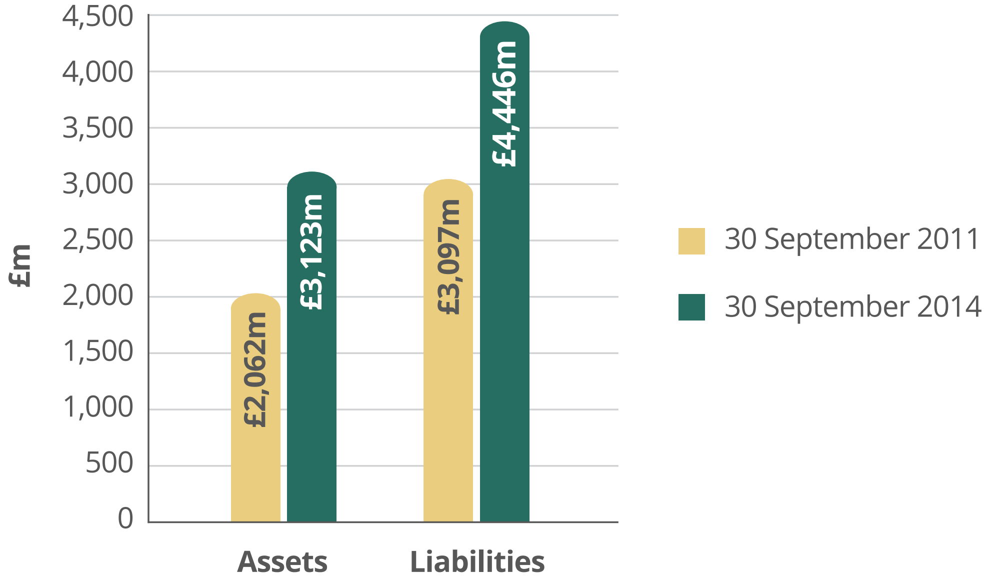
In addition, the latest mortality research, backed up by SHPS' own experience has also been taken in to account.

You will note that the key valuation discount rates are more prudent than used in the 2011 valuation and reflect financial market conditions at the 30 September 2014 valuation date.

Key valuation results

Based on the agreed assumptions the preliminary 30 September 2014 triennial valuation results (as calculated by the Scheme Actuary, Steven Robinson of JLT Benefit Solutions Ltd), as well as a comparison with the 2011 valuation, are summarised below.

Valuation Date	30 September 2011 (£m)	30 September 2014 (£m)
Assets	2,062	3,123
Liabilities	3,097	4,446
(Deficit)	(1,035)	(1,323)
Funding level (assets / liabilities)	**67.0%**	**70.0%**



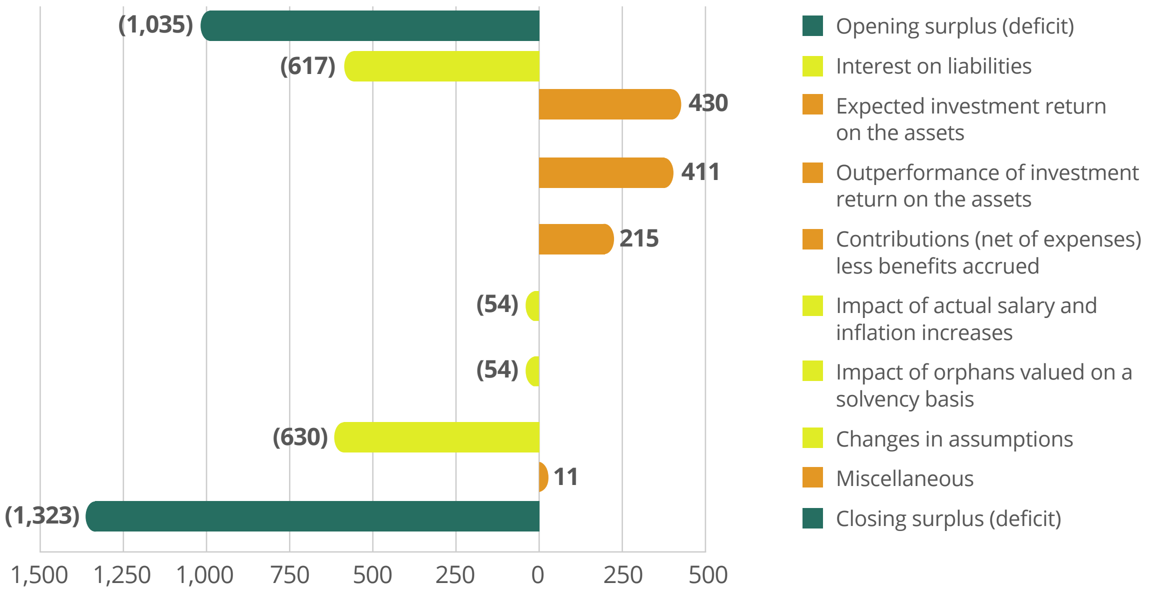
Reconciliation of the deficit

You will note from the above table that the deficit increased over the triennial valuation period by a further £288m, from £1,035m (2011) to £1,323m (2014).

The table below provides reconciliation between the 2011 and 2014 valuations.

Reconciliation of deficit	**£m**
Deficit at 2011 valuation	(1,035)
Interest on liabilities for 3 years	(617)
Investment experience (expected 6.2% p.a. compared to actual 11.5% p.a.)	841
Contributions paid compared to benefits accrued	215
Impact of actual earnings and inflation increases	(54)
Miscellaneous	11
Deficit at 2014 valuation using 2011 valuation method and assumptions	(639)
Change in assumptions	(630)
Impact of valuing orphans on solvency basis	(54)
Deficit at 2014 valuation using current method and assumptions	**(1,323)**

The chart below highlights the positives and the negatives over the triennial valuation period.



Changes in valuation assumptions

From the above table you will note that a change in the valuation assumptions has had a negative impact of (£630m). At each valuation the key assumptions are reviewed based on market conditions and experience. The table below provides a reconciliation of the changes in the key assumptions at the 2011 valuation.

Change in financial assumptions	Impact on deficit (+ / -) £m
Pre-retirement discount rate	+317
Post-retirement discount rate	+485
Inflation /Earnings growth	-113
Changes in demographic assumption based on experience (i.e. mortality / fewer 'married')	-59
Total additional deficit due to changes in assumption	**+630**

In summary, whilst there have been positive factors to help reduce the deficit at SHPS experience level (i.e. investment outperformance, contributions paid, and other demographic experience) these have been more than outweighed by significant external economic factors, in particular the lower investment return outlook (i.e. the fall in ongoing long-term interest rates) which determines the basis of the discount rates used to value the liabilities. The impact of the lower return outlook means that pensions payable in future are given a higher value today, resulting in a widening of the gap between the assets and liabilities.

Section 2

Changes to be implemented to the DB section from 1 April 2016

In anticipation of the expected increase in the deficit and future service costs, the Employer Consultation Document dated October 2014 was issued setting out details of the background to the 2014 benefit review and contained details of changes to the DB benefit structures that the Committee was considering introducing, from April 2016, as well as other options considered but discarded as part of the wider benefit review.

Following review of the feedback received from participating employers the Committee intends to amend the SHPS DB benefit structures in respect of service from 1 April 2016, as follows:

- Increasing the Normal Retirement Age (NRA) to age 67, and
- to apply a lower cap of 2.5% (instead of the current cap of 5%) to the revaluation of members' benefits prior to retirement and increases to pensions in payment.

The introduction of these two changes, together with any changes to member contribution rates you intend to make, will require you to formally consult with your staff. Further details on the background and impact are provided below.

Increasing the Normal Retirement Age (NRA) to age 67

Background

Given ongoing improvements in life expectancy the Committee proposed a universal increase of the current NRA of 65 to age 67 from 1 April 2016.

Whilst increasing the NRA will help reduce the costs of future accrual the change has largely been introduced to reflect the cultural nationwide move towards later retirement ages, which seeks to maintain the balance between the proportion of peoples' working lives and their time in retirement.

At national level the Government is introducing the single tier state pension from April 2016 and the State Pension Age (SPA) will increase to age 67 for most people during the 2020s and then to age 68 during the 2030s. The Government plans to review this again in 2017 suggesting in future that SPA will be linked to continued improvements in longevity. The Government considers this will help promote the idea of fairness in that each generation receives the State Pension on average for a given proportion of their lives.

Under public sector schemes the Government is linking NRA to changes in SPA. Feedback received from the employer consultation which ended on 31 January 2015, suggested some employers would prefer the Scheme to match increases in SPA. However, legal advice received confirms that it is not possible to link members' NRA to individual SPAs in private sector schemes like SHPS. To do so would constitute discrimination on the grounds of age.

Impact

The change to NRA 67 for all the SHPS DB structures will only apply to future service. Members will still retain the right to take their accrued benefits (if they wish) at the age in place when they were accrued without any actuarial reduction. This will be similar for those members with pre 2002 benefits who retain the right to take their pre 2002 benefits without actuarial reduction from age 60.

Changing the NRA is likely to impact younger members more, whereas those members closer to retirement are more likely to have proportionately more of their benefits payable without reduction from earlier retirement ages.

The NRA change only applies to the DB structures, as under the SHPS DC structures each member can select their own retirement age, which is simply used to drive the investment strategy in the relevant default investment funds for DC members. Any DB member who pays Additional Voluntary Contributions (AVCs), may wish to review their DC selected retirement age to tie in with the change to their future DB retirement age.

Employers will need to ensure that the change in NRA is correctly reflected in their own HR policies and employment contracts to avoid any subsequent challenge from a member.

Reducing the cap on the revaluation of members' benefits prior to retirement and increases in pensions in payment.

Background

Legislation provides that, generally, pensions in deferment (including CARE benefits) and pensions in payment have to be statutorily increased in line with the CPI to a maximum of 2.5% per annum. At present the cap for the SHPS DB structures has been maintained at 5% per annum, whilst the majority of DB pension schemes have adopted a lower cap level.

Impact

Whilst adopting the lower maximum of 2.5% would have the potential (during periods of higher inflation) to reduce members' revalued benefits in comparison to the present cap of 5%, the greater impact will be to the CARE structures where revaluation is a key determinant in the overall benefit.

The change in the cap to 2.5% per annum will only apply in respect of the future accrual of benefits from 1 April 2016. Any benefits accrued up to 31 March 2016 will retain the 5% per annum cap limit.

Comment on benefit changes

The Committee wants employers to be able to offer DB benefits to staff, whilst helping to manage the risk of doing so. However, the Committee appreciates cost is a key factor for both employers and members alike.

Increasing the NRA to age 67 and the reduced 2.5% increase cap (to the revaluation of future benefits prior to retirement and increases in pensions in payment) will help limit future service costs compared to maintaining the status quo. In weighing up the overall competing challenges faced, the SHPS Committee considers that the revised benefit package will be beneficial overall to both employers and members, if future DB accrual can be sustained.

Details of the revised future service contributions rates taking account of the above changes can be found in Section 3 of this document. Details of the requirements to consult staff are also provided in Section 5.

Section 3

Overall contribution requirements

The total SHPS DB contribution requirements from 1 April 2016 are made of various components and potentially include:

- the future service rate (taking account of the benefit changes outlined in Section 2) for the relevant DB benefit structure;
- a closed employer loading, if appropriate;
- the past service deficit costs including the option to accelerate payment (see page 14); and
- a Scheme expense contribution, based on scheme membership at the 30 September 2014 valuation date.

Employers will also need to consider the impact of the cessation of contracting out (see page 17).

The revised basis taking account of the 30 September 2014 valuation results (to apply from 1 April 2016) is detailed below:

Revised future service contribution rates

The future service rate is the cost of providing future benefits. The Scheme Actuary has reassessed the total overall future service contribution rates (employer and member) required from 1 April 2016, taking account of the benefit changes outlined in Section 2.

Expressed as a percentage of pensionable salaries the revised overall rates are shown in the table below, together with a comparison with the existing rates and also for completeness assuming no benefit changes were made. Please note all figures below exclude the allowance for scheme expenses (including Pension Protection Fund levies) for ease of comparison.

Benefit structure	60ths Final Salary	70ths Final Salary	80ths Final Salary	60ths CARE	80ths CARE	120ths CARE
Existing rates (excluding scheme expenses of 0.9% of pensionable salaries)	18.5%	16.0%	13.9%	17.2%	13.1%	8.8%
Equivalent 2014 rates from 1 April 2016 assuming no changes to benefits (excluding scheme expenses)	23.7%	20.4%	17.9%	20.8%	15.7%	10.6%
Net change	+5.2%	+4.4%	+4.0%	+3.6%	+2.6%	+1.8%
New 2014 rates effective from 1 April 2016 taking account of benefit changes (excluding scheme expenses)	20.6%	17.7%	15.5%	16.7%	12.6%	8.6%
Net change	+2.1%	+1.7%	+1.6%	-0.5%	-0.5%	-0.2%

Closed employer loading

For those employers that have closed all the SHPS DB sections to new entrants (or operate alternative open DB pension arrangements alongside SHPS) a closed employer loading is payable, in addition to the future service contribution rates. The loading recognises that the average age of their membership will increase more quickly than for an employer that continues to offer SHPS to all new employees.

The closed employer loading has been reviewed by the Scheme Actuary as part of the triennial valuation and is to be maintained, from 1 April 2016, at the existing level of 2.5% of current pensionable salaries.

Paying for the past service deficit – the Recovery Plan

As detailed in Section 1 the preliminary actuarial valuation results reveal that the SHPS deficit has increased from £1,035m as at 30 September 2011 to £1,323m as at 30 September 2014.

Given the deficit, the Committee has considered how employers will be required to make good the shortfall. The Committee took into account the latest guidance from The Pensions Regulator, the low risk employer covenant afforded to SHPS, as well as views expressed by some employers that the deficit should be recovered over a shorter timescale than previously.

Whilst we believe the overall SHPS covenant is low risk and hence should be able to support a more intense recovery plan, we recognise that the ability to pay increased contributions will vary markedly between participating employers.

Existing recovery plans

To recap, SHPS currently has the equivalent of three recovery plans in force stemming from the 2005 valuation (Tier 1), 2008 valuation (Tier 2) and 2011 valuation (Tier 3).

The deficit contributions for the Tier 1 and Tier 2 recovery plans are being recovered based on pensionable payroll of 4.4% (2005) and 3.1% (2008). Following consultation with employers in November 2008 Tiers 1 and 2 were consolidated in to a value equal to 7.5% (i.e. 4.4% + 3.1%) of each employer's pensionable payroll at 30 September 2008, increasing by 4.7% each year. These deficit payments have been paid on this basis by all DB participating employers since 1 April 2010 and will continue until 30 September 2020 (Tier 1) and 30 September 2023 (Tier 2).

In conjunction with the 2011 valuation, and after consultation with employers, the Committee agreed to share any emerging deficit from the 30 September 2011 valuation on a 'share of liabilities' basis. The 2011 Recovery Plan (Tier 3) was therefore allocated on a fixed £s amount basis, increasing by 3% per annum and runs to 30 September 2026.

Overall, the Committee feels that allocating any newly emerging deficit on a share of liabilities basis better reflects a participating employer's historic membership and is a fairer method given reducing pensionable payrolls, for some employers, as active DB membership reduces with the gradual shift towards DC pension provision. Consequently, the newly emerging deficit from the 2014 valuation has again been allocated on the share of liabilities basis.

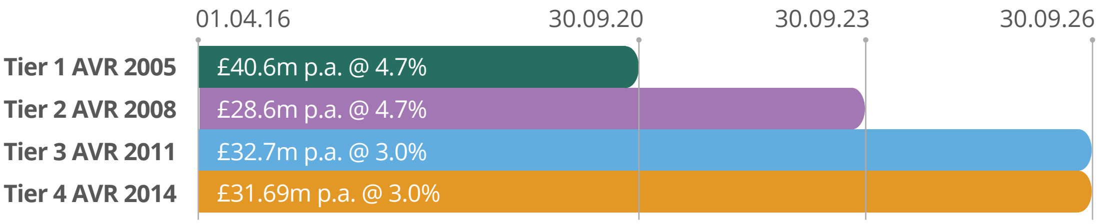
The new additional Recovery Plan – Tier 4

Given the current recovery plans in force the Committee has decided to maintain them and to establish a further Tier 4 Recovery Plan.

Taking account of the feedback received from employers, and whilst seeking to strike a fair balance over the pace of funding of the overall deficit, the Committee has decided that the new Tier 4 Recovery Plan will be recovered over the balance of the existing Tier 3 Recovery Plan Period. It will, therefore, run for a period of 10 years and 6 months, from 1 April 2016 to 30 September 2026, which equates to a 12 year recovery plan from the 30 September 2014 valuation date.

Like the Tier 3 Recovery Plan, deficit contributions under the new Tier 4 Recovery Plan will increase in payment by 3% each year. The additional deficit contributions required as a whole under Tier 4, amount to £31.69m per annum and will increase each year by 3% per annum.

In summary, the overall revised SHPS recovery plans will look like this:



Notification of past service deficit payments

Each organisation has been notified of its further deficit contributions (Tier 4) taking account of the increased deficit payable from 1 April 2016. This will be collected monthly in addition to the future service rate, any closed employer surcharge, and the Scheme expense charge. Changes will be made from 1 April each year.

Accelerated payment of deficit recovery plan contributions

In response to feedback from participating employers the Committee has agreed to facilitate the payment of advanced deficit repair contributions.

This facility will enable employers to pay their recovery plan contributions by way of a lump sum payment in advance and in return receive a discount for early payment equivalent to the long dated Gilt yield used at the SHPS 30 September 2014 valuation date (i.e. 3% per annum).

A level of flexibility is available. For example, an employer may wish to reduce the level of their ongoing recovery plan payments, whereas another may wish to have a zero £s recovery plan window in return for a lump sum upfront payment.

This facility may be attractive to some employers that have built up financial surpluses and might be tax efficient for some organisations. However, there are some issues that employers need to be aware of.

In particular, due to the multi-employer nature of SHPS it is not possible to ring-fence an employer's contribution, whether regular or one-off. So if, for example, an employer was looking to exit SHPS voluntarily, or inadvertently does so as a result of a merger, the credit for the accelerated deficit payments will be spread over all the DB employers in SHPS so the employer would receive negligible credit against its section 75 withdrawal 'buy-out' liability. It is, therefore, important that any employer interested in this facility considers carefully the merits or otherwise of paying accelerated contributions. The accelerated contribution option may appeal to those employers who envisage their ongoing participation is SHPS over the longer term.

To put in place any arrangement it will be necessary to take actuarial advice from the Scheme Actuary and enter in to a formal legal agreement. The employer will be expected to meet the associated costs of entering into such an arrangement. It is recommended that any employer considering this option should consider it well in advance of their financial year end, to ensure that the required advice and agreement can be reached before their financial year end.

Employers should contact the Scheme Management Team at The Pensions Trust (see page 22-23 for contact details) if they are interested in this option and require further information.

Scheme expenses charge

At the Employer Forums held in November 2014 and subsequently confirmed in the initial high level letter dated 13 March 2015, the Committee confirmed its intention to change the way that the expenses of running SHPS for all its participating employers and members are recovered from 1 April 2016.

Current basis

Currently for employers with active DB members an expense allowance of 0.9% of pensionable salaries is collected in addition to the 'existing rates' shown in the table on page 12. Where an employer adopts the DC structure for all its DB members a fixed £ amount expense charge is payable based on the employer's DB pensionable salary roll at the point of change to the DC structure.

As part of the triennial valuation process the Committee has considered different ways of allocating scheme expenses to better reflect the changing profile of the SHPS membership. It is also an opportunity to introduce a common basis going forward instead of the current dual approach.

Revised basis

From 1 April 2016 Scheme expenses will be allocated across all participating employers with a SHPS DB liability in line with each employer's number of overall DB members, including active, deferred and pensioners. The Committee believe this is a more equitable method of allocating expenses compared to the existing approach.

In order to keep the basis straightforward and to avoid retrospective adjustments as a result of member movements, the Scheme expense allocation will be fixed for the period 1 April 2016 to 31 March 2019 based on the size of an employer's DB membership at the 30 September 2014 valuation date.

Employers will be required to pay a fixed annual charge of £1,800 per annum together with a £70 per member annual charge based on its total DB membership (i.e. including active, deferred and pensioners). Charges will be collected monthly, along with the future service and deficit contributions.

Example comparison

Example 1

For an employer with 275 members and a current pensionable payroll of £8,250,000 the current expense payable would be equivalent to £74,250 per annum (0.9% of £8.25m). On the revised basis the charge would be £21,050 per annum (i.e. £1,800 + (275 x £70) = £21,050).

Example 2

For an employer with 275 members and a current pensionable payroll of £500,000 (i.e. reflecting a low current active membership but large historic membership) the current expense would be £4,500 per annum (0.9% of £500,000). On the revised basis the charge would be £21,050 per annum (i.e. £1,800 + (275 x £70) = £21,050).

The above examples show that the employer with significant historic membership will see an increase in their expense share going forward under the revised expense basis. The Committee believes that sharing expenses based on a fixed charge and overall membership size is fair across all employers.

Cessation of contracting out

At the same time as considering the impact of the SHPS valuation results effective from April 2016, each organisation may need to take account of the decision by the Government to cease the current option of contracting out of the state second pension (S2P) system also from April 2016. This change will impact all members of the DB sections (except the 120th section which is not contracted out). The DC section has always been on a non-contracted out basis.

The abolition of contracting out will require both employers and members to pay the full rate of National Insurance, as the reduction in National Insurance currently afforded as a result of contracting out of the State Second Pension will no longer apply. Consequently, you may need to take account of this statutory change when assessing your plans from April 2016. The current national insurance reductions are:

National insurance	Employer reduction	Member reduction
*Reduction on earnings between the lower earnings level (£5,824 – 2015/16) and the upper accrual point (£40,040)	3.4%*	1.4%*

The significance of the additional National Insurance that will be payable from April 2016 will vary between participating employers and will depend on how your staff are currently pensioned. If the majority are now in the CARE 120ths section or members of the DC section the additional National Insurance will be less of an issue than for those employers who currently provide DB benefits, other than the 120ths CARE benefits, for the majority of staff.

It also worth noting that the abolition of contracting out is a Government led initiative so there will be the same National Insurance implications for organisations that have any staff, for example, in the Local Government Pension Scheme, the NHS Pension Scheme or if you run or participate in any other DB contracted out pension schemes.

Employers that participate in SHPS could look to mitigate the additional National Insurance requirement by adopting a revised future accrual rate option going forward (for example 1/60ths CARE in place of 1/60ths final salary). Regardless of any decision to adopt a revised benefit structure it is recommended that employers advise their contracted out DB members of the additional National Insurance requirements due from April 2016, to avoid any confusion when members receive their first payslip post April 2016.

Section 4
Member contribution rates

Whilst employers are able to determine (in consultation with their employees) the member contribution rates, the Committee expects that members will be required to pay a share of the future service contribution rate only. Employers pay the balance of the future service rate, in addition to the notified past service deficit payments, closed employer loading and the scheme expense charge. The Committee believes it is more equitable for employers to 'own the deficit' as well as the costs of running SHPS, via the expense charge, with members only paying for future service. This will avoid the scenario where members (including new members) are paying for the past deficit. However, it is for employers to decide whether to refer to the additional deficit and overall costs and its impact in any communications with their members.

Age-related member contributions

Whilst the Committee is content for employers to continue to operate age-banded contributions, in line with the existing bands namely (1) under 30 years, (2) 30-39 years and (3) 40 years and over, it is for each employer to satisfy itself that operating such a basis is not in breach any age-related discrimination requirements in doing so. Alternatively, such employers can operate a single future contribution rate for all members of a particular DB structure.

When using the age-banded approach, employers in consultation with their employees will determine the average member contribution. Once the average has been determined the age-related contributions should be calculated around the average member contribution rate using the following ratios:

Age band	Age-banded contribution rate
Under 30 years	Average rate LESS 1.6%
30–39 years	Average rate LESS 0.6%
40 years and over	Average rate PLUS 0.4%

Example
If the average member rate is determined as 8% this would give the following age-banded member contribution rates:

Age band	Average age rate	Age-banded contribution rate
Under 30 years	8% LESS 1.6%	6.4%
30–39 years	8% LESS 0.6%	7.4%
40 years and over	8% PLUS 0.4%	8.4%

The employer future service contribution rate will then be the balance of the total future service rate less the chosen average member contribution rate. If appropriate, the 2.5% closed employer surcharge will also be payable by the employer, in addition to the employer's past service deficit contributions and scheme expense charge.

Reduced rate members

Prior to October 1997 a SHPS member could elect to give up their entitlement to a SHPS survivor's pension payable on death and in return pay a reduced rate of contribution. Such members are referred to as 'reduced rate members'. (Please note this option only applies to members who elected this option during the period it was available between 1992 and October 1997.

Whilst the member under this option gives up their entitlement to a survivor's pension, SHPS is still required (as a result of the contracting out requirements) to pay a statutory minimum in respect of any survivor on the death of a member. With the abolition of contacting out the statutory minimum will no longer apply in respect of any reduced rate service from April 2016 and consequently a full reduction in the future service contribution rates will apply to these members from 1 April 2016.

Details of the current and revised rate reductions, applicable to the future service rates for reduced rate members, are shown below.

Benefit structure	60ths Final Salary	70ths Final Salary	80ths Final Salary	60ths CARE	80ths CARE	120ths CARE
Current reduction in member contribution rate	0.9%	0.6%	0.4%	0.7%	0.2%	1.0%
Revised reduction in member contribution rate from 1 April 2016	2.6%	2.2%	2.0%	2.4%	1.8%	1.2%

Section 5
Consultation with employees

Most employers will have undertaken some form of consultation with members previously, for example when member contribution rates or benefit options have been changed.

Why might consultation be required?

Under the Occupational and Personal Pension Scheme (Consultation by Employers and Miscellaneous Amendment) Regulations 2006, as well as the Occupational and Personal Pension Scheme (Consultation by Employers) (Modification for Multi-employer schemes) Regulations 2006, you may be required to consult with employees affected by changes either as a result of the aforementioned regulations or by virtue of your organisation's own requirements and recognised best practice.

Listed changes

The regulations specify the types of changes that trigger the requirement to provide information and consult. **As a minimum employers will need to consult staff on the change in NRA (to age 67) as well as the adoption of the 2.5% cap on the revaluation of benefits prior to retirement and to pensions in payment.**

Other listed changes likely to be relevant to SHPS employers include:

- Increasing member contributions in some or all cases
- Reducing the rate of future accrual of benefits (e.g. 1/60ths to 1/80ths)
- Changing the basis of future accrual (e.g. from final salary to CARE), and

Some employers may also be looking at making the following listed changes:

- Closing SHPS or SHPS DB to new entrants
- Stopping future accrual for some or all members
- Introducing contributions for some or all members where there had not previously been a member contribution requirement.

Contractual position

It is important that you consider any listed change carefully. You may have a statutory obligation to consult. For example if you have 50 or more employees then you must consult with 'affected members' and /or their representatives. An 'affected member' is a current member of SHPS, plus all employees who are eligible per their contract of employment to join SHPS if they wish to do so.

As well as the possible statutory obligation to consult, there may be obligations under internal procedures or governance arrangements relating to employees' Terms and Conditions of Employment. Please take legal advice if you are in any doubt about the contractual position of your staff.

Consultation material

We intend to make available sample consultation material to cover both the change in NRA and the reduction in the 5% cap, for revaluing future deferred benefits and pension increases, which you can incorporate in any communications you issue in relation to any adjustment of member contributions or the benefit structures you offer.

The following additional guidance may prove useful:

Consultation timing

Statutory consultation begins and ends on the dates specified in the information provided – the process must last at least 60 days. The DWP expects the employer and those being consulted to work together in a spirit of co-operation – the DWP expects there to be a dialogue and exchange of views between the parties.

At the end of the 60 day period, the employer must consider any comments before deciding whether to proceed with a change to future pension provision. If no comments are received by the end of the period, the consultation will be regarded as complete.

Where statutory consultation does not apply (i.e. fewer than 50 full-time equivalent staff) it is likely that internal governance or terms and conditions of employment will specify what consultation is required. If this is not the case then employers may adapt the statutory process to suit. A minimum period of 30 days consultation might be reasonable in these circumstances.

What happens if you don't comply with the consultation regulations?

If an employer does not comply with the statutory requirements, if relevant, then affected members or their representatives may complain to The Pensions Regulator. The employer may be fined up to £50,000.

Section 6
Help and further assistance

This document and other supporting documents, including a consultation template, are available to download from The Pensions Trust website at **www.tpt.org.uk**

Helpline

A helpline is available for employers with queries relating to these Guidance Notes. In the first instance, please contact the Scheme Management Team at The Pensions Trust on 0113 394 2723. Employers are asked to note that the helpline is intended primarily to provide more information or clarification on key areas within these Guidance Notes.

Please note: The Committee and The Pensions Trust are not authorised to give advice to employers on the selection of their benefit structure(s) and funding arrangements. In these matters, it is recommended that employers should take independent professional advice.

'Face to face' assistance

Neither The Pensions Trust nor the 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 members of The Pensions Trust's Scheme Management Team at its office in Leeds. If you wish to arrange a 'face to face' discussion please contact Gary Bradley at The Pensions Trust via email gary.bradley@thepensionstrust.org.uk or telephone 0113 394 2723.

Deadlines / implementing changes

In order to implement any change to benefit structures and contribution rates from 1 April 2016 **the required Form of Authority must be received by The Pensions Trust by 31 January 2016**, otherwise the default position described below will apply.

Default position

If an employer does not return a completed Employer Form of Authority to The Pensions Trust by **31 January 2016** then a default position will apply to that employer. The default position will be that the employer will retain its existing benefit structure(s) and any increase in overall contributions will be met by the employer in full (incorporating the benefit changes outlined in Section 2 of this guide), with the member contribution rate(s) being held at the present level. Any future benefit structure or contribution rate changes will only be possible in accordance with The Pensions Trust's agreed timescales for making future changes.

Form of Authority

The required Form of Authority is available to download from The Pensions Trust's website at www.shps.org.uk

Written enquiries / contacts

If you wish to provide feedback on the SHPS Valuation and Benefits Review or this document please address this to:

Gary Bradley Scheme Manager, The Pensions Trust, Verity House, 6 Canal Wharf, Leeds LS11 5BQ

Alternatively you can email: gary.bradley@thepensionstrust.org.uk

Appendix A
Benefit review consultation feedback

Background

During the autumn of 2014, the Committee undertook a consultation exercise following on from earlier surveys and employer feedback sessions. This was supplemented with a number of forums throughout the country. The consultation was seeking feedback on two proposals and asked employers if there were sufficient benefit structures in place. The results and selected comments are as follows:

Increase in NRA to age 67

Table 1 below provides a summary of the decisions reached by employers who responded to the consultation. This large majority in favour of the increase helped influence the Committee's decision.

Table 1

Response to Question	Increase in NRA to 67	Increase in NRA to age 68 (only applicable to those who responded 'yes' to increasing the NRA to age 67)
Yes*	119 employers (82.6%, representing 5,900 DB actives)	18 employers (15%, representing 597 DB actives)
No*	25 employers (17.4%, representing 680 DB actives)	n/a
Don't know or not applicable	6 employers	n/a
Total responses	150 employers	n/a

*% figures do not take into account a 'don't know or not applicable' response.

A number of employers raised the question of whether the Scheme NRA could be linked to the State Pension Age (SPA). However, earlier legal advice taken was that a private sector scheme such as SHPS could not introduce such a link due to age discrimination.

Reduction in the revaluation of deferred pensions and increases to pensions in payment to CPI up to 2.5%

Table 2 provides a summary of the decisions reached by employers. Although the majority in favour of the change was not as clear as for the increase to NRA, most employers supported the change.

Table 2

Response to Question	CPI to 2.5% for all such benefits	CPI to 2.5% for pensions in payment
Yes*	94 employers (65.7%, representing 4,529 DB actives)	4 employers (2.6%, representing 170 DB actives)
No*	49 employers (34.3%, representing 2,153 DB actives)	n/a
Don't know or not applicable	7 employers	n/a
Total responses	150 employers	n/a

*% figures do not take into account a 'don't know or not applicable' response.

From the employer comments received and the results shown in Table 2, this was a more difficult decision for employers to make. Although there is little impact given current low inflation rates. There was a concern with the 'No' responders over the longer term impact on members if there is a return to higher inflation levels.

Other feedback

There was minimal support from employers for investigating or introducing any further benefit sections within the Scheme. The large majority of respondents felt there was enough flexibility within the existing structure to allow employers to choose a suitable option for their employees and help manage their future pension costs.

Overall there was general appreciation that in view of current market conditions and the backdrop of rising pension costs the Committee was seeking to respond to the challenges faced proactively.

Feedback conclusions

Whilst increasing the NRA and the reduced 2.5% increase cap (to the revaluation of future benefits prior to retirement and increases to pensions in payment) will help limit or maintain future service costs compared to maintaining the status quo, the Committee considers, when weighing up the overall position for all employers given the competing challenges faced, that the revised benefit package will be beneficial to both employers and members, if it means future DB accrual can be sustained going forward.

Appendix B
Wider pensions background information

To try to put the 2014 SHPS valuation and benefits review in to the wider context of UK [private sector] pension provision it is worth participating employers noting the following background information as highlighted in the latest survey undertaken by the National Association of Pension Funds (NAPF), which provides a snapshot of workplace pension provision in the UK's largest funded pension schemes.

Schemes' status

The NAPF reports that the proportion of private sector schemes open to new members has continued to decline with only 8% of private sector DB schemes being still open to new members. The proportion of schemes which are closed to new members and future accrual continues to rise, 39% in 2014 compared to 35% in 2013.

For new members, 28% of respondents to the NAPF expected not to make changes to their DB schemes in the next 5 years. 16% expect to close their DB scheme and move to occupational defined contribution (DC) provision, and 7% will switch to contract-based DC.

31% of respondents open to future accrual expect to make changes for existing members in the next 5 years, although one-third expected to make no changes. Of those expecting to make changes 19% expected to close their current DB scheme to future accrual and switch to DC pension provision. 21% expect to retain their DB provision but offer benefits on less favourable terms to existing members.

The composition of the average DB scheme in 2014 measured by the NAPF was 16% active members, 50% deferred and 34% pensioners. The SHPS equivalent statistics as at 30 September 2014 were 28.5% active, 47.3% deferred and 24.1% pensioner members.

Average contributions to DB Schemes

The NAPF survey found the average joint DB contribution rates for both employers and employees to be 26.7%. The average member rate was 5.9% with employers on average paying 20.8% of pensionable pay.

Funding / investment Information

Two thirds of respondents to the NAPF survey stated that their funding position had improved over the past 12 months. Only 8% of respondents stated their funding position had deteriorated in 2014, compared to 30% in 2013. On average DB respondents to the NAPF Survey were:

- 89% funded on their technical provisions (April 2012).
- The average recovery period is 8.9 years, which is broadly similar to The Pensions Regulator's average of 8.4 years.
- The average DB scheme asset allocation was found to be 37% equities, 44% fixed interest and 20% alternative investments.

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Defined Benefit (DB)

Social Housing Pension Scheme
The Pensions Trust, Verity House, 6 Canal Wharf, Leeds LS11 5BQ

Tel: 0845 608 5252 **Fax:** 0113 394 2699
Email: enquiries@tpt.org.uk **Visit:** www.shps.org.uk

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