

Scottish Housing Associations' Pension Scheme

30 September 2018 Valuation – Headlines

Funding position overview

- The funding of SHAPS is set taking into account the employer **covenant** (the financial strength of the participating employers and their willingness to meet the contributions required) and the Scheme's **investment** strategy.
- Based on the assumptions agreed for the valuation, the Scheme Actuary has calculated the Technical Provisions – or ongoing - funding position of SHAPS at 30 September 2018. This is shown below alongside the position in 2015.

	2015 £m	2018 £m
Assets	616	877
Liabilities	814	998
Deficit	198	121
Funding Level	76%	89%

- The **Technical Provisions funding level has improved** over the valuation period and the **deficit amount has reduced**.
- SHAPS has introduced a Long-Term Funding Target (LTFT) so that investment risk can be gradually reduced as SHAPS starts to pay out higher levels of benefits each year.
- Once the LTFT is achieved SHAPS can:
 - Minimise its reliance on the employers' covenant
 - Invest in a low risk investment portfolio
 - Have a low chance of future deficits emerging

Covenant

- The assumptions adopted in the valuation are based on the Scheme Committee's (SC) view of the aggregate financial strength of all participating employers.
- Data was collected from employers and an independent covenant review was undertaken on SHAPS and the housing sector by KPMG.
- SHAPS retained its **low risk** covenant classification which means the covenant is strong.

Investment

- Investment Performance** over the three year period **has been better than assumed** - £96m assumed versus £231m achieved – this outperformance of £135m was a key contributor to the improved funding position.
- Looking forward, **expectations for future investment returns are lower** than at the previous valuation.
- In consultation with the Employer Committee (EC) the SHAPS investment strategy will be reviewed in late 2019.

Funding the deficit

- Deficit contributions will remain at the same level for the Scheme overall.
- Individual employer deficit contributions will rise or fall from their current level due to their own scheme membership profile and member movement experience since 2015.
- Items which could affect this include: ongoing provision of DB accrual, pay increases, retirements, transfers out and deaths that are different to the average Scheme experience.
- Deficit contributions will run from **1 April 2020** and **payments will increase by 3% per annum** on 1 April 2021 and annually thereafter.
- Deficit contributions **will continue until 31 March 2023**, subject to an assessment of the funding position on 30 September 2021.
- The Recovery Plan will be reviewed as part of the September 2021 valuation.

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Future service contribution rates

- The new future service contribution rates arising from the 2018 valuation are set out below.
- The contribution rates for employers open to new members include an *open employer discount*.
- Whether the discount applies for your organisation is based on whether or not a new defined benefit member has been enrolled during the period from 1 October 2015 to 30 September 2018.
- **The revised rates will take effect from 1 April 2020.**

Percentage of Pensionable Salary	Final Salary 60th	CARE 60th	CARE 70th	CARE 80th	CARE 120th
Employers OPEN to new members	32.4%	31.0%	26.5%	23.2%	15.4%
Employers CLOSED to new members	32.8%	31.7%	27.1%	23.7%	15.8%

- In the past a member's share of the future service contribution rate was limited to a maximum of 50% of the total rate after allowing for the *open employer discount*.
- **The maximum member share of 50% will no longer apply from 1 April 2020.**
- This means **employers can determine the allocation of contributions between the employer and members** (noting that the additional contribution required for closed employers must be met by the employer).

What to do and who to contact

- If you have active defined benefit members it is likely that you will need to **consult** with them about employee contribution rate changes.
- The need to consult may also apply if you are making other changes – please seek advice if you are unsure on when this might apply.
- Template documents to help with consultation can be found in our online resource library.
- **Please submit your form of Authority before 31 January 2020 to make changes from 1 April 2020.**

If you have a question, please get in touch with the Employer Relationship Team on:



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