

Debrief

SHPS 2020 valuation

The Social Housing Pension Scheme (SHPS) 2020 valuation results are expected to be published by TPT Retirement Solutions (TPT) this month. With a significant increase in contributions looking likely (but not definite), you will want to prepare for your organisation to review and respond.

TPT could look to limit contribution increases by allowing for positive market experience since September and the sector's resilience demonstrated during Covid-19.

This debrief note covers:

- What could the results look like for housing associations?
- Questions for employers
- How Isio can help

Isio will issue an updated debrief note with headlines and comment when results are issued.



What results are expected?

As a reminder, the SHPS funding level at 30 September 2017 was 75% with a deficit of around £1.5bn (liabilities of around £6.1bn less assets of round £4.6bn). This led to an increase in contributions for employers (both deficit funding and future accrual) from April 2019 and a re-shaping of the previously tiered recovery plan. On average, employers saw a 60% increase in deficit contributions cost for the first year.

If experience over the three years to 30 September 2020 had been in line with 2017 expectations, it is estimated that the deficit at the 2020 valuation when measured on a 2017 consistent basis would have fallen to broadly around £1bn.

However, due to market movements being worse than expected since 2017 (in part but not entirely from the impact of Covid-19), the funding level at 30 September 2020 when measured on a 2017 consistent basis is estimated to be broadly around 77%, with a deficit of broadly around £1.5bn. If this is paid off over a recovery period still ending in 2026, employer deficit contributions will increase by around 30% to 50%. The average total cost of future accrual will increase by around 15%, but the actual rate for an individual employer is dependent on employer profile.

Of course, the actual outcome will depend on the detailed actuarial calculations and the approach taken by the SHPS Trustee to this time's valuation. This includes:

- the Trustee's view of the employer covenant
- any changes in the investment strategy
- the Pensions Regulator's view, including any advance allowance for the new code of practice due in 2022
- the level of prudence included in the discount rate
- long-term inflation projections
- changes to life expectancy
- the recovery period for making good the deficit

Organisations will need to consider the implications of the results and how they might address any issues. The decisions you need to make and how you make them will depend on what your obligations in SHPS are and what your objectives are.



The impact will depend on a housing association's individual profile

The impact will depend on whether you continue to offer DB new accrual as well as other factors such as the maturity of your participation and size of membership.

Questions for employers:

The decisions you need to make and how you make them will depend on what your obligations in SHPS are and what your objectives are. Planning the route through to your preferred position will naturally follow.

You may ask the following questions for each part of your participation:



DB past service

- What has caused the change in deficit allocated to your organisation?
- Is the pace of funding appropriate?
- What is the level of risk being taken in the investment strategy?
- What are the alternatives?
- Is there a way to offer a member options exercise?
- Can you use your balance sheet more effectively?



DB future service

- How does the contribution rate compare to staff in other pension schemes?
- Is the benefit valued by staff?
- Will you pass any contribution increases to your staff?
- Does the cost to employers meet your inclusivity objectives?



DC offer

- Are your staff getting value for money from their pension scheme?
- Are you comfortable with the degree of flexibility offered to staff in relation to investment options and retirement choices?
- Are you happy with the governance structure and quality of engagement with you and your staff?



How Isio can help

We can help you and your organisation to consider the **impact on projected costs over the short, medium and long term** and get from where you are now to where you want to be.

Our SHPS 2020 valuation modules are designed to offer in depth, tailored analysis of your organisation's participation, in order to inform decision making and strategy:



SHPS DB review module

- This component will set out analysis and insight in a report specific to your organisation.
- There is an additional section if you are still accruing DB benefits for future service.

Full scope and pricing available on request



SHPS DC review module

- This report will set out a comparison of key features of the SHPS DC section against current best market practice to assess the value being provided to your staff.

Full scope and pricing available on request

Please contact us for more information or just for a chat through any of the issues here in the context of your organisation.



Contact us

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