

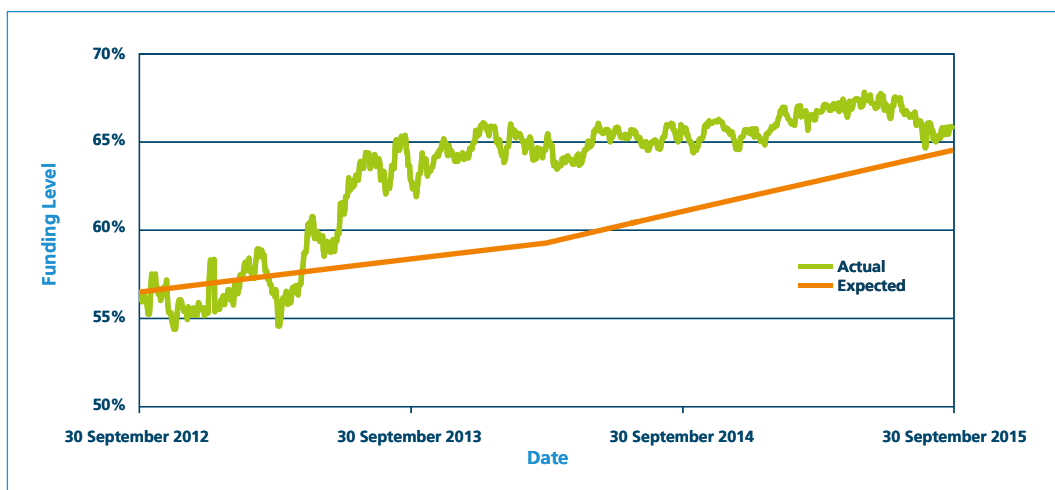
The 2015 SHAPS valuation

The initial results of the 30 September 2015 actuarial valuation for the Scottish Housing Associations' Pension Scheme (SHAPS) are expected to be revealed at the employer forums, to be held in November. We estimate that the funding position of SHAPS will have improved, however, deficit recovery contributions and future service contributions are likely to increase. Housing Associations should, therefore, start planning now to mitigate any SHAPS cost increases.

We calculate the overall size of the deficit will have remained broadly unchanged from its 2012 level, at around £300m

What's happened since the last valuation?

We estimate that the SHAPS funding position will have increased from 56% at September 2012 to around 66% at September 2015. Despite better-than-expected investment returns from the assets, the value of the liabilities will have increased substantially due to falling bond yields. We calculate the overall size of the deficit will have remained broadly unchanged from its 2012 level, at around £300m. Depending on the approach taken to paying off the deficit, it is likely that employers can expect their deficit contributions to either increase, or at least continue at the same level as they are currently paying.



What about future service contributions?

For those employers still offering defined benefits (DB), either final salary or one of the career-average options, to their active members, they will also see their ongoing contribution rate increase. The amount of any increase will depend on the actual benefit option offered, with the biggest increase being for final salary accrual. The contribution rates would also be affected by any changes to existing benefit structures provided by SHAPS which may mitigate any cost increase.

Many employers have already taken steps to reduce their exposure to DB liabilities, as active DB membership of SHAPS has fallen by over 53% since the last valuation, while the number of employers offering defined contribution (DC) has increased to 83.

Employers should start to consider the adjustments they need to make to their pension arrangements, communicating with members as necessary and sharing their views at the employer forums in November 2015

Abolition of contracting-out

As part of the changes to State Pension arrangements, from April 2016 members will no longer be able to contract-out of the State Second Pension (S2P), meaning that employers will lose their National Insurance Contribution (NIC) rebate. Employer NICs will increase by around 3% of payroll, which can work out as a maximum increase per member of around £1,165 each year.

In light of these new changes, employers should start to consider the adjustments they need to make to their pension arrangements, communicating with members as necessary and sharing their views at the employer forums in November 2015.

What should I be doing?

To mitigate any cost increases, employers should start planning now. The contracting-out increase will apply from April 2016 and you may need to build in time for any consultation with affected employees.

While the individual employer valuation results are not expected to be issued until next spring, it is worth considering how to manage costs and risk by considering alternative benefit structures within SHAPS, or moving to one of the DC options.

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Our experience

Across Barnett Waddingham we have considerable experience advising organisations with pension obligations in defined benefit multi-employer arrangements such as The Pensions Trust.

In the past, we have helped employers to understand their pension arrangements further and examine a variety of de-risking and exit options. We have also provided support to many employers in multi-employer schemes where an actuarial valuation is being completed.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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