



The housing sector scheme of choice

# SHPS Valuation



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Retirement Solutions

# Agenda

- Background
- Governance
- SHPS Valuation
  - funding updates
  - story from 2014 to 2017 valuation
  - deficit contribution changes
  - contribution rate changes and employer expenses
  - membership /changes since 2011
- Accounting changes



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# Background



# Pension Scheme Funding

Driven by three key factors, which need to be considered in all aspects, together:

- **Investment strategy**

Systematic plan used to decide how to allocate capital amongst various investment options

- **Covenant strength**

The employer's legal obligation, financial ability and willingness to support the scheme now and in the future

- **Funding**

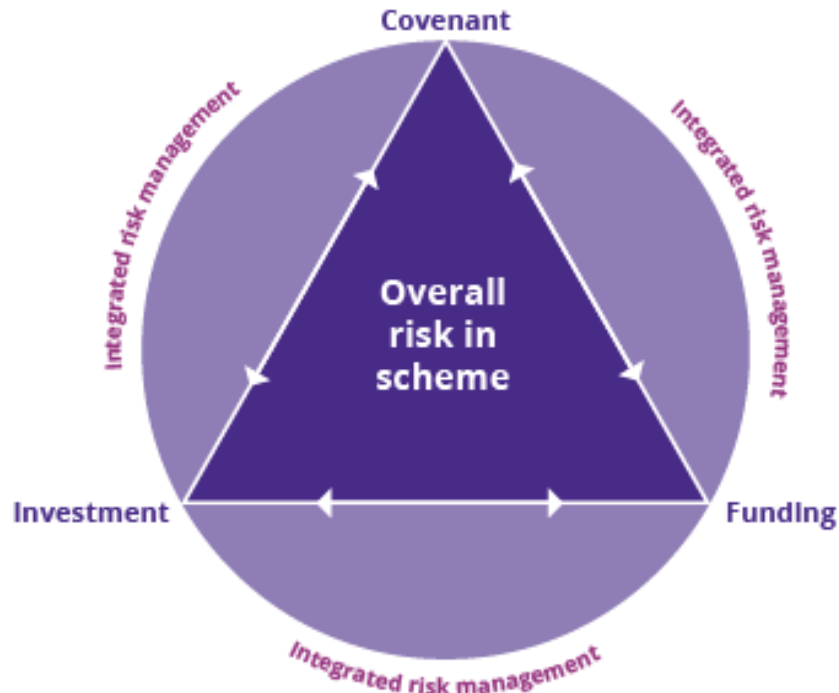
Money which is set aside for a specific purpose

# Integrated Risk Management (IRM)

- Low / Med-low / Med– high / High
- Asset rich versus cash rich
- Availability of contingent assets

- Economic scenarios that affect covenant and investment strategy
- Assess ability to underwrite investment risk

- Investment strategy
- Interest rate and inflation hedging
- De-risking strategies



- Assess ability to underwrite funding risk
- Affordability
- Funding targets

- Prudence in funding basis
- Investment return
- Mortality

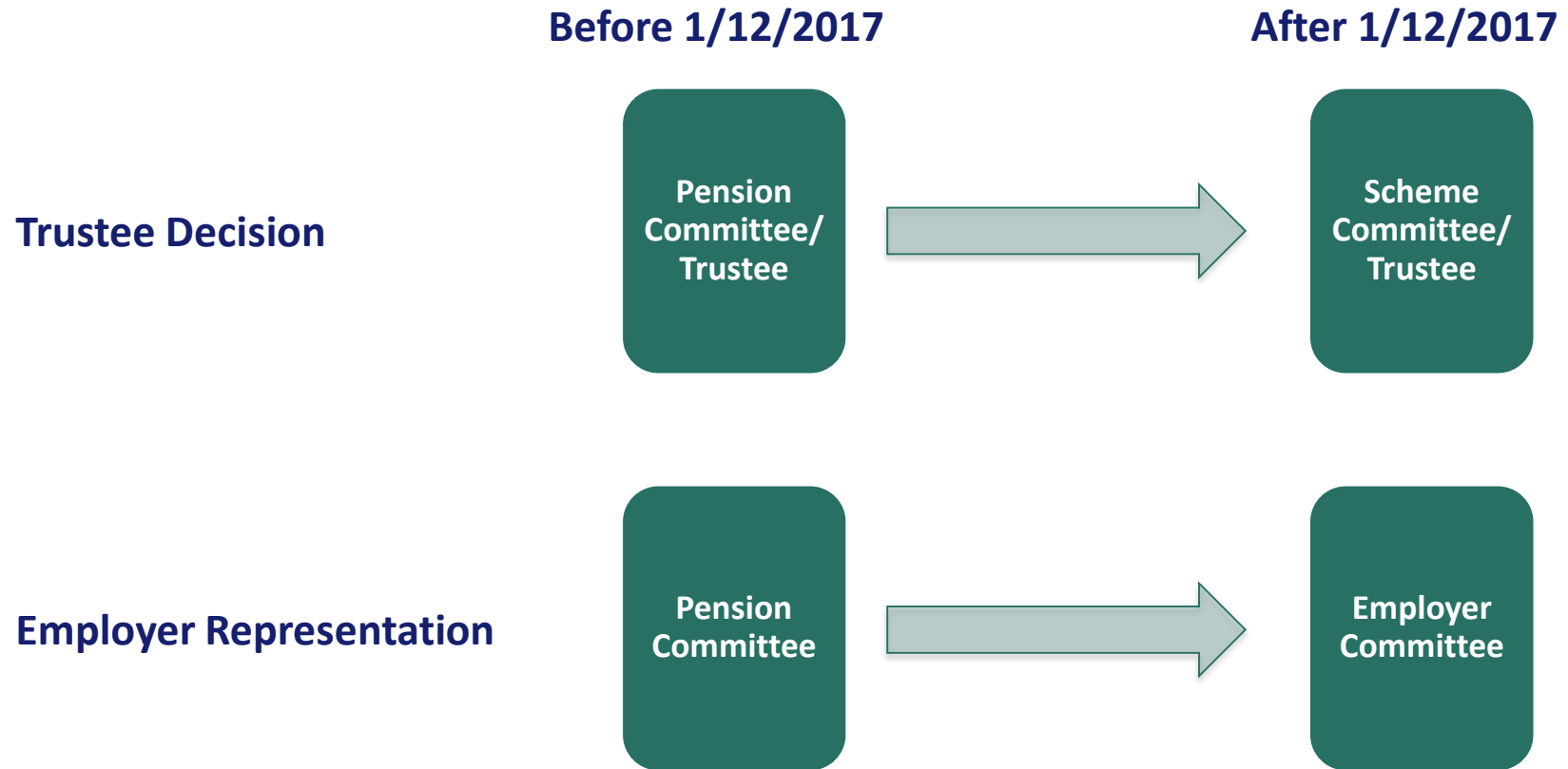
- Expected return on assets
- Funding basis reflects investment strategy



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# Governance

# SHPS Committee Changes



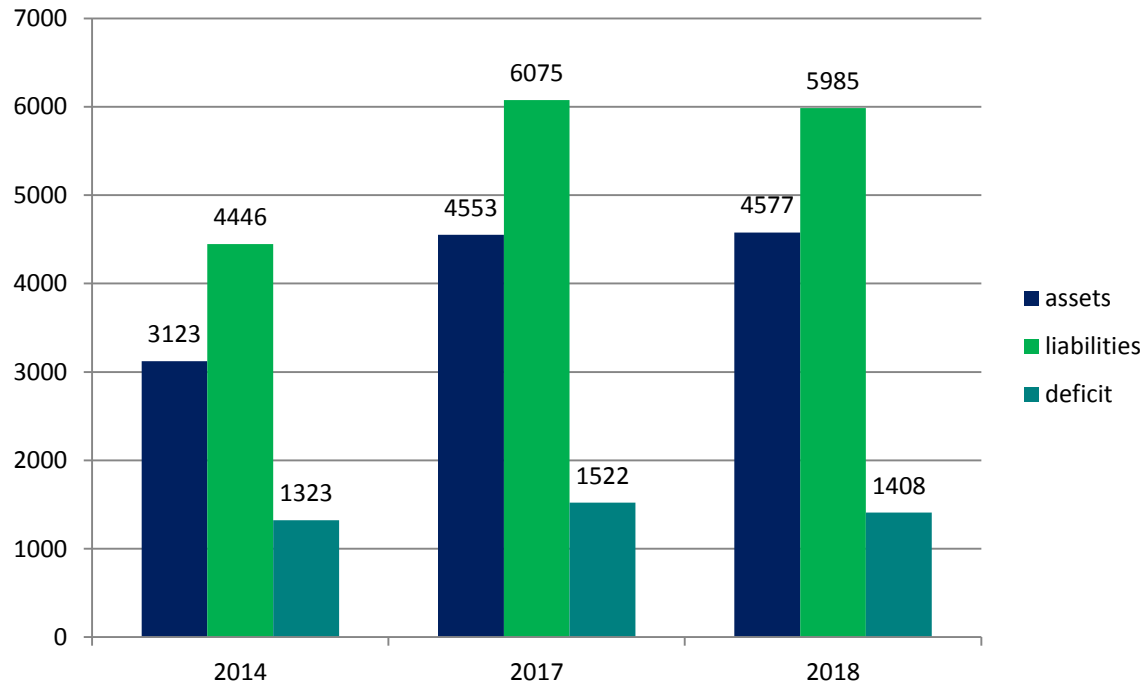


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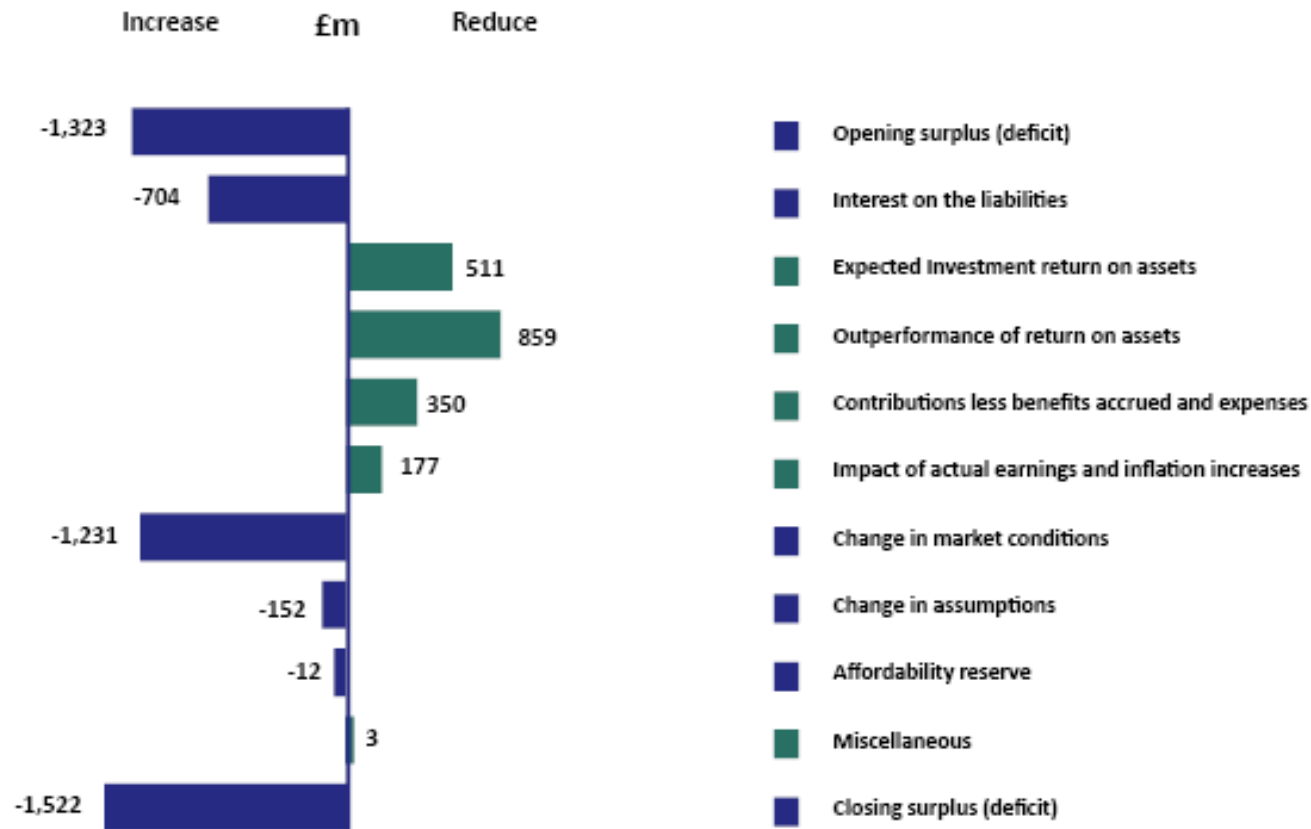
# Funding data



Updates at each 30  
September

# SHPS 2017 Valuation

Results as at 30 September 2017

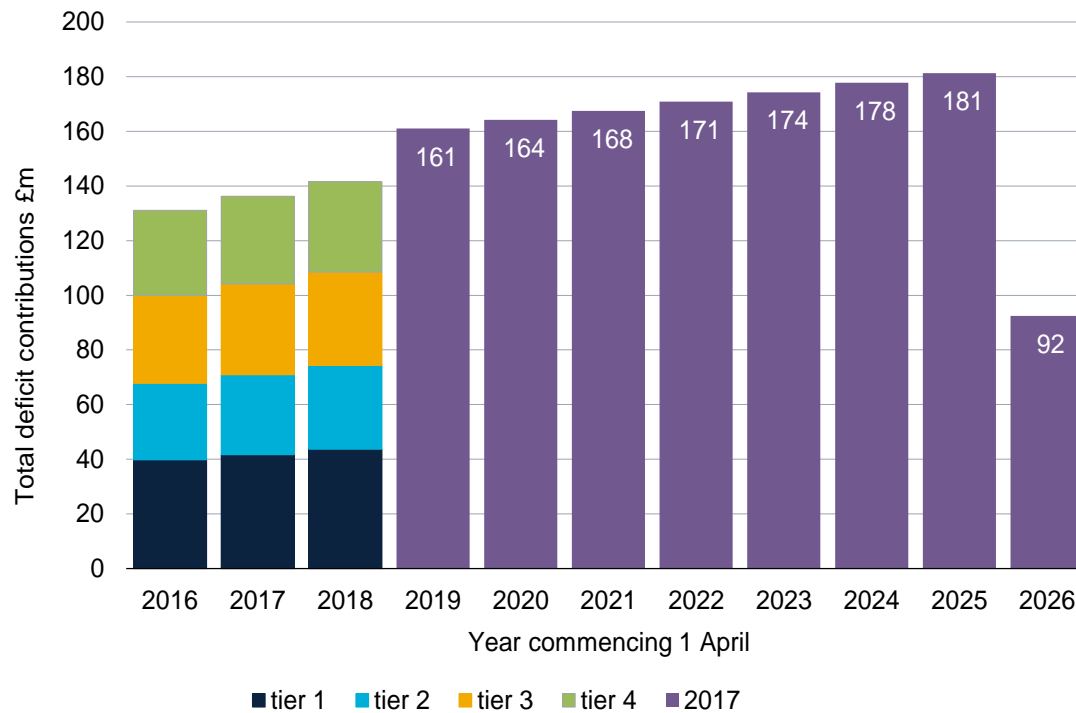


# SHPS 2017 Valuation



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## Recovery plan (with effect from 1 April 2019)



- Existing deficit payments (tiers 1-4) replaced by new recovery plan
- New recovery plan of £161m p.a. from 1.4.19 increasing at 2% each year
- Same recovery plan end date i.e. 30.9.26
- Now allocated amongst employers on a **share of liability** on technical provisions basis as at 30.9.17

- The current recovery plan from 1 April 2019 will increase from £147m p.a. to £161m p.a.

## Share of Liabilities - Impact

Impact	+ / -
Historic share of tier 1 and 2 liabilities	+ / -
Future accrual	+
Higher than average salary increases	+
Lower than average salary increases	-
No accrual	-
Deaths / Transfers	-

# Future service rates as at 30 September 2017

## Future service contribution rates

Valuation	2014	2017
<b>Final Salary Benefits</b>		
- 60 <sup>th</sup> accrual	20.6%	27.2%
- 70 <sup>th</sup> accrual	17.7%	23.4%
- 80 <sup>th</sup> accrual	15.5%	20.5%
<b>CARE Benefits</b>		
- 60 <sup>th</sup> accrual	16.7%	22.1%
- 80 <sup>th</sup> accrual	12.6%	16.7%
- 120 <sup>th</sup> accrual	8.6%	11.3%

- 2017 rates include an allowance for lump sum death-in-service benefits of 0.4%
- In addition, expenses to be recouped as lump sum amounts
- Closed scheme surcharge of 1.1% vs 2.5% in 2014
- New future service contribution rates payable from 1 July 2019

- Default position = no impact on members

# Expense charges as at 30 September 2017

## Expense allowance (£ per annum)

	2014	2017
Per employer charge	Fixed £1,800	Fixed £1,900
Per member charge	£70 per member	£75 per member

### Charges cover:

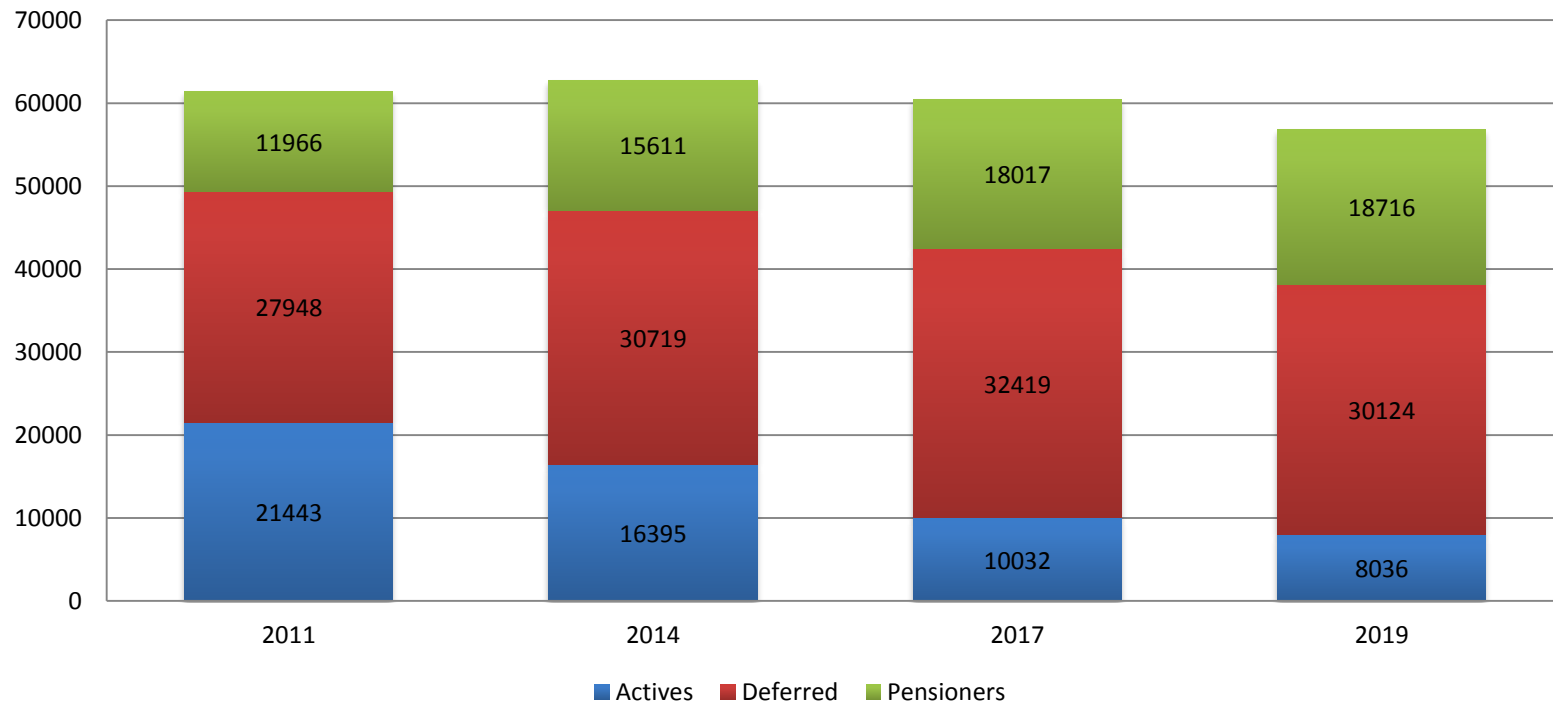
- management expenses
- administration expenses
- actuarial fees
- legal fees
- PPF levies

- Based on membership at 30 September 2017.
- Effective from 1 April 2019.
- Fixed for three years.

# Membership changes

- Membership (DB Section)

DB members

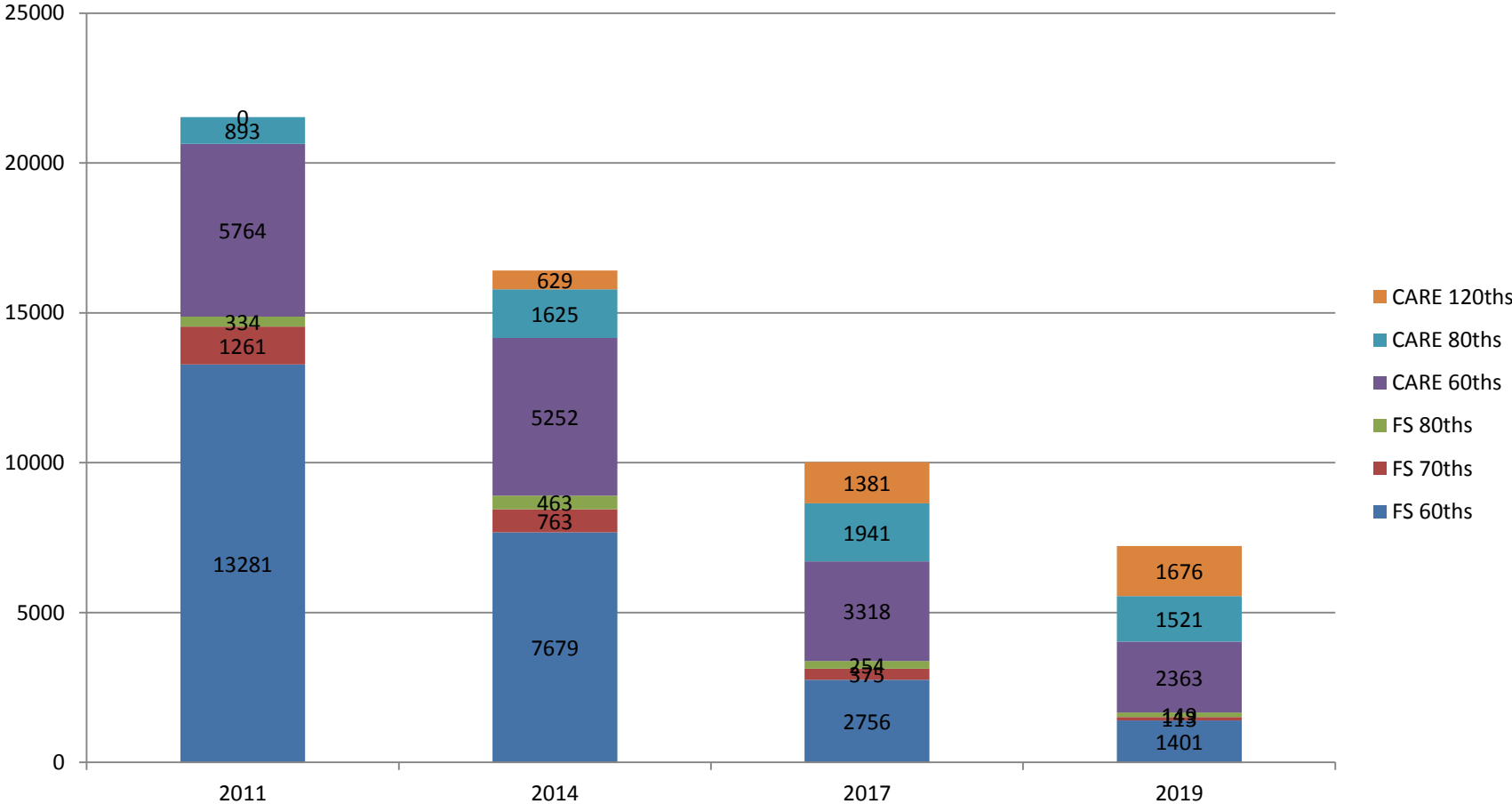


# Structure changes

## Active members by benefit category (DB Section)



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## SHPS DB accounting

- Feedback positive to date
  - Tool easy to use
  - Good value for money compared to other accounting needs
  - Support team responding quickly to queries
- Common queries
  - contributions 1 April 18 to 31 March 2019 included in notes
  - Transition from present value basis to DB accounting basis
  - Terminology and descriptions used in the notes
- Future
  - Issue a survey to collate feedback and suggestions for improvements