



# Social Housing Pension Scheme



Presented by Gary Bradley



# Agenda

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- Valuation timetable
- Funding update
- Investments
- Scheme profile
- FRS 102 accounting

# Valuation timetable

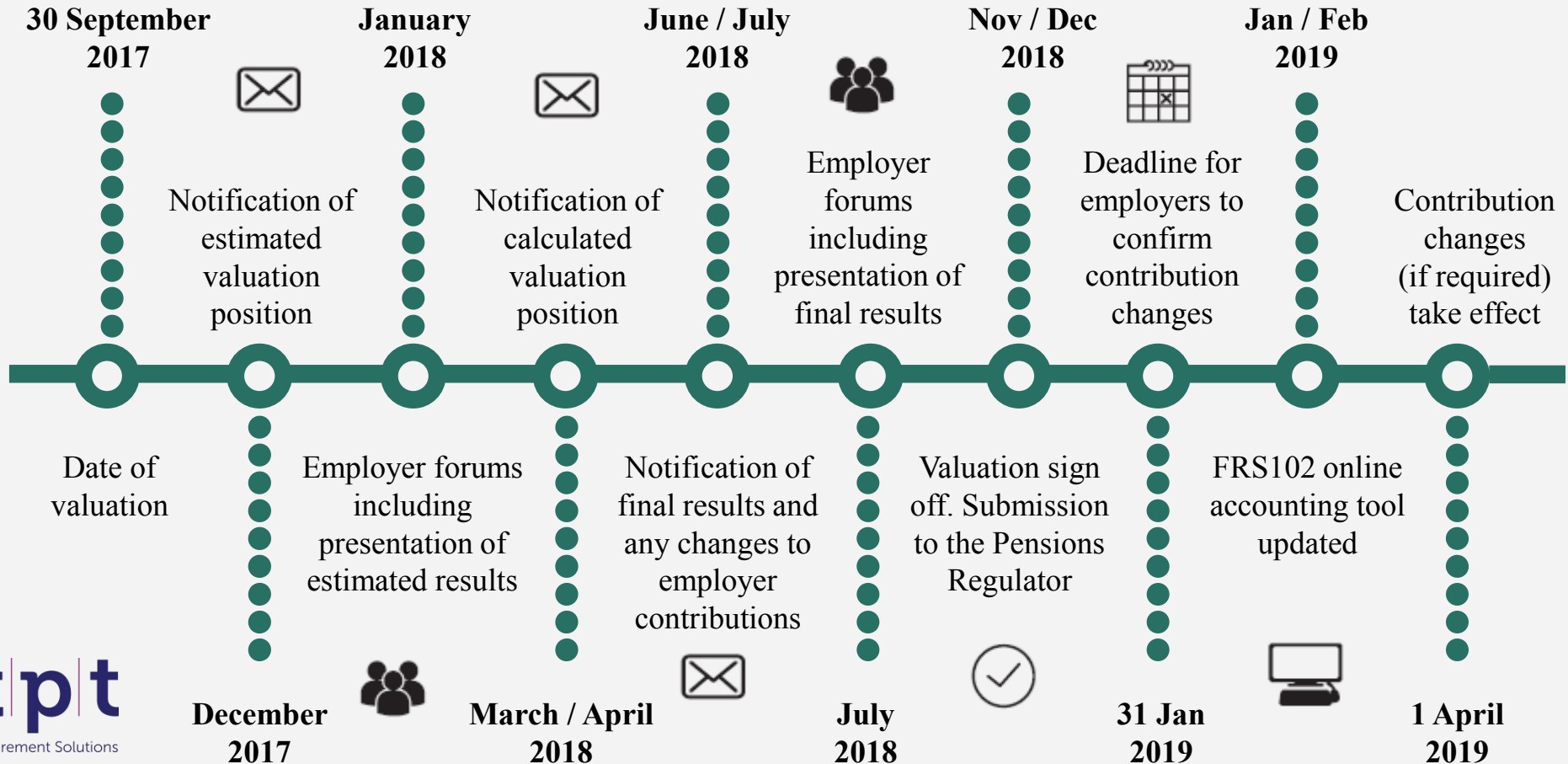
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# Social Housing Pension Scheme

## 2017 valuation timetable



The housing sector scheme of choice



# Funding update

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# Update on the funding position

	30 Sep 2011	30 Sep 2014	30 Sep 2016	31 Mar 2017*
<b>Assets</b>	£2.1bn	£3.1bn	£4.3bn	£4.6bn
<b>Liabilities</b>	£3.1bn	£4.4bn	£6.1bn	£6.1bn
<b>Deficit</b>	£1.0bn	£1.3bn	£1.8bn	£1.5bn
<b>Funding level</b>	67%	70%	71%	74%

\*estimated position

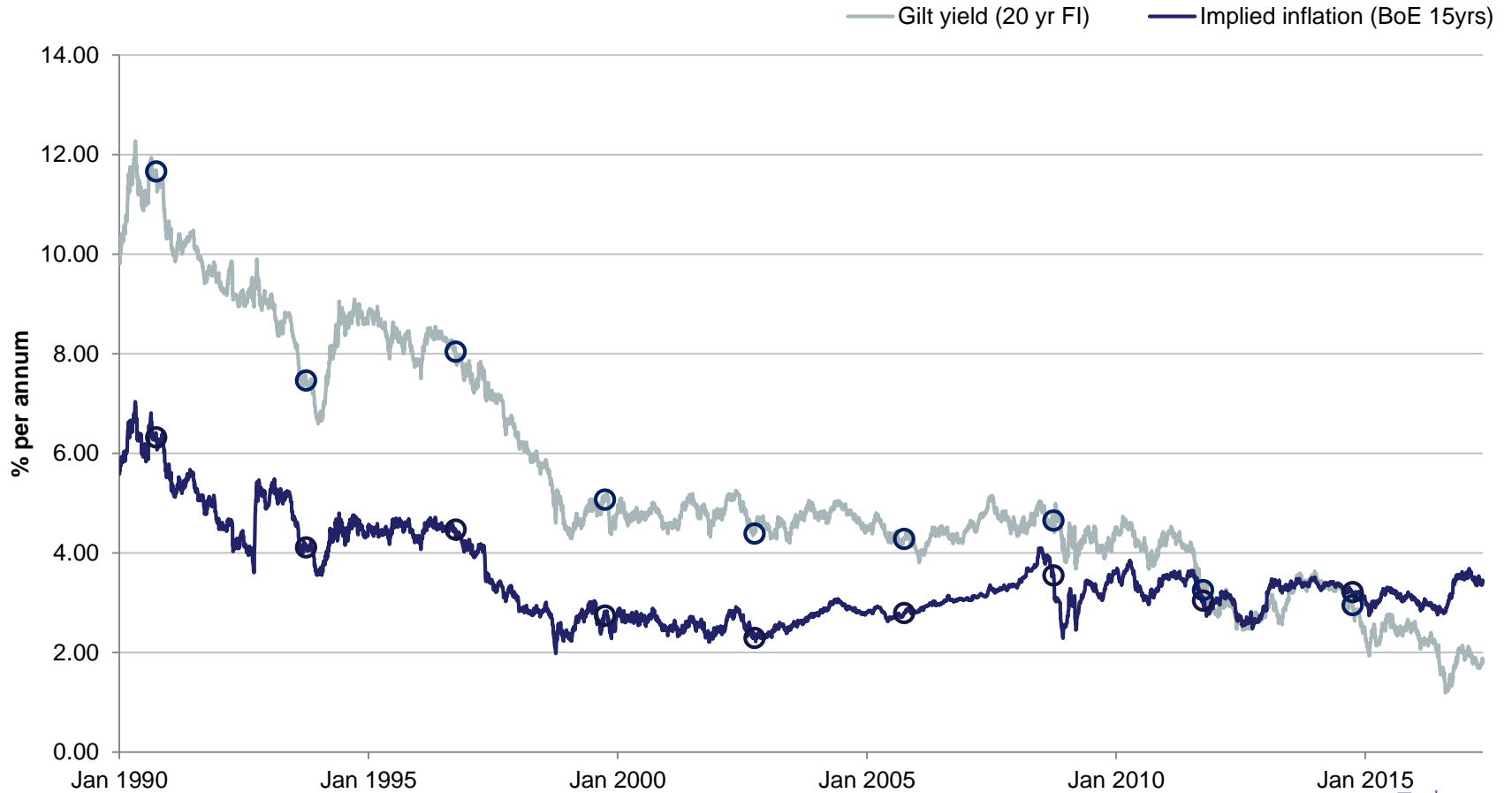
# Experience since 2014

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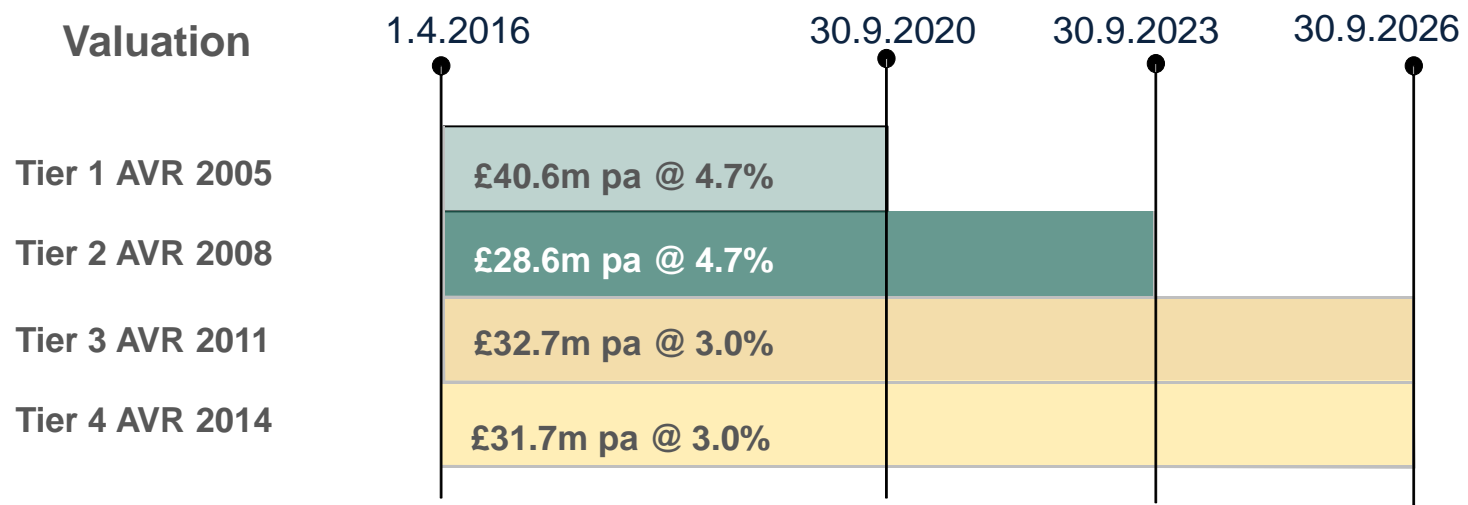
- Changes in gilt yields
- Investment performance
- Inflation experience
- Recovery plan contributions

# Key market indicators





# Re-cap of Recovery Plan from 1 April 2016



- Existing deficit payments remain for each employer
- Additional tranche (Tier 4) following completion of 2014 Valuation
- Tier 4
  - Same recovery plan end date as Tier 3 from 2011 Valuation
  - Increasing at 3% each year

# 2017 valuation?

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- Covenant assessment
- Methodology
- Assumptions
  - Discount rate
  - Inflation
  - Earnings growth
- Increased deficit payments?
- TPR input?

# Investments

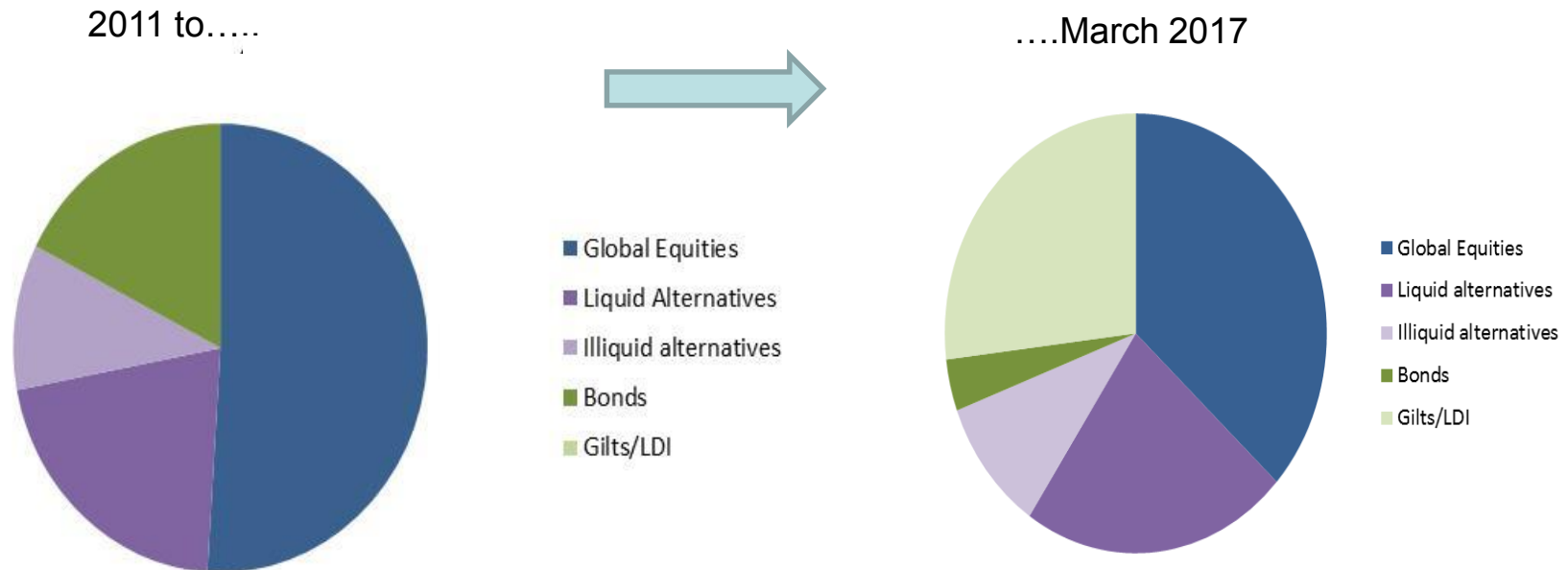
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# Investment strategy - theory

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- We expect, like most trustees, that growth assets (equities, property etc) will achieve a greater return than government bonds and a growth asset biased strategy will therefore be a lower cost option
- This, however, is by no means certain (indeed it has not always been the case over the last decade) and defensive assets (gilts, bonds and LDI) offer a lower volatility option
- Employer support is crucial. Strong employers willing and able to support the scheme if growth assets underperform are a requirement of adopting a high growth asset allocation

# Investment strategy - current

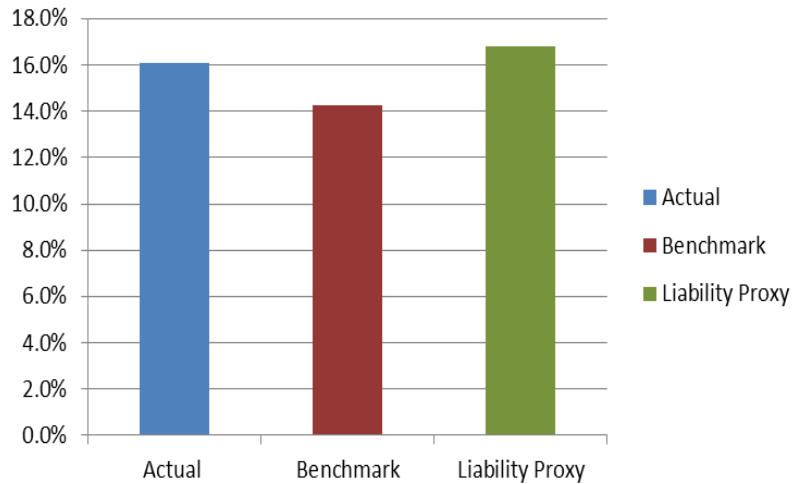


Current strategy is more *robust* :

- *Reduction in growth assets from 82.5% to 70%*
- *Growth assets are less exposed to one asset class (equities). Growth assets target a similar level of return but with less volatility*
- *Greater correlation between assets and liabilities by using Liability Driven Investments (LDI)*

# Investment performance

Annualised return 30.9.14 to 31.3.17

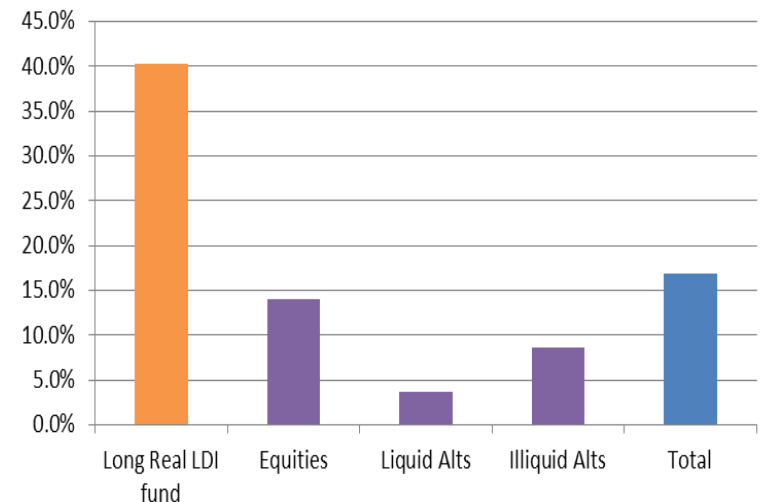


Strong investment performance  
(and ahead of benchmark) **but**  
liabilities also rising

\* Scheme return over year was  
16.1%

\* LDI assets led the way as gilt  
yields fell

Annualised returns by asset grouping 30.9.14 to 31.3.17



# Investment strategy - future

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- Growth asset bias likely to remain but we expect a modest reduction from the current level (70%) – faster and greater reductions if funding level improves
- We believe better returns (similar expected return but with less volatility) can be achieved by further diversification away from equities and into a wider range of alternative assets
- A more stable funding position can be provided by hedging more interest rate and inflation risk.

# Scheme profile

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# Members

Six DB structures plus one DC

Active members	DB (three final salary structures)	DB (three CARE structures)	Total DB	DC
<b>Sep 2011</b>	14,879	6,659	21,538	1,250
<b>Sep 2014</b>	8,905	7,506	16,411	46,133
<b>Sep 2016</b>	4,364	7,323	11,687	62,720
<b>Mar 2017</b>	3,764	6,883	10,647	66,237

# Benefit Review

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- As part of the 2014 valuation there were two benefit changes
  - ❖ Increase in NRA to 67
  - ❖ Change to revaluation and pension increases
- Committee undertook survey in April 2017
- Little appetite from employers for further changes
- No benefit changes as part of 2017 valuation cycle

# FRS 102 accounting

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# Pensions accounting - background

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- **SHPS and other multi-employer schemes at TPT:**
  - Not possible to identify a share of assets and liabilities at individual employer level
  - Employers have received an exemption from '*DB accounting*'
- **FRS17:** historically, employers could account for their SHPS membership by including ***contributions paid*** in the accounting period
- **FRS102:** the requirement changed, so employers need to account for their membership by including the ***present value of their agreed future deficit contributions***
  - TPT prepared an online modeller to support employers with this
- **Recent developments:**
  - The Housing SORP Working Party has undertaken a project to consider DB accounting for multi-employer schemes

# Pensions accounting - methods

## 'DC accounting' (PV of deficit contributions)

Discount rate for the payment stream updated every year

Changes to the position go through 'income and expenditure'

'Remeasured' every three years on completion of the valuation

The value in the balance sheet *is* linked to the funding agreement in place

## 'DB accounting' (assets and liabilities)

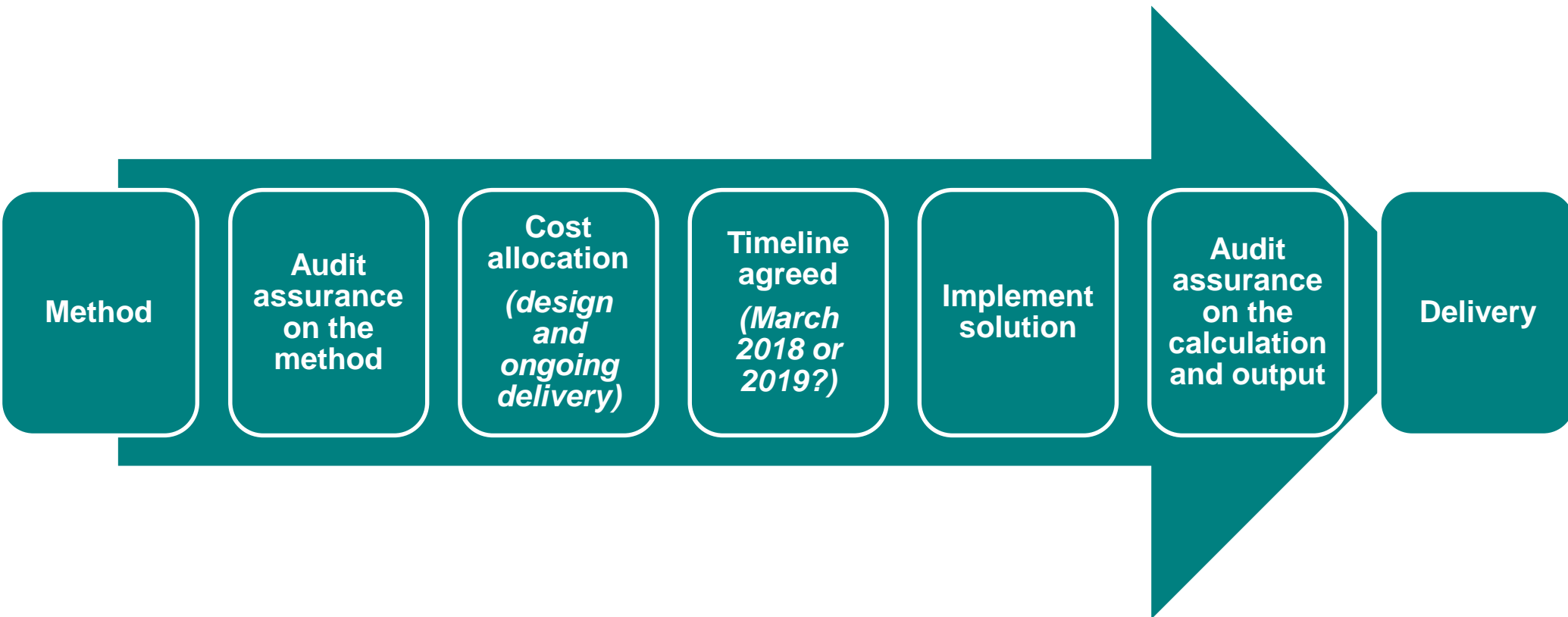
Liability assumptions updated every year (*mainly discount rate and future price inflation expectations*)

Changes to the position go through 'actuarial gains and losses'

Independent of the valuation cycle

The value in the balance sheet *is not* linked to the funding agreement in place

# Pensions accounting – next steps



# TPT additional Services

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- Member presentations
  - ❖ Group
  - ❖ One to one
- Attendance at Board meetings
  - ❖ Valuation presentations
  - ❖ Scheme changes

# Questions

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[Contact details](#)  
[gary.bradley@tpt.org.uk](mailto:gary.bradley@tpt.org.uk)

