Housing briefing, August 2024

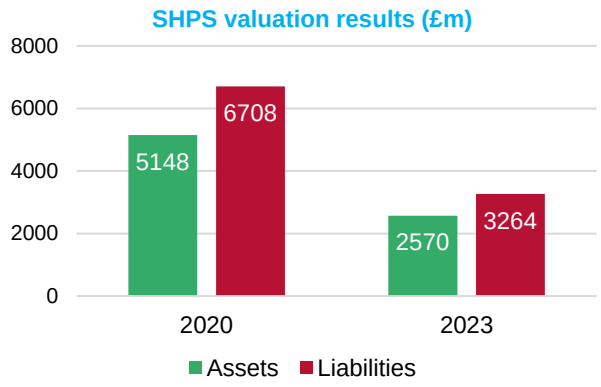
SHPS 2023 valuation results – Modest fall in deficit contributions

In this briefing we discuss the results of the 30 September 2023 SHPS actuarial valuation. The headline results are:

- The funding level has only **improved by 2%**, from 77% in 2020 to 79% in 2023
- The deficit has reduced from £1,560m in 2020 to **below £700m** in 2023
- Most employers will see a lower deficit contribution, with **an average reduction of 12%**
- Deficit contributions will still continue until **31 March 2028**
- Deficit contributions will increase at the lower rate of **2% pa each 1 April** (rather than 5.5% pa)
- Future service contribution rates have **fallen significantly by over half**
- The 1/120th CARE section will be **temporarily suspended** from 1 April 2025
- Employer **expenses will materially increase** from 1 April 2025.

Headline valuation results

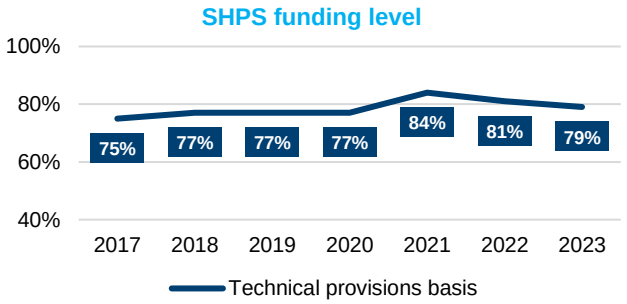
SHPS is roughly half the size it was at the last valuation.



This is mainly due to the significant increase in long-term interest rates over the period, reducing the value of both the assets and liabilities of SHPS.

Bulk transfers out of SHPS have also materially reduced the size of the scheme over the period. There have been 13 bulk transfers since 2020, taking the total value of liabilities transferred out to nearly £2bn since 2012.

While the headline deficit reduction will be welcome news for employers, it doesn't tell the full story. In a period where many Defined Benefit (DB) schemes have seen significant funding level improvements, the SHPS funding level (i.e. the percentage of assets covering the liabilities) has largely flatlined. This is despite the payment of significant deficit contributions over the past three years.



Deficit contributions

As SHPS funding is slightly ahead of target, a modest reduction in deficit recovery contributions has been announced. From 1 April 2025, the new aggregate deficit recovery plan contributions will be around £150m a year, a headline reduction of 12%.

The current deficit recovery plan end date of 31 March 2028 remains in place.

Individual employers' deficit contributions are based on their share of the total scheme liability. While most employers will see a reduction in their contributions, the impact will be different for each employer.

Employers should make sure budgets are updated for their new deficit contributions from 1 April 2025.

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Increases in employer expenses

Expenses will increase by nearly **60%** between 1 April 2024 and 1 April 2027.

	Employer charge (pa)	Per member charge (pa)
Current	£1,900	£79
From 1 April 2025	£1,900	£109
From 1 April 2026	£1,900	£120
From 1 April 2027	£1,900	£126
April 2028 onwards	*To be confirmed*	

Reduction in future service contributions

The increase in long-term interest rates has also significantly lowered the cost of future benefit accrual for both the Final Salary and Career Average Revalued Earnings (CARE) sections.

The current rates are set out in the table below, along with the revised costs from 1 April 2025.

Section	Current cost	Cost from 1 April 2025
Final salary 1/60th	41.2%	16.0%
Final salary 1/70th	35.4%	13.8%
Final salary 1/80th	31.1%	12.2%
CARE 1/60th	33.0%	14.5%
CARE 1/80th	24.9%	11.0%
CARE 1/120th	16.8%	n/a *(see below)*

The *closed scheme surcharge* has also increased slightly at this valuation.

Employers that continue to offer DB accrual to employees will see significant reductions from 1 April 2025.

The question of how to share this reduction between the employer and employees will require careful consideration.

Suspension of the 1/120th CARE section

Under auto-enrolment (AE), the cost of accrual in each DB section is assessed against a benchmark rate.

Due to the significant reduction in costs, the 1/120th CARE section no longer meets the minimum rate needed to satisfy AE requirements.

This means that from 1 April 2025, no further benefits will be built up in the 1/120th CARE section until at least 31 March 2028.

It's important to note that any benefits already built up in this section are not impacted by this change.

Employers that currently offer the 1/120th CARE section will need to decide what benefits to provide from 1 April 2025.

Timetable for consultation with employees

For employers open to future accrual, boards will need to understand the impact of the significant reduction in future service rates. If the CARE 1/120th section is currently used, they will also need to decide what benefits employees should build up in future.

We have set out a potential timetable below:

Action	Date
Board receives advice on pension strategy and agrees final proposal	Sep/Oct 2024
Staff consultation on changes to benefit section and/or contribution rates	Nov/Dec 2024
Agreement of final decisions following consultation	Jan 2025
Confirmation of changes to TPT	31 Jan 2025
Changes take effect	1 April 2025

What should employers do next?

Employers should:

- Make sure executive teams and boards are fully briefed on the valuation results and what they mean
- Review the costs, risks and options from SHPS participation
- Update budgets to allow for revised deficit contributions and expenses from 1 April 2025.
- Assess the implications of changes to future service rates
- Consult with employees over any changes.

Get in touch with our experts

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To discuss the contents of this briefing, or any area of pensions, contact any of our nationwide social housing team.

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