Housing briefing, January 2025
10 key pension challenges and opportunities in 2025

2025 promises to be a busy year for the sector's schemes. And with reforms, legislation and targets coming on stream, housing associations will face challenges old and new. In this briefing we identify 10 key challenges and opportunities for the sector's pension schemes.

1. Pension salary exchange (salary sacrifice)

Let's start with an opportunity to save money for employers and employees in all schemes except the LGPS.

From April 2025, the rate of employer National Insurance contributions (NIC) rises to 15% and the salary threshold for paying NICs goes down to £5,000 – a significant increase in employer costs.

With these extra employment costs to budget for, salary exchange makes great sense. It will reduce both employer and employee NICs, delivering savings for employers and making it cheaper for employees to save for retirement.

Any employer that hasn't already introduced salary exchange should seriously consider it in order to generate savings as soon as possible.

If salary exchange is in place but take-up is low, then an 'opt-out' policy will increase savings.

There's no time like the present to review your salary exchange policy and make sure you're saving as much as possible.

2. LGPS actuarial valuation 31 March 2025

Each regional LGPS will carry out its latest three-yearly actuarial valuation in 2025, with employer contribution changes effective from April 2026.

While we're optimistic about funding improvements, the impact on employer contributions will depend on the specific strategies of each regional fund and employer admission.

We strongly recommend engaging early with the LGPS to map out the valuation timetable, understand when consultation with employers will take place, and schedule reporting to boards.

Providing focused pension training for board members can be useful to prepare for the valuation and aid effective decision-making.

3. LGPS exit options

With gilt yields and interest rates significantly higher than three years ago, many LGPS employers have seen dramatic improvements in their exit positions since the last actuarial valuation.

While the LGPS is a treasured benefit for members and can be a valuable recruitment and retention tool for employers, it can also be costly. The latest actuarial valuation is a perfect trigger point to assess the legal and financial position on exit, alongside wider pension strategy.

4. LGPS consultation from MHCLG

Over the new year, the Ministry of Housing Communities and Local Government (MHCLG) held a consultation on changes to LGPS investments (further pooling and investing locally) and governance improvements.

The proposals are ambitious and may take a long time to implement, so any short-term impact is likely to be minimal. Note that proposals to increase local investment – including transparency around choosing projects and monitoring delivery success – will be of particular interest to the housing sector.

5. SHPS DB contribution changes in April 2025

SHPS employers will have been busy reviewing the impact on their pension strategy of the 2023 valuation, the (mainly) reduced deficit payments, the much lower cost of new Defined Benefit (DB) accrual, and the suspension of the 1/120th CARE section.

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With affected employers asked to confirm to SHPS their decisions on DB pensions by 31 January, the clock is ticking. Planning is needed to give enough time for meaningful staff communication and for boards to make robust decisions.

6. TPT 'benefit review' legal case

Past changes to TPT rules may not have been fully effective so there's some uncertainty around past SHPS benefits. The High Court will hear the case in February 2025 and make its judgement in the following months.

Some SHPS employers have taken legal advice to try to limit exposure, with others taking a 'wait and see' approach.

With an estimate of almost 4% of additional liabilities potentially applied across the scheme, the impact may be material and could lead to appeals on the judgement.

7. SHPS bulk transfers

We're now up to 30 bulk transfers from SHPS to single employer schemes. Some housing associations have carried out more than one transfer, due to mergers, for example.

While the business case for bulk transfers changes with shifts in funding positions and market conditions, further transfers are expected to take place.

While the first task for a management team and board is to understand the high-level reasons why a bulk transfer from SHPS could be beneficial, the second is to carry out a detailed feasibility analysis.

We continue to help boards make an appropriate decision by giving a balanced view on whether a bulk transfer is in their best interests.

For those employers that have already transferred, future valuations will take account of The Pensions Regulator's new DB funding code which focuses on long-term objectives.

8. SHPS DC 'black-out' period until May 2025

As it works to improve its DC proposition, TPT is planning a 'black-out' period until May 2025. This will impact SHPS DC members and employers.

During the black-out period, DC members will be unable to start drawing DC savings, transfer in or out, or make investment changes. There are also implications for employers' HR and payroll processes.

Employers must continue to comply with auto-enrolment duties such as processing new joiners and putting life assurance in place for new DC members.

Over the next few months, employers will have to be particularly careful when moving employees to SHPS DC or introducing pension salary exchange.

9. Pension cost accounting at year-end

Year-end is coming around again and disclosures for DB obligations will be needed under FRS 102.

At the time of writing, discount rates could be up to 1% pa higher than last year, reducing the value placed on liabilities. However, asset values will also have changed in line with schemes' investment strategy and performance.

The assumptions for accounting disclosures are owned by the employer. Independent actuarial scrutiny of the default assumptions put forward by each scheme is a key step to reassuring boards.

10. Collective Defined Contribution (CDC)

First Actuarial has set up a strategy group of senior leaders in the housing sector to increase awareness of CDC and discuss its merit. We're eagerly awaiting the DWP's response to its consultation on expanding regulations to include multi-employer CDC schemes.

Introducing legislation to allow multi-employer CDC schemes would be an exciting development. Within the social housing sector, this could result in a national scheme or regional schemes without the risks associated with DB.

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