

shps

Employer Information Guide



Defined Benefit and Defined Contribution

Social Housing Pension Scheme



Administered by
The Pensions Trust

Employer Information Guide



This document is aimed at organisations who are considering joining the Social Housing Pension Scheme (SHPS). It provides an introduction to the Scheme with an overview of the different benefit structures, the costs of membership, how the Scheme is administered and the role of the SHPS Pensions Committee.

About SHPS

SHPS (the Scheme) is a centralised pension arrangement with four different open Defined Benefit structures and, from 1 October 2010, a Defined Contribution benefit structure. The Scheme is specifically for staff of organisations involved in social housing. Employees are eligible to join the Scheme if they work for a participating employer, are aged between 16 and 64 (inclusive) and have completed any minimum period of service stipulated by their employer.

The Defined Benefit and Defined Contribution benefit structures provide different options for members, which are described in further detail later in this Guide. Some common features include:

- a pension at retirement;
- the option to take a lump sum at retirement, with a lower pension;
- life assurance cover; and
- continued membership in the same benefit structure when changing jobs between employers who participate in the Scheme, where both employers offer the same benefit structure.

Advantages of the Scheme

The key advantages of the Scheme are:

- all administration is managed by The Pensions Trust so your involvement in running the Scheme is minimal. Help and advice is always available from your day-to-day contact at the Trust;
- provision of a good pension scheme helps to aid recruitment and retention of staff;
- economies of scale of administration costs are achieved through the Scheme;
- an elected Pensions Committee deals with policy and funding for the Scheme;
- the Scheme is the recognised pension arrangement for the social housing sector;
- employers have the choice of one of four Defined Benefit structures; and a Defined Contribution benefit structure (from 1 October 2010); and
- employers have flexibility when setting employee and employer contribution rates.

Criteria for eligibility

Organisations who are, or are eligible to be, members of the following organisations:

- The National Housing Federation;
- Community Housing Cymru;
- The Scottish Federation of Housing Associations; or
- The Northern Ireland Federation of Housing Associations

are eligible to join the Scheme provided they hold sufficient units of housing stock. Other non-profit distributing organisations that are connected with the social housing sector may join the Scheme, subject to approval from the SHPS Pensions Committee.

Code of Practice

If you become a participating employer in the Scheme then you must comply with the 'House Policies and Rules Employer Guide' produced by the SHPS Pensions Committee. This document is available on the SHPS website at www.shps.org.uk > Document Library > Employer Literature. You may wish to read this before committing to join the Scheme.

Stakeholder

All UK employers with at least five employees have had to offer a stakeholder pension arrangement if they do not already offer all their employees the opportunity to join an occupational pension scheme or (within certain limits) a personal pension scheme. We therefore encourage all our participating employers to have no restrictions on eligibility for joining the Scheme.

2012 Pension Reforms – Auto-enrolment

Between October 2012 and February 2016, all employers in the UK will be required to auto-enrol their eligible employees into a suitable pension scheme and to make contributions on their behalf. Larger employers will be affected first. It is expected that all employers will receive a year's notice of their start date for auto-enrolment.

Many employers in the UK don't have a pension scheme. In October 2012, a new national pension scheme, currently known as the National Employment Savings Trust (NEST), will be available for employers who wish to use it. If you are thinking about joining SHPS you should also think about how you will meet the auto-enrolment requirements when they apply to your organisation. The Pensions Trust can provide further information if you need it.

Benefit structures and costs

The Scheme has four open Defined Benefit structures (and one Defined Benefit structure now closed to new employers). Each employer must choose which, if any, of the open benefit structures it wishes to offer to its employees. An employer is permitted to offer one open Defined Benefit structure and the Defined Contribution benefit structure.

The pension earned by each member will depend on which benefit structure(s) they have been a member of throughout their membership of SHPS.

Benefit Structure	What do members get?	What is the overall cost of future service benefits? (employer and employee)
Defined Benefit		
Final Salary 1/60ths	A pension payable for life of 1/60th of final pensionable earnings for each year and proportionately for complete months of membership.	17.8% of current pensionable earnings.
Final Salary 1/80ths	A pension payable for life of 1/80th of final pensionable earnings for each year and proportionately for complete months of membership.	13.5% of current pensionable earnings.
CARE 1/60ths	A pension payable for life of 1/60th of career averaged revalued earnings for the period of membership of this benefit structure.	14.9% of current pensionable earnings.
CARE 1/80ths	A pension payable for life of 1/80th of career averaged revalued earnings for the period of membership of this benefit structure.	11.9% of current pensionable earnings.
Defined Contribution		
(available from 1 October 2010)	<p>The contributions paid into the Scheme buy units in the members' selected investment funds. The value of each member's personal fund is calculated by multiplying the number of units held by the unit price.</p> <p>The benefits payable at retirement will depend on how much has been paid in, investment returns, expenses, the type of annuity selected (will it increase in payment, and/or continue to a surviving dependant after the member's death?) and what it costs to secure a pension (the annuity rates), at the time the annuity is bought.</p>	Regular contributions of at least 6.0% of current pensionable earnings.

National Insurance contributions

The Defined Benefit section of the Scheme is 'contracted-out' of the additional State Pension, and therefore both the employer and employee will pay reduced rate National Insurance contributions for scheme members, which will mean a lower net cost. The Scheme provides most or all of the additional State Pension that the member would otherwise be entitled to.

The Defined Contribution section of the Scheme is not 'contracted-out' of the additional State Pension. Both employer and employee will pay full rate National Insurance contributions, and members will continue to build up additional State Pension rights.

Costs - more information

The costs quoted apply to all employers from 1 April 2010, and are in respect of future service only. Arrangements for collection of past service deficit contributions from existing employers are outlined below.

Member contribution rates

The contribution percentage rates shown in the table are the combined totals, of which members may be requested to contribute part.

Member contribution rates are set by each employer. These can be at a fixed rate for all members or age banded. The age bands are:

- under 30 years of age;
- 30-39 years; and
- 40 years and over.

The member's rate will change on 1 April following the member reaching each age band. Further information regarding the calculation and operation of age related member contribution rates is available on request.

(The previous requirement for employers to pay at least 50% of the total contribution rate has been removed from 1 April 2010.)

Additional Voluntary Contributions

Members may pay Additional Voluntary Contributions (AVCs) in order to increase their pension in retirement. From October 2010 AVCs will be held in the Defined Contribution benefit structure of the Scheme. Further details will be provided on request. Alternatively, members may arrange to pay extra pension contributions to a provider of their choice outside of the Scheme (in which case responsibility for making payments rests with the member).

Past service deficit contributions (Defined Benefit structures)

The Scheme is required to have an actuarial valuation at least every three years. Following each valuation it may be necessary for additional contributions to be paid by each employer to fund past service benefits if the valuation reveals that insufficient money is held in the Fund to cover members' past benefits earned up to the date of the valuation.

New employers pay the future service rate until (usually) 18 months after the first valuation following their joining date. For example, if your organisation were to join SHPS from 1 May 2010, the next valuation would be due as at 30 September 2011 and your organisation would start to pay past service deficit contributions (if needed) from 1 April 2013.

As an indication, for employers required to pay past service deficit contributions, the current rate is 7.5% of pensionable earnings for active members as at 30 September 2008. This basis is subject to review at each valuation. Further information can be provided on request.

Other charges

Surcharge

If an employer operates a Defined Benefit structure but is not offering this to new employees, or they operate alternative pension arrangements alongside SHPS, a surcharge is payable to recognise that the average age of their SHPS members will increase more quickly than for an employer who is continuing to offer SHPS to all new employees. The surcharge is currently 3% of active Defined Benefit members' pensionable earnings. A discounted surcharge may be payable in certain circumstances – further details will be provided on request.

Trustee's insurance

In order to provide some protection against inadvertent regulatory failures for which the Trustee and the SHPS Pensions Committee are responsible, every participating employer is required to pay a small premium, which is currently approximately £20 every three years. You will be advised when payment is due.

Administration charges

Defined Benefit structures – charges are paid by deduction of an annual management charge from the funds under management to cover the cost of administration, investment management and life assurance.

Defined Contribution benefit structure – charges are payable by the employer and the member as follows:

By the employer:

- A one off set up cost of £1,000.
- An annual charge of £36 for each active and deferred member, subject to a minimum cost of £480 per annum.
- The cost of the life assurance cover equal to 0.2% of pensionable earnings. This will be deducted from the monthly ordinary employer contribution.

By the member:

- An investment management charge equal to 0.5% of the members personal fund will be deducted from the member's personal fund each year.

Scheme benefits - more information

When can members retire?

Normal Pension Age (NPA) is age 65, but members are able to retire from age 55, or after NPA if they wish although benefits must be taken before age 75. Employer consent is required for retirement before or after NPA.

What if a member retires early?

- **Voluntarily**

A member's pension can commence at any time from age 55. The pension payable on early retirement from the Defined Benefit structures will be reduced to reflect the potentially longer period of payment.

Members who joined the Scheme prior to 6 April 2006 retain the right to retire from age 50, but this will be subject to the member leaving the relevant employment if retirement is before age 55.

For Defined Contribution members, the pension payable will be provided by the purchase of an annuity policy with an insurance company. The amount payable will depend on the value of their personal fund and the annuity rates available at the time the annuity policy is purchased.

- **Ill-health - Defined Benefit structures**

The ill-health pension payable is the pension earned in the Scheme up to the date of retirement, plus half the prospective pension from that date to age 60. The pension earned to the date of retirement is calculated on the standard basis, dependent on which benefit structure applies, and the prospective pension to age 60 is calculated using the member's final earnings at date of retirement.

- **Ill-health - Defined Contribution benefit structure**

If a member of the Defined Contribution benefit structure is unable to continue working due to ill-health their personal fund can be used to buy an annuity before NPA. Some medical conditions or lifestyle choices qualify for an 'impaired life annuity' which is likely to provide a higher pension than a standard product. No credit is given for prospective service in the Defined Contribution benefit structure.

- **Flexible retirement**

Members can ask for their pension, or a proportion of it, to be paid whilst continuing to work. This is subject to them reaching at least the minimum age required for payment of benefits, and satisfying any conditions that may apply.

What if a member retires late?

Members who have been retained in employment past age 65 are entitled to continue contributing to the Scheme. Employer contributions must also continue and death benefits will be provided on the same basis as they were before age 65. Contributions must stop, and benefits come into payment, at age 75 (even if the member continues to work).

Pension increases

For Defined Benefit structures, pensions in payment are subject to annual increases in line with increases in the Consumer Prices Index (CPI) up to a maximum of 5% each year.

For Defined Contribution members, pension increases will be determined by the type of annuity that the member buys at retirement. If an increasing annuity is chosen, the initial payments will be lower than if a 'level' (non increasing) annuity is selected.

What if a member dies before retirement whilst still an active member of the Scheme?

- **All benefit structures**

A lump sum of three times the rate of annual salary at the date of death is payable to the member's nominee(s), at the discretion of the Trustee.

- **Defined Benefit structures**

A refund of the member's own contributions with interest is payable to the member's nominee(s).

A survivor's pension of 50% of the member's prospective pension calculated up to age 65 is available.

Up to four dependent children can each receive a pension of 12.5% of the member's prospective pension calculated up to age 65. The children's pensions will be doubled if a survivor's pension is not paid.

- **Defined Contribution benefit structure**

A return of the member's personal fund is paid as a lump sum to the member's nominated beneficiaries.

No death-in-service dependant's or children's pensions will be provided from the Scheme in respect of Defined Contribution members. Employers may wish to set up separate arrangements for this.

What will be payable on a member's death after retirement?

- **Defined Benefit structures**

If the member dies within five years of retiring, and before age 75, the Scheme will pay a lump sum to the member's nominee(s) equal to the unpaid balance of five years' pension payments at the rate of the pension payable at the date of death. If the member dies after age 75 then a lump sum cannot be paid; the member's pension would continue to be paid to the survivor for the remaining balance of the five-year term.

A survivor's pension of 50% of the member's pension would be paid provided the member did not give up this benefit to enhance their own pension at retirement. If a member did exercise this option, the minimum spouse's benefit would still be payable broadly equivalent to the contracted-out element of the pension. The survivor's and children's pensions are calculated based on the pension the member would have been receiving if he/she had not taken a cash sum at retirement. Up to four dependent children will each receive a pension of 12.5% of the member's pension. Children's pensions will be doubled if a survivor's pension is not paid.

- **Defined Contribution benefit structure**

Benefits payable on death after retirement will depend on the benefits bought at retirement and will be payable by the member's annuity provider.

What happens if a member leaves the Scheme?

Defined Benefit structures

Members can:

- take a refund of their own contributions, less tax, and an amount to buy them back into the additional State Pension, if they leave the Scheme with less than two years' qualifying service; or
- leave their benefits in the Scheme and take a deferred pension which will become payable at retirement (deferred pensions are increased each year before retirement); or
- transfer the value of the benefits to another pension arrangement.

Defined Contribution benefit structure

- Members with less than three months' qualifying service will receive a refund of the value of their own contributions, less tax.
- Members with at least three months,' but less than two years,' qualifying service have the option of a refund of the value of their own contributions, less tax, or a transfer value of the value of all contributions, employer and member, to another pension arrangement.
- For members with two years or more pensionable service, the fund will remain invested in the Scheme in their selected investment funds until an annuity is purchased at retirement or the fund is transferred to another pension arrangement.

Where a member chooses to receive a refund of the value of their own contributions, the employer contributions will remain in the Scheme to meet the ongoing costs of funding and administering the Scheme.

Transferring between participating employers

Members will normally leave the Scheme because they change employers. If the member's new employer participates in the Scheme, the member could have unbroken membership if they rejoin the Scheme with their new employer within 30 days, but will only be able to join benefit structures open at their new employer.

What will be payable on a member's death in deferment?

- **Defined Benefit structures**

A lump sum equal to the member's contributions with interest is payable to the member's nominee(s).

A survivor's pension of 50% of the member's deferred pension at the date of death.

Up to four dependent children will each receive a pension of 12.5% of the member's pension. Children's pensions will be doubled if a survivor's pension is not paid.

- **Defined Contribution benefit structure**

A lump sum of the value of the member's personal fund is payable to the member's nominated beneficiaries.

What if a member is temporarily absent from work?

Members who are absent from work on reduced pay or without pay may remain members of the Scheme for up to three years.

If the member's pay ceases, their contributions will stop. The member can choose to pay arrears on returning to work; however, the employer is not obliged to pay its share. If a Defined Benefit member elects not to make up the contribution arrears, their benefits will be adjusted to reflect the break in membership.

If absence is due to illness or injury, membership of the Scheme may be retained for the whole period of absence. The employer must agree the level of benefits to be provided for the member and pay the balance of the cost of this provision.

Administration of the Scheme

All aspects of the administration will be managed by The Pensions Trust. This ranges from enrolling new members to producing annual benefit statements and paying pensions to Defined Benefit members. On joining, all new employers will receive a copy of the 'Employer Administration Guide'.

The Pensions Trust will inform employers and members of any new legislation or other requirements relevant to them.

Payment of contributions

Each month, employers must provide The Pensions Trust with a list of pensionable earnings and contributions applicable to each individual member, together with details of any new joiners and leavers.

Payment of contributions must be received by the 14th of the month after the month in which the contributions were deducted from members' pay. The absolute legal deadline under the Pensions Act 1995 is no later than the 19th of the month.

Contributions to the Defined Contribution benefit structure can only be invested once they are received and validated against the data the employer must provide each month. These should be paid as soon as possible after they are deducted from members' pay.

Please ensure that you are able to pay contributions on time as it is not possible to join SHPS if you can't. The Pensions Trust is legally obliged to report late payments to members and The Pensions Regulator, and advises that (in the past) employers have been fined as a result.

eBusiness

The Pensions Trust's eBusiness system provides a secure method for submitting earnings and contributions data, actioning internal transfers and providing notification of leavers. It will also be used to collect any charges which apply and, later in your membership, any past service deficit contributions. Any payments due to SHPS will be validated and paid in one transaction each month.

The system automatically encrypts the information, making it a secure method of data transmission. Access is restricted by password authentication.

All new employers joining SHPS will be enrolled onto eBusiness from the outset.

Further information can be found online at www.shps.org.uk under the 'eBusiness' section.

SHPS Pensions Committee

The Scheme is managed by the SHPS Pensions Committee. This Committee consists of nine members: three are nominated and elected by the employers; three are nominated and elected by the active and deferred members; one is nominated and elected by the Scheme's pensioners; one representative is nominated by the National Housing Federation; one by Community Housing Cymru; and up to two co-opted members.

The responsibilities of the SHPS Pensions Committee are:

- to monitor The Pensions Trust's administration of the Scheme;
- to ensure the benefits provided by the Scheme are adequate and comply with legislation;
- to ensure the Scheme is financially secure;
- to ensure the investment performance of The Pensions Trust is satisfactory;
- to agree any benefit augmentations by participating employers in the Scheme;
- to receive the accounts of the Scheme;
- to agree the actuarial valuation, including the Statement of Funding Principles, Schedule of Contributions and if required, the Recovery Plan; and
- to agree the Scheme's investment strategy with the Trustee.

Joining the Scheme

To participate in the Scheme, you should contact the New Business Team at The Pensions Trust on 0845 123 6660 or email contact@thepensionstrust.org.uk for further information. You then need to complete an 'Employer Application Form' that can be found on the SHPS website at www.shps.org.uk > Document Library > Employer Literature.

If you are joining a Defined Benefit structure, you are required to notify your staff that you intend to provide a scheme that is contracted-out of the additional State Pension. The New Business Team will provide you with a notice which you must display or issue to employees stating your intention to contract-out.

Existing pension arrangements

Even if you have an existing pension scheme, it should still be possible for your organisation to switch to SHPS. The New Business Team at The Pensions Trust will be happy to advise you on the options available, and to assist wherever possible.

Promoting the Scheme

When your organisation joins SHPS, a representative of The Pensions Trust will, where possible, make a presentation to staff and explain the Scheme. A full range of literature describing the Scheme is available for employees. The Pensions Trust will also be happy to visit from time-to-time, wherever possible, to do a formal presentation, and to offer assistance to employees.

Glossary of Terms

Some of the terms used in this Guide are explained below:

Active members

are current employees who are members participating in the Scheme and for whom contributions are being paid into the Scheme.

Additional Voluntary Contributions (AVCs)

are made by members, over and above their main scheme contributions, to secure additional benefits at retirement. These are often held outside of the main scheme and are usually secured on a Money Purchase/Defined Contribution basis.

Assets

these are the investments held by the Scheme used to fund the liabilities. These include equities, bonds, property and cash.

Defined Benefit (DB)

also referred to as Final Salary or CARE. A benefit calculated with reference to a predetermined formula, e.g. 1/60th of final salary or career averaged revalued earnings for each year of membership.

Defined Contribution (DC)

also referred to as Money Purchase. Benefits are based on the amount of money available at retirement to use to purchase an annuity policy from an annuity provider (usually an insurance company). The amount of benefit that can be purchased will depend on the amount available, annuity rates available at the time of retirement and the type of annuity selected. Benefits cannot be calculated in advance with any level of accuracy.

Dependent child

is a child aged under 18, or under 22 if in full-time education; or a disabled child of any age who is unable to work as a result of his/her disability.

Final pensionable earnings

is the average of pensionable earnings over the three years before leaving or retirement increased by the rise in the Retail Prices Index (RPI) in the year ending six months before the date of leaving or retirement.

Liabilities

these are the value of the pensions already earned by members of the Scheme at a given date. These include pensions in payment, deferred pensions in respect of members who have ceased to be active members and benefits accrued by active members up to the given date.

Participating employer

an employer who has employees who are members of SHPS. The employer must have active members to be a participating employer, otherwise the employer will be deemed to have withdrawn from the Scheme.

Past service deficit

the deficit which exists at the date of valuation, being the shortfall between the market value of the assets at that date and the assessed value of the liabilities earned up to that date. A separate past service deficit contribution is payable to fund the shortfall identified at the 30 September 2008 valuation. New employers joining SHPS between valuations up until 1 April 2010 do not contribute towards the deficit until two valuations after their date of joining. New employers joining the Scheme after 1 April 2010 will be liable for past service deficit contributions from the valuation following joining. In practice contributions agreed as part of the valuation process become payable from the 1 April eighteen months after the effective date of the valuation. For example changes as a result of the 30 September 2008 valuation are effective from 1 April 2010.

Past service deficit contribution

these are the additional contributions payable to eliminate the deficit over a period of time as agreed with The Pensions Regulator and the Scheme Actuary.

Pensionable earnings

is normal gross pay including London Weighting (where applicable), shift pay, contractual bonuses, overtime, allowances and such other emoluments as agreed with the SHPS Pensions Committee, but excluding non-contractual overtime or other such emoluments agreed with the employer.

Survivor

is the member's husband, wife, civil partner, partner or cohabitee with whom living expenses are shared or any individual who is financially dependent or interdependent on the member at the date of the member's death. The pension on death will be reduced if the survivor is more than ten years younger than the member. Eligibility must be confirmed before payment is made.

The Scheme

the Social Housing Pension Scheme (SHPS).

Further Information

For more information about the Scheme or to enrol, please contact the New Business Team on Tel: 0845 123 6660, or write to:

New Business Team
The Pensions Trust
Verity House
6 Canal Wharf
Leeds
LS11 5BQ

Email: contact@thepensionstrust.org.uk
Fax: 0113 234 5599

This booklet is intended to provide an explanation of the main benefits under SHPS. If there is any conflict between the interpretation given in this Guide and the formal Trust Deed and Rules, or the Scheme Document, the legal interpretation of the formal documents will prevail. Copies of the Trust Deed and Rules and Scheme Document are available from The Pensions Trust.

The Pensions Trust is not registered under the Financial Services and Markets Act to give financial advice. Any information that is provided to members or prospective members should, therefore, be taken to constitute information and not taken to constitute advice. When providing information to members or prospective members, the Trust takes care to provide an accurate service but the decision and choice remains the individual's for which The Pensions Trust cannot be responsible.



Notes

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Administered by
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