



SHPS Employer Forums 2011

Welcome



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The Pensions Trust

Social Housing Pension Scheme (SHPS)

- Established in 1977
- Leading social housing sector pension provider:
 - Over 550 contributing employers
 - Over 61,000 members & pensioners
- SHPS Pensions Committee (the Committee):
 - Overall responsibility for SHPS
 - Delegated powers from the Trustee – Verity Trustees Ltd
 - Accountable to:
 - National Housing Federation / Community Housing Cymru
 - The Trustee – Verity Trustees Ltd
 - Employers
 - Members

Background

- Financial pressures:
 - Investment markets
 - Household budgets reducing:
 - Increasing inflation on every day goods
 - Low pay growth
- Sector issues:
 - Grant funding
 - Benefit reforms
 - Housing market
 - Regulatory changes
- Public perception of pensions:
 - We're living longer but don't want to pay for it!

Key risks for SHPS

- Funding risks:
 - Contribution rates
 - Recovery plans
- Investment risk
- Employer covenant risk
- Employer chosen benefits risk

Agenda

- **Session 1** – Scheme Funding
- **Session 2** – Investment Themes
- Break
- **Session 3** – Employer Financial Assessment
- **Session 4** – Benefit Consultation
- **Session 5** – SHPS DC and Auto-enrolment
- Open Forum
- Close and Networking

Scheme Funding By Steve Robinson



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SHPS Employer Forums

SHPS 2011 valuation
Autumn 2011

JLT UK EMPLOYEE BENEFITS

Distinctive. Choice.



2011 valuation



- Last formal valuation 30 September 2008
- New valuation 30 September 2011
- Work now starting
 - Considering assumptions
 - Looking at employer covenant
 - Providing updated member data to the actuary
 - Processing calculations

- Assumptions and prudence
 - Impact on liabilities
 - Developments in the future
 - Member interests
 - Security of accrued benefits – paramount consideration
 - Cost of future service benefits – lower priority
 - Covenant assessment
 - The employer position
 - The Pensions Regulator

Reminder of 2008 valuation result



- Assets £m 1527
 - Liabilities £m 2190
 - **Deficit £m 663**
-
- Deficit contributions 7.5% payroll (@ Sept 08), escalating at 4.7% per annum
 - Deficit recovery period - 15 years from valuation date

Reminder of 2008 valuation result



- Future service rate – final salary 17.8% for 60ths, 15.4% 70ths, 13.5% 80ths
- Future service rate – CARE 14.9% for 60ths, 11.9% for 80ths
- DC option
- Closed scheme surcharge [3%]
- Rebate for DB employers offering DC membership

SHPS deficit position

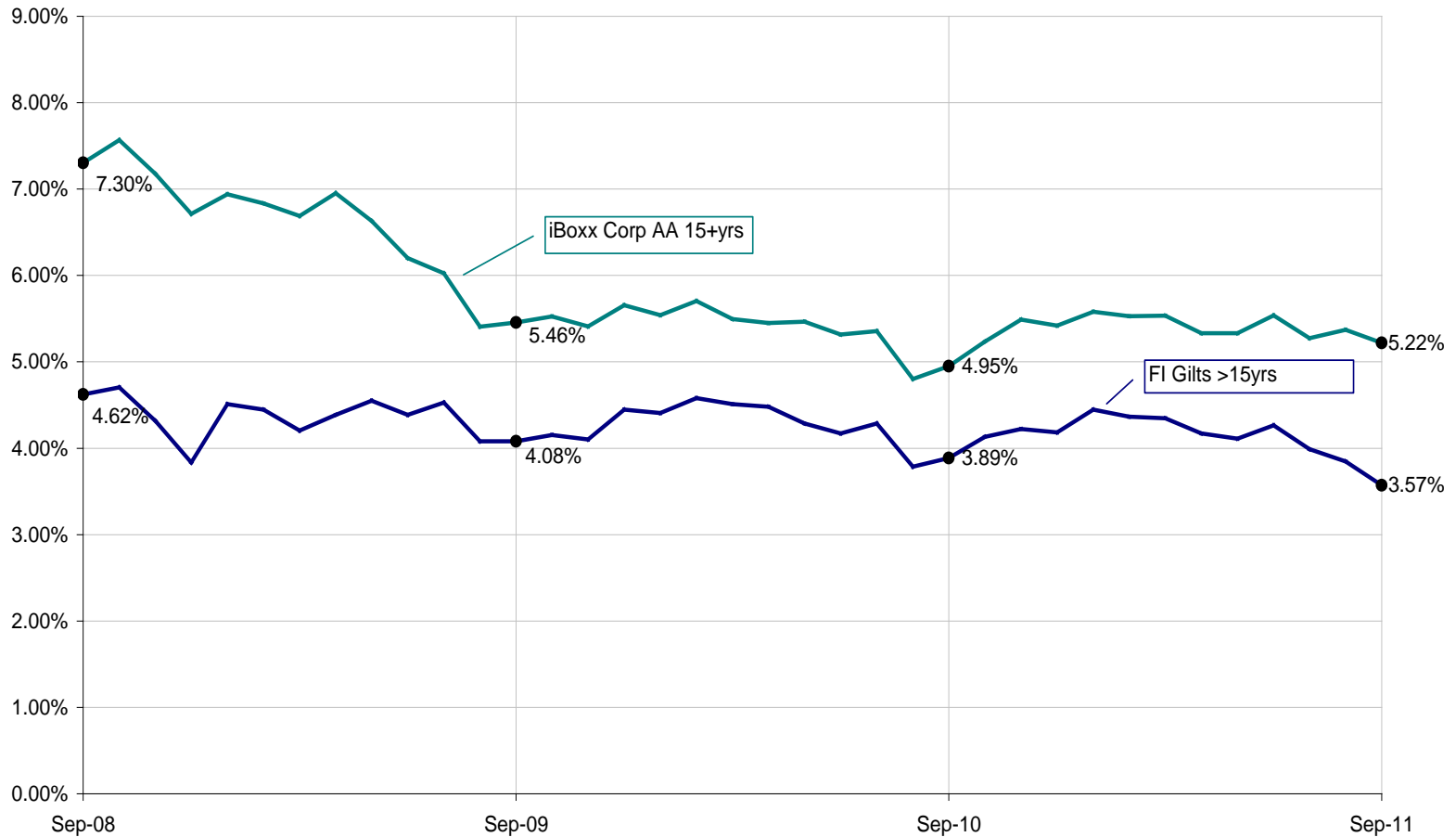


30/9/2008	£663m
30/9/2009 (approximate update)	£738m
30/9/2010 (approximate update)	£636m before CPI change to pension increases £497m after allowing for CPI change

What's happened since 2008? - Market interest rates

Yields

(last updated 29 September 2011)



What's happened since 2008?

Equity markets (UK 6.5% p.a. return since last valuation)



FTSE All Share Total Return Index
(last updated as at 29 September 2011)



Key indices



Data	30/09/2008	30/09/2010	30/09/2011
Long dated Gilt yield	4.6%	3.9%	3.5%
Market implied inflation long term inflation	3.70%	3.35%	3.28%
RPI/CPI (August 2011)	5.0% / 5.2%	4.6% / 3.1%	5.2% / 4.5%
'AA' Bond yield	7.3%	5.0%	5.1%

Not fixed yet:

- For consideration by the committee as part of the process
- Deficit and future service rates - not known until this process is completed

Some initial comments:

- Long term RPI inflation – slight reduction compared to 2008
- CPI inflation – relevant for pension increases – a lower rate of increases than 2008
- Salary inflation (including promotional increases and job switches with promotion) – RPI+1.5% used in 2008
 - Interested in employer feedback
 - Will look at recent experience as part of the valuation
 - Current state of play?
 - Longer term?

- Mortality rates – recent study carried out – can recognise higher mortality rates than 2008
- Withdrawal rates from active membership – recent study carried out – allow for higher withdrawals than 2008
- Ill health retirement rates from active membership – recent study carried out – allow for lower incidence than 2008
- Investment returns – arguably most material assumptions
 - Lower interest rates
 - Lower rates on growth assets than 2008
 - Will need to use lower investment return assumptions for the 2011 valuation

Investment strategy



2008 valuation assumed:

- Pensioners matched by Gilts and Bonds
- Non pensioners - Growth type assets until 5 years after retirement, then Gilt/Bonds

Trustee ambition is to gradually de-risk the scheme, to reduce volatility

Illustrative de-risking pathway below (one of several being discussed so purely illustrative)

Funding level	80%	85%	90%	100%
Growth assets	75%	70%	65%	60%
Liability focussed assets	25%	30%	35%	40%

Strategy potentially impacts on valuation assumptions

- In terms of how long to allow for growth asset returns
 - Will be considered by the Committee – could have a major impact on assumption set

Wide range of benefit accrual rates currently offered – total cost ranging from 17.8% to 11.9%, plus DC option

Committee will consider the case for modifications as part of the 2011 process

- other accrual rates, indexation options etc
- re-assess closed employer loadings
- review DC rebate

Future service rates

- Revisit taking account of age and sex profile of membership
- Impact of new lower return investment assumptions likely to lead to some increase in future service rates

2011 Deficit and Recovery plan



Deficits to be cleared as soon as possible – affordability test

2008 approach:

- Recovery plan – 15 years from valuation date
- £663m deficit, deficit payments calculated to escalate at 4.7% pa (salary inflation rate) over the period

2011 approach

- Significant work still to be completed in terms of finalising assumptions and deficit amount
- Some increase in deficit expected
- 2011 deficit contributions – potentially:
 - Existing deficit payments remain for each employer
 - Remaining 'new' deficit allocated amongst employers on a share of liability basis – leading to an additional tranche of employer deficit contributions
 - Significant work to be done on the detail including recovery plan length and structure

Any questions?



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JLT Benefit Solutions Ltd

6 Crutched Friars
London EC3N 2PH

Tel +44 (0)20 7528 4000
Direct +44 (0)20 7528 0000
Fax +44 (0)20 7528 4500

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Investment Themes

By David Adkins / Logan Anderson

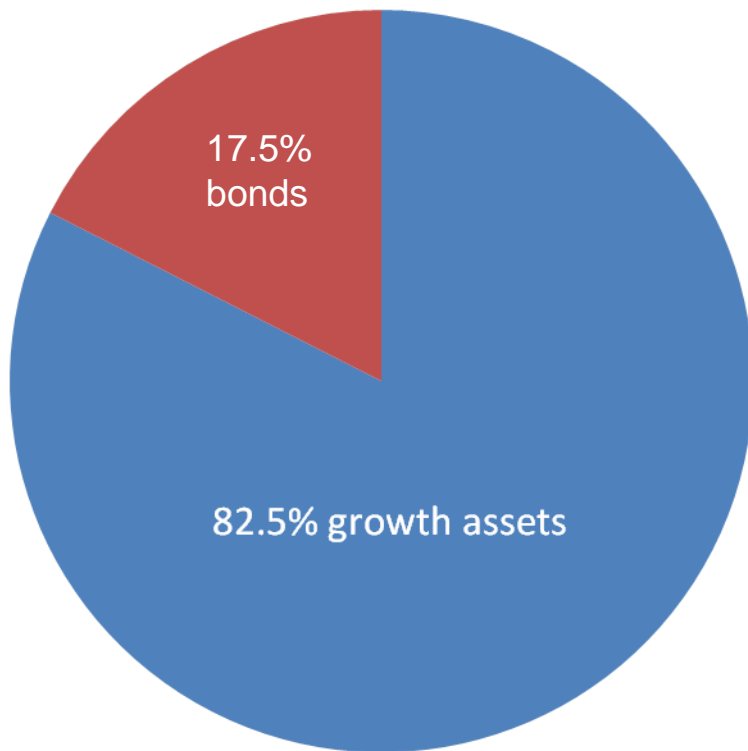


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What we will cover

- Current strategy and investment landscape
- Risk exposures
- What are the investment solutions?
 - Diversity within growth assets
 - Disciplined asset-liability risk management
- Our governance structure

Scheme's current strategy – headline level



Lower allocations to growth assets imply:

- Greater certainty in future valuation outcomes (asset minus liabilities, or assets divided by liabilities)
- Higher **expected** employer cash contribution requirements

Current investment landscape

- Concerns about sovereign debt issues, predominantly Greece
- Equity markets experiencing extreme volatility since August
- Recovery in global economic growth supported by global monetary policy (low central bank interest rates and 'quantitative easing') and fiscal stimuli (significant government borrowing and expenditure)
- Projected slow growth in consumer expenditure
- Within UK some concerns over repeated above target inflation outcomes
- Low (by historical standards) expected returns on government bonds (c4% p.a.)
- Long-term we expect our growth assets to outperform government bonds by around 2-5% p.a., so our schemes' portfolios, in the majority, are positioned accordingly

Risk exposures

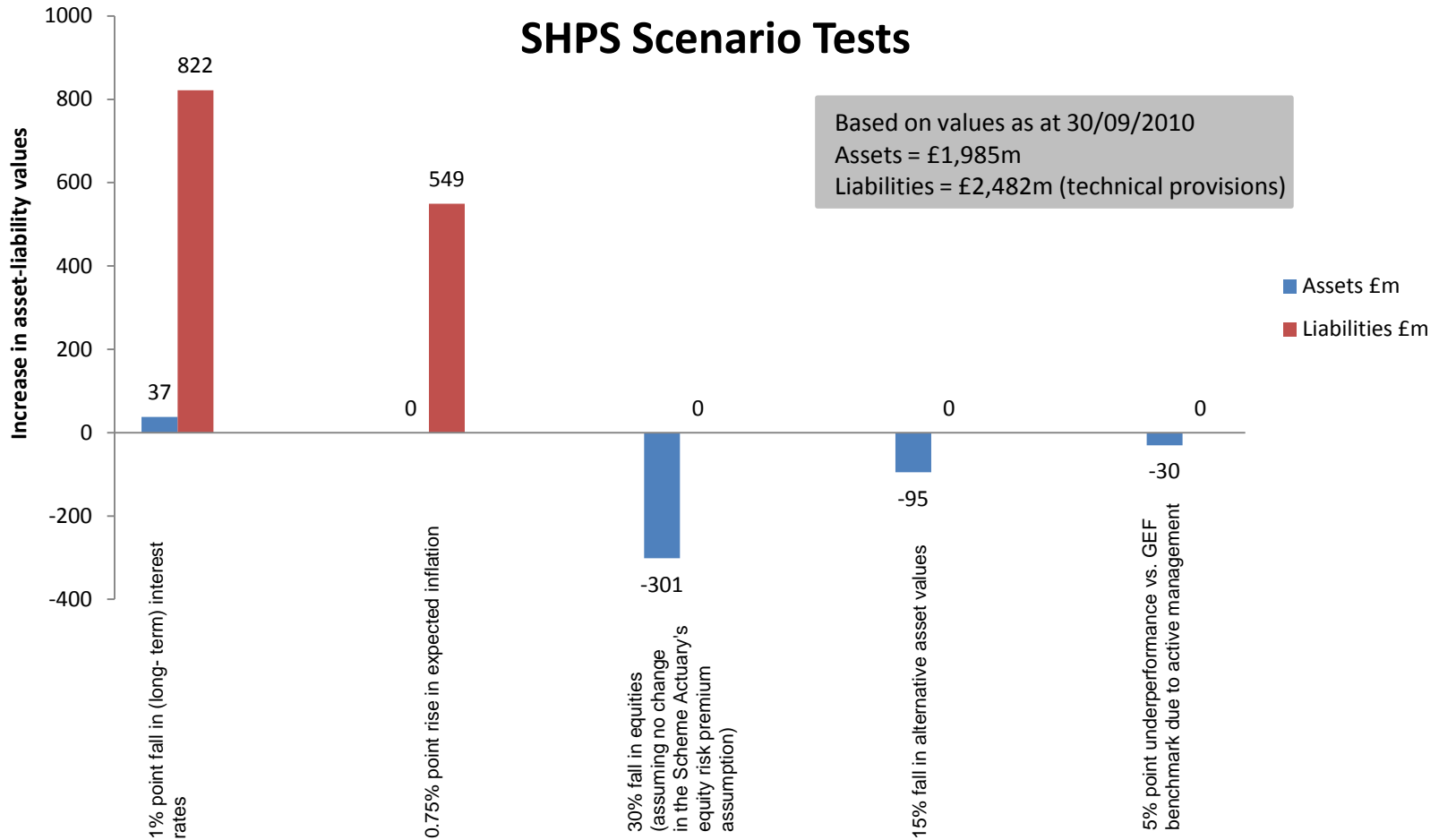
Investment

- Fall in long-term interest rates
- Rise in long-term inflation expectations
- Asset risk
 - Fall in the value of equity assets
 - Fall in the value of alternative growth assets
- Manager risk (underperformance of benchmark targets)

Demographic

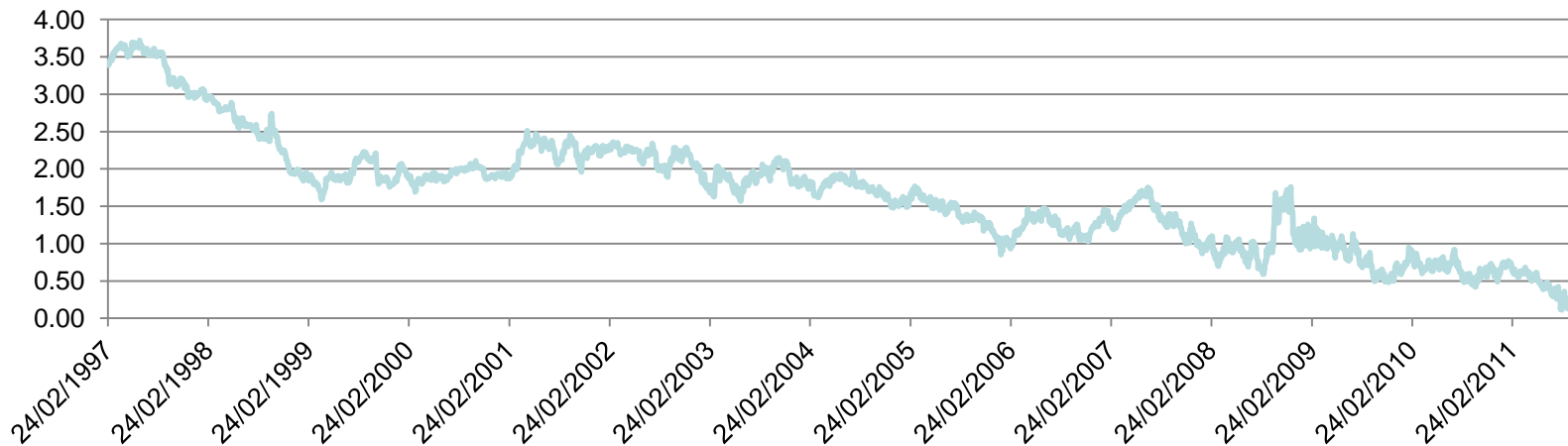
- Pensioners living longer than expected

Investment risk scenario tests



One reason why liability values have been rising

Over 5 Yrs ILG Yield (5% inflation)



SHPS is significantly exposed to the risk of falling long-term interest rates and / or rising long-term inflation expectations

What are the solutions?

- No 'quick-fix'. We're in it for the long-term
- Diversity within our growth type assets
- Employ investment managers where we have high conviction that they can enhance risk-adjusted returns relative to liabilities
- Get good ideas into the portfolio in a timely fashion
- Disciplined asset-liability risk management that focuses on our core objective to accrue enough assets to pay the pensions that have been promised, at an affordable cost to the employer
- Good governance to support the Investment Committee in its decision making

Diversity amongst the growth assets

Quoted equities

Three active managers

Market cap passive

Fundamental passive

Alternative liquid growth

Global tactical asset allocation (GTAA)

Absolute return
(2 managers)

Fund of hedge funds

Alternative illiquid growth

Property (UK and European)

Distressed debt
(2 managers)

Infrastructure
(2 managers)

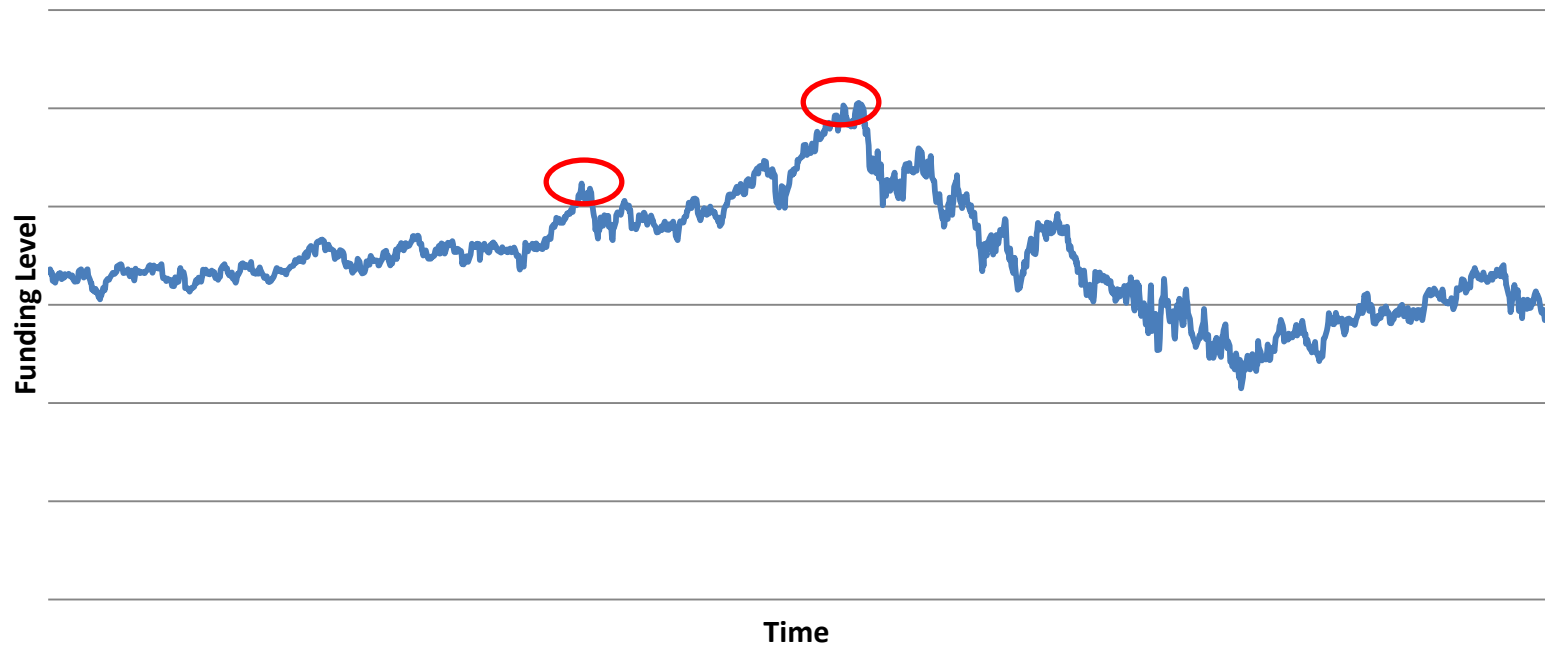
How has this affected the SHPS portfolio?

2008		2011	
Asset Classes	%	Quoted Equities	%
Global Equities	67.5	Global Equities	50.6
~		Alternative Liquid	%
~		GTAA	4.1
~		Absolute Return	9.7
Fund of Hedge Funds	7.5	Fund of Hedge Funds	7.5
~		Alternative Illiquid	%
Property	7.5	Property	7.5
~		Distressed Debt	3.1
~		Infrastructure*	0.0
~		Liability Focussed	%
Fixed Interest	17.5	Fixed Interest	17.5

Greater diversity of asset classes now, but still 82.5% in growth assets

*yet to be funded

Disciplined asset-liability risk management – dynamic de-risking



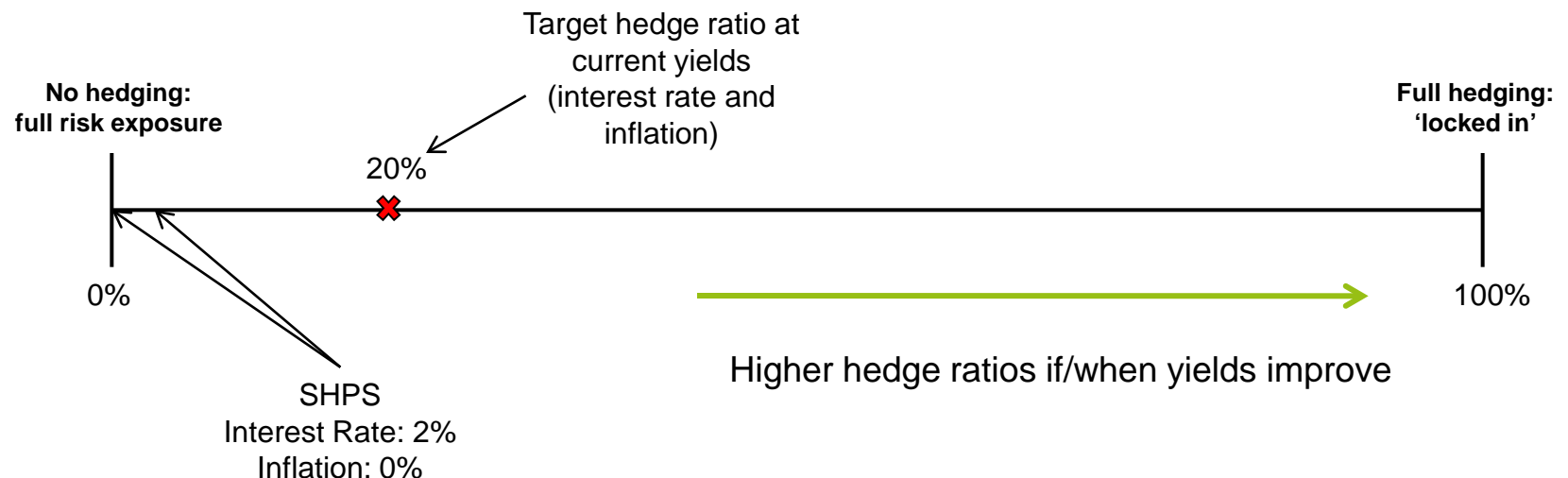
*Wouldn't it have been nice to de-risk at these points?
SHPS has agreed to reduce growth assets to 75% when funding level has improved to specified 'trigger' point*

Disciplined asset-liability risk management – liability hedging

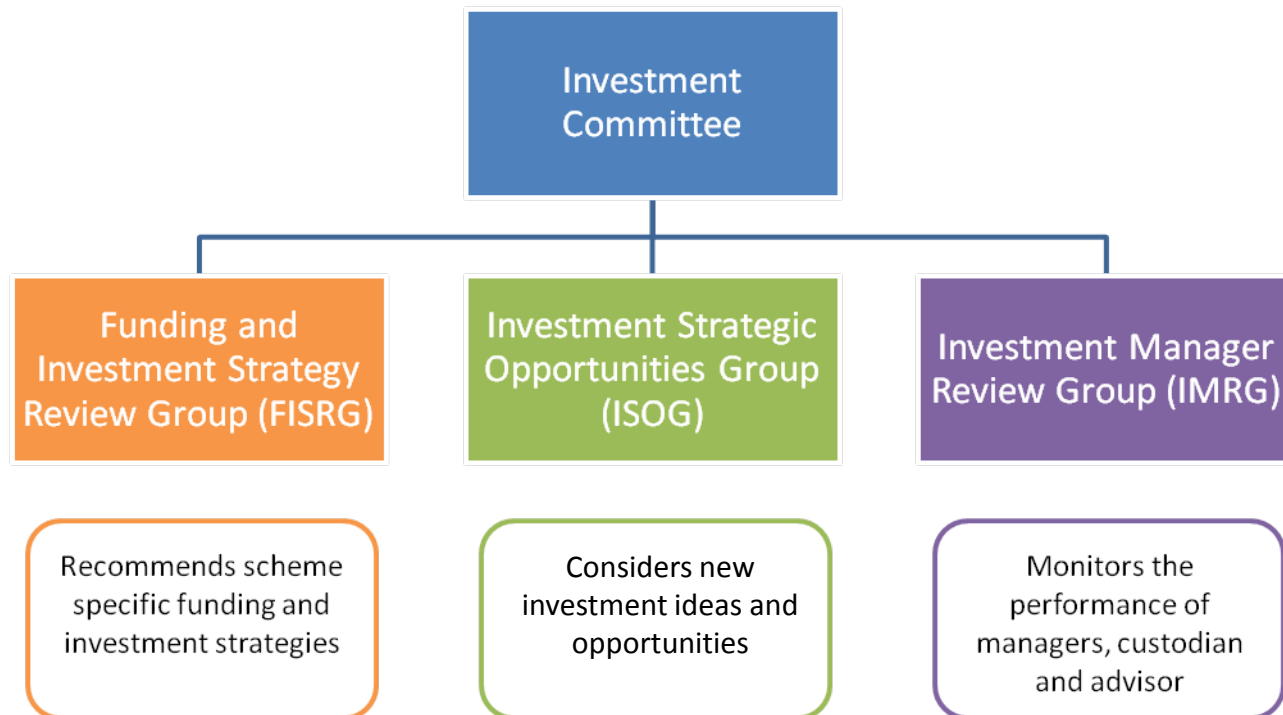
*'Markets can remain irrational longer than you can remain solvent'
(Attributed to John Maynard Keynes)*

Liability hedging is a 'dimmer switch', not an 'on-off' switch

- Liability hedging (of interest and inflation risks) is an investment decision within a scale of 0-100%



Governance: Supporting the Investment Committee



Summary

- We're in it for the long-term
- Disciplined asset-liability risk management
- Diversity within our growth type assets
- Employ investment managers where we have high conviction over added value
- Good governance

Reasonable combinations of investment performance plus employer contributions will ensure delivery of SHPS pension promise

Any Questions?



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Employer Financial Assessment

By James Webster



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What we will cover

- Background
- What are we doing?
- Why are we doing this?
- What we need you to do
- What it could mean for your organisation

Background

- Multi-employer pension scheme with over 550 contributing employers
- 'Last-man standing'
- If a participating employer can't meet its obligations, the remaining employers 'foot the bill'
- Risk to SHPS and to the other employers

What are we doing?

- Asking employers to provide us with financial information to allow us to assess the level of support each employer provides to the Scheme
- Using the information provided to calculate two Key Performance Indicators (KPIs)
- Assigning a risk rating dependent upon the KPIs
- Using a process developed in conjunction with PwC
- Using a process that has been piloted already with a number of employers
- Carrying out this work each year

Key Performance Indicators (KPIs)

Defined fully in the recent letter you will have received, but in summary:

KPI 1:

- Asset based
- How does the amount of net assets cover the liability your organisation has to the Scheme (and any other defined benefit (DB) pension arrangements)?

KPI 2:

- Income based
- Looks to identify the 'pot' available to pay contributions to all pension arrangements the organisation participates in

Risk ratings

- Risk rating determined based on KPI score

KPI 1	KPI 2	Risk Rating
> 0.9	Not Used	Low
> 0.8 < 0.9	> 3.0	Medium
> 0.8 < 0.9	< 3.0	Higher
< 0.8	Not Used	Higher

- The approach has limitations – it will provide an initial view
- Appeals process in place (later slide)

Why are we doing this?

- To help manage one of the key risks that the Scheme (and employers) are exposed to
- To help assess the overall covenant strength of the Scheme for use with the 30 September 2011 Triennial Actuarial Valuation:
 - Assumptions
 - Recovery Plan
 - Investment Strategy
- The Pensions Regulator

What we need you to do

- A mailing was recently issued to all participating employers
- Complete the 'Employer Financial Assessment Questionnaire' and email it back to us
- It can be found along with instructions for completion and guidance notes at www.shps.org.uk > I'm a new or existing employer > I want to find out about DB > Document Library > Employer Financial Assessment Documents
- Email the completed spreadsheet to shpsfinancialassessment@thepensionstrust.org.uk by **23 November 2011**
- If you have any questions or have any problems in supplying the data on time, please contact the Customer Relations Team at The Pensions Trust

Employer Financial Assessment Questionnaire

Note: For all questions that require information from three financial periods, please use the most recent audited figures in each case. If figures have been restated, possibly with prior year adjustments, please use the most up-to-date restated figures. For example if you use financial statements for 2010 and 2009, and the 2009 figures were restated, the different figures available would be for 2010, (i) 2009 restated, (ii) 2009 original and for 2008, in the examples we would like you to use figures from (i) 2010, (ii) 2009 restated and (iii) 2008.

No.	Question	Input Area	Comments
1	Name of legal entity participating in the Scheme	RSL Limited	
2	Is the organisation a Registered Provider?	Yes	Use drop down menu
3	If the organisation is a Registered Provider, please provide its Tenant Services Authority, or Welsh Government registration number	AD12345	
4	If the organisation is part of a Group, please provide the name of that Group	RSL Limited Group	
5	The year and date of the latest audited statutory accounts used for this information	31 March 2011	Key: Input data
6	The average number of staff employed by the legal entity participating in the Scheme, during the latest financial year, to be accepted from the employees code in the accounts	1,871	
7	The gross valuation (before depreciation) of housing properties at the latest balance sheet date (this should be the value in the statutory accounts, either at gross historical cost, or at a valuation) (£'000)	1,769,115	Enter as a positive
8	The basis on which the housing properties have been valued (i.e. existing use value – social housing, market value – investment, or gross historical cost if housing is not valued in the statutory accounts. If gross historical cost is used this should be gross of depreciation and housing grants)	Gross historical cost	Use drop down menu
9	Where the answer to (8) is the gross historical cost of properties, what is the value of the accumulated depreciation (including any impairment) charged against the housing properties as at the latest balance sheet date. (This information is not used where the valuation of properties rather than gross historical cost is used) (£'000)	37,547	Ignore if properties valued according to existing use or open market value. If figure is entered, enter as a positive
10	The total value of social housing grants and other grants received in relation to the housing properties (£'000)	901,235	Enter as a positive
11	Year and amounts due in greater than one year. ("Secured debt" here includes all secured creditors including bank loans and bonds, as any financial indebtedness for which security has been provided) (£'000)	925,988	Enter as a positive
12	The amount of any other unsecured financial indebtedness, including trade and other creditors (for example, rent received in advance, amounts payable to other group undertakings, other taxation and social security, accruals and deferred income), and specifically excluding FRS 17 creditors and overdrafts. Please include amounts due within one year and amounts due in greater than one year	117,863	Enter as a positive
13	The value of cash and short term cash deposits held as at the balance sheet date, net of overdrafts (£'000)	44,197	Positive cash held (either bank or overdraft) as a positive. If a net overdraft position is present, enter as a negative.
14	The net book value of all non-housing land and buildings as at the balance sheet date (being the book value in the statutory accounts, net of depreciation and grants) (£'000)	10,455	Enter as a positive
15	The value of fixed asset investments at the balance sheet date (i.e. their fair value) (investments should exclude any investments in, or loans to other group undertakings. It should include for example, bonds, equities and managed funds) (£'000)	39,872	Enter as a positive
16	The latest available information for all defined benefit pension schemes that the company is legally liable for	Scheme 1	Enter as a positive. If no buyout deficit is available, please enter the accounting deficit as measured in accordance with FRS 17, gross of any related deferred tax asset.
	Please exclude the Social Housing Pension Scheme, and fat, in the boxes to the right:	Individual buyout deficit (£'000)	
	(i) Individual buyout deficits of each other defined benefit pension scheme (subject to the note below)	Name of scheme	
	(ii) the valuation date that the buyout deficit relates to	Valuation date of buyout	
	(iii) the total number of active, deferred and pensioner members; and	The total number of active members in the Scheme	
	(iv) the accounting deficit as measured in accordance with FRS 17 (gross of any related deferred tax asset).	The total number of pensioner members in the Scheme	
	Note: where the buyout deficit is not available, please insert the FRS 17 figure instead	as measured in accordance with FRS 17, gross of any related deferred tax asset (£'000)	Usually only available if recognised on the face of the balance sheet as a positive
		Scheme 2	Enter as a positive. If no buyout deficit is available, please enter the accounting deficit as measured in accordance with FRS 17, gross of any related deferred tax asset.
		Individual buyout deficit (£'000)	
		Name of scheme	
		Valuation date of buyout	
		The total number of active members in the Scheme	
		The total number of deferred members in the Scheme	
		The total number of pensioner members in the Scheme	
		as measured in accordance with FRS 17, gross of any related deferred tax asset (£'000)	Usually only available if recognised on the face of the balance sheet as a positive
		Scheme 3	Enter as a positive. If no buyout deficit is available, please enter the accounting deficit as measured in accordance with FRS 17, gross of any related deferred tax asset.
		Individual buyout deficit (£'000)	
		Name of scheme	
		Valuation date of buyout	
		The total number of active members in the Scheme	
		The total number of deferred members in the Scheme	
		The total number of pensioner members in the Scheme	
		as measured in accordance with FRS 17, gross of any related deferred tax asset (£'000)	Usually only available if recognised on the face of the balance sheet as a positive

I can be located at www.shps.org.uk

- > I'm a new or existing employer
- > I want to find out about DB
- > Document Library
- > Employer Financial Assessment Documents

What it could mean for your organisation

- Your risk rating may affect the future benefit structure your organisation will be able to offer:

KPI 1	KPI 2	Risk Rating	Benefit Structure
> 0.9	Not Used	Low	Any Available
> 0.8 < 0.9	> 3.0	Medium	Any Available
> 0.8 < 0.9	< 3.0	Higher	Lower Risk
< 0.8	Not Used	Higher	Lower Risk

What it could mean for your organisation

- Large Scale Voluntary Transfers (LSVT)
- Non asset owning organisation
- Security and guarantees can be used
- Support available from The Pensions Trust

Appeals

- Aware that the approach has limitations
- Process to appeal if you disagree with your risk rating
- Sub committee of the SHPS Pensions Committee will consider each case based on additional information supplied
- Any professional fees incurred with the appeal must be reimbursed by your organisation
- Option of providing security / guarantees

Summary

- Please complete and email back the questionnaire by **23 November 2011**
- Risk rating based on KPI 1 and KPI 2 will be confirmed to you
- Higher risk organisations will be required to switch to a lower risk benefit structure by April 2013
- Appeal process if you disagree with the risk rating

Any Questions?



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Benefit Consultation By Paul Coward



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What we will cover

- Role of the Committee:
 - Seeking views
- Existing options recap / membership profile
- Employer Consultation Document:
 - Wish list
 - New ideas
- Feedback will help the Committee shape views

Existing options – recap

	Pre 2007	Added from April 2007	Added from April 2010	Added from October 2010
Benefit	FS 1/60th	FS 1/70th CARE 1/60th	FS 1/80th CARE 1/80th	Defined contribution
Employer / member contribution split	Fixed by SHPS Age related	Determined by employer, subject to paying 50% of cost Flat rate or age related	50% employer contribution relaxed	3% minimum employer contribution 3% minimum member contribution

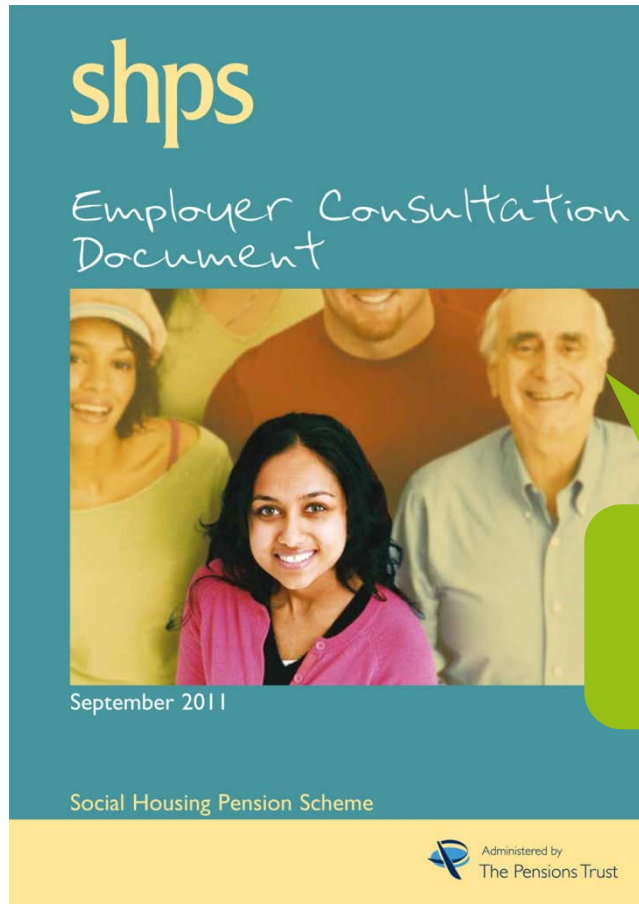
FS = Final Salary, CARE = Career Average Revalued Earnings

Active membership profile

Benefit Structure	July 2008	July 2011
FS 1/60th	20,627	13,837
CARE 1/60th	2,946	5,790
FS 1/70th	1,354	1,293
FS 1/80th	n/a	318
CARE 1/80th	n/a	847
Defined contribution	n/a	969
Total	24,927	23,054

FS = Final Salary, CARE = Career Average Revalued Earnings

Employer Consultation Document



Find a copy of me
in your pack!

Benefit consultation

- September 2011 Employer Consultation Document:
 - Section 1: Issues we would like feedback on
 - Section 2: Issues discounted but **may** revisit
 - Section 3: Issues discounted at this stage
 - Section 4: Changes we plan to implement, probably from 1 April 2013

Section 1: Issues we would like feedback on

- CARE 120ths:
 - Cost expected to be around 10%
 - Contracted-in – higher National Insurance Contributions
 - Likely better outcome for members than DC
 - Would count as ‘qualifying scheme’ for auto-enrolment
 - Lower future service funding risks (investment / mortality)
 - Lower future Section 75 liability
- More than one ‘open’ DB structure:
 - Greater HR flexibility
 - Members could ‘trade up’ when more disposable income
 - Need to ensure no selection – so available to all members
 - From a HR perspective would more ‘open’ structures be onerous?

Section 1: Issues we would like feedback on

- Changing the index used to revalue deferred and CARE benefits to Consumer Prices Index (CPI):
 - Likely to reduce liabilities and costs over longer-term
 - Would be consistent with revised pension increase method
 - Would impact member benefits longer-term
 - Possible changes to composition of CPI
 - You would need to consult staff
- Implementation of minimum employer DB contribution rate:
 - Historically approx 2:1 employer / member share of total cost
 - Are employers paying a fair share?

Section 2: Issues discounted but may revisit

- Rates of future service pension increase:
 - Should we reduce the maximum rate from 5% to 2.5%?
- Reducing the rate of revaluation of future deferred and CARE benefits:
 - Should we reduce the maximum rate from 5% to 2.5%?
- Increasing the Normal Retirement Age (NRA):
 - Would only impact future service
- All above would reduce future liabilities and costs to some extent
- You would need to consult staff on any of the above ideas

Section 3: Issues discounted at this stage

- Introduction of Government Actuary's Department (GAD) certified Local Government Pension Scheme (LGPS) comparable structure:
 - Only limited support from employers previously
 - Ongoing uncertainty over LGPS and 'Fair Deal'
 - Would need significant support from employers for SHPS to consider taking forward
 - Material development costs
 - Revisit once further clarity

Section 4: Changes we plan to implement

- Maternity leave:
 - Bringing DB provisions into line with DC from April 2013
 - Simplifies administration
 - Equal treatment for members and employers
- DC investment options:
 - Additional fund choice from April 2013
 - Diversified Ethical Fund

Consulting with employees

- Pensions Act 2004 requires employers to consult with staff
- Changing ancillary benefits or NRA would require staff consultation
- ‘Tinkering around the edges’:
 - Costs could reduce but not significantly
 - Changing ancillary benefits distorts the core benefits
 - More complex member communication and administration
 - Employer has option to adopt lower risk benefit structure if cost is the issue

Summary

- Encourage you to consider proposals
- Feedback:
 - Via questionnaire or in writing
 - By **31 January 2012**
 - Will be considered in conjunction with valuation results
- Help shape the future benefit structures

Any Questions?



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SHPS DC and Auto-enrolment

By James Webster / Paul Coward



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SHPS DC – one year on

- Introduced 1 October 2010 following feedback from employers
- 325 employers have introduced DC
- Expect this trend to continue
- Approximately 1,000 DC members
- Employer contribution rates range from 3% to 18%
- Assets under management of around £1.8m

Auto-enrolment – new duties

Provide access
to qualifying
pension
provision

Automatically
enrol
employees

Employer to
sponsor
pension
provision

Monitor
workforce and
keep records

From October 2012, depending on employer size

Auto-enrolment – Staging Date

- Imposes duty on employers to auto-enrol employees into a 'qualifying scheme'
- Requirement to comply is driven by your Staging Date

Number of Employees	Staging Date
Between 2,000 and 4,000	1 May to 1 August 2013
Between 500 and 1,999	1 September to 1 November 2013
Between 51 and 499	1 January to 1 July 2014
Less than 50	1 August 2014 to 1 May 2016

- Check your Staging Date at:

www.thepensiontrust.org.uk click on 'Auto-enrolment'

Auto-enrolment – minimum requirements

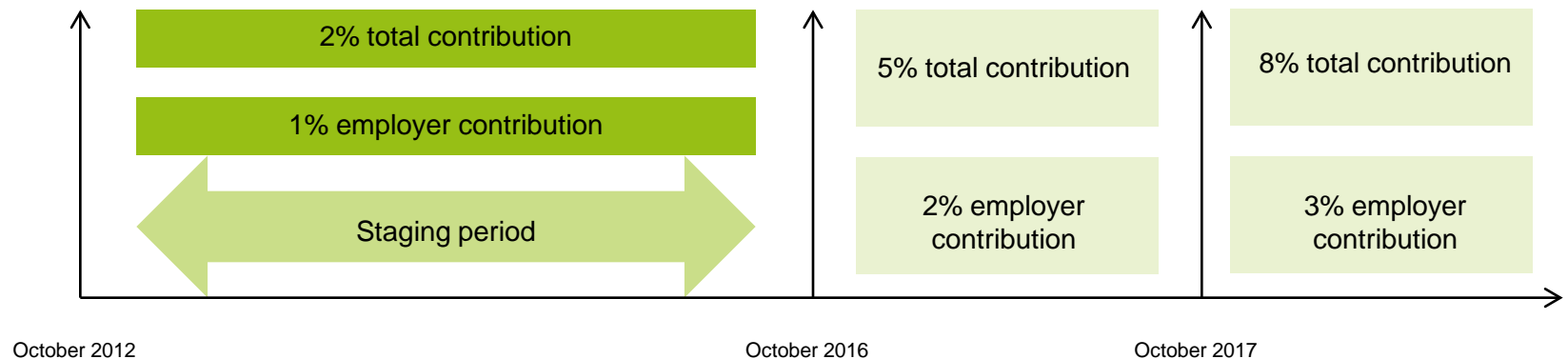
– DB schemes

- Okay if contracted-out of the State Second Pension
- Okay if meeting the ‘test scheme standard’
 - Broadly 1/120ths of qualifying earnings from State Pension Age
- CARE schemes subject to additional requirement for annual revaluation of benefits

Auto-enrolment – minimum requirements

– DC schemes

- Based on the contribution rate
- % of qualifying earnings
 - £5,035 p.a. to £33,540 p.a. in 2006/7 terms – to be updated in January 2012
- Phasing in of minimum contributions



Auto-enrolment – key questions

- Key questions:
 - What will auto-enrolment cost your organisation?
 - Consider how you are going to cope with the additional pension costs
 - What type of scheme are you going to use?
 - What do you need to put in place?
- Further information and guidance can be found at:

www.thepensionsregulator.gov.uk click on 'For Employers'

Auto-enrolment – start preparing

Step 1

Establish the staging date and prepare a project plan

Step 2

Assess the workforce to determine the likely auto-enrolment responsibilities and financial implications

Step 3

Assess which pension schemes are to be used and for whom

Step 4

Review the internal procedures, including payroll, joining and opting out processes

Step 5

Prepare communications

Any Questions?



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