

## How things will develop in 2015

SHPS will take a decision on benefits changes next Spring. In the summer 2015, after the Valuation is finalised, SHPS will write to employers advising them of the revised level of contributions they will be required to pay if they allow members to remain in their current benefit sections. In doing so they will remind them of their options to make changes, including the option of only offering DC pensions. In the latter part of 2015 we can expect employers to be starting consultation with employees about changes in scheme benefits and contributions to be implemented in April 2016.

**Unite Reps should contact their Regional Officer for further advice and support.**

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# Unite Reps Briefing

## Social Housing Pension Scheme – Defend it!

February 2015



### Social Housing Pension Scheme – Defend it!

The details of pension schemes can be technical – and Unite can offer expert help to negotiators and Unite reps. But the basics are very clear: pensions are deferred wages and they are very important. Without adequate pensions our members will live their final years in poverty. Unite is absolutely committed to protecting pensions in the social housing sector.

The briefing below refers to the Social Housing Pension Scheme (SHPS) which is the biggest scheme in the sector, but some employers operate other schemes and it is important for reps to know what schemes operate in their association, how many employees are in each scheme and what schemes Unite members are in.

Changes to SHPS may mean that important negotiations will take place in your association later this year – we need to prepare now. This is an important opportunity to highlight the importance of Unite for housing association staff.

### *Increased contributions*

There has been widespread press comment to the effect that when the outcome of the SHPS three yearly valuation is finalised later this year it will result in an increase in employer contributions. Employers may then seek to pass this on to their staff in increased contributions or may reduce the benefits available to staff arguing that they cannot afford to continue with existing pension benefits.

In responding it is important to remember that this is a highly profitable sector with growing assets and exceptionally favourable long term financial prospects. Employers may argue that the introduction of auto enrolment has resulted in increased costs. New accountancy rules, which take effect from 2015, also mean that the scheme deficit will have to be recognised on association balance sheets. However, pension benefits for staff in the sector have already been squeezed in recent years and Unite would oppose any further restriction to pension benefits. Unite reps should make sure they get the best advice from the Union if presented with specific proposals but should make our general position clear to employers now. We should also take the issue to our members in newsletters, leaflets and other publicity material.

### *Housing association sector highly profitable*

The English housing association sector is highly profitable and has seen big increases in surpluses in recent years. Profits increased nearly ten times over in the five years to 2013, rising from £203 million in 2009 to nearly £2 billion in 2013. Analysis by Social Housing magazine (3 December 2014) suggests that total surpluses of UK housing associations in 2013/14 will be £2.6 billion and there has been an £8 billion rise in asset values. Independent observers expect these trends to continue. For example, the report '2015 Outlook - English Housing Associations' by Moody's, the credit rating agency, predicts ongoing increases in the total assets and profitability of the sector in future years.

Housing association executives have regularly awarded themselves inflation busting pay increases in recent years and have improved their own pension arrangements. Large pay-offs when executives leave the employment of associations have also become a controversial but regular feature of the sector.

In stark contrast, the sector has seen a series of attacks on staff pay and conditions in recent years including a diminution of pension benefits in some organisations. Unite believes these attacks have been entirely unjustified in this sector and will support any group of workers in resisting further attacks.

## Improve pensions – Unite policy

Unite's policy on pensions is clear and was reaffirmed at our last policy conference. The Union is campaigning for improved pensions and increased flexibility in company schemes.

Unite opposes the closure of final salary and other defined benefit schemes. The Union is committed to support and assist Unite groups who seek to resist such closures.

### What to do

Keep your members informed; make sure they know that Unite will support members if pensions are attacked.

If an employer is proposing a cut in benefits or increased contributions members should be consulted about what action they may want to take including the possibility of industrial action.

Make sure you know what pensions schemes are operated by your employer and the numbers of employees and Unite members in the schemes.

Take advice from the Union if you need technical back up and keep your regional officer informed.

## Social Housing Pension Scheme (SHPS) valuation

The SHPS Scheme has released a preliminary estimate of its valuation result for September 2014 covering the defined benefits sections of the Scheme

This indicates that the Scheme deficit may have increased from around £1 billion in 2011 to around £1.4 billion in 2014 which implies deficit contributions required from employers may be increased in similar proportion.

The cost of future service benefits for the different benefit structures has also risen significantly.

Benefit section >	Final salary			CARE		
	1/60	1/70	1/80	1/60	1/80	1/120
Current Rate	19.4%	16.9%	14.8%	18.1%	14%	9.7%
Prospective Rate	24.6%	21.3%	18.8%	22.5%	17.2%	11.9%

The main reason for the increased cost has been that interest rates, which drive assumptions on future investment returns, were significantly lower in September 2014 than they were in 2011. This has offset the effect of quite good investment return in the period 2011-14.

Arrangements will need to be agreed by each employer as to how the increased contribution will be split or alternatively employers may propose changes in the pension basis offered to employees for future service to offset the increase in cost – in either case to be implemented in April 2016.

## Increased NI costs will take effect in April 2016 as well

State pensions are being reformed and, associated with this, 'contracting-out' will end for DB pension scheme in April 2016. While affected members stand to gain over time a significantly higher state pension, there is an immediate cost issue as employee NI contributions will rise by 1.4% and employer contributions by 3.4%. Employers are likely to have this additional cost in mind when they are considering how to respond to the increased cost associated with SHPS.

SHPS employers will also be mindful of the increased cost they have incurred as a result of the auto-enrolment requirements, which will have increased the proportion of employees participating.

## SHPS consultation with employers on changing the DB benefit options

The Scheme is consulting employers on making two changes to the current benefit structure which are designed to offset some of the increased contribution cost. If a decision is taken to implement these then all active members of the DB sections would be affected.

### 1. Raising the normal pension age for future benefits to age 67

This would mean any pension earned in the DB sections after April 2016 would only be paid unreduced at the age of 67. If pension was drawn earlier it would be subject to an early retirement reduction.

### 2. Reducing the level of future pension increases

The level of increases granted on pensions in payment and, for CARE benefits, the revaluation rate applied to benefits before retirement would reduce for future service from CPI capped at 5% to CPI capped at 2.5%

The increase in NPA to 67 would set it at a higher age than the state pension age (SPA) applicable to members who reach SPA in the ten years after April 2016. SHPS are not minded to set NPA equal to a member's SPA, as is being implemented in the LGPS and other public service schemes, because they believe this is unfair to younger members, administratively difficult, and legally questionable. Members who chose to delay retirement to 67 would benefit from an uplift in their pre-2016 benefits to reflect their being paid later than 65.

The effect of the lower cap on pension increases will be determined by the future level of inflation and the effect of the change puts members' benefits at risk if government inflation targets are exceeded.

The changes would reduce the required increases in contributions for the different benefit sections as follows

Benefit section >	Final salary			CARE		
	1/60	1/70	1/80	1/60	1/80	1/120
Increase with :						
Unchanged benefits	5.2%	4.9%	4%	4.4%	3.2%	2.2%
Changed benefits	2.4%	2.0%	1.9%	- 0.1%	-0.2%	0.0%

The proposed changes have a bigger effect on the CARE sections because the pension increase change saves more, as it affects benefit before as well as after retirement.