

To: Branches covering Housing Associations

Briefing paper on the key differences between the Scottish Local Government Pension Scheme (LGPS) and the Social Housing Pension Scheme (SHPS).

Summary

We are aware of Housing Associations increasingly looking to exit the LGPS and offer the SHPS instead. This paper attempts to explain the main differences between the schemes and to provide key information on the workings of the SHPS.

Background to the SHPS

The SHPS (<https://www.tpt.org.uk/schemes/shps-db/scheme-home>) was originally set up in 1977 for the social housing sector and currently has members in more than 500 organisations in the social housing sector. It provides pensions for more than 65,000 employees and is administered by TPT Retirement Solutions but is run by an elected SHPS committee. The SHPS currently operates 6 Defined Benefit structures as well as a Defined Contribution scheme.

At a Glance Scheme Comparison

	LGPS	SHPS Final Salary	SHPS CARE	SHPS DC
Scheme Type	CARE	Final Salary	CARE	Defined Contribution
Pension Build up rate	1/49 th	Either 1/60 th , 1/70 th or 1/80 th	Either 1/60 th 1/80 th or 1/120 th	The “pot” keeps on building with each contribution and investment returns
Revaluation rate	CPI	N/A	CPI capped at 2.5%	The pot goes up and down depending on investment returns
Normal Pension Age	State Pension Age	67	67	65 unless state otherwise but up to you (as long as at least 55)
Member contribution rates	Ranges from 5.5% to 12.0% depending on earnings	Employer decides the contribution split	Employer decides the contribution split	Employer decides contribution rates but have to be at least legal minimum
Can claim tax-free cash?	Yes by exchanging pension for tax-free cash up to 25% limit	Yes by exchanging pension for tax-free cash up to 25% limit	Yes by exchanging pension for tax-free cash up to 25% limit	Yes, up to 25% of the fund value can be taken tax-free

	LGPS	SHPS Final Salary	SHPS CARE	SHPS DC
Pensionable Pay	Normal salary plus pensionable benefits and contractual overtime	Normal salary plus bonuses and contractual overtime	Normal salary plus bonuses and contractual overtime	Depends on contribution structure adopted by employer
Final Pensionable Pay	Relevant for pre 2015 benefits – Best year in last 3	Average of last 3 years pensionable pay	N/A	N/A
Death-in-service lump sum	3 x pensionable earnings	3 x pensionable earnings plus a refund of contributions	3 x pensionable earnings plus a refund of contributions	Value of pension pot plus any cover provided by employer
Are survivor pensions payable?	Yes to a spouse, co-habiting partner, civil partner, qualifying child	Yes to a spouse, co-habiting partner, civil partner, qualifying child	Yes to a spouse, co-habiting partner, civil partner, qualifying child	No
Can claim pension on ill-health grounds?	Yes – two levels of award depending on severity	Yes but have to show that unable to work in any capacity	Yes but have to show that unable to work in any capacity	Yes if satisfactory medical evidence that too ill to work – value of Pot
Pension increase in retirement	CPI	Lower of 2.5% or CPI	Lower of 2.5% or CPI	Depends on any annuity purchased

*A list of definitions is given at the end of this paper

What are the current contribution rates for both the LGPS and SHPS?

LGPS

SHPS

Pensionable Pay	Member Contribution %	DB Section	Total Contribution %
Earnings up to £22,300	5.5%	Final Salary 60 th	27.2%
Earnings between £22,301 - £27,300	7.25%	Final Salary 70 th	23.4%
Earnings between £27,301 - £37,400	8.5%	Final Salary 80 th	20.5%
Earnings between £37,401 - £49,900	9.5%	CARE 60 th	22.1%
Earnings above £49,901	12%	CARE 80 th	16.7%
		CARE 120 th	11.3%

(LGPS Scotland)

(Employer determines the employee/employer split)

Who decides what SHPS you are offered and what your contribution rate is?

Your employer decides which benefit structure/structures they wish to offer and how they wish to split the contribution structure between them and you. There used to be a rule that the employer had to pay at least 50% of the overall contribution required for the structure adopted but this was removed a number of years ago. Employer's are responsible however for paying any deficit contributions.

Is the SHPS well funded?

The SHPS is required to undertake an actuarial valuation of the scheme every 3 years which is an analysis performed by an actuary that compares the assets and liabilities of a pension plan. These are necessary to assess the likely long-term ability of a pension scheme to be able to continue to meet its pension obligations.

The most recent statutory valuation date was September 2017 and the results are given below:

- The funding level improved to 75% (up from 70% in September 2014) although the funding deficit was £1.52 billion
- The new recovery plan for looking to clear this deficit started on the 1 April 2019 and ends on 30 September 2026. On average, employers saw an immediate 10% increase in deficit contributions and a 50% increase in total contributions over that 7.5 year recovery period
- The cost of future benefits increased by around 30% for all Final Salary and Career Average sections with effect from the 1 July 2019.

The current September 2020 valuation is underway with results expected shortly.

Can you transfer your local government pension into the SHPS?

It is not and hasn't been since the 1st April 2010 possible to transfer pension benefits into either the SHPS Final Salary or CARE schemes. It can be possible however to transfer to the SHPS DC scheme but UNISON would not recommend transferring an LGPS benefit into the SHPS DC scheme unless you've received specific advice from an independent financial adviser to the contrary.

Is it true that many employers have left the SHPS in recent years?

Yes there have been a number of employers who have left the scheme in recent years. Notable examples being Clarion, Radian, Sanctuary and Bromford. There have also been 6 bulk transfers since 30 September 2019 relating to Sovereign, Riverside, Orbit, Metropolitan and Thames Valley. Confidential and Optivio with plenty more on the cards.

This is predominantly because of rising costs and employer desires to have more control over their cost base, investment strategy and pace of funding.

Where can you get further information on both the LGPS and SHPS?

- Scottish LGPS member website – <https://pensions.gov.scot/local-government>
- SHPS DB member website – <http://www.tpt.org.uk/schemes/shps-db-member>
- SHPS DC member website - <https://members.tpt.org.uk/scheme-information?scheme=shps#scheme-shps>
- UNISON Pension pages - <https://www.unison.org.uk/get-help/knowledge/pensions/>

List of Definitions given in this paper

- **Defined Benefit (DB):** A form of pension based on your salary and how long you work for your employer. These can be either final salary or Career Average Revalued Earnings (CARE)
- **Final Salary:** A form of DB scheme where your pension is based on a combination of your salary at retirement, length of service and the pension build up rate
- **CARE:** A form of DB scheme where each year's salary counts for working out your pension with each year's pension increasing every year up to retirement by a revaluation rate (please see below).
- **Defined Contribution Scheme:** A pension pot based on how much is paid in and investment returns
- **Normal Pension Age:** The age at which you can retire without incurring any penalties for doing so
- **Revaluation rate:** The rate at which each year's pension earned increases. CPI stands for Consumer Prices Index and is a measure of cost of living increases
- **Pensionable Pay:** The pay on which you pay pension contributions on
- **Final Pensionable Pay:** The pay used to determine your pension amount in a final salary scheme

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