

For Information

Agenda Item: 11.3
Date of Meeting: 21/05/25

To: The Management Committee

From: The Director

Subject: Pensions Update – DB Scheme

1. Introduction & Purpose

- 1.1 The last update provided to Committee was in November 2023. A copy of my report is attached for Committee's information. Based on my report Committee decided that there was no need to hold a session with independent pension advice for the following reasons:
- That no changes to the benefits were being offered and no changes to the future service contribution rates. (as per the information provided at the Pensions Session on 16/11/23)
 - That the next 3 yearly valuation would be carried out in September 2024 with the outcome being published during 2025
 - That any anticipated changes to future service contributions and the reintroduction of deficit changes would take effect from 1st April 2026
 - Committee did recognise that liability would continue to accrue. However, it considered the prudent approach that Rosehill took to include an assumption for all staff being in the DB pension scheme in its financial projections, although only 7 members of staff were actually in the scheme.
- 1.2 Committee also decided that as deficit contributions were likely to be re-introduced in April 2026, we should start building assumptions for these in our financial projections.
- 1.3 Committee is reminded that neither I nor any other staff member at Rosehill is qualified to provide pension advice. The purpose of this report is to present information from the Employer Committee for Committee's information only, at this time. When the valuation results are published, it will be necessary to arrange independent pensions advice for Committee to enable it to make any decisions required about the DB scheme.

2. Pensions Update

- 2.1 The SHAPS Employer Committee provided an update this month on its discussions with the Scheme Committee about the actuarial valuation. A copy of the update is attached for Committee's information. I have highlighted the section in which the Employer Committee is sharing the **expected** valuation results, which are broadly line with what they had expected.
- 2.2 Committee will note that the funding level has fallen from 98% (30/09/21) to 89% (30/09/24) and that it is being supported by the Employer Committee and Scheme Committee that deficit contributions be introduced from 1st April 2026. A total of £15.6 million per year for 4 years, increasing by 3% each year, to be paid. The Employer Committee has requested confirmation of the individual employer level deficit contributions. It should also be noted that as the outcome of the court case – Scheme Benefit Review is awaited, that the committees have agreed that a conditional commitment will be given to extend the payment of deficit contributions, should the outcome result in additional liabilities.
- 2.3 Committee will also note the plans for future service contribution rates to be significantly reduced. Committee is reminded that the current total contribution rate is 32.8% which is split between employer and employee as 18% and 14.8% respectively. Committee should note that Employer contributions will increase further, when deficit contributions resume.
- 2.4 Once the valuation results are shared in the Summer, a further report will be brought back to Committee. I will also be suggesting a company the Committee may wish to use for independent pensions advice.

3. Risk

- 3.1 We have considered risk in relation to pensions, and specifically defined benefit pensions, and have identified the key risks under the following risk categories and the measures we have taken to mitigate such risks, where possible. Committee is advised that once the valuation results are published, then it will be necessary to further review the risks relating to Rosehill continuing with the Defined Benefit pension scheme. The independent pensions adviser can assist with this.

Risk Category	Mitigating Measure
Financial: Ongoing affordability of final salary pension scheme; Levels of past service debt accrued; Future liability;	Pension deficit contributions incorporated into 30 year cash flows demonstrate capacity to pay

<p>Cessation event; Reliance on other scheme</p> <p>members; Inability to pay deficit funding;</p> <p>Rosehill are left to pay other employers staff pensions through the “last man standing” nature the longer the deficit is continuing and can be exacerbated by new members with longer service to come being allowed to enter. – could add to the reliance on other scheme members as their reliance on us too</p> <p>Scheme continues to underperform, increasing deficit requirements.</p> <p>New entrants extend liability and risk.</p>	<p>increased contributions without detriment to our tenants;</p> <p>Prudent approach to budget and projections to allow for all staff being in DB scheme (reality only 6 staff currently in it) Alternative pension scheme available to employees; Membership of scheme reviewed at least every 3 years by Management Committee following publication of the scheme valuation; Total pension contributions are a relatively low proportion of turnover; Total staff costs benchmarked against other RSLs; Additional costs of auto-enrolment incorporated into short, medium and long term budgets.</p>
<p>Governance:</p> <p>Inadequate information provided to Committee leading to poor decision making and ineffective governance</p>	<p>Financial information provided through annual budget and 30 year projections;</p> <p>Independent Pension advice provided to Committee re: decisions required re: DB scheme</p>
<p>Legislative and Regulatory:</p> <p>as above and, Fail to meet regulatory requirements</p>	<p>As above</p>

4. Delivery of our Strategic Objectives

Area	Related Strategic Objective(s)
Pensions	<p>7) Achieve the highest standards in all that we do</p> <p>6) Use resources efficiently and effectively</p>

5. Application of our Core Values

Area	Related Core Value(s)
Pensions	<ul style="list-style-type: none"> • Accountable and Compliant; • Efficient and Responsible; • Excellent and Committed

6. Compliance and Assurance

- 6.1 Periodically reviewing the matter of the defined benefits pension scheme, including taking account of any information published by the Pension Scheme (e.g. results of 3 yearly actuarial valuations) and seeking independent pensions advice when required, should ensure Committee is making well informed decisions and keeping our participation in the DB scheme under review. This means we are compliant with Regulatory Standards. In particular:

Compliance Source	Details
The Standards of Governance and Financial Management for RSLs	<p>Standard 3 - The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay.</p> <p>Guidance 3.6 – The governing body ensures that employee salaries, benefits and its pension offerings are at a level that is sufficient to ensure the appropriate quality of staff to run the organisation successfully, but which is affordable and not more than is necessary for this purpose.</p> <p>Standard 4 - The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose.</p> <p>Guidance 4.1 – The governing body ensures it receives good quality information and advice from staff and, where necessary, expert independent advisers, that is timely and appropriate to its strategic role and decisions. The governing body is able to evidence any of its decisions.</p>

	<p>Guidance 4.4 - The governing body identifies risks that might prevent it from achieving the RSL's purpose and has effective strategies and systems for risk management and mitigation, internal control and audit.</p>
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6.2 Evidence Bank

Evidence	Assurance Exercise Location
<ul style="list-style-type: none"> Report and attachments for 21/05/25 meeting; 	<ul style="list-style-type: none"> Regulatory Standard 3 – Guidance 3.6 Regulatory Standard 4 – Guidance 4.1 and 4.4

6.2.1 Committee is reminded that our Assurance Exercises are available in the Committee Log-in Area of our website, which Committee can access at any time.

7. Summary

7.1 The last pensions update to Committee was in November 2023, following my attendance at the Pensions Session held on 16/11/23. As no changes were anticipated to the DB scheme until after the 3 yearly actuarial valuation was completed in September 2024 and the results published in 2025, Committee decided that no independent pensions advice was required at that time.

7.2 The Employer Committee has shared an update this month on its discussions with the Scheme Committee about the actuarial valuation. A copy of the update is attached. A summary of the expected valuation results is covered in para 2.2.

7.3 Risk relating to the DB Scheme is considered at Section 3.

7.4 Section 4 shows how periodically reviewing our involvement in the DB scheme, links to the delivery of our strategic objectives.

7.5 Section 5 shows how periodically reviewing our involvement in the DB scheme, links to the application of our Core Values.

7.6 Section 6 sets out how we comply with Regulatory requirements.

7.7 Committee is asked to note the contents of this report and the attached information. It is also asked to note that a further report will be brought back to Committee once the results of the actuarial valuation are published in the Summer, along with a recommendation for a company to provide independent pensions advice.

For Decision

Agenda Item 14.3
Date of Meeting: 29/11/23

To: The Management Committee

From: The Director

Subject: Pensions Update

1. Introduction and Purpose

1.1 At the April meeting Committee was presented with a report on the outcome of the employer consultation on the future service benefits. The findings from the consultation are set out in Section 2 (Background) of this report for ease of reference.

1.2 Committee noted at the time that there were no changes being made to the Pension Scheme and that Gordon Birrell from Chiene+Tait had advised, therefore, that there would be no need to hold a review session with Committee. It was acknowledged that if notification was received later in the year that the future service contribution levels were to increase in April 2024, a session would then be organised with Gordon Birrell.

1.3 The purpose of this report is to provide an update on the Pensions Scheme for Committee's consideration. Following which Committee is asked to decide whether a session should be arranged with Gordon Birrell to review its position on the Pensions Scheme.

2. Background

2.1 The outcome of the employer consultation was presented to Committee at its April meeting and was as follows:

Summary of the consultation responses:

- 78% of the affected employers responded to the consultation

Of the 78% that responded:

- 44% indicated support to closure of the final salary option
- 47% indicated support to reduce pre-retirement CARE revaluation.

The EC discussed the responses at their meeting on 23 February 2023. As well as the levels of support shown for each option, consideration was given to the DB membership, which continues to decline, as well as employer comments,

such as the continued desire to allow employers the freedom to choose the appropriate pension offering for their staff from the range of benefit offerings: final salary, CARE and defined contribution.

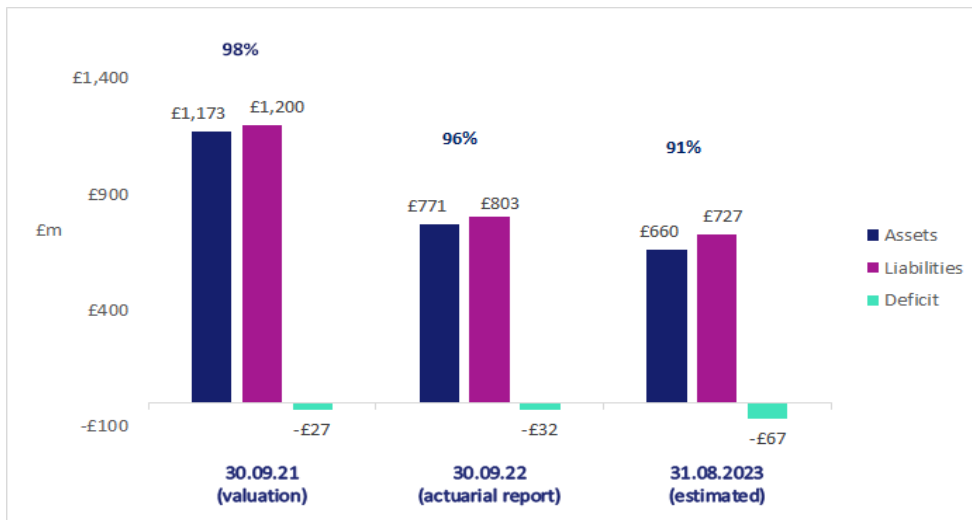
The EC also noted that, whilst they had managed to agree with the Scheme Committee that future service contribution rates would remain unchanged until April 2024, the cost of funding DB remains significant for employers and Scheme options should remain sustainable and affordable.

Following discussion, the EC agreed that no changes should be proposed to the final salary or CARE benefit offerings, nor should this position automatically be revisited at the 2024 valuation.

Benefits offered to employees will therefore remain determined by each employer. SHAPS will continue to allow employers flexibility to offer all, or some, options according to the cost and risk appetite of each employer. If an employer believes that the cost of providing any particular benefit becomes prohibitive, they can continue to use the existing range of options to make changes to the future service benefits being offered to existing members and/or new employees following the completion of appropriate consultation with their employees.

3. Pensions Update

- 3.1 I attended the SHAPs session for Directors and Finance Managers, hosted by EVH, on 16th November. Our Chair attended the afternoon session for Governing Body members. The 2 main speakers at the event were Gordon Birrell, Seven Street Wealth (formerly Chiene+Tait) and Susan Wardlaw, Senior Employer Relationship Manager, SHAPs.
- 3.2 Gordon, recapped on what was covered last time and what has been happening since including rapidly rising global inflation, the continued cost of living crisis, a continued gradual shift towards defined contributions and promotions, pay rises and salary sacrifice. He spoke about inflation and the negative impact on investments (impacts both DB assets and liabilities). He spoke about the impact on those who may be considering retirement in the foreseeable future and stressed that employees need to plan for their retirement.
- 3.3 Susan provided an updated funding position for the Defined Benefits Pension option which is shown below:



3.4 As can be seen from the above the funding position (estimated at August 2023) has reduced, with both assets and liabilities falling but the deficit has increased to £67m.

3.5 Susan recapped on the outcome of the earlier employer consultation, confirming that no changes to the benefits are being offered and no changes to the future service contribution rates. She advised that the next 3 yearly valuation will be carried out in 2024 at which time the future service contribution rates will be reviewed.

3.6 During the question and answer session, it was established that the 3 yearly valuation will be carried out in September 2024, with the findings being considered by the pension committees in Spring 2025 and the results being shared with employers in the Summer/Autumn 2025. Based on this timeline any likely changes to future service contribution rates would come into effect from April 2026.

3.7 Based on the reduced funding position, it is anticipated that as part of the valuation outcome, deficit contributions by employers will be re-introduced. Again this is likely to come into effect from April 2026. Susan was unable to provide an indication of the level of deficit contributions. In general, in the interests of prudence organisations should look at their previous deficit payments and use this as a basis for factoring into their financial projections.

4. Next Stage – Review Session

4.1 Following on from the information that the future service contribution rates will not change until April 2026 with deficit contributions likely to be reintroduced at the same time, I contacted Gordon Birrell to ascertain whether the Committee should have a review session with him. Gordon's response is as follows:

“This pretty much depends on your boards view in stemming future DB liability as it does add another year of liabilities given the delay in reviewing contributions rates has been deferred until next valuation.

Its good from a cost perspective although any future deficit contribution would be more due to keeping the DB open for longer (if change was decided).

2024 was perhaps timely although this now pushes out change to April 2026 when new rates are likely to come into play.”

- 4.2 Taking account of Gordon’s comments, Committee is asked to decide whether it would be helpful to have a review session with Gordon Birrell. If Committee meet with Gordon and depending on the outcome of the review, it may be necessary to consult with staff if any changes are being proposed. Any changes would come into effect after giving the Pension Scheme 3 months’ notice.
5. Summary/Decision Sought
 - 5.1 Committee last received a pensions update at its April meeting when the outcome of the employer consultation on the future service benefits was reported. A recap of the outcome is provided at Section 2 – Background of this report.
 - 5.2 A pensions update is provided at Section 3 which is based on the information shared at the SHAPs event recently held for Directors and Finance Managers.
 - 5.3 Committee is asked to consider this report and based on the comments received from Gordon Birrell, 7SW (see para 4.1) decide whether a review session should be held with Gordon Birrell.

SHAPS Employer Committee (EC) Update May 2025

I am writing with an update on our 2024 actuarial valuation discussions with the Scheme Committee (SC).

The EC met on 20 March when we considered the preliminary valuation results, which showed a funding deficit (shortfall). We shared more information about the potential for this in our January 2025 update to employers. We met again on 25 April 2025, when we considered the SC's Recovery Plan proposal. This proposal sets out the terms under which the funding deficit would be repaid.

The SC's proposal was very similar to what the EC had considered seeking. Taking advice from our independently appointed actuarial adviser, First Actuarial, and following a lengthy discussion, the EC agreed unanimously to accept the proposal from the SC. The SC is meeting later this month, after which we hope to receive confirmation that the valuation consultation is concluded. At that point, both the valuation assumptions, which determine the value being placed on the pension liabilities as at 30 September 2024, and the deficit repayment terms will be accepted by all parties.

Subject to the above, we are sharing with you the expected valuation results which are broadly in line with what we anticipated:

- the funding level has fallen from 98% at the last valuation (at 30 September 2021) to 89% at this valuation, with a Scheme level funding deficit of £79.5m;
- in respect of the deficit repayment terms, both committees support the introduction of deficit contributions from 1 April 2026. The annual, scheme level, deficit contributions paid as a result of the 2021 valuation were c. £33m; Employers, in total, will pay £15.6m per year from 1 April 2026. This will increase each 1 April by 3%. Deficit contributions will be payable for four years, ending on 31 March 2030; and
- as the Scheme Benefit Review (Court case) outcome is awaited, the committees have agreed that a conditional commitment will be given to extend the payment of deficit contributions, should the outcome result in additional liabilities. We are working with the SC on this commitment and more information is provided later in this update.

We have requested confirmation of the individual employer level deficit contributions. Once we receive this, we will consider if the current 'share of liability' approach (where contributions are allocated based on each employer's percentage share of overall Scheme liabilities) remains appropriate. While the aggregate, scheme level, deficit contributions have approximately halved, using the 'share of liability' basis means that individual employers' deficit contributions may not be in line with this movement. We are looking to conclude the valuation consultation and share each employer's share of the deficit contributions as soon as possible.

Future Service Contributions: there will be a significant reduction in the total future service contribution rates payable in respect of members who continue to build up pensions in either the Final Salary or Career Average Revalued Earnings (CARE) offerings. The rates from 1 April 2026 will reduce on average between 35% and 40%.

If an employer offers one of the defined benefit sections as their auto-enrolment (AE) vehicle, this means that the new contributions must meet the minimum auto-enrolment requirements. While auto-enrolment compliance is an employer responsibility, we will be working with our adviser, First Actuarial, and TPT to consider the auto-enrolment implications and how we can support employers. We will keep you updated on the position.

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Scheme Benefit Review: We received an update on the review and the Court hearing (which concluded on 28 March), and were advised that the Trustee anticipates it will receive the Court judgment no earlier than the summer of 2025. TPT has noted that there are a range of possible Court outcomes, and the Trustee is therefore likely to need time to consider the judgment fully before deciding on its approach.

The 2024 valuation result does not include an allowance for any potential additional liabilities coming out of the judgment. However both committees have agreed to make a conditional commitment that deficit repayment contributions will continue beyond 31 March 2030, should the judgment result in additional liabilities. We are working with the SC on the details of this commitment and will share more with you in due course.

TPT has produced a note for employers and their auditors on the approach being taken on the Scheme Benefit Review for the March 2025 year end accounting disclosures. This can be downloaded from the employer portal or obtained from FRS102@tpt.co.uk.

Valuation timeline: Below is the timeline to conclude and share the valuation outcome with you (noting that this may be subject to change should finalising the consultation extend beyond May).

30 September 2024	Actuarial Valuation Date
20 March – June 2025	Scheme Committee shares preliminary valuation results and consultation between the committees beings
May 2025	EC shares provisional results with Employers
June 2025	Earliest date when the Trustee is expected to receive the Scheme Benefit Review Court judgment
Summer 2025	Final valuation results shared with Employers Deficit contributions and scheme expenses shared with Employers, including details of a conditional commitment for the Scheme Benefit Review, should this be required
31 January 2026	Employers (with active defined benefit members) to confirm the split of the future service contribution rates and any changes to benefit offerings for the future
1 April 2026	Deficit contributions are payable in addition to scheme expenses New future service contribution rates are payable

In summary, we are close to concluding the valuation process. We believe we have achieved a result which both Committees can support and which helps employers plan and budget for the re-introduction of deficit contributions. We will let you know when the consultation is concluded; at this point TPT will share the valuation results and steps required by your organisations.

In the meantime if you wish to share any views with the EC please email SHAPSEmployerCommittee@tpt.co.uk. Your responses will be collated by the EC Secretary, Susan Wardlaw, and shared with the EC.

Kind regards

Ken Tudhope
SHAPS Employer Committee, Chair

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