

## For Decision

Agenda Item: 11.1  
Date of Meeting: 27/08/25

To: The Management Committee  
From: The Director  
Subject: Pensions Review – Independent Advice

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### 1. Introduction and Purpose

1.1 As Committee is aware, we offer 2 pension options through SHAPS (Scottish Housing Associations' Pension Scheme). The Scheme is administered by TPT Retirement Solutions. The 2 pensions are:

Defined Benefit (DB) – final salary with 1/60<sup>th</sup> accrual  
Defined Contribution (DC) – introduced when auto-enrolment became a requirement.

1.2 As reported at the May meeting the SHAPS Employer Committee (EC) had provided an update on its actuarial valuation discussions with the Scheme Committee in relation to the DB pension.

1.3 The purpose of this report is to

- provide the updated information on the outcome of the actuarial valuation;
- to present a proposal for the appointment of a company called, Spence and Partners, to provide Committee with independent, expert pensions advice.

### 2. Outcome of Actuarial Valuation

2.1 The Pension Scheme shared the results from the valuation, which are not different to the expected results it shared earlier in the year. There are 2 documents attached at Appendix 1. The first is the Valuation Summary and the second is The Employer Valuation Guide.

2.2 As Committee will see from the attached information the funding position has reduced from the 2021 valuation, from 98% to 90%. It is also reported that the overall size of the Scheme, both assets and liabilities, has also reduced.

### *Deficit Contributions*

2.3 As anticipated deficit payments are being introduced from 1<sup>st</sup> April 2026. The overall Scheme deficit contributions will be £15.6m p.a., increasing by 3% each 1<sup>st</sup> of April, and will be payable for four years until 31 March 2030. There is also provision for contributions to continue, should the outcome of the court case in respect of the Scheme Benefit Review result in additional liabilities for the Scheme.

2.4 We are provided with the details of our share of the deficit as follows:

Type	Yearly Contribution	Monthly Contribution
Deficit contributions	£78,229.92	£6,519.16
Scheme expenses	£7,250.64	£604.22

2.4 The deficit contributions and the scheme expenses will increase by 3% each year on 1<sup>st</sup> April, with the first increase effective from 1<sup>st</sup> April 2027.

### *Future Service Contribution Rates*

2.5 As can be seen from the attached information, there is a reduction in the future service rates at this valuation, which reflects the change in market conditions and increase in Government bond yields.

We offer one option within the DB pension which is the final salary (1/60<sup>th</sup>). Below is the current combined rate for this DB option and the new rate coming into effect from 1<sup>st</sup> April 2026.

DB option	Current combined rate	New rate from 01/04/26
Final Salary (1/60 <sup>th</sup> )	32.8%  This is split:  18% - employer 14.8% - employee	21%

## **3. Pensions Review**

3.1 As the actuarial valuation results have now been published, it is important for Committee to review its position in relation to the Defined Benefit – Final Salary (1/60<sup>th</sup>) pension. As in previous reviews the options open to Committee are as follows:

- To close the DB pension to current members and new entrants;
- To close the DB pension to new entrants only;

- To retain the status quo – keep the DB scheme open to all (current members and new entrants)
- 3.2 If Committee were to choose either option 2 or 3, it will also need to decide on the split of the future contribution rate of 21% between employer and employee.
- 3.3 To assist Committee with its considerations of the implications of the actuarial valuation 2024 results and the implications of each of the options open to Committee, it is important that Committee obtains independent, expert pensions advice.

*Proposal to Appoint Spence and Partners*

- 3.4 Spence and Partners is a UK firm of pensions experts with a focus on consultancy, actuarial, administration and the development of specialist data solutions. The staff member that would be working with Rosehill is Alastair Russell-Smith. He is the Charity and Corporate advisory lead. He has more than 20 years of experience as an Actuary working for DB and DC pension schemes. He provides advice for employers and third sector bodies on all aspects of pension provision.
- 3.5 Our Finance Manager has some experience of working with this company in his previous employment.
- 3.6 The proposal from Spence and Partners involves preparing a presentation (taking account of information it requires about Rosehill) and attending a session with the Committee. The presentation will cover:
- Rosehill's current position e.g. DB pension (final salary – 1/60<sup>th</sup>) open to current and new staff, with the DC pension being used for auto-enrolment;
  - Overview of the 2024 Actuarial Valuation including: re-introduction of deficit payments, summary of cost to fully exit the DB pension;
  - Explanation and assessment of the options open to Committee as set out in para 3.1 but also include an option to introduce salary sacrifice for pension contributions in SHAPS DC (Defined Contribution Pension);
  - Timescales and milestones for implementing the various options;
  - Recommendations and next steps
- 3.7 The fee for undertaking the above is £5,000 plus VAT.
- 3.8 If Committee approve the appointment of Spence and Partners, I am recommending that the session is held sooner rather than later, as we may need to undertake consultation with our staff. The company has

provided some dates in September and early October; I have excluded any dates where the Committee have other engagements e.g. the Management Committee meeting on 24<sup>th</sup> September. The available dates are:

Tuesday 23/09/25  
 Thursday 24/09/25  
 Tuesday 30/09/25

Wednesday 01/10/25  
 Thursday 02/10/25  
 Thursday 09/10/25

#### 4. Risk

4.1 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 asked to note that risk will be considered further with the independent Pension Advisor.

Risk Category	Mitigating Measure
<p><b>Financial:</b>            Ongoing affordability of final salary pension scheme;            Levels of past service debt accrued;            Future liability;            Cessation event;            Reliance on other scheme 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>Pension deficit contributions incorporated into 30 year cash flows demonstrate capacity to pay 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)</p> <p>Alternative pension scheme available to employees;            Membership of scheme reviewed at least every 3 years by Management Committee following publication of the scheme valuation;</p> <p>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><b>Governance:</b></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><b>Legislative and Regulatory:</b></p> <p>as above and, Fail to meet regulatory requirements</p>	<p>As above</p>
<p><b>People:</b></p> <p>Staff unhappy with decision about DB pension</p>	<p>Committee's decision will be based on independent, expert pensions advice;</p> <p>Consultation with staff will be undertaken;</p> <p>Potential alternative pension offerings could be more generous to those currently in DB pension.</p>

## 5. Delivery of our Strategic Objectives

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

## 6. Application of our Core Values

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

## 7. Compliance and Assurance

- 7.1 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><b>Standard 3</b> - 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><b>Guidance 3.6</b> – 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><b>Standard 4</b> - The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose.</p> <p><b>Guidance 4.1</b> – 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><b>Guidance 4.4</b> - 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>

## 7.2 Evidence Bank

Evidence	Assurance Exercise Location
<ul style="list-style-type: none"> <li>Report and attachments for 27/08/25 meeting;</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory Standard 3 – Guidance 3.6</li> <li>Regulatory Standard 4 – Guidance 4.1 and 4.4</li> </ul>

7.2.1 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.

## **8. Summary and Decision Sought**

8.1 The results of the 2024 of the actuarial valuation have now been published. The 2 relevant documents are attached at Appendix 1.

8.2 Committee should now begin the process to determine Rosehill's future participation in the Defined Benefit (DB) pension. The options for Committee's consideration are set out in para 3.1. To assist Committee in this process, a proposal is being presented to appoint Spence and Partners to provide Committee with the necessary independent and expert pensions advice. The detail of this is set out in Section 3. The cost of using the services of Spence and Partners is £5,000 plus VAT.

8.3 Risk relating to our participation in the DB pension is considered at Section 4. Committee is asked to note that risk will be further considered as part of the Pensions Session with Spence and Partners.

8.4 Section 5 shows how periodically reviewing our involvement in the DB scheme, links to the delivery of our strategic objectives.

8.5 Section 6 shows how periodically reviewing our involvement in the DB scheme, links to the application of our Core Values.

8.6 Section 7 sets out how we comply with Regulatory requirements.

8.7 Committee is asked to consider this report and the attached information. Committee is further asked to approve the proposal to appoint Spence and Partners to provide the necessary independent, expert pensions advice at a cost of £5,000 plus VAT.

# Scottish Housing Associations' Pension Scheme

Employer Guide to the Actuarial Valuation as at  
30 September 2024

July 2025



# A guide for employers

The 2024 actuarial valuation results for the Scottish Housing Associations' Pension Scheme (SHAPS) were released on 24 July 2025. This guide provides background information and a summary of the results.

If you would like further information, or to discuss the content of this guide in more detail, please contact the TPT Client Relations Team or your usual Client Relations Manager.

Email: [clientrelations@tpt.co.uk](mailto:clientrelations@tpt.co.uk)

Tel: 0113 394 2754

## Contents

Scheme Governance	2
Scheme funding position	3
Solvency valuation	4
Scheme liabilities	5
Scheme assets	6
Key Valuation assumptions	7
Change in funding position since the 2021 valuation	8
Scheme contributions from 1 April 2026	10
Recovery plan	10
Employer Deficit Contributions	11
Scheme expenses	12
Deficit contribution payment arrangements	13
Information for employers with Active ("contributing") defined benefit members	14
Making changes to benefit structures or contribution rates	15
Member consultation requirements	16
More information	17

# Scheme Governance

SHAPS operates two committees within its governance structure: the Scheme Committee (SC) and the Employer Committee (EC).

The SC has responsibilities, delegated by the Scheme Trustee, for managing the funding and investment strategy for the Defined Benefit (DB) structures of the Scheme. The SC is advised by the Trustee appointed Scheme Actuary.

The EC is the representative body for participating employers. It is supported by an independent appointed adviser, which is currently First Actuarial. The EC can be contacted at [SHAPSEmployerCommittee@tpt.co.uk](mailto:SHAPSEmployerCommittee@tpt.co.uk).

The SC consults with the EC on Scheme funding and investment. Assisted by their respective advisers, the Committees have conducted a considered and collaborative consultation exercise to reach agreement on the 2024 actuarial valuation of the Scheme.

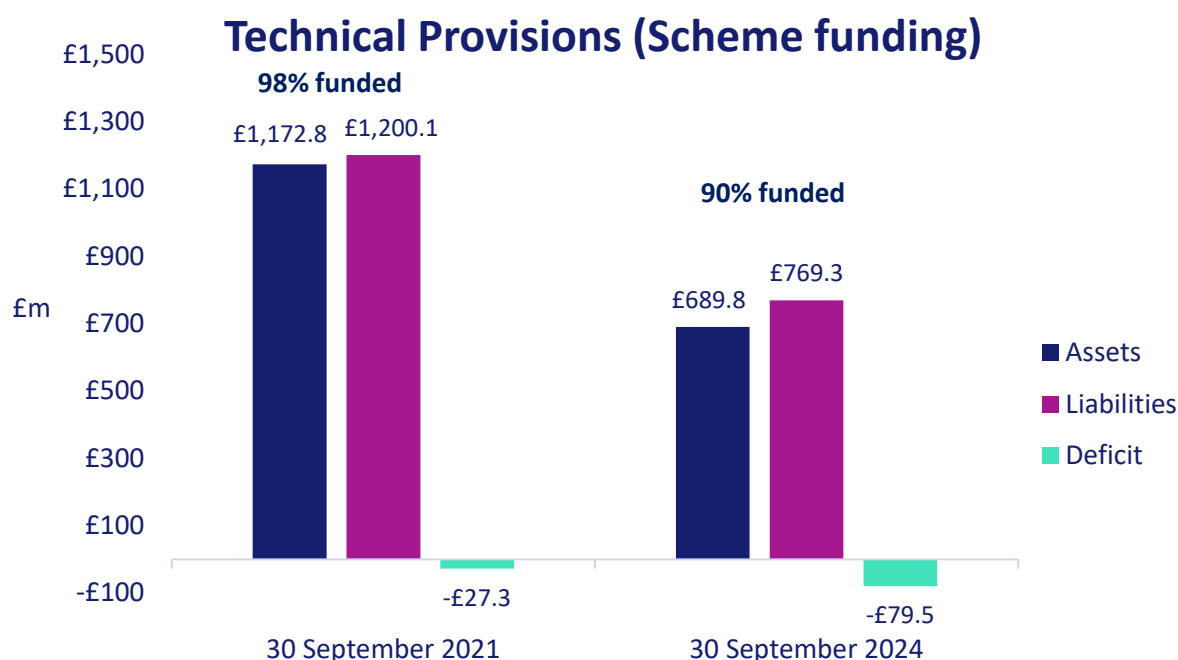
# Scheme funding position

The actuarial valuation is an assessment of the Scheme assets and liabilities by the Scheme Actuary, usually every three years. This determines how much money needs to be held in the Scheme so that members' pensions can be paid now and in the future. The benefits which the Scheme will pay to members are known as the liabilities. Based on actuarial assumptions, the Scheme Actuary estimates a value of the liabilities at the valuation date – 30 September 2024.

New legislative requirements, set out in the Pension Regulator's new DB Funding Code, came into force for actuarial valuations with effective dates on or after 22 September 2024. This means that the new requirements apply to this valuation. The Funding Code sets out the Regulator's expectations as to how pension scheme trustees should approach their funding and investment strategy. It requires trustees to set a long-term objective to have low dependence on their sponsoring employers no later than the time the Scheme is "significantly mature", as well as a plan to achieve this objective.

The Scheme had already introduced a Long Term Funding Target, broadly compatible with the concept of low dependency included in the new Code. One addition to the valuation is the new requirement to include a reserve for future Scheme expenses once the Scheme is significantly mature. This reserve is now included in the liabilities, and will be funded for, in addition to the Scheme expenses currently paid by employers.

The chart below sets out the headline valuation results on a Technical Provisions (Scheme funding) basis. This is the basis which assumes the Scheme continues and pays pensions to members as they fall due. Where there is a deficit on this basis, employer contributions are needed to bring the Scheme back to a fully funded position.



# Solvency valuation

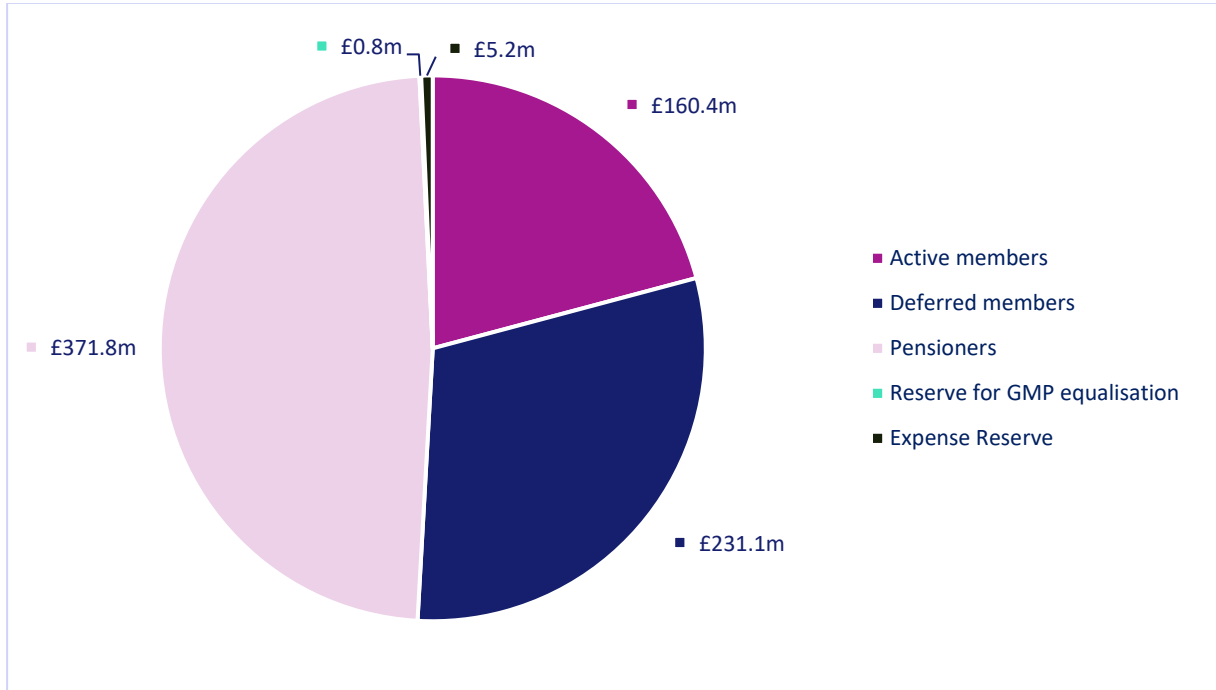
The Solvency (or Buy-out) basis is the statutory basis for calculating an employer's debt on withdrawal from the Scheme. This is the withdrawing employer's share of the difference between the Scheme assets and the Scheme Actuary's estimate of the amount an insurance company would charge for taking on responsibility for paying all of the benefits due.

The Buy-out valuation basis is the most prudent basis as this assumes there will be no employers funding the Scheme, and it includes an element of profit for the insurance company.

As at 30 September 2024, the Scheme was 75% funded on a Solvency basis, with a deficit of £224.6m. All employers were notified of their individual estimated employer debt on withdrawal on 21 May 2025.

# Scheme liabilities

At the valuation date, 30 September 2024, the Scheme liabilities are broken down as follows:



# Scheme assets

The Scheme's investment strategy currently targets an expected investment return of Gilts (UK Government bonds) plus 2.57% per annum. It invests in three broad asset groups:

## Growth Assets

This is a diversified portfolio which includes exposure to equities, credit, market neutral strategies, illiquid assets (expected to provide a superior return than those that can be sold at short notice) and insurance.

## Matching Plus

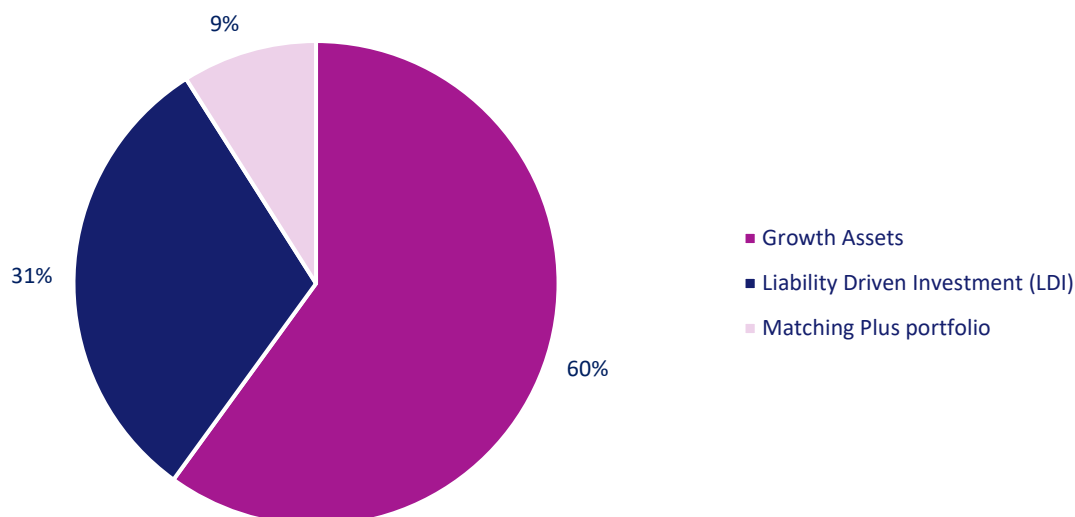
This represents a broad range of assets, including corporate bonds, secure income, liquid credit and long-lease property, to provide a margin above comparable Government bond yields and diversification to the Growth Assets portfolio, with lower volatility.

## Liability Driven Investment (LDI)

These assets are designed to broadly match the sensitivity of the underlying liabilities to changes in interest rates and inflation, using Government bonds and swaps. This means that, given movement in inflation expectations / Government bond yields, we would expect the value of the Scheme's assets to move in a similar way to its liabilities.

The Scheme hedges 95% of funded Long Term Funding Target liabilities. The Long Term Funding Target basis represents a low-risk funding strategy, where a scheme has a high resilience to funding and investment risk.

Scheme assets at the valuation date, 30 September 2024



# Key valuation assumptions

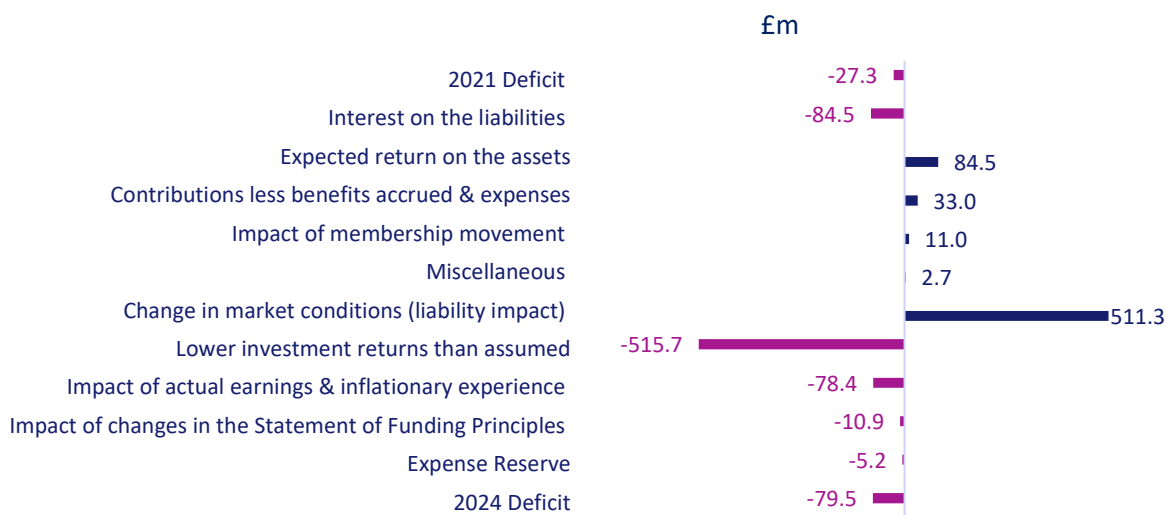
Underpinning the actuarial valuation results are the key actuarial and financial assumptions used to value the pension liabilities. The assumptions are agreed following consultation, with advice taken from the Scheme Actuary by the SC, and the EC taking advice from its actuarial advisers.

The key assumptions are shown below:

Assumption	30 September 2021 % p.a.	30 September 2024 % p.a.
<b>Price inflation</b>		
<b>Retail Prices Index (RPI)</b>	RPI Inflation Curve	RPI Inflation Curve
<b>Consumer Prices Index (CPI)</b>	CPI: RPI Curve less 1.0% p.a. until 2030 and full RPI Curve from 2030 onwards	CPI: RPI Curve less 1.0% p.a. until 2030 and full RPI Curve from 2030 onwards
<b>Investment return</b>	Gilt Curve plus 2.58% p.a. at the valuation date tapering linearly to Gilt Curve plus 0.85% p.a. over a transition period of 23 years	Gilt Curve plus 2.57% p.a. at the valuation date tapering linearly to Gilt Curve plus 0.85% p.a. over a transition period of 12 years
<b>Discount rates</b>	Initial rate of Gilt Curve plus 2.03% p.a. at the valuation date tapering linearly to Gilt Curve plus 0.55% p.a. over a transition period of 23 years for past service liabilities and 36 years for future service liabilities.	Initial rate of Gilt Curve plus 1.87% p.a. at the valuation date tapering linearly to Gilt Curve plus 0.5% p.a. over a transition period of 12 years for past service liabilities and 27 years for future service liabilities.
<b>Pensionable earnings growth</b>	CPI +1% p.a.	CPI +2% p.a.
<b>Mortality after retirement</b>	116% of S3PxA tables Improvements: CMI_2020, A=0.25% males, 0.50% females, LTR=1.50% males, 1.25% females	112% of S4PxA tables Improvements: CMI_2023, A=0.25%, LTR=1.50% males, 1.25% females

# Change in funding position since the 2021 valuation

The Scheme deficit has increased from £27.3m on 30 September 2021 to £79.5m on 30 September 2024, an increase of £52.2m. A breakdown of the movements in the funding position since the 2021 valuation is shown in the chart below.



The movements are explained further below:

## Interest on the liabilities and expected return on assets

At each valuation, the Scheme Actuary looks at all of the Scheme’s expected future payments (its liabilities) and then applies a “discount rate” to give a current value of these. Using the discount rate assumption from the 30 September 2021 valuation, the liabilities were expected to increase due to interest over the 3 year period to 30 September 2024 by £84.5m.

Similarly, using the investment return assumption from the 30 September 2021 valuation, the Scheme assets were expected to increase over the 3 year inter-valuation period by £84.5m.

## Contributions received less benefits accrued and expenses

Deficit contributions paid by employers between 1 October 2021 and 30 September 2022 will have helped to reduce the deficit. The net reduction over the period, after allowing for benefits earned and Scheme expenses, is £33m.

## Membership movement

Changes in the Scheme membership have improved the funding by £11m.

## Excess Investment return and change in financial conditions

The Scheme uses LDI assets to seek to match developments in the Scheme liabilities. This means that the Scheme assets reduce as the liabilities reduce. Overall, the reduction in liabilities (£511.3m) has been less than the reduction in assets (£515.7m). However, allowing for inflation and earnings growth being higher than expected, this had a negative effect on the funding by around £82.8m.

**Impact of other changes to the Statement of Funding Principles**

Other changes relate to the change in discount rate (used to value the pension liabilities), as well as earnings growth and mortality assumptions. This increased the liabilities by £10.9m.

**Expense Reserve**

The new DB Funding Code requires the actuarial valuation to include a reserve for future Scheme expenses once the Scheme is significantly mature; these are in addition to the Scheme expenses currently paid by employers. This increased the liabilities by £5.2m.

# Scheme contributions from 1 April 2026

Total contributions to the DB structures payable from 1 April 2026 are made up of:

- Deficit contributions payable under the new Recovery Plan
- Scheme expenses, based on each employer's share of the Scheme liabilities as at 30 September 2024
- Future service contributions for active (contributing) DB members.

Contributions payable under the Recovery Plan and Scheme expenses are shown below. For information on future service contributions please see the later section "Information for employers with Active DB members".

## Recovery Plan

Deficit contributions payable have previously been allocated on a "share of liability" basis, based on each employer's percentage share of overall Scheme liabilities. The EC considered different approaches at this valuation and concluded that the "share of liability" approach remains appropriate. This means that each employer's deficit contributions will be based on their percentage share of the Scheme liabilities as at 30 September 2024.

From 1 October 2021, the aggregated deficit contributions were £32m, increasing by 3% on 1 April 2022. Deficit contributions ceased on 30 September 2022.

A new Recovery Plan, to recover the Scheme level deficit of £79.5m, has been agreed by the SC and EC. This will take effect from 1 April 2026 with an end date of 31 March 2030.

2024 valuation approach	End of Recovery Plan	Contributions from 1 April 2026	Increase each 1 April
Share of liabilities	31 March 2030	£15.6m	3.0%

At the time of agreeing the valuation, the outcome of the court case in respect of the Scheme Benefit Review was not yet known. To allow the 2024 valuation to be concluded, both committees have agreed that the Recovery Plan repayment period may be extended for up to two years (up to 31 March 2032) in the event that the court judgment results in additional Scheme liabilities. This will allow employers to budget for an extension to the Recovery Plan, should this be required.

The position will be reviewed at the 2027 valuation, at which point any impact of the court judgment on Scheme liabilities will be better understood.

# Employer Deficit Contributions

At Scheme level, the annual deficit contributions payable from 1 April 2026 are c.53% lower than those in payment from 1 April 2022.

Each employer's share of the deficit contributions will vary, according to the change in its membership experience since 30 September 2021, compared to the Scheme's overall experience. The change in deficit contributions due for each individual employer may depend upon a number of factors including:

## **Average age of the membership**

Employers with a younger average membership age can expect a lower share of total liabilities compared to those employers with an older membership. This is because they will benefit more from the increase in Government bond yields since the previous valuation, which are used to discount the liabilities.

## **Member movements**

If an employer has had no member movements (e.g. transfer outs, deaths) then its share of the liability may have increased compared to other employers whose membership numbers have fallen, reducing liabilities.

## **Continuing DB accrual**

Where active members are continuing to build up additional service, this will increase Scheme liabilities for the individual employer.

# Scheme expenses

The Scheme structure enables employers to share the costs of running the Scheme, which include Trusteeship, Scheme governance, administration, actuarial and legal advice, plus the annual payment of the Pension Protection Fund and The Pensions Regulator (TPR) levies.

Following consultation with the EC, contributions towards Scheme expenses will continue to be allocated based on each employer's share of the Scheme liabilities.

There is an increase in Scheme expenses at this valuation, reflecting that the employers' contribution to the Scheme expenses, collected over the previous valuation cycle, has not been sufficient to meet the Scheme costs. Reasons for the increase include:

- a high inflationary environment where the cost of resource and external advice has significantly increased
- an increase in member administration activity, with the number of member calculations around 10% higher than three years' ago
- an increase in compliance costs, such as investment climate reporting and preparing for the Pensions Dashboard
- investment into service improvements such as the Employer Portal and cybersecurity.

## **Review of expenses allocation policy**

In the coming months, the EC will consider alternative approaches to the allocation of Scheme expenses amongst employers, to recognise that the general costs of running a DB pension scheme do not directly relate to an employer's share of the Scheme liabilities, and that it may be appropriate to include an element of fixed cost.

The EC will consult with all employers on any proposed change of approach, which may be introduced ahead of the 2027 valuation.

# Deficit contribution payment arrangements

Deficit contributions (payable from 1 April 2026) and Scheme expenses are payable monthly, and are collected as part of your monthly contribution submission.

## **Advance payment of your deficit contributions**

The Scheme permits the advance payment of an employer's deficit contributions. In return for an advance payment, a reduction will be applied, with the Trustee taking actuarial advice on an appropriate reduction. The Trustee will confirm the impact on any remaining Recovery Plan payments due from the Employer.

Employers using this facility may want flexibility to use up a financial surplus or control the "window" in which contributions are paid. If you are thinking about making an advance payment, you should consider taking independent advice on the potential impact, such as the tax implications, FRS102 reporting and effect on your employer debt on withdrawal.

## **Affordability appeals**

If you are concerned that your organisation is not able to afford the full level of deficit contributions, you can request details of the affordability appeal process. This process would include providing financial evidence to set out why contributions are not affordable would be considered by the Scheme Trustee. Any concessions granted would need to be paid back, with interest.

If you wish to receive more information on advance payment, or to discuss any affordability concerns and appeals, including the costs of setting up any alternative arrangements or the appeal process, please contact our Client Relations Team, who will assist and confirm the process for either approach.

# Information for employers with Active (“contributing”) DB members

## Future service contributions

The total Employer and Member future service contribution rates are assessed as part of the valuation. The rates reflect the estimated cost as at 30 September 2024 of providing future benefits earned by the active DB members.

The Scheme previously operated different rates for employers which were open or closed to new members. From 1 April 2026 a single rate will apply. The change of approach is due to the small and variable impacts across all of the structures.

The table below shows the existing contribution rates for each of the DB structures, together with the new overall rates applicable from 1 April 2026:

	Current Total Rates		Rate from 1 April 2026	Net change	
	Closed Employer	Open Employer		Closed Employer	Open Employer
Final Salary 60 <sup>th</sup>	32.8%	32.4%	<b>21.0%</b>	- 11.8%	- 11.4%
CARE 60 <sup>th</sup>	31.7%	31.0%	<b>18.9%</b>	- 12.8%	- 12.1%
CARE 70 <sup>th</sup>	27.1%	26.5%	<b>16.2%</b>	- 10.9%	- 10.3%
CARE 80 <sup>th</sup>	23.7%	23.2%	<b>14.2%</b>	- 9.5%	- 9.0%
CARE 120 <sup>th</sup>	15.8%	15.4%	<b>9.6%</b>	- 6.2%	- 5.8%

The significant reduction in the rates at the 2024 valuation primarily reflects the change in market conditions since 2021.

The future service rates will be next reviewed as part of the 30 September 2027 actuarial valuation.

## Auto-enrolment

Some employers use the Scheme as their auto-enrolment pension scheme. It must therefore meet minimum requirements for auto-enrolment. It is an employer’s responsibility to ensure that the Scheme it uses for this purpose meets the requirements. As the future service contribution rates will reduce significantly, the EC sought advice from its adviser, which has confirmed that all of the DB benefit structures will continue to meet the requirements on a “cost of accruals” basis. Therefore, employers may continue to offer any of the DB structures as their auto-enrolment pension scheme.

# Making changes to benefit structures or contribution rates

If you have active DB members in the Scheme you will need to consider what proportion of the future service contribution rates will be paid by the employer and members; you may also wish to consider making a change to the benefit structures you currently offer.

Please note:

- Each employer can choose how they allocate the overall future service contribution rates between the employer and the member
- Once you have completed your employee consultation, please confirm any changes to your existing contribution rates, or changes to the DB structures being offered for future service, to TPT. You can access the **Employer Form of Authority** using this link [SHAPS Valuation - TPT](#) and submit this form to TPT **no later than Friday 30 January 2026**.

## Default Position

At previous valuations, where there has been a change in contribution rates, TPT has operated a “default” which would apply in cases where an Employer Form of Authority, confirming the revised split between the employer and member contributions, was not received by the deadline.

As the total future service contribution rates from 1 April 2026 will reduce significantly, it is not possible to set a default position that could apply to all employers. Therefore, you must submit your Employer Form of Authority **no later than Friday, 30 January 2026**.

## Member options

Where an employer offers more than one benefit structure, and a member decides to select a different option than the one they currently participate in, the individual member should complete a Transfer to New Benefit Structure (SHAPS) form. This is available using this link [SHAPS Valuation - TPT](#). Members who have benefits that are linked to final salary should be aware that in certain circumstances a voluntary switch to a different benefit structure may “break” this link for the future.

## Closing DB membership

An employer may close DB membership to all its members and, providing that it has an active member in the SHAPS Defined Contribution (DC) structure, the employer will not trigger payment of its DB debt on withdrawal.

## Re-opening of the DB structures to active members

Where an employer has previously closed its DB structures to active members, it may be possible to reintroduce DB as a pension offering for future service. The Trustee would seek comfort that reintroducing DB is a viable long term financial option for the employer.

If you are considering this, we recommend that you seek independent professional advice and engage with TPT’s Client Relations Team as part of your initial planning.

# Member consultation requirements

You may be required to consult with employees affected by changes either as a result of legislation or your organisation's own requirements and recognised best practice.

Under legislation the types of DB changes – known as listed changes - that trigger the requirement to provide information and consult include:

- Increasing member contributions
- Reducing the rate of accrual of benefits (e.g. final salary 60ths to final salary 70ths)
- Changing the basis of future accrual (e.g. from final salary to CARE)
- Closing DB to new members
- Stopping future DB accrual.

We have produced sample consultation material which is available using this link [SHAPS Valuation - TPT](#).

## Listed Changes

You may have a statutory obligation to consult if the changes you are making are “listed changes”. For example if you have 50 or more employees then you must consult with “affected members” and/or their representatives. An affected member is a current member of the Scheme, plus all employees who would be eligible to join the Scheme if they wished to do so.

As well as the possible statutory obligation to consult, there may be obligations under internal procedures or governance arrangements relating to employees' Terms and Conditions of Employment. Please take independent professional advice if you are in any doubt as to your obligations or what constitutes a listed change.

Where statutory consultation is being undertaken, it must begin and end on the dates specified in the information provided to affected members, and the process must last at least 60 days. This period may be longer if you are required to carry out full employment consultation.

The DWP expects the employer and those consulted to work together in a spirit of co-operation. At the end of the consultation period the employer must consider any comments before deciding whether to proceed with a change to future pension provision.

# More information

If you would like more information, or have any questions about the information in this guide, please contact the Client Relations team or your usual Client Relations Manager.

Email: [clientrelations@tpt.co.uk](mailto:clientrelations@tpt.co.uk)

Tel: 0113 394 2754

## **Disclaimer**

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# Scottish Housing Associations' Pension Scheme (SHAPS)

Summary of the 30 September 2024 Actuarial Valuation Results

# Content

	Page
Scheme funding position	3
New Defined Benefit Funding Code	4
Changes to the funding position since the 2021 valuation	5
Recovery Plan (deficit repayment terms)	6
Deficit contributions	7
Scheme expenses	8
Deficit Contribution payment arrangements	9
Employer covenant	10
Scheme investments	11
Future Service Contribution Rates	12
Next steps	14
Disclaimer	15

# Scheme Funding

Every three years, the funding position of the Scheme is assessed, this is referred to as an 'actuarial valuation' or 'valuation'.

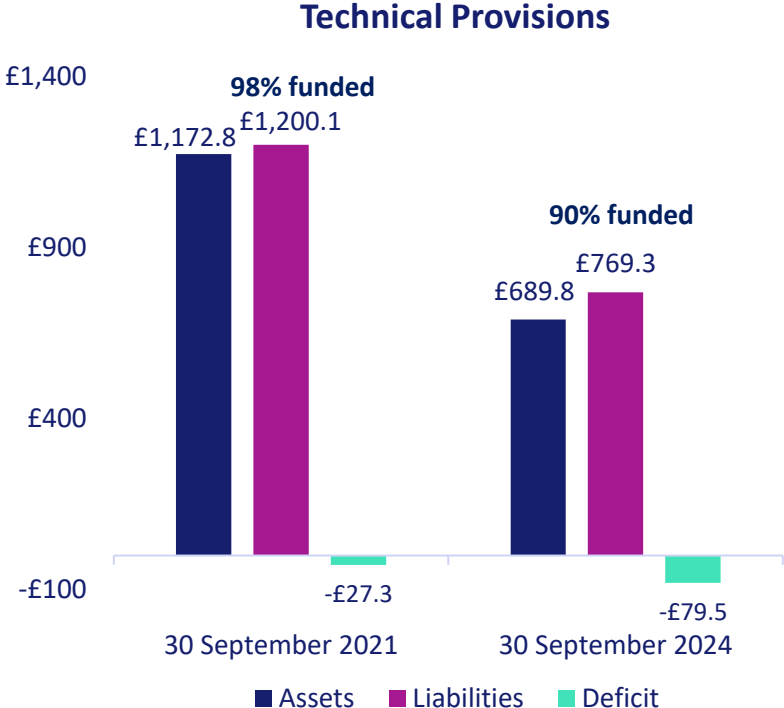
The Technical Provisions basis is used for calculating the Scheme's ongoing funding position. The Scheme liabilities are compared to the value of the assets to establish whether there is a surplus or deficit, and if a Recovery Plan (which determines the deficit repayment terms) is needed.

The chart compares the funding positions as at 30 September 2024 and 30 September 2021, the previous valuation date.

The Scheme funding level has reduced from 98% to 90%, and the overall size of the Scheme, both assets and liabilities, has also reduced.

Employers stopped paying deficit contributions on 30 September 2022. However, these will be re-introduced from 1 April 2026.

The key contributing factors to the change in funding position are shown on the page 5.



# New Defined Benefit (DB) Funding Code

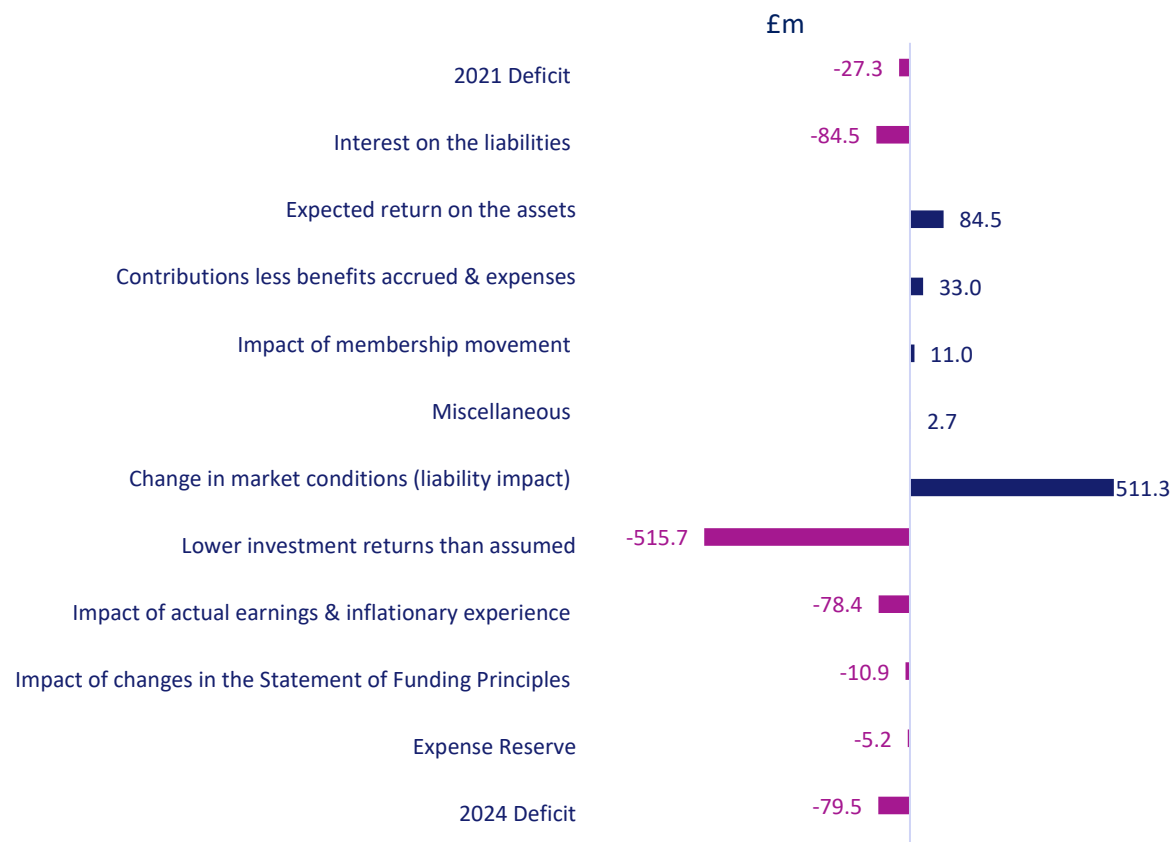
New legislative requirements, set out in the Pensions Regulator's new DB Funding Code, came into force for actuarial valuations with effective dates on or after 22 September 2024. This means that the new requirements apply to this valuation.

The Funding Code sets out the Regulator's expectations as to how pension scheme trustees should approach their funding and investment strategy. It requires trustees to set a long-term objective to have low dependence on their sponsoring employers no later than the time the Scheme is "significantly mature", as well as a plan to achieve this objective.

SHAPS had already introduced a Long Term Funding Target, broadly compatible with the concept of low dependency included in the Code. One addition to the valuation is the new requirement to include a reserve for future Scheme expenses once the Scheme is significantly mature. This reserve is now included in the liabilities, and will be funded for in addition to the Scheme expenses currently paid by employers.

The new Scheme expense reserve added £5.2m to the Scheme liabilities, as noted in the reconciliation graph on the next page.

# Changes in the funding position since the 2021 valuation



This chart shows the movement in the funding position between the 2021 and 2024 valuations. The most significant movements are noted below:

- Contributions to the Scheme, less benefits earned and an allowance for Scheme expenses, improved the funding position by £33m.
- Membership changes improved the funding position by £11m.
- There has been a substantial change in market and financial conditions since the 2021 valuation, with an increase in both Government bond yields and inflation expectations. Overall, this had the impact of reducing the value of the liabilities by £511.3m.
- The Scheme uses Liability Driven Investment (LDI) to seek to match developments in Scheme liabilities. This means that the Scheme assets also reduce as the liabilities reduce. Overall, the reduction in liabilities (£511.3m) has been less than the reduction in assets (£515.7m).
- Inflation and earnings growth were higher than expected (£78.4m).
- Changes to the discount rate, earnings assumption and mortality assumptions resulted in an overall increase in liabilities of £10.9m.
- The new funding code requirement to build a reserve for future Scheme expense, increased liabilities by £5.2m.

# Recovery Plan

Where a valuation identifies a deficit, the scheme trustee must put in place a Recovery Plan. This sets out the contributions payable by employers to remove the deficit over an agreed period (the deficit repayment terms).

Deficit contributions will be re-introduced from 1 April 2026, reflecting that the funding level has reduced and the deficit has increased since the 2021 valuation.

## **2021 valuation**

Employer deficit contributions ceased on 30 September 2022.

This was based on the assumptions adopted at the 2021 valuation. The expectation was that the assumed investment returns would make good the funding shortfall. Unfortunately, these assumptions were not borne out in practice.

## **2024 valuation**

Given the deficit of £79.5m, it is necessary to re-introduce deficit contributions. At Scheme level, deficit contributions of £15.6m p.a. will be payable from 1 April 2026 until 31 March 2030.

The deficit contribution will increase each year by 3.0% p.a., with the first increase in April 2027.

At the time of agreeing the valuation, the outcome of the court case in respect of the Scheme Benefit Review is not yet known. To allow the 2024 valuation to be concluded, both committees have agreed that the Recovery Plan repayment period may be extended for up to two years (up to 31 March 2032) in the event that the court judgment results in additional Scheme liabilities. This will allow employers to budget for an extension to the Recovery Plan, should this be required.

The position will be reviewed at the 2027 valuation, at which point any impact of the court judgment on Scheme liabilities will be better understood.

At Scheme level, the deficit contributions are c. 53% less than those in payment from 1 April 2022. The deficit contributions will be allocated to employers, based on each employer's share of the total Scheme liabilities.

# Deficit contributions

Details of the deficit contributions and contributions towards the cost of running the Scheme (“Scheme expenses”) payable from 1 April 2026 are included in the covering email.

All contributions towards the deficit will be allocated using the same approach as at previous valuations, being a share of the total Scheme liabilities at the valuation date.

For example, if, at the valuation date, 30 September 2024, the pension liabilities for an employer’s membership represent 1% of the Scheme’s liabilities, then the employer will pay 1% of the total deficit contributions due under the Recovery Plan.

The deficit contributions reflect any change in an employer’s membership profile between the 2021 and 2024 valuation dates.

## Contributing factors

The change in deficit contributions due for each employer may depend upon a number of factors such as:

- **Average age of the membership.** For example, employers with a younger average membership age will see a lower share of total liabilities as they will benefit more from the increase in Government bond yields since the previous valuation, compared to those employers with an older membership.
- **Member movements.** If an employer has had no member movements (e.g. transfer outs, deaths) then its share of the liability may have increased compared to other employers whose membership numbers have fallen.
- **Continuing defined benefit (DB) accrual.** Where active members are continuing to build up additional service, this will increase Scheme liabilities for the individual employer.

# Scheme expenses

Employers contribute towards the cost of running the Scheme. The cost includes member administration, employer support, the Trustee's management costs and the cost of the Pension Protection Fund and The Pensions Regulator levies. Scheme expenses are payable in addition to the deficit contributions.

The contribution towards Scheme expenses is currently allocated based on each employer's share of total Scheme liabilities.

The Scheme expenses will increase from 1 April 2026, reflecting that the expenses collected have not been sufficient to meet the Scheme costs since the 2021 valuation. Reasons for the increase include:

- a high inflationary environment where the cost of resource and external advice has significantly increased.
- an increase in member administration activity, with the number of member calculations around 10% higher than three years' ago.
- an increase in compliance costs, such as investment climate reporting and preparing for the Pensions Dashboard.
- investment into service improvements such as the employer portal and cybersecurity.

The Employer Committee (EC) has agreed that each employers' contributions towards Scheme expenses will temporarily continue to be allocated on the share of the total Scheme liabilities, with the new scheme expense cost being introduced from 1 April 2026.

In the coming months, the EC will consider alternative approaches to the allocation of Scheme expenses amongst employers, to recognise the general costs of running a DB pension scheme do not directly relate to an employer's share of the liabilities, and that it may be appropriate to include an element of fixed cost.

The EC will consult with all employers on any proposed change of approach, which may be introduced ahead of the 2027 valuation.

# Deficit Contribution - Payment Arrangements

Deficit contributions will be re-introduced from 1 April 2026 and will be collected, together with your Scheme expenses, as part of your monthly contribution submission.

## **Advance payment**

The Scheme also permits the advance payment of an employer's deficit contributions. In return for any advance payment, a reduction will be applied to the contributions, with the Trustee taking actuarial advice on an appropriate reduction.

Employers using this facility may want flexibility to use up a financial surplus or control the "window" in which contributions are paid.

If you are thinking about making advance payment, you should consider taking independent advice on the potential impact, such as the tax implications, FRS102 reporting and effect on your employer debt on withdrawal.

## **Affordability appeals**

If you are concerned that your organisation is not able to afford the full level of deficit contributions, you can request details of the affordability appeals process. This process would include providing financial evidence to set out why contributions are not affordable would be considered by the Scheme Trustee. Any concessions granted would need to be paid back, with interest.

If you wish to receive more information on advance payment or to discuss any affordability concerns, including the costs of setting up any alternative arrangements, please contact our Client Relations Team at [clientrelations@tpt.co.uk](mailto:clientrelations@tpt.co.uk).

# Employer Covenant

The valuation assumptions are based on an aggregate view of the financial strength and affordability of all SHAPS employers, based on the Trustee's KPIs and sector outlook.

Historic and forecast data feeds into the covenant assessment process which was carried out by an independent covenant adviser. The Scheme retained its Strong covenant classification which means the Trustee considers the overall scheme covenant continues to be low risk.

Employer failures in the sector, for example going into liquidation and being unable to pay their share of the employer debt on withdrawal, are rare (there were no such cases between the 2021 and 2024 valuation dates), and the Scheme is resilient to individual failures. The covenant review also assessed the potential impact of multiple failures and concluded that this would not present a significant risk to the Scheme.

The covenant review also included an assessment of the Scheme's resilience to employers withdrawing from the Scheme and concluded that the impact of this on the overall covenant was low.

# Scheme Investments

The Scheme's investment strategy currently targets an expected investment return of the return on Gilts plus 2.57% per annum.

The Scheme is hedged to reduce interest rate and inflation risks that are present in the Scheme liabilities. Current hedging levels will be maintained at 95% of funded liabilities on the Long Term Funding Target basis, a funding basis which represents a low-risk funding strategy, where the Scheme has a high resilience to funding and investment risk, which means that there is very low dependency on contributions from the employers.

	Allocation (31/03/2025)	Target allocation *
Growth Assets (1)	64%	58%
Matching Plus (2)	7%	7%
Liability Driven Investment (LDI) (3)	28%	35%
Cash (Liquidity) and currency hedging	1%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

- (1) A diversified portfolio which includes exposure to equities, credit, market neutral strategies, illiquid assets (expected to provide a superior return than those that can be sold at short notice) and insurance
- (2) Represents a broad range of assets, including property, to provide a margin above comparable Government bond yields
- (3) Designed to match the sensitivity of the underlying liabilities to changes in interest rates and inflation, using Government bonds and swaps

\* The estimated asset allocation required to achieve the stated investment objectives.

# Future Service Contribution Rates

The total (member and employer) future service contribution rate is calculated at each valuation; the rates reflect the estimated cost of new benefits being earned by the active (contributing) members.

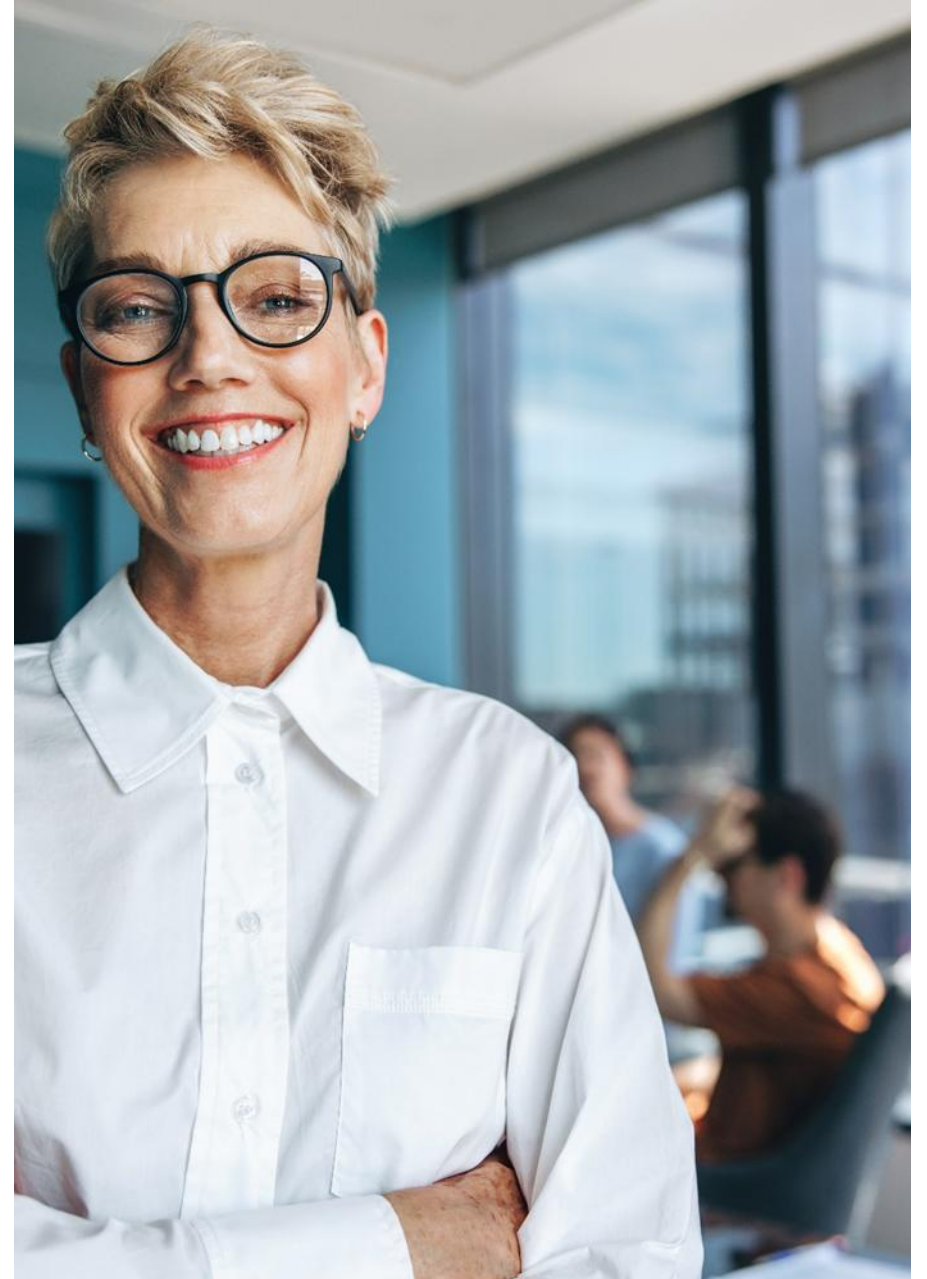
In consultation with its employees, each employer will determine how the total contribution rate is allocated between the member and the employer. It is also an opportunity to consider whether to make a change to the defined benefit structure available for the future pension accrual.

There is a significant reduction in the rates at this valuation, which reflects the change in market conditions and increase in Government bond yields.

Employers may use the DB structures as their auto-enrolment (AE) vehicle; this means that the structures must meet the AE requirements. As the rates will substantially reduce from 1 April 2026, the EC took advice, from its appointed adviser, which has confirmed that all of the DB benefit structures will continue to meet the requirements on a “cost of accruals” basis.

The revised future service contribution rates are shown on the next page.

The Scheme has previously operated different rates for employers which are open or closed to new members. **From 1 April 2026 a single rate will apply regardless of whether an employer is open or closed to new members.** The change of approach is due to the small and variable impacts across all of the structures.



# Future Service Contribution Rates

The table shows the contribution rates as a percentage of members' Pensionable Earnings payable from 1 April 2026. These include an allowance for providing lump sum death in service benefits payable to active DB members.

TPT will be holding a webinar on 27 August, in which we will confirm the employer actions and deadlines ahead of 1 April 2026. If you wish to contact our Client Relations Team ahead of the webinar, please email [clientrelations@tpt.co.uk](mailto:clientrelations@tpt.co.uk).

	Current Total Rates		Rate from 1 April 2026	Net change	
	Closed Employer	Open Employer		Closed Employer	Open Employer
Final Salary 60 <sup>th</sup>	32.8%	32.4%	<b>21.0%</b>	- 11.8%	- 11.4%
CARE 60 <sup>th</sup>	31.7%	31.0%	<b>18.9%</b>	- 12.8%	- 12.1%
CARE 70 <sup>th</sup>	27.1%	26.5%	<b>16.2%</b>	- 10.9%	- 10.3%
CARE 80 <sup>th</sup>	23.7%	23.2%	<b>14.2%</b>	- 9.5%	- 9.0%
CARE 120 <sup>th</sup>	15.8%	15.4%	<b>9.6%</b>	- 6.2%	- 5.8%

# Next steps

The covering email provides details of the deficit contributions and contributions towards Scheme expenses payable by your organisation from 1 April 2026.

We have also produced a valuation guide for employers. This contains more detailed information about the key valuation assumptions and results.

## Employer webinar

We are hosting an **online employer webinar on 27 August 2025** where we will present the valuation results and also provide more information to support employers with active members with their options for future benefit provision. Invitations were included in the cover email.

If you would like further information, or to discuss the content of this document in more detail, please contact the TPT Client Relations Team.

Email: [clientrelations@tpt.co.uk](mailto:clientrelations@tpt.co.uk)

Tel: 0113 394 2754



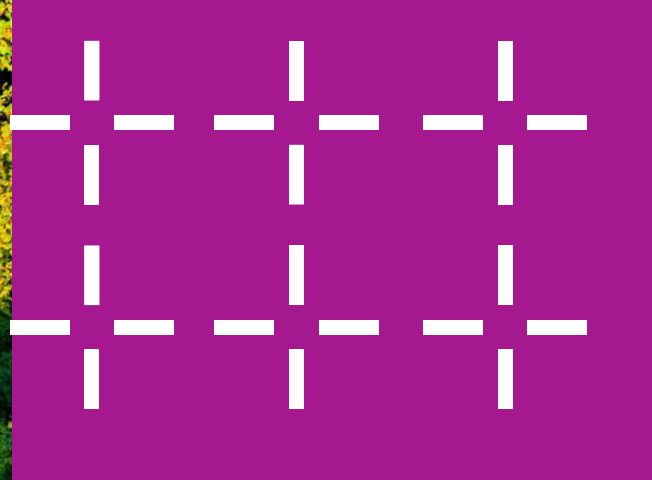
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Client Relations Team  
[clientrelations@tpt.co.uk](mailto:clientrelations@tpt.co.uk)

SHAPS Employer Committee  
[SHAPSEmployerCommittee@tpt.co.uk](mailto:SHAPSEmployerCommittee@tpt.co.uk)

