

Confidential - For Decision

Agenda Item: 9
Date of Meeting: 29/10/25

To: The Management Committee
From: The Director
Subject: Review of SHAPS – Defined Benefit Pension

1. Introduction and Purpose
 - 1.1 Committee is reminded that 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 1/60th accrual
Defined Contribution (DC) – introduced when auto-enrolment became a requirement.
 - 1.2 At its May meeting Committee were presented with information from The SHAPS Employer Committee on its discussions with the Scheme Committee about the actuarial valuation. Committee noted, at the time, that the funding level had fallen from 98% (30/09/21) to 89% (30/09/24) and that it was being supported by the Employer Committee and Scheme Committee that deficit contributions be introduced from 1st April 2026. Committee further noted that once the valuation results were formally published in the Summer a further report would be presented to Committee along with a proposal for appointing an independent pension advisor, as it would be necessary for Committee to decide its future involvement in the DB Pension Scheme.
 - 1.3 At its August meeting Committee decided to appoint Spence and Partners to provide the necessary independent expert pension advice, to review the valuation findings and the impact on the DB Pension and consider the options for our future involvement in the DB Pension. The pension review session was held on 2nd October, as determined by the availability of the majority of Committee Members. Committee were issued a copy of the presentation the week before the session.
 - 1.4 The purpose of this report is to set out the options for our future involvement in the DB Pension. Committee will be required to decide what option is most appropriate. Committee is asked to note that a period of staff consultation may be required depending on the option Committee wish to take forward.

1.5 Committee is reminded that neither I nor any other staff member at Rosehill is qualified to provide pension advice.

2. Options for Future Involvement in DB Pension

2.1 Attached is a copy of Alistair Russell-Smith, Spence and Partners, presentation from the session on 2nd October 2025 for Committee's consideration. It is not the intention of this report to repeat all the information covered in the presentation. However, some key information and the options available to committee are set out below, for ease of reference.

2.2 Some key information relating to the results of the Actuarial Valuation 2024 is as follows:

- The funding position has reduced from the 2021 valuation, from 98% to 90%. It was also reported that the overall size of the Scheme, both assets and liabilities, had also reduced.
- Deficit contributions are being reintroduced from 1st April 2026. The overall Scheme deficit contributions will be £15.6m p.a., increasing by 3% each 1st 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. Our share of the deficit is as follows:

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

- The deficit contributions and the scheme expenses will increase by 3% each year on 1st April, with the first increase effective from 1st April 2027
- 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 (1/60th). The current and future service contribution is as follows:

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

- Assuming Rosehill continues to offer SHAPS DB, it needs to decide on a split of future service contribution rates between Rosehill, as employer, and employees from 1 April 2026 onwards, off the back of the 30 September 2024 valuation results. The table below sets out a range of ways to share the 12% saving between Rosehill and employees, compared with the current position.

Contribution Rate	Current	100% savings to Rosehill	50% savings to Rosehill	0% savings to Rosehill
Employer	18%	6%	12%	18%
Employee	14.8%	15%	9%	3%
Total	32.8%	21%	21%	21%

- Alistair from Spence and Partners is suggesting that Rosehill may wish to retain 100% of the savings to help fund the recommencement of deficit contributions.

2.3 The options open to Committee in relation to the DB Pension are as follows:

Option 1 – Retain the Status Quo

- Keep all employees in their current pension arrangements.
- Only action required would be to decide on split of SHAPS DB future service contribution rate between RHA and employees.
- Starting point might be that RHA takes 100% of the savings to help fund the recommencement of deficit contributions.

Option 2 – Close DB Pension to new entrants

- Remove the ability for new hires to opt into SHAPS DB.
- Ideally also remove the ability for any current hires in SHAPS DC to opt into SHAPS DB.
- Does not need any changes to SHAPS DC arrangements.

Option 3 – Close DB Pension to future accrual

- Move the 7* employees in SHAPS DB to SHAPS DC for future pensionable service.
- Accrued SHAPS DB pension is protected and retains the “final salary” link, but no further pensionable service builds up in SHAPS DB. Instead SHAPS DC is available for future pensionable service.
- Could offer same SHAPS DC contributions as other employees, or could offer some sort of enhanced DC to compensate employees for turning off the SHAPS DB.

- As an example, RHA could offer to keep paying the current 18% employer rate into SHAPS DC for a period of time (even if employees choose to pay less than the current 15%), phasing down to the standard 8% employer contribution rate other employees get over time.

*currently there are 6 employees in the DB scheme, a staff member who was in the DB scheme left Rosehill last year.

Contractual Issue and Staff Consultation

- 2.4 Alistair flagged that there may be a contractual consideration with employees in relation to SHAPS DB. If there is a contractual entitlement to SHAPS DB, then employee agreement may be required to make a change as it would require a variation to a contract of employment. Having shared examples of the pension clauses in staff contracts, Alistair concluded that it appeared SHAPS DB employees do not have a contractual entitlement to SHAPS DB. However, he recommended that legal advice be sought to confirm this. In the first instance, I contacted EVH to see if it could provide the necessary confirmation. Lorna Ravell, EVH advised as follows:

“As explanation, custom and practice is likely to apply as the provision of a DB scheme has been longstanding in the association and has been applied consistently over the years it has been in place.

The 60 day consultation period comes from pensions law. This is a legal obligation for employers with more than 50 employees, however there is an expectation that smaller employers will follow a process of thorough consultation if they are proposing changes to the pension provision. It is unlikely that consultation would last less than 60 days, and our experience of this type of consultation is that it tends to last longer.”

- 2.5 I then had a phone discussion with Lorna to explore further what the consultation would look like. Lorna advised that one way to deal with the consultation would be to set up a working group (some committee members and staff in the DB scheme and possibly some other staff not currently in the scheme). She advised that EVH could provide support to employers through the consultation process. She stated that the former Director of EVH, when supporting other RSLs, had attended meetings between committee and staff to help facilitate discussions. However, Lorna was unsure whether this approach would still be available and would speak to Paul McMahon, the current Director about the level and type of support that could be provided. She reaffirmed that in her experience the consultation can take longer than 60 days and it was highly unlikely matters could be concluded by the 30th January 2026.

- 2.6 She did reiterate that it was her view that there would be a contractual entitlement to the DB scheme, due to the length of time the DB pension has been in place and staff have been part of it, and staff's agreement would be required if there were to be any changes to the pension offered. Failing to do so could result in a claim of a breach of contract.
- 2.7 On the issue of whether a contractual entitlement exists or not, I contacted our former employment solicitor (Karen Harvie, Aberdeen Considine) for some advice. Karen advised that yes there could be an argument that a contractual entitlement does exist because of how long the DB has been running. However, she explained that there could be a counter argument (and this would depend on what we say about the pensions offered) that we offer a pension or pensions but don't specify what and have the right to vary the pension(s) we offer. Karen said it wouldn't be sufficient to rely on what is in the employment contracts alone, but need to consider what we say in job adverts, terms and conditions and other relevant published information. I have sent Karen, the relevant sections of employment contracts, the wording from job adverts and the summary of key conditions of employment, issued as part of job application packs, and the wording from the EVH terms and conditions. I await Karen's response.
- 2.8 Notwithstanding this particular issue, Karen did share EVH's view that we should consult with staff and that we want to get staff's buy-in and bring them with us in the process. Just to be clear, depending on the decision reached, Rosehill would have intended to undertake a level of staff consultation anyway. Karen also shared EVH's view that this matter would not be fully concluded before the end of January. She has offered to provide further advice and assistance, if we require it.
- 2.9 The decision that must be made by the deadline of 30th January is the split of the future contribution rate of 21% between employer and employee. The decision applies if Committee choose either option 1 or 2. However, in terms of option 3, as the advice from EVH and our employment solicitor is that the consultation will not be fully concluded by the deadline of 30th January, Committee will also need to decide on the split of the future contribution rate. This is to cover the interim period from 1st April 2026 until Committee's decision can take effect e.g. it might be effective from May or June.
- 2.10 In terms of staff consultation, depending on what option Committee decide on, Alistair has advised he would be able to assist with any staff consultation to be undertaken. However, based on my discussion with Lorna at EVH, it may be the preferred option to work with EVH over the consultation process.

3. Growth plan

- 3.1 The Association is also a member of the SHAPS Growth plan fund that was set up to allow for additional voluntary contributions (AVC) to be made by employees above the contribution limits imposed on the main scheme.

The growth plan scheme is a much larger scheme with many more participants, around 700 employees (down from 1,200), with those exiting paying an exit debt, or becoming insolvent.

- 3.2 The growth plan is a separate but similar plan to the main DB scheme in that it is a last man standing arrangement, meaning the Association, while remaining a member is responsible for all liabilities not just our own, and that of legacy liabilities for employers who have left.

The plan has a significant percentage of orphan liabilities, around 50% which are no longer attached to a sponsoring employer.

- 3.3 The 2023 valuation of the growth plan showed a £16M deficit.

Currently, Rosehill are paying £16 per month (£192 annually), in deficit contributions.

The exit debt of the growth plan as at 30th September 2024 is £612.

- 3.4 The Association currently has no active members of the growth plan and one member in the pensioner category of the plan.

Considering there are no active members, the debt for exit is immaterial, and completely removes the exposure risk to Rosehill. It would be prudent to consider exercising the cessation of the scheme and settling the exit debt, while minimal.

This was discussed at the pension session on October 2nd and advised as the best course of action by Alistair from Spence and Partners.

4. Salary Sacrifice

- 4.1 As part of his presentation, Alistair provided some information on Salary Sacrifice and how this works. He explained this would be for the DC pension only. However, he advised that the Government is potentially looking to close salary sacrifice schemes and recommended that Committee wait until November (budget announcement) to find out if the scheme will be closed or not before making any decision about offering

salary sacrifice. Alistair advised that a decision about salary sacrifice did not need to be made in time for the deadline of 30th January.

5. Further questions or advice needed

- 5.1 At the end of the session those Committee Members present confirmed they had asked any questions they had for Alistair and also confirmed that they had all the information they needed and would be in a position to make a decision at the October Committee meeting.

6. Risk

- 6.1 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.

Risk Category	Mitigating Measure
<p>Financial: 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;</p> <p>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>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>Pension Review Session with Independent Pension Advisor held in early October.</p>
<p>Legislative and Regulatory:</p> <p>as above and, Fail to meet regulatory requirements</p> <p>Contractual entitlement to DB pension due to length of time it has been in place;</p> <p>Affected staff could claim breach of contract;</p>	<p>As above</p> <p>Sought advice on any contractual entitlement to DB pension;</p> <p>No statutory requirement to consult with staff as we have less than 50 employees but as a matter of good practice consultation will be undertaken, dependent on Committee's decision on future involvement with DB pension.</p> <p>Sought advice from EVH and legal advice on issue of contractual entitlement to DB pension.</p>
<p>People:</p> <p>Staff unhappy with decision about DB pension (potential for claims of breach of contract)</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> <p>Option to offer staff a session (e.g. 30 minutes) with a Financial Advisor</p>

7. Delivery of our Strategic Objectives

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

8. Application of our Core Values

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

9. Compliance and Assurance

- 9.1 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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10.2 Evidence Bank

Evidence	Assurance Exercise Location
<ul style="list-style-type: none"> Report and attachments for 29/10/25 meeting; 	<ul style="list-style-type: none"> Regulatory Standard 3 – Guidance 3.6 Regulatory Standard 4 – Guidance 4.1 and 4.4

10.2.1 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.

11. Summary and Decision Sought

11.1 Committee received information at previous meetings this year on the findings of the Actuarial Valuation 2024 which relates to the Defined Benefit Pension Scheme (final salary – 1/60th). At its August meeting Committee decided to appoint Spence and Partners to provide independent, expert pensions advice including considering the impact of the 2024 valuation findings and the options open to Committee.

11.2 The session was held on 2nd October 2025. A copy of the presentation was shared with Committee a week before the event to give Committee time to consider the information that would be covered at the session.

11.3 Section 2 of this report sets out some of the key information and the options open to Committee, as covered at the session.

- 11.4 Those who attended the session confirmed they had sufficient information to make a decision at the Committee meeting in October, about Rosehill's future involvement in the DB pension scheme.
- 11.5 Risk relating to our participation in the DB pension is considered at Section 5.
- 11.6 Section 6 shows how periodically reviewing our involvement in the DB scheme, links to the delivery of our strategic objectives.
- 11.7 Section 7 shows how periodically reviewing our involvement in the DB scheme, links to the application of our Core Values.
- 11.8 Section 8 sets out how we comply with Legal and Regulatory requirements.
- 11.9 Committee is asked to consider this report and the attached presentation from Alistair Russell-Smith, Spence and Partners and decide its future involvement in the DB Pension Scheme, from one of the following options:
- Option 1 – retain the status quo (remain open to current and new entrants)
- Option 2 - close the DB scheme to new entrants (this could include any existing staff who are not currently in the scheme)
- Option 3 – close the DB scheme to future accrual (close the scheme entirely)
- 11.10 If Committee decides on option 1 or 2, it will further need to decide the split between employer and employee for the future service contribution rate of 21%. The decision must be made by the 30th January, which is the deadline for notifying the Pension Scheme.
- 11.11 If option 3 is Committee's preferred option, then as advised by EVH and our employment solicitor, the consultation process is very unlikely to be concluded by 30th January. As such Committee will also need to make a decision on the split of the future contribution rate to cover the interim period from 1st April 2026 until Committee's decision takes effect.
- 11.12 Additionally, Committee is asked to consider the risk attached to the growth plan scheme and decide on its involvement of the scheme and whether it wishes to exercise the cessation debt to close the scheme
- 11.13 Committee is asked to note the following:

- That Spence and Partners can provide assistance with any staff consultation to be undertaken. However, following discussions with EVH, it may be the preferred option to work with EVH over the consultation process;
- That the matter of salary sacrifice (which is for the DC pension only) is on hold until it is known whether the Government intends to close salary sacrifice schemes or not (November budget announcement).