

# Rosehill Housing Association Limited

Scottish Housing Association  
Pension Scheme options

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## Spence & Partners Limited - Actuaries & Pension Consultants

- Engaged by Rosehill Housing Association Limited ('RHA') to assess some options in relation to RHA's participation in TPT's Scottish Housing Association Pension Scheme ('SHAPS').
- This slide deck summarises our analysis and findings.

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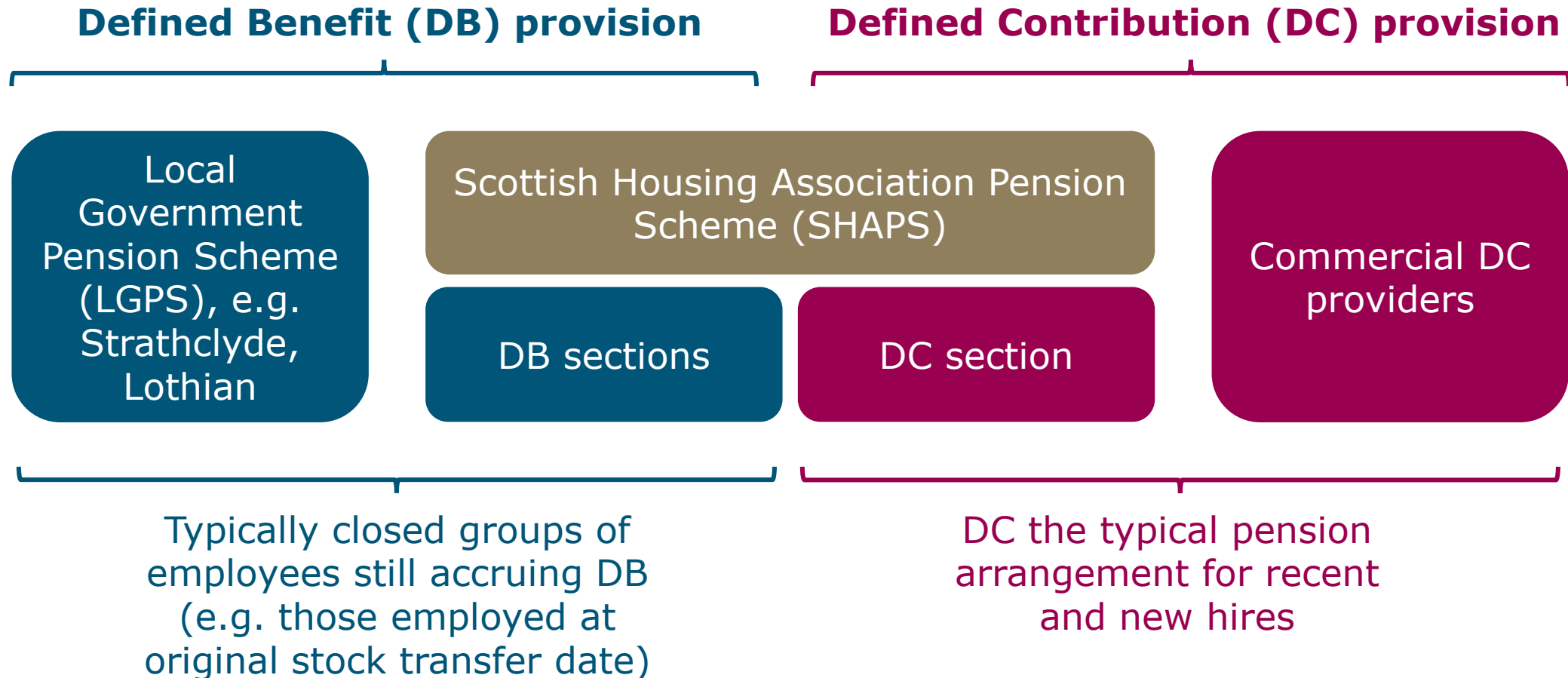
1. Pension provision and benchmarking in Scottish housing sector
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## Introduction and scope of review

- RHA’s pension provision for employees is in SHAPS. Employees are auto-enrolled into the Defined Contribution (DC) section of SHAPS. They can then opt-in to the Defined Benefit (DB) section if they wish. The DB pension is a 60ths Final Salary pension, i.e. employees accrue a pension of 1/60ths of their final salary for each year of pensionable service. This is the most generous DB section in SHAPS.
- The key difference between DB and DC is that risk lies with RHA for DB but with employees for DC. For example, if investment returns are lower than expected, in DB this generates a deficit that has to be funded by RHA, but in DC it leads to a lower pension pot for employees.
- This risk exposure has led to many employers, including Scottish RSLs, turning off DB in recent years and only allowing DC for future pension savings.
- SHAPS DB contributions are assessed every 3 years with a triennial actuarial valuation. The 30 September 2024 triennial valuation results have just been published and lead to re-set of contributions from April 2026 onwards. Deficit contributions are re-commencing for RHA, but future service contribution rates are falling.
- This review starts with an explanation of typical pension provision in the Scottish housing sector, and some recent benchmarking. It then explains the SHAPS DB valuation results, and considers some options to address the DB liability and risk for RHA, and better align with the sector benchmarking.
- It also explains how “salary sacrifice” for employee pension contributions could be introduced in SHAPS DC. This is now a very common way to let employees pay pension contributions, which saves National Insurance Contributions for both employees and RHA.

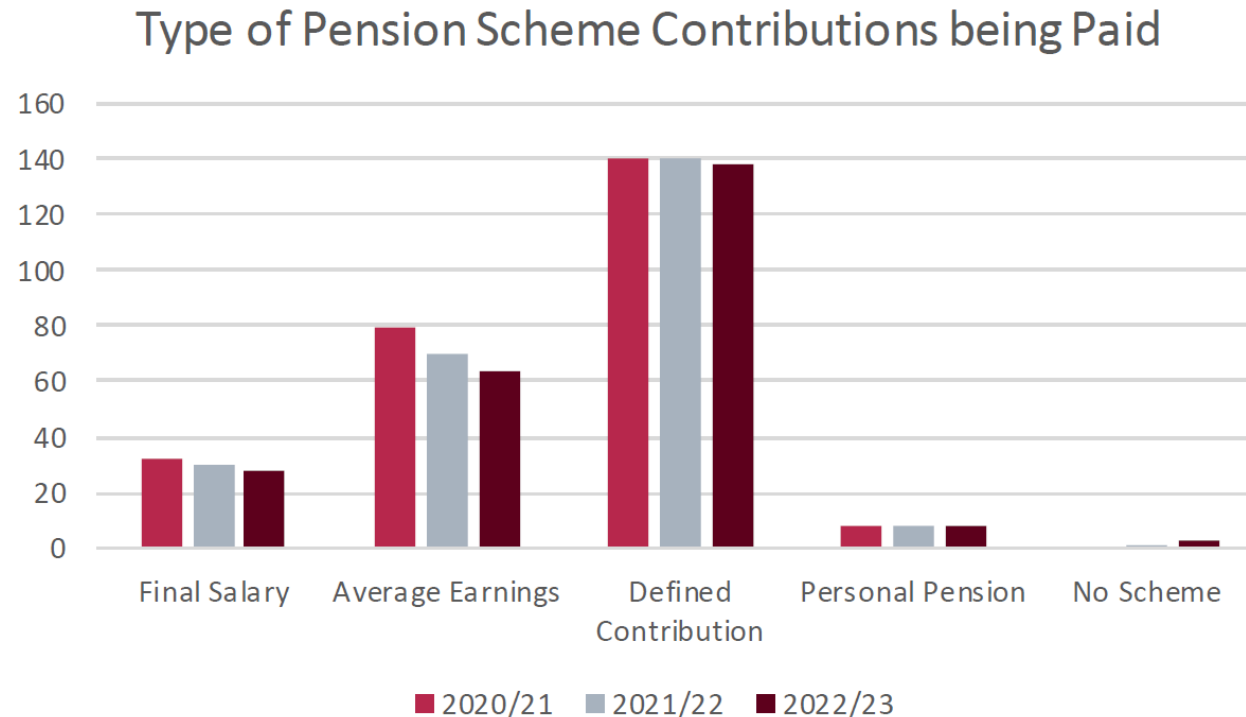
# Pension provision in the sector

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# Sector benchmarking

## Benchmarking data from Scottish Housing Regulator (FY23):



## Spence experience on DC:

- DC employer contributions in the sector typically 5% - 10%.
- Most generous employer DC contribution we have seen is 12%.
- Fairly common design is 2x matching where the employee pays 5% to get 10% from the employer. RHA has 2x matching at 4% and 8%.
- Others have a 1x or 1.5x employer match.
- Sometimes former SHAPS DB employees have more generous DC contributions.

The number of RSLs with DB is declining, although c. 90 appear to still have a form of DB. Most open DB is now in LGPS because only 27 employers remain open to DB accrual in SHAPS (see next slide).

## Overview of structure:

Two connected sections in same trust:

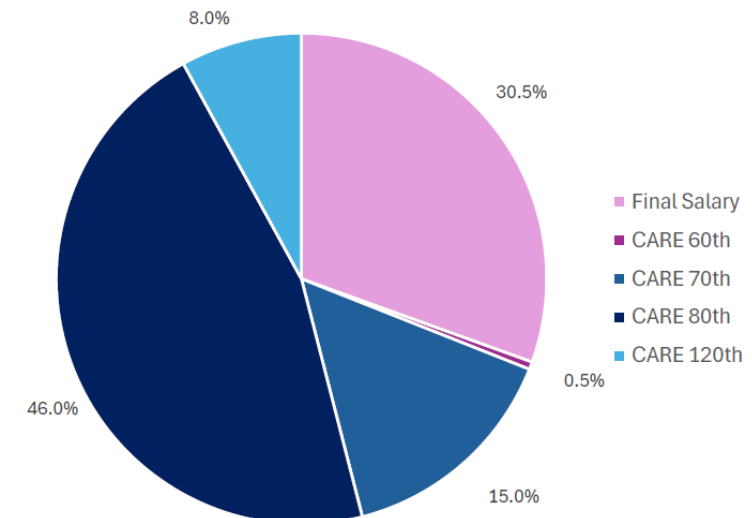
DB section

DC section

- DB section: “last man standing” structure - **current employers underwrite the liabilities of former employers.**
- DC section: by using SHAPS for DC, **employers prevent the build up of further DB accrual without triggering the Section 75 exit debt.** This is only triggered when the last employee leaves service in either the DB or the DC section.

## Employer and member profile in SHAPS DB:

- c. 130 employers with DB liabilities, but only **c. 27 allowing future accrual on a DB basis**
- c. 450 “active” members in SHAPS DB at 31 March 2024, compared to c. 8,000 deferred and pensioner members. The actives are split as follows amongst their 5 DB tiers:



There has been a steady flow of members from DB to DC as DB costs have increased (but 2024 valuation has led to a fall in DB costs for the first triennial valuation in many years).

# Summary of current RHA provision

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Provider	SHAPS DB	SHAPS DC	Opt outs	Total
No. employees	7	12	2	
Employer pension contributions	18% of salaries Total: £58k pa	8% of salaries Total: £39k pa		Av: 12% of salaries Total: £97k pa
Employee pension contributions	15% of salaries Total: £47k pa	4% of salaries Total: £19k pa		Av: 8% of salaries Total: £67k pa
Salary roll	£321k pa	£486k pa		£807k pa

- Employees are auto-enrolled into SHAPS DC, but can opt-in to SHAPS DB (Final Salary 60ths section) if they wish.
- 12 employees are in SHAPS DC. They pay 4% and receive 8% from RHA.
- 7 employees are in the 60ths Final Salary section of SHAPS DB. They pay 15% and RHA pays 18%. The required combined rate is dropping from 33% to 21% from 1 April 2026 onwards as a result of the 30 September 2024 valuation results.
- Life cover is 3x salary for SHAPS DB employees and 4x salary for SHAPS DC employees.
- Salary sacrifice for making pension contributions is not available for employees. This is a mechanism for paying employee pension contributions which saves National Insurance Contributions for both RHA and employees.

DC contribution levels are relatively standard (possibly slightly less generous than some other RSLs), and it's relatively unusual to not offer salary sacrifice. 60ths Final Salary is now very generous, and there are only a small number of RSLs still offering access to this section of SHAPS.

# SHAPS: 30 Sept 2024 valuation

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## Recent funding positions for SHAPS DB (whole scheme):

Date and funding basis	30.9.21 ongoing valuation	30.9.21 Section 75 exit valuation	30.9.24 ongoing valuation	30.9.24 Section 75 exit valuation
Assets	£1,171m	£1,171m	£690m	£690m
Liabilities	£1,200m	£1,681m	£769m	£915m
Surplus / (Deficit)	<b>(£27m)</b>	<b>(£508m)</b>	<b>(£80m)</b>	<b>(£225m)</b>
Funding level	98%	70%	90%	75%

## RHA share:

Date and funding basis	30.9.23 Section 75 exit	30.9.24 Section 75 exit
Assets	c. £3.3m	c. £3.3m
Liabilities	c. £4.5m	c. £4.4m
Surplus / (Deficit)	<b>(£1.2m)</b>	<b>(£1.1m)</b>
Funding level	c. 71%	75%

- SHAPS was nearly fully funded (98%) on an ongoing basis at the last triennial valuation at 30 Sept 2021. Deficit contributions therefore turned off on 30 September 2022.
- However, the SHAPS funding position was adversely impacted by volatile gilt yields in 2022 and the need to liquidate assets to make collateral calls on LDI (Liability Driven Investment) funds. Rising interest rates have shrunk the whole scheme since 2021, but the funding level has also deteriorated.
- TPT issued the 30 Sept 2024 triennial valuation results in August 2025. This has confirmed that deficit contributions will recommence from 1 April 2026 at c. £78k pa for RHA, payable until 31 March 2030 and increasing at 3% pa. There is an option to pay upfront with a 6.2% discount for early payment.
- Employers also pay a contribution to fund SHAPS expenses, and this is also increasing from £5k pa (our estimate) to £7k pa for RHA.
- The most recently available estimate of the full “Section 75” exit cost is £1.1m for RHA as at 30 September 2024.
- Future service contribution rates will reduce reflecting higher yields since 2021. The total required contribution rate (employer + employee) falls in April 2026 from 33% to 21% of salaries. Employees currently pay 15% of the total rate.

# SHAPS: other considerations

## Future service contribution rates:

- Assuming RHA continues to offer SHAPS DB, it needs to decide on a split of future service contribution rates between RHA 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 RHA and employees, compared with the current position.

Contribution rate	Some options from 1 April 2026 onwards:			
	Current	100% savings to RHA	50% savings to RHA	0% savings to RHA
Employer	18%	6%	12%	18%
Employee	15%	15%	9%	3%
Total	33%	21%	21%	21%

- An employee consultation is usually only required if employee contribution rates are increasing or if pension benefits are reducing, and it therefore is not required here. However, an informal employee update may remain appropriate.
- TPT need to be informed of the new splits by 30 Jan 2026.

## TPT Court case:

- Court will decide in Q4 2025 if a range of historic benefit changes made across TPT DB schemes were legally effective. If they were not legally effective, this will trigger additional liabilities.
- **The additional liabilities in SHAPS estimated at 3% of the existing liabilities.**
- Deficit contributions will be payable until 2032 rather than 2030 if these additional liabilities are triggered.
- Employers looking to exit SHAPS can still do this whilst the outcome of the Court case is unknown, but the process is staged, with a true-up potentially required after the outcome of the Court case is known.

- RHA's ability to make changes to SHAPS DB (e.g. closing SHAPS DB to new hires or to current hires) to some extent depends on the contractual position 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 (assuming RHA would not want to run a dismiss-and-re-engage process). Legal advice should be sought in this area.
- There are also over-riding legislative requirements to consult with employees for at least 60 days if making a "listed change" in relation to a pension scheme such as moving employees from DB to DC. However, these requirements are not mandatory for employers like RHA with less than 50 employees. In practice it would likely still be sensible to run a voluntary consultation process given the significant impact the change would have on employees.
- We understand wording in relation to pension provision in some sample employment contracts is as follows:
  - Current wording: "In addition to your salary Rosehill, as a Member of the Pensions Trust, will make contributions towards your pension, in line with the regulations governing that group pension scheme should you wish to join."
  - 2011 wording: "In addition to your salary, the Co-operative as a Member of the Pensions Trust will make contributions towards your pension, in line with the regulations governing that group pension scheme should you wish to join. A contracting-out certificate is in force in respect of your employment, and is effective should you join the pension scheme."
- Whilst legal advice should be sought to confirm this point, it appears that SHAPS DB employees do not have a contractual entitlement to SHAPS DB. Given this, if RHA plans to introduce any changes to pension terms which may be detrimental to affected employees, then we recommend planning as a minimum to run a short voluntary consultation of say 30 days.

Legal advice required, but does not appear to be a contractual entitlement to SHAPS DB

# Options: explanation

- We consider 2 options in the forthcoming section that would align RHA more closely with the sector benchmarking by turning off DB. This can either be done slowly by turning off for new hires only (option 2) or quickly by also turning off for current hires (option 3). The latter option clearly has more impact on employees, but also has an immediate financial impact. The options are explained on this slide and then assessed on the next slide.

## 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.

## 2) Close SHAPS DB to new hires

- 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.

## 3) Close SHAPS DB 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 the 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.

# Options: assessment

## Assessment of the options:

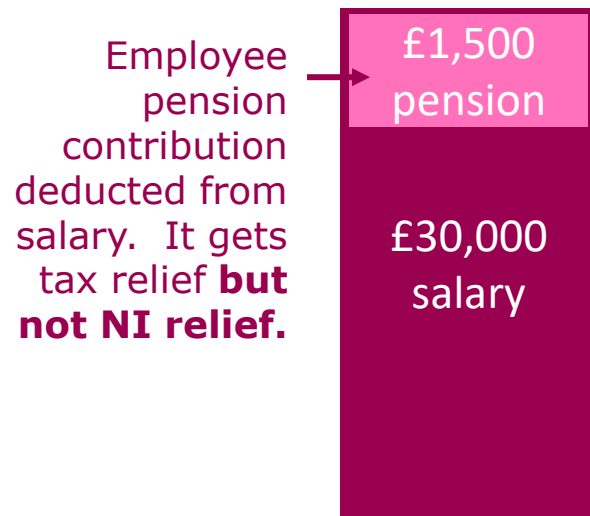
	1) Status quo	2) Close SHAPS DB to new hires	3) Close SHAPS DB to future accrual
<b>Pros</b>	<ul style="list-style-type: none"><li>✓ Least disruptive for employees</li><li>✓ Lowest cash cost (employer contributions in SHAPS DB lower than SHAPS DC from April 2026 if employer keeps all the future service savings)</li></ul>	<ul style="list-style-type: none"><li>✓ Straightforward change contractually as only impacts on new hires</li><li>✓ Gradually reduces the build-up of DB risk.</li></ul>	<ul style="list-style-type: none"><li>✓ Immediately prevents the build-up of further DB liability and risk</li><li>✓ Harmonises and simplifies pension arrangements across RHA</li></ul>
<b>Cons</b>	<ul style="list-style-type: none"><li>- Allows continued build-up of DB risk, increasing exposure to RHA</li><li>- No progress on harmonising pension terms</li></ul>	<ul style="list-style-type: none"><li>- Financial impact of the change takes time to flow through as only changes pensions for new hires</li></ul>	<ul style="list-style-type: none"><li>- Most significant impact on the 7 employees in SHAPS DB</li><li>- Potentially the highest cash cost as the employer contribution rate would be higher than the 6% payable for staying in SHAPS DB (assuming RHA retained all the future service savings)</li></ul>

**Our view:** Option 3) would achieve the most in terms of harmonising and simplifying pension provision across RHA and aligning RHA pension provision with the sector benchmarking. However, it would have the most impact on the 7 SHAPS DB employees. Suggest considering option 3), with option 2) as an alternative if the impact on employees of option 3) is too much of a concern.

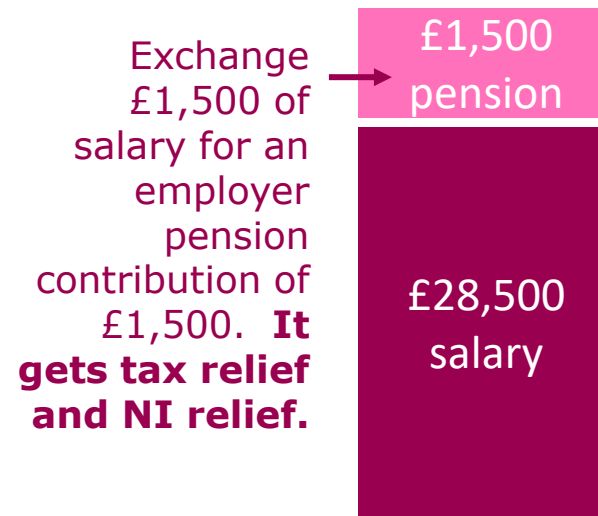
# Salary sacrifice for SHAPS DC

This slide explains at a high level how salary sacrifice works and the magnitude of the National Insurance (NI) savings.

## Without salary sacrifice:



## With salary sacrifice:



## NI Savings:

Savings	NI rate	Employee pension conts	Broad saving
Employer	15% of salaries	4% of salaries	0.6% of salaries
Employee	8% of salaries	4% of salaries	0.3% of salaries

Above calculations simplistic.

**Employer NI of 15% payable on earnings above £5,000 pa from April 2025.**

Employee NI is 8% on earnings between £12,570 pa and £50,270 pa.

Salary sacrifice changes the mechanism by which employee pension contributions are paid. The result is no Employer or Employee National Insurance (NI) is payable on the Employee pension contribution.

# Salary Sacrifice Example – 4% employee

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The table below sets out a worked example of how pension contributions and take home pay are affected by salary sacrifice.

	Pre Salary Exchange	Post Salary Exchange *
Gross Annual Salary	£30,000	£28,800
Employee pension contribution (4%)	£1,200	£0
Employer pension contribution (8%)	£2,400	£3,876
Income tax	£3,231	£3,231
Employee NIC	£1,393	£1,297
Annual take home pay	£24,176	<b>£24,272</b>
Total pension payment	£3,600	£3,876

- 1) Salary is reduced by £1,200 in exchange for the employer paying £1,200 extra in employer pension contribution.
- 2) Employer NI saving (15% on £1,200) is added to the employer pension contribution, passing the saving to employees.
- 3) Income tax unaffected as pension contributions are tax deductible anyway.
- 4) Employee NI saving as not paying NI on the £1,200 employee pension contribution, which increases take home pay.

\* Sharing of employer NI savings assumed in this example

# Salary sacrifice considerations

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## 1) Share or retain employer savings?

- Retain if want to maximise employer savings.
- Share if want to maximise value for employees.
- Can share a proportion of the employer savings, e.g. 50%.
- If share employer savings, typically do this by adding a % to the employer contribution (e.g. 0.6% for the 4% employee contribution tier if sharing all employer savings). Note can only reduce in the future after consulting, so only commit here to what you want to pay long term.

## 2) National Minimum Wage (NMW)

- Cannot sacrifice salary to the extent this pushes earnings below NMW.
- RHA will need to put safeguards in place to ensure this does not happen.
- Could be a significant issue for employees on the Scottish Living Wage.
- NMW from April 2025 is £12.21.
- Need earnings of £12.72 per hour or more to sacrifice 4% and remain above NMW.

## 3) Other benefits linked to salary

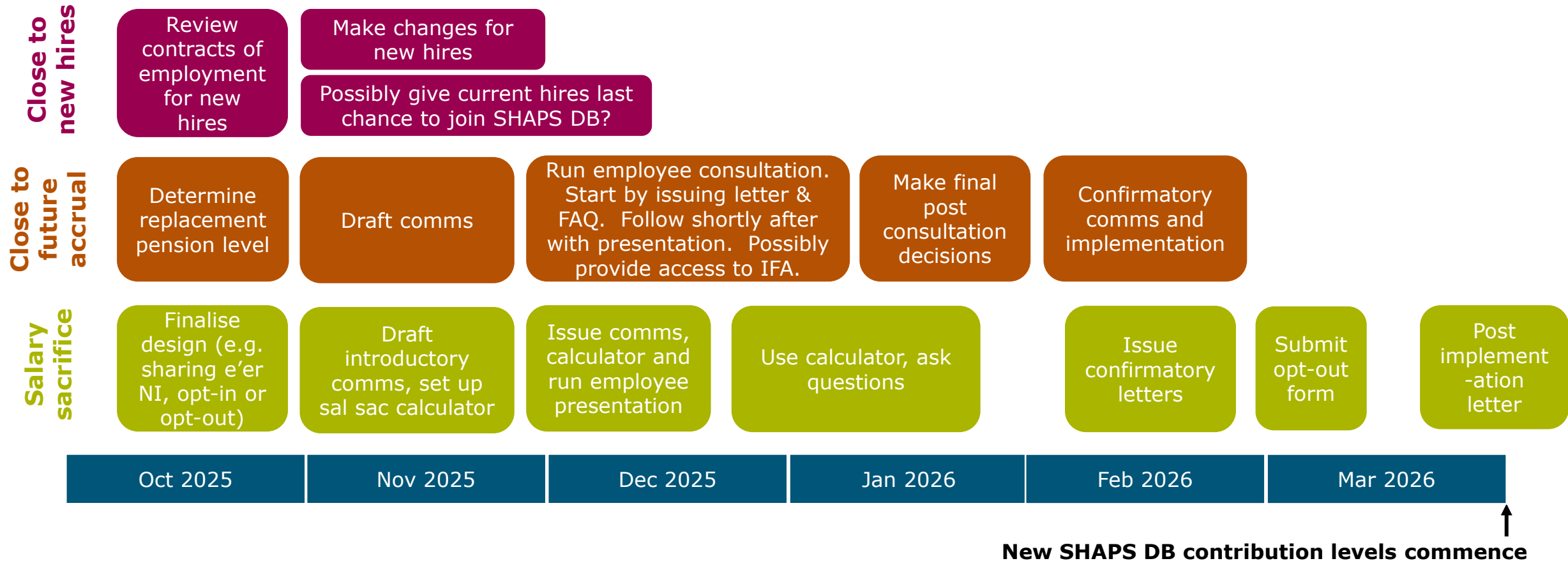
- Typical to keep any other benefits linked to salary tied to the employee's notional pre-salary sacrifice salary rather than their lower post salary sacrifice salary.
- Check if any documentation / benefit guides etc need updating.
- Some state benefits are linked to earnings and therefore also potentially affected (e.g. State pension, statutory maternity / paternity pay, working tax credits, statutory sick pay). Care sometimes needed if earnings are near these thresholds, particularly if at risk of going below the Lower Earnings Limit (£6,500 pa for 25/26), or for some benefits the Primary Threshold (£12,570 pa for 25/26). More details here: [Salary sacrifice for employers - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/salary-sacrifice-for-employers)
- Mortgage providers historically looked at salary, but more recently in our experience consider net pay (which is actually improved with salary sacrifice).

## 4) Possible future tax changes

- Salary sacrifice for pension contributions is well established.
- But there are some indicators the government may change salary sacrifice and potentially remove the existing tax advantages. For example HMRC commissioned research in May 2025 on options to achieve this.
- But to date the government has not made any of these changes.

# Implementation timescales

This graphic below sets out the main activities and broad timelines to achieve the different options considered in this report.



# Summary and recommendations

- Allowing 60ths final salary accrual in SHAPS DB is becoming increasingly uncommon in the Scottish housing sector, and therefore RHA may wish to propose closing SHAPS DB to future accrual to better align with others in the sector. The recommencement of SHAPS deficit contributions of £78k pa may also be a driver for turning off the accrual of more DB liability and risk. This change could be done in parallel with introducing salary sacrifice in SHAPS DC, which would both improve terms for existing DC employees and help with the messaging for SHAPS DB employees. It may be worth waiting for the next Budget announcements before deciding on salary sacrifice.
- If the impact on the 7 employees in SHAPS DB is considered too much of a business risk, an alternative would be to turn off SHAPS DB for new hires and current hires not currently in SHAPS DB (possibly giving current hires one last chance to join). This would gradually slow down the build up of DB liability and risk. If this option is taken, it could be done in conjunction with offering the 7 employees in SHAPS DB the option to move to SHAPS DC. Salary sacrifice might only be introduced in SHAPS DC as a further incentive for SHAPS DB employees to move to SHAPS DC.
- The financial business case of increased DB costs has somewhat fallen away as SHAPS final salary 60ths future service contributions are falling by 12% of salaries from 1 April 2026, and if the employer retains all the savings the employer future service rate in SHAPS DB (6%) would be lower than the rate in SHAPS DC (8%). However, the recommencement of deficit contributions and the uncertainty in relation to the Court case remain examples of the risks that come with DB, and could therefore be drivers to close SHAPS DB to future accrual.
- RHA could offer to pay an enhanced level of DC contributions for a period of time to SHAPS DB employees if closing to future accrual. For example RHA might continue paying the existing 18% into SHAPS DC for say 3 years, before reverting to the 8% other employees receive thereafter. Given there does not appear to be a contractual entitlement to SHAPS DB, this is not required, but would be a way to manage the employee relations issues with closing SHAPS DB.
- If RHA keeps SHAPS DB open to future accrual, the deadline for informing TPT of the split of the future service savings between RHA and employees is 30 January 2026. We suggest the employer retains 100% of the savings to help fund the recommencement of deficit contributions if SHAPS DB is kept open.
- We note RHA also appears to participate in the Growth Plan. Consider exiting this plan as the exit debt is now only c. £600.

## Reliances and limitations:

This presentation is addressed to RHA for the sole purpose of assessing participation options in SHAPS.

It should not be disclosed to other parties without our prior written consent, in which case it should be released in its entirety.

Insofar as it is appropriate to do so, this presentation complies with the following technical actuarial standards which are published by the Financial Reporting Council:

- Technical Actuarial Standard 100: General Actuarial Standards (“TAS 100”)

This is the only technical actuarial standard that applies to this presentation.

## We have referenced the following data and information to compile this report:

Information supplied by RHA via email:

- 30 September 2024 SHAPS valuation results for RHA
- SHAPS DB Section 75 exit debts at 30 September 2023 and 30 September 2024
- Current list of employees in SHAPS DB and DC with salaries, age, sex and date joined
- Confirmation of life cover levels for SHAPS DB and SHAPS DC employees
- Pensions wording in a sample of employment contracts
- TPT Growth Plan Section 75 exit debts at 30 September 2022 and 30 September 2023

Public domain information:

- SPF 31 March 2024 RHA accounts:  
<https://mutuals.fca.org.uk/Documents/Download/1091154>

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