What can we expect from the SHPS valuation 2023?

An action list for housing associations

October 2023

Headlines

The latest valuation of the Social Housing Pension Scheme (SHPS) will be carried out as at 30 September 2023:

- We expect the overall SHPS deficit to have halved compared to three years ago on an ‘all-else-equal’ basis.
- We think the SHPS trustees will seek to broadly maintain existing deficit contributions despite SHPS being ahead of where it expected to be by now.
- Future service contribution rates for new DB benefit build-up are likely to reduce by over one third compared to the 2020 valuation. Where relevant, associations will need to consider how to respond to this significant change.
- Exit debts are also likely to have reduced by more than half over the last three years. This potentially presents opportunities for associations to consider exiting SHPS entirely.

Timings: We expect SHPS to confirm the preliminary results in mid-2024 and to notify associations of their new contribution requirements in September 2024. Any changes to contributions are expected to apply from 1 April 2025.

What’s happened over the last three years? – further detail

We are expecting SHPS to declare a deficit of around £0.7bn at this valuation. This compares to c.£1.6bn three years ago.

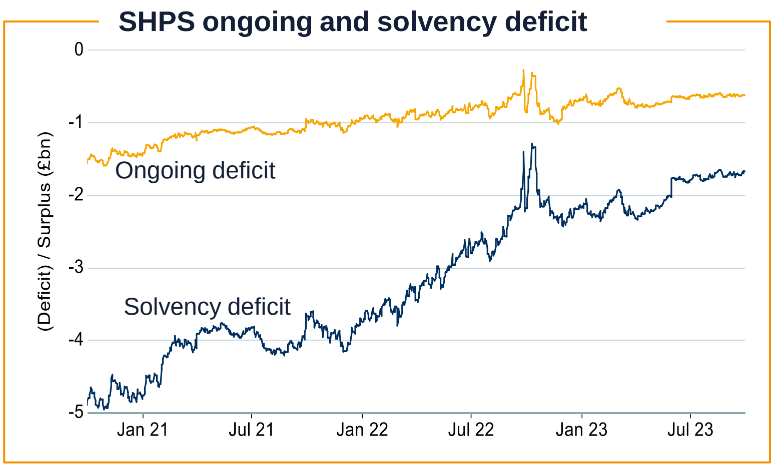
We estimate the value placed on SHPS liabilities has halved, with asset values also having reduced significantly (despite over £600m of contributions from housing associations over the last three years).

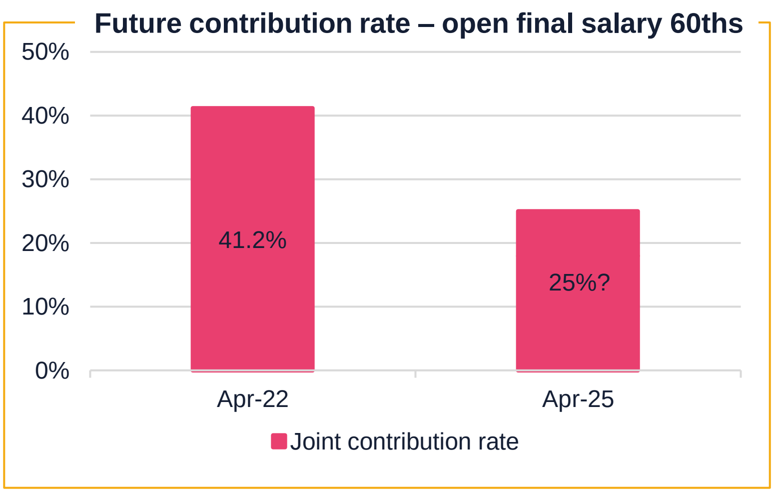
We have also seen huge reductions in the solvency deficit, which is the key driver for exit debts – the circumstances for individual employers will vary, but on average we expect that the cost to associations of exiting SHPS will have reduced by more than half from 2020 levels.

We also expect significant reductions in the costs of SHPS defined benefits for future service. For instance, total future service costs for the Final Salary 60ths section could reduce from c.41% to, say, 25% of pensionable pay, assuming no changes in methodology. Other rates would reduce proportionately too.

Given that SHPS allows individual employers to decide how overall costs of future service are split between the organisation and the employee, this could lead to interesting discussions at Board and with employee representatives, particularly where members pay a large share of costs now.

We examine the key reasons for these improvements overleaf.

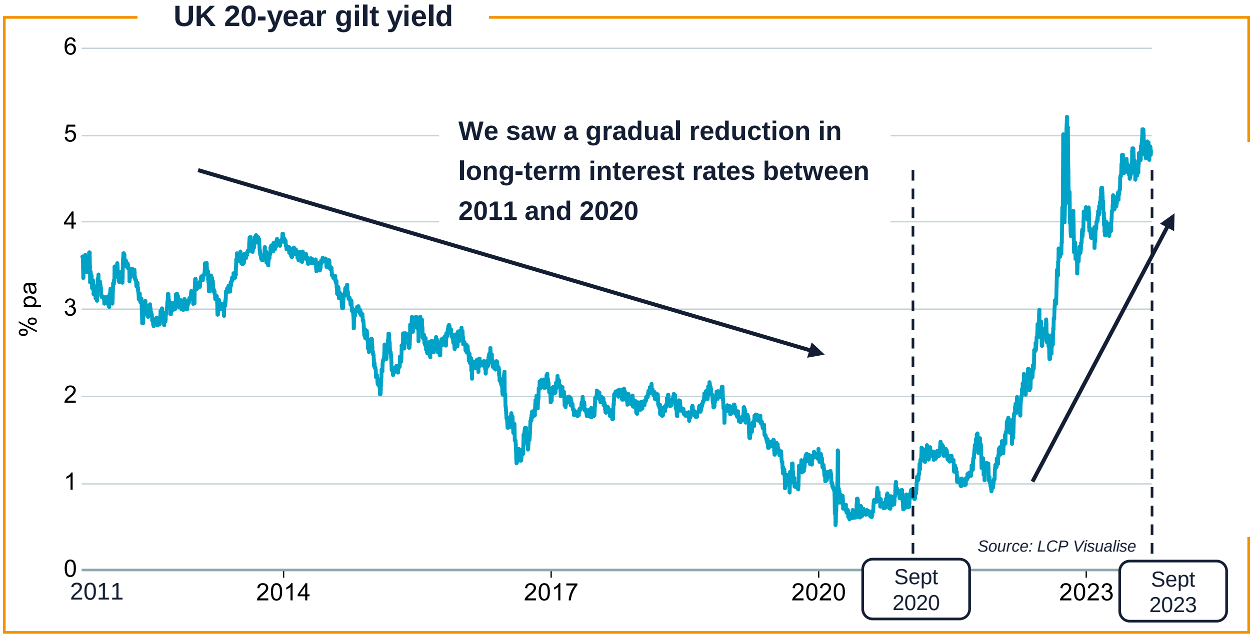




LCP estimates

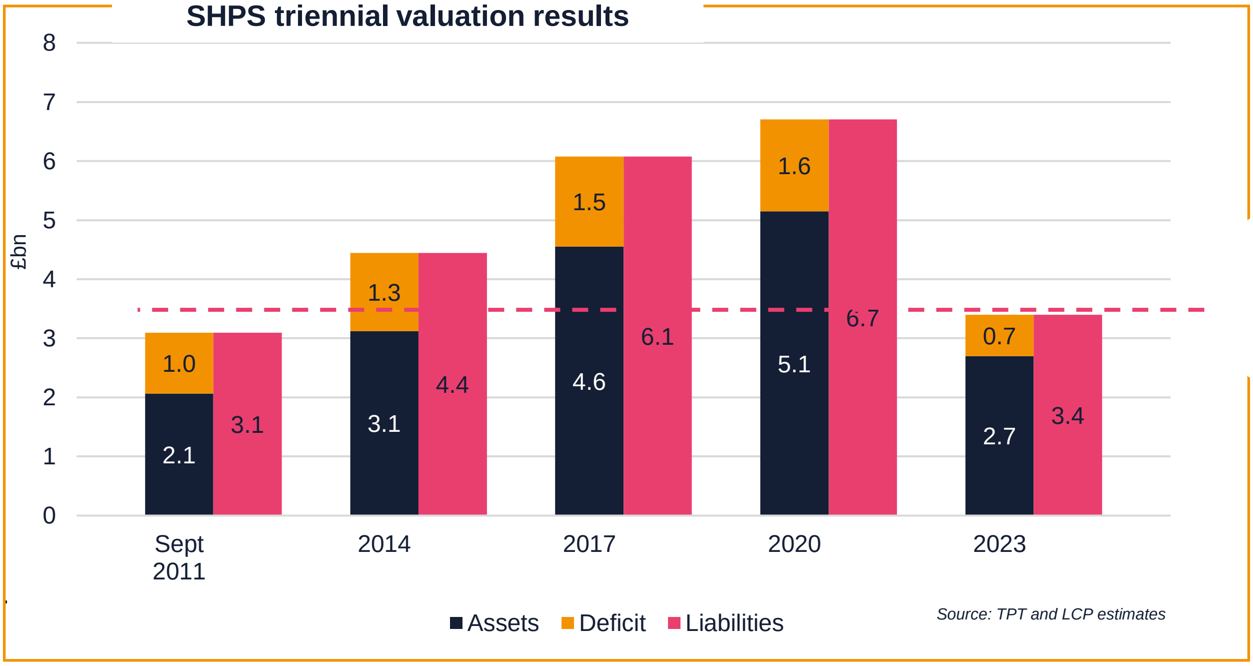
Key drivers for the 2023 SHPS valuation

The methodology used by SHPS means that the value placed on pension liabilities is very sensitive to markets' expectations of long-term interest rates (gilt yields). Liability values tend to increase when long term interest rate expectations reduce, and vice versa.



We have seen significant increases in UK long-term interest rates since the last triennial valuation of SHPS

As a result of the changes shown above, over the last three years we have seen significant reductions in the present value of SHPS liabilities and similar reductions in asset values:



Assets and liabilities are almost back to 2011 levels

What else could affect the results?

Many pension schemes were adversely impacted by the gilt market turmoil in September 2022 – this may have a long-term impact on SHPS expected investment returns, which could lead to higher funding targets and higher deficits.

SHPS will consider the direct and indirect effects of the pandemic on their members' life expectancies and morbidity. Whilst this is likely bad news for SHPS members, we expect a reduction in the deficit.

The ongoing TPT benefit review and High Court case could add to SHPS liabilities (by up to c£100m or more) but we don't expect to know the outcome of the court hearing until after this triennial valuation has concluded, and so any extra liabilities are likely to feed through to the 2026 valuation.

What should employers in SHPS do now?

We encourage Boards to revisit their pensions strategy now to be ready when the results are announced:

- Manage expectations regarding budgets – we expect that SHPS deficit contributions will be maintained
- Consider how you might manage employee messaging, especially if you have recently closed SHPS to future defined benefit accrual or if you have current employees earning further defined benefits in SHPS – there will be big reductions in the costs of future service
- Consider your options in respect of continued SHPS participation – SHPS exit debts have significantly reduced meaning a full exit may now be a realistic prospect for some associations
- For larger employers, a SHPS bulk transfer may now be more affordable, as the costs of meeting your share of SHPS orphan liabilities will have halved
- Is it time to review your defined contribution (DC) pension scheme? If your DC scheme is now your main (or only) pension scheme, is it offering value for money? Is it competitive against your peers?

Want to find out more?

To date, we've supported over 100 employers in relation to SHPS. Our specialist team can help you with all aspects of SHPS. If you'd like to discuss how we can help you, please get in touch with one of our experts.

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