HYMANS ROBERTSON

Simplifying pension arrangements and reducing risk

Raven Housing Trust were grappling with ever increasing DB costs and staff inequality with four different pension structures. Mark Thrasher, Director of Finance at Raven, explains how they worked with Hymans Robertson to reduce pension cost and risk and harmonise pensions for their staff.

Our pensions challenges

In 2015 our 200 staff were spread over four different pension arrangements, ranging from two very generous defined benefit schemes to an auto-enrolment minimum DC scheme, which was the pension vehicle for all recent and new hires. Inequity across staff was vast, with us spending an average of £15,000 each year per DB employee, and £1,000 each year per employee in auto-enrolment minimum DC.

The lack of control we had over our two DB schemes was a concern. One was the DB section of SHPS (the Social Housing Pension Scheme) and the other was Surrey LGPS (one of the Local Government Pension Schemes). Both are multi-employer schemes where contribution rates are imposed on employers unilaterally, and both have growth orientated investment strategies meaning the deficits and hence contribution demands can be volatile. The 'last man standing' nature of these schemes is also a concern.

In 2016 our SHPS deficit contributions increased by 30% as a result of the 2014 triennial valuation. The April 2016 cessation of contracting-out also increased our costs, and because this increased state pensions for our DB employees, it actually led to further benefit disparity between our staff.

The time was therefore right to take control of our pension risk and remove the staff inequity. This became even more pressing after the Summer 2015 budget which reduced rents in our sector for the next four years from an annual increase of CPI + 1% to an annual reduction of 1%, at a stroke meaning we had to find around £11m of savings over 5 years.

Formed in 2002, Raven is a registered housing association based in Redhill, Surrey and owns or manages more than 6,000 homes. We are a social business, investing in homes and lives across Surrey and Sussex to create flourishing communities. Our values are accountability, sustainability and respect. We build homes and change lives

The solution

We worked closely with Hymans Robertson to implement a significant pension change programme that brought our costs and risks under control, and actually strengthened our employee engagement. We did this by:

1. switching all our staff into one DC scheme to give staff equity going forwards;
2. setting the DC contribution rates at a median+ level, meaning for the majority of our staff there was actually an improvement in pension benefit;
3. completely exiting Surrey LGPS in March 2016 and paying our £6.9m cessation debt, meaning we were completely off the hook and had no further risk exposure to Surrey LGPS; and
4. using the DC section of SHPS as our future pension vehicle, which meant we could carry on paying off our share of the SHPS DB deficit over time rather than triggering the Section 75 exit debt. This eased immediate cash costs for us, which became critical after the Summer 2015 budget.

It was difficult to know where to start with making this happen, but Hymans Robertson actively guided us through the whole 18 month process. They advised on preferred options and the cost and engagement impact, facilitated a Board decision on how to proceed and supported us through the staff consultation. Their understanding of the sector, and how other employers are changing their pension benefits, brought real credibility to our decision making and our engagement with staff. Their LGPS relationships gave us better access than would have otherwise been possible.

We have now completely settled 75% of Raven's DB liabilities, with just our smaller SHPS DB legacy risk remaining. This gives us far more cost certainty going forwards, enabling us to plan with confidence for the future. All staff are now entitled to the same median+ DC pension going forwards, removing the previous inequity and improving staff engagement with access to a generous DC scheme.

"Raven now have an outcome where the majority of staff have a better pension arrangement than previously and they have settled 75% of their DB liabilities, massively reducing their exposure to DB risk. Paying the LGPS cessation debt was bold given the upfront cost, but I think Raven made the right call here. It enabled substantial savings on future service pension costs for staff in LGPS, and as it was triggered before Brexit and the subsequent fall in yields, it was a lower exit cost than is now possible."

Alistair Russell-Smith
Partner, Hymans Robertson