Williamsburgh

HOUSING ASSOCIATION

• Limited •

PENSIONS INFORMATION

25. Retirement Benefit Obligations

Williamsburgh Housing Association Limited (the Association) participates in the Scottish Housing Associations' Pension Scheme (the "Scheme").

The Scheme is a multi-employer defined benefit scheme which provides benefits to some 150 non-associated employers. The Scheme is funded. The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The Scheme offers six benefit structures to employers, namely:

- *Final salary with a 1/60th accrual rate;*
- *Career average revalued earnings with a 1/60th accrual rate;*
- *Career average revalued earnings with a 1/70th accrual rate;*
- *Career average revalued earnings with a 1/80th accrual rate;*
- *Career average revalued earnings with a 1/120th accrual rate contracted in; and*
- *Defined Contribution (DC) option.*

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. The DC option can be introduced by the employer on the first day of any month after giving a minimum of three months' prior notice.

Williamsburgh Housing Association Limited has elected to continue to operate the final salary with a 1/60th accrual rate for existing members. Additionally, the Association has elected to introduce the DC option to staff from 1 July 2018. The Association will pay contributions at the rate of 10.45% of pensionable salaries and member contributions will be a minimum of 5%.

During the accounting period the Association paid DB contributions at the rate of 12.6% of pensionable salaries. Member contributions were 12.5%.

The Trustees commission an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, so that the Scheme can meet its pension obligations as they fall due.

As at the Statement of Financial Position date there were 31 (2018 - 31) active members of the DB Scheme employed by the Association.

As at the Statement of Financial Position date there were 2 (2018 - Nil) active members of the DC Scheme employed by the Association. This was opened to staff in July 2018 and staff members are automatically auto enrolled into this.

Year ended 31 March 2018

Up until 31 March 2018, it was not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Thus, up until the end of the 31 March 2018 year end, the Scheme was accounted for as a defined contribution scheme. However the Association entered into a past service deficit repayment agreement with TPT and per FRS 102, this discounted past service deficit liability was recognised in the Statement of Financial Position.

The last triennial valuation of the Scheme for funding purposes was carried out as at 30 September 2015. This valuation revealed a deficit of £198m. A Recovery Plan has been put in place to eliminate the deficit which runs to 28 February 2022 for the majority of employers although certain employers have different arrangements.

25. Retirement Benefit Obligations (continued)

The key valuation assumptions used to determine the assets and liabilities of the Scheme as at 30 September 2015 are detailed below:

-	Investment return pre retirement		5.30% per annum
-	Investment return post retirement	- Non-pensioners	3.40% per annum
-	Investment return post retirement	- Pensioners	3.40% per annum
-	Rate of salary increases		4.10% per annum
-	Rate of pension increases	- pension accrued pre 6 April 2005	2.00% per annum
		- pension accrued from 6 April 2005	1.70% per annum
		- (for leavers before 1 October 1993 pension increases are 5%)	
-	Rate of price inflation		2.60% per annum

The contributions paid in respect of the defined contribution scheme is 4% employee contributions and 8% employer contributions.

30 September 2017 funding update

The Employer Committee received the 30 September 2017 Actuarial Report, the annual funding update which shows the Scheme's ongoing funding position in between each three-yearly valuation.

A summary is shown below:

30 September	Assets	Liabilities	Deficit	Funding
2015	£616m	£814m	£198m	76%
2016	£810m	£1,020m	£210m	79%
2017	£852m	£981m	£129m	87%

The Trustee's view is that the recovery plan remains appropriate and there is no need to take any action ahead of the next actuarial valuation, which was due as at 30 September 2018. The information regarding this 30 September 2018 valuation, including the annual funding update, is not yet available from TPT.

Past service deficit repayment liability

	2018
	£
Provision at start of period	*1,235,440*
Unwinding of the discount factor (interest expense)	*11,641*
Deficit contribution paid	*(243,120)*
Re-measurements – impact of any changes in assumptions	*(8,961)*
Provision at end of period	*995,000*

	2018
	£
Liability split as:	
< 1 year	*248,391*
1- 2 years	*252,037*
2-5 years	*494,572*
> 5 years	*-*
	995,000

25. Retirement Benefit Obligations (continued)

Statement of Comprehensive Income Impact	*2018* *£*
Interest expense	*11,641*
Re-measurements – impact of any change in assumptions	*(8,961)*

Assumptions	*2017*
Rate of discount	*1.51%*

The discount rates shown above are the equivalent single discount rates, which when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate band yield curve to discount the same recovery plan contributions.

Year ended 31 March 2019

Accounting treatment from 1 April 2018

From 1 April 2018, information became available in order to separate out the assets and liabilities between scheme members and thus the SHAPS defined benefit pension liability is accounted for as a defined benefit pension scheme from 1 April 2018 onwards. In accordance with FRS 102 section 28, the operating and financing costs of pension and post retirement schemes (determined by TPT) are recognised separately in the Statement of Comprehensive Income. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in Other Comprehensive Income.

At 31 March 2018, in respect of the SHAPS deficit repayment plan, amounts included within creditors due less than one year were £248,391 and amounts included within creditors due greater than one year were £746,609. At 1 April 2018, on initial recognition of the multi-employer defined benefit scheme, the opening adjustment to the liability was £576,000 to recognise a liability of £1,571,000 as at 1 April 2018.

Present values of defined benefit obligation, fair value of assets and defined benefit liability

	31 March 2019 **£'000**
Fair value of plan assets	9,954
Present value of defined benefit obligation	(11,856)
Defined benefit liability to be recognised	**(1,902)**

25. Retirement Benefit Obligations (continued)

Reconciliation of opening and closing balances of the defined benefit obligation

	Year ended 31 March 2019 £'000
Defined benefit obligation at start of period	(10,648)
Current service cost	(252)
Expenses	(8)
Interest expense	(279)
Contributions by plan participants	(142)
Actuarial (losses)/gains due to scheme experience	180
Actuarial (losses)/gains due to changes in demographic assumptions	(30)
Actuarial (losses)/gains due to changes in financial assumptions	(802)
Benefits paid and expenses	125
Defined benefit liability at the end of the period	**(11,856)**

Reconciliation of opening and closing balances of the fair value of plan assets

	Year ended 31 March 2019 £'000
Fair value of plan assets at start of the period	9,077
Interest income	240
Experience on plan assets (excluding amounts included in interest income) - gain	217
Contributions by the employer	403
Contributions by plan participants	142
Benefits paid and expenses	(125)
Fair value of plan assets at end of period	**9,954**

Defined benefit costs recognised in the Statement of Comprehensive Income

	Period from 31 March 2018 to 31 March 2019 £'000
Current service cost	252
Admin expenses	8
Net interest expense	39
Defined benefit costs recognised in Statement of Comprehensive Income	**299**

25. Retirement Benefit Obligations (continued)

Defined benefit costs recognised in Other Comprehensive Income

	Period ended 31 March 2019 £'000
Experience on plan assets (excluding amounts included in net interest cost) - gain	217
Experience gains and losses arising on the plan liabilities – gain	180
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – (loss)	(30)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – (loss)	(802)
Total amount recognised in other comprehensive income – (loss)	**(435)**

Fund allocation for employer's calculated share of assets

	31 March 2019 £'000
Global Equity	1,601
Absolute Return	843
Distressed Opportunities	170
Credit Relative Value	173
Alternative Risk Premia	556
Fund of Hedge Funds	28
Emerging Markets Debt	319
Risk Sharing	289
Insurance-Linked Securities	258
Property	198
Infrastructure	417
Private Debt	128
Corporate Bond Fund	698
Long Lease Property	121
Secured Income	347
Over 15 Year Gilts	256
Liability Driven Investment	3,542
Net Current Assets	10
Total Assets	**9,954**

25. Retirement Benefit Obligations (continued)

The main financial assumptions used by the Scheme Actuary, TPT, in their FRS 102 calculations are as follows:

Assumptions as at	31 March 2019 % per annum
Discount rate	**2.33**
Inflation (RPI)	**3.28**
Inflation (CPI)	**2.28**
Salary growth	**3.28**
Allowance for commutation of pension for cash at retirement	**75% of maximum allowance**

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65 (years)
Male retiring in 2019	**21.7**
Female retiring in 2019	**23.4**
Male retiring in 2039	**23.1**
Female retiring in 2039	**24.7**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2017 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a. for males and 1% p.a. for females.

Member data summary

Active members

	Number	Total earnings (£'000s p.a.)	Average age (unweighted)
Males	12	511	53
Females	19	627	46
Total	**31**	**1,138**	**48**

Deferred members

	Number	Deferred pensions (£'000s p.a.)	Average age (unweighted)
Males	4	3	52
Females	2	1	59
Total	**6**	**4**	**54**

Pensioners

	Number	Pensions (£'000s p.a.)	Average age (unweighted)
Males	5	34	71
Females	5	38	63
Total	**10**	**72**	**67**

25. Retirement Benefit Obligations (continued)

Employer debt on withdrawal

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Association has been notified by TPT of the estimated employer debt on withdrawal from the Scheme based on the financial position of the Scheme as at 30 September 2017. As of this date the estimated employer debt for the Association was £8,676,077. The employer debt on withdrawal based on the valuation as at 30 September 2018 is not yet available from TPT.

GMP Equalisation

Guaranteed Minimum Pension (GMP) is the minimum pension which an occupational pension scheme in the UK has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS). Both pension scheme members and sponsoring employers paid lower National Insurance contributions at the time of accrual given the lower benefits being accrued for the member by the state. Women can currently receive their GMP benefits at age 60 compared to age 65 for men. GMP also accrued at a faster rate for women than men.

Historically some defined benefit schemes had different retirement ages for men and women. Therefore schemes are required to “equalise” pension ages and overall benefit scales between males and females. The Scheme actuary is therefore required to estimate the impact of GMP and include an allowance for the increase in calculated liabilities.

The impact of GMP equalisation for Williamsburgh Housing Association is 0.05% of liabilities, which is expected to be approximately £6,000. This is included within the closing defined benefit liability as detailed above.