Housing briefing, March 2023: Special finance edition

Once again, First Actuarial's specialist housing team will attend the Housing Finance Conference and Exhibition. **We hope you have a great time in Liverpool, and please visit us on stand 621.**

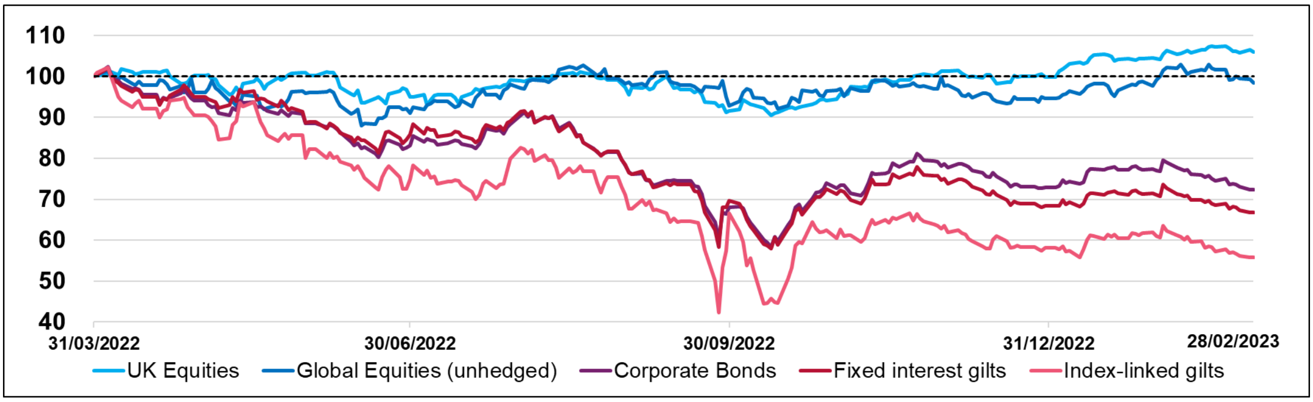
We would also love to see you at our session on "***The Future of Pensions***" and Collective Defined Contribution (CDC) on the **Insight Stage at 12.25 on Thursday 16th March**.

This briefing focusses on some of the key pension issues for finance directors and managers, including FRS 102, the 2022 LGPS valuation, 2023 SHPS valuation and changes to auto-enrolment contributions.

Year-end pension cost accounting (FRS 102)

You will likely see big changes in the Defined Benefit (DB) assets and liabilities reported in your 31 March 2023 accounts, compared to 2022.

The final quarter of 2022 began with significant volatility in bond markets following the Government's 'mini-Budget' in September. The first few weeks of October saw daily movements of up to 15% in the value of some bonds. Despite this volatility between September 2022 and February 2023, corporate bonds actually generated a positive return – however, gilts performed less well. UK equities gained around 6% over the 11 months to February 2023 and overall returns on currency-hedged global equities remained fairly flat. The fall in the value of the pound means that unhedged global equities fared less well.



While asset returns since 31 March 2022 are generally not good news in isolation, it's important to remember that changes in scheme funding levels will reflect movements in both assets and liabilities.

Falling corporate bond prices mean rising corporate bond yields and, since these yields drive FRS 102 discount rates, this translates to falls in the value placed on DB scheme liabilities for the purposes of year-end accounts – and these falls will have been dramatic. Also, despite the current levels of high inflation, long-term market expectations of future inflation are lower which also serves to reduce liability values.

Overall, we expect most schemes to have seen their pension balance sheet positions improve over the year. Improvements will have been greatest for schemes that didn't have material levels of liability hedging in place (as they will not have seen such substantial falls in asset values).

There is no single 'correct' set of assumptions to use when valuing the DB scheme liabilities for your organisation's accounts. Appropriate values for each assumption will depend on the liability profile, benefit structure of your scheme, and the methodology used. The choice of assumptions can have a significant impact on your balance sheet at year-end and on next year's SOCI.

We support finance teams with year-end pension cost accounting by providing training, independent assumptions advice and benchmarking of your disclosures using First Actuarial's housing sector survey.

Local Government Pension Scheme (LGPS) 2022 valuation…results are out

All LGPS employers should now have received their individual results schedule, setting out details of their primary and secondary contributions payable from 1 April 2023.

While each fund has its own investment and funding strategy, we expect the majority of employers to have seen an improvement in their funding position since 2019. This will mean that, on average, secondary contributions should fall in absolute terms. However, at the same time, there have been increases in primary contributions. The exact impact will vary for each employer – depending on which fund your organisation is in, the membership profile, previous funding position and the extent of any guarantees.

Further, many employers have seen a material improvement in the funding level on a cessation basis. In many cases, this could mean a sizeable exit debt has turned into a more affordable figure (or even a cessation surplus).

Depending on contractual requirements, is now the time to be exiting LGPS funds and closing off this significant liability risk (potentially with an exit surplus credit at the current time)?

> We are helping our clients explore the options around LGPS participation, engage with funds on strategies for funding and investments, and exit planning – independently advising on the financial and HR impact.

Social Housing Pension Scheme (SHPS) 2023 valuation…results to come

The next funding valuation of SHPS has an effective date of 30 September 2023 and contributions are, once again, subject to review. Initial valuation results will be expected, at an aggregate scheme level, early in 2024 with individual employer results expected by mid-2024.

It's hard to forget the last valuation, which saw a huge rise to future service contribution rates, as well as a combination of higher deficit contributions and an extension to the length of the recovery plan. Given recent market conditions, results this time around should look more promising, but this will depend in part on the SHPS Trustee's funding approach.

> We can help you to review your overall pension strategy ahead of the 2023 SHPS valuation results to see how your pension provision has developed over time. During the valuation exercise, we also recommend that employers engage with the SHPS Employer Committee so that all voices can be heard.

Auto-enrolment changes

The last major change to auto-enrolment requirements came back in April 2019, but a recent private member's bill will give ministers powers to lower the age to 18 at which employers must auto-enrol workers and enable people to save from the first pound of earnings. These are positive changes to facilitate greater pension savings for workers.

Currently, auto-enrolment minimum contributions only need to be paid on qualifying earnings between £6,240 and £50,270. Abolishing the lower earnings limit could increase costs for some employers, but employers already have the flexibility to pay pension contributions from the first pound of earnings – and many housing associations do.

> We recommend a review of your auto-enrolment strategy, including the definition of pensionable pay used across the workforce. This review can also assess any extra costs triggered by these expected changes, the communications required for employees, and the suitability of your auto-enrolment level of pension provision.

Our team of housing specialists

To discuss the contents of this briefing, or any area of pensions, please contact your usual First Actuarial consultant or any of our nationwide housing specialists: enquire.housing@firstactuarial.co.uk

Find out more about **our pension services for housing associations**.