Introduction

This booklet is provided to you as an employee of The Riverside Group Limited because you are currently building up benefits in one of the pension plans currently offered by the Group. The purpose of this booklet is to help you understand the changes that the Group is proposing to make to the way you would build up pension benefits in the future whilst you are an employee. The booklet explains why we are proposing to make changes and how they affect you.

It is important that you read this booklet carefully as the proposed changes, if agreed, would affect the way you save for your pension in the future.

The information presented in this booklet does not override the rules of your pension scheme.

All references to taxation are to UK taxation and are based on current understanding of current UK law and HM Revenue & Customs practice which may change at any time.

Throughout this booklet we have used the following terms:

The **DB plan/ DB plans** is one of the defined benefit pension schemes currently offered by the Group
The **DC plan** is the Social Housing Pension Scheme (SHPS) Enhanced Defined Contribution Scheme
The **Auto-Enrolment DC plan** is the Social Housing Pension Scheme (SHPS) Defined Contribution Scheme
The **Group** is The Riverside Group Limited

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1. What are the current pension plans and what changes are being proposed?

The current arrangements are:

- The DB plans offered by the Group, namely the Riverside Group Pension Scheme, the Social Housing Pension Scheme and the Local Government Pension Schemes. There are currently around 900 employees who are a member of one of the DB plans.
- The SHPS Enhanced Defined Contribution Scheme is the current defined contribution pension plan which we will call "the DC plan". This plan has around 100 current members.
- The 'Auto-Enrolment' plan which is also part of the SHPS Defined Contribution Scheme and is used to automatically enrol new employees of the Group into a pension plan as required by law. This plan has just under 1200 current members.

Appendix 1 explains the difference between defined benefit and defined contribution pension plans.

What are the proposed changes?

In summary, to help control the Group's financial risks and harmonise the pensions that we provide to all of our employees, we are proposing to:

- Provide all future pension benefits through the DC plan (including the Auto-Enrolment DC plan)
- Amend the contribution structure of the DC plan with effect from 1 April 2016
- For those currently in the DB plan, stop any further build-up of future benefits in that plan. Benefits that have been built up to that point are protected by legislation.

We intend to make these changes with effect from 1 April 2016 or as soon as possible thereafter. The precise timing will vary according to which pension scheme you are a member of. The details are set out in section 4.

2. Why are we proposing to make changes?

All staff will be aware of the challenges that the Group faces as a result of the announcement of rent reductions in the Summer Budget of 2015. These cuts mean that the Group has to achieve significant cost savings in line with the long term reductions in rent we are facing as a business.

Whilst the Group has been taking steps over many years to mitigate the long term risks and increasing costs associated with our pension arrangements, the backdrop of the Summer Budget has brought an increased need to review the current offer. The review has sought to identify the best option to meet the Group's future objectives – balancing the need for cost savings alongside the desire to provide a high quality pension for all staff. The Group looked at a range of alternatives and concluded that the current proposals represented the best option to achieve this balance.

Several other important factors have also been considered:

1. The costs of running the DB plans have increased substantially and are expected to continue increasing going forward

This is because:

- People are living longer than previously anticipated, which means the DB plans have to pay their pension for a longer period of time,
- The expectation for future investment returns has reduced as a result of challenging economic conditions, so more money needs to be paid into the DB plans to pay the promised benefits,
- National insurance contributions for certain DB plans are increasing next year and this would affect all of the Group's DB plans.

In the absence of any changes, these factors would require the Group to spend approximately £1.5m more each year to provide the current DB plans at a time when our income is reducing significantly.

2. The Group aims to provide fair and consistent pension benefits for all its employees.

The Group wishes to ensure consistency and fairness in the pension benefits offered to all of our employees.

At present, the Group has a complex variety of different pension arrangements. This means that Group employees are earning differing levels of pension benefits and paying varying rates of contributions. It also means that the cost to the Group varies between the different DB plans. This represents a skewed focus of resources and the Group wishes to harmonise, as far as possible, pension benefits offered to its employees.

3. The Group needs to control future risk and uncertainty.

Despite large contributions to address a funding shortfall, and good investment returns, the cost of providing benefits in the DB plans continues to increase to unsustainable levels. It is the Group's responsibility to ensure there is enough money to pay the promised pensions to the employees in the DB plans. However, it is extremely hard to predict how much money will be needed to provide these benefits and when it will be needed. Often it is the case with defined benefit plans that more money is needed at times when employers can least afford to pay more. The Group believes that where possible it must limit its exposure to future uncertainty and legislative changes, so that it can protect the financial integrity of the Group.

4. The Group aims to offer an attractive pension scheme.

The Group wishes to offer the best pension available but at an affordable long term cost. It is clear that the existing schemes need to change in order to be affordable.

The Group is therefore proposing to offer a DC plan with a choice of contribution rates for employees and a corresponding employer contribution. We believe that this is an attractive pension offer, when compared to what is commonly offered in the market and by other housing associations. Further details of the new DC Plan are set out in section 3 of this booklet.

We are also asking existing members of the DC plan to either increase their contributions, or switch to a lower contribution tier. We recognise this is a change to benefits for existing DC members, but we believe that this proposal is consistent with the need for the Group to achieve the necessary cost savings which are required going forward.

On top of this, you will be able to benefit from the increased flexibilities and greater choices in a DC scheme, which is not available if you are in a DB scheme. For example, you will be able to decide how your contributions are invested or you can even take out the value of your benefits as cash, subject to the relevant tax requirements.

What actions have the Group already taken?

Over the past six years the Group has implemented a number of changes to pensions. The purpose of the changes was to deal with the rising costs and risks associated with operating the plans.

- In **July 2009** the Group closed the final salary section of the Riverside Group Pension Scheme to new entrants and introduced a CARE* section. Members of the final salary section were allowed to move to the CARE section.
- In **April 2010** the Group closed the final salary section of the Social Housing Pension Scheme to new entrants and offered a CARE section.
- In **August 2013** the Group closed its DB plans to new entrants , and all new employees of the Group since then have been offered membership of a DC plan

Additionally, there have been several reviews carried out by the relevant Trustees and Government over the last five years on the benefits in the Social Housing Pension Scheme and the Local Government Pension Schemes to mitigate the risks inherent in a DB scheme.

When the Group made these changes in the past, we did consider the option of closing the DB plans to future accrual (terminating the build-up of further pensions in the DB plans), but, deferred closure for as long as possible. However, the continuing and substantial increase in DB plan costs relative to costs for the DC plan members means that the existing DB plans are no longer sustainable and equitable.

*CARE means ‘Career Average Revalued Earnings’

3. What does the new DC plan provide?

The Group has conducted a review of the contribution structure in the DC plan with the aim of achieving a cost effective yet attractive benefit. The Group is therefore proposing to change the contribution rates in the DC plan to the following from **1 April 2016**:

	Group contribution rate	Member contribution rate
Tier 1	12%	9%
Tier 2	9%	6%

Existing members of the DB plans and the current DC schemes, will be able to choose which Tier you wish to enter when you first join the new scheme. It is proposed that you will then have a period of six months to change Tier if you wish to do so. After that time, only Tier 2 will be available to join. Alternatively, members can choose to contribute into the Auto-Enrolment DC plan instead.

The DC plan will continue to be provided via the Social Housing Pension Scheme. Members will have the option to choose between different investment funds; more detail of the investment options available to members will be provided during the consultation period.

The Group is not proposing to change the contribution rates in the Auto-Enrolment DC plan. However, please note that the member contribution rate in the Auto-Enrolment DC plan which is currently 1% will increase to 4% of the member's Salary from 6 April 2019 onwards due to the gradual increase in minimum contributions required by the auto-enrolment legislation. Details of this scheme are provided in the table below:

	Group contribution rate	Member contribution rate
Current	4%	1%
6 April 2019	4%	4%

4. How would the proposed changes affect you as a member of the Riverside Group Pension Scheme?

Your benefits already built up in the Riverside Group Pension Scheme (the 'DB Scheme')

If the proposed changes go ahead then from **1 April 2016** you would no longer build up benefits in the DB Scheme and you would stop paying contributions to it. Instead you would become a deferred member.

The benefits you have already built up to **31 March 2016** would be protected by law. In other words, you would be treated exactly as if you had chosen to leave the DB Scheme on this date, i.e. as a deferred member. Any pension you have built-up in the final salary section will no longer be linked to your Final Salary at retirement, and will instead be linked to your Final Salary when the DB Scheme closes. Your pension is not 'frozen' at that date, however, and will be increased in line with inflation up to your retirement date. The Group will continue to meet the cost of the benefits you have already earned.

Any pension you have built-up in the CARE section will only be revalued in line with the CARE revaluation rate to when the DB Scheme closes. As with the final salary section, your pension is not 'frozen' at that date, however, and will be increased in line with inflation up to your retirement date. The Group will continue to meet the cost of the benefits you have already earned.

Note that you will be able to transfer your past benefits into the DC plan. Should you decide to do this, you will no longer receive a pension from the DB Scheme when you retire.

You would also see a slight change in the death-in-service and ill-health benefits. Details of the pensions and lump sums payable on death and ill-health will be set out in the FAQs.

Your future benefits in the Defined Contribution plan

On **1 April 2016** you can join the DC plan and details of the plan are set out in section 3. This is a high quality DC plan which is provided through the Social Housing Pension Scheme (SHPS). The Pensions Trust, the provider of the Social Housing Pension Scheme (SHPS) complies with the Master Trust Assurance Framework and has also been awarded the Pension Quality mark 'Ready' Status. Further details about joining the DC plan and the investment funds available will be sent to you later in the consultation period.

If you choose not to join, you will be automatically enrolled into the SHPS Auto Enrolment DC plan in line with Auto-Enrolment requirements. You will have the choice to opt out of Auto Enrolment should you wish to do so. The choice of contributions which could be paid by the members and the Group in the DC plan and the SHPS Auto Enrolment plan are set out in section 3 of this booklet.

Member Examples – for illustrative purposes only

We have given three examples on the following pages showing how the proposed changes would affect the amount of pension members might expect to receive at retirement. These examples are illustrative and are not based on actual members of the DB Scheme. *All of the figures are given in today's money so they are comparable with your current salary. That is to say that the values in these examples have been adjusted to remove the effects of inflation and are measured in terms of current year prices.*

Some key notes on the member examples are summarised below:

- Were the proposed changes not to be implemented, your benefits will continue to be linked to your Final Salary for final salary section members. For CARE section members, your benefits will be revalued to retirement using the CARE revaluation rate. This is represented by the "Before changes" benefit illustration in the member examples.
- If the proposed changes are implemented, your final salary benefits will no longer be linked to your Final Salary and your CARE benefits will no longer be revalued to retirement using the CARE revaluation rate. Instead, all your benefits will increase with inflation. This is represented by the "After changes" benefit illustration in the member examples.
- For the purpose of the illustrations, we have also assumed that salary increases are in line with increases to inflation at a future assumed inflation rate of 2.5%.
- We have estimated the DC benefits using the Financial Reporting Council's (FRCs) rules for Statutory Money Purchase Illustrations (SMPI). We have not set out an exhaustive list of the assumptions used, however if you would like more detail you may refer to the FRC website. In particular, we have assumed that the contributions invested in the DC plan will receive an investment return of 5% pa (less expenses of 0.5% pa) and the cost of buying a pension at retirement is in line with current market rates calculated using SMPI principles.

It is highly likely that these assumptions will not be borne out in practice so members may receive higher or lower benefits than those set out in the examples below.

Member Example 1 (Final Salary Section Member) – for illustrative purposes only

Jack is 50 years old and currently earns a salary of £35,000 a year. He has been a member of the DB Scheme for 15 years. He plans to retire when he is 65.

<u>Before Changes</u>

Under the existing arrangement, Jack has been paying 9% p.a. of his salary in contributions.
In this scenario, Jack will continue to pay 9% of his salary after 1 April 2016. In return, his benefit entitlement would be:

Benefits already built up before 1 April 2016 (based on 15 years of service)	**£8,750 p.a. pension**
+	
Future benefits for service after 1 April 2016 (based on 15 years future service to age 65)	**£8,750 p.a. pension**
=	
	£17,500 p.a. pension

<u>After Changes</u>

After the changes, Jack will have the option to choose between the Tier 1 and Tier 2 contribution structures described earlier. Let us assume Jack opts to join Tier 1. Under Tier 1, Jack will contribute 9% of his Salary going forwards, with the Group adding a contribution of 12% of his Salary. Under this scenario, Jack will be entitled to:

Benefits already built up before 1 April 2016 (based on 15 years of service to date of closure)	**£8,750 p.a. pension**	
+		
Future benefits for service after 1 April 2016 (based on 15 years of service in the DC plan)	**A DC pension pot worth £126,000** **This would give a pension of around £3,380 p.a.**	**(Not Guaranteed)***
=		
	£12,130 p.a. pension	**(Not Guaranteed)**

*Unlike the current pension in which the benefit is defined, this pension is defined contribution in nature and as such is not guaranteed.

The projected value of the pension built up after 1 April 2016 in today's money is £126,000. There are several options available to Jack as to how he receives the benefit from this pension. Other than taking all this value as pension, as shown above, under current legislation, Jack may take 25% of this value in the form of a tax free lump sum. Furthermore, under rules introduced by the Chancellor of the Exchequer in the April 2014 Budget, the remainder of this pension may also be exchanged for a lump sum payment, however this element would then be taxable at Jack's marginal rate of income tax.

Member Example 2 (CARE Section Member) – for illustrative purposes only

Bill is 40 years old and currently earns a salary of £25,000 a year. He has been a member of the DB Scheme for 5 years. He plans to retire when he is 65.

Before Changes

Under the existing arrangement, Bill has been paying 6% p.a. of his salary in contributions.
In this scenario, Bill will continue to pay 6% of his salary after 1 April 2016. In return, his benefit entitlement would be:

Benefits already built up before 1 April 2016 (based on 5 years of service)	**£2,080 p.a. pension**
+	
Future benefits for service after 1 April 2016 (based on 25 years future service to age 65)	**£10,410 p.a. pension**
=	
Total Benefits	**£12,490 p.a. pension**

After Changes

After the changes, Bill will have the option to choose between the Tier 1 and Tier 2 contribution structures described earlier. Let us assume Bill opts to join Tier 2. Under Tier 2, Bill will contribute 6% of his Salary going forwards, with the Group adding a contribution of 9% of his Salary. Under this scenario, Bill will be entitled to:

Benefits already built up before 1 April 2016 (based on 5 years of service to date of closure)	**£2,080 p.a. pension**	
+		
Future benefits for service after 1 April 2016 (based on 25 years of service in the DC plan)	**A DC pension pot worth £118,600.** **This would give a pension of around £3,060 p.a.**	**(Not Guaranteed)***
=		
Total Benefits	**£5,140 p.a. pension**	**(Not Guaranteed)**

*Unlike the current pension in which the benefit is defined, this pension is defined contribution in nature and as such is not guaranteed.

The projected value of the pension built up after 1 April 2016 in today's money is £118,600. There are several options available to Bill as to how he receives the benefit from his pension. Other than taking all this value as pension, as shown above, under current legislation, Bill may take 25% of this value in the form of a tax free lump sum. Furthermore, under rules introduced by the Chancellor of the Exchequer in the April 2014 Budget, the remainder of this pension may also be exchanged for a lump sum payment, however this element would then be taxable at Bill's marginal rate of income tax.

Member Example 3 (Final salary and CARE Sections Member) – for illustrative purposes only

Jackie is 45 years old and currently earns a salary of £30,000 a year. She has been a member of the Final salary DB Scheme for 4 years and the CARE DB Scheme for 6 years. She plans to retire when she is 65.

Before Changes

Under the existing arrangement, Jackie has been paying 6% p.a. of her salary in contributions.
In this scenario, Jackie will continue to pay 6% of her salary after 1 April 2016. In return, her benefit entitlement would be:

Benefits already built up before 1 April 2016 (based on 10 years of service)	**£5,000 p.a. pension**

+

Future benefits for service after 1 April 2016 (based on 20 years future service to age 65)	**£10,000 p.a. pension**

=

Total Benefits	**£15,000 p.a. pension**

After Changes

After the changes, Jackie will have the option to choose between the Tier 1 and Tier 2 contribution structures described earlier. Let us assume Jackie opts to join Tier 2. Under Tier 2, Jackie will contribute 6% of her Salary going forwards, with the Group adding a contribution of 9% of her Salary. Under this scenario, Jackie will be entitled to:

Benefits already built up before 1 April 2016 (based on 10 years of service to date of closure)	**£5,000 p.a. pension**

+

Future benefits for service after 1 April 2016 (based on 20 years of service in the DC plan)	**A DC pension pot worth £108,100** **This would give a pension of around £3,040 p.a.**	**(Not Guaranteed)***

=

Total Benefits	**£8,040 p.a. pension**	**(Not Guaranteed)**

*Unlike the current pension in which the benefit is defined, this pension is defined contribution in nature and as such is not guaranteed.

The projected value of the pension built up after 1 April 2016 in today's money is £108,100. There are several options available to Jackie as to how she receives the benefit form this pension. Other than taking all this value as pension, as shown above, under current legislation, Jackie may take 25% of this value in the form of a tax free lump sum. Furthermore, under rules introduced by the Chancellor of the Exchequer in the April 2014 Budget, the remainder of this pension may also be exchanged for a lump sum payment, however this element would then be taxable at Jackie's marginal rate of income tax.

Definitions

Pensionable Salary
This is your Basic Annual Salary

Final Salary
This is the greater of:
a) the average of the best 3 consecutive pensionable salaries of the last 10 years before normal pension age or withdrawal, or,
b) your Pensionable Salary in the twelve months before normal pension age or withdrawal

Pension accrual
For membership built up to 31 March 1988, you receive a pension of 1/100th of your final salary

For membership from 1 April 1988, you receive a pension of 1/60th of your final salary

For CARE membership from 1 July 2009 1/60th of your pensionable salary is added to your pension account

Pensionable Service
This is the number of completed years and months of contributory membership of the Scheme

CARE revaluation rate
Your pension will be revalued in line with inflation

Salary (DC plan)
Basic Annual Salary (including any contractual pensionable allowances)

AVCs
This means "additional voluntary contributions" and is the name given to any contributions you pay above your 'normal' contributions to the Scheme to secure extra benefits.

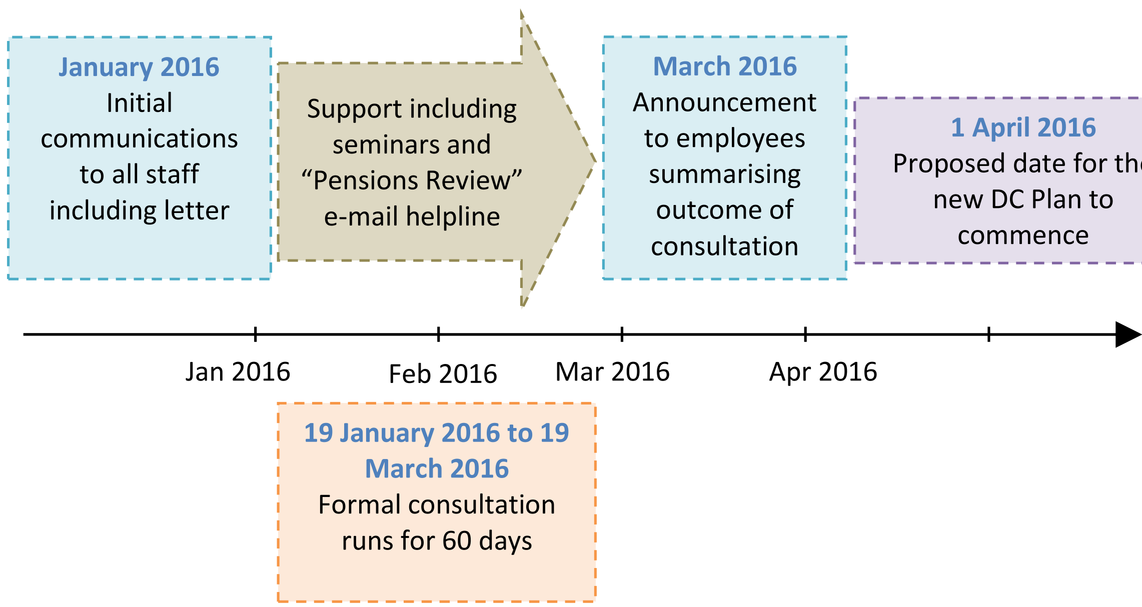
DC pension pot
This is the value of your defined contribution pension, consisting of the money contributed by you and the Group to the DC scheme, together with any investment returns, less any expenses.

5. When are we proposing to make the changes?

The covering letter and this booklet mark the start of the formal consultation period which will last for a period of 60 days. As we announced the proposed changes on 19 January 2016, and began communicating with staff immediately, this period concludes on 19 March 2016.

The consultation is an opportunity for you to raise further questions you may have and to provide us with your feedback on the proposals. We encourage you to actively participate in the consultation process.

A timetable of the consultation process and the anticipated implementation of the proposed changes (if they are agreed) is shown below.



6. How will we support you?

We know that pensions can be complicated. Our aim is to provide you with the support you need to help you understand what these proposed changes would mean for you so that you can provide your feedback. There are a number of ways that you can get support from us:

E-mail help-line

PensionsReview@riverside.org.uk

If you have any questions in relation to the proposal, please contact the e-mail help-line at the address above.

The e-mail inbox will be monitored on a daily basis. All questions will receive a reply.

Group Seminars

These will be held in February and March with dates and locations being issued later in January.
These seminars will provide more details around the proposal and provide you with an opportunity to ask questions.

Q&As

We will collate and answer questions received from employees. A Frequently Asked Questions (FAQ) document will be issued separately and will be updated during the consultation period.

We will continue to answer commonly raised questions throughout the consultation process with a dedicated page on the RIC

The Group and Unite representatives will meet on a regular basis throughout the consultation process. The purpose of these meetings will be to consider the common queries being raised and enable the Group to update the Unite representatives on progress.

Providing Feedback

The consultation process is an opportunity for you and your representatives to raise queries and provide us with feedback on the proposed changes by no later than 19 March 2016. All feedback will be considered before any final decisions are made.

If you have any feedback you would like the Group to consider please take one of the following steps:

- E-mail PensionsReview@riverside.org.uk
- Speak to your local Unite representative

Other Support

There are a number of other ways you can obtain information and help about your pension. A list of some of these is as follows:

- If you would like personal independent financial advice about any decisions you need to make, you must consult an **Independent Financial Advisor**. If you would like to seek independent financial advice, you can find an advisor near you through the following website: *www.unbiased.co.uk*. You should note that you will be responsible for any costs incurred.

- **Pensions Advisory Service (TPAS)** – TPAS provides free and impartial advice and can be contacted via their website at *www.pensionsadvisoryservice.org.uk*

- **The Pensions Regulator** – the Pensions Regulator is the regulator of UK work-based pension schemes. You can find out more at www.thepensionsregulator.gov.uk

- **The Pensions Ombudsman** – the Pensions Ombudsman is appointed by the Secretary of State for Work and Pensions. The role of the Pensions Ombudsman is to investigate complaints about how pension schemes are run and to provide an impartial process to resolve these complaints. Their service is free and open to members who have a complaint against those responsible for the running or administration of pension schemes. You can find out more at their website *www.pensions-ombudsman.org.uk*

- **The Money Advice Service** – the Money Advice Service provides free and impartial money advice, set up by government. You can find out more at *www.moneyadviceservice.org.uk*

Appendix 1: What is the difference between a defined contribution plan and a defined benefit plan?

Defined benefit pension plans

The basic idea behind a defined benefit plan is that each member earns pension during their career with a company, which is then paid from their normal retirement age. The trustees of the plan are responsible for ensuring that there is enough money available to pay the promised pension at retirement and the company is responsible for making up any shortfall identified in the plan.

Members pay contributions towards the cost of the pension building up for them each year but the employer is responsible for paying the remainder of the cost. Ultimately the financial risk of paying the pension is the responsibility of the employer.

A full description of how the DB plans works is set out in the member guides by each DB plan but, in simple terms the pension builds up as follows:

<u>Final salary scheme</u>

Pension = Pension accrual × Final salary at retirement × Pensionable service

<u>CARE (Career Average Revalued Earnings) scheme</u>

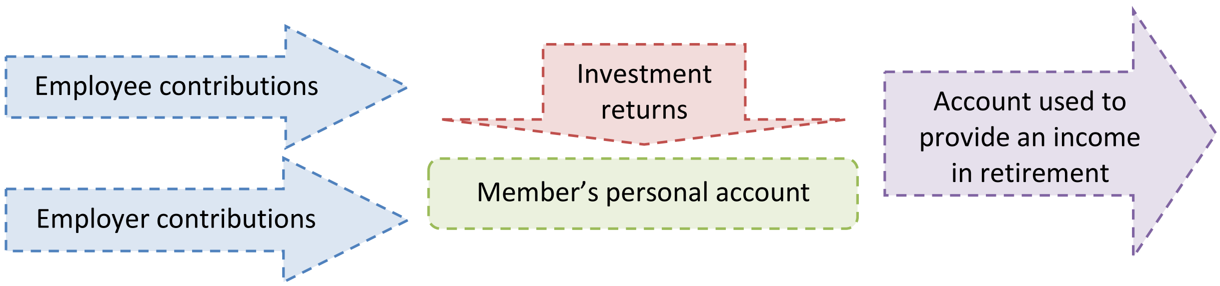
The formula for the CARE section is very similar except that pension is not based on Final Salary alone but an average salary over your period of membership of the scheme increased with inflation.

At retirement, members of defined benefit plans normally have the option to take part of their pension as a cash lump sum (payable tax free under current legislation up to a certain limit) and may also be able to retire before their normal retirement age. However, their pension would generally be reduced to take account of the fact that it will be paid for longer if they retire early.

Defined benefit plans typically also usually provide pension benefits to members’ dependants (e.g. husbands and wives, children etc) following the death of the member either before or after retirement.

Defined contribution pension plans

In a defined contribution plan both the member and the employer pay into a member's personal account. The money in the member's account is then invested until the member retires and the member takes on the investment risk in relation to the performance of their personal account.



Over time, the member's personal account will change in value depending on the performance of the underlying investments and the amount of money paid in. When a member decides to retire, they usually use their account to buy a pension (known as an **annuity**) from an insurance company. The member chooses how the pension will increase in payment and whether any benefits are to be paid to their spouse on death. Members can take up to 25% of their account as a tax-free lump sum.

As you may have read in the press, the Government has introduced a number of new options for members of defined contribution plans.

In particular, you will have greater choice on how and when you take benefits from a defined contribution plan, including:

- the ability to fully access all of your account value immediately. Up to 25% of your account is typically available free of tax, with any excess over this amount being taxed as appropriate
- the option to buy an annuity if you wish (with all or part of your account)
- the option to keep your money invested (e.g. if you don't want to either buy an annuity or take all of your account at once) and to take money out of your account as and when you need it

Importantly, the Government has also confirmed that each individual with defined contribution pensions will have the right to free and impartial guidance at retirement to help them make a confident and informed decision about how to use their pension savings. There is an impartial service available for this purpose (www.pensionwise.gov.uk) but this is only accessible to people at retirement age.