

# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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## 1. Why are the changes for pension provision under review?

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.

## 2. What are the current arrangements offered by the Group in respect of pension provision?

The Group currently facilitates and manages a number of pension schemes which are shown in the table below. A complex arrangement and as such Riverside is proposing changes to both the defined benefit (DB) and defined contribution (DC) schemes.

Scheme	Type	Current Status	Entry	Further comments
The Riverside Group Pension Scheme	Defined Benefit (DB) - Final Salary section	Closed to new members		Existing members all in employment pre-July 2009
The Riverside Group Pension Scheme	Defined Benefit (DB) - CARE section	Closed to new members		Existing members all in employment pre-August 2013
SHPS DB Pension Scheme	Defined Benefit (DB) - Final Salary section	Closed to new members		Existing members all in employment pre-April 2010
SHPS DB Pension Scheme	Defined Benefit (DB) - CARE section	Closed to new members		Existing members all in employment pre-August 2013
Local Government Pension Scheme	Defined Benefit (DB) - Final Salary section	Closed to new members		Existing members retained the right of admission under TUPE
SHPS DC Enhanced Pension Scheme	Defined Contribution (DC)	Open to new members		Option to join at commencement of employment. (Annual option to transfer from SHPS Auto Enrolment DC Scheme)
SHPS DC Auto Enrolment Pension Scheme	Defined Contribution (DC)	Open to new members		In line with statute employers are required to auto enrol all eligible employees into a pension scheme

Version 6 – 15<sup>th</sup> March 2016

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# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

---

## 3. Did the Group consider any alternatives to the current proposals for change?

The Group wishes to ensure consistency and fairness in the provision of pension benefits which will be offered to all of our employees. The Group carefully considered a range of alternatives and concluded that the current proposals represented the best option to achieve a balance of the need for cost savings alongside the desire to provide a high quality pension for all staff.

## 4. Will the Group reconsider the proposal to close the Defined Benefit (DB) schemes already in place?

As mentioned above, the Group wishes to ensure consistency and fairness in the provision of pension benefits going forward and for this reason we still firmly believe that the current proposals represent the best option going forward. The proposed closure of the DB scheme seeks to address the ever increasing economic challenges facing the organisation and to limit the future risks inherent in DB schemes. For this reason it is highly unlikely that we would revisit the decision, assuming, following this consultation process, that the schemes are indeed closed.

## 5. Will the Group consider keeping the Defined Benefit (DB) scheme open for members in the age group of 50 plus?

The Group feels that to offer retention of the DB scheme for a group of employees based on age could be perceived as discriminatory and would go against the principles of fairness and equity that we are seeking to achieve. For this reason, we will not be retaining separate provisions for age groups if the proposals are implemented.

## 6. What will happen to the benefits I have already built up in my Defined Benefit (DB) scheme?

The proposals to close the DB schemes, if implemented, will affect future benefits only and will not affect pension you have already built up through your own and the Riverside employer contributions. Examples of how past and future pension benefits will be calculated are illustrated under Section 4 in the consultation booklet which you have already received.

A copy of the consultation booklet is also available to view on the RIC.

## 7. What changes are you proposing to make to the SHPS Enhanced Defined Contribution Scheme?

If the changes go ahead we are proposing to make changes to the existing rates of contributions which currently apply to the SHPS Enhanced DC scheme. The existing

# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

rates are set at member contributions of 6% of pensionable salary whilst the Group contribute at 12% of pensionable salary. You will have received a consultation booklet which gives full details of all the proposed changes. A copy of which is available to view on the RIC.

The proposed new rates are set out in the table below (See question 8)

## 8. If the changes go ahead what are my options?

From the 1<sup>st</sup> April 2016, the Group proposes to offer SHPS DC scheme to all employees who will have a choice of either the SHPS DC Auto Enrolment scheme or the SHPS Enhanced DC scheme.

For a 6 month period of grace, existing members of the current DB Schemes and existing members of the SHPS Enhanced DC scheme will have the choice to opt for a 3<sup>rd</sup> category of SHPS DC scheme which is identified in the table below:

Structure Design	Employer Rate	Member Rate	Further information
SHPS DC Auto Enrolment (AE scheme)	4%	1%	For assessment of all employees in line with auto enrolment statute. Member rates will increase in line with legislation. See Q9 for further information on auto enrolment. Please note that this member rate will in any case increase over time to keep the total level of contributions within the minimum legally required – see the table at Q11.
SHPS DC Enhanced	9%	6%	As at 1 April 2016 this will be the default scheme for all new starters with Riverside. Structured on a ratio basis of 1.5/1. Annual window (every 1 <sup>st</sup> April) open to all employees for transfer up from SHPS DC AE scheme or transfer down from SHPS DC Enhanced Exclusive scheme.
SHPS DC Enhanced / Exclusive (Exclusive to existing members from 1 <sup>st</sup> April 2016 – 30 <sup>th</sup> September 2016)	12%	9%	As at 1 April 2016 this tier will only be offered to existing members of all DB Final Salary & Care schemes for a fixed period of 6 months, at which point the tier will be closed to new entrants. The offer will also be open to existing members of SHPS Enhanced DC. Structured on a ratio basis of 1.33/1. Annual window (every 1 <sup>st</sup> April) for existing members <u>to transfer down</u> to SHPS DC Enhanced / SHPS AE scheme

# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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## 9. What if I decide I do not wish to join any pension scheme?

Under Auto-enrolment legislation, the Group have a duty to assess you for entry into the SHPS AE scheme. If, you are eligible under the criteria stipulated at the current time, you will be opted into the SHPS AE scheme, however you will be able to opt out. Further details of auto enrolment can be found on the RIC.

## 10. Will the Group consider maintaining the current rates of 12% employer and 6% member contributions and 'red circle' existing members of the SHPS Enhanced DC scheme

If the proposed changes are implemented, the Group does not intend to 'red circle' the existing rates of 12% employer and 6% member contributions of the SHPS Enhanced DC scheme.

The proposal to introduce the new rates of contributions was based on current conditions for existing DB members and Enhanced DC members whereby a higher employer contribution will be offered to those members who are prepared to contribute a higher member contribution. The existing member rates for DB members in a Final Salary scheme is approximately 9% and for those members in CARE schemes the member rate is approximately 6%. Existing members of the DC Enhanced scheme contribute at 6%.

As illustrated in the table above, the proposed SHPS Enhanced / Exclusive DC scheme of member contributions of 9% and employer contributions of 12% will only be available to existing members of DB and Enhanced DC schemes for a limited timescale. All new employees will only have the option of joining either the SHPS DC Enhanced Scheme with an employer contribution rate of 9% and a member rate of 6% or the SHPS DC Auto Enrolment Scheme, employer rate 4% member rate (currently set at) 1%.

## 11. If I decide to join the SHPS DC scheme will I be allowed to contribute more than the specified member contribution?

Members will be able to increase their level of contributions if you so wish. However, it must be made clear that the Group's rates of contributions will remain specific to the DC Scheme in line with the agreed rates as set out in the table below.

# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

Structure Design	Employer Rate – Standard	Member Rate Minimum	Maximum Rates
SHPS DC Auto Enrolment (AE scheme)	4%	1%	Employer rate of 4% Member rate of 5% in line with auto-enrolment legislation
SHPS DC Enhanced	9%	6%	Employer rate of 9% Member rate of 100%
SHPS DC Enhanced / Exclusive (Exclusive to existing members from 1 <sup>st</sup> April 2016 – 31 <sup>st</sup> September 2016)	12%	9%	Employer rate of 12% Member rate of 100%

All members of the SHPS DC schemes will have access to manage their accounts on line using the SHPS on-line system. Any member who wishes to increase their contributions would be able to do so using the on-line system. It must be noted that any member of the AE scheme would be limited to increasing their contributions to a maximum of 5%. If they wish to pay more than 5%, they would have to complete an AVC form. Further details of the AVC plan can be obtained from the Pensions Review Team.

## 12. Will the Group consider increasing the proposed employer rates for the SHPS DC Scheme Plans?

The Group wishes to offer the best pension available and taking into account the funding principles we also believe this is an attractive offer when compared to what is commonly offered in the market and by other housing associations.

## 13. Has the Group considered implementing a Salary Sacrifice Scheme specifically for pensions?

The Group did consider setting in place a Salary Sacrifice Scheme plan but felt this would not be the best time to do so. Before we make a firm decision on this proposal we will await the results of the Government Review which currently states *'HM treasury will "actively monitor" the effect of salary sacrifice on tax receipts and has left the door open to cutting back on the benefit'*.

## 14. If I join the SHPS DC Scheme, will you provide assistance in making investment choices?

Version 6 – 15<sup>th</sup> March 2016

Please note Member Guide for the SHPS Defined Contribution Scheme can be viewed on the RIC

# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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Employees will have the choice of joining the SHPS DC scheme. There is a default fund in place for members who are concerned and can't reach their own decision about where to invest. The majority of members are in the default option. Neither Riverside nor SHPS can provide advice on where members should invest. Members would be advised to seek independent financial advice if looking to make their own investment decisions.

## 15. Will the SHPS DC scheme be run in-house or outsourced?

The DC scheme is administered by SHPS which is a member of The Pensions Trust and is the leading Social Housing sector pension provider. All members of the SHPS DC pension scheme have on-line access to their individual pension accounts which allows members to monitor and review.

## 16. Will members of SHPS DC Scheme be able to review past investment fund performances?

Members will be able to access details of past investment performances, the fund fact sheets are available via the following link: <http://www.tpt.org.uk/investments/dc-fund-factsheets>

## 17. What happens to my SHPS DC 'pension pot' if I leave the Group's employment?

With effect from 1 October 2015, Short Service Refunds to members of defined contribution occupational pension scheme were abolished. Any members who have joined or join the SHPS DC scheme from 1 October 2015 will only be eligible for a refund if they leave with less than 30 days of membership.

The only option available will be a transfer to another registered pension arrangement or retain the benefits within the Scheme until such time as you retire.

## 18. What happens to my SHPS DC 'pension pot' when I retire?

You can normally choose to retire at any time from age 55. You will have several retirement options available to you, from the Scheme and from third parties. You should visit [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) for further information.

Options available include:

Version 6 – 15<sup>th</sup> March 2016

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# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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- taking your fund as a single cash lump sum;
- using your fund to buy a pension (or annuity) to give you an income for the rest of your life; and
- accessing your fund as a flexible source of retirement income, for example by using a drawdown arrangement.

You will usually have the option to take up to 25% of the money you have saved as a tax free cash lump sum on or after your retirement (if you elect to take your entire fund as a cash lump sum, 25% will be paid tax free and the remainder will be taxed).

## 19. How does the Group's proposed pension provision compare against schemes offered by other social housing organisations?

Our advisors conducted a market review and identified that many of the biggest housing associations (our nearest comparable in size & structure) have already withdrawn their DB arrangements. The average employer DC rate throughout the UK is lower than our proposals and averages at around 7% so we consider our offer to be an attractive option.

## 20. Will the Group cover any costs incurred by an employee seeking independent financial advice?

Our original response to this question was: The Group will not be responsible for any costs individuals may incur when seeking independent financial advice.\* Section 6 of the consultation booklet provides details of relevant support helplines including both Government and independent websites which may be of assistance.

However, in response to your feedback, we have reconsidered our original stance on the costs incurred by individuals seeking independent financial advice and are now offering a contribution towards the cost for any current member of one of the affected defined benefit schemes who chooses to obtain IFA advice to assist them in reaching a decision on the options available. There will be certain conditions attached to anyone who wishes to take advantage of this offer and they are as follows:

- i. The maximum contribution towards the cost will be capped at £150 (inclusive of VAT)
- ii. The offer is limited to existing affected Defined Benefit (DB) members only
- iii. The offer will be time-limited and will be available until 16<sup>th</sup> September 2016 only.

# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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- iv. The IFA must be a Financial Conduct Authority ([www.fca.org.uk](http://www.fca.org.uk)) registered advisor who must provide certification and a receipt of services provided.

Any member wishing to take advantage of this contribution should claim reimbursement via EOD (Expenses On Demand) and provide the necessary certification and receipt to their manager as proof of expenditure.

## 21. Will I still be covered for Life insurance following closure of the DB Scheme?

Life Insurance will remain in place following the closure of the DB scheme.

\*Please note level for affected DB members under review

## 22. Is the 60 day consultation period in line with recognised legislation?

Yes. The 60 day consultation period is required under pension legislation when certain changes, including this one, are proposed in respect of employees' pension arrangements

## 23. What is the impact on NI contributions under DC scheme?

DC pension schemes are not contracted out and therefore do not currently enjoy reduced NI contributions for either member or employer. The provision under legislation relating to DB schemes contracting out will be withdrawn as at April 2016 so regardless of the proposed changes, your NI contributions will increase in April 2016.

## 24. Will the Rule of 85 still apply if I am a deferred member of a Local Government Pension Scheme?

If the proposed changes are implemented the member's service would end as at 31 March 2016. All accrued benefits up until this point are protected and are calculated based on the final pensionable salary applicable at 31 March 2016. From 1 April 2016, instead of benefits being linked to future increase in salary, accrued benefits will be linked to inflation.



# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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However, separately a member may qualify for the Rule of 85 (which is unaffected by a change in status from active membership to deferred membership) as it depends on the age at which a member retires.

The rule of 85 is satisfied if the member's age at the date benefits are drawn and scheme membership adds up to 85 or more.

The rule of 85 protection continues to apply from April 2014 (the date from which scheme changes were implemented) and it will protect some or all of the benefits from the early payment reduction. The following is how rule of 85 works:

- If the member is aged 60 or over by 31 March 2016, and if retires between age 60 and normal pension age, the benefits that have built up to 31 March 2016 will not be reduced.
- If the member is under age 60 at 31 March 2016, and chooses to draw pension between age 60 and normal pension age, then the benefits built up to 31 March 2008 may not be reduced. Also, if the member is aged 60 between 1 April 2016 and 31 March 2020, and meets the rule of 85 by 31 March 2020 then the benefits built up after 31 March 2008 may not be subject to a full reduction.
- If the member retires between age 55 and before 60 without the company's permission, the Rule 85 will not apply

As the Rule of 85 is quite complex and specific to individual circumstances it would be beneficial for the individual to contact the LGPS to confirm their understanding that despite becoming a deferred member the rule of 85 will still apply, subject to pensionable service accrued and age at the date of retirement.

## 25. What are my options for pension provision from 1<sup>st</sup> April 2016?

### i. [If the changes go ahead what are my options?](#)

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# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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## ii. [Is there a specific form I need to complete?](#)

We have devised an Option Form for you to complete which gives details of the choices available as from 1st April 2016 if the proposed pension changes are implemented.

A copy of the Option Form can be located on the RIC under the Pensions Review site.

## iii. [Is there a deadline for returning the option forms with our preferred choice?](#)

Version 6 – 15<sup>th</sup> March 2016

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# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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In the first instance, if the proposed changes are implemented from the 1st April 2016, option forms would need to be completed and returned by **19th March 2016**.

The cut-off date is to allow SHPS enough time for the administration surrounding each new member including details of their new pension provision.

However, we appreciate that some individuals require more time to consider their options and for this reason we have ensured that the 6 month window (April – September 2016) allows them some breathing space after consultation end. Any forms returned during this window of opportunity will be processed in the pay run following receipt of the form.

iv. [Is there a default scheme if forms are not returned by this date?](#)

The SHPS DC Enhanced: **Member rate 6% Employer rate 9%** has been designated as the default scheme for those members who do not return their option forms in the first instance.

The logic behind this decision is that all affected members are currently paying a minimum of 6% member contribution and therefore we will not be unintentionally increasing any existing member rate of contributions.

v. [How do I 'step up or down' into one of the two enhanced tiers?](#)

The option to change your mind and either step up or down is restricted to existing members of a defined benefit scheme and / or a member of the existing SHPS Enhanced DC scheme.

The window available for change of mind will span from 1st April 2016 – 30th September 2016 at which point the Tier 1 (12% employer 9% member) will be closed to new entrants and there will no longer be an opportunity to upgrade from a lower tier. (The table in answer to Q1 above identifies and explains the tier structure).

vi. [Where do I send the form to?](#)

Completed forms should be sent to The Pensions Review Team, 2 Estuary Boulevard, Speke, Liverpool L24 8RF. Signed, scanned copies will be accepted and these should be emailed to [PensionsReview@riverside.org.uk](mailto:PensionsReview@riverside.org.uk)

# Frequently asked questions – Riverside Group ('the Group) Pension Review 2016

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Version 6 – 15<sup>th</sup> March 2016

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