

Company Accounting – Pension Scheme

The funding positions of pension schemes disclosed in company accounts are highly volatile. At the end of 2008, despite substantial falls in asset values, accounting positions looked relatively healthy whereas by the end of 2009 funding positions had worsened, despite asset recoveries. There is now a much greater emphasis on pension scheme costs in company accounts, making it vital for Directors to understand the possible impact of their final salary scheme on their balance sheet and profit and loss positions.

The value placed on a scheme's liabilities relative to its assets and the related charge against profits can have a significant impact on a company's overall financial statements. It is therefore important that good quality advice is sought to understand and manage this.

Barnett Waddingham provides clients with a range of services in connection with UK and International pension accounting standards.

Preparation of accounting disclosures

We have extensive experience of advising on the assumptions and preparing the disclosures for inclusion in company accounts under the different accounting standards (e.g. FRS17, IAS19 and FAS158) as well as the possible impact of different events concerning the scheme. We can provide the information necessary to comply with the relevant accounting standards and help with understanding how different approaches can impact on the company's financial statements.

In addition to the full year-end disclosures we can also advise on mid-year accounting figures for interim reporting or for management accounts. This helps to reduce the likelihood of shocks that might arise from only looking at the position once a year.

Projecting pension accounting results

We have developed modelling software to assist companies in understanding the impact of the chosen assumptions on the figures as well as the sensitivity of the figures to using alternative assumptions. This software enables the Directors



to appreciate how changes to the assumptions can affect the profit and loss charge and the balance sheet position, thereby aiding discussions on the optimal assumptions to adopt.

We have also developed longer term modelling software that Directors can use when preparing their performance forecasts for up to five years so that the impact of possible economic scenarios can be investigated. This enables Directors to see how sensitive their financial results are to the fortunes of the pension scheme.

Our longer term modelling software can assist when planning budgets and making decisions about the pension scheme. In particular, we can advise on the possible impact on the Company's financial statements of:

- Derisking measures such as changes to scheme design or buyouts
- Significant changes in investment markets
- The implications of IFRIC14 under the international accounting standard, IAS19.

Assumptions benchmarking

Barnett Waddingham produces a regular annual survey showing the assumptions reported by FTSE100 companies (copies of the most recent survey are available on our website). Using this data we can help you benchmark your chosen assumptions against those adopted by FTSE100 companies.

Global reporting

Where a group has a number of different pension schemes, consistency of the assumptions used across the schemes is important. We have the expertise to provide a global reporting function for clients and can manage the process across various different advisors to ensure a consistent approach in the consolidated position. We can help coordinate the individual advisers by providing group-wide templates to simplify the task of preparing combined disclosures.

Investment issues

Whilst it is the trustees who are responsible for setting a scheme's investment strategy, protecting the company's accounting position is often important in managing the business. We can advise on investment strategies to manage volatility in the company accounting figures and contribution requirements. The appropriate strategy will depend on the company's specific objectives but may involve strategies whose aim is to make the Scheme's funding position on the accounting basis resilient to changing financial conditions. We can assist in dialogue with the trustees to ensure that the company's position is recognised.

Audit support

The pension disclosures set out in a company's accounts need to be accepted by its auditors. We can support audit firms without the benefit of a specialist pension team to understand the assumptions and disclosures prepared by companies that they audit. The required scope of such a review varies and will provide auditors with the level of comfort they require to sign off the accounts.

For more information

Please contact your Barnett Waddingham consultant if you would like to discuss your requirements in more detail.

Alternatively, please email:

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