

Pensions News – April 2010

In this edition:

- Proposed Changes to IAS19
- Latest news from the Pensions Regulator and the Pension Protection Fund
- Finance Act 2010
- 2011: Is Trustee Action Required?

Accounting Standards

IASB: Proposed Changes to IAS19

The International Accounting Standards Board (IASB) has published an [exposure draft](#) setting out proposed amendments to International Accounting Standard 19 (IAS19).

IAS19 is applicable to companies that prepare financial accounts under International Financial Reporting Standards. IAS19 (Accounting for Employee Benefits) details how pension costs should be recorded in companies' profit and loss accounts, and the pension liabilities that should be shown on company balance sheets.

The draft standard is under consultation until 6 September 2010 and is expected to be finalised in mid-2011. If adopted in its drafted form, the standard will incorporate changes which include the following:

- Companies will be required to recognise all changes in assets and liabilities in their accounts as and when they occur.

Under the current version of IAS19, companies can opt to leave "actuarial gains and losses" as unrecognised if they fall within a defined corridor¹. Gains and losses outside the corridor can also be deferred. The IASB is proposing that this option is removed.

In the exposure draft it is proposed that gains and losses are split, with:

- a "service cost" and an "interest cost" component recognised in the profit and loss account, and
 - a "remeasurement component" included in other comprehensive income (ie outside of the profit and loss account).
- There will no longer be a requirement to present an expected rate of return on scheme assets.

Instead, the interest cost component of gains and losses (above) will be based on the pension

scheme surplus (or deficit) and calculated using AA corporate bond yields.

Historically, many companies have presented an expected return figure based on a return higher than corporate bond yields. We would generally expect to see a reduction in disclosed profits as a result of the change.

- Companies will also be required to disclose:
 - additional key characteristics of their defined benefit (DB) pension schemes
 - further detail about the risk arising from DB schemes (including sensitivity analyses of certain actuarial assumptions used in calculations)
 - a brief description of how actuarial assumptions were derived
 - a breakdown of actuarial gains and losses between those arising from changes in financial assumptions and those arising from changes in demographic assumptions
 - details relating to the company's participation in multi-employer pension arrangements, and
 - pension scheme liabilities if no allowance for future salary growth is made.
- Interpretation IFRIC² 14 will be fully incorporated into IAS19. IFRIC 14 interprets the requirement under IAS19 that a pension asset is limited to the surplus that can be returned to the company via a refund or reduction in future contributions. In particular, it details how this "asset ceiling" interacts with Scheme Funding requirements.
- There will no longer be a requirement to disclose certain historical information.

Notes

1. 10% of the greater of scheme assets and liabilities.
2. The International Financial Reporting Interpretations Committee.

Latest news from the Regulator and the PPF

Reader's Digest UK

The Reader's Digest Pension Scheme has entered a Pension Protection Fund (PPF) assessment period. The Company, Reader's Digest Association UK (RDAUK), went into administration in February after the Pensions Regulator (tPR) vetoed a deal between the scheme trustees and the PPF (see Pensions News – February 2010).

tPR is understood to be considering its next steps including use of its powers. In the meantime, RDAUK has been bought out of administration by private equity firm Better Capital in a deal worth £13m. The deal will see a special purpose vehicle buy the company's assets and main subsidiary. The RDAUK management team will take a 35% stake in the new company. The £125m pension scheme debt will remain with the old company.

Workplace Pension Reforms – a Guide for Employers

tPR has published an [introductory guide](#) outlining what employers need to know about their new duties under workplace pension reforms (auto-enrolment) from 2012.

As well as explaining the forthcoming changes and the reasons for their introduction, the guide provides information on:

- when the changes come into effect
- what employers with and without qualifying schemes are expected to do before 2012, and
- where further information can be found.

Financial Assistance Scheme

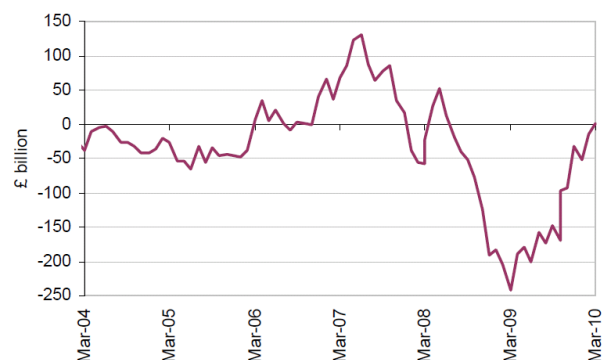
The Financial Assistance Scheme (FAS) (Miscellaneous Amendments) Regulations 2010 came into force on 2 April 2010. Following consultation, the Department for Work and Pensions has issued final guidance in relation to the following issues affecting schemes transferring into the FAS:

- [GMP equalisation](#)
- [Actuarial valuation methods and assumptions](#)
- [Asset share calculation](#)
- [Preparation of relevant accounts](#)

PPF 7800 Index

The [latest update](#) of the PPF's 7800 Index of schemes' funding (on a s179 basis) has been published. The aggregate funding position is estimated to have improved in March 2010 to a surplus of £0.3 billion (compared with a deficit of £15.1 billion at the end of February 2010).

Scheme funding is better than it was a year ago (there was an aggregate deficit of £253.1 billion at the end of March 2009). The chart below shows how the estimated total assets less total s179 liabilities has changed over the last six years:



Source: PPF7800 Index

Finance Act 2010

The Finance Bill 2010 became the Finance Act 2010 when it received Royal Assent on 8 April 2010. The Act legislates some of the proposals announced by the Chancellor of the Exchequer, Alistair Darling, in his pre-Budget Report on 9 December 2009 and in his Budget on 24 March 2010 (see Pensions News – March 2010 for further details).

Many of the pensions-related aspects of the Finance Act relate to the restrictions on tax relief for high earners. Her Majesty's Revenue and Customs (HMRC) has subsequently published [draft technical guidance](#) on the subject, which will eventually be incorporated into the Registered Pension Schemes Manual.

2011: Is Trustee Action Required? (Part One)

Under transitional arrangements which expire in April 2011, trustees will need to make a resolution under section 251 of the Pensions Act 2004 if, at any point in the future, they may wish to make a payment of surplus to the employer.

A resolution is required even if scheme rules currently permit such a payment. The resolution gives the trustees the right to make payments to the employer, although they are not obliged to do so. If no such resolution is made before the deadline (6 April 2011) the scheme may never be able to refund surplus to a sponsoring employer in the future.

Other considerations, such as the best interests of members, still need to be taken into account.

2011: Part Two

Pre-A Day Inland Revenue limits will be removed from legislation on 6 April 2011. Schemes will no longer be able to rely on modification regulations.

Schemes must therefore amend their rules before this date if they have not already done so and wish to maintain any of the old limits.

Further Information

For further information on any of the topics in this bulletin, please speak to your usual Barnett Waddingham consultant, or visit [our website](#).

You might also find our recent publications on the following topics useful:

- [Purchasing a Bulk Annuity Policy](#)
- [Gilt Issuance – What is the story?](#)
- [Corporate Restructuring and Clearance](#).

We also invite you to meet with representatives of the three main political parties (looking suspiciously like Barnett Waddingham partners) to hear their policies for pensions and help develop a Pensions Charter. More details can be found on [our website](#) and our [summary](#) of the main parties' pension policies, produced for the election on 6 May.

This bulletin is a summary of some recent developments and not a comprehensive description. Although we try to ensure its accuracy, Barnett Waddingham LLP accepts no liability for any errors or omissions the bulletin may contain. Readers should take professional advice in relation to their own circumstances and/or refer to the original source material as appropriate.

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