

Pension Scheme Accounting Modeller – Instant Scenario Testing

Pension schemes can have a significant impact on a company's accounting position. Our interactive modelling tool can help Finance Directors understand and quantify the factors influencing the financial position of the Scheme so that they can be linked into the company's own internal plans for its core business. It also allows an instant assessment of the sensitivity of the accounts to the year end assumptions so that the Finance Director can make a fully informed decision on the optimal approach.

There are three areas where our modeller can assist:

1. Sensitivity Analysis at the Year-End

Although the various accounting standards are fairly prescriptive in the assumptions that can be used to assess the financial position of a pension scheme, there is some flexibility that can be taken advantage of by Company Directors.

Our interactive modelling software will instantly quantify the sensitivity of the accounting figures to changes in the assumptions. The software can be used when the year-end

figures are being prepared allowing the user to vary the assumptions and instantly see the impact on the disclosure (see Figure 1). It replaces the traditional approach of your consultant producing figures on a number of different scenarios where it will often take several attempts before all the options are considered and a final answer is reached.

One feature of pensions accounting is that the main P&L account pensions charge is broadly fixed at the beginning of the financial year. It is therefore important to understand how changes in assumptions can affect not only the Balance Sheet but also next year's Profit and Loss account.

Figure 1:

Example Scheme			Year-end: 30 September 2009		
Assumptions	Base Case	Alternative Basis		Base Case	Alternative Basis
Discount Rate	5.50%	5.75%	2008/2009 Balance Sheet		
Inflation	2.50%	3.00%	Liabilities	3,492,000	3,503,000
Salary Increases	3.75%	3.50%	Assets	3,000,000	3,000,000
			Surplus/(Deficit)	(492,000)	(503,000)
Increase in Life Expectancy compared to last year			2008/2009 P&L Charge		
Deferreds	0 years longer	0 years longer	Service Cost	40,000	
Pensioners	0 years longer	0 years longer	Past Service Cost	0	
			Interest Cost	170,000	
Expected Return on Assets for 2009/2010			Expected Return on Assets	(160,000)	
Equities	8.00%	8.50%	Curtailment/Settlement	0	
Corporate Bonds	5.00%	5.00%	Total P&L Charge	50,000	
Fixed Interest Gilts	5.00%	5.00%			
Index Linked Gilts	4.50%	4.50%	2008/2009 STRGL		
Cash	3.50%	3.50%	Actual return less expected return	40,000	40,000
Property	5.00%	5.00%	Experience Gain/(Loss) on Liabilities	170,000	170,000
Other	5.00%	5.00%	Gain/(Loss) on change in assumptions	160,000	149,000
Weighted Average	6.13%	6.33%	Total Actuarial Gains/(Loss)	370,000	359,000
Asset Allocation (%) at year end			2009/2010 P&L Charge		
Equities	40%		Service Cost	35,000	33,000
Corporate Bonds	30%		Past Service Cost	0	0
Fixed Interest Gilts	25%		Interest Cost	193,000	203,000
Index Linked Gilts	0%		Expected Return on Assets	(185,000)	(191,000)
Cash	5%		Curtailment/Settlement	0	0
Property	0%		Total P&L Charge	43,000	45,000
Other	0%				
Total	100%				
Benefit Outflow					
2008/2009	50,000				
2009/2010	45,000				
Total Company Contributions					
2008/2009	80,000				
2009/2010	80,000				
Member Contribution Rate	5%				

2. Mid Year Planning

Our interactive modelling software can also be used throughout the year to provide projected year-end figures based on a various headline market indicators (e.g. the FTSE100 index). With continued volatility in financial markets, an update on the financial position of the pension scheme at various points throughout the year and an understanding of the impact on the year-end figures may be desirable, particularly for budgeting purposes.

3. Longer Year Planning

Our interactive software produces projected pension scheme disclosures that can be included in the Company's longer term performance forecasts (see Figure 2). The software includes a four year projection of the pension scheme disclosures and allows the user to vary the financial conditions applying over the period. The effect of various scenarios can be tested to aid understanding of the impact of different economic conditions.

The financial position of a pension scheme will be linked to many external factors such as interest and inflation rates. The Company's core business may also be exposed to similar risks and our modeller allows pension scheme risks to be considered in the context of the business as a whole and allow Directors to understand the sensitivity of their financial results to the position of the pension scheme.

For further information

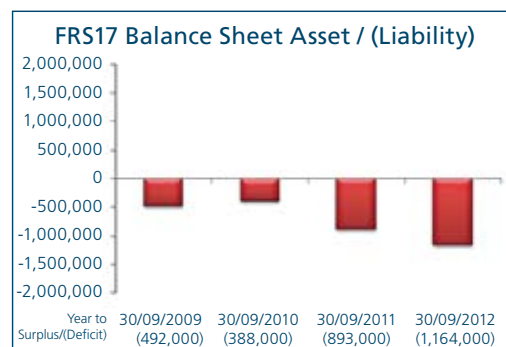
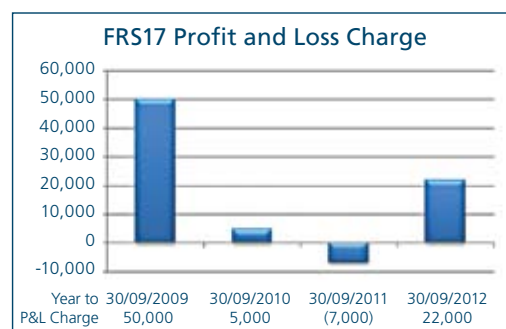
Please contact your Barnett Waddingham consultant if you would like to discuss your requirements in more detail.

Alternatively, please email:

CorporateConsulting@barnett-waddingham.co.uk

Figure 2:

Example Scheme					
Assumptions	Asset Allocation	30 Sep 09	30 Sep 10	30 Sep 11	30 Sep 12
Discount Rate		5.50%	5.50%	5.50%	5.50%
Inflation		2.50%	2.50%	2.50%	2.50%
Salary Increases		3.75%	3.75%	3.75%	3.75%
Increase in Life Expectancy					
Non Pensioners		-	-	-	-
Pensioners		-	-	1	1
Expected Return on Assets					
Equities	80%	7.50%	7.50%	7.50%	7.50%
Corporate Bonds	20%	4.70%	4.70%	4.70%	4.70%
Fixed Interest Gilts	0%	4.00%	4.00%	4.00%	4.00%
Index Linked Gilts	0%	4.00%	4.00%	4.00%	4.00%
Cash	0%	1.20%	1.20%	1.20%	1.20%
Property	0%	7.50%	7.50%	7.50%	7.50%
Other	0%	5.00%	5.00%	5.00%	5.00%
Weighted Average		6.94%	6.94%	6.94%	6.94%
Equities invested overseas		50%			
FTSE 100 Index at		5,134	5,400	5,700	6,000
Gilt Yield at		4.01%	4.10%	4.10%	4.10%
Overseas returns relative to UK due to currency			0%	0%	0%
AA Credit Spread		1.5%	1.4%	1.4%	1.4%
\$ = £		1.50	1.50	1.50	1.50
Actual Return on Assets					
Equities			8.8%	9.0%	8.5%
Corporate Bonds			5.5%	5.5%	5.5%
Fixed Interest Gilts			2.7%	4.1%	4.1%
Index Linked Gilts			2.7%	4.1%	4.1%
Cash			1.2%	1.2%	1.2%
Property			7.5%	7.5%	7.5%
Other			5.0%	5.0%	5.0%
			8.1%	8.3%	7.9%
Company Contributions					
Deficit reducing		80,000	50,000	50,000	50,000
Total (including expenses)		80,000	80,000	76,900	77,887



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