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Pensionline

A Newsletter for Pension Scheme Managers and Trustees

Summer 2008

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Welcome to our Summer 2008 edition. In this issue, we cover the Accounting Standard Board's recently published discussion paper, an update on the Pension Protection Fund and The Pension Regulator's latest publication on Defined Contribution (DC) Pension Schemes. Our reader survey last year appeared to indicate a need for more focus on DC and the Regulator seems to agree!

Latest stage in Accounting Standards Board pensions research project

We have mentioned previously the Accounting Standards Board's (ASB) long term pensions research project. As part of that, the ASB issued a discussion paper earlier this year entitled The Financial Reporting of Pensions. The objective of the paper was to stimulate debate and influence the reviews being conducted by both the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Boards (FASB) of the financial reporting of pensions in company accounts.

Rather than seeking merely to amend existing accounting standards, the ASB hopes to initiate a fundamental rethink of the accounting that should be required for pensions. As an example, within existing accounting standards, the same principles apply to all pension arrangements, whether defined benefit or defined contribution. The ASB's paper suggests that different principles should apply depending on the type of pension plan.

Other suggestions include:

- Changes in assets and liabilities should be reported in the period in which they arise, rather than being spread forward.
- Financial statements should reflect the actual return on assets, rather than the expected value.
- Measurement of liabilities should be based on the return from gilts rather than corporate bonds (which would result in a higher value of liabilities).
- That future salary increases could be excluded from liabilities, recognising the employer's discretion over such increases (and which would result in a reduction in liabilities).

As well as financial reporting of pensions in company accounts, the ASB's paper also addresses financial reporting by trustees within the pension scheme accounts. As mentioned in our Spring 2007 newsletter, it recommends that trustees should be required to include the pension scheme actuarial liabilities (rather than just funding rates) in the same way that the employer must within the company accounts. It also recommends that the relationship between the scheme and the employer should be transparently reported, including the effect of the employer's covenant on the scheme's financial position.

While acknowledging the good analysis by the ASB of the relevant issues, the National Association of Pension Funds is concerned that the proposals may undermine the current period of stability surrounding defined benefit plans and therefore employers' willingness to continue to sponsor them.

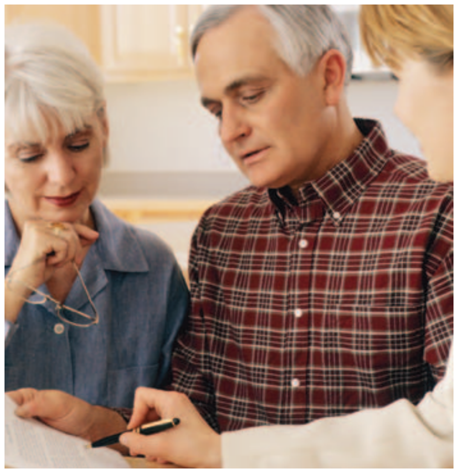
Comments on the discussion paper are required by 14 July 2008, after which a full report will be issued for consideration by the IASB and FASB. However, it is unlikely that we will see any conclusions in the short term since the IASB's review is much narrower in scope and only expected to result in an improved standard in 2011.

The Chancellor's Spring Budget – Some good news

One of the few welcome changes announced by Alistair Darling in his first Budget related to the rules under which occupational pension schemes may pay modest pension rights as a lump sum, thus avoiding the need to purchase an uncompetitive annuity or incur unnecessary ongoing administrative costs. In the future the rules will look at each scheme in isolation, rather than all schemes under which an individual has pension rights. Where the value of benefits under any one scheme is below £2,000, this can be paid as a lump sum, even though the individual may receive an income from another, larger pension fund in addition.

This has to be good news for members, not to mention employers, trustees and pension administrators.

Regulator's continued focus on DC



As part of its commitment to promoting best practice for employers and trustees involved in the operation of defined contribution schemes, The Pensions Regulator (TPR) has announced the launch of a series of materials to be released over the next few months.

These include:

- Retirement Options guidance.
- Questions and answers on DC schemes.
- Communicating with Members guidance, good practice examples and case studies.
- DC scheme returns analysis.
- Investment practices guidance.

The first of these, on Retirement Options, was issued at the beginning of May. It applies to all occupational DC (or money purchase) schemes but not Group Personal Pensions.

The guidance sets out the trustees' duty to ensure there is an effective process in place to convert members' defined contribution funds into a retirement income. Trustees must also ensure that members are aware of their right to exercise the open market option (where the fund value is used to purchase an annuity from an insurance company), instead of the scheme's process. TPR is concerned that without appropriate support (including encouragement to seek financial advice) members may receive an inappropriate annuity or one that is poor value for money.

TPR executive director of strategic development, Chris Dobson, said "The Retirement Options guidance will help employers and trustees ensure they have effective processes in place and inform members so they are able to make the best possible choices on their retirement income."

More information can be found on TPR's website at www.thepensionsregulator.gov.uk.

The Pension Protection Fund three years on

At the end of March, the Pensions Protection Fund (PPF) passed its third year anniversary. The PPF was established in April 2005 to pay compensation to members of pension schemes where the sponsoring employer has gone bust. To date 41 pension schemes covering more than 12,000 members have transferred into the Fund, involving the PPF in compensation payments of £1.4m per month.

Considering it is three years since the Fund was established and the number of schemes which have already entered the PPF (including some of our own clients), it is perhaps surprising that it is only now that guidance for trustees being assessed for entry has been issued for consultation. (The Trustee Good Practice Guide is available on the PPF website in the Trustee Guidance Section.) We understand that there are already another 225 schemes under assessment.

The PPF Director of Delivery, Peter Walker said "We have designed this guidance to improve trustees' understanding of their roles and responsibilities and help them move through the assessment period as effectively and efficiently as possible."

"We want to encourage good practice and to ensure that all parties involved in the process can provide, at the earliest opportunity, certainty to members of schemes in assessment about the benefits they will receive."

As well as guidance for trustees and their advisers, the Good Practice Guide also sets out the principles trustees are expected to adhere to throughout the assessment process. While assessment takes place the trustees remain in day to day control of the pension scheme and payments. The PPF only takes over responsibility when assessment is complete and eligibility is confirmed.

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Our pension audit team will be happy to discuss any issues relating to occupational pension schemes. Please telephone Phil Collins, Paul Brunt or Stuart Hoey on 01923 232938 or email phil.collins@hhllp.co.uk

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