

### Accounting for Pensions

At the end of April the International Accounting Standards Board ([IASB](#)) published its proposed changes to International Accounting Standard (IAS) 19 on employee benefits like pensions. The proposals are subject to consultation and are only expected to be effective for accounting periods starting after 31<sup>st</sup> December 2012. Some of the changes are very technical; however, may I highlight two interesting aspects?

1. The Profit & Loss (P&L) Account “**return on assets**”, allegedly an old fudge to reflect higher expected equity returns, will be replaced by a straight interest charge on assets and liabilities. This will be particularly important for scheme sponsors relying on higher equity returns (expected but not guaranteed) to cushion P&L figures. Paper profits and cash or realised profits will however move a bit closer.
2. Administrative **expenses** are to be capitalised and included in the balance sheet value of liabilities. This proposal will undoubtedly focus attention on the costs of running and increasingly running down, legacy employee benefit arrangements. 30 (or more) times last year’s administration, legal, actuarial, trustee, investment and other costs will be a very scary figure. I suggest that it will appear disproportionately high for small schemes, leading to some more mergers, buy-ins and wind ups. Those high insurance company premiums for buy in or buy out will suddenly seem a bit less expensive! Especially for paid schemes, there will be even more comparison of deficit recovery periods with and without the expense contribution!

Further disclosures will be required to reflect the risks posed by the pension scheme – relative size (pension scheme v company net assets) and investment mismatching are likely to feature prominently (also see below).

### Utilising Company Assets

As all those with mortgages and credit cards will know, there is a huge difference between the interest charged on secured and unsecured loans. Whilst pension deficits are generally not debts that have been consciously sought, there are some important similarities between bank loans and pension debts.

In general, banks have first call on any available security from companies. I do however believe that security for pension debts can and should influence the terms available. For example, security will allow a more relaxed view to be taken on investment risk (less prudent investment assumptions mean less contributions, initially at least). Similarly longer repayment periods are much easier to justify with security in place.

Halving your scheme contribution may be very attractive at the present time. I would suggest that with asset backed security that is much easier. Alternatively, the need for a doubled contribution may be mitigated by the provision of security. Utilising all available company assets (for example as recently done with property for Marks & Spencer and Sainsbury) will become more increasingly important. If cash (revenue) is not available, then perhaps capital assets, even intangible or off balance sheet assets, should be considered. What assets do you have that you are not using?

### Free Advice

I’m pleased to highlight a Department for Work and Pensions contribution to that rare commodity - free advice. I should perhaps be more precise in referring to the “[Risk Sharing: Information for employers considering making changes to Defined Benefit pension schemes](#)” as advice, it is strictly an information note with case studies. That said the note provides some very valuable guidance on career average benefits, cash balance schemes, longevity adjustment, accrual rates/changing retirement ages and cost saving/cost capping. At the very least it is an excellent prop to assist you in keeping your consultant focused on original material and appropriate pricing!

**And finally;** Pension Snippets has previously quoted the British Airways finance director as reflecting that he ran a highly geared investment trust with an airline as an operating subsidiary. Clearly he had some foresight of future risk reporting requirements. I wonder if the British Airways Pension Funds will reciprocate and extend their accounting disclosures and risk analysis to mention their indirect risk from volcanic eruptions, industrial action and dependency on highly prized Heathrow landing slots (and servicing long term debts?)

*Feedback on Pension Snippets is also always welcome. For any comment, further assistance, advisory or trustee services, contact me on 07714 064964 or via [allan@acmca.co.uk](mailto:allan@acmca.co.uk) For further ACM/ACMCA detail, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at [www.acmca.co.uk](http://www.acmca.co.uk)*