

PREMIER PENSIONS MANAGEMENT

LEGISLATION UPDATE : 04/08

FRS17 Liabilities

The Accounting Standards Board has recently proposed changes to the method and basis used in the calculation of pension fund deficits reported in Company accounts and pension scheme costs reported through the Profit and Loss account. These proposals, if implemented, are likely to result in higher reported deficits and a higher variation in the costs reported through the Profit & Loss account.

The proposals are that pension plan deficits should be calculated based on risk free rates of return rather than the current position where they are calculated with reference to the yield on high quality corporate bonds. Historically this difference has been around 0.75% - 1% per annum, although it is currently much greater as a result of credit issues. Since pension liabilities typically have a term of 35 years or more, this could easily increase the reported liabilities by 30% - 40% once the proposals are implemented. This will significantly increase the deficits reported on Company balance sheets.

For example, where the funding level is 90% this could easily be reduced to around 70% which means that the size of the deficit increases by a factor of three. Clearly, companies trying to borrow against their assets may be significantly restricted by this balance sheet deficit.

This proposal will also increase the service cost reported through the Profit and Loss account by around the same proportion.

In addition, the proposals would be to change the return on assets figures, such that this was the actual return on assets rather than the expected return on assets based on the assumptions at the previous year. Clearly, this would introduce significant variation and volatility on to the Profit & Loss account in respect of reported pension costs. The difference between actual return and expected return on assets would then be removed from the STRGL (*Statement of Total Recognised Gains and Losses*) or the SORIE (*Statement of Recognised Income and Expenditure*) such that the position continued to be balanced out.

These changes are likely to be significant and material for many companies and may well lead to further review of the Pension Plan benefits and also the investments selected. One further point to note is that once Company accounts are prepared on a risk free basis then the additional cost of buying out the benefits or securing annuities will be significantly reduced. This in turn, may encourage many firms to seek a buy-out solution to their pension issue.

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This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129. Email:

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if you require definitive advice