

This is a round-up of topical issues in April 2010

IAS19 set to get tougher

The International Accounting Standards Board (IASB) issued an exposure draft on 29 April 2010 on the treatment of DB pension schemes. In [“Defined Benefit Plans \(Proposed amendments to IAS19\)”](#), the Board proposes that companies should:

- recognise immediately in the balance sheet all estimated changes in the cost of providing defined benefits and all changes in the value of plan assets, effectively removing the option of using the “corridor method”, which allowed gains and losses within 10% of the larger of the assets and liabilities to be carried forward and those outside the “10% corridor” to be spread;
- use a new presentation approach that would clearly distinguish between different components of the cost of these benefits; and
- disclose clearer information about the risks arising from defined benefit plans.

In particular, the Board wishes to do away with the separate expected rate of return on plan assets and intends instead that DB scheme sponsors should account in finance costs for interest at the discount rate on the net liability or net asset, as appropriate.

The Board also proposes that the value of a DB scheme’s liabilities should include a reserve for future administration costs. This is likely to have a proportionately larger effect on smaller pension schemes where economies of scale are not easy to obtain.

Removal of the corridor method would have a significant one-off adverse effect on many balance sheets currently protected from substantial unrecognised losses and add volatility in the longer term, while reserving for expenses will have a negative long-term effect on balance sheets. Replacement of the expected return on plan assets by the discount rate is likely to increase pension costs; some have suggested this would lead to a move away from investment in equities, which in pure accounting terms will become largely “unrewarded”.

ACTION: Employers may wish to quantify the effect of any proposed changes on their accounts.

Data protection beefed up

Since 6 April 2010 the Information Commissioner’s Office (ICO) has had the power to issue fines of up to £500,000 against errant “data controllers” (eg trustees). This follows a ruling given by the ICO in November 2009 that a trustee body was in breach of the Data Protection Act after the loss of unencrypted membership data when a laptop was stolen from its software provider.

However, the ICO’s own [guidance on the issue of monetary penalties](#) recognises that such penalties will only be appropriate in the most serious situations.

ACTION: Trustees may wish to check whether their service-providers and advisers have adequate policies and procedures in place for protecting their members’ data.

Employer debt regulations eased

[The Occupational Pension Schemes \(Employer Debt and Miscellaneous Amendments\) Regulations 2010](#) came into force on 6 April 2010. They introduce a “general easement” and a “de minimis easement”, both of which are intended to make it easier for corporate groups to be restructured without triggering section 75 debts.

The general easement can avoid section 75 debts arising where a restructuring involves a one-to-one transfer of employees between two associated employers who participate in the same pension scheme. There are a number of conditions, including that the transfer of employees is accompanied by a transfer of corporate assets so that there is no overall weakening in the employer covenant as a result of one of the employers ceasing to participate in the scheme. More complicated restructurings involving transfers of employees between more than two employers are not catered for, although it may be possible to deal with these as a series of one-to-one transfers.

The de minimis easement has a simpler set of conditions, but is restricted to restructurings that affect no more than two members or 3% of a scheme’s total membership, whichever is the greater, with total accrued pensions for members covered by the transaction being not more than £20,000 pa. One of the conditions is the scheme must be at least 100% funded on the PPF’s s179 (levy valuation) basis; the PPF’s figures show that 69% of all DB schemes were under-funded on this basis as at the end of April 2010, so this easement is unlikely to be of help to many employers for the time being!

As their title suggests, the regulations had originally been intended to make a number of technical corrections to the existing regulations, but many of these have now been postponed pending further consideration.

ACTION: Any employer who participates in a multi-employer scheme should seek legal and actuarial advice about the consequences of a corporate restructuring or ceasing future benefit accrual before taking action.

SMPI rules set to change

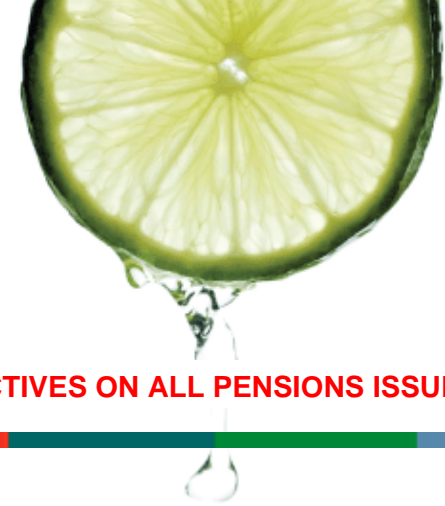
The Board of Actuarial Standards (BAS) issued a [consultation paper](#) in March 2010 on changes to technical memorandum TM1: Statutory Illustrations of Money Purchase Benefits. The deadline for commenting is 4 June 2010.

The proposed changes include:

- updating the mortality tables (and allowance for future improvements in longevity) and the adjustment made to index-linked gilt yields to derive the discount rate used for estimating the cost of buying an annuity at retirement
- showing separately the pension projected to be derived from members’ existing pension pots and from future contributions.

The consultation also raises the possibility of doing more to highlight the significant uncertainties surrounding money purchase illustrations and/or to harmonise with projections produced under the Financial Services Authority’s rules.

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**SMPI rules set to change (continued)**

BAS intends the changes to take effect for SMPIs with effective dates on or after 6 April 2011.

The DWP had previously decided there is scope to ease the SMPI requirements with effect from 1 October 2010 and enable schemes to provide shorter and simpler SMPI statements once BAS has completed its review of TM1).

Schemes are also to be allowed to use electronic communications as their default method of communication if they so wish, provided members can opt out and receive hard copy communications if that is what they prefer.

ACTION: Trustees should monitor the consultation and ensure their administrators make appropriate changes to future SMPIs. They may also wish to consider whether they would like to amend their SMPI statements and/or whether it would be appropriate for them to make (greater) use of communicating by e-mail, intranet or internet.

Trivial pensions including a GMP can now be commuted

The DWP had intended to permit Guaranteed Minimum Pensions (GMPs) to be commuted as part of a trivial pension when the general restrictions were relaxed from 1 December 2009. However, its new regulations were defective.

A correction has now been made through [The Occupational and Personal Pension Schemes \(Miscellaneous Amendments\) Regulations 2010](#), which came into force on 6 April 2010.

ACTION: Trustees may wish to ask their scheme's administrator how many trivial pensions it will be possible to commute and what cost savings would be achieved. They should also seek legal advice as to whether rule amendments are required before they can take advantage of the relaxations.

HMRC issues guidance on restricting high earners' tax relief

HMRC published draft technical guidance entitled "[Pensions: High income excess relief charge](#)" on 27 April 2010.

Although what has been inherited is unpopular, early signs are that the new Coalition Government is unlikely to repeal the legislation restricting tax relief.

ACTION: Trustees should monitor the situation and ensure that administrative arrangements are in place to deal with the new regime.

Employers should also consider the impact on their pension provision for high earners.

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