



Pensionline

A Newsletter for Pension Scheme Managers and Trustees

Spring 2007

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So, Gordon Brown has presented his last budget. As well as increasing pensioners' tax allowance and slightly reducing employers' National Insurance contributions for members of contracted out pension schemes, he announced additional funding for the Financial Assistance Scheme, designed to compensate scheme members whose schemes went to the wall before the Pensions Protection Fund was created. In this edition of our newsletter we look at how this news has been received by campaigners.

Also in this edition, we touch on employer covenant reviews and we thought you might like some reassurance about best practice for auditors in relation to the provision of non-audit services and a draft revised Statement of Recommended Practice (SORP) for pension scheme accounts.

Campaigners unimpressed by Chancellor's additional financial assistance

In his recent, and last, Budget, Gordon Brown made a surprise announcement to increase the funds available through the Financial Assistance Scheme (FAS) from £2.3bn to £8bn. Readers will recall that people who lost their pensions through schemes being wound up in deficit before the Pensions Protection Fund came into being have been campaigning for the government to provide full compensation for those pensions. So far rulings from the Ombudsman, a Parliamentary select committee, the European Court of Justice and the High Court have held that the Government bears some responsibility for these lost pensions, not least because all government issued literature on the subject described such pensions as totally safe. While some compensation was made available through the FAS, the government will have been relieved that so far they have not been ordered to pay full compensation. While welcoming the significant increase in FAS funds, campaigners are arguing that the government should go the extra mile

to provide 100% compensation. They claim this additional cost pales into insignificance when compared to the £5bn reduction in pension scheme tax relief the Chancellor effected in 1997 (and on which the demise of a large number of pension schemes is

being blamed.) There are also complaints about delays in paying out funds to those in need. Currently only 10% of members claiming are receiving any compensation at all. The saga continues.



Best practice for accounts and auditors

Ethical standards

As auditors, we are governed by Ethical Standards as laid down by The Auditing Practices Board. One of those standards relates to the provision of non-audit services by your auditors and is designed to ensure that the auditors' objectivity is not threatened by any potential conflict of interest. Of course, it is not unusual today to find that firms of accountants provide a wide range of services in addition to audits and there are various procedures and safeguards applied to ensure that the objectives of the audit are not compromised, even where one firm is providing several services to the same client. However, there are some situations in which the auditors are not allowed to provide services, as an example, in relation to taxation advice to an individual director of the quoted company being audited. In other areas best practice applies and, since the Goode report following the Maxwell scandal some years ago, pension scheme trustees have been encouraged to use a different firm of auditors to those of the sponsoring company. As trustees now more regularly review auditors (and other advisers), this is one factor that can be borne in mind.

Draft revised SORP

A new draft Statement of Recommended Practice governing the accounting practices of pension schemes (SORP Exposure Draft [2007]) has recently been issued, taking into account changes in accounting practice and legislation since the last one was issued in 2002. Within the pensions industry, SORPs are issued by the Pensions Research Accountants



Group (PRAG), an independent research group involved in the areas of reporting and accounting by pension schemes. At the end of 2002, at the request of the Accounting Standards Board, PRAG initiated a debate on whether actuarial liabilities (as opposed to just funding rates) should be included in pension scheme accounts. A consultation document was issued and responses sought from a wide range of pension professionals. (Those responses were also fed into the Accounting Standards Board's research project on pensions, which we mentioned in our newsletter last Autumn.) Most accountants and actuaries have argued that it would not be appropriate to include the actuarial liabilities (as they are determined at just one moment in time, and pension liabilities are long term liabilities) and so for the time being PRAG has determined that they should not be included and the new draft SORP does not require them to be so. However, we remember actuaries, in particular, presenting similar arguments against the introduction of FRS 17 (the accounting standard under which UK companies have to report on their pension schemes), to no avail, so things may yet change.

PS - FRS 17 has been amended

An amendment to FRS 17 was issued at the end of 2006 requiring significant additional disclosures for company accounts with a year ending on or after 6 April 2007. These additional requirements mirror those of the international accounting standard IAS19 and are designed to enable users of a company's financial statements to evaluate better the nature of their pension scheme and the financial effects of that scheme.

Just a thought?

There has been a great deal of publicity recently surrounding new products available for pension schemes to buy-out their liabilities for deferred members. It would be interesting to know just how many schemes are confident that their administrative records are completely accurate and up to date to enable them to trace all those individuals who have long since severed any connection with the sponsoring company.

And finally,

The Regulator has recently issued the latest module of its online Trustee Toolkit on fund management for both defined benefit and defined contribution schemes - an important aid in ensuring trustees have the required knowledge and understanding of related investment issues.

Reviewing the employer's covenant



Many trustees are about to undertake the first valuation of their pension scheme under the new Scheme Specific Funding Regulations. Ahead of that process, trustees are well advised to solicit an independent review of the strength of the sponsoring employer's covenant, i.e. a measure of the ability of the employer to meet its financial commitments to the scheme, taking into account the size of the scheme liabilities in relation to the value of the company. Such a review will best position trustees as they negotiate with the employer over scheme funding as part of that valuation process and, as the review is independent, remove

the need for them to take an overly aggressive stance. (The Pensions Regulator has recently warned trustees that, while they need to be firm in their negotiations, they should recognise that they are part of the same company and that, to a large extent, they share the same responsibilities to the scheme members.) We would be happy to provide details of our own services in this area.

For further information, please contact either Phil Collins on 01923 809425 or email phil.collins@hhlip.co.uk or Grant Franklin on 01442 220736 or email grant.franklin@hhlip.co.uk

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