NEW ARRIVAL – Pension SORP 2014

After many stable years in the world of pension scheme accounting, a major revision of UK accounting rules has led to the introduction of a new Statement of Recommended Practice for Pension Scheme Accounts.

There are a number of critical changes within the new requirements which all schemes will need to consider and comply with.

We act as statutory auditors for a number of schemes with assets of up to c£300m and as members of the Pensions Reporting Accountants Group (PRAG), who developed the new SORP rules, we have looked in detail at some of the key areas that are likely to affect schemes. Below we have summarised some key points that we believe Trustees will need to have a good understanding of and on which they are likely to have to positively engage with their auditors, investment managers and/or actuaries during 2015.

The Basics

- New SORP rules are effective from accounting periods commencing on or after 1 January 2015.
- In the year of first adoption (e.g. year to 31 December 2015) the comparative numbers must be restated to be on a consistent basis, therefore the effective implementation date can be as early as 1 January 2014.

Significant Changes / Challenges

- Any annuity contracts held in the name of the scheme/trustees will, if they are material in value, have to be valued and shown on the Net Assets Statement of the scheme. This is irrespective of whether any cash flows go directly between the annuity provider and the scheme member.

  - *Consider - who will establish whether a material amount of annuity contracts exist?*
    who will value any annuity contracts if these are material?

- Significantly increased disclosures in respect of scheme investments and any Pooled Investment Vehicles in particular. These new disclosure requirements are technical in nature and in all likelihood will require specific reports/information from investment managers over and above the information currently supplied.

  - *Consider - Are Investment Managers set up to provide the information now required? Remember the first such information maybe required as early as at 31 December 2014?*

- New Actuarial Report in addition to the current Actuarial Certifications to be included in the Trustees Report must include:
  - A statement of the actuarial present value of promised retirement benefits, based on the most recent valuation of the scheme;
  - The date of the most recent valuation of the scheme;
  - The significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits; and

- The amount of scheme assets at the date of the most recent actuarial valuation.

- Any companies using their trust based scheme, irrespective of whether that scheme is Defined Benefit or Defined Contribution in nature, as their Pensions Auto Enrolment Scheme will need to carefully consider the implications and practicalities particularly around the collection of contributions.

Our Recommendations

1. It is important that all scheme trustees understand the new accounting requirements. The ultimate responsibility for the schemes financial statements rest with the Trustees, even where they choose to delegate the production of the statutory accounts to a third party. As a result we would recommend all Trustee boards ensure that they are aware of the changes brought in by the new SORP.

2. In order for anyone to produce compliant scheme accounts there will be a need for increased co-operation between Scheme Trustees, Scheme Administrators, Investment Managers, Scheme Actuaries and Scheme Auditors. Each will have different but complimentary parts to play in achieving the production of scheme accounts in future. As a result, we recommend that Trustees ensure all of these parties have a joint plan and scheme specific timetable to ensure continued compliance by the scheme with the accounting rules.

3. For schemes where we are the scheme auditors, we recommend that a specific slot in a trustees meeting is scheduled for early 2015 to consider an implementation plan for the new accounting requirements.

For further information on any of the issues discussed please contact Barry Gostling on 01473 220080 or email barry.gostling@ensors.co.uk.

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Published 19/01/2015