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14 August 2002

Dear Accounting Officer,

DAO (GEN) 18/02

VALUING THE UNFUNDED PENSION LIABILITIES OF BY-ANALOGY SCHEMES FOR FRS 17

Purpose and scope

To inform departments and other organisations of the availability of a spreadsheet devised by the Government Actuary's Department (GAD) to assist those with unfunded pension schemes to value their liabilities that need to be disclosed in notes to accounts for 2001-02 and 2002-03.

Accounting Officers should ensure that NDPBs sponsored by their departments are aware of their obligations under FRS 17 as set out in this letter.

Background

2. The accounting standard FRS 17 brings a radically different approach to accounting for defined benefit (DB) schemes, requiring surpluses or deficits to be recognised in the employer's balance sheet. Initial information was required to be disclosed for 2001-02 in preparation for greater disclosure in 2002-03 and full disclosure in 2003-04.

3. The definitions section of FRS 17 notes that a defined benefit scheme may be funded or unfunded. The FRS applies to both, although by definition unfunded schemes will not have any scheme assets to value and offset against the liabilities.

Implementation of FRS 17

4. Although the Accounting Standards Board (ASB) has put the full implementation of FRS 17 back, the public services still need to disclose data consistent with FRS 17 for 2001-02 and 2002-03.



Funded schemes

5. Funded schemes that have assets to value should follow the FRS in exactly the same way as private sector funded schemes. Organisations that are admitted bodies to the Local Government Pension Scheme (LGPS) need therefore take no action. The scheme actuary will handle the compliance for the overall scheme.

Unfunded pension liabilities

6. It follows that where staff of an NDPB belong to a major unfunded scheme, like the Principal Civil Service Pension Scheme (PCSPS), no action is also required. GAD and other actuaries will be valuing the major public service schemes separately.

7. However, separate unfunded schemes require valuing. Unfunded pension schemes will not have any assets to value, but a value can be attached to the unfunded liabilities. The Government Actuary's Department (GAD) has devised a spreadsheet to help organisations with small by-analogy to the PCSPS pension schemes to value their liabilities. This will enable smaller unfunded schemes to plug in data on staff and produce a reasonable valuation of the liabilities for FRS 17 purposes.

8. The spreadsheet is available from GAD (see paragraph 13). For the purposes of this exercise 'small scheme' means a membership of less than 1,000. If your scheme is bigger than this you should contact GAD to arrange an alternative assessment of the liabilities.

Board members and office holders

9. In addition to the staff schemes with unfunded pension liabilities there are many unfunded, broadly by-analogy, schemes for board members and office holders which also fall under FRS 17.

10. If the scheme is broadly based upon the Principal Civil Service Pension Scheme (PCSPS), i.e. a pension age of 60, then GAD advise that the spreadsheet will also work for these individuals.

11. However, it will not work for:

- a) Those with schemes based upon another major public service scheme, e.g. the local government pension scheme (LGPS); or
- b) Broadly PCSPS by-analogy arrangements where the pension age has been adjusted, i.e. age 60 has been replaced by another age.

12. If you think that the pension arrangement for board members/office holders for which you are responsible is a non-standard broadly by-analogy pension arrangement you should contact GAD (see paragraph 14) for further advice.

GAD distribution of the package

13. GAD have prepared a document pack explaining more fully the FRS 17 requirements, containing a pro forma letter for submission to GAD requesting the spreadsheet. It will also set out the charge for the service. The cost is £300 plus £ 2 per member to which VAT must be added. There is a maximum cost cap at £2,300 per scheme. E-mail at gfs@gad.gov.uk to request the pack.

Enquiries

14. If you have any queries please contact the following:

Actuarial issues: Requests for the pack should be directed to the e-mail address in paragraph 13. For other actuarial advice (see, for example, paragraphs 8 and 12) contact Adam Michaels GAD Tel: GTN 211 2659.

E-mail: Adam.Michaels@gad.gov.uk.

Accountancy issues: David Watkins WGA Tel: GTN 270 4560. E-mail David.Watkins@hm-treasury.x.gsi.gov.uk

NDPBs and board members: Gerry Foley PSP Tel: GTN 270 4525. E-mail Gerard.Foley@hm-treasury.x.gsi.gov.uk

15. A copy of this letter will also be sent direct to the known by-analogy staff schemes and to the Official Committee on Occupational Pensions (OCOP).

Yours sincerely

Brian Glicksman

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