PwC Pension Solutions

Major changes to pension accounting proposed

Irish businesses could see significant impact to reported profits and balance sheet

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The Accounting Standards Board (ASB) has published proposed changes to pension accounting that are wide reaching and could materially impact the profit and loss (P&L) account and the balance sheet. Businesses might need to review their wider pension strategy as a result. Given the potential impact, understanding how the changes affect your business is vital.

What you need to know

1. The proposals in the ASB document include:

- the P&L account should reflect the actual return on assets. At present companies record an expected return on assets based on long term expected returns – the proposed changes would see actual returns being recorded in the P&L account;

  For Irish pension schemes with a significant weighting in equities this should result in a more volatile P&L charge.

- the effect of changes in the discount rate and in year-on-year changes in actuarial assumptions should be reflected in the P&L account. Currently these are reflected outside the P&L account by most Irish companies. Similar to the preceding point this should make the P&L more volatile;

- future cash flows should be discounted using a risk free rate of return rather than AA corporate bonds. This could increase the measurement of the liabilities of Irish schemes by 15% - 20%;

- pay rises are likely to be excluded from the calculation of the liability. This would reduce the amount of liabilities for current employees;

- companies would need to disclose the sensitivity of the balance sheet to different assumptions.

For companies providing defined benefit pension schemes where assets are significantly weighted to equities (or similar non-matching assets) the proposals would see practically all of the impacts of pension funding volatility passing through the P&L account on an annual basis.

The volatility of the pension cost in the P&L account is at present facilitated to a degree by the accounting standards, as actual asset returns and changes in actuarial assumptions do not directly impact on the P&L account. Were the proposals to be implemented the current position would be subject to very significant change.

2. IAS 19 is being reviewed as part of a global two phase convergence project with the US accounting standard setter, FASB. A discussion paper is expected to be published by the International Accounting Standards Board (IASB) in the next couple of months and phase one is expected to result in a new accounting standard in 2011.

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What you need to do

1. Understand how the proposals would impact your P&L and balance sheet.

2. Consider how the changes might impact your views on:

- scheme funding;
- future benefit design;
- planned corporate activity such as acquisitions, disposals and dividend payments;
- scheme investment;
- how investors perceive the pension risks.

3. Look out for the imminent publication of the IASB's discussion paper.

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The PricewaterhouseCoopers pension solutions team is uniquely placed to advise you on your pension issues because of our breadth of pension, actuarial, commercial, financial and HR expertise. If you wish to discuss how we can help you, please contact:

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