Guidance – accounting for multi-employer defined benefit pension schemes where sufficient information becomes available for the first time

Background

The Social Housing Pension Scheme (SHPS) and the Scottish Housing Associations' Pension Scheme (SHAPS) (collectively "SHPS/SHAPS") are defined benefit multiemployer pension schemes with approximately 450 and 150 sponsoring employers respectively, which includes social landlords. The schemes are administered by TPT Retirement Solutions (formerly The Pensions Trust) ("TPT").

Historically, TPT has not been able to provide sufficient information for each social landlord's share of SHPS/SHAPS to allow defined benefit ("DB") accounting to be applied. Instead, in accordance with FRS 102 paragraphs 28.11 and 28.11A and Housing SORP paragraphs 15.9 to 15.12, the majority of social landlords have accounted for SHPS/SHAPS as a defined contribution ("DC") scheme and recognised a liability for the present value of the social landlord's deficit funding agreement.

Following a number of changes made to systems and processes by TPT, sufficient information may become available for SHPS/SHAPS. Where sufficient information is available, DB accounting must be applied for SHPS/SHAPS in accordance with paragraphs 28.14 to 28.28 of FRS 102.

It is not clear in FRS 102 on how to account for the transition from DB accounting to DC accounting. In January 2019, the FRC issued FRED 71 (Draft amendments to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland, Multiemployer defined benefit plans) which provides proposed changes to FRS 102 on the issue.

FRED 71 proposes to add the following two paragraphs to Section 28 of FRS 102 with reference to multi-employer defined benefit pension schemes:

> *28.11B When an entity participates in a defined benefit plan, which is a multiemployer plan that in accordance with paragraph 28.11 is accounted for as if the plan were a defined contribution plan, and sufficient information to use defined benefit accounting becomes available, the entity shall:*
> *(a) apply defined benefit accounting in accordance with paragraphs 28.14 to 28.28 from the relevant date as defined in paragraph 28.11C; and (b) recognise the difference between:*
> *(i) its net defined benefit liability (after taking into account the effect of paragraph 28.22, if any) at the relevant date as defined in paragraph 28.11C; and*
> *(ii) the carrying value at the relevant date of its liability for the contributions payable arising from an agreement to fund a deficit, if any, plus any liability recognised in accordance with paragraph 28.13(a); as a separate item in other comprehensive income.*
>
> *28.11C For the purposes of applying paragraph 28.11B, the relevant date is the first day for which sufficient information to use defined benefit accounting becomes available, unless this would require a restatement of comparative information when the relevant date is the first day of the current reporting period.*

TPT has provided details of how and when the sufficient information may be available:

- TPT expects to be able to provide sufficient information for the first time for 31 March 2019 year ends. This will be based on data collected by TPT as part of a one-off "member by member" valuation as at 31 March 2018 to give an accurate starting position at that date. The 31 March 2019 position will be projected from the 30 September 2018 data. TPT estimate that this information will be made available in May 2019.
- TPT has asserted that it does not have data to provide sufficient information before the date 31 March 2018.
- For simplicity, the rest of this technical note assumes that sufficient information will be made available for periods ending 31 March 2019.

On the assumption that sufficient information will be available for 31 March 2019 yearends, with DB accounting numbers as at 31 March 2018, considering the guidance in FRED 71 the Federations' view is that:

- The difference between the deficit funding agreement social landlords currently recognise for SHPS/SHAPS, and the net DB deficit, should be recognised in other comprehensive income (OCI); and
- The relevant date to apply the adjustment is 1 April 2018.

Further, the English High Court ruling in Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others was published on 26 October 2018, and held that UK pension schemes with Guaranteed Minimum Pensions (GMP) accrued from 17 May 1990 must equalise for the different effects of these GMP between men and women. This GMP equalisation process will result in an increase in the GMP benefits for some SHPS/SHAPS members. TPT will be providing further details regarding the impact of GMP equalisation on SHPS/SHAPS in due course. Where the impact of GMP equalisation is material, this should be discussed with auditors. Further details on these developments, including the impact of GMP equalisation, will be made available by email from TPT, on TPT's website, (https://www.tpt.org.uk/schemes/employer) and also on TPT's online tool once live.

It is understood that previous SHPS/SHAPS triennial valuations and deficit funding agreements allowed for GMP however, consistent with most other pension schemes, did not specifically estimate the impact of GMP equalisation. As a result of the fact that GMP equalisation will introduce an additional liability for some SHPS/SHAPS members, the impact of GMP equalisation would not be changes to actuarial assumptions, and instead are past service costs.

Based on the information available at the time of publishing this guidance, the Federations' view is that where the impact of GMP equalisation is material to SHPS/SHAPS, it should be accounted for as a past service cost through the income statement / P&L. Employers should discuss the impact of GMP equalisation with their auditors. As this is an area of ongoing development, the impact of GMP equalisation has been ignored in the example accounting entries of this guidance. Employers should also consider the accounting treatment of GMP equalisation in light of any further guidance issued by the FRC once the consultation of FRED 71 is finalised and any final amendments document is issued.

This guidance is intended to assist social landlords understand the accounting and disclosure requirements for SHPS/SHAPS where sufficient information becomes available for the first time, requiring a change from DC to DB accounting.

Example assumptions

This guidance assumes the following high level facts. Social landlords will need to consider this guidance in discussion with their auditors and how it applies to their own specific circumstances and the information available at the time of signing their financial statements.

Key dates:

- Financial year-end: 31 March 2019
- Date sufficient information is made available: May 2019
- Earliest date for which sufficient information is available from TPT: 31 March 2018
- Latest period for which sufficient information is available from TPT: 31 March 2019
- Date of signing the financial statements: 25 June 2019

Key judgements and considerations

New (sufficient) information will be made available regarding the social landlord's existing benefits in SHPS/SHAPS. No new benefits have been introduced and there is no change to the benefits themselves. Considering FRS 102 paragraph 28.21, the new information should not be classified as a plan introduction, change, curtailment or settlement. Further, the application of FRS 102 paragraph 28.11 is not an estimation technique.

Where sufficient information is available for SHPS/SHAPS and accounted for as a DB scheme, FRS 102 paragraphs 28.11 and 28.11A (and Housing SORP paragraphs 15.9 to 15.12) are no longer applied. This will mean that when DB accounting is applied, any liability recognised for the present value of the social landlord's deficit funding agreement should be derecognised.

Consistent with the guidance in FRED 71 paragraph 4 (FRS 102 paragraph 28.11B), this guidance considers that the difference between the deficit funding agreement liability social landlords currently recognised for SHPS/SHAPS, and the net DB deficit for SHPS/SHAPS, should be recognised in other comprehensive income (OCI).

Based on the information provided in the example assumptions above, the earliest date TPT is able to provide sufficient information is at 31 March 2018. In accordance with FRD 71 paragraph 5 (FRS 102 paragraph 28.11C), the relevant date to apply the adjustment in OCI is 1 April 2018.

Accounting entries

When applying DB accounting for the first time the following adjustments need to be made:

- Remove the liability for the present value of the deficit funding agreement.
- Recognise the net pension deficit.

Assume the following SHPS/SHAPS values when considering the accounting entries for year-ended 31 March 2019:

	1/04/18	**31/03/19**
Deficit funding agreement liability:	£4m	N/A [1]
Net pension deficit:	£6m	£7m

[1] *A deficit funding agreement will still be in place, however it will not be separately recognised in the financial statements where DB accounting is applied, hence shown as N/A for 31/03/19*

Adjustments as at 01/04/18 *(made in 31 March 2019 financial statements)*

Dr: Deficit funding agreement liability (SoFP)	£4m	
Cr: OCI – SHPS/SHAPS multi-employer DB scheme (SoCI)		(£4m)

De-recognise deficit funding agreement liability recognised at the beginning of the financial year

Dr: OCI – SHPS/SHAPS multi-employer DB scheme (SoCI)	£6m	
Cr: Net pension deficit (SoFP)		(£6m)

Recognise the net pension deficit as at 01/04/18

Adjustments as at 31/03/19 *(made in 31 March 2019 financial statements)*

Dr: DB Operating costs [1] (SoCI)	£0.1m	
Dr: Actuarial movements [2] (OCI)	£0.9m	
Cr: Net pension deficit (SoFP)		(£1m)

Recognise movement in net pension deficit during the year

[1] Illustrative impact of service costs on SHPS/SHAPS DB net interest costs between 31/03/18 and 31/03/19 *[2] Illustrative impact of actuarial assumptions on net defined benefit liability between 31/03/18 and 31/03/19*

These adjustments are illustrated in the below example Statement of Comprehensive Income and Statement of Financial Position with impacted line items shown in blue. The following additional assumptions have been used in these example statements:

1. The impact of GMP equalisation has been ignored
2. Adjustment to recognise the difference between the deficit funding agreement and the net DB deficit for SHPS/SHAPS is material and separately shown on the face of the SoCI.
3. There are no other DB schemes.

Statement of Comprehensive Income

	31/03/19 £m	31/03/18 £m
Turnover	52.1	47.6
Operating expenditure	-31.2	-33.5
Gain on disposal of housing properties	4.5	2.1
Operating surplus	**25.4**	**16.2**
Interest receivable	2.8	2.9
Interest payable	-2.6	-3.1
Surplus before tax	*25.6*	*16.0*
Taxation	-	-
Surplus for the year	**25.6**	**16.0**
Other comprehensive income		
Initial recognition of multi-employer defined benefit scheme	-2.0	-
Actuarial losses in respect of pension schemes	-0.9	-
Total comprehensive income for the year	**22.7**	**16.0**

Statement of Financial position

	31/03/19 £m	31/03/18 £m
Fixed assets		
Housing properties	550.3	545.2
Other property, plant and equipment	15.1	16.3
	565.4	**561.5**
Current assets		
Stock	58.6	45.6
Trade and other debtors	15.6	14.5
Cash and cash equivalents	35.8	30.2

	110.0	**90.3**
	-50.2	-51.3
Less: Creditors: amounts falling due within one year		
Net current assets/liabilities	*59.8*	*-39.0*
Total assets less current liabilities	**625.2**	**600.5**
Creditors: amounts falling due after more than one year	-356.2	-355.9
Provisions for liabilities	-1.2	-2.5
Pension – deficit funding liability	-	-4.0
Pension – defined benefit liability	-7.0	-
Total net assets	**260.8**	**238.1**
Reserves	**260.8**	**238.1**

Disclosures

In addition to the accounting entries and disclosures required by FRS 102 paragraph 28.41, the following disclosures should be made in the narrative reporting (for example, strategic report) and financial statements:

- Strategic / Board report
  - Impact of applying DB accounting on the financial performance and position of the social landlord in the current and prior year *SORP paragraphs 4.1, 4.6(e), 4.7(e)*
  - How pension risks are managed *SORP paragraph 4.6(e)*

- Statement of comprehensive income and statement of financial position
  - The relevant adjustments should be separately shown if material *FRS 102 paragraph 6.3(b)*

- Accounting policies
  - Basis of preparation:
    Detail should be given identifying that the accounting relating to SHPS/SHAPS has not been consistently applied, cross-referencing the pension accounting policy and FRED 71 [A], and early adoption of the resulting final amendments document [A]. *FRS 102 paragraphs 2.11, 3.11*
  - Pension accounting policy:
    Disclosure should be made detailing the accounting policy for SHPS/SHAPS, with cross-reference to the pension note where further disclosures are made relating to the change in accounting policy.
    FRS 102 paragraph 10.13.
  - Significant judgements
    The specific judgement made regarding the change from DC to DB accounting considering FRED 71 [A] and the impact of GMP equalisation, cross referencing to the SoCI, SoFP and pension note.
    FRS 102 paragraph 8.6.
  - Significant estimates
    Disclosure regarding the significant estimates made with respect to SHPS/SHAPS should be made, including pension / actuarial assumptions to roll-forward actuarial information to the accounting reference date.
    FRS 102 paragraph 8.7.

- Pensions note
  - In addition to complying with FRS 102 paragraph 28.41, the pension note should cross-refer from the accounting policy disclosures, the SoCI and SoFP, clearly disclosing:
    - the nature of the change in accounting; and
    - the amount of the adjustment for each financial statement line affected, including the derecognition of the deficit funding agreement liability and the recognition of the net pension deficit.

[A] *Once FRED 71 is finalised, a final amendments document will be issued. Any references in disclosures should be made to that document, once it is published, instead of FRED 71.*