Occupational Pensioners' Alliance

The Occupational Pensioners' Alliance (OPA) (http://www.opalliance.org.uk/) is comprised of forty member associations nationally. Each member association focuses the views of the members of schemes for their company. An elected Council focuses the views from the associations. In aggregate, more than 50 schemes and 2 million scheme members are represented in this way.

The OPA welcomes the opportunity to comment on the Financial reporting of Pensions.

Q1 Should a liability to pay benefits that is recognised be based on expectations of employees' pensionable salaries when they leave service, or on current salaries (including non-discretionary increases)?

Ans: On pensionable salaries when they leave service. Using current salary basis would be a massive understatement of the liability. Even indexation up to pension age based on current salaries ignores the possibility of promotional increases. (i.e. increases arising because of promotion)

Q2 Should financial reporting be based on the premise that a liability is owed to an individual employee or to the workforce as a whole? What consequences do you consider your view has for the recognition and measurement of pension obligations?

Ans: Financial reporting must be based on probable full liability, which may involve having to assess on an individual basis, and then aggregate.

Q3 Do you agree that recognition should be based on the principle of reflecting only present obligations as liabilities?

Ans: This question seems to be a repeat of the first two questions. It is essential that full liabilities are reported, which means that future obligations must be taken into account.

Q4 Do you agree that the consolidation of pension plans should be subject to the same principles as are usually applied in determining whether consolidation is appropriate?

Ans: Yes! Assuming that the principles usually applied entail ensuring that scheme members suffer no loss of benefit because of the consolidation.

Q5 Do you agree that changes in assets and liabilities relating to pension plans should be recognised immediately, rather than deferred and recognised over a number of accounting periods or left unrecognised provided they are within certain limits (a 'corridor') approach?

Ans: In general, reporting should be done no more frequently than annually, because pension schemes are very long term issues. However, it is against basic accounting principles to recognise 'assets' which may, in fact, not be the property of the company, although liabilities to a pension scheme should be recognised, and reported

Q6 Do you agree with the paper's views in the measurement of liabilities to pay benefits? In particular, do you agree that:

Q7 Where employees have options to receive benefits in different ways, should the liability be reported at the highest amount or at an amount that reflects the probability of different outcomes?

ANS: Reporting should always err on the side of prudence. A prudent high probability outcome would seem to be acceptable.

Q8 Do you agree that assets held to pay benefits should be reported at current values?

ANS: No. Pension schemes are very long term investments, and at any particular point in time a short term fluctuation could give a distorted view.

Q9 Do you agree that a 'net' asset or liability should be based on the difference between the amounts at which the assets and liabilities would be measured if they were measured directly?

Ans: Yes.

Q10 Do you agree that different components of changes in liabilities and/or assets should be presented separately?

Ans: Only if the changes are material.

Q11 Do you agree that the financial performance of an entity should reflect the actual return on assets, rather than the expected return, and that the expected return should be required to be disclosed?

ANS: Any performance reporting should clearly be historical. Expected returns should also be shown.

Q12 Do you agree with the objectives of disclosure that are identified in this Chapter? Are there specific disclosure requirements that should be added to or deleted from those proposed?

Ans: The OPA supports the objectives identified in this chapter.

Q13 Do you agree that multi-employer plans should be reflected in an employer's financial statements using the same principles as those that apply to a single employer plan? How, in your view, should an accounting standard require that this be implemented in practice?

Ans: Not qualified to answer.

Q14 Do you agree that a pension plan's general purpose financial report should include its liabilities to pay benefits in the future? Do you agree that the plan's liabilities for future benefits should be quantified using the same principles as an employer's liability?

Ans: Liabilities to pay benefits in the future should be recognised as realistically as possible. Employers liabilities are governed by accounting standards, which are not necessarily sufficiently prudent.

Q15 Do you agree that a pension plan's statement of financial position should reflect an asset in respect of amounts potentially receivable under an employer's covenant, and that this should reflect the employer's credit risk?

Ans: This depends on the nature and strength of the covenant. In general amounts potentially receivable should not be classed as assets.

Q16 Are there types of pension arrangements that require further consideration? Please identify the specific features of these arrangements and suggest how the principles of this paper would require development to secure appropriate financial reporting for them.

Ans; Not qualified to comment

Q17 Are there further specific issues relating to the cost and benefit of the proposals that should be taken account of in their further development?

Ans: Possible cost and benefits relating to the proposals are difficult to quantify. The OPA perspective in responding to this questionnaire is more in relation to the protection of existing and promised benefits to pension scheme members than any cost/benefit study.