

**IAA Pensions Seminar
(5-7 June 2001)**

**Comparison of Pension Accounting Standards
(Chinu Patel, Watson Wyatt)**

Accounting Standard:	UK (current) SSAP24	UK (new) FRS17	International IAS19 (revised)	US FAS87, FAS88, FAS106, FAS132
Scope	<ul style="list-style-type: none"> ▪ Legal, contractual or implicit commitment ▪ Funded or unfunded ▪ Covers pensions and other post retirement benefits 	<ul style="list-style-type: none"> ▪ Legal, contractual or implicit commitment ▪ Funded or unfunded ▪ Covers pension and other post retirement benefits 	<ul style="list-style-type: none"> ▪ Legal, contractual or constructive commitment ▪ Funded or unfunded ▪ Covers all employee benefits, including short term employee benefits and termination benefits 	<ul style="list-style-type: none"> ▪ Legal, contractual or substantive commitment ▪ Funded or unfunded ▪ Covers pension benefits (FAS87, FAS88, FAS132) and other post-retirement benefits (FAS106, FAS132)
General approach	<ul style="list-style-type: none"> ▪ P&L driven ▪ Stable regular cost with smoothing of assumptions and asset values ▪ Gradual recognition of other items 	<ul style="list-style-type: none"> ▪ Balance sheet driven ▪ Market-based measurement ▪ No smoothing ▪ No spreading 	<ul style="list-style-type: none"> ▪ Balance sheet driven ▪ Market based measurement ▪ More emphasis than FAS87 on immediate recognition and less smoothing 	<ul style="list-style-type: none"> ▪ Balance sheet driven ▪ Market based measurement ▪ Some smoothing allowed ▪ Gradual recognition of some items.
Measurement frequency	Triennial (at least)	Annual update but without annual valuations	Annual	Annual
Actuarial method	Unspecified	PUM	PUM	PUM
Asset valuation	Actuarial value	Market value (no smoothing)	Market value (no smoothing)	Market value (smoothing over up to 5 years permitted).
Ownership of assumptions	Actuary	Employer on actuary's advice	Employer (actuarial advice recommended)	Employer

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Discount rate	Long-term estimate of scheme's investment return.	Market yield on a high quality (AA or equivalent) corporate bond of similar term and currency as liabilities (for funded and unfunded schemes)	Market yield on high quality corporate bonds (for funded and unfunded liabilities).	Settlement yield/market yield on high quality corporate bonds (for funded and unfunded liabilities).
Expected return on assets	N/A	<i>Bonds</i> - market yield <i>Equities</i> - long-term estimate of investment return	Long-term estimate of expected return from Scheme's assets.	Long-term estimate of expected return from Scheme's assets.
Discretionary benefit increases	Preference is to allow in advance for increases likely to be granted, otherwise recognise capital cost in full in P&L when granted.	Allow in advance if 'constructive obligation', otherwise immediate recognition of capital cost in P&L when granted (subject to vesting).	Allow in advance if 'constructive obligation', otherwise immediate recognition of capital cost when granted (subject to vesting).	Only to be allowed in advance if substantive commitment, otherwise spread capital cost when granted.
Benefit improvements	Capital cost not covered by scheme surplus spread over working lifetime (method unspecified).	If vested, immediate recognition in P&L of capital cost in excess of any unrecoverable surplus used to finance the cost, otherwise spread over the vesting period.	If vested, immediate recognition in P&L of capital cost in excess of any surplus which the Company is obliged to use for the benefit of scheme members, otherwise spread over the vesting period.	Spread capital cost over future working lifetime ('Employee year' method, or faster).
Actuarial gains/losses	Spread over working lifetime (method unspecified), with some exceptions.	Immediate recognition in balance sheet via statement of recognised gains and losses; no effect on P&L	Spread over working lifetime outside optional 10% corridor (Straight line method), or faster.	Spread over working lifetime outside optional 10% corridor (straight line method), or faster.

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Settlements/curtailments (including bulk transfers)	Not specified	Gains or losses recognised in P&L on occurrence of event.	Gains or losses recognised in P&L on occurrence of event, but subject to some restrictions.	Gains or losses recognised in P&L on occurrence of event (FAS88), with more restrictions than IAS19.
Acquisitions	Asset or liability recognised immediately in the balance sheet under FRS7.	Asset or liability recognised immediately in the balance sheet under FRS7.	Asset or liability recognised immediately in the balance sheet under acquisition accounting rules.	Asset or liability recognised immediately in the balance sheet under acquisition accounting rules.
Balance sheet limitations	None	<ul style="list-style-type: none"> ▪ Pension asset limited to surplus recoverable by employer via contribution reduction and/or refund already agreed with Trustees ▪ Pension liability may, in extreme circumstances, be limited (legal advice needed) 	Pre-payment limited to value of refunds of surplus/future contribution reductions plus unrecognised prior-service and transition costs.	Minimum recognition of unfunded accrued liability.
Transition options	Option to recognise transition asset/liability immediately or amortise over average working lifetime	Recognise transition asset/liability immediately (prior year adjustment under FRS3)	Recognise transition asset immediately and transition obligation over up to 5 years.	Transition asset/obligation recognised over up to 15 years from 1989.