Proposed Amendment to FRS17 “Retirement Benefits” and Reporting Statement “Retirement benefits – Disclosures”

Submission by the Society of Actuaries in Ireland

September 2006

This submission, from the Society of Actuaries in Ireland, relates in particular to Question 2 in the "Invitation to Comment" issued by the Accounting Standards Board i.e. as to whether the proposed Reporting Statement should include disclosure of the scheme liabilities on a buy-out basis.

In the context of Irish defined benefit schemes, the Society's view is that it would not be appropriate for the Reporting Statement to include disclosure of the scheme liabilities on a buy-out basis.

Paragraph A29 of the Financial Reporting Exposure Draft (FRED) sets out the rationale for including disclosure on a buy-out basis:

- Under UK regulation, the debt on the employer on winding-up of a pension scheme is now determined on a full buy-out basis, and
- The actuarial profession requires an actuary to disclose the amount estimated on a buy-out basis in the actuarial report.

The position in Ireland is quite different. There is no debt on the employer in the event of a pension scheme being wound up. Moreover, in the event of a scheme winding up, the trustees are permitted under Irish pensions legislation to discharge the liabilities for active and deferred members by paying transfer values, rather than buying out the liabilities by purchasing deferred annuities.[1]

Consequently, the Irish actuarial profession does not require disclosure of buy-out costs in actuarial reports.[2]

Paragraph A30 of the FRED summarises the arguments that have been made in favour of disclosure of the buy-out cost:

- *"it identifies what the pension obligation would be were the entity to decide to settle its pension obligation, rather than fund the scheme on an ongoing basis; and*
- *As the information is to be made available in the actuarial report it would be sensible to include the amount calculated on a buy-out basis in the financial statements and avoid estimates being made."*

As outlined above, neither of these arguments apply in the context of Irish defined benefit schemes.

Paragraph A31 of the FRED sets out the arguments that have been made against requiring disclosure of buy-out costs, including the following:

- *"the buy-out cost may not be easily available for non-UK schemes. This would result in additional costs being incurred which out-weigh the benefit of disclosure; and*
- *the amount is merely an estimate and an active market does not exist for these obligations."*

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[1] Pensions Act, 1990, s48(3) (as amended by Pensions (Amendment) Act, 2002, s33)
[2] GN9(ROI): Retirement Benefit Schemes – Actuarial Reports can be downloaded at:
http://www.actuaries.ie/Professional%20Standards/Professional%20Guidance/Pensions/GN9%20(ROI)%20v,2.0.pdf

In an Irish context, the case against disclosure is far stronger: there is virtually no market for deferred annuities and, consequently, buy-out costs cannot be estimated on a realistic basis.[3]

We note that the proposed Reporting Statement is "*a formulation of best practice and is intended to have persuasive rather than mandatory force"* (paragraph A19 of the FRED). Nevertheless, for Irish defined benefit schemes, we do not consider it appropriate that it should include disclosure of buy-out costs, for the reasons outlined above.

Finally, we are concerned that the additional disclosures proposed in the FRED will increase compliance costs for Irish defined benefit schemes.

[3] Currently, only two insurance companies are prepared to quote rates for deferred annuities, and our understanding is that little, if any, such business is actually transacted.