Pensions accounting for Housing Associations

With most housing associations approaching the end of their financial year, pensions accounting figures continue to pose a challenge. Developments since the last year end mean that pensions are generally rising up audit committees' risk registers. We've been working hard on innovative solutions to suit the needs of associations; either through easing the balance sheet pain of recent market movements or helping to protect against volatility in the accounting position.

What should you be thinking about?

Changes to the Social Housing Pension Scheme (SHPS) accounting treatment

Recent changes to accounting for SHPS, coming into effect this year for the first time, are likely to result in larger balance sheet deficits than currently shown for most HAs, but with less volatility in the amount recognised in the income and expenditure (I&E) account. Two key considerations are:

- The initial recognition of the changes, which may need explaining to investors and lenders.
- Decisions on the assumptions used will need to be made. The assumptions used could have a material impact on the balance sheet deficit. You may need to take actuarial advice on these assumptions.

LGPS cessation charges

We have seen some significant I&E cessation charges as more HAs exit Local Government Pension Scheme (LGPS) funds, either passively through their last remaining members retiring or actively as an option to mitigate risk. See our case study overleaf on how we helped one of our clients.

Market volatility

Uncertainty in investment markets is driving volatility in pensions deficits.

GMP inequalities

An allowance will need to be included on many HA balance sheets to make provision for any expected costs arising from the Lloyds Bank GMP inequalities judgment. The size of the allowance, and whether it will be recognised through I&E or Other Comprehensive Income (OCI), will need to be agreed with your auditors.

Actions

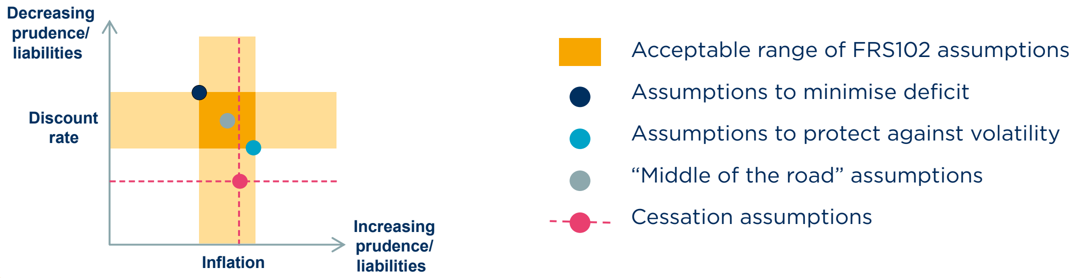
- Decide what is important to you
- Agree upfront the approach to setting assumptions
- Agree approach and impact caused by the requirement to remove GMP inequalities
- Engage with auditors ahead of the year-end to avoid surprises
- Consider taking actuarial advice, as the impact of the assumptions used will be more material than in previous years

To find out more about how we can help with your pensions accounting please get in touch with one of our specialist social housing team shown overleaf.

Case study: LGPS Cessation

Background

One of our HA clients participates in an LGPS fund as an Admitted Body. We identified a risk - their last remaining employees who participate in the Fund retiring in the short term. Without any action, this could lead to a significant and highly volatile cessation charge through the I&E account (as well as the requirement for a large cash payment to the LGPS fund).



Setting assumptions

Although FRS102 prescribes the actuarial assumptions to be used, there is generally a range of acceptable assumptions that would satisfy the standard.

In the chart above, the vertical axis shows a typical range for the discount rate, where a higher assumption results in a smaller deficit. The horizontal axis shows a typical range for the inflation assumptions, where a higher assumption results in a larger deficit.

Where to aim for depends on your priorities:

- The grey dot shows a "middle of the road" assumption set for an association that doesn't want to be an outlier.
- The dark blue dot shows more optimistic assumptions that might be suitable for an association looking to minimise the balance sheet deficit.
- The light blue dot shows more prudent assumptions that could be adopted if an association wanted to protect against volatility in the position and bring this more in line with the cessation debt.

In this case we were able to work with our client, their auditors and the LGPS fund's actuaries to move from the grey to the light blue position, which minimised volatility as they approached cessation and had the effect of reducing the I&E charge that was ultimately recognised.

Contact us

To find out more about how we can help with your pension accounting please get in touch with your usual LCP contact or one of our partners below. We have more than 10 specialists with wide-ranging experience of advising housing associations and working with their auditors to reach the best position in each case.

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