17. Retirement benefits

Introduction

17.1. This module applies to all charities using the FRSSE that have defined benefit or defined contribution pension schemes that provide benefits to their staff after they have left the employment of the charity. The accounting requirements and disclosures in the notes to the accounts for pension or other retirement benefits arrangements depend on whether the scheme is classified as a defined contribution scheme or defined benefit scheme.

17.2. Charities reporting under the FRSSE should refer to section 10 and Appendix II of the FRSSE for more information.

17.3. This module sets out:

- accounting for defined contribution schemes;
- accounting for defined benefit schemes;
- fund accounting for defined benefit schemes;
- fund accounting and the treatment of a defined benefit scheme surplus or deficit;
- accounting for multi-employer defined benefit schemes;
- disclosures in the accounts relating to schemes accounted for as defined contribution schemes; and
- disclosures in the accounts relating to defined benefit schemes.

Accounting for defined contribution schemes

17.4. Defined contribution schemes are pension or other retirement schemes into which the employer pays regular fixed contributions as an amount or as a percentage of pay. The employer will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

17.5. The cost of the scheme charged to the SoFA is equal to the contributions payable in the reporting period. Any liability and expenses should be allocated to unrestricted funds and restricted funds on the same basis as other employee-related costs unless the terms of a restriction prohibit the allocation of such costs to a restricted fund.

Accounting for defined benefit schemes

17.6. A defined benefit scheme is a pension or other retirement benefit scheme whose rules define the benefit independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. A feature of defined benefit schemes is that the employer has offered a guarantee to fund the amount or level of pension or benefit ultimately payable and is therefore liable to make additional contributions to provide that guaranteed level of benefit.

17.7. Charities reporting under the FRSSE must refer to Appendix II of the FRSSE for the methodology to be followed in calculating the scheme's assets and liabilities and how the components of the change in the defined benefit asset or liability are charged to the statement of financial activities (SoFA).

Fund accounting for defined benefit schemes

17.8. The component costs of the defined benefit scheme must be allocated between the expenditure categories in the SoFA on a fair and reasonable basis. The allocations are made on the basis of the charity's own computations. The basis of the allocations should be consistent from year to year. One approach is to allocate the components of the defined benefit scheme based on the staff costs of employees within the scheme, although other approaches (for example, allocation based on pension contributions payable) may also produce an equitable allocation.

17.9. In cases where a restricted fund may be of a short-term nature or staff may be frequently transferred between activities funded from restricted funds, there may be uncertainty as to the fund which will ultimately recover any surplus or meet future contributions resulting from any deficit. In these circumstances, only an appropriate portion of the current service cost component of the pension cost relating to the staff engaged in activities funded from restricted funds should be charged to the restricted funds.

17.10. Past service costs and gains and losses on curtailments and settlements should be charged to restricted funds only when a charity can demonstrate that the costs relate to staff presently engaged in the activities funded by the restricted funds.

Fund accounting and the treatment of a defined benefit scheme surplus or deficit

17.11. A surplus in a defined benefit scheme is the excess of the value of the assets in the scheme over the present value of the scheme's liabilities. A deficit in a defined benefit scheme is the shortfall in the value of the assets in the scheme below the present value of the scheme's liabilities.

17.12. A surplus in a defined benefit scheme is the excess of the value of the assets in the scheme over the present value of the scheme's liabilities. A charity, as employer, must recognised an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

17.13. A deficit in a defined benefit scheme is the shortfall in the value of the assets in the scheme below the present value of the scheme's liabilities. A charity, as employer, must recognise a liability to the extent it reflects its legal or constructive obligation.

17.14. Charities must recognise the actuarial gain or loss arising in the reporting period in the 'other recognised gains and losses' heading in the SoFA under a separate sub-heading, 'actuarial gains or losses on defined benefit pension schemes'.

17.15. Where a surplus or deficit in a defined benefit scheme gives rise to an asset or liability, the asset or liability must be shown on the balance sheet within the unrestricted funds of the charity, except where staff are specifically engaged on a long-term project funded from restricted funds and it is demonstrable that all or part of the asset or liability is properly attributable to those restricted funds.

17.16. It may be necessary for the charity to liaise with the provider of a particular restricted fund in order to establish the basis on which any pension asset or liability is allocated to that fund and the pension costs that may be properly charged to it. Charities allocating a pension asset or a liability to a restricted fund should review the basis of the allocation annually to assess whether the benefit or obligation continues to accrue to that fund.

17.17. Where staff changes or the cessation of a particular project indicate that the economic benefits or obligations will no longer accrue to a particular restricted fund, then the asset or liability should be allocated to the unrestricted funds by means of a transfer in the SoFA.

Accounting for multi-employer defined benefit schemes

17.18. This SORP requires that charities participating in a multi-employer defined benefit pension scheme and that do not have an existing accounting policy for the scheme that conforms with accepted practice should refer to paragraphs to 28.11, 28.11A and 28.40A of FRS 102 to establish current practice. Charities, in order to conform with accepted practice, must account for a multi-employer scheme as a defined benefit scheme unless insufficient information is available so to do. In such circumstances, charities participating in a multi-employer defined benefit scheme must account for contributions to the scheme as if they were made to a defined contribution scheme.

17.19. Where a charity accounts for a multi-employer defined benefit scheme as though it were a defined contribution scheme, it may retain its existing accounting policy when accounting for an agreement to make contributions to fund a deficit in the scheme provided that policy reflects accepted practice. Again, if the charity does not have an existing accounting policy for such agreements it should refer to paragraph 28.11A of FRS 102 when developing its accounting policy. When an expense is recognised for the contributions payable, it should be allocated, where practicable, to the activities in the SoFA to which the past service cost relates and disclosed separately if it is material (refer to the SORP module ‘Statement of financial activities’).

Disclosures in the accounts relating to schemes accounted for as defined contribution schemes

17.20. The FRSSE requires that a charity must make the following disclosures in respect of a defined contribution scheme:

- the nature of the scheme (i.e. defined contributions);
- the costs for the period; and
- any outstanding or prepaid contributions at the balance sheet date.

Disclosures in the accounts relating to defined benefit schemes

17.21. The FRSSE requires that a charity must make the following disclosures in respect of a defined benefit scheme:

- the nature of the scheme (i.e. defined benefit);
- the date of the most recent full actuarial valuation on which the amounts in the accounts are based and if the actuary is an employee or officer of the reporting charity, or of the group of which it is a member, this fact should also be disclosed;
- the contribution made in respect of the reporting period and any agreed contribution rates for future years; and
- for closed schemes and those in which the age profile of the active membership is rising significantly, the fact that under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

17.22. The FRSSE (Appendix II) also requires the fair value of the scheme assets, the present value of the scheme liabilities based on the accounting assumptions and the resulting surplus or deficit must be disclosed in a note to the accounts. Where the asset or liability in the balance sheet differs from the surplus or deficit in the scheme, an explanation of the difference should be given. An analysis of the movements during the period in the surplus or deficit in the scheme should be given.

17.23. If a charity treats a defined benefit multi-employer scheme as a defined contribution scheme because sufficient information is not available to use defined benefit accounting, a charity reporting under this SORP must also ensure there is adequate disclosure of financial implications of the scheme to the charity. In particular, this SORP requires that a charity must disclose:

- the fact that it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the scheme’s surplus or deficit and the implications, if any, for the charity; and
- how any liability recognised in the accounts arising from an agreement with a multi-employer scheme to fund a deficit has been determined.