17. Retirement and post-employment benefits

Introduction

17.1. This module applies to all charities that provide post-employment benefits to their former staff after they have left the employment of the charity. The most common form of post-employment benefit is a pension plan or scheme. The accounting requirements and disclosures in the notes to the accounts for post-employment benefit plans depend on whether the plan is classified as a defined contribution plan or defined benefit plan. Charities should refer to section 28 of FRS 102 for more information.

17.2. This module sets out:

- accounting for defined contribution plans;
- accounting for defined benefit plans;
- fund accounting for defined benefit plans;
- fund accounting and the treatment of a defined benefit plan surplus or deficit;
- accounting for multi-employer defined benefit plans which have been treated as defined contribution plans;
- disclosures in the accounts relating to plans accounted for as defined contribution plans; and
- disclosures in the accounts relating to defined benefit plans.

Accounting for defined contribution plans

17.3. Defined contribution plans are post-employment benefit plans under which the employer, for example the charity (or its subsidiary), pays fixed contributions into a separate entity (a fund). The employer has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all the employee benefits relating to employee service in the current and prior periods.

17.4. The most common form of defined contribution plan is where the charity employer pays a fixed contribution, usually expressed as a proportion of the employee's salary, into a pension fund for the period that the employee is with the charity. The charity is under no further obligation to make any extra payments, irrespective of how that pension fund performs.

17.5. 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 plans

17.6. Defined benefit plans are any post-employment benefit plans that are not defined contribution plans. A feature of defined benefit pension plans is that the employer has offered a guarantee as to 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. Under defined benefit plans, a charity's (and/or its subsidiary's) obligation is to provide the agreed benefits to current and former employees. Actuarial risk and investment risk are effectively borne by the employer.

17.7. Charities must refer to section 28 of FRS 102 for the methodology to be followed in calculating the components and costs of a defined benefit pension plan.

Fund accounting for defined benefit plans

17.8. Defined benefit plan component costs must be allocated between the expenditure categories in the statement of financial activities (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 defined benefit plan components 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, the restricted funds should be charged 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.

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 plan surplus or deficit

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

17.12. The plan surplus is a defined benefit plan asset and it is recognised to the extent that the charity is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

17.13. The plan deficit is a defined benefit plan liability that recognises a charity's obligations under defined benefit plans. The liability recognised is the net total of the following amounts:

- the present value of its obligations under defined benefit plans (its defined benefit obligation) at the reporting date; minus
- the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

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 plan 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 plans which have been treated as defined contribution plans

17.18. A multi-employer defined benefit pension scheme must be accounted for as a defined benefit pension plan unless insufficient information is available so to do. In such circumstances, charities participating in a multi-employer defined benefit plan scheme must account for contributions to the plan as if they were made to a defined contribution plan.

17.19. A charity that is accounting for its obligations under a defined benefit multi-employer plan as though it were a defined contribution plan must also recognise any liability to make payments to fund any deficit relating to past service where it has entered into an agreement to make those payments. A charity must recognise a liability for the present value of contributions payable that result from the terms of the agreement with the multi-employer plan. This expense should be allocated, where practicable, to the activities in the SoFA to which the past service cost relates and must be disclosed separately if it is material (refer to the SORP module 'Statement of financial activities'). In all other cases, the charity should account for its obligations under a multi-employer defined benefit plan as a defined benefit plan and report its share of components of plan cost and its share of any actuarial gain or loss in accordance with FRS 102.

17.20. Charities operating group plans should refer to section 28 of FRS 102.

Disclosures in the accounts relating to plans accounted for as defined contributed plans

17.21. A charity operating a defined contribution plan must disclose:

- the amount of contributions recognised in the SoFA as an expense; and
- this SORP requires the disclosure of the basis for allocating the liability and expense between activities and between restricted and unrestricted funds.

17.22. A charity participating in a defined benefit plan should normally be able to ascertain its share of the underlying assets and liabilities of the plan and make the disclosures required by section 28 of FRS 102. However, in exceptional cases this information may be unavailable for defined benefit multi-employer plans and where this information cannot be obtained, the charity must also disclose:

- the fact that it is a defined benefit plan; and
- such information as is available about the plan's surplus or deficit and the implications, if any, for the reporting charity.

17.23. A charity that participates in a multi-employer defined benefit plan that is accounted for as a defined contribution plan must also include in its disclosures:

- a description of the extent to which the charity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan; and
- an explanation of how any liability arising from an agreement with a multi-employer plan to fund a deficit has been determined.

Disclosures in the accounts relating to defined benefit plans

17.24. Charities reporting under FRS 102 must make the disclosures set out in section 28 of FRS 102.