


The Actuarial Profession
making financial sense of the future

The 2004 Pensions Convention

7-8 June 2004, Sheraton Skyline Hotel, Heathrow

Accounting for employee pensions


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Pensions

- Big and nasty liabilities
- Complex accounting
- Major business issue
- Major audit risk



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What are accounts for?

- Performance measurement
- Management monitoring
- Business planning
- Finance and reward

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Pension side effects

- Benefit design
- Investment policy
- Funding
- Management
- Transactions

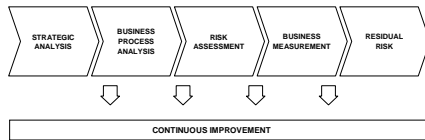
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Auditors

“ In our opinion the accounts give a true and fair view of the state of affairs of the company and of its profit and cash flows.”

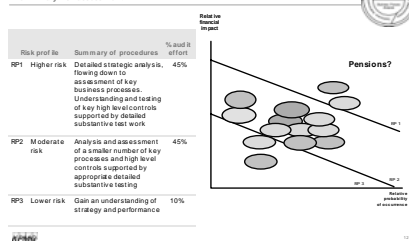
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Audit process



“ We planned and performed our audit so as to be able to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error.”

Preliminary risk assessment



Pension issues

- Management
- Accounting policies
- Assumptions
- Estimation

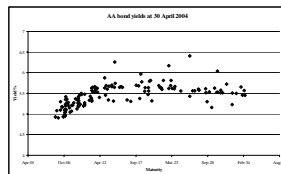
Accounting policy

- Materiality
- Assumptions
- Multi-employer opt-out
- Unusual situations

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Discount rate

- Uncertainty
- Sensitivity
- 31.12.03 experience
 - Comfort zone 5% - 5.6%
 - 5.6% common , 6.3% max
- Consistency and consensus



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Asset returns

- Uncertainty
- Consistency and consensus
- Asset classes
- US and IAS differences
- History

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Other assumptions

- Pension increases
 - Forecast or break-even inflation?
 - Capped/fixed/discretionary
- Salary increases
- Mortality
 - Scheme specific
 - Future improvements

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Hot stuff

- Management
- 'Footnote' assumptions
- Multi-employer opt-outs
- IFRS conversion

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Actuaries

- Conflicts
- Robust client advice
- Helping the auditor
- Lobbying the standard makers

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