

SOCIAL HOUSING PENSION SCHEME (SHPS) PENSION OBLIGATIONS NOTE – GUIDANCE NOTES MAY 2010

Introduction

1. This guidance note has been prepared by The Pensions Trust for employers that participate in SHPS (the Scheme).
2. This guidance note is intended to assist participating employers in preparing their year-end accounts. It covers the accounting treatment of ongoing pension costs and the potential employer debt on withdrawal from SHPS. This note should therefore be read in conjunction with FRS17 – Retirement Benefits, FRS12 – Provisions, contingent liabilities and contingent assets and FRS21 – Events after the balance sheet date.
3. Many of the Scheme’s employers also participate in the Growth Plan as an Additional Voluntary Contribution (AVC) vehicle for their members. An employer is deemed to be participating in the Growth Plan if one or more of its employees have paid AVCs into the Growth Plan. This applies irrespective of whether the employer has selected Growth Plan as a main pension arrangement. The Pensions Trust’s guidance on accounting for pension obligations in respect of participation in the Growth Plan can be found on our website at www.thepensionstrust.org.uk > Document Library > Scheme Literature > Growth Plan Series 3 > Employer Literature.
4. An employer that participates in the SHPS and the Growth Plan will need to consider the accounting implications of their participation in each of these schemes separately. Under the updated Regulations an employer could be deemed to have withdrawn from the Growth Plan while continuing to participate in SHPS. This situation would arise, for example, if the employer had active member(s) in SHPS but no longer had members contributing to the Growth Plan because, say, the last Growth Plan AVC member had left employment or the last Growth Plan AVC member simply ceased making AVCs to the Growth Plan.
5. The information contained in this guidance note is supplied in good faith. The Pensions Trust does not accept liability to employers or third parties in conjunction with the contents of this guidance note.

Materiality

6. The question of whether or not pension costs and potential liabilities are material in the context of an employer’s financial statements is ultimately a decision for each individual employer and its auditors. This guidance note does not therefore comment on materiality.

SHPS

7. SHPS is a multi-employer defined benefit pension scheme.

8. The employer contribution rate (including the future service contribution rate and any contributions that may be payable as a result of a funding deficit) is set by reference to the Scheme as a whole, rather than on an employer by employer basis.
9. The Scheme is a 'last man standing' non-associated scheme for Pension Protection Fund (PPF) purposes.
10. Due to the nature of the Scheme as a non-segregated multi-employer scheme it is not possible in the normal course of events, to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to each individual participating employer. This is because assets are co-mingled for investment purposes, and benefits are paid from the total assets of the Scheme.

Actuarial valuations

11. Actuarial valuations of the Scheme are carried out every three years in-line with statutory requirements.
12. The ongoing pension liabilities for the Scheme, and hence the contributions payable by participating employers, are calculated by reference to the investment strategy of the Scheme and the liability profile of the Scheme considered as a whole.
13. In determining the likely level of future investment returns from Scheme assets the Scheme Actuary assumes that the assets held in respect of the liabilities for active and deferred members are invested in equity type investments and that the assets held in respect of the liabilities for pensioner members are invested in bond type investments. The Scheme Actuary will make an adjustment to the expected level of future returns if the actual investment strategy is more conservative than that implied by the above assumption.
14. SHPS currently has a high proportion of active and deferred members. In addition to this the current investment strategy for the Scheme includes a significant exposure to equity, property, investment and fund of hedge funds and the Scheme had a deficit on the ongoing funding basis as at the last full actuarial valuation in 2008.
15. The buy-out liabilities of the Scheme represent the cost of securing member benefits by purchasing annuity policies from an insurer. Insurance companies tend to price annuities based on conservative assumptions for future investment returns and build in a risk allowance or safety margin to allow for the fact that the benefits are guaranteed. This is because they only get one chance to collect money from the Scheme and must then pay the promised benefits irrespective of future financial conditions.
16. The combination of the above factors for the Scheme means that the buy-out liabilities of the Scheme are currently significantly higher than the ongoing liabilities. By way of illustration the Scheme was 31% funded on a buy-out basis and was 70% funded on an ongoing basis as at 30 September 2008, i.e. the date of the last full actuarial valuation.

Accounting rules – pension costs

17. The accounting treatment of pension costs is covered by FRS17 – Retirement Benefits.
18. The Scheme is a multi-employer pension scheme where it is not possible to separately identify the assets and liabilities of participating employers on a consistent and reasonable basis as explained in paragraph 10.
19. An employer should therefore account for employer contributions payable to the Scheme as a charge in the Revenue Account for the period under review.
20. Employers should also disclose:
 - 20.1. the fact that it is not possible to identify its share of the underlying assets and liabilities;
 - 20.2. the reason why this is not possible; and
 - 20.3. any available information about the existence of the surplus or deficit in the Scheme and the implications of the surplus/deficit for the employer.
21. The employer should also disclose any outstanding or prepaid contributions at the balance sheet date.

Accounting treatment of pension costs for the Scheme

22. Employers should account for employer contributions payable to the Scheme as a charge in the Revenue Account for the period under review and disclose any outstanding or prepaid contributions at the balance sheet date.
23. Employers should also make the disclosures required by paragraph 20 above.
24. The Pensions Trust has prepared a draft Disclosure Note to assist employers in meeting these disclosure requirements. See 'Disclosure Note' on page 12.

Employer Debt Regulations

Legislation

25. Following a change in legislation in September 2005 there is a potential debt on employers that participate in a multi-employer pension scheme such as SHPS that could be levied by the Trustee.
26. The relevant legislation is now revised in the Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2008 (SI 2008/731) (the Regulations) which came into force on 6 April 2008.

Events that could result in an employer debt

27. An employer debt will arise if one of the following events occurs at a time when the Scheme is not fully funded on a buy-out basis:

- 27.1. The commencement of winding up of the Scheme. ¹
- 27.2. An employer becomes insolvent.
- 27.3. An employer ceases to participate in the Scheme, i.e. it no longer has any active members in the Scheme at a point in time when there is at least one other employer that continues to employ active members in the Scheme.
28. The legislation includes a concept known as a 'period of grace' which applies in narrowly defined circumstances. Under the new Regulations an employer will not be deemed to have withdrawn from the Scheme if it employs an active member of the Scheme within 12 months of the last member leaving. However, if the employer does not employ a further active member during this 12 month period the employer will be deemed to have withdrawn from the Scheme at the date when the employer actually ceased to employ active members.
29. In order to take advantage of the 'period of grace' provisions, a participating employer **must** give notice to The Pensions Trust either before or within one month of the last active member leaving the Scheme that it intends to employ active members again within twelve months. That employer is not liable for an employer debt unless and until it fails to employ such an active member, its plan changes (in which case the employer must notify The Pensions Trust) or it becomes insolvent. Giving notice to The Pensions Trust can be done by completing the Standard Notice Form that is available on our website ². **If notice is not received within one month of the last active member leaving, an employer will not be able to take advantage of the 'period of grace' provisions and will be immediately liable for an employer debt. Please note that the Regulations do not allow any discretion in this timing.**

Calculation of the employer debt

30. The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buy-out basis, i.e. the cost of securing benefits by purchasing annuity policies from an insurer plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.
31. The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. 'Orphan' liabilities are the deferred and pension liabilities of members previously employed by employers that have ceased to participate in the Scheme.

¹ At this point in time the Trustee does not have any plans to wind up the Scheme.

² www.thepensionstrust.org.uk > Document Library > General Literature > Generic Forms and Literature > Period of Grace Notice Form.

32. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, the level of 'orphan' liabilities (see the paragraph above), financial conditions at the time of the employer's withdrawal from the Scheme and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

Alternatives to the payment of a buy-out debt

33. The employer debt Regulations contain four possible alternatives to the payment of the full buy-out debt should an employer cease to participate in the Scheme. These alternatives are:
 - 33.1. A Scheme Apportionment Arrangement.
 - 33.2. A Regulated Apportionment Arrangement.
 - 33.3. A Withdrawal Arrangement.
 - 33.4. An Approved Withdrawal Arrangement.
34. These alternatives are only possible in certain narrowly defined circumstances and require the agreement of the Trustee and/or The Pensions Regulator. Further details about these options are included in Appendix A to this guidance note.

Transition provisions – participating employers that had no active members as at 6 April 2008

35. Under the old Regulations in force prior to 6 April 2008 an employer was deemed to have ceased to participate in a multi-employer pension scheme if the employer did not have an active member in the Scheme **and** the employer did not have any employees eligible to join the Scheme.
36. The old Regulations will continue to apply to a participating employer that did not have any active members as at 6 April 2008 but employed persons eligible to join the Scheme until it either ceases to employ a person eligible to join the Scheme or until it enrolls an active member.
37. If such an employer ceases to employ a person eligible to join the Scheme the employer will be deemed to have withdrawn from the Scheme on the date on which it ceased to employ an eligible person.
38. Alternatively, if such an employer enrolls an active member the new Regulations will apply from that point at which the new active member is enrolled into the Scheme.

Scenarios

39. Appendix B outlines a number of scenarios under which an employer would be deemed to have withdrawn from a multi-employer scheme such as SHPS. These events would trigger an employer debt unless the Scheme was fully funded on a buy-out basis at the date the employer was deemed to have withdrawn from the Scheme.

Employer debt figures for the Scheme

40. The Scheme Actuary has estimated the employer debt that would have been payable by each employer if they had withdrawn from SHPS as at 30 September 2009. These estimated figures were attached to the Disclosure Notes sent to employers in May 2010.
41. Detailed employer debt figures will be updated as at each actuarial valuation date (30 September 2008, 30 September 2011, etc). The Pensions Trust will notify participating employers of the latest available employer debt estimated figures when sending out the Pension Obligations Note each year. These notes are usually sent to employers in May.

Accounting rules – employer debt on withdrawal from the Scheme

42. Under FRS17 an employer debt on withdrawal from a multi-employer scheme such as SHPS should be accounted for in the period in which the employer becomes **demonstrably committed** to the payment of the debt on withdrawal.
43. In determining the appropriate accounting treatment it is useful to consider four situations:
 - 43.1. Employer had withdrawn from the Scheme on or before the balance sheet date.
 - 43.2. Employer had not withdrawn from the Scheme as at the balance sheet date but was demonstrably committed to withdrawing from the Scheme at the balance sheet date.
 - 43.3. Employer had not withdrawn from the Scheme as at the balance sheet date but became demonstrably committed to withdrawing from the Scheme after the balance sheet date and before the financial statements were approved for issue.
 - 43.4. Employer had not withdrawn from the Scheme as at the balance sheet date and did not become demonstrably committed to withdrawing from the Scheme after the balance sheet date and before the financial statements were approved for issue.

Employer had withdrawn from the Scheme on or before the balance sheet date

44. An employer that has withdrawn from the Scheme at the balance sheet date and settled the debt on or before the balance sheet date should account for the employer debt as a charge against profits (or against a provision previously made for the debt payable on withdrawal).
45. Under FRS12 an employer that has withdrawn from the Scheme at the balance sheet date but has not settled the debt on or before the balance sheet date should:
 - 45.1. make a provision in the financial statements for the debt on withdrawal if it is possible to make a reliable estimate of the amount of the debt on withdrawal; or

- 45.2. disclose the existence of the employer debt on withdrawal in the notes to the financial statements if it is not possible to make a reliable estimate of the amount of the debt on withdrawal.

Employer had not withdrawn from the Scheme as at the balance sheet date but was demonstrably committed to withdrawing from the Scheme at the balance sheet date

46. An employer that is demonstrably committed at the balance sheet date to the payment of a debt on withdrawal should:
- 46.1. make a provision in the financial statements for the debt on withdrawal if it is possible to make a reliable estimate of the amount of the debt on withdrawal; or
- 46.2. disclose the existence of the employer debt on withdrawal in the notes to the financial statements if it is not possible to make a reliable estimate of the amount of the debt on withdrawal.

Employer had not withdrawn from the Scheme as at the balance sheet date but became demonstrably committed to withdrawing from the Scheme after the balance sheet date and before the financial statements were approved for issue

47. It is possible that an employer that was not demonstrably committed at the balance sheet date to the payment of a debt on withdrawal may become so before the financial statements are issued. In this situation, under FRS21, the employer should disclose the existence of the employer debt on withdrawal in the notes to the financial statements.

Employer had not withdrawn from the Scheme as at the balance sheet date and did not become demonstrably committed to withdrawing from the Scheme after the balance sheet date and before the financial statements were approved for issue

48. Under current accounting Regulations an employer that was not demonstrably committed at the balance sheet date to the payment of a debt on withdrawal and does not become so before the financial statements are finalised does not need to disclose the potential debt on withdrawal. However, an employer may wish to disclose the potential debt in the notes to their financial statements, particularly if the employer believes that it is likely to withdraw from the Scheme in the near future.

Employer provides for the debt on withdrawal

49. The accounting treatment of provisions is covered by FRS12 – Provisions, contingent liabilities and contingent assets.
50. Where a provision is made for the debt on withdrawal the employer should disclose the following:
- 50.1. the carrying amount at the beginning and end of the period;
- 50.2. any additional provision made in the period;
- 50.3. any amount reversed unused; and

- 50.4. amounts used (i.e. incurred and charged against the provision).
- 51. Comparative information need not be disclosed for these items.
- 52. In addition the employer should also give:
 - 52.1. a brief description of the nature of the liability and the expected timing of the payment to settle the liability should it crystallise; and
 - 52.2. an indication of the uncertainties about the amount or timing of the payment.

Disclosure

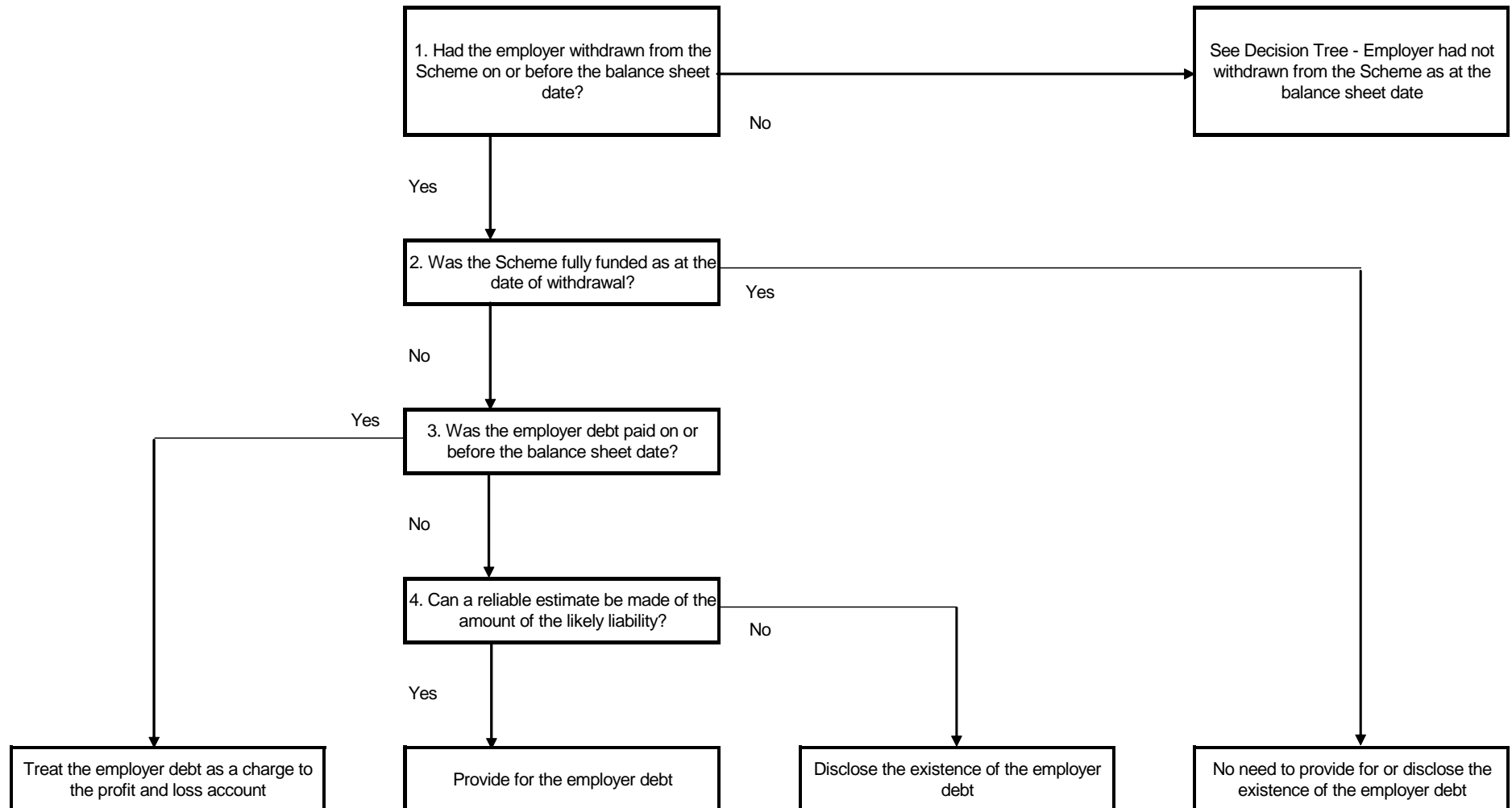
- 53. The relevant accounting rules are covered by:
 - 53.1. FRS12 – Provisions, contingent liabilities and contingent assets, where the employer was demonstrably committed to the payment of a debt on withdrawal at the balance sheet date; and
 - 53.2. FRS21 – Events after the balance sheet date, where the employer became demonstrably committed to the payment of a debt on withdrawal after the balance sheet date.
- 54. An employer should disclose the following:
 - 54.1. a brief description of the event that resulted in the debt on withdrawal; and
 - 54.2. an estimate of its financial effect and an indication of the uncertainties relating to the amount or timing of any payments that would be required to settle the debt.

Accounting treatment for the employer debt on withdrawal from SHPS

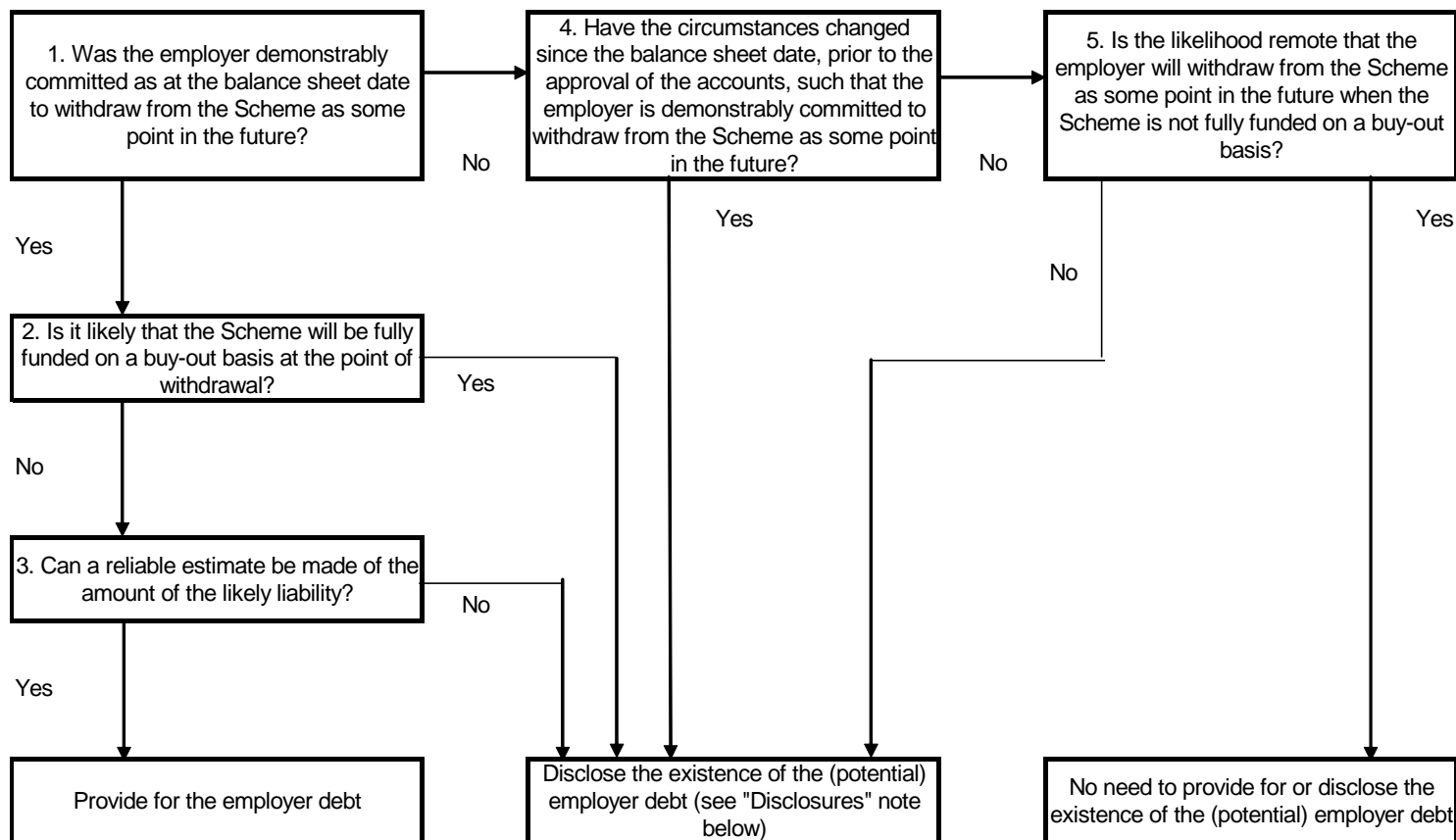
Decision Trees

- 55. The appropriate accounting treatment for the employer debt on withdrawal from the Scheme needs to be determined by each participating employer taking into account its own individual circumstances.
- 56. The following Decision Trees and explanatory notes have been designed to aid the decision making process for employers.

ACCOUNTING TREATMENT DECISION TREE - EMPLOYER HAD WITHDRAWN FROM THE SCHEME AT THE BALANCE SHEET DATE



ACCOUNTING TREATMENT DECISION TREE - EMPLOYER HAD NOT WITHDRAWN FROM THE SCHEME AT THE BALANCE SHEET DATE



Disclosures

The actual disclosures will vary depending on the scenario:

If an employer arrives at this box via question 2 this is a disc losable contingent liability

If an employer arrives at this box via question 3 then the employer has an actual liability that it cannot quantify - this scenario is unlikely to occur in practice but has been included for completeness

If an employer arrives at this box via question 4 this is a non-adjusting post balance sheet event

If an employer arrives at this box via question 5 this is a disc losable contingent liability

Notes to Decision Trees

Had the employer withdrawn from the Scheme on or before the balance sheet date?

57. It is a question of fact whether or not an employer has withdrawn from the Scheme as at a given date.
58. Employers may wish to refer to Appendix B, which details a number of scenarios under which an employer will be deemed to have withdrawn from the Scheme when considering this question.

Was the employer demonstrably committed to withdrawing from the Scheme at the balance sheet date?

59. In order for an employer to be demonstrably committed to withdrawing from the Scheme at the balance sheet date, FRS12 requires the existence of an event on or before the balance sheet date that created a valid expectation in one or more third parties affected by the event, that the employer would withdraw from the Scheme at a point in time after the balance sheet date.
60. As for the above question employers may wish to refer to the scenarios in Appendix B when considering this question.
61. Employers may also wish to review the examples in Appendix III of FRS12 and Appendix C of this guidance note when considering this question.

Have the circumstances changed since the balance sheet date, prior to the approval of the financial statements, such that the employer is demonstrably committed to withdraw from the Scheme at some point in the future?

62. In order for an employer to become demonstrably committed to withdrawing from the Scheme after the balance sheet date, FRS21 requires the existence of an event after the balance sheet date that creates a valid expectation in one or more third parties affected by the event, that the employer would withdraw from the Scheme at a later date.
63. The considerations are similar to those for the question above.
64. Employers may wish to review the examples in Appendix III of FRS12 and Appendix D of this guidance note when considering this question.

Can a reliable estimate be made of the likely liability?

65. FRS12 notes that cases where no reliable estimate can be made of a future liability will be extremely rare.
66. Under FRS12 the provision for an employer debt payable after the balance sheet date should be the best estimate of the expenditure required to settle the debt as at the balance sheet date.
67. An employer that is making a provision for an employer debt will need to take actuarial advice to determine the quantum of the provision required.

Disclosure Note

68. The Pensions Trust has prepared draft disclosure notes for participating employers to assist employers in meeting the accounting requirements associated with their participation in SHPS.
69. These disclosure notes are sent to participating employers each year.
70. There are a number of slightly different versions of the note. These versions reflect differences in the contribution rates payable by different types of employer. For example:
 - 70.1. Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3% to reflect the higher costs of a closed arrangement.
 - 70.2. Employers that joined the Scheme after 1 October 2002 that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the Scheme, at which point the standard employer contribution rate is payable.
 - 70.3. A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into SHPS.
71. The draft disclosure notes include sufficient information to enable employers to meet the requirements of FRS17 in respect of ongoing pension costs. In particular, the notes include details of the funding deficit as at the last actuarial valuation in September 2008 and the additional contributions payable by employers in order to clear the deficit.
72. These suggested disclosure notes include conditional paragraphs. These paragraphs cover the cases where employers treat the employer debt on withdrawal as a contingent liability or a provision and are included to enable employers to meet the requirements of FRS12 and FRS21 in respect of the employer debt on withdrawal from the Scheme.
73. The Pensions Trust recommends that employers discuss the accounting treatment of their pension costs and related obligations in respect of their participation in SHPS, with their own advisers and auditors in order to ensure that the treatment is appropriate given the employer's individual circumstances.

APPENDIX A

APPORTIONMENT AND WITHDRAWAL ARRANGEMENTS

Scheme Apportionment Arrangement

This is an arrangement under the Scheme rules whereby some of a departing employer's share of the debt, other than the full buy-out share, is apportioned to the departing employer. The balance is then apportioned to some or all of the remaining employers. There is no minimum amount which must be paid by the departing employer, although a nominal debt of £1 will typically be apportioned to the departing employer. The Trustee must agree to the arrangement and they must be satisfied that the 'funding test' is met, which broadly means that the remaining employers can continue to meet their liabilities under the Schedule of Contributions and Recovery Plan. Regulator approval is not required, although the Regulator's Clearance Guidance suggests that the parties may sometimes wish to consider 'clearance'.

Regulated Apportionment Arrangement

This has a similar effect to a Scheme Apportionment Arrangement, but is only available if the Scheme has already entered an 'assessment period' for the purposes of the Pension Protection Fund (PPF) or the Trustee believe this will happen within the next 12 months. There is no equivalent of the 'funding test' but Regulator approval is required and there is an additional requirement that the PPF Board must not object.

Withdrawal Arrangement

This is an arrangement under which the departing employer pays its share of the deficit on the Scheme's 'Technical Provisions' basis. Additionally, another person (which need not be a participating employer) takes on responsibility for the balance (under a so-called 'guarantee'), which will fall due in defined circumstances, including on winding up. The Trustee must agree to the arrangement and they must still be satisfied that the 'funding test' is met by reference to the remaining employers (although it must be assumed that the Trustee can have regard to the existence of the guarantee in considering this). The Trustee must also be satisfied that the guarantor can meet its obligations. Regulator approval is not required, although the Regulator's Clearance Guidance suggests that the parties may sometimes wish to consider 'clearance'.

Approved Withdrawal Arrangement

This is very similar to a Withdrawal Arrangement except that the amount which must be paid by the departing employer is normally less than under a Withdrawal Arrangement and Regulator approval is required.

APPENDIX B

SCENARIOS

The following table details a number of scenarios under which an employer would be deemed to have withdrawn from the Scheme. In each case an employer debt would become payable unless the Scheme was fully funded on a buy-out basis as at the date of withdrawal.

Ref	Scenario	Withdrawal
A	Employer has at least one active member of the Scheme as at 6 April 2010, continues to offer membership of the Scheme to its employees and then ceases to employ at least one active member (e.g. because the last active member retires).	<p>The employer will be deemed to have withdrawn from the Scheme on the date that it ceases to employ active member(s), unless the employer wishes to adopt the 'period of grace' provision under the Regulations.</p> <p>If the employer wishes to adopt these provisions it must notify the Trustee either before or within one month of the date on which it ceased to employ active member(s).</p> <p>If the employer then enrolls another active member into the Scheme with 12 months of the date on which it ceased to employ active member(s) then the employer will not be deemed to have withdrawn from the Scheme.</p> <p>If the employer does not enrol another active member into the Scheme during the grace period then the employer will be deemed to have withdrawn from the Scheme on the date that it ceased to employ active member(s).</p>

Ref	Scenario	Withdrawal
B	<p>Employer does not have any active members of the Scheme as at 6 April 2010 but continues to offer membership of the Scheme to its employees and, at 6 April 2010, employs at least one employee that is eligible to join the Scheme.</p> <p>After 6 April 2010 the employer does not enrol another active member into the Scheme and then ceases to employ at least one person that is eligible to join the Scheme.</p>	<p>The employer will be deemed to have withdrawn from the Scheme on the date that it ceases to employ at least one person that is eligible to join the Scheme.</p> <p>(Note: This scenario is based on the transition provisions detailed in paragraphs 35-38 of the main text. If the employer enrolls an active member on or after 6 April 2010 then the new Regulations apply from the date on which the new active member is enrolled.)</p>
C	<p>Employer has closed the Scheme to new entrants.</p>	<p>The employer will be deemed to have withdrawn from the Scheme on the date that the last active member leaves pensionable service.</p>
D	<p>Employer intends to close the Scheme to new entrants.</p>	<p>The employer will be deemed to have withdrawn from the Scheme on the date after the Scheme has been closed to new entrants, when the last active member leaves pensionable service.</p>
E	<p>Employer closes the Scheme to future accrual.</p>	<p>The employer will be deemed to have withdrawn from the Scheme on the date that the Scheme is closed to future accrual.</p>
F	<p>Restructuring of an employer's business activities.</p>	<p>This can trigger a withdrawal from the Scheme in some circumstances.</p> <p>An employer that is considering a restructuring of its business activities is recommended to take legal advice on the pension implications of the proposed restructuring.</p>
G	<p>The commencement of winding up of the Scheme.</p>	<p>The employer will be deemed to have withdrawn from the Scheme at a date chosen by the Trustee for winding up of the Scheme.</p> <p>At this point in time the Trustee does not have any plans to wind up SHPS.</p>

Ref	Scenario	Withdrawal
H	Employer becomes insolvent.	The employer will be deemed to have withdrawn from the Scheme on the date that the insolvency event occurs.

Note: An employer will not have withdrawn from the Scheme at the balance sheet date if it had at least one employee that was an active member of the Scheme as at that date.

Examples of restructuring of an employer’s business activities that could trigger an employer debt.

Ref	Description
1	<p>Organisation A participates in SHPS. Organisation B then takes on the assets and liabilities of Organisation A. Following the transfer of engagements Organisation A no longer has any employees and therefore cannot have any active members in the Scheme.</p> <p>Organisation A will be deemed to have withdrawn from the Scheme and an employer debt will crystallise unless the Scheme was fully funded on a buy-out basis at the date of the transfer of engagements.</p> <p>It should be noted that this applies even if the former employees of Organisation A continue to participate in the Scheme following the transfer of engagements to Organisation B.</p>
2	<p>Organisation C is an unincorporated body that participates in SHPS. Organisation C decides to incorporate to form C Ltd. On incorporation Organisation C no longer exists and therefore cannot have any active members in the Scheme.</p> <p>Organisation C will be deemed to have withdrawn from the Scheme and an employer debt will crystallise unless the Scheme was fully funded on a buy-out basis at the date of incorporation.</p> <p>It should be noted that this applies even if the former employees of Organisation C continue to participate in SHPS following incorporation.</p>

In view of the complexities surrounding the new employer debt provisions the Trustee recommends that any employer that is considering a restructuring of its business activities should take legal advice on the pension implications of the proposed restructuring.

APPENDIX C

SCENARIOS

The following table details a number of scenarios to assist in determining whether an employer was demonstrably committed to withdrawing from the Scheme as at the balance sheet date.

Ref	Example
1	<p>Organisation A has a 31 March year end. Organisation A participates in SHPS. The Directors of Organisation A started a consultation process with employees in February with a view to closing the Scheme to future accrual. The consultation is due to be completed by the end of May 2010 and the Directors will make their final decision on future pension arrangements at their Board meeting in June 2010.</p> <p>Organisation A was not demonstrably committed to withdrawing from the Scheme as at the balance sheet date since no decision to close the Scheme to future accrual had been made as at 31 March 2010.</p>
2	<p>Organisation B has a 31 March year end. Organisation B participates in SHPS. The Directors of Organisation B started a consultation process with employees in January 2010 with a view to closing the Scheme to future accrual. The consultation was completed in March and the Directors made the decision to close the Scheme to future accrual with effect from 1 July 2010 at their Board meeting in April. The decision was communicated to employees in April.</p> <p>Organisation B was not demonstrably committed to withdrawing from the Scheme as at the balance sheet date since no decision to close the Scheme to future accrual had been made as at 31 March 2010.</p>
3	<p>Organisation C has a 31 March year end. Organisation C participates in SHPS. The Directors of Organisation C started a consultation process with employees in November 2009 with a view to closing the Scheme to future accrual. The consultation was completed in January 2010 and the Directors made a 'decision in principle' to close the Scheme to future accrual with effect from 1 July 2010 at their Board meeting in March 2010. This decision was ratified at a further Board meeting in April 2010 and communicated to employees in April 2010.</p> <p>Organisation C was not demonstrably committed to withdrawing from the Scheme as at the balance sheet date, since the final decision to close the Scheme to future accrual had not been made as at 31 March 2010. (The Directors could have decided in April 2010 not to close the Scheme to future accrual.)</p>

Ref	Example
4	<p>Organisation D has a 31 March year end. Organisation D participates in SHPS. The Directors of Organisation D started a consultation process with employees in November 2009 with a view to closing the Scheme to future accrual. The consultation was completed in January 2010 and the Directors made the decision to close the Scheme to future accrual with effect from 1 July 2010 at their Board meeting in March 2010. The decision was communicated to employees in April 2010. The financial statements were approved for issue by the Directors in May 2010.</p> <p>Organisation D was not demonstrably committed to withdrawing from the Scheme as at the balance sheet date, since the decision to close the Scheme to future accrual had not been communicated to employees as at 31 March 2010, i.e. the balance sheet date.</p> <p>(Accordingly, the employees of Organisation D could not have had a valid expectation as at the balance sheet date that the Scheme would be closed to future accrual and the Directors could therefore have reversed their decision in April 2010.)</p>
5	<p>Organisation E has a 31 March year end. Organisation E participates in SHPS. The Directors of Organisation E started a consultation process with employees in November 2009 with a view to closing the Scheme to future accrual. The consultation was completed in January 2010 and the Directors made the decision to close the Scheme to future accrual with effect from 1 July 2010 at their Board meeting in March 2010. The decision was communicated to employees in March 2010. The financial statements were approved for issue by the Directors in May 2010.</p> <p>Organisation E was demonstrably committed to withdrawing from the Scheme as at the balance sheet date, since the decision to close the Scheme to future accrual had been made and communicated to employees as at 31 March 2010, i.e. the balance sheet date.</p> <p>(The communication to employees created a valid expectation as at the balance sheet date that the Scheme would be closed to future accrual with effect from 1 July 2010.)</p>

APPENDIX D

SCENARIOS

The following table details a number of scenarios to assist in determining whether an employer became demonstrably committed to withdrawing from the Scheme after the balance sheet date but before the approval of the financial statements.

Ref	Example
1	<p>Organisation A has a 31 March year end. Organisation A participates in SHPS. The Directors of Organisation A started a consultation process with employees in February with a view to closing the Scheme to future accrual. The consultation is due to be completed by the end of May 2010 and the Directors will make their final decision on future pension arrangements at their Board meeting in June. The financial statements were approved for issue by the Directors in May 2010.</p> <p>Organisation A was not demonstrably committed to withdrawing from the Scheme when the financial statements were approved in May 2010 since no decision to close the Scheme to future accrual had been made at that point in time.</p>
2	<p>Organisation B has a 31 March year end. Organisation B participates in SHPS. The Directors of Organisation B started a consultation process with employees in January 2010 with a view to closing the Scheme to future accrual. The consultation was completed in March 2010 and the Directors made the decision to close the Scheme to future accrual with effect from 1 July 2010 at their Board meeting in April 2010. The decision was communicated to employees in April 2010. The financial statements were approved for issue by the Directors in May 2010.</p> <p>Organisation B was demonstrably committed to withdrawing from the Scheme when the financial statements were approved in May 2010 since the communication to members in April 2010 created a valid expectation that the Scheme would be closed to future accrual with effect from 1 July 2010.</p>

Ref	Example
3	<p data-bbox="276 237 1425 524">Organisation F has a 31 March 2009 year end. Organisation F participates in SHPS. The Directors of Organisation F started a consultation process with employees in February 2009 with a view to closing the Scheme to future accrual. The consultation was completed in May 2010 and the Directors made the decision to close the Scheme to future accrual with effect from 1 September 2009 at their Board meeting later in May 2010. The decision was communicated to employees in June 2010. The financial statements were approved for issue by the Directors in May 2010.</p> <p data-bbox="276 566 1385 707">Organisation F was not demonstrably committed to withdrawing from the Scheme when the financial statements were approved in May 2010 since the decision to close the Scheme to future accrual had not been communicated to employees until June 2010.</p> <p data-bbox="276 750 1394 889">(Accordingly, the employees of Organisation F could not have had a valid expectation as at the balance sheet date that the Scheme would be closed to future accrual and the Directors could therefore have reversed their decision in June 2010.)</p>