Baptist Pension Scheme (BPS)
FRS102 - Pensions Note for Church Accounts (May 2018)

This note is for scheme employers who need to complete their annual accounts using the FRS102 reporting standard.

1. Summary

- The BPS has produced a calculation spreadsheet which may be used by those scheme employers who need to calculate pension figures in relation to the Defined Benefit plan for inclusion in their FRS102 disclosures. Costs in relation to the BPS Defined Contribution plan and expenses during the year, equal to the employer contributions paid, will need to be added to the figures calculated by the DB spreadsheet. Any pension costs in relation to arrangements other than the BPS will also need to be considered.
- The assumptions and methodology used for FRS102 are ultimately the responsibility of each individual employer but we have provided certain assumptions to assist, which we believe are consistent with the requirements of FRS102. ***However, these are suggestions rather than recommendations, and the calculation spreadsheet allows the employers to manually override the defaults if they wish to use other assumptions.***
- The spreadsheet includes full instructions for users

The spreadsheet has been prepared to be helpful to churches and other employers that participate in the Scheme (the "Employers") but the accuracy and completeness of the disclosure is the relevant Employer's responsibility.

The spreadsheet should not be used by any small employers that report under the new standard for micro entities, FRS105.

The Baptist Union of Great Britain (BUGB), Baptist Pension Trustee Limited (BPTL) and their advisers accept no liability to any party to which this spreadsheet has been provided (with or without our consent), unless that party has asked us to confirm our liability to them in relation to this work, and we have done so in writing.

2. Introduction

2016 was the first year in which FRS102 applied and under it, employers that participate in multi-employer defined benefit schemes where there is insufficient information to do full defined benefit accounting, and where the employers are not under common control, need to recognise a liability to make payments to fund any deficit. This in turn affects employers' balance sheet values. This differs from the former approach under FRS17, which did not require employers to recognise a liability.

The BPS has produced a calculation spreadsheet which may be used by those scheme employers who need to calculate pension figures for inclusion in their FRS102 disclosures.

The spreadsheet includes full instructions for users.

3. Data

The calculations rely on the data entered into the calculation spreadsheet by the employer. This includes:

- the accounting date at which they require FRS102 figures;
- total monthly deficit recovery contributions due over the two years preceding the accounting date;
- total monthly deficit recovery contributions due in the month following the accounting date; and;
- the % contribution rate the Employer is paying under the current recovery plan.

The calculations use:

- the Recovery Plan dated 30 March 2012 for accounting dates before 2 April 2015;
- the Recovery Plan dated 2 April 2015 for accounting dates on or after 2 April 2015 and before 13 April 2018; and
- the Recovery Plan dated 13 April 2018 for accounting dates on or after 13 April 2018.

4. Assumptions

The assumptions and methodology used for FRS102 are ultimately the responsibility of each individual employer. The assumptions the employer is required to enter in the spreadsheet provided are:

- the discount rate; and
- the rate of future increases in Minimum Pensionable Income (MPI).

We have pre-populated default assumptions for month-ends up to and including 30 April 2016. These default assumptions reflect the duration (average term) of the Scheme's Recovery Plans, and we believe they are consistent with the requirements of FRS102. ***However, these are suggestions rather than recommendations, and the calculation spreadsheet allows the employers to manually override the defaults if they wish to use other assumptions.***

For accounting dates from May 2016, the employer will have to enter manually the assumptions they wish to use and separate tables are available on the BPS website, showing assumptions for the discount rate and the rate of future increases in MPI.

5. Sensitivity to chosen assumptions

A range of assumptions is generally acceptable for FRS102 purposes, and employers are responsible for the assumptions they choose to use. As an illustration of the impact of moving away from the default assumptions:

- A reduction in the discount rate of 0.1% pa, or an increase in the assumed MPI increases of 0.1% pa, would increase the calculated balance sheet liability by around 1%.
- Increasing the discount rate or assuming lower MPI increases by 0.1% pa would reduce the disclosed liability by around 1%.

6. Methodology

The methodology we have used is described below:

- The balance sheet liability figure at each date is based on the expected pattern of future deficit contributions at that date.
    - We have taken the known deficiency contributions for the month following the accounting date and projected these in line with the agreed pattern of deficiency payments in force at the accounting date.
    - For example, calculations as at 31 December 2015 use the known contributions due for January 2016.

- The projections assume that contributions increase annually each 1 January in line with the chosen assumption for increases in MPI. No allowance is made for any changes in the level of deficiency contributions for any other reasons (eg as a result of any membership movements after the accounting date). The spreadsheet then calculates the discounted value of the future deficiency payments based on the discount rate chosen by the user.

- Where no assumptions are inputted, the default assumptions are used. Default assumptions are not available for accounting dates after 30 April 2016, and the user will be required to enter their chosen assumptions, which can be based on information from the Baptist Pensions website.

- The interest cost is calculated as the interest on the balance sheet liability, allowing for the contributions paid over the year, using the discount rate and balance sheet liability at the start of the year.

- The remaining change in the balance sheet liability is a balancing item and represents:
    - Any changes in the agreed deficiency payment plan over the year; and
    - Change in the discount rate / MPI increase rate used between year-ends.

  The balancing item for an employer can be positive or negative, depending on how the pattern of expected deficiency contributions has moved over the year. This change in balance sheet liability item will also appear in the employer's Statement of Financial Activities ("SoFA").

7. Other pension costs

The pensions costs charged to the SoFA in the year are contributions payable to the Scheme's DC Plan towards benefits and expenses in that year, **plus** any impact of deficiency contributions (which are the figures in the spreadsheet). Employers should include the information on DC Plan contributions paid in the year in the disclosure, being careful not to double-count deficiency contributions by inadvertently including them in the pension cost in addition to the figures quoted in this note.