



24 Cathedral Road / Heol y Gadeirlan  
Cardiff / Caerdydd  
CF11 9LJ  
Tel / Ffôn: 029 20 320500  
Fax / Ffacs: 029 20 320600  
Email / Epost: [wales@wao.gov.uk](mailto:wales@wao.gov.uk)  
[www.wao.gov.uk](http://www.wao.gov.uk)

Ms Michelle Sansom  
UITF Technical Director  
Accounting Standards Board  
5<sup>th</sup> Floor, Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN

Date 10 November 2010

[asbcommentletters@frc-asb.org.uk](mailto:asbcommentletters@frc-asb.org.uk)

Our ref 1011.mju.uitf.sansom

Pages 1 of 2

Dear Michelle

**UITF Information Sheet no. 90: draft abstract on ‘Accounting implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits’**

The Auditor General for Wales welcomes the opportunity to comment on this proposed abstract. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

In preparing this response we have considered the potential implications of the guidance for the following bodies:

- the Welsh Assembly Government;
- Assembly Government sponsored and other related bodies;
- local government bodies in Wales;
- local health bodies in Wales; and
- some Higher Education and Further Education Colleges in Wales.

The UITF Abstract concludes that ‘recognition of the change is dependent on whether the obligation is to pay pensions with increases based on at least the RPI, or more generally with inflation–linked increases’. However, the Wales Audit Office considers that this distinction is not relevant, The government’s announcement changes the levels of benefit payable under all public sector and contracted out pension schemes. The impact must therefore be accounted for as a past service cost.

**Public sector pensions schemes.**

The Government specifies the benefits for all public sector pension schemes through Regulations and Orders. The Pension Increase (Review) Orders have, to date, increased pensions in line with RPI. This was confirmed by paragraph 7.2 of the Explanatory Memorandum to the Pension Increase (Review) Order 2009 (SI 2009 No. 692). The statutory framework applying to all public sector pensions has resulted in pension schemes having a statutory obligation to increase pensions in line with RPI.

**Contracted out occupational pension schemes**

The position of contracted out occupational pension schemes differs from public sector pensions in so much as the minimum increases are limited to 3% per annum where RPI is higher than that level. These schemes have a statutory obligation to increase pensions by no less than the amount specified in the Guaranteed Minimum Pensions Increase Order. The increases specified in those Orders have been linked to RPI. This is confirmed in paragraph 4.2 of the Explanatory Memorandum to the 2009 Order.

**Actuarial gains and losses**

Actuarial gains and losses arise where there is a difference between previous actuarial assumptions and what has actually occurred or what is now forecast to occur. The assumptions reflect the terms of the scheme. The government's announcement does not have any impact upon projected movements in future inflation, whether measured by RPI or CPI. However, it will change the levels of benefits payable. In our view, the government's announcement cannot therefore result in a change in actuarial assumption.

In conclusion, the government's announcement constitutes a change in policy which affects the pension benefits payable by public sector and contracted out occupational pension schemes. However, the announcement does not impact upon forecasts of future levels of inflation. The effect of the change cannot therefore be accounted for as a change in actuarial assumption. It must instead be accounted for as a (negative) past service cost. In our view, the final version of the abstract should reflect this position by removing reference to the option to recognise a change in actuarial assumptions.

I hope that you find these comments useful in finalising the abstract. Should you have any queries regarding our response, please contact my colleague David Jones by telephone (07970 760221) or e-mail ([david.jones@wao.gov.uk](mailto:david.jones@wao.gov.uk)).

Yours sincerely,



**MIKE USHER**  
Partner