



Project **Post-employment Benefits**
Topic **Alternative presentations of risks**

Objective

1. The objective of this paper is to discuss alternative risk disclosures for defined benefit plans.
2. The marketplace has developed risk disclosures for pensions (eg SAFEShape™, fan charts and graphs) that some claim better assess the risk arising from pensions than the information currently provided in financial statements. Such disclosures are not typically seen within the notes of the financial statements¹.

SAFEShape™

3. Hymans Robertson has developed a method of assessing pension risks to a company's financial position. Hymans Robertson claims that the SAFEShape™ gives a comprehensive view of the burden a pension scheme places on its sponsoring company's capital and income by illustrating four penSAFE® metrics of: security, affordability, fluctuation and expenditure.
4. The following is the FTSE 350 SAFEShape™ as at 30 December 2008 (reproduced from Hymans Roberston *The penSAFE® report* January 2009, page 3).

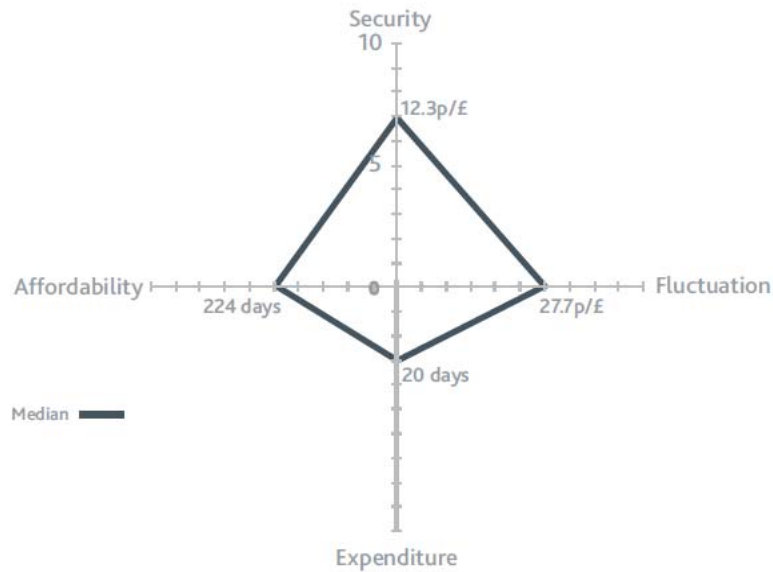
¹ The IASB will be considering the boundary of financial reporting in its joint project with the US Financial Accounting Standards Board on the Conceptual Framework.

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB working group identified in the header of this paper.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

The meeting at which this paper is discussed is a public meeting but it is not a decision-making meeting of the Board. Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

IASB Staff paper

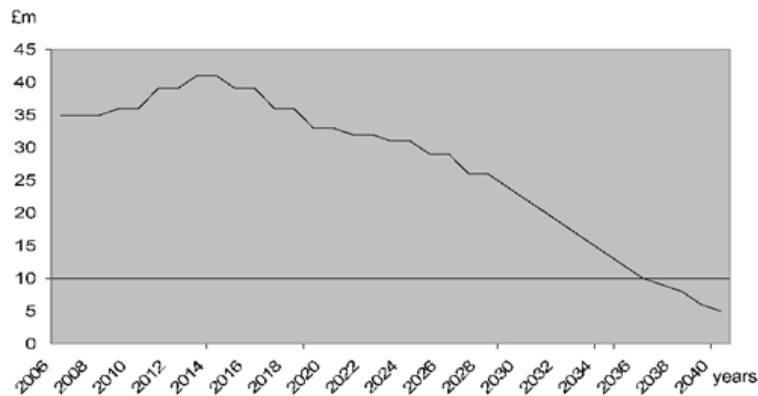


5. Hymans Robertson calculates penSAFE® metrics for each company and attribute a score from 0 to 10; 0 being best and 10 being worst. These scores are plotted to give the SAFEShape™. The larger the SAFEShape™, the bigger the burden a pension scheme poses to its sponsoring company.
6. The following table explains the four penSAFE® metrics (reproduced from the Hymans Roberston *The penSAFE® report* January 2009, page 4).

	<i>Metric</i>		<i>Result</i>	<i>Purpose</i>	<i>Think of it as</i>
Security	<u>penSAFE® deficit</u> Market capitalisation	X 100p	penSAFE® deficit expressed as pence in the pound of a company's market value	To measure how material the scheme's need for support is relative to the size of the sponsoring company	Is it a small hole in a big ship, or a big hole in a small ship?
Affordability	<u>penSAFE® deficit</u> Company earnings	X 365	The number of days of company earnings it would take to repay the penSAFE® deficit	To measure how material the scheme's need for support is relative to the money generated by the business operations	How quickly could the water be bailed out
Fluctuation	<u>Unmatched penSAFE® liability</u> Market capitalisation	X 100p	penSAFE® liability exposure that is not supported by broadly matching assets, expressed as pence in the pound of a company's value	To measure the proportion of company value that is at risk from variations in the value of scheme assets that are not broadly matched to pension liabilities (i.e. not bond type assets)	How easily can the ship withstand stormy waters?
Expenditure	<u>Pension contributions</u> Company earnings	X 365	The number of days it would take the company to earn the money paid as pension contributions	To measure the burden the pension scheme is actually placing on the company's earnings	How quickly is the water actually being bailed out?

Graphs

7. Some like the graph of the benefits payable when they are expected to be paid provided as an example in the ASB Reporting Statement *Retirement Benefits—Disclosures* as follows:

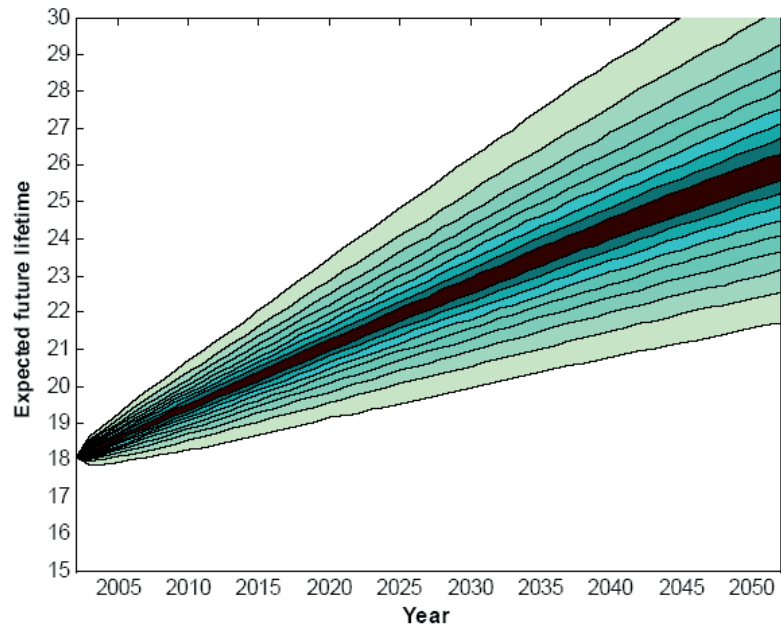


8. Other like the graphs displayed in the extracts from the Generico Annual Report 2007 (see agenda item 2H).

Fan Charts

9. Some believe that fan charts are useful for showing the most likely future outcomes on mortality rates. Also, some view fan charts as providing more useful information than the disclosure of mortality rates.
10. The following figure is a fan chart for male life expectancy at age 65 in England & Wales, starting in 2002. It is based on mortality rates provided by the UK Government Actuary's Department and is taken from Pensions Institute Report *An Unreal Number: How company pension accounting fosters an illusion of certainty* (January 2008).

Figure: longevity fan chart for 65-year old males starting in 2002



Discussion questions

1. What are useful about these disclosures?
2. Are there any other disclosures that would provide similar information?