

Snapshot

Changes to U.K. benefit obligations

U.K. High Court ruling affects U.K.-based pension plan accounting

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In October 2018, the High Court of the United Kingdom (High Court) ruled that the benefits provided under guaranteed minimum pension schemes (GMPs) must be equalized for both men and women in accordance with gender equality laws in the United Kingdom and the European Union. As a result, GMP plan sponsors will be required to amend their plans so that the benefits are calculated in accordance with the High Court's ruling. This ruling will require plan sponsors to consider the accounting implications not only from the High Court's ruling, but from any related amendments subsequently made to the benefit plan. Entities will need to determine whether the resulting changes should be accounted for as either a plan amendment or a change in actuarial assumptions under U.S. GAAP based on the guidance in ASC 715-30, *Compensation – Retirement Benefits: Defined Benefit Plans – Pensions*.

In the past, one form of pension plan generally available in the United Kingdom included a State Earnings Related Pensions Scheme (SERPS). From April 1978 until April 1997, entities were allowed to opt out (contract out) of the state-run benefits provided by SERPS by making alternative arrangements that provided for GMPs. Implementing a GMP plan lowers the taxes payable by an entity to the government, as the entity is no longer obligated to fund SERPS through tax remittances if they opt out. The benefits provided to employees under GMPs were calculated in

a similar manner as SERPS benefits, except that the benefit formula created a number of inherent inequalities in how benefits were determined for men and women, primarily due to their use of differing retirement-date ages. In April 1997, the GMP rules were abolished and plan sponsors were no longer able to contract out of a SERPS into a GMP. However, past benefit accruals remained subject to the GMP provisions through April 1997.

In 1990, the European Court of Justice ruled that there was an obligation to treat men and women equally in relation to benefits available in a pension plan. As a result, entitlement to equal treatment arose from the date of that decision. As this ruling was made in 1990, the High Court's 2018 [decision](#) only covers benefits accrued between 1990 through 1997. In the 1990 decision, the European Court of Justice ruled that the benefits provided through GMPs needed to be equalized between men and women, meaning that men and women should receive equal benefits provided that their age, service, and earnings history are the same.

As a result of the High Court's ruling in October 2018, all entities with GMPs in the United Kingdom, including U.S. multinational entities that have subsidiaries in the United Kingdom with such pension plans, will need to determine whether to account for the expected change resulting from these revised pension obligations as a plan amendment or as a change in actuarial

assumptions. This decision will impact the determination of benefits for the period from May 1990 to April 1997 and will vary from one entity to another.

Impact of ruling under U.S. GAAP

Entities impacted by the High Court's 2018 ruling should consider the specific facts and circumstances for their individual GMPs to determine whether they need to amend their benefit formulas for the affected periods, which will result in a retroactive adjustment to increase the pension obligation. This change should be accounted for as either a plan amendment or a change in actuarial assumptions in accordance with ASC 715-30. If entities had previously incorporated into their actuarial assumptions the equalization of benefits provided to men and women under their GMPs (and if they can provide evidence that they made such an assumption), the resulting change would be treated as a change in actuarial assumptions (see the guidance in ASC 715-30-35-62 and 35-66 through 35-67) that would be accounted for from the date of the High Court's judgment as a gain or loss in accordance with ASC 715-30-35-18. An entity would then account for the gain or loss in accordance with the guidance in ASC 715-30-35-19 through 35-27. Entities may need to use judgment when considering whether the potential impact of such equality laws was incorporated in their assessment of future benefit obligations. If an entity is unable to provide evidence that they previously made an assumption to account for the equalization of benefits under their GMP plan, then it would account for the 2018 ruling as a plan amendment in accordance with the guidance in ASC 715-30-35-10 through 35-11.



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