The 2015 version of the Statement of Recommended Practice (SORP), “Financial reports of pension schemes” introduces a new accounting treatment for annuity policies owned by trustees. Such annuity policies are often referred to as ‘insured pensioners’ or ‘annuitants’.

The trustees need to consider the implications and agree with their auditor the accounting treatment of annuity policies.

**NEW REQUIREMENT**

The 2015 SORP removes the exemption that allowed trustees to ignore annuity policies.

Now, the value of annuity policies must be disclosed and should be calculated by a suitably qualified person or organisation.

This applies to all annuity policies owned by trustees. Annuities bought by trustees of defined benefit (‘DB’) schemes are most obviously covered, but annuities purchased using defined contribution (‘DC’) pots may also be caught. It is quite common for trustees of DC schemes to own the annuity purchased by a member’s pot on retirement.

**EFFECTIVE DATE**

The 2015 SORP applies to accounting periods commencing on or after 1 January 2015. The first annual accounts affected will therefore be those ending 31 December 2015.

Prior year comparative figures will be required.

**CALCULATION BASIS**

The SORP allows some flexibility on the calculation basis. The only requirements being that it should be a reasonable basis for valuing the annuity policies and should be applied consistently from year to year.

The calculation basis should be disclosed in the pension scheme accounts.

Royal London intends to adopt a calculation basis consistent with that prescribed by the Pension Protection Fund for levy valuations.

**APPROACH**

A full valuation of the annuity policies is not required each year.

The 2015 SORP allows a more cost effective roll-forward approach to be adopted in between full valuations. Royal London will adopt this approach.

**IMPLEMENTATION**

The Trustees need to:

1. Identify and investigate the annuity policies they own.
2. Agree with their auditor that an annual valuation of annuity policies is required.
3. Agree an annual process to obtain the annuity value, including details of the annual proceeds received from the policies.
Royal London Consulting Actuaries provide straightforward pragmatic advice

We provide a full range of pension consulting services to employers and trustees

**HOW WE CAN HELP**

Royal London can:

- Calculate the value of annuity policies.
- Help provide the necessary information for the accounts.

It is important to contact us well in advance of the 7 month deadline for preparing your accounts so that we can deliver to your required timeframes.

**Indicative costs***

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Cost 1st year</th>
<th>Cost 2nd and subsequent years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculate value of annuity policies and provide information for the accounts</td>
<td>£750</td>
<td>£500</td>
</tr>
</tbody>
</table>

* VAT is payable in addition. The costs are valid as at May 2015 and do not apply to hybrid pension schemes. Costs will generally increase each year in line with the average weekly earnings index.

January 2016

For further information please contact your usual Royal London Consulting Actuaries contact, email actuaries@royallondonconsulting.co.uk or telephone 0131 652 5550.

Visit our website at www.royallondonconsulting.co.uk.