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Rethinking IAS 19:

Aligning Pension Accounting with Today's Endgame Strategies

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Foreword

The defined benefit (DB) pensions landscape is entering a new phase. As schemes mature and funding positions improve, sponsors and trustees are increasingly considering how best to secure members' benefits, manage surplus and bring their long-term strategies to completion. These decisions may involve running schemes on, sharing surplus, transferring risk to an insurer or pursuing another form of consolidation.

IAS 19 continues to provide an important and widely understood framework for transparent and consistent pension reporting. However, some of its accounting outcomes can be difficult to reconcile with the economics of today's endgame strategies. The treatment of insurance transactions, benefit improvements funded from scheme surplus, the recognition of future running costs and the application of the IFRIC 14 asset ceiling can all produce significant balance-sheet or Profit & Loss effects. In some circumstances, these effects may influence decisions that would otherwise be considered suitable from a funding, risk-management and member-outcomes perspective.

This paper examines areas where there is a gap between accounting and traditional funding outcomes and considers a series of targeted refinements that would address this disconnect. These include aligning the measurement of an accounting surplus with the sponsor's documented endgame strategy; recognising the future operating costs of self-sufficient schemes; reconsidering the treatment of benefit improvements that require no additional sponsor funding; and providing greater clarity over the accounting consequences of bulk annuity transactions.

The paper does not advocate a particular endgame or seek to weaken the principles of transparency, consistency and comparability that underpin IAS 19. Its central proposition is more limited in that accounting positions should capture the economic principles of a scheme's strategy and should not lead to counterintuitive decisions for or against an otherwise appropriate course of action.

We hope this paper stimulates informed debate among standard-setters, auditors, sponsors, trustees and the wider pensions industry. As legacy DB schemes move closer to their long-term objectives, now is an appropriate time to consider whether carefully targeted changes could make pension accounting more relevant to the decisions being taken today.

Mike Botcherby, Chair of the SPP's Accounting Working Group



Introduction

For more than 40 years, IAS 19 has provided a framework that enables sponsors to report their DB obligations in a fair and transparent manner, helping investors and other stakeholders understand their long-term commitments and compare financial positions across organisations.

The standard has evolved significantly over time, most notably through major revisions introduced in 2011. These changes included the replacement of the expected return on assets approach with the current net interest framework, immediate recognition of actuarial gains and losses that had previously been subject to the corridor approach, and the removal of the ability to spread certain gains and losses over future accounting periods through amortisation.

These reforms were driven by a desire to improve transparency, consistency and comparability between organisations. At the same time, the DB pensions landscape was changing rapidly, with many schemes closing to new entrants, ceasing future accrual and embarking on long-term de-risking programmes.

Fast forward 15 years and the market has evolved considerably. Around three quarters of UK DB schemes are now closed to future accrual[1] and many are approaching, or have already reached, their long-term funding objectives. In numerous cases, schemes are operating with healthy funding surpluses, and Trustees and sponsors are carefully considering their preferred endgame strategies and documenting these within their Statements of Strategy. For many, this will ultimately result in buy-out and wind-up, potentially accompanied by a distribution of surplus to members.

In these circumstances, certain accounting outcomes produced under IAS 19 may not give a true and fair view of the sponsor's preferred endgame strategy. Decisions that appear economically rational from a funding, risk management or member outcome perspective may nevertheless impose significant accounting consequences on the sponsor. Examples may include granting discretionary benefit improvements, converting discretionary increases into guaranteed increases, or transferring liabilities to an insurer.

By 2029, most UK DB schemes will have formalised their long-term strategy and incorporated it into their Statement of Strategy. However, schemes targeting buy-out or sharing surplus with members may still encounter accounting outcomes that are not fully aligned with those strategic objectives. Whilst the existing provisions of IAS 19 continue to serve an important purpose and operate effectively in many situations, there may be merit in considering whether additional flexibilities or clarifications (e.g., around IFRIC 14 surplus rules and settlement accounting on buyouts) could better align accounting outcomes with long-term funding and risk management objectives.

There are clearly sound conceptual reasons for the current design of IAS 19, and this paper raises important questions about the fundamental principles underpinning the Standard. In particular, it considers whether targeted refinements could improve alignment between the objectives of Sponsors, Trustees and beneficiaries in an increasingly mature DB market. Whilst many of the examples discussed are particularly relevant to the UK, similar considerations will be relevant in other jurisdictions too.

In any event, we trust this paper encourages further debate across the industry, raising awareness of situations where accounting outcomes may inadvertently influence decisions that are otherwise desirable from a long-term funding, member security or risk management perspective.

1 **The Pensions Regulator, Occupational defined benefit landscape in the UK 2025, December 2025: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-benefit-landscape-in-the-uk-2025**

The Misalignment: Accounting theory vs economic reality

We have seen several areas where the accounting treatment under IAS 19 diverges from the reality of the situation or drives decision-making that conflicts with the longer-term goals for managing the scheme and have outlined some of these here:

a) Surpluses recognised under IAS 19 that may not reflect the sponsor's economic outcome

For schemes reporting an IAS 19 surplus, the extent to which that surplus can be recognised in a sponsor's financial statements is determined by the provisions of IFRIC 14 and the governing documentation of the DB scheme.

Where a sponsor has the power to continue operating the scheme until all beneficiaries have been paid, wind the scheme up and receive a refund of residual assets, the IAS 19 surplus can be recognised in full. While this represents the theoretical basis for recognising surplus, it is unlikely to reflect the sponsor's actual intentions. In many cases, the preferred long-term objective will be to secure members' benefits through an insurance transaction. Under this approach, an accounting surplus is expected to build up over time before being eliminated through a one-off balance sheet impact when the transaction is completed.

This can be contrasted with a sponsor who does not have the ability to recognise a surplus on their balance sheet, due to restrictive powers in their scheme rules. In this scenario, no accounting surplus accumulates on the balance sheet over time, and the position is unchanged following an insurance transaction. This avoids recognising an economic benefit that the sponsor may not ultimately realise and results in a smoother accounting journey, both leading up to and upon completion of the transaction.

b) Accouting implications impacting decisions around long-term strategy

Insurance transactions and other risk transfer solutions

As the funding positions of UK DB schemes have improved, trustees and employers are considering whether to secure the obligations of these schemes with an insurer (or other financial consolidator), or whether to continue to run these schemes on, possibly with the intention of generating surplus.

The treatment of such transactions has the potential to be recognised as a settlement charge in the sponsor's P&L account. Some sponsors (particularly listed companies) would find this challenging, in terms of explaining the impact to shareholders, and therefore are resistant to such transactions. This can be the case even when there is otherwise a sound rationale for such a transaction.

These considerations may be further amplified by differences in accounting treatment of insurance transactions relative to other forms of risk transfer, including superfund transactions and sponsor swaps. Where these transactions achieve broadly comparable economic outcomes, differing accounting consequences may favour one approach over another. It would therefore be beneficial for the accounting framework to also support greater consistency across alternative risk transfer solutions.

Surplus sharing

On a similar theme, the accounting implications of using surplus to improve members' benefits is also driving strategic decisions for some schemes, particularly those that are considering running on over the longer term to generate surplus. Under current accounting standards, the value of improvements to members' benefits, such as discretionary pension increases or the new authorised member surplus payments, must be recognised in full as a past service cost in the employer's P&L account (with no amortisation over time), even where the value to members will only be realised over the long-term.

Whether schemes seek to run on or insure their liabilities, the sharing of surplus between members and the employer will depend on the specific circumstances of each case.

c) Running costs of self-sufficient schemes continuing to be recognised in P&L

International accounting standards require pension scheme running costs to be recognised in the employer's P&L account, except for those costs associated with the management of a scheme's assets. Where the employer meets these costs directly, this accounting treatment is intuitive. However, many schemes can now meet their own running costs, with no further funding obligation on the sponsor. This can become particularly significant once a scheme embarks on its journey to buy-out, as the project costs associated with such transactions are often materially higher than the annual costs of running the scheme on.

More generally, understanding the total cost of operating the scheme through to the point at which all beneficiaries have been paid is an important consideration when assessing the relative merits of an insurance transaction. Any developments in accounting treatment that better reflect these long-term costs would provide a more accurate representation of the scheme's economic position, particularly when comparing with the financial implications of alternative endgame strategies.

A Roadmap for Reform

There are a number of targeted refinements to IAS 19 (and IFRIC 14) that should be considered to address the challenges outlined earlier. In our view, the following proposals would have the greatest impact in improving alignment between accounting outcomes and a scheme's long-term strategic objectives, whilst also avoiding unintended consequences for schemes that remain in deficit.

1.) IAS 19 should reflect the economic value that sponsors can reasonably expect to realise (either after an insurance transaction or any surplus sharing agreements)

Where a scheme's agreed endgame objective is to secure benefits with an insurer, any surplus recognised under IAS 19 should reflect the economic value expected to remain following completion of that strategy. This should include allowance for the estimated premium required to complete a buy-in, together with the project costs associated with that and subsequently buying-out and winding up the scheme.

Similarly, appropriate allowance should be made for any established surplus-sharing agreements that provide for a distribution of surplus to members. Such arrangements represent an expected use of scheme assets that is not available to the sponsor and should be reflected in the measurement of any recognised surplus, particularly when a formal commitment has been made to a particular course of action. This would be the case, irrespective of whether the scheme targets buy-out or run on. Although the impact of such arrangements is reflected under the existing Standards, it is currently recognised through Profit and Loss. Where no additional sponsor funding is required, this impact should instead be recognised through OCI, which we cover in more detail in 3) below.

This approach would better align the accounting treatment of a DB scheme with the long-term objective documented in the Statement of Strategy. It would also reduce uncertainty surrounding the accounting treatment of bulk annuity transactions by enabling greater consistency between the position reported before and after such transactions, thereby reducing the extent to which accounting considerations influence strategic de-risking decisions of this nature.

2.) Scheme running costs should be recognised within the surplus measurement for self-sufficient schemes

Where a scheme is self-sufficient and there is no expectation of future sponsor contributions, funding provisions typically include an allowance for the future costs of administering and operating the scheme.

Considerations should be given to whether a similar approach is reflected within IAS 19. This would better align the accounting treatment of future scheme expenses with the economic reality of mature schemes that are expected to meet all future obligations, including operational costs, from existing assets. To the extent that a reserve is reflected within the DBO, then this should not impact P&L as the reserve is unwound over time.

This concept was originally considered ahead of the 2011 amendments but was removed from the final determination. The Basis for Conclusions cited complications around distinguishing between running costs that are attributable to past and future service, as well as the costs of preparing such figures for reporting purposes. For most schemes in question, these issues should no longer be a concern because they are closed to future accrual and will have established a framework to reserve for running costs as part of the funding valuation.

3.) Benefits that do not require sponsor funding should not result in a P&L charge

Where a scheme is operating with a material surplus and a proposed benefit improvement can be funded entirely from existing scheme assets, consideration should be given to whether immediate recognition through the sponsor's P&L account remains appropriate.

In such circumstances, the accounting treatment can be a significant factor in discussions regarding the use of surplus, both for schemes intending to run on and for schemes that have substantially completed their journey to buy-out and are considering how to utilise any remaining surplus.

More broadly, there is a case for reconsidering whether benefit improvements funded entirely from existing surplus should be treated differently from changes that require additional contributions from the sponsor. Where further funding from the sponsor is not required, the economic implication of the decision is akin to a redistribution of existing resources rather than creating a new obligation for the sponsor and hence is not relevant to the core operations of the business.

Any of these amendments would need to be on the understanding that one-off accounting impacts can be reflected through OCI, particularly for sponsors that are able to commit to such a decision without an injection of further capital. Where this includes an insurance transaction, the surplus should be adjusted to reflect the estimated insurance premium and associated project costs. In the case of running on, the surplus should be adjusted to reflect the ongoing expenses. This would then facilitate a more realistic comparison of the economic position between run-on and insurance, at least from an accounting perspective and provide greater alignment with the long-term funding decisions made outside of the accounting framework. In the absence of a formal commitment, the backstop should be to assume run on, especially when in surplus.

A series of changes of this nature would help remove the accounting considerations from debates regarding the use of surplus and enable trustees and sponsors to focus on the long-term objectives for the scheme, which in turn would benefit shareholders and other stakeholders due to the greater alignment between accounting disclosures and economic reality.

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The Challenges to Reform

Any proposed changes to IAS 19 will clearly need to be considered in the context of a framework that has been widely understood and consistently applied for many years now. Several of the areas discussed in this paper would involve revisiting accounting treatments introduced, or reinforced, through previous amendments to the Standard. As a result, any reform would require significant engagement from multiple stakeholders across a range of jurisdictions and would inevitably face a degree of resistance.

Nevertheless, the DB pensions landscape has evolved considerably since many of these provisions were developed. As schemes mature and increasingly focus on endgame strategies, industry participants are identifying situations where existing accounting treatments may influence decisions that are otherwise economically attractive from a funding, risk management or member outcome perspective. Those industry representatives are increasingly calling for targeted changes or clarifications that would better align accounting outcomes with the desired strategic objectives.

It is also recognised that some of the proposals discussed in this paper could give rise to material changes in reported financial positions if implemented. However, this challenge is not insurmountable as many of the changes can be introduced on the premise that one-off impacts can be reflected within OCI and, in limited circumstances, changes may be spread over a period that is consistent with the schemes' time horizon.

A further consideration is that many of the examples referenced in this paper arise within the context of the UK regulatory framework. Given the international nature of IAS 19, proposals that appear UK-centric may attract limited support if they are perceived to address issues affecting a relatively small proportion of the reporting entities. However, UK DB schemes continue to represent a significant proportion of global DB liabilities and are of material relevance to a broad range of organisations, including multinational groups headquartered outside the UK.

Indeed, many face similar challenges when communicating pension-related strategic decisions to investors and other stakeholders when reporting in line with the existing Standards. That said, many other countries have legacy DB arrangements that are developing similar long-term strategies to remove risk from the sponsor's balance sheet; although the regulatory requirements to do so are not as prescriptive as they are in the UK, the existing accounting implications will inevitably become a limiting factor in enabling them to meet these objectives in practice.

If fundamental changes of this nature were given consideration by the International Accounting Standards Board the process would understandably involve long lead-in times before they come into effect. A practical interim step therefore could be to make greater use of the Management Performance Measures framework introduced by IFRS 18. This would enable sponsors to supplement statutory results with performance measures that better reflect the underlying economics of their business. In particular, a pension-neutral performance measure could help separate the impact of strategic decisions relating to legacy DB arrangements from the performance of the sponsor's core business activities, thereby reducing the influence this may have on those strategic decisions.

Market Context: Other accounting standards and scale of impact

Other accounting standards in context

Although IAS 19 is the principal accounting standard for employee benefits under International Financial Reporting Standards (IFRS), it is not the only framework under which organisations account for pension obligations.

Companies apply different accounting standards depending on their reporting requirements, jurisdiction and regulatory environment. Understanding these frameworks provides useful context for the IAS 19 landscape.

a) US GAAP (ASC 715)

In the United States, organisations reporting under US Generally Accepted Accounting Principles (US GAAP) apply ASC 715 Compensation Retirement Benefits. Like IAS 19, ASC 715 requires DB pension obligations to be measured using actuarial techniques, with assumptions covering areas such as discount rates, inflation and life expectancy. However, a key difference is the treatment of actuarial gains and losses. Under US GAAP, these are initially recognised in Accumulated Other Comprehensive Income (AOCI) and may subsequently be amortised into pension expense over future reporting periods (commonly using the "corridor" approach). Furthermore, gains and losses on scheme's assets can be smoothed over 5 years. By contrast, IAS 19 requires actuarial gains and losses (remeasurements) to be recognised immediately in Other Comprehensive Income and prohibits subsequent recycling through P&L. Although the accounting implications of certain decisions are less of an issue in the short term (because of the ability to amortise the effect), this can become a limiting factor in enabling a DB scheme to buy-out later on because the acceleration of any unrecognised losses would be unattractive to sponsors and shareholders.

b) FRS 102

In the UK and Republic of Ireland, many entities that do not report under IFRS prepare their financial statements under FRS 102. This is the Financial Reporting Standard applicable in the UK and Republic of Ireland. Section 28 of FRS 102, which addresses employee benefits, is largely based on the principles of IAS 19. The requirements for measuring DB obligations and recognising actuarial gains and losses are therefore broadly aligned, although there are some differences in presentation, disclosures and certain practical simplifications. As a result, actuarial work prepared for IAS 19 reporting can often be adapted relatively easily for FRS 102 purposes and so we would not expect FRS 102 to lead the way in introducing fundamental changes to the principles outlined earlier.

Scale and global impact

To place the proposed reforms in a broader context, it is helpful to consider how DB accounting is applied internationally. WTW's 2026 Global Accounting Survey of Accounting Assumptions for Defined Benefit Plans[2] covers around 1,200 companies across 50 countries and regions, primarily reporting under IAS 19 and ASC 715.

Around two thirds of those companies report under IAS 19 or similar standards, and the remaining third report under ASC 715. Organisations reporting under IAS 19 sponsor an average of three plans and those reporting under ASC 715 sponsor an average of six plans. As noted earlier, ASC 715 is adopted by US firms or multinational groups based in the US.

Although IAS 19 is required for listed companies across Europe, it is widely adopted by multinational organisations in many other countries including Brazil, Canada, China and Japan.

Perhaps one of the most striking observations from the 2026 survey is the extent to which the DB landscape has evolved globally. After many years in which sponsors were focussed primarily on deficit management, an increasing number of plans are now operating from a position of surplus. The survey highlights that the sustained improvements in funded status have triggered the need to address an unfamiliar strategic challenge around surplus management.

"Across the major economies surveyed, plans in Canada, Japan and the U.K. are operating with comfortable buffers above full funding on an accounting basis, and the conversation has evolved well beyond derisking and liability settlement. Sponsors are increasingly weighing options that range from covering future plan costs and reducing contribution requirements, to benefit enhancements and the exploration of legislative pathways that could allow surplus to be redeployed more flexibly. This shift in focus — from deficit management to surplus optimisation — represents one of the most meaningful structural changes in the defined benefit landscape in recent years."[3]

This observation is particularly relevant here because, although our proposals are principally linked to the evolving UK landscape, the underlying challenges are by no means unique to the UK. As funding positions continue to improve internationally, sponsors reporting under both IAS 19 and ASC 715 will increasingly be faced with decisions concerning endgame strategy, surplus utilisation and long-term risk management. The issues explored in this paper will be relevant to sponsors reporting on any of their DB obligations, not just those in the UK.

2 **2026 Global Survey of Accounting Assumptions for Defined Benefit Plans: https://www.wtwco.com/en-gb/insights/2026/08/2026-global-survey-of-accounting-assumptions-for-defined-benefit-plans**
3 **Ibid.**

Conclusion

IAS 19 remains a credible and important reporting framework. The question raised by this paper is whether, in a mature DB market, some of its outcomes blur the economics of a scheme's long-term strategy.

Our analysis suggests that targeted reform would make a meaningful difference. A recognised surplus should ultimately reflect the value the sponsor can reasonably expect to realise when allowing for their desired endgame strategy, and the most notable changes considered include:

1. Future running costs should be recognised where they will be met from scheme assets;
2. Benefit improvements funded wholly from existing surplus should not affect how the business performance is measured;
3. The estimated cost of an insurer transaction should be recognised for schemes not looking to run-on and;
4. Greater clarity around the treatment of transactions, avoiding the need for judgement to be applied by sponsors, auditors and advisers;

These proposals would not favour buy-out, run-on or surplus sharing, nor would they remove appropriate accounting consequences. Their purpose is to ensure that economically similar positions are reported consistently and that the magnitude or timing of an accounting impact does not become a determining factor for decision makers when committing to their preferred long-term strategy.

Reform will inevitably take time and require careful consideration, but the evolving DB landscape makes this an increasingly important issue to address. As schemes move from deficit management towards surplus optimisation and the implementation of long-term endgame strategies, there is a clear opportunity for standard-setters and the wider pensions industry to consider whether IAS 19 remains fit for purpose in this changing environment.

Targeted refinements could help ensure that accounting outcomes more accurately reflect the underlying economics of pension arrangements, supporting informed decision-making and allowing sponsors and trustees to focus on delivering the best possible outcomes for members, whilst maintaining the transparency and consistency that underpin the Standard.

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