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PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 25 EMPLOYEE BENEFITS (PBE IPSAS 25)

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PBE IPSAS 25 EMPLOYEE BENEFITS

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Public Benefit Entity International Public Sector Accounting Standard 25 *Employee Benefits* is set out in paragraphs 1–178.1 and the Application Guidance. All the paragraphs have equal authority. PBE IPSAS 25 should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

   (a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

   (b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Scope

2. **This Standard shall be applied by an employer in accounting for all employee benefits, except share-based transactions (see the relevant international or national accounting standard dealing with share-based transactions).**

3. This Standard does not deal with reporting by employee retirement benefit plans (see the relevant international or national accounting standard dealing with employee retirement benefit plans). This Standard does not deal with benefits provided by composite social security programmes that are not consideration in exchange for service rendered by employees or past employees of entities.

4. The employee benefits to which this Standard applies include those provided:

   (a) Under formal plans or other formal agreements between an entity and individual employees, groups of employees, or their representatives;

   (b) Under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry, or other multi-employer plans, or where entities are required to contribute to the composite social security programme; or

   (c) By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

5. Employee benefits include:

   (a) Short-term employee benefits, such as wages, salaries, and social security contributions; paid annual leave and paid sick leave; profit-sharing and bonuses (if payable within twelve months of the end of the period); and non-monetary benefits (such as medical care, housing, cars, and free or subsidised goods or services) for current employees;

   (b) Post-employment benefits such as pensions, other retirement benefits, post-employment life insurance, and post-employment medical care;

   (c) Other long-term employee benefits, which may include long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses, and deferred compensation; and

   (d) Termination benefits.

   Because each category identified in (a)–(d) above has different characteristics, this Standard establishes separate requirements for each category.

6. Employee benefits include benefits provided to either employees or their dependants, and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children, or other dependants, or to others, such as insurance companies.

7. An employee may provide services to an entity on a full-time, part-time, permanent, casual, or temporary basis. For the purpose of this Standard, employees include key management personnel as defined in PBE IPSAS 20 *Related Party Disclosures*.

8. [Not used.]

8.1 **This Standard applies to public sector benefit entities in Tier 1 and public sector public benefit entities that are eligible for and elect to apply Tier 2 PBE Standards.**

8.2 **A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

9. [Not used.]

Definitions

10. **The following terms are used in this Standard with the meanings specified:**

Actuarial gains and losses comprise:

(a) **Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and**

(b) **The effects of changes in actuarial assumptions.**

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) **Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and**

(b) **Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:**

(i) **The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or**

(ii) **The assets are returned to the reporting entity to reimburse it for employee benefits already paid.**

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Interest cost is the increase during a period in the present value of a defined benefit obligation that arises because the benefits are one period closer to settlement.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:

(a) **Pool the assets contributed by various entities that are not under common control; and**

(b) **Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.**

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit

obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases).

Plan assets comprise:

(a) **Assets held by a long-term employee benefit fund; and**

(b) **Qualifying insurance policies.**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

A qualifying insurance policy is an insurance policy[1] issued by an insurer that is not a related party (as defined in PBE IPSAS 20) of the reporting entity, if the proceeds of the policy:

(a) **Can be used only to pay or fund employee benefits under a defined benefit plan; and**

(b) **Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:**

(i) **The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or**

(ii) **The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.**

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

State plans are plans other than composite social security programmes established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

Termination benefits are employee benefits payable as a result of either:

(a) **An entity's decision to terminate an employee's employment before the normal retirement date; or**

(b) **An employee's decision to accept voluntary redundancy in exchange for those benefits.**

Vested employee benefits are employee benefits that are not conditional on future employment.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

[1] A qualifying insurance policy is not necessarily an insurance contract (see PBE IFRS 4 *Insurance Contracts*).

Short-Term Employee Benefits

11. Short-term employee benefits include items such as:

    (a) Wages, salaries, and social security contributions;

    (b) Short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the period in which the employees render the related employee service;

    (c) Performance related bonuses and profit-sharing payable within twelve months after the end of the period in which the employees render the related service; and

    (d) Non-monetary benefits (such as medical care, housing, cars, and free or subsidised goods or services) for current employees.

12. Accounting for short-term employee benefits is generally straightforward, because no actuarial assumptions are required to measure the obligation or the cost, and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

Recognition and Measurement

All Short-Term Employee Benefits

13. **When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:**

    (a) **As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**

    (b) **As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, PBE IPSAS 12 *Inventories* and PBE IPSAS 17 *Property, Plant and Equipment*.**

    Paragraphs 14, 17, and 20 explain how an entity shall apply this requirement to short-term employee benefits in the form of compensated absences and bonus and profit-sharing plans.

Short-Term Compensated Absences

14. **An entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph 13 as follows:**

    (a) **In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and**

    (b) **In the case of non-accumulating compensated absences, when the absences occur.**

15. An entity may compensate employees for absence for various reasons, including vacation, sickness and short-term disability, maternity or paternity, jury service, and military service. Entitlement to compensated absences falls into two categories:

    (a) Accumulating; and

    (b) Non-accumulating.

16. Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognised, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

17. **An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.**

18. The method specified in paragraph 17 measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused compensated absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid vacation.

19. Non-accumulating compensated absences do not carry forward; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave, and compensated absences for jury service or military service. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Bonus Payments and Profit-Sharing Payments

20. **An entity shall recognise the expected cost of bonus payments and profit-sharing payments under paragraph 13 when, and only when:**

    (a) **The entity has a present legal or constructive obligation to make such payments as a result of past events; and**

    (b) **A reliable estimate of the obligation can be made.**

    A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

21. Some entities have bonus plans that are related to service delivery objectives or aspects of financial performance. Under such plans, employees receive specified amounts, dependent on an assessment of their contribution to the achievement of the objectives of the entity or a segment of the entity. In some cases, such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Because of the objectives of public benefit entities, profit-sharing plans are far less common in public benefit entities than in for-profit entities. However, they are likely to be an aspect of employee remuneration in segments of public benefit entities that operate on a commercial basis. Some public benefit entities may not operate profit-sharing schemes, but may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets. Some bonus plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the entity before the reporting date. However, under other bonus plans, employees receive payments only if they remain with the entity for a specified period, for example, a requirement that employees render services for the whole of the reporting period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments. Paragraph 23 provides further conditions that are to be satisfied before an entity can recognise the expected cost of performance-related payments, bonus payments, and profit-sharing payments.

22. An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

23. An entity can make a reliable estimate of its legal or constructive obligation under a performance-related payment scheme, bonus plan, or profit-sharing scheme when, and only when:

    (a) The formal terms of the plan contain a formula for determining the amount of the benefit;

    (b) The entity determines the amounts to be paid before the financial statements are authorised for issue; or

    (c) Past practice gives clear evidence of the amount of the entity's constructive obligation.

24. An obligation under bonus plans and profit-sharing plans results from employee service, and is recognised as an expense in surplus or deficit.

25. If bonus payments and profit shares are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 147– RDR 153.1).

Disclosure

26. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, PBE IPSAS 20 requires disclosures of the aggregate remuneration of key management personnel and PBE IPSAS 1 *Presentation of Financial Statements* requires the disclosure of information about employee benefits.

Post-employment Benefits—Distinction between Defined Contribution Plans and Defined Benefit Plans

27. Post-employment benefits include, for example:

    (a) Retirement benefits, such as pensions; and

    (b) Other post-employment benefits, such as post-employment life insurance, and post-employment medical care.

    Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements, whether or not they involve the establishment of a separate entity, such as a pension scheme, superannuation scheme, or retirement benefit scheme, to receive contributions and to pay benefits.

28. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan, as derived from its principal terms and conditions. In order to be classified as a defined contribution plan a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity. Under defined contribution plans:

    (a) The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and

    (b) In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

29. Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

    (a) A plan benefit formula that is not linked solely to the amount of contributions;

    (b) A guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

    (c) Those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

30. Under defined benefit plans:

    (a) The entity's obligation is to provide the agreed benefits to current and former employees; and

    (b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

31. Unlike defined contribution plans, the definition of a defined benefit plan does not require the payment of contributions to a separate entity. Paragraphs 32–53 below explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, state plans, composite social security programmes, and insured benefits.

Multi-Employer Plans

32. **An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:**

    (a) **Account for its proportionate share of the defined benefit obligation, plan assets, and cost associated with the plan in the same way as for any other defined benefit plan; and**

    (b) **Disclose the information required by paragraph 141.**

33. **When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:**

    (a) **Account for the plan under paragraphs 55–57 as if it were a defined contribution plan;**

    (b) **Disclose:**

        (i) **The fact that the plan is a defined benefit plan; and**

        (ii) **The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and**

    (c) **To the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:**

        (i) **Any available information about that surplus or deficit;**

        *(ii) **The basis used to determine that surplus or deficit; and**

        (iii) **The implications, if any, for the entity.**

34. One example of a defined benefit multi-employer plan is where:

    (a) The plan is financed on a pay-as-you-go basis, such that contributions of employers and/or employees are set at a level that is expected to be sufficient to pay the benefits falling due in the same period, and future benefits earned during the current period will be paid out of future contributions; and

    (b) Employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal.

    Such a plan creates actuarial risk for the entity; if the ultimate cost of benefits already earned at the reporting date is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

35. Where sufficient information is available about a multi-employer plan that is a defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets, and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, there may be cases where an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

    (a) The entity does not have access to information about the plan that satisfies the requirements of this Standard; or

    (b) The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual entities participating in the plan.

    In those cases, an entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph 33.

36. There may be a contractual agreement between the multi-employer plan and its participant entities that determines how the surplus in the plan will be distributed to the participant entities (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined

contribution plan in accordance with paragraph 33 recognises the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.

37. PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to disclose information about some contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

    (a) Actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or

    (b) Any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

38. Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Defined Benefit Plans where the Participating Entities are under Common Control

39. Defined benefit plans that share risks between various entities under common control, for example, controlling and controlled entities, are not multi-employer plans.

40. An entity participating in such a plan obtains information about the plan as a whole, measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual entities within the economic entity, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement, arrangement, or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the entity that is legally the sponsoring employer for the plan. The other entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

41. There are cases where a controlling entity and one or more controlled entities participate in a defined benefit plan. Unless there is a contractual agreement, binding arrangement, or stated policy, as specified in paragraph 40, the controlled entity accounts on a defined contribution basis and the controlling entity accounts on a defined benefit basis in its consolidated financial statements. The controlled entity also discloses that it accounts on a defined contribution basis in its separate financial statements. A controlled entity that accounts on a defined contribution basis also provides details of the controlling entity, and states that, in the controlling entity's consolidated financial statements, accounting is on a defined benefit basis. The controlled entity also makes the disclosures required in paragraph 42.

*42. **Participation in such a plan is a related party transaction for each individual entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:**

    (a) **The contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost or the fact that there is no such policy.**

    (b) **The policy for determining the contribution to be paid by the entity.**

    (c) **If the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 40, all the information about the plan as a whole in accordance with paragraphs 140–142.**

    (d) **If the entity accounts for the contribution payable for the period in accordance with paragraph 40, the information about the plan as a whole required in accordance with paragraphs 141(b)–(e), (j), (n), (o), (q), and 142. The other disclosures required by paragraph 141 do not apply.**

State Plans

43. **An entity shall account for post-employment benefits under state plans in the same way as for a multi-employer plan (see paragraphs 32 and 33).**

44. State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by central or local government or by another body (for example, an agency created specifically for this purpose). This Standard deals only with employee benefits of the entity, and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity. While governments may establish state plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising in respect of such plans are not addressed in this Standard.

45. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Entities covered by state plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the entity has a legal or constructive obligation to pay future benefits. If an entity's only obligation is to pay the contributions as they fall due, and the entity has no obligation to pay future benefits, it accounts for that state plan as a defined contribution plan.

46. A state plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the state plan will be characterised as a defined benefit plan by the controlling entity. Where that presumption is rebutted the state plan is accounted for as a defined contribution plan.

47–49. [Not used.]

Insured Benefits

50. **An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:**

    (a) **Pay the employee benefits directly when they fall due; or**

    (b) **Pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.**

    If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

51. The benefits insured by an insurance contract need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance contracts are subject to the same distinction between accounting and funding as other funded plans.

52. Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums, or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

    (a) Accounts for a qualifying insurance policy as a plan asset (see paragraph 10); and

    (b) Recognises other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 121).

53. Where an insurance policy (a) is in the name of a specified plan participant or a group of plan participants, and (b) the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees, and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment Benefits—Defined Contribution Plans

54. Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense, and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Recognition and Measurement

55. **When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:**

    (a) **As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**

    (b) **As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, PBE IPSAS 12 and PBE IPSAS 17.)**

56. **Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 91.**

Disclosure

57. **An entity shall disclose the amount recognised as an expense for defined contribution plans.**

*58. Where required by PBE IPSAS 20, an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment Benefits—Defined Benefit Plans

59. Accounting for defined benefit plans is complex, because actuarial assumptions are required to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service.

Recognition and Measurement

60. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity or fund that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability (and willingness) to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.

61. Accounting by an entity for defined benefit plans involves the following steps:

    (a) Using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 80–84), and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit (see paragraphs 85–104);

    (b) Discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 77–79);

    (c) Determining the fair value of any plan assets (see paragraphs 118–120);

(d) Determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognised (see paragraphs 105–111);

(e) Where a plan has been introduced or changed, determining the resulting past service cost (see paragraphs 112–117); and

(f) Where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs 129–135).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately. For example, an entity responsible for educational and health services and a number of other services may have separate plans for teachers, healthcare workers, and other employees.

62. In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the Constructive Obligation

63. **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.**

64. The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of Financial Position

65. **The amount recognised as a defined benefit liability shall be the net total of the following amounts:**

    (a) **The present value of the defined benefit obligation at the reporting date (see paragraph 77);**

    (b) **Plus any actuarial gains (less any actuarial losses) not recognised because of the treatment set out in paragraphs 105 and 106;**

    (c) **Minus any past service cost not yet recognised (see paragraph 112); and**

    (d) **Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 118–120).**

66. The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets.

67. **An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.**

68. This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the reporting date. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

69. **The amount determined under paragraph 65 may be negative (an asset). An entity shall measure the resulting asset at the lower of:**

    (a) **The amount determined under paragraph 65; and**

    (b) **The total of:**

        (i) **Any cumulative unrecognised net actuarial losses and past service cost (see paragraphs 105, 106 and 112); and**

(ii) **The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph 91.**

70. **The application of paragraph 69 shall not result in a gain being recognised solely as a result of an actuarial loss or past service cost in the current period, or in a loss being recognised solely as a result of an actuarial gain in the current period. The entity shall therefore recognise immediately under paragraph 65 the following, to the extent that they arise while the defined benefit asset is determined in accordance with paragraph 69(b):**

(a) **Net actuarial losses of the current period and past service cost of the current period to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph 69(b)(ii). If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period shall be recognised immediately under paragraph 65.**

(b) **Net actuarial gains of the current period after the deduction of past service cost of the current period, to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph 69(b)(ii). If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period shall be recognised immediately under paragraph 65.**

71. Paragraph 70 applies to an entity only if it has, at the beginning or end of the accounting period, a surplus[2] in a defined benefit plan and cannot, based on the current terms of the plan, recover that surplus fully through refunds or reductions in future contributions. In such cases, past service cost and actuarial losses that arise in the period, the recognition of which is deferred under paragraph 65, will increase the amount specified in paragraph 69(b)(i). If that increase is not offset by an equal decrease in the present value of economic benefits that qualify for recognition under paragraph 69(b)(ii), there will be an increase in the net total specified by paragraph 69(b) and, hence, a recognised gain. Paragraph 70 prohibits the recognition of a gain in these circumstances. The opposite effect arises with actuarial gains that arise in the period, the recognition of which is deferred under paragraph 65, to the extent that the actuarial gains reduce cumulative unrecognised actuarial losses. Paragraph 70 prohibits the recognition of a loss in these circumstances. For examples of the application of this paragraph, see Illustrative Examples, paragraphs IE8–IE30.

72. An asset may arise where a defined benefit plan has been overfunded, or in certain cases where actuarial gains are recognised. An entity recognises an asset in such cases because:

(a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit.

73. The limit in paragraph 69(b) does not override the delayed recognition of certain actuarial losses (see paragraphs 105 and 106) and certain past service cost (see paragraph 112), other than as specified in paragraph 70. Paragraph 141(f)(iii) requires an entity to disclose any amount not recognised as an asset because of the limit in paragraph 69(b).

Statement of Comprehensive Revenue and Expense

74. **An entity shall recognise the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:**

(a) **Current service cost (see paragraphs 76–104);**

(b) **Interest cost (see paragraph 95);**

[2] A surplus is an excess of the fair value of the plan assets over the present value of the defined benefit obligation.

(c) **The expected return on any plan assets (see paragraphs 125–127) and on any reimbursement rights (see paragraph 121);**

(d) **Actuarial gains and losses, as required in accordance with the entity's accounting policy (see paragraphs 105–109);**

(e) **Past service cost (see paragraph 112);**

(f) **The effect of any curtailments or settlements (see paragraphs 129 and 130); and**

(g) **The effect of the limit in paragraph 69(b), unless it is recognised outside surplus or deficit in accordance with paragraph 108.**

75. Other Standards require the inclusion of certain employee benefit costs within the cost of assets, such as inventories or property, plant and equipment (see PBE IPSAS 12 and PBE IPSAS 17). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 74.

Recognition and Measurement—Present Value of Defined Benefit Obligations and Current Service Cost

76. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:

(a) Apply an actuarial valuation method (see paragraphs 77–79);

(b) Attribute benefit to periods of service (see paragraphs 80–84); and

(c) Make actuarial assumptions (see paragraphs 85–104).

Actuarial Valuation Method

77. **An entity shall use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.**

78. The Projected Unit Credit Method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 80–84), and measures each unit separately to build up the final obligation (see paragraphs 85–104).

79. An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation falls due within twelve months of the reporting date.

Attributing Benefit to Periods of Service

80. **In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:**

(a) **The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until**

(b) **The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.**

81. The Projected Unit Credit Method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

82. Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words, they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although certain post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

83. The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

84. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the reporting date, but do not create an additional obligation. Therefore:

    (a) For the purpose of paragraph 80(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

    (b) The amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Actuarial Assumptions

85. **Actuarial assumptions shall be unbiased and mutually compatible.**

86. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

    (a) Demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

        (i) Mortality, both during and after employment;

        (ii) Rates of employee turnover, disability, and early retirement;

        (iii) The proportion of plan members with dependants who will be eligible for benefits; and

        (iv) Claim rates under medical plans.

    (b) Financial assumptions, dealing with items such as:

        (i) The discount rate (see paragraphs 91–95);

        (ii) Future salary and benefit levels (see paragraphs 96–100);

        (iii) In the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs 101–104); and

        (iv) The expected rate of return on plan assets (see paragraphs 125–127).

87. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

88. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets, and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

89. An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy

(see PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked, and there is a deep market in index-linked bonds of the same currency and term.

90. **Financial assumptions shall be based on market expectations, at the reporting date, for the period over which the obligations are to be settled.**

Actuarial Assumptions—Discount Rate

91. **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations.**

92. One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

93. The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments, and the currency in which the benefits are to be paid.

94. An entity makes a judgement whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds, or by another financial instrument. In some jurisdictions, market yields at the reporting date on government bonds will provide the best approximation of the time value of money. However, there may be jurisdictions in which this is not the case, for example, jurisdictions where there is no deep market in government bonds, or in which market yields at the reporting date on government bonds do not reflect the time value of money. In such cases, the reporting entity determines the rate by another method, such as by reference to market yields on high quality corporate bonds. There may also be circumstances where there is no deep market in government bonds or high quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such circumstances, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available financial instrument, such as government bonds or corporate bonds.

95. Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation. The present value of the obligation will differ from the liability recognised in the statement of financial position, (a) because the liability is recognised after deducting the fair value of any plan assets, and (b) because some actuarial gains and losses, and some past service cost, are not recognised immediately. The Illustrative Examples, paragraphs IE1–IE6, illustrate the computation of interest cost, among other things.

Actuarial Assumptions—Salaries, Benefits and Medical Costs

96. **Post-employment benefit obligations shall be measured on a basis that reflects:**

    (a) **Estimated future salary increases;**

    (b) **The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and**

    (c) **Estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:**

        (i) **Those changes were enacted before the reporting date; or**

        (ii) **Past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.**

97. Estimates of future salary increases take account of inflation, seniority, promotion, and other relevant factors, such as supply and demand in the employment market.

98. If the formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example:

    (a) The entity has a past history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future; or

    (b) Actuarial gains have already been recognised in the financial statements, and the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 114(c)).

99. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the reporting date. Such changes will result in:

    (a) Past service cost, to the extent that they change benefits for service before the change; and

    (b) Current service cost for periods after the change, to the extent that they change benefits for service after the change.

100. Some post-employment benefits are linked to variables, such as the level of benefit entitlements from social security pensions or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.

101. **Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.**

102. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity’s own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers, or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns, and changes in the health status of plan participants.

103. The level and frequency of claims is particularly sensitive to the age, health status, and gender of employees (and their dependants), and may be sensitive to other factors such as geographical location. Therefore, historical data is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.

104. Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. Estimates of future medical costs take account of any such contributions, based on the terms of the plan at the reporting date (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers (see paragraphs 96(c) and 100).

Actuarial Gains and Losses

105. **In measuring its defined benefit liability in accordance with paragraph 65, an entity shall, subject to paragraph 70, recognise a portion (as specified in paragraph 106) of its actuarial gains and losses as revenue or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:**

    (a) **10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and**

    (b) **10% of the fair value of any plan assets at that date.**

    These limits shall be calculated and applied separately for each defined benefit plan.

106. **The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined in accordance with paragraph 105, divided by the expected average remaining working**

lives of the employees participating in that plan. However, an entity may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses, and the basis is applied consistently from period to period. An entity may apply such systematic methods to actuarial gains and losses even if they are within the limits specified in paragraph 105.

107. **If, as permitted by paragraph 106, an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them as a separate item in other comprehensive revenue and expense, in accordance with paragraphs 108 and 109, providing it does so for:**

    (a) **All of its defined benefit plans; and**

    (b) **All of its actuarial gains and losses.**

108. Actuarial gains and losses recognised in other comprehensive revenue and expense as permitted by paragraph 107 shall be presented in the statement of comprehensive revenue and expense.

109. An entity that recognises actuarial gains and losses in accordance with paragraph 107 shall also recognise any adjustments arising from the limit in paragraph 69(b) in other comprehensive revenue and expense. Actuarial gains and losses and adjustments arising from the limit in paragraph 69(b) that have been recognised in other comprehensive revenue and expense shall not be reclassified to surplus or deficit in a subsequent period.

110. Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses include, for example:

    (a) Unexpectedly high or low rates of employee turnover, early retirement or mortality, or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases), or medical costs;

    (b) The effect of changes in estimates of future employee turnover, early retirement, or mortality, or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases), or medical costs;

    (c) The effect of changes in the discount rate; and

    (d) Differences between the actual return on plan assets and the expected return on plan assets (see paragraphs 125–127).

111. In the long term, actuarial gains and losses may offset one another. Therefore, estimates of post-employment benefit obligations may be viewed as a range (or corridor) around the best estimate. An entity is permitted, but not required, to recognise actuarial gains and losses that fall within that range. This Standard requires an entity to recognise, as a minimum, a specified portion of the actuarial gains and losses that fall outside a corridor of plus or minus 10%. The Illustrative Examples, paragraphs IE1–IE6, illustrate the treatment of actuarial gains and losses, among other things. The Standard also permits systematic methods of faster recognition, provided that those methods satisfy the conditions set out in paragraph 106. Such permitted methods include, for example, immediate recognition of all actuarial gains and losses, both within and outside the corridor.

Past Service Cost

112. **In measuring its defined benefit liability under paragraph 65, an entity shall, subject to paragraph 70, recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an entity shall recognise past service cost immediately.**

113. Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, the entity recognises past service cost over that period, regardless of the fact that the cost refers to employee service in previous periods. The entity measures past service cost as the change in the liability resulting from the amendment (see paragraph 77). Negative past service cost arises when an

entity changes the benefits attributable to past service so that the present value of the defined benefit obligation decreases.

114. Past service cost excludes:

(a) The effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) Under and over estimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) Estimates of benefit improvements that result from actuarial gains that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph 98(b));

(d) The increase in vested benefits when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered); and

(e) The effect of plan amendments that reduce benefits for future service (a curtailment).

115. An entity establishes the amortisation schedule for past service cost when the benefits are introduced or changed. It would be impracticable to maintain the detailed records needed to identify and implement subsequent changes in that amortisation schedule. Moreover, the effect is likely to be material only where there is a curtailment or settlement. Therefore, an entity amends the amortisation schedule for past service cost only if there is a curtailment or settlement.

116. Where an entity reduces benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recognised as (negative) past service cost over the average period until the reduced portion of the benefits becomes vested.

117. Where an entity reduces certain benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

Recognition and Measurement—Plan Assets

Fair Value of Plan Assets

118. The fair value of any plan assets is deducted in determining the amount recognised in the statement of financial position under paragraph 65. When no market price is available, the fair value of plan assets is estimated, for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).

119. Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

120. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations, as described in paragraph 65 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

121. **When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of comprehensive revenue and expense, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.**

122. Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 10, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph 121 does not apply (see paragraphs 50–53 and 120).

123 When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 121 deals with such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability recognised under paragraph 65; in all other respects, the entity treats that asset in the same way as plan assets. In particular, the defined benefit liability recognised under paragraph 65 is increased (reduced) to the extent that net cumulative actuarial gains (losses) on the defined benefit obligation and on the related reimbursement right remain unrecognised under paragraphs 105 and 106. Paragraph 141(f)(iv) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

124. If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation, as described in paragraph 65 (subject to any reduction required if the reimbursement is not recoverable in full).

Return on Plan Assets

125. The expected return on plan assets is one component of the expense recognised in surplus or deficit. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss; it is included with the actuarial gains and losses on the defined benefit obligation in determining the net amount that is compared with the limits of the 10% corridor specified in paragraph 105.

126. The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected return on plan assets reflects changes in the fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

127. In determining the expected and actual return on plan assets, an entity deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

Entity Combinations

128. In a business combination, an entity recognises assets and liabilities arising from post-employment benefits at the present value of the obligation less the fair value of any plan assets (see PBE IFRS 3 *Business Combinations*). The present value of the obligation includes all of the following, even if the acquirer has not yet recognised them at the acquisition date:

    (a) Actuarial gains and losses that arose before the acquisition date (whether or not they fell inside the 10% corridor); and

    (b) Past service cost that arose from benefit changes, or the introduction of a plan, before the acquisition date.

Curtailments and Settlements

129. **An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall comprise:**

    (a) **Any resulting change in the present value of the defined benefit obligation;**

(b) **Any resulting change in the fair value of the plan assets; and**

(c) **Any related actuarial gains and losses and past service cost that, under paragraphs 105 and 112, had not previously been recognised.**

130. **Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).**

131. A curtailment occurs when an entity either:

(a) Is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or

(b) Amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case, an entity accounts for a curtailment at the same time as for a related restructuring.

131A. When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

132. A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.

133. In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 50) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 121–124 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

134. A settlement occurs together with a curtailment if a plan is terminated such that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a curtailment or settlement if the plan is replaced by a new plan that offers benefits that are, in substance, identical.

135. Where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the previously unrecognised past service cost and actuarial gains and losses. The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement, unless another basis is more rational in the circumstances. For example, it may be appropriate to apply any gain arising on a curtailment or settlement of the same plan to first eliminate any unrecognised past service cost relating to the same plan.

Presentation

Offset

136. **An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:**

(a) **Has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and**

(b) **Intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.**

137. The offsetting criteria are similar to those established for financial instruments in PBE IPSAS 28 *Financial Instruments: Presentation*.

Current/Non-Current Distinction

138. Some entities distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Financial Components of Post-employment Benefit Costs

139. This Standard does not specify whether an entity should present current service cost, interest cost, and the expected return on plan assets as components of a single item of revenue or expense on the face of the statement of comprehensive revenue and expense.

Disclosure

*140. **An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.**

141. **An entity shall disclose the following information about defined benefit plans:**

(a) **The entity's accounting policy for recognising actuarial gains and losses;**

(b) **A general description of the type of plan;**

*(c) **A reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:**

(i) **Current service cost;**

(ii) **Interest cost;**

(iii) **Contributions by plan participants;**

(iv) **Actuarial gains and losses;**

(v) **Foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency;**

(vi) **Benefits paid;**

(vii) **Past service cost;**

(viii) **Entity combinations;**

(ix) **Curtailments; and**

(x) **Settlements.**

*(d) **An analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded;**

(e) **A reconciliation of the opening and closing balances of the fair value of plan assets, and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 121 showing separately, if applicable, the effects during the period attributable to each of the following:**

*(i) **Expected return on plan assets;**

*(ii) **Actuarial gains and losses;**

*(iii) **Foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency;**

(iv) **Contributions by the employer;**

(v) **Contributions by plan participants;**

(vi) **Benefits paid;**

*(vii) **Entity combinations; and**

*(viii) **Settlements.**

(f) **A reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the statement of financial position, showing at least:**

(i) **The net actuarial gains or losses not recognised in the statement of financial position (see paragraph 105);**

(ii) **The past service cost not recognised in the statement of financial position (see paragraph 112);**

(iii) **Any amount not recognised as an asset, because of the limit in paragraph 69(b);**

(iv) **The fair value at the reporting date of any reimbursement right recognised as an asset in accordance with paragraph 121 (with a brief description of the link between the reimbursement right and the related obligation); and**

(v) **The other amounts recognised in the statement of financial position.**

(g) **The total expense recognised in surplus or deficit for each of the following, and the line item(s) in which they are included:**

*(i) **Current service cost;**

*(ii) **Interest cost;**

*(iii) **Expected return on plan assets;**

*(iv) **Expected return on any reimbursement right recognised as an asset in accordance with paragraph 121;**

*(v) **Actuarial gains and losses;**

*(vi) **Past service cost;**

*(vii) **The effect of any curtailment or settlement; and**

*(viii) **The effect of the limit in paragraph 69(b).**

*(h) **The total amount recognised in other comprehensive revenue and expense for each of the following:**

(i) **Actuarial gains and losses; and**

(ii) **The effect of the limit in paragraph 69(b).**

(i) **For entities that recognise actuarial gains and losses in other comprehensive revenue and expense in accordance with paragraph 107, the cumulative amount of actuarial gains and losses recognised in that statement;**

(j) **For each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets;**

(k) **The amounts included in the fair value of plan assets for:**

(i) **Each category of the entity's own financial instruments; and**

(ii) **Any property occupied by, or other assets used by, the entity.**

*(l) **A narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets;**

(m) **The actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 121;**

(n) **The principal actuarial assumptions used as at the reporting date, including, when applicable:**

(i) **The discount rates;**

(ii) **The basis on which the discount rate has been determined;**

*(iii) **The expected rates of return on any plan assets for the periods presented in the financial statements;**

(iv) **The expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 121;**

(v) **The expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);**

(vi) **Medical cost trend rates; and**

(vii) **Any other material actuarial assumptions used.**

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables;

*(o) **The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:**

(i) **The aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and**

(ii) **The accumulated post-employment benefit obligation for medical costs.**

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment;

*(p) **The amounts for the current annual period and previous four annual periods of:**

(i) **The present value of the defined benefit obligation, the fair value of the plan assets, and the surplus or deficit in the plan; and**

(ii) **The experience adjustments arising on:**

a. **The plan liabilities expressed either as (1) an amount, or (2) a percentage of the plan liabilities at the reporting date; and**

b. **The plan assets expressed either as (1) an amount, or (2) a percentage of the plan assets at the reporting date.**

*(q) **The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting date.**

RDR 141.1 **A Tier 2 entity shall disclose a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes. These disclosures may be made in total, separately for each plan, or in such groupings as are considered to be most useful.**

RDR 141.2 **A Tier 2 entity is not required to disclose the reconciliations specified in paragraphs 141(e) and RDR 141.1 for prior periods.**

RDR 141.3 **A Tier 2 entity shall disclose only the total expense recognised in surplus or deficit in respect of paragraph 141(g).**

RDR 141.4 **A Tier 2 entity shall disclose only the actual return on plan assets in respect of paragraph 141(m).**

142. Paragraph 141(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans, and from post-employment medical plans. The description of the plan includes informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance with paragraph 63. Further detail is not required.

143. When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

(a) The geographical location of the plans; or

(b) Whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans, and from post-employment medical plans.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

144. Paragraph 33 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.

145. Where required by PBE IPSAS 20, an entity discloses information about:

(a) Related party transactions with post-employment benefit plans; and

*(b) Post-employment benefits for key management personnel.

146. Where required by PBE IPSAS 19, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other Long-Term Employee Benefits

147. Other long-term employee benefits may include, for example:

(a) Long-term compensated absences such as long service or sabbatical leave;

(b) Jubilee or other long service benefits;

(c) Long-term disability benefits;

(d) Bonuses and profit sharing payable twelve months or more after the end of the period in which the employees render the related service;

(e) Deferred compensation paid twelve months or more after the end of the period in which it is earned; and

(f) Compensation payable by the entity until an individual enters new employment.

148. The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Furthermore, the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. For these reasons, this Standard requires a simplified method of accounting for other long-term employee benefits. This method differs from the accounting required for post-employment benefits as follows:

(a) Actuarial gains and losses are recognised immediately and no corridor is applied; and

(b) All past service cost is recognised immediately.

149. This Standard includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in accordance with paragraphs 59–146.

Recognition and Measurement

150. **The amount recognised as a liability for other long-term employee benefits shall be the net total of the following amounts:**

(a) **The present value of the defined benefit obligation at the reporting date (see paragraph 77);**

(b) **Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 118–120).**

In measuring the liability, an entity shall apply paragraphs 55–104, excluding paragraphs 65 and 74. An entity shall apply paragraph 121 in recognising and measuring any reimbursement right.

151. **For other long-term employee benefits, an entity shall recognise the net total of the following amounts as expense or (subject to paragraph 69) revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:**

    (a) **Current service cost (see paragraphs 76–104);**

    (b) **Interest cost (see paragraph 95);**

    (c) **The expected return on any plan assets (see paragraphs 125–127) and on any reimbursement right recognised as an asset (see paragraph 121);**

    (d) **Actuarial gains and losses, which shall all be recognised immediately;**

    (e) **Past service cost, which shall all be recognised immediately; and**

    (f) **The effect of any curtailments or settlements (see paragraphs 129 and 130).**

152. One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required, and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability. Paragraph 149 highlights the possibility that long-term disability benefit payments may be subject to a higher degree of uncertainty than other long-term employee benefits.

Disclosure

153. Although this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures; for example, where the expense resulting from such benefits is material, and so would require disclosure in accordance with PBE IPSAS 1. When required by PBE IPSAS 20, an entity discloses information about other long-term employee benefits for key management personnel.

Termination Benefits

154. This Standard deals with termination benefits separately from other employee benefits, because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

155. **An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:**

    (a) **Terminate the employment of an employee or group of employees before the normal retirement date; or**

    (b) **Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.**

156. **An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination, and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum:**

    (a) **The location, function, and approximate number of employees whose services are to be terminated;**

    (b) **The termination benefits for each job classification or function; and**

    (c) **The time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.**

157. An entity may be committed, (a) by legislation, (b) by contractual or other agreements with employees or their representatives, or (c) by a constructive obligation based on business practice, custom, or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

(a) Enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and

(b) Salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

158. Some employee benefits are payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some countries as termination indemnities, or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits. Some entities provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination is a termination benefit.

159. Termination benefits do not provide an entity with future economic benefits, and are recognised as an expense immediately.

160. Where an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph 129).

Measurement

161. **Where termination benefits fall due more than 12 months after the reporting date, they shall be discounted using the discount rate specified in paragraph 91.**

162. **In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.**

Disclosure

163. Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by PBE IPSAS 19, an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

164. As required by PBE IPSAS 1, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

*165. Where required by PBE IPSAS 20, an entity discloses information about termination benefits for key management personnel.

Transitional Provisions

166–176. [Not used.]

Effective Date

177–178. [Not used.]

178.1 **A public sector public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 July 2014. Earlier adoption is not permitted.**

Appendix A

Application Guidance

This Appendix is an integral part of PBE IPSAS 25.

Example Illustrating Paragraph 21: Accounting for a Performance-Related Bonus Plan

AG1. A performance-related bonus plan requires an entity to pay a specified proportion of its surplus for the year to employees who meet predetermined performance targets and serve throughout the year, i.e., are in post on both the first and last day of the reporting period. If no employees leave during the year, the total bonus payments for the year will be 3% of actual surplus. The entity determines that staff turnover will reduce the payments to 2.5% of actual surplus.

The entity recognises a liability and an expense of 2.5% of actual surplus.

Example Illustrating Paragraph 36: Accounting for a Multi-Employer Plan

AG2. Along with similar entities, Entity A participates in a multi-employer defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other local government units participating in the plan, there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual local government units participating in the plan. Entity A therefore accounts for the plan as if it were a defined contribution plan. A funding valuation, which is not drawn up on the basis of assumptions compatible with the requirements of this Standard, shows a deficit of 480 million currency units in the plan. The plan has agreed, under a binding arrangement, a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. Entity A's total contributions under the contract are 40 million currency units.

The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in surplus or deficit.

Example Illustrating Paragraph 73: Limits on Recognition of Plan Asset

AG3. A defined benefit plan has the following characteristics:

Present value of the obligation	1,100
Fair value of plan assets	(1,190)
	(90)
Unrecognised actuarial losses	(110)
Unrecognised past service cost	(70)
Negative amount determined under paragraph 65	(270)
Present value of available future refunds and reductions in future contributions	60
The limit under paragraph 69(b) is computed as follows:	
Unrecognised actuarial losses	*110*
Unrecognised past service cost	*70*
Present value of available future refunds and reductions in future contributions	*60*
Limit	*240*

240 is less than 270. Therefore, the entity recognises an asset of 240 and discloses that the limit in paragraph 69(b) reduced the carrying amount of the asset by 30 (see paragraph 141(f)(iii)).

Example Illustrating Paragraph 78: Projected Unit Credit Method

AG4. A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is 10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year five, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	*1*	*2*	*3*	*4*	*5*
Benefit attributed to:					
– *prior years*	*0*	*131*	*262*	*393*	*524*
– *current year (1% of final salary)*	*131*	*131*	*131*	*131*	*131*
– *current and prior years*	*131*	*262*	*393*	*524*	*655*
Year	***1***	***2***	***3***	***4***	***5***
Opening obligation	–	*89*	*196*	*324*	*476*
Interest at 10%	–	*9*	*20*	*33*	*48*
Current service cost	*89*	*98*	*108*	*119*	*131*
Closing obligation	*89*	*196*	*324*	*476*	*655*

Note:

1. *The opening obligation is the present value of benefit attributed to prior years.*
2. *The current service cost is the present value of benefit attributed to the current year.*
3. *The closing obligation is the present value of benefit attributed to current and prior years.*

Examples Illustrating Paragraph 81: Attributing Benefit to Years of Service

AG5. A defined benefit plan provides a lump sum benefit of 100 payable on retirement for each year of service.

A benefit of 100 is attributed to each year. The current service cost is the present value of 100. The present value of the defined benefit obligation is the present value of 100, multiplied by the number of years of service up to the reporting date.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the reporting date.

AG6. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the reporting date. The current service cost and the present value of the defined benefit obligation are discounted, because pension payments begin at the age of 65.

Examples Illustrating Paragraph 82: Vesting and Non-Vesting Benefits

AG7. A plan pays a benefit of 100 for each year of service. The benefits vest after 10 years of service.

A benefit of 100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service.

AG8. A plan pays a benefit of 100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25, because service before that date does not lead to benefits (conditional or unconditional). A benefit of 100 is attributed to each subsequent year.

Examples Illustrating Paragraph 83: Attributing Benefits to Accounting Periods

AG9. A plan pays a lump sum benefit of 1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

A benefit of 100 (1,000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

AG10. A plan pays a lump sum retirement benefit of 2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2,000 divided by 20) to each of the first twenty years.

For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of 200 (2,000 divided by 10) to each of the first 10 years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

AG11. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by 10) to each of the first ten years and 1% (10% divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

AG12. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the entity attributes benefit on a straight-line basis under paragraph 68. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within 10 years, no benefit is attributed.

Example Illustrating Paragraph 84: Attributing Benefits to Accounting Periods

AG13. Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Example Illustrating Paragraph 113: Accounting for Past Service Cost

AG14. An entity operates a pension plan that provides a pension of 2% of final salary for each year of service. The benefits become vested after five years of service. On January 1, 20X9, the entity improves the pension to 2.5% of final salary for each year of service starting from January 1, 20X5. At the date of the improvement, the present value of the additional benefits for service from January 1, 20X5 to January 1, 20X9 is as follows:

Employees with more than five years' service at 1/1/X9	150
Employees with less than five years' service at 1/1/X9 (average period until vesting: three years)	120
	270

The entity recognises 150 immediately because those benefits are already vested. The entity recognises 120 on a straight-line basis over three years from January 1, 20X9.

Example Illustrating Paragraphs 121–123: Reimbursements

AG15. Reimbursements:

Present value of obligation	1,241
Unrecognised actuarial gains	17
Liability recognised in statement of financial position	1,258
Rights from insurance policies that exactly match the amount and timing of some of the benefits payable under the plan. Those benefits have a present value of 1,092.	1,092

The unrecognised actuarial gains of 17 are the net cumulative actuarial gains on the obligation and on the reimbursement rights.

Example Illustrating Paragraph 125–127: Return on Plan Assets

AG16. At January 1, 20X7, the fair value of plan assets was 10,000, and net cumulative unrecognised actuarial gains were 760. On June 30, 20X7, the plan paid benefits of 1,900 and received contributions of 4,900. At December 31, 20X7, the fair value of plan assets was 15,000, and the present value of the defined benefit obligation was 14,792. Actuarial losses on the obligation for 20X7 were 60.

At January 1, 20X7, the reporting entity made the following estimates, based on market prices at that date:

	%
Interest and dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Administration costs	(1.00)
Expected rate of return	10.25

For 20X7, the expected and actual return on plan assets are as follows:	
Return on 10,000 held for 12 months at 10.25%	1,025
Return on 3,000 held for six months at 5% (equivalent to 10.25% annually, compounded every six months)	150
Expected return on plan assets for 20X7	1,175
Fair value of plan assets at December 31, 20X7	15,000
Less fair value of plan assets at January 1, 20X7	(10,000)
Less contributions received	(4,900)

Add benefits paid	1,900
Actual return on plan assets	2,000

The difference between the expected return on plan assets (1,175) and the actual return on plan assets (2,000) is an actuarial gain of 825. Therefore, the cumulative net unrecognised actuarial gains are 1,525 (760 plus 825 minus 60). Under paragraph 105, the limits of the corridor are set at 1,500 (greater of: (i) 10% of 15,000 and (ii) 10% of 14,792). In the following year (20X8), the entity recognises in surplus or deficit an actuarial gain of 25 (1,525 minus 1,500) divided by the expected average remaining working life of the employees concerned.

The expected return on plan assets for 20X8 will be based on market expectations at January 1 20X8 for returns over the entire life of the obligation.

Example Illustrating Paragraph 135: Accounting for a Curtailment Without a Settlement

AG17. An entity is required by legislation to discontinue the direct provision of waste collection and waste disposal services. Employees of this discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the entity has a defined benefit obligation with a net present value of 1,000, plan assets with a fair value of 820, and net cumulative unrecognised actuarial gains of 50. The curtailment reduces the net present value of the obligation by 100 to 900.

Of the previously unrecognised actuarial gains, 10% (100/1,000) relates to the part of the obligation that was eliminated through the curtailment. Therefore, the effect of the curtailment is as follows:

	Before curtailment	*Curtailment gain*	*After curtailment*
Net present value of obligation	*1,000*	*(100)*	*900*
Fair value of plan assets	*(820)*	*–*	*(820)*
	180	*(100)*	*80*
Unrecognised actuarial gains	*50*	*(5)*	*45*
Net liability recognised in statement of financial position	*230*	*(105)*	*125*

AG18. [Not used.]

Basis for Conclusions

This Basis for Conclusions accompanies, but does not form part of, PBE IPSAS 25.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 25 *Employee Benefits* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 25 are generally appropriate for application by public benefit entities.

Discount rate used to measure employee benefit obligations

BC2. PBE IPSAS 25 and NZ IAS 19 *Employee Benefits* both require that the rate used to discount post-employment benefit obligations should reflect the time value of money. However, the detailed requirements in the two Standards differ. PBE IPSAS 25 requires an entity to apply judgement when referring to the appropriate market yields at the reporting date whereas NZ IAS 19 requires an entity to refer to market yields on high quality corporate bonds unless there is no deep market in such bonds, in which case the market yields on government bonds are used.

BC3. In considering this difference between PBE IPSAS 25 and NZ IAS 19 the NZASB noted that the principle underlying IAS 19 *Employee Benefits*, as expressed in the IASB's Basis for Conclusions on IAS 19, is that the discount rate should reflect the time value of money but should not reflect other risks such as an entity's own credit rating. Furthermore, paragraph 79 of NZ IAS 19 expressly states that the discount rate reflects the time value of money but not the actuarial risk, investment risk, entity specific credit risk or the risk that future experience may vary from actuarial assumptions.

BC4. The NZASB considered that this difference between PBE IPSAS 25 and NZ IAS 19 would have minimal impact on public benefit entities. The NZASB noted that in the absence of a deep market in high quality corporate bonds, public benefit entities applying NZ IAS 19 would have had regard to market yields on government bonds. The NZASB also considered that, at the time of adoption of PBE IPSAS 25, the yield on government bonds would generally be the best measure of the risk free rate, or the time value of money for public benefit entities. The NZASB endorsed the approach taken by the IPSASB in developing IPSAS 25 for application by public sector entities and considered that it was appropriate that, if circumstances indicate that the yield on government bonds is not representative of the risk-free rate, the yield on high quality corporate bonds can be used.

Corridor Approach

BC5. IPSAS 25 permits the use of the "corridor" approach which allows an entity to defer recognition of a specified portion of actuarial gains and losses that fall outside a certain range. The NZASB sought constituents' views on whether this approach should be permitted in PBE IPSAS 25. The NZASB noted and supported comments from constituents that the corridor approach should be removed from the Standard. However, having regard to the extent of the consequential amendments and the desirability of issuing the suite of PBE Standards for public sector PBEs on a timely basis, the corridor approach has been retained for consistency with IPSAS 25 rather than adopting NZ IAS 19 *Employee Benefits* (as amended in 2011) as a PBE standard.

Illustrative Examples

These examples accompany, but are not part of, PBE IPSAS 25.

Funded Defined Benefit Plan

Extracts from statements of comprehensive revenue and expense and statements of financial position are provided to show the effects of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Standards.

Background Information

IE1. The following information is given about a funded defined benefit plan. To keep interest computations simple, all transactions are assumed to occur at the year end. The present value of the obligation and the fair value of the plan assets were both 1,000 at January 1, 20X7. Net cumulative unrecognised actuarial gains at that date were 140.

	20X7	**20X8**	**20X9**
Discount rate at start of year	10.0%	9.0%	8.0%
Expected rate of return on plan assets at start of year	12.0%	11.1%	10.3%
Current service cost	130	140	150
Benefits paid	150	180	190
Contributions paid	90	100	110
Present value of obligation at December 31	1,141	1,197	1,295
Fair value of plan assets at December 31	1,092	1,109	1,093
Expected average remaining working lives of employees (years)	10	10	10

IE2. In 20X8, the plan was amended to provide additional benefits with effect from January 1, 20X8. The present value as at January 1, 20X8 of additional benefits for employee service before January 1, 20X8 was 50 for vested benefits and 30 for non-vested benefits. As at January 1, 20X8, the entity estimated that the average period until the non-vested benefits would become vested was three years; the past service cost arising from additional non-vested benefits is therefore recognised on a straight-line basis over three years. The past service cost arising from additional vested benefits is recognised immediately (paragraph 112 of the Standard). The entity has adopted a policy of recognising actuarial gains and losses under the minimum requirements of paragraph 106.

Changes in the Present Value of the Obligation and in the Fair Value of the Plan Assets

IE3. The first step is to summarise the changes in the present value of the obligation and in the fair value of the plan assets and use this to determine the amount of the actuarial gains or losses for the period. These are as follows:

	20X7	20X8	20X9
Present value of obligation, January 1	1,000	1,141	1,197
Interest cost	100	103	96
Current service cost	130	140	150
Past service cost – non-vested benefits	–	30	–
Past service cost – vested benefits	–	50	–
Benefits paid	(150)	(180)	(190)
Actuarial (gain) loss on obligation (balancing figure)	61	(87)	42
Present value of obligation, December 31	1,141	1,197	1,295
Fair value of plan assets, January 1	1,000	1,092	1,109
Expected return on plan assets	120	121	114
Contributions	90	100	110
Benefits paid	(150)	(180)	(190)
Actuarial gain (loss) on plan assets (balancing figure)	32	(24)	(50)
Fair value of plan assets, December 31	1,092	1,109	1,093

Limits of the Corridor

IE4. The next step is to determine the limits of the corridor, and then compare these with the cumulative unrecognised actuarial gains and losses in order to determine the net actuarial gain or loss to be recognised in the following period. Under paragraph 105 of this Standard, the limits of the corridor are set at the greater of:

(a) 10% of the present value of the obligation before deducting plan assets; and

(b) 10% of the fair value of any plan assets.

IE5. These limits, and the recognised and unrecognised actuarial gains and losses, are as follows:

	20X7	20X8	20X9
Net cumulative unrecognised actuarial gains (losses) at January 1	140	107	170
Limits of corridor at January 1	100	114	120
Excess [A]	40	–	50
Average expected remaining working lives (years) [B]	10	10	10
Actuarial gain (loss) to be recognised [A/B]	4	–	5
Unrecognised actuarial gains (losses) at January 1	140	107	170
Actuarial gain (loss) for year – obligation	(61)	87	(42)
Actuarial gain (loss) for year – plan assets	32	(24)	(50)
Subtotal	111	170	78
Actuarial (gain) loss recognised	(4)	–	(5)
Unrecognised actuarial gains (losses) at December 31	107	170	73

Amounts Recognised in the Statement of Financial Position and Statement of Comprehensive Revenue and Expense, and Related Analyses

IE6. The final step is to determine the amounts to be recognised in the statement of financial position and the statement of comprehensive revenue and expense, and the related analyses to be disclosed in accordance with paragraph 141(f), (g), and (m) of the Standard (the analyses required to be disclosed in accordance with paragraph 141(c) and (e) are given in the section of this Illustrative Example, "Changes in the Present Value of the Obligation and in the Fair Value of the Plan Assets." These are as follows.

	20X7	**20X8**	**20X9**
Present value of the obligation	1,141	1,197	1,295
Fair value of plan assets	(1,092)	(1,109)	(1,093)
	49	88	202
Unrecognised actuarial gains (losses)	107	170	73
Unrecognised past service cost – non-vested benefits	–	(20)	(10)
Liability recognised in statement of financial position	**156**	**238**	**265**
Current service cost	130	140	150
Interest cost	100	103	96
Expected return on plan assets	(120)	(121)	(114)
Net actuarial (gain) loss recognised in year	(4)	–	(5)
Past service cost – non-vested benefits	–	10	10
Past service cost – vested benefits	–	50	–
Expense recognised in statement of comprehensive revenue and expense	**106**	**182**	**137**
Actual return on plan assets			
Expected return on plan assets	120	121	114
Actuarial gain (loss) on plan assets	32	(24)	(50)
Actual return on plan assets	152	97	64

Note: see example illustrating paragraphs 121–123 for presentation of reimbursements.

Disclosures

Extracts from notes show how the required disclosures may be aggregated in the case of an entity that provides a variety of employee benefits. These extracts do not necessarily conform with all the disclosure and presentation requirements of PBE IPSAS 25 and other standards. In particular, they do not illustrate the disclosure of:

(a) *Accounting policies for employee benefits (see PBE IPSAS 1* Presentation of Financial Statements.*) Paragraph 141(a) of this Standard requires this disclosure to include the entity's accounting policy for recognising actuarial gains and losses;*

(b) *A general description of the type of plan (paragraph 141(b));*

(b.1) *Amounts recognised in other comprehensive revenue and expense (paragraph 141(h) and (i));*

(c) *A narrative description of the basis used to determine the overall expected rate of return on assets (paragraph 141(l));*

(d) *Employee benefits granted to key management personnel (see PBE IPSAS 20* Related Party Disclosures*); or*

(e) *Share-based employee benefits (see the international or national accounting standard dealing with share-based payments).*

IE7. Illustrative disclosures are as follows.

Employee Benefit Obligations

The amounts recognised in the statement of financial position are as follows:

	Defined benefit pension plans		**Post-employment medical benefits**	
	20X8	**20X7**	**20X8**	**20X7**
Present value of funded obligations	20,300	17,400	–	–
Fair value of plan assets	(18,420)	(17,280)	–	–
	1,880	120	–	–
Present value of unfunded obligations	2,000	1,000	7,337	6,405
Unrecognised actuarial gains (losses)	(1,605)	840	(2,707)	(2,607)
Unrecognised past service cost	(450)	(650)	–	–
Net liability	1,825	1,310	4,630	3,798
Amounts in the statement of financial position:				
Liabilities	1,825	1,400	4,630	3,798
Assets	–	(90)	–	–
Net liability	1,825	1,310	4,630	3,798

The pension plan assets include ordinary shares issued by [name of reporting entity] with a fair value of 317 (20X7: 281). Plan assets also include property occupied by [name of reporting entity] with a fair value of 200 (20X7: 185).

The amounts recognised in surplus or deficit are as follows:

	Defined benefit pension plans		**Post-employment medical benefits**	
	20X8	**20X7**	**20X8**	**20X7**
Current service cost	850	750	479	411
Interest on obligation	950	1,000	803	705
Expected return on plan assets	(900)	(650)		
Net actuarial losses (gains) recognised in year	(70)	(20)	150	140
Past service cost	200	200		
Losses (gains) on curtailments and settlements	175	(390)		
Total, included in employee benefits expense	1,205	890	1,432	1,256
Actual return on plan assets	600	2,250	–	–

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X8	**20X7**	**20X8**	**20X7**
Opening defined benefit obligation	18,400	11,600	6,405	5,439
Service cost	850	750	479	411
Interest cost	950	1,000	803	705
Actuarial losses (gains)	2,350	950	250	400
Losses (gains) on curtailments	(500)	–		
Liabilities extinguished on settlements	–	(350)		
Liabilities assumed in an entity combination	–	5,000		
Exchange differences on foreign plans	900	(150)		
Benefits paid	(650)	(400)	(600)	(550)
Closing defined benefit obligation	22,300	18,400	7,337	6,405

Changes in the fair value of plan assets are as follows:

	Defined benefit pension plans	
	20X8	**20X7**
Opening fair value of plan assets	17,280	9,200
Expected return	900	650
Actuarial gains (losses)	(300)	1,600
Assets distributed on settlements	(400)	–
Contributions by employer	700	350
Assets acquired in an entity combination	–	6,000
Exchange differences on foreign plans	890	(120)
Benefits paid	(650)	(400)
	18,420	17,280

The entity expects to contribute 900 to its defined benefit pension plans in 20X9.

The major categories of plan assets as a percentage of total plan assets are as follows:

	20X8	**20X7**
European equities	30%	35%
North American equities	16%	15%
European bonds	31%	28%
North American bonds	18%	17%
Property	5%	5%

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	20X8	**20X7**
Discount rate at December 31	5%	6.5%
Expected return on plan assets at December 31	5.4%	7%
Future salary increases	5%	4%
Future pension increases	3%	2%
Proportion of employees opting for early retirement	30%	30%
Annual increase in healthcare costs	8%	8%
Future changes in maximum state healthcare benefits	3%	2%

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	190	(150)
Effect on defined benefit obligation	1,000	(900)

Amounts for the current and previous four periods are as follows:

Defined benefit pension plans

	20X8	**20X7**	**20X6**	**20X5**	**20X4**
Defined benefit obligation	(22,300)	(18,400)	(11,600)	(10,582)	(9,144)
Plan assets	18,420	17,280	9,200	8,502	10,000
Surplus (deficit)	(3,880)	(1,120)	(2,400)	(2,080)	856
Experience adjustments on plan liabilities	(1,111)	(768)	(69)	543	(642)
Experience adjustments on plan assets	(300)	1,600	(1,078)	(2,890)	2,777

Post-employment medical benefits

	20X8	**20X7**	**20X6**	**20X5**	**20X4**
Defined benefit obligation	7,337	6,405	5,439	4,923	4,221
Experience adjustments on plan liabilities	(232)	829	490	(174)	(103)

The reporting entity also participates in a defined benefit plan for all local government units in Jurisdiction Y that provides pensions linked to final salaries and is funded on a pay-as-you-go basis. It is not practicable to determine the present value of the economic entity's obligation or the related current service cost, as the plan computes its obligations on a basis that differs materially from the basis used in [name of reporting entity]'s financial statements. [describe basis] On that basis, the plan's financial statements to June 30 20X6 show an unfunded liability of 27,525. The unfunded liability will result in future payments by participating employers. The plan has approximately 75,000 members, of whom approximately 5,000 are current or former employees of [name of reporting entity] or their dependants. The expense recognised in surplus or deficit, which is equal to contributions due for the year, and is not included in the above amounts, was 230 (20X7: 215). The reporting entity's future contributions may be increased substantially if other entities withdraw from the plan.

Illustration of the Application of Paragraph 70

The Issue

IE8. Paragraph 69 of this Standard imposes a ceiling on the defined benefit asset that can be recognised.

69. **The amount determined under paragraph 65 may be negative (an asset). An entity shall measure the resulting asset at the lower of:**

(a) **The amount determined under paragraph 65** [i.e., the surplus/deficit in the plan plus (minus) any unrecognised losses (gains)]**; and**

(b) **The total of:**

(i) **Any cumulative unrecognised net actuarial losses and past service cost (see paragraphs 105, 106 and 112); and**

(ii) **The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph 91.**

IE9. Without paragraph 70 (see below), paragraph 69(b)(i) has the following consequence: sometimes deferring the recognition of an actuarial loss (gain) in determining the amount specified by paragraph 65 leads to a gain (loss) being recognised in surplus or deficit.

IE10. The following example illustrates the effect of applying paragraph 69 without paragraph 70. The example assumes that the entity's accounting policy is not to recognise actuarial gains and losses within the corridor, and to amortise actuarial gains and losses outside the corridor. (Whether the corridor is used is not significant. The issue can arise whenever there is deferred recognition under paragraph 65.)

Example 1—Effect of applying paragraph 69 without paragraph 70

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph 69(b)(ii))	Losses unrecognised under paragraph 65	Paragraph 65	Paragraph 69(b)	Asset ceiling, i.e., recognised asset	Gain recognised in year 2
1	100	0	0	100	0	0	–
2	70	0	30	100	30	30	30

IE11. At the end of year 1, there is a surplus of 100 in the plan (column A in the table above), but no economic benefits are available to the entity either from refunds or reductions in future contributions[3] (column B). There are no unrecognised gains and losses under paragraph 65 (column C). So, if there were no asset ceiling, an asset of 100 would be recognised, being the amount specified by paragraph 65 (column D). The asset ceiling in paragraph 69 restricts the asset to nil (column F).

IE12. In year 2, there is an actuarial loss in the plan of 30 that reduces the surplus from 100 to 70 (column A), the recognition of which is deferred under paragraph 65 (column C). So, if there were no asset ceiling, an asset of 100 (column D) would be recognised. The asset ceiling without paragraph 70 would be 30 (column E). An asset of 30 would be recognised (column F), giving rise to an increase in revenue (column G), even though all that has happened is that a surplus from which the entity cannot benefit has decreased.

IE13. A similarly counter-intuitive effect could arise with actuarial gains (to the extent that they reduce cumulative unrecognised actuarial losses).

Paragraph 70

IE14. Paragraph 70 prohibits the recognition of gains (losses) that arise solely from past service cost and actuarial losses (gains).

70. **The application of paragraph 69 shall not result in a gain being recognised solely as a result of an actuarial loss or past service cost in the current period, or in a loss being recognised solely as a result of an actuarial gain in the current period. The entity shall therefore recognise immediately under paragraph 65 the following, to the extent that they arise while the defined benefit asset is determined in accordance with paragraph 69(b):**

(a) **Net actuarial losses of the current period and past service cost of the current period to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph 69(b)(ii). If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period shall be recognised immediately under paragraph 65.**

(b) **Net actuarial gains of the current period after the deduction of past service cost of the current period to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph 69(b)(ii). If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period shall be recognised immediately under paragraph 65.**

[3] Based on the current terms of the plan.

IE15. The following examples illustrate the result of applying paragraph 70. As above, it is assumed that the entity's accounting policy is not to recognise actuarial gains and losses within the corridor, and to amortise actuarial gains and losses outside the corridor. For the sake of simplicity, the periodic amortisation of unrecognised gains and losses outside the corridor is ignored in the examples.

Example 1 continued—Adjustment when there are actuarial losses and no change in the economic benefits available

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph 69(b)(ii))	Losses unrecognised under paragraph 65	Paragraph 65	Paragraph 69(b)	Asset ceiling, i.e., recognised asset	Gain recognised in year 2
1	100	0	0	100	0	0	–
2	70	0	0	70	0	0	0

IE16. The facts are as in example 1 above. Applying paragraph 70, there is no change in the economic benefits available to the entity[4] so the entire actuarial loss of 30 is recognised immediately under paragraph 65 (column D). The asset ceiling remains at nil (column F) and no gain is recognised.

IE17 In effect, the actuarial loss of 30 is recognised immediately, but is offset by the reduction in the effect of the asset ceiling.

	Asset in Statement of Financial Position under paragraph 65 (column D above)	**Effect of the asset ceiling**	**Asset ceiling (column F above)**
Year 1	100	(100)	0
Year 2	70	(70)	0
Gain (loss)	(30)	(30)	0

IE18. In the above example, there is no change in the present value of the economic benefits available to the entity. The application of paragraph 70 becomes more complex when there are changes in present value of the economic benefits available, as illustrated in the following examples.

Example 2—Adjustment when there are actuarial losses and a decrease in the economic benefits available

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph 69(b)(ii))	Losses unrecognised under paragraph 65	Paragraph 65	Paragraph 69(b)	Asset ceiling, i.e., recognised asset	Gain recognised in year 2
1	60	30	40	100	70	70	–
2	25	20	50	75	70	70	0

IE19. At the end of year 1, there is a surplus of 60 in the plan (column A) and economic benefits available to the entity of 30 (column B). There are unrecognised losses of 40 under paragraph 65 (column C). So, if there were no asset ceiling, an asset of 100 would be recognised (column D). The asset ceiling restricts the asset to 70 (column F).

4 The term "economic benefits available to the entity" is used to refer to those economic benefits that qualify for recognition under paragraph 69(b)(ii).

IE20. In year 2, an actuarial loss of 35 in the plan reduces the surplus from 60 to 25 (column A). The economic benefits available to the entity fall by 10 from 30 to 20 (column B). Applying paragraph 70, the actuarial loss of 35 is analysed as follows:

Actuarial loss equal to the reduction in economic benefits	10
Actuarial loss that exceeds the reduction in economic benefits	25

IE21. In accordance with paragraph 70, 25 of the actuarial loss is recognised immediately under paragraph 65[5] (column D). The reduction in economic benefits of 10 is included in the cumulative unrecognised losses that increase to 50 (column C). The asset ceiling, therefore, also remains at 70 (column E) and no gain is recognised.

IE22. In effect, an actuarial loss of 25 is recognised immediately, but is offset by the reduction in the effect of the asset ceiling.

	Asset in Statement of Financial Position under paragraph 65 (column D above)	**Effect of the asset ceiling**	**Asset ceiling (column F above)**
Year 1	100	(30)	70
Year 2	75	(5)	70
Gain (loss)	(25)	25	0

Example 3—Adjustment when there are actuarial gains and a decrease in the economic benefits available to the entity

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph 69(b)(ii))	Losses unrecognised under paragraph 65	Paragraph 65	Paragraph 69(b)	Asset ceiling, i.e., recognised asset	Gain recognised in year 2
1	60	30	40	100	70	70	–
2	110	25	40	150	65	65	(5)

IE23. At the end of year 1, there is a surplus of 60 in the plan (column A) and economic benefits available to the entity of 30 (column B). There are unrecognised losses of 40 under paragraph 65 that arose before the asset ceiling had any effect (column C). So, if there were no asset ceiling, an asset of 100 would be recognised (column D). The asset ceiling restricts the asset to 70 (column F).

IE24. In year 2, an actuarial gain of 50 in the plan increases the surplus from 60 to 110 (column A). The economic benefits available to the entity decrease by 5 (column B). Applying paragraph 70, there is no increase in economic benefits available to the entity. Therefore, the entire actuarial gain of 50 is recognised immediately under paragraph 65 (column D) and the cumulative unrecognised loss under paragraph 65 remains at 40 (column C). The asset ceiling decreases to 65 because of the reduction in economic benefits. That reduction is not an actuarial loss as defined by PBE IPSAS 25 and therefore does not qualify for deferred recognition.

5 The application of paragraph 70 allows the recognition of some actuarial gains and losses to be deferred under paragraph 65 and, hence, to be included in the calculation of the asset ceiling. For example, cumulative unrecognised actuarial losses that have built up while the amount specified by paragraph 69(b) is not lower than the amount specified by paragraph 65 will not be recognised immediately at the point that the amount specified by paragraph 69(b) becomes lower. Instead, their recognition will continue to be deferred in line with the entity's accounting policy. The cumulative unrecognised losses in this example are losses the recognition of which is deferred even though paragraph 70 applies.

IE25. In effect, an actuarial gain of 50 is recognised immediately, but is (more than) offset by the increase in the effect of the asset ceiling.

	Asset in Statement of Financial Position under paragraph 65 (column D above)	**Effect of the asset ceiling**	**Asset ceiling (column F above)**
Year 1	100	(30)	70
Year 2	150	(85)	65
Gain (loss)	50	(55)	(5)

IE26. In both examples 2 and 3, there is a reduction in economic benefits available to the entity. However, in example 2 no loss is recognised whereas, in example 3, a loss is recognised. This difference in treatment is consistent with the treatment of changes in the present value of economic benefits before application of paragraph 70. The purpose of paragraph 70 is solely to prevent gains (losses) being recognised because of past service cost or actuarial losses (gains). As far as is possible, all other consequences of deferred recognition and the asset ceiling are left unchanged.

Example 4—Adjustment in a period in which the asset ceiling ceases to have an effect

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph 69(b)(ii))	Losses unrecognised under paragraph 65	Paragraph 65	Paragraph 69(b)	Asset ceiling, i.e., recognised asset	Gain recognised in year 2
1	60	25	40	100	65	65	–
2	(50)	0	115	65	115	65	0

IE27. At the end of year 1, there is a surplus of 60 in the plan (column A) and economic benefits are available to the entity of 25 (column B). There are unrecognised losses of 40 under paragraph 65 that arose before the asset ceiling had any effect (column C). So, if there were no asset ceiling, an asset of 100 would be recognised (column D). The asset ceiling restricts the asset to 65 (column F).

IE28. In year 2, an actuarial loss of 110 in the plan reduces the surplus from 60 to a deficit of 50 (column A). The economic benefits available to the entity decrease from 25 to 0 (column B). To apply paragraph 70, it is necessary to determine how much of the actuarial loss arises while the defined benefit asset is determined in accordance with paragraph 69(b). Once the surplus becomes a deficit, the amount determined by paragraph 65 is lower than the net total under paragraph 69(b). So, the actuarial loss that arises while the defined benefit asset is determined in accordance with paragraph 69(b) is the loss that reduces the surplus to nil, i.e., 60. The actuarial loss is, therefore, analysed as follows:

Actuarial loss that arises while the defined benefit asset is measured under paragraph 69(b):

Actuarial loss that equals the reduction in economic benefits	25
Actuarial loss that exceeds the reduction in economic benefits	35
	60
Actuarial loss that arises while the defined benefit asset is measured under paragraph 65	50
Total actuarial loss	110

IE29. In accordance with paragraph 70, 35 of the actuarial loss is recognised immediately under paragraph 65 (column D); 75 (25 plus 50) of the actuarial loss is included in the cumulative unrecognised losses, which increase to 115 (column C). The amount determined under paragraph 65 becomes 65 (column D), and under paragraph 69(b) becomes 115 (column E). The recognised asset is the lower of the two, i.e., 65 (column F), and no gain or loss is recognised (column G).

IE30. In effect, an actuarial loss of 35 is recognised immediately, but is offset by the reduction in the effect of the asset ceiling.

	Asset in Statement of Financial Position under paragraph 65 (column D above)	Effect of the asset ceiling	Asset ceiling (column F above)
Year 1	100	(35)	65
Year 2	65	0	65
Gain (loss)	(35)	35	0

Notes

1. In applying paragraph 70 in situations when there is an increase in the present value of the economic benefits available to the entity, it is important to remember that the present value of the economic benefits available cannot exceed the surplus in the plan.[6]

2. In practice, benefit improvements often result in a past service cost and an increase in expected future contributions, due to increased current service costs of future years. The increase in expected future contributions may increase the economic benefits available to the entity in the form of anticipated reductions in those future contributions. The prohibition against recognising a gain solely as a result of past service cost in the current period does not prevent the recognition of a gain because of an increase in economic benefits. Similarly, a change in actuarial assumptions that causes an actuarial loss may also increase expected future contributions and, hence, the economic benefits available to the entity in the form of anticipated reductions in future contributions. Again, the prohibition against recognising a gain solely as a result of an actuarial loss in the current period does not prevent the recognition of a gain because of an increase in economic benefits.

6 In the example illustrating paragraph 73 of PBE IPSAS 25, the present value of available future refunds in contributions could not exceed the surplus in the plan of 90.

Comparison with IPSAS 25

PBE IPSAS 25 *Employee Benefits* is drawn from IPSAS 25 *Employee Benefits.* PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance. Other than the impact of this difference, there are no significant differences between PBE IPSAS 25 and IPSAS 25.

History of PBE IPSAS 25

PBE IPSAS 25 *Employee Benefits* was issued in May 2013.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 25. The table is based on amendments approved as at 31 May 2013.

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE IPSAS 25 *Employee Benefits*	May 2013	Early application not permitted	1 July 2014