



NZ ACCOUNTING
STANDARDS
BOARD

Defined Benefit Plans: Employee Contributions (Amendments to NZ IAS 19)

Issued February 2014

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Introduction

This document sets out amendments to NZ IAS 19 *Employee Benefits*. These amendments result from the proposals in, and the feedback received on, the Exposure Draft IASB ED/2013/4 *Defined Benefit Plans: Employee Contributions* (Proposed amendments to IAS 19) that was published in March 2013.

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a reduction of service cost (ie as a negative benefit). In the IASB's view, contributions from employees or third parties reduce the ultimate cost of a defined benefit and should therefore be accounted for consistently with the accounting for the defined benefit.

The IFRS Interpretations Committee (the 'Interpretations Committee') received two submissions in 2012 that requested clarification of the accounting requirements for contributions from employees or third parties to a defined benefit plan. Those submissions expressed concerns about the complexity of the requirements when applied to simple contributory plans. The Interpretations Committee recommended to the IASB that it should amend IAS 19 to simplify the requirements for such plans.

Consequently, the IASB has amended the requirements in IAS 19 for contributions from employees or third parties that are linked to service.

If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

If the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by paragraph 70 of NZ IAS 19 for the gross benefit (ie either using the plan's contribution formula or on a straight-line basis).

Amendments to NZ IAS 19 *Employee Benefits*

Scope

This Standard applies only to Tier 1 and Tier 2 for-profit entities.

Paragraphs 93–94 are amended and paragraph 175 is added. New text is underlined and deleted text is struck through. Paragraph 92 is included for reference only.

Actuarial assumptions: salaries, benefits and medical costs

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92 Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 116. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

93 Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or ~~reduce~~ affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when (eg if the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses). If cContributions from employees or third parties are linked to in respect of service, those contributions reduce the service cost as follows: are attributed to periods of service as a negative benefit in accordance with paragraph 70 (ie the net benefit is attributed in accordance with that paragraph).

- (a) if the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by paragraph 70 for the gross benefit (ie either using the plan's contribution formula or on a straight-line basis); or
- (b) if the amount of the contributions is independent of the number of years of service, the entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

Paragraph A1 provides related application guidance.

94 For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 93(a), cChanges in employee or third party the contributions in respect of service result in:

- (a) current and past service cost (if those changes in employee contributions are not set out in the formal terms of a plan and do not arise from a constructive obligation); or
- (b) actuarial gains and losses (if those changes in employee contributions are set out in the formal terms of a plan, or arise from a constructive obligation).

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Transition and effective date

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175 *Defined Benefit Plans: Employee Contributions* (Amendments to NZ IAS 19), issued in February 2014, amended paragraphs 93–94. An entity shall apply those amendments for annual periods beginning on or after 1 July 2014 retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

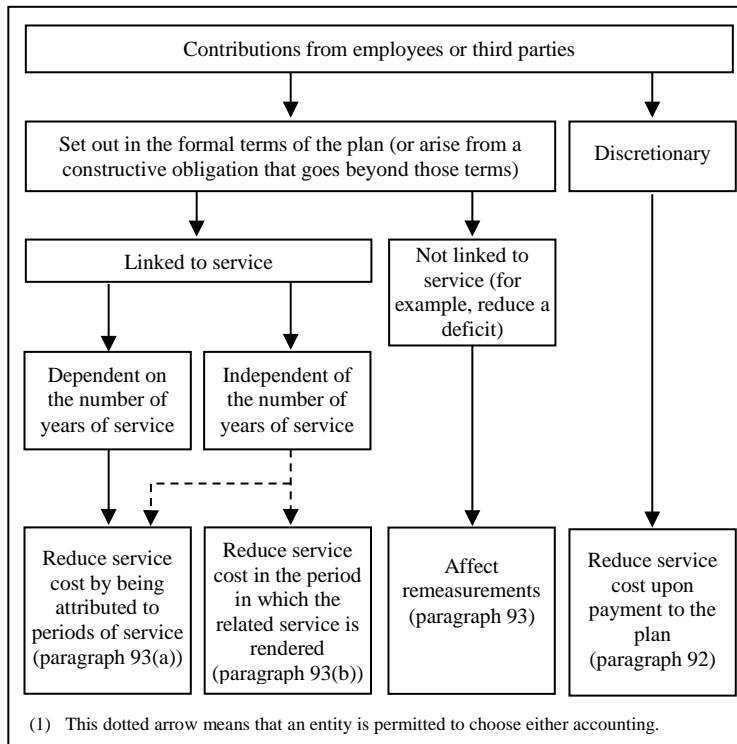
Amendments to the Appendices of NZ IAS 19 *Employee Benefits*

Appendix A is added.

Appendix A Application Guidance

This appendix is an integral part of the NZ IFRS. It describes the application of paragraphs 92–93 and has the same authority as the other parts of the NZ IFRS.

A1 The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



A heading is amended. New text is underlined.

Appendix B Amendments to other NZ IFRSs

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