IPSAS 39 – EMPLOYEE BENEFITS

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IPSAS 39: Employee Benefits

SESSION OBJECTIVES

- Scope and classification of employee benefits
- Recognition and measurement of short-term, long- term, post-employment and termination employee benefits
- Defined contribution versus defined benefit pension plans
- Key disclosure requirements

Elements of IPSAS 39

Objective

Scope

Overview and Definitions

Defined Contribution and Defined Benefit Plans

Disclosure

Comparison with

IPSAS 25

Practical implications

Objective

To prescribe the accounting and disclosure for Employee Benefits. The Standard requires an entity to recognize:

A liability	When an employee has provided service in exchange for employee benefits to be paid in future.
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

Scope	Details
In Scope of IPSAS 39	▪ Applicable to all employee benefits, except share-based transactions
Out of Scope of IPSAS 39	▪ Share-based payments made to employees (IFRS 2) ▪ Reporting by employee retirement benefit plans (IAS 26) ▪ Social benefits (ED 63)

Overview of employee benefits

- Short-term employee benefits
- Post-employment benefits
- Other long-term employee benefits
- Termination benefits

Short-term employee benefits

Employee benefits (other than termination benefits) that are due to be settled **wholly before 12 months after the end of the reporting** period in which the employees render the related service, such as:

Wages, salaries, social security contributions

Short term compensated absences – paid annual and sick leave

Bonuses, incentive and performance related payments, and non-monetary benefits

Post-employment benefits

Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment, such as:

Retirement benefits – pensions

Other post-employment benefits – post-employment life insurance, and post-employment medical care

Other long-term employee benefits

All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits, such as:

- Long-term disability benefits
- Paid absences – long-service leave, sabbatical leave
- Other long-service benefits

Termination benefits

Employee benefits provided in exchange for the **termination of an employee's employment** as a result of either:

An entity's decision to terminate an employee's employment before the normal retirement date, such as retrenchment; or

An employee's decision to accept an offer of benefits in exchange for the termination of employment, such as voluntary termination.

Defined Contribution Plans and Defined Benefit Plans

Defined contribution	Defined benefit
Requires the entity to pay pre-determined contributions into a post-employment benefit plan or insurance company	May be unfunded, or may be wholly or partly funded by contributions from the entity, or its employees, into an entity or fund that is legally separate from the reporting entity
Obligation limited to amount the entity agreed to contribute to the fund	Obligation to pay the agreed benefits to current and former employees

Defined Contribution Plans

Straightforward Accounting

- obligation for each period is determined by the amounts to be contributed for that period
- no actuarial assumptions are required to measure the obligation or the expense
- no possibility of any actuarial gain or loss

Defined Contribution Plans

Recognition and measurement

- Recognise the contribution payable as a liability (accrued expense), after deducting any contribution already paid
- Recognise the contribution payable as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (IPSAS 12 and IPSAS 17)

Defined Benefit Plans

Complex Accounting

a) Actuarial assumptions used to measure the obligation & expense

b) Possibility of actuarial gains and losses

c) Obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service

Defined Benefit Plans

Recognition and measurement

a) Amount recognized as the net defined benefit liability (asset) shall be the total of the following amounts:

- ✓ present value of the defined benefit obligation;
- ✓ minus the fair value of plan assets (if any) out of which the obligations are to be settled directly;
- ✓ plus/minus defined benefit cost (service cost, net interest expense/income and remeasurements).

Actuarial gains/losses

Actuarial gains and losses can result from increases or decreases in the present value of plan liabilities or increases or decreases in the fair value of plan assets. Causes include:

a) unexpectedly high or low rates of employee turnover;

b) early retirement or mortality;

c) salary increases;

d) changes in discount rates;

e) differences between actual and expected return on plan assets

Defined Benefit Schemes

Scheme Assets

Measure at fair value at balance sheet date

Scheme Liabilities

Measure at present value of future obligations

Pension scheme surplus or deficit on balance sheet.

Movements for the period in net de benefit liability

Opening net defined benefit liability (asset)

Service cost

- Current service cost, past service cost, settlement

Net interest expense/income

Surplus or deficit

Re-measurements

- Actuarial gains and losses, return on plan assets, change in the effect of the asset ceiling

Net assets/equity

Closing net defined benefit liability (asset)

Actuarial gains or losses

Plan Assets: Determining actuarial gains and losses		
Fair value (FV) at start of period	**XX**	Market valuations should be carried out regularly
Expected return	**XX**	Expected increase in fair value of plan assets during period
Contributions made	**XX**	Amounts contributed by employer and employees to plan
Benefits paid	**(XX)**	Amounts paid out from pension fund in current year to pensioners, thus reducing value of remaining assets
Actuarial gain/(loss)	**X/(X)**	**Balancing figure**
Fair value at end of period	**XX**	

Actuarial gains or losses

Plan Liabilities: Determining actuarial gains and losses		
Present value of obligation at start of period	**XX**	Benefits earned by past and present employees in return for services to date, which will be payable in the future
Current service cost	**XX**	Extra pension benefits earned by employees in return for services in current period.
Interest cost	**XX**	Increase in the present value of future obligations during the current period ('unwinding the discount')
Benefits paid	**(XX)**	Amounts paid out from pension fund in current year, thus reducing future liability
Actuarial (gain)/loss	**(X)/X**	**Balancing figure**
Present value at end of period	**XX**	

Employee benefits - Discussion

Determine whether the following are:

a) Short term benefits or long-term benefits

b) Defined contributions or defined benefit plans

i. Annual leave where (a) employees are allowed to carry forward unutilised leave days; (b) employees are not allowed to carry forward leave days, they are cashed every end of the year.

ii. Every employee who works for more than 10 years is entitled to a gratuity amount equivalent to one months salary of every year worked based on last salary at retirement or exit

Employee benefits - discussion

(Continued)

iii. Employees are entitled to a pension of 5% of their basic salary from the employer for every month worked if they join the scheme and (a) contribute an equivalent 5%; (b) contribute nothing to the scheme.

iv. Employees are entitled to a pension benefit on retirement equivalent to an amount to be determined by an actuary sufficient enough to sustain their standard of living until death and (a) the employer contributes 10% of basic salary monthly to meet the obligation; (b) the employer does not contribute but instead makes the total payment at the retirement date.

Disclosures

Short-tern employee benefits

Other Long term employee benefits

Termination Benefits

The standard does not require specific disclosures regarding the above employee benefits. However, other standards may require disclosures. For example, IPSAS 20 requires disclosures of the aggregate remuneration of key management personnel and IPSAS 1, requires disclosures of information about employee benefits expense.

Disclosures (Cont. ...)

Post-Employment Benefits – Defined Contribution Plans

An entity shall disclose:

a) The accounting policies and schemes for employee benefits
b) The amount recognised as an expense
c) Information about contributions to defined contribution plans for key management personnel.

Disclosures (Cont. ...)

Post-Employment Benefits – Defined Benefit Plans

An entity shall disclose information that:

a) Accounting policies and nature of schemes available

b) Explains the characteristics of its defined benefit plans and risks associated with them;

c) Identifies and explains the amounts in its financial statements arising from its defined benefit plans;

d) Describe how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows; and

e) A reconciliation of opening and closing balances of the present value of the defined benefit obligation

Comparison with IPSAS 25

IPSAS 39, *Employee Benefits* is effective from 1 January 2018 with earlier adoption encouraged. IPSAS 39 replaces IPSAS 25. The main differences between IPSAS 39 and IPSAS 25 are:

- Removal of the corridor approach;
- Introduction of disclosure objectives for defined benefit plans;
- Introduction of the net interest approach for defined benefit plans; and
- Timing of recognition of termination benefits.

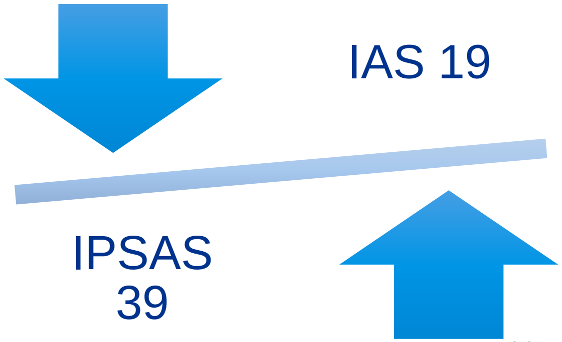
Comparison with IAS 19

IPSAS 39, *Employee Benefits* is drawn primarily from IAS 19, *Employee Benefits*. The main differences between IPSAS 39 and IAS 19 are as follows:

– IPSAS 39 contains additional guidance on public sector bonus plans.

– When discounting post-employment obligations, IPSAS 39 requires a discount rate that reflects the time value of money. IAS 19 requires a discount rate based on yields on high quality corporate bonds consistent with the term of the post-employment benefit obligations.

– IPSAS 39 recognizes remeasurements of the net defined benefit liability (asset) in net assets/equity. IAS 19 recognizes them in other comprehensive income.



Practical implications: Employee Benefits

Defined Benefit Plan	Defined Contribution Plan
▪ Pension is determined based on formula based on employee remuneration and length of service. ▪ The number of DB plans have decreased in some jurisdictions. ▪ Unfunded amount/Liability is determined by ACTUARIES.	▪ Pension is based on contributions made by the employer during a set period.

Practical implications: Employee Benefits

Defined Benefit Plan	Defined Contribution Plan

- Identify all pension plans.
- Is there a legal/constructive obligation?
- DB/DC?
- Fully funded, partially funded or Pay as you go?
- Choosing appropriate discount rate to calculate Present value of liabilities.
- Appoint Actuaries.

THANK YOU

QUESTIONS & DISCUSSIONS