# Ind AS 19
# Employee Benefits

March 2017

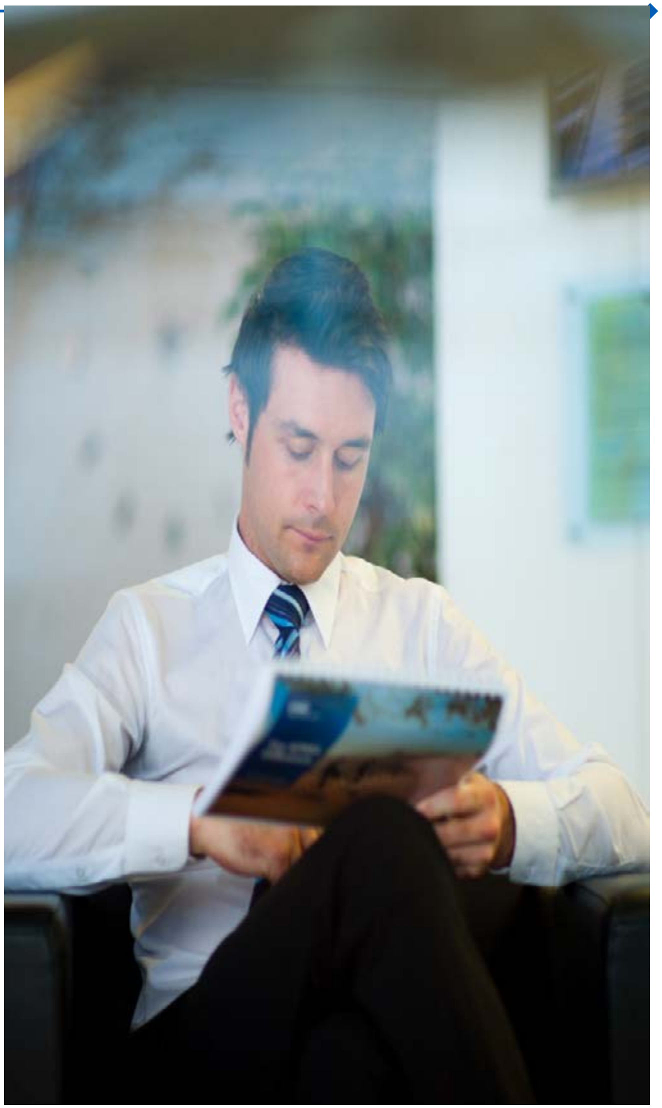
# Learning objectives

**Upon completion you will understand**

- Scope of the standard
- Different types of employee benefits
- Application of appropriate accounting treatment to the different types
- Disclosure requirements for employee benefits

# Agenda

1. Objective and scope
2. Post employment benefit plans
3. Short term employment benefit plans
4. Termination benefits
5. Other long term employee benefits
6. Disclosures
7. Key learning points



# Objectives & Scope

# Objective and Scope

Covers all kinds of employee benefits
Except those to which IFRS 2 applies (ESOPS)

IAS 19 does not deal with reporting by employee retirement benefit plans (IAS 26)

# Main principles of IAS 19

Employee benefits:
All forms of consideration given in exchange for service rendered by employees or for the termination of employment.

The above may include permanent health insurance, maternity/paternity leave, mobile phones and others.

# Overview of employee benefits

| Short-term benefits | Post-employment benefits | Other long-term benefits | Termination benefits |
|---|---|---|---|
| • Wages, Salaries, Paid Annual leave, paid sick leave, yearly bonus. | • Pension, Other Retirement benefits like medical treatment. Post employment life insurance. | • Long Service leave, Sabbatical, long term disability benefits if payable twelve months or more after the end of the period. | • Terminate specific individual(s)/ group of individuals; or<br>• Provide termination benefits to encourage voluntary redundancy |

# Post employment benefit plans

# Post-employment benefit plans

| | |
|---|---|
| Defined contribution plans (DCP) | • Obligation limited to the amount of contributions paid to a fund<br>• Plans under which the entity pays a contribution into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits falling due; i.e. actuarial risk falls on the employee |
| Defined benefit plans (DBP) | • All other plans<br>• Recognise legal and constructive obligation |
| Multi Employer Plans | • It could be a DCP or DBP<br>• Pool and use the assets of entities not under same management. |

# Defined Contribution & Defined Benefit Plans

- Post Employee Benefits
  - Defined Contribution Plan (DCP)
    - Liability = Fixed contribution to separate fund.
    - Post employment benefit = contribution + Returns
    - Actuarial risks vests with the employee.
  - Defined Benefit Plan (DBP)
    - Liability not fixed. It fluctuates.
    - Post employment benefit = fixed
  - Multi Employer Plans
    - Pool and use the assets. Could be either DCP or DBP.

# Example 1

Sunfeast Limited has a Pension plan with DoWell Insurers for its employees. The terms of the scheme is that each employee will contribute 6% of their basic salary to the scheme and employer shall contribute an equal amount to the scheme.
DoWell insurers will use the amount collected to invest in approved business line to earn profits. Though historically DoWell never failed in paying pensions, its investments are subject to market risks.
However, Sunfeast limited don't have any liability what so ever on DoWell's settlement abilities to its employees.

**What type of scheme is this ?**

# Example 2

Verizon Inc, has a pension plan with Allianz Insurance to offer post employment benefits to its employees. According to the arrangement, the amount of post – retirement benefit offered is $ 100 per month for each year of completed service.  For example If Mr. A retires after 30 years from service, the pension payable to him is $3,000 per month for his life time.

**What type of scheme is this ?**

# Accounting of Defined contribution plans

Expense recognised

| contribution paid | and payable |
| --- | --- |

Accrue cost as service is rendered

Short fall / excess of contribution payable over amount paid is recognised as liability / asset

Disclose amount recognised as expense

# Comparison - Defined benefit/defined contribution

| Defined contribution = contribution linked | Defined benefit = performance linked |
|---|---|
| • $ 100 monthly contributions<br>• Actuarial and investment risk with employee | • $ 100 monthly pension payments x % of last salary<br>• Actuarial and investment risk with employer |

**Why is the accounting for defined benefit plans much more complicated?**

# Accounting complexity in defined benefit plans

Pension expense recognized each period does not necessarily equal to the employer's cash contribution to the plan.

Pension asset or liability recognition is controversial because it is measured using unknown future variables (e.g. future salary levels, future interest rates, employees' years of service).

The amount of pension expense recognized depends on many factors such as:

- Service costs
- Interest expense (on the pension liability)
- Actual return on plan assets
- Prior service cost
- Unexpected gains or losses on plan assets

# Accounting complexity in defined benefit plans

| <u>Demographic</u> assumptions, mainly based on past experience, such as: | <u>Financial</u> assumptions, based on market expectation, such as: |
|---|---|
| • Mortality<br>• Rate of employee turnover, disability, early retirement | • Discount rate and expected rate of return on assets<br>• Future salary and benefit levels |

# Example 4

A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of completed service. The Salary in year 1 is $ 15,000 and is assumed to increase at 9% (compound) each year. The discount rate used is 10% per annum. The employee is expected to leave at the end of 7 years.

Determine the benefit obligation -'Using projected unit credit method'

Given: Present Value

| Year 0 | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| 1 | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 | 0.564 |

# Continued...

**Step 1: Determine the Salary at the time of retirement**

Current Salary x (1+rate of increase) (Number of years of service)
= 15,000 (1+ 0.09) (7)
= 25,157

**Step 2: Expected final benefit**

= 1% of $ 25,157 (final Salary) = $ 252/-
= $ 252 x 7 years = $ 1,761/-

**Step 3: Yearly obligation at 10 % discount**

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| **Yearly Obligation** | 252 | 252 | 252 | 252 | 252 | 252 | 252 |
| **PV @ 10 %** | 0.564 | 0.621 | 0.683 | 0.751 | 0.826 | 0.909 | 1.000 |
| **PV Obligation** | 142 | 156 | 172 | 189 | 208 | 229 | 252 |

# Continued…

Build up of required fund

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| **Opening Obligation** | - | 142 | 312 | 515 | 756 | 1,040 | 1,373 |
| **Interest @ 10 % on opening amount in the fund** | - | 14 | 31 | 52 | 76 | 104 | 137 |
| **Current Obligation** | 142 | 156 | 172 | 189 | 208 | 229 | 252 |
| **Closing Obligation** | 142 | 312 | 515 | 756 | 1,040 | 1,373 | 1,762 |

# Continued. Journal Entries

**Year 1**

**Current Service Cost**

| | | | |
|---|---|---|---|
| Current Service Cost (Income Statement) | Dr | 142 | |
| Defined Benefit Obligation (SOFP) | Cr | | 142 |

**Year 2**

**Current Service Cost**

| | | | |
|---|---|---|---|
| Current Service Cost (Income Statement) | Dr | 156 | |
| Defined Benefit Obligation (SOFP) | Cr | | 156 |

**Interest unwinding**

| | | | |
|---|---|---|---|
| Interest Cost (Income Statement) | Dr | 14 | |
| Defined Benefit Obligation (SOFP) | Cr | | 14 |

# Plan assets

Assets held by a long-term employee benefit fund and qualifying insurance policies

Other insurance policies are recognised as reimbursement rights

Measured at fair value at the end of the reporting period

# Accounting treatment for plan assets

Plan assets are held by a separate legal entity and are not available to the reporting entity's own creditors (even in bankruptcy)

Accounting entry:

| | | |
|---|---|---|
| Dr Plan assets (SOFP) | XX | |
| Cr Cash / Bank | | XX |

(Being contribution made by employer to the plan assets)

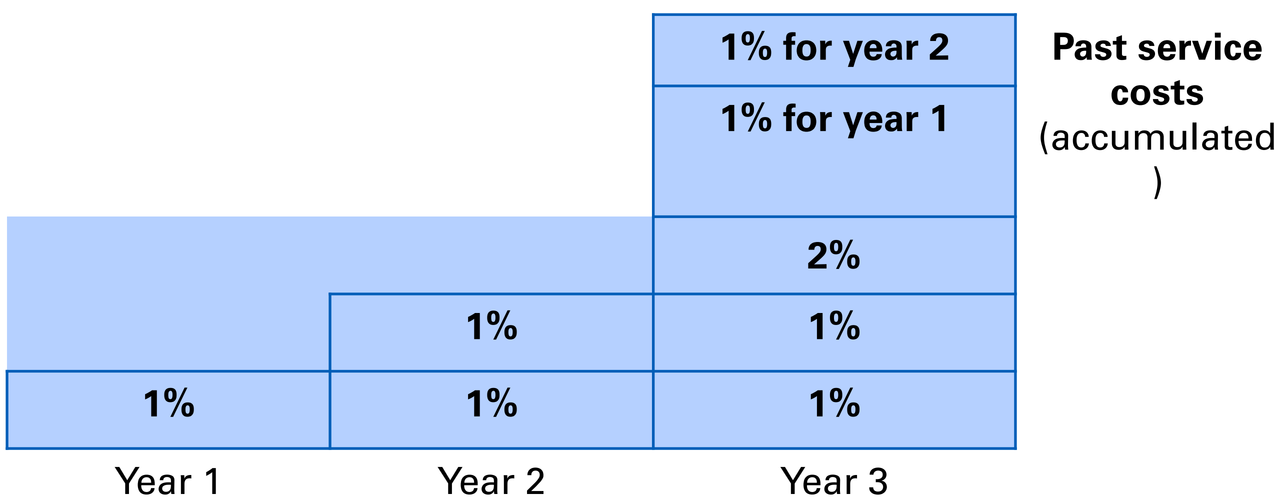
Return on plan assets includes interest, dividends, gains, etc net of losses, management fees and taxes (if any).

# Past service costs

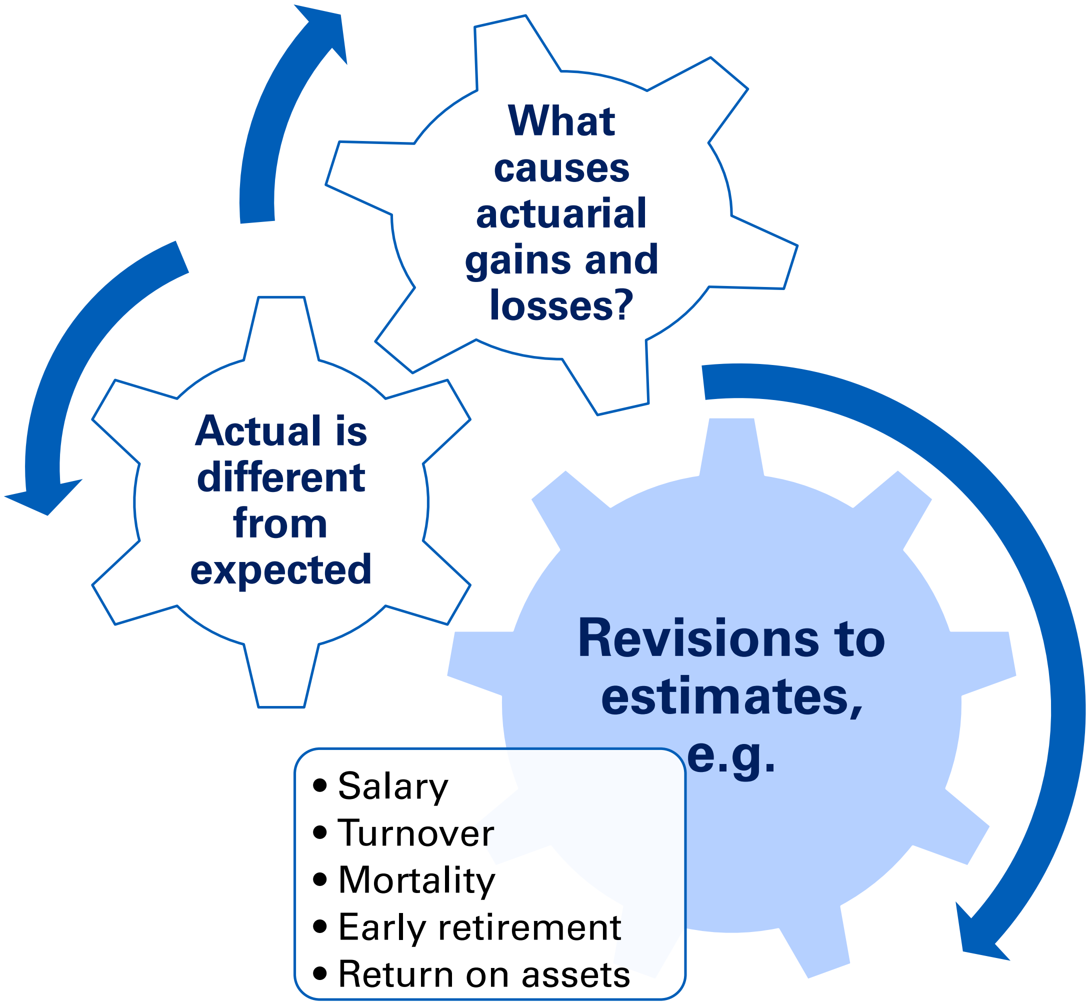
Reason: Changes of benefits related to service in previous periods

Example: An employee receives from the date of retirement, 1% of their last year's salary for each year of service

Change: In year 3 the employer increases retrospectively its promise from 1% to 2%



# Actuarial gains/losses



# How to manage the retirement benefits

| Liability towards employees – defined obligations) | Fund for employees – (plan assets) |
|---|---|

- Account for the liability each year (present value of the defined benefit obligation)
- Show expenses in current service costs
- Account for the interest on the opening liability

- Contributions made to plan
- assets
- Dividends, interest on opening plan assets

Payments to employees

**An entity recognises the net defined benefit liability (asset) in the statement of financial position.**

# Discount rate

Under Ind AS 19, post-employment benefit obligation should be discounted using discount rate determined by reference to market yield at the end of reporting period on government bonds.

However, subsidiaries, associate, joint ventures and branches domiciled outside India should use a rate determined by reference to market yield on high quality corporate bond at the end of reporting period.

# Remeasurements

The concept of remeasurement is a new concept introduced by IAS 19 that was issued in June 2011. Remeasurements of net defined benefit liability (asset) comprise:

- actuarial gains and losses on the defined benefit obligation;
- return on plan assets, excluding amounts included in net interest on the net defined benefits liability (asset); and
- any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

# Recognition of remeasurement

Effects of remeasurement are recognised in other comprehensive income and they cannot be recycled through profit or loss in the subsequent periods.

In accordance with IAS 19R, the changes in the effect of the asset ceiling are presented both in profit or loss within net interest (for the interest effect on the asset ceiling) and in other comprehensive income as part of remeasurement for the remainder.

# Defined benefit liability (asset)

Definition:
The net defined benefit liability (asset) is the deficit (surplus), adjusted for any effect  of limiting a net defined benefit asset to the asset ceiling.

The deficit or surplus is:

I. the present value of the defined benefit obligation
II. Less: the fair value of plan assets (if any)

Recognition of changes in the net defined benefit liability (asset):

| Components | Where to recognise |
|---|---|
| Service cost | Profit or loss |
| Net interest on the net defined benefit liability (asset) | Profit or loss |
| Re-measurements | Other comprehensive income |

# Short term employee benefit plans

# Short-term employee benefits

Benefits expected to be paid within 12 months such as

- Wages, salaries and social security contributions
- Vacation and sick leaves
- Profit sharing and bonus

# Short-term employee benefits - Recognition

- Recognition criteria similar to those of IAS 37 apply
- Undiscounted expected costs recognised as expense
- Difference between expected costs and amount paid recognised as liability or asset
- No specific disclosure requirement

# Termination benefits

# Termination benefits - Recognition

Recognition criteria similar to those of IAS 37 apply

Obligating event is termination, not service

Only recognise when demonstrably committed to

- Terminate specific individual(s)/group of individuals; or
- Provide termination benefits to encourage voluntary redundancy

Discount if expected to be paid after more than 12 months

# Other long term employment benefits

# Other long-term employee benefits

**Benefits expected to be paid after more than 12 months**

- Compensated absences (such as sabbatical leaves)
- Long service awards
- Disability benefits
- Profit-sharing, bonuses and deferred compensation payable/paid more than twelve months after the related services are rendered

**Immediate recognition in profit or loss of:**

- Service cost
- Net interest on the net defined liability (asset)
- Remeasurement on the net defined liability (asset)

# Long-term benefits- Bonus Plan

**An entity considers the substance of bonus plan in determining the attribution of benefits to periods of service.**

- Company T has an annual bonus plan which starts in 2014 and continues to 2018.
- The bonus is payable in two tranches, and the payments are conditional on the employee remaining in service for a specified time after the end of the performance period
- In respect of the 2014 bonus, 50% of the bonus is payable on 30 June 2015 and rest 50% is payable on 30 June 2016, if the employee remains in service on those dates

**Whether Bonus Plan is-**
**Long term or Short term**

# Long-term benefits- Bonus Plan

**Bonus Plan**

Without substantive stay period

With substantive stay period

Separate award for different service period

One Single award

- ➢ Back-end loaded – straight-line

  OR

- ➢ Other long term benefits- Not Back-end loaded : attribute to the period of service

# Long-term benefits- Bonus Plan

If an employee earns a bonus for a period of service that is paid more than 12 months after the reporting date regardless of whether the employee remains in service (no stay period), the entire bonus should be attributed to the performance period

- Company T declared a bonus of Rs. 10,000 for the year 2014.
- The bonus is payable in two tranches (50% on 30 June 15 and rest 50% on 30 June 2016). **However Employees who have left before the payment date of the bonus are still regularly paid the bonus**

**How the benefit would be attributed to the performance period during 2014 in respect of the 2014 annual bonus?**

- Considered as annual bonus with deferred payment
- Amount recognized in 2014- Present value of the amounts to be paid on 30 June 2015 and 30 June 2016, as adjusted for estimates of forfeitures occurring during the stay periods

# Long-term benefits- Bonus Plan

In case of **Substantive stay period**- An entity has an **accounting policy choice**

1) separate awards with different service periods; or
2) one single award to be accounted for as a whole

**Separate awards with different service period-**

- Company T declared a bonus of Rs. 10,000 for the year 2014.
- The bonus is payable in two tranches (50% on 30 June 15 and rest 50% on 30 June 2016), **if the employee remains in service on those dates.**
- T selects an accounting policy wherein annual bonus under the other long-term employee benefit plan is considered as **two separate awards with different service periods**
  - ✓ - 50% for a period from 1 January 2014 to 30 June 2015
  - ✓The remaining 50% from from 1 January 2014 to 30 June 2016.

**How the benefit would be attributed to the performance period during 2014 in respect of the 2014 annual bonus?**

✓50% of the 2014 bonus benefit would be attributed over 18 months - i.e. from 1 January 2014 to 30 June 2015 - and

✓The remaining 50% would be attributed over 30 months - i.e. from 1 January 2014 to 30 June 2016.

# Long-term benefits- Bonus Plan

**Accounting policy - One single award to be accounted for as a whole-**

- Consider the same example on previous slide
- T selects accounting policy of **one single award to be accounted for as a whole**
- T needs to determine whether the plan is back-end loaded – **matter of judgement**
- Consider whether benefit earned per unit of time in later years materially exceeds from earlier years
- From 1 January 2014 to 30 June 2015 - 2.8% per month (50%/18)
- From 1 July 2015 to 30 June 2016 – 4.2% per month (50%/12)

**Other long term benefits- Back end loaded**

T would recognise 100% of the benefit on a straight-line basis over 30 months (1 January 2014 - 30 June 2016)

**Other long term benefits- Not Back-end loaded**

T would recognise 50% of the benefit over the first 18 months (1 January 2014 – 30 June 2015) and the remaining 50% over the last 12 months (1 July 2015 - 30 June 2016).

# Disclosures

# Presentation and qualitative disclosures

## Disclosures for IAS 19:

- General description of plan
- Reconciliation of opening and closing DBO and plan assets, including reconciliation to amounts in f/s
- Principal actuarial assumptions, in absolute terms
- Current and comparative disclosures for DBO, plan assets, surplus or deficit
- Generally no offset of different plans in statement of financial position; however, disclosures regarding different defined benefit plans may be aggregated

# GAAP Comparison

# Ind AS Vs Existing GAAP

# Key differences between AS 15 & Ind AS 19

| AS 15 – Employees Benefits | Ind AS 19- Employees Benefits |
|---|---|
| **Short term employee benefits- Definition** | |
| The distinction between short-term and other long-term employee benefits depends on whether they fall wholly due within 12 months **after the end of the period in which the employees render the related service.** | The distinction between short-term and other long-term employee benefits depends on whether those benefits are expected to be settled wholly before twelve months **after the end of the annual reporting period.** |
| **Discount rate** | |
| Market yields at the balance sheet date on government bonds are used as discount rates. | Post-employment benefit obligations (both funded and unfunded) should be discounted using a discount rate determined by reference to market yields at the end of the reporting period on government bonds.<br>**However, subsidiaries, associates, joint ventures and branches domiciled outside India should use a rate determined by reference to market yields on high quality corporate bonds at the end of the reporting period.**<br>In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds of that country should be used. |

# Key differences between AS 15 & Ind AS 19

<table>
<tr><th>AS 15 – Employees Benefits</th><th>Ind AS 19- Employees Benefits</th></tr>
<tr><td colspan="2">Defined benefit plan- Recognition</td></tr>
<tr><td>The changes in defined benefit liability (surplus) has the following components:<br>a) Service cost – recognised in profit or loss;<br>b) Interest cost – recognised in profit or loss;<br>c) The expected return on any plan assets – recognised in profit or loss;<br>d) Net actuarial gains and losses – recognised in profit or loss.</td><td>The change in the defined benefit liability (asset) has the following components:<br>a) Service cost – recognised in profit or loss;<br>b) Net interest cost (i.e. time value) on the net defined benefit deficit/ (asset) – recognised in profit or loss;<br>c) Re-measurement including<br>i) changes in fair value of plan assets that arise from factors other than time value and<br>ii) actuarial gains and losses (i.e. arising from changes in actuarial assumptions and from experience adjustments) on obligations – recognised in other comprehensive income and not recycled subsequently to profit or loss</td></tr>
</table>

# Key differences between AS 15 & Ind AS 19

<table>
<tr><th>AS 15 – Employees Benefits</th><th>Ind AS 19- Employees Benefits</th></tr>
<tr><td colspan="2">Termination benefits- Recognition</td></tr>
<tr><td>Termination benefits are recognized as a liability and an expense when, and only when:<br>▪ the enterprise has a present obligation as a result of a past event;<br>▪ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and<br>▪ a reliable estimate can be made of the amount of the obligation.</td><td>A termination benefit liability is recognised at the earlier of the following dates-:<br>▪ when the entity can no longer withdraw the offer of those benefits –guidance is provided on when this occurs<br>(i) in relation to an employee's decision to accept an offer of benefits on termination and<br>(ii) as a result of an entity's decision to terminate an employee's employment;<br>▪ when the entity recognises costs for a restructuring under Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets which involves the payment of termination benefits.</td></tr>
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# Key Learning points

# Key Learning Points

- Describe the nature of defined contribution, defined benefits and multi-employer schemes
- Explain the recognition and measurement of defined benefit schemes
- Account for defined benefit plans including the amounts shown in the financial statements
- Understand the recognition principles of other employee benefits like termination benefits, short term benefits, other long term benefits.

# Thank You

*Presented by :*

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