International Accounting Standard 19

Employee Benefits

incorporating the amendments proposed in the exposure draft *Defined Benefit Plans.*

INTERNATIONAL ACCOUNTING STANDARD 19
EMPLOYEE BENEFITS

OBJECTIVE

SCOPE **1–6**

DEFINITIONS **7**

SHORT-TERM EMPLOYEE BENEFITS **8–23**

Recognition and measurement **10–22**

All short-term employee benefits 10

Short-term compensated absences 11–16

Profit-sharing and bonus plans 17–22

Disclosure **23**

LONG-TERM EMPLOYEE BENEFITS: DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS **24–42**

Multi-employer plans **29–33A**

Defined benefit plans that share risks between various entities under common control **34–34B**

State plans **36–38**

Insured benefits **39–42**

LONG-TERM EMPLOYEE BENEFITS: DEFINED CONTRIBUTION PLANS **43–47**

Disclosure **46–47**

LONG-TERM EMPLOYEE BENEFITS: DEFINED BENEFIT PLANS **48–119**

Accounting for the constructive obligation 52–53

Recognition: statement of financial position 54A

Recognition: statement of comprehensive income 61–62

Measurement: present value of defined benefit obligations and current service cost **63–101**

Actuarial valuation method 64–66

Attributing benefit to periods of service 67–71A

Actuarial assumptions 72–77

Actuarial assumptions: discount rate 78–81

Actuarial assumptions: salaries, benefits and medical costs 83–91

Past service cost and curtailment 96A–98A

Measurement: plan assets **102–107**

Fair value of plan assets 102–104

Reimbursements 104A–104D

Measurement: availability of economic benefits **115A–115K**

Presentation **116–119**

Statement of financial position 116–118

Statement of comprehensive income	119A–119D
Disclosure	**125A–125K**
Characteristics of defined benefit plans	125C
Explanation of amounts in the financial statements	125D–125H
Amounts, timing and uncertainty of future cash flows	125I–125K
TERMINATION BENEFITS	**132–143**
Recognition	**133–138**
Measurement	**139–140**
Disclosure	**141–143**
TRANSITION AND EFFECTIVE DATE	**162**
WITHDRAWAL OF IFRIC 14	**163**
ILLUSTRATIVE EXAMPLES	

International Accounting Standard 19 *Employee Benefits* (IAS 19) is set out in paragraphs 1–163 and the Appendix. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 19 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

International Accounting Standard 19
Employee Benefits

Objective

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 benefit arising from service provided by an employee in exchange for employee benefits.

Scope

1 **This Standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.**

2 This Standard does not deal with reporting by employee benefit plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

3 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

(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.

4 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 expected to become due to be settled within twelve months of the end of the reporting period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

(b) long-term employee benefits, such as retirement benefits (eg pensions), post-employment life insurance, post-employment medical care, long-service leave or sabbatical leave, jubilee or other long-service benefits and, if they are not expected to become due to be settled wholly within twelve months after the end of the reporting period, long-term disability benefits, profit-sharing, bonuses and deferred compensation.

(c) termination benefits.

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

5 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.

6 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 directors and other management personnel.

Definitions

7 The following terms are used in this Standard with the meanings specified:

Definitions of employee benefits

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

Short-term employee benefits **are employee benefits (other than termination benefits) that the entity expects to become due to be settled within twelve months after the end of the reporting period in which the employee renders the related service and before the completion of employment.**

Long-term employee benefits **are employee benefits (other than termination benefits) that the entity expects to become due to be settled:**

(a) twelve months or more after the end of the reporting period in which the employee renders the related service; or

(b) after the completion of employment.

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.

Definitions relating to classification of long-term employee benefit plans

Long-term employee benefit plans **are formal or informal arrangements under which an entity provides long-term employee benefits for one or more employees.**

Defined contribution plans **are long-term employee 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.**

Defined benefit plans **are long-term employee benefit plans other than defined contribution plans.**

Multi-employer plans **are defined contribution plans (other than state plans) 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.

Definitions relating to recognition and measurement of long-term employee benefit plans

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.**

Fair value **is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.**

Plan assets **comprise:**

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

(b) qualifying insurance policies.

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.

A qualifying insurance policy **is an insurance policy[*] issued by an insurer that is not a related party (as defined in IAS 24** *Related Party Disclosures***) 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:

---

[*] A qualifying insurance policy is not necessarily an insurance contract, as defined in IFRS 4 *Insurance Contracts*.

(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.**

Service cost **comprises:**

(a) *current service cost*, **which is the increase in the present value of a defined benefit obligation resulting from employee service in the current period; and**

(b) *past service cost*, **which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from the introduction of, or changes to, long-term employee benefits.**

Net interest on the net defined benefit liability (asset) **is the change during the period in the net defined benefit liability (asset) that arises from the time value of money.**

The *net defined benefit liability (asset)* **is the total of the following amounts:**

(a) **the deficit or surplus; and**

(b) **any effect of the limit in paragraph 115B.**

The *deficit or surplus* **in a defined benefit plan is:**

(a) **the present value of the defined benefit obligation; less**

(b) **the fair value of plan assets (if any).**

Remeasurements of a net defined benefit liability (asset) **comprise:**

(a) **actuarial gains and losses on the defined benefit obligation;**

(b) **the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and**

(c) **any changes in the effect of the limit described in paragraph 115B, excluding amounts included in net interest on the net defined benefit liability (asset).**

The *return on plan assets* **is:**

(a) **interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less**

(b) **any costs of managing plan assets and any tax payable by the plan itself, other than tax on contributions relating to service before the reporting date or on benefits resulting from that service.**

Actuarial gains and losses **are changes in the defined benefit obligation resulting from:**

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

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

Minimum funding requirements **are any enforceable requirements to fund a long-term employee benefit plan.**

A *curtailment* is either:

(a) a significant reduction in the number of employees covered by a plan; or

(b) an amendment to 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 *non-routine settlement* is a transaction (other than routine payment of benefits to, or on behalf of, employees) that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan.

Short-term employee benefits

8 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 expected to become due to be settled within twelve months after the end of the period in which the employees render the related employee service;

(c) profit-sharing and bonuses if they are expected to become due to be settled 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.

9 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

10 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, IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*).

Paragraphs 11, 14 and 17 explain how an entity shall apply this requirement to short-term employee benefits in the form of compensated absences and profit-sharing and bonus plans.

Short-term compensated absences

11 **An entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph 10 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.

12 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.

13 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.

14 **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 end of the reporting period.**

15 The method specified in the previous paragraph 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.

Example illustrating paragraphs 14 and 15

An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 30 December 20X1, the average unused entitlement is two days per employee. The entity expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional 12 days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X1 (one and a half days each, for eight employees). Therefore, the entity recognises a liability equal to 12 days of sick pay.

16 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.

Profit-sharing and bonus plans

17 An entity shall recognise the expected cost of profit-sharing and bonus payments under paragraph 10 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.

18 Under some profit-sharing plans, employees receive a share of the profit only if they remain with the entity for a specified 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.

Example illustrating paragraph 18
A profit-sharing plan requires an entity to pay a specified proportion of its profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3% of profit. The entity estimates that staff turnover will reduce the payments to 2.5% of profit. *The entity recognises a liability and an expense of 2.5% of profit.*

19 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.

20 An entity can make a reliable estimate of its legal or constructive obligation under a profit-sharing or bonus plan 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.

21 An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

22 If profit-sharing and bonus payments are not expected to become due to be settled wholly within twelve months after the end of the period in which the employees render the related service, those payments are long-term employee benefits (see paragraphs 24–125K).

Disclosure

23 Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, IAS 24 requires disclosures about employee benefits for key management personnel. IAS 1 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

Long-term employee benefits: distinction between defined contribution plans and defined benefit plans

24 Long-term employee benefits include, for example:

(a) retirement benefits, such as pensions; and

(b) other long-term employee benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides long-term employee benefits are long-term employee benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

25 Long-term employee benefits 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. 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 long-term employee benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a long-term employee benefits 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.

26 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.

27 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.

28 Paragraphs 29–42 below explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, state plans and insured benefits.

Multi-employer plans

29 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).

29A If an entity participates in a defined benefit multi-employer plan, it shall 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, unless paragraph 30 applies.

30 When sufficient information is not available to use defined benefit accounting for a defined benefit multi-employer plan, an entity shall account for the plan in accordance with paragraphs 44–46 as if it were a defined contribution plan.

31 One example of a defined benefit multi-employer plan is one where:

(a) the plan is financed on a pay-as-you-go basis such that: contributions 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 end of the reporting period 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.

32 When sufficient information is available about a defined benefit multi-employer plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and long-term employee benefit cost associated with the plan in the same way as for any other defined benefit plan. However, in some cases, 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 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; or

(b) the entity does not have access to information about the plan that satisfies the requirements of this Standard.

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 33A(f).

32A There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (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 30 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

Example illustrating paragraph 32A
An entity participates in a multi-employer defined benefit plan that does not prepare plan valuations on an IAS 19 basis. It therefore accounts for the plan as if it were a defined contribution plan. A non-IAS 19 funding valuation shows a deficit of 100 million in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. The entity's total contributions under the contract are 8 million.
The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

32B IAS 37 *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.

33 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).

Disclosure

33A If an entity participates in a defined benefit multi-employer plan, it shall disclose:

(a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available.

(d) details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan.

(e) if the entity accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in accordance with paragraph 29A, all the information required by paragraphs 125A–125K for that proportionate share.

(f) if the entity accounts for the plan as if it were a defined contribution plan in accordance with paragraph 30:

(i) the fact that the plan is a defined benefit plan.

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

(iii) the expected contributions to the plan for the next five annual reporting periods, and a description of the contractual agreement or other basis used to determine the expected contributions.

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

Defined benefit plans that share risks between various entities under common control

34 Defined benefit plans that share risks between various entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.

34A An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with IAS 19 on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual group entities, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

34B Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:

(a) the contractual agreement 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 34A, all the information about the plan as a whole required by paragraphs 125A–125K.

(d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole required by paragraphs 125A–125C, 125F, 125G and 125K.

35 [Deleted]

State plans

36 An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 29–30) and disclose the information required by paragraph 33A.

37 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 national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity. Some plans established by an entity provide both compulsory benefits which substitute for benefits that would otherwise be covered under a state plan and additional voluntary benefits. Such plans are not state plans.

38 State plans are characterised as defined benefit or defined contribution in nature based on the entity's obligation under the plan. 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. Nevertheless, in most state plans, the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, in the rare cases when a state plan is a defined benefit plan, an entity applies the treatment prescribed in paragraphs 29–30 and discloses the information required by paragraph 33A.

Insured benefits

39 An entity may pay insurance premiums to fund a long-term employee 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.

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

41 Where an entity funds a long-term employee 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 7); and

(b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 104A).

42 Where an insurance policy is in the name of a specified plan participant or a group of plan participants and 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.

Long-term employment benefits: defined contribution plans

43 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

44 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 end of the reporting period, 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, IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*).**

45 **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 78.**

Disclosure

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

47 Where required by IAS 24 an entity discloses information about contributions to defined contribution plans for key management personnel.

Long-term employee benefits: defined benefit plans

48 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.

49 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.

50 Accounting by an entity for a defined benefit plan involves the following steps:

(a) determining the deficit or surplus. This involves:

(i) 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 67–71A) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality rates) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 72–91).

(ii) 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 64–66). The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets, or adjusting for the effect of the limit in paragraph 115B.

(iii) when a plan has been introduced, changed or curtailed, determining the resulting past service cost and gain or loss on curtailment (see paragraphs 96A–98A).

(iv) determining the fair value of any plan assets (see paragraphs 102–104).

(b) determining the amount of the net defined benefit liability (asset) from the amount of deficit or surplus. This involves:

(i) assessing the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (see paragraphs 115A–115J).

(ii) assessing whether an additional liability is needed because of the interaction between a minimum funding requirement and the limit in paragraph 115B (see paragraphs 115A and 115K).

(c) determining amounts presented in the statement of comprehensive income. This involves:

(i) determining net interest on the net defined benefit liability (asset) (see paragraphs 119B and 119C).

(ii) determining the amount of actuarial gains and losses (see paragraph 119D).

When an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

50A An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

50B This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material defined benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. 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 end of the reporting period.

51 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

52 **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.**

53 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 long-term employee benefits assumes that an entity which is currently promising such benefits will continue to do so over the remaining working lives of employees.

54 [Deleted]

Recognition: statement of financial position

54A **An entity shall recognise the net defined benefit liability (asset) in the statement of financial position.**

55–60 [Deleted]

Recognition: statement of comprehensive income

61 **An entity shall recognise changes in the net defined benefit benefit liability (asset) in the statement of comprehensive income, except to the extent that another Standard requires or permits their inclusion in the cost of an asset.**

62 [Deleted]

Measurement: present value of defined benefit obligations and current service cost

63 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 long-term employee benefit obligations and the related current service cost, it is necessary to:

(a) apply an actuarial valuation method (see paragraphs 64–66);

(b) attribute benefit to periods of service (see paragraphs 67–71A); and

(c) make actuarial assumptions (see paragraphs 72–91).

Actuarial valuation method

64 **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.**

64A Contributions by employees to the ongoing cost of the plan reduce the amount of the current service cost recognised as an expense by the entity. The present value of contributions that will be receivable from employees in respect of current service cost or past service cost are included in the determination of the defined benefit obligation. The measurement of the defined benefit obligation includes the effect of any requirement for employees to reduce or eliminate an existing deficit.

65 The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated 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 67–71A) and measures each unit separately to build up the final obligation (see paragraphs 72–91).

Example illustrating paragraph 65

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 year. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, 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*
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.*

66 An entity discounts the whole of a long-term employee benefit obligation, even if part of the obligation falls due within twelve months after the reporting period.

Attributing benefit to periods of service

67 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.

68 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 long-term employee benefits arises. That obligation arises as employees render services in return for long-term employee benefits which 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.

Examples illustrating paragraph 68

1. 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 end of the reporting period.

   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 end of the reporting period.

2. 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.

   Unless paragraph 71A applies, 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 end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

69 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 the end of each successive reporting period, 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 some long-term employee 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.

Examples illustrating paragraph 69

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

   A benefit of 100 is attributed to each year. In each of the first ten 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.

2. 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.

3. A plan pays a long-term disability benefit that increases with each year of service.

   The obligation is recognised 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.

4. A plan pays a long-term disability benefit that is the same for any disabled employee regardless of the length of service.

   The expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

70 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.

Examples illustrating paragraph 70

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

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

2. A plan pays a lump-sum retirement benefit of 2,000 to all employees who are still employed at the age of 55 after twenty 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 ten 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.

3. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty 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 ten) to each of the first ten years and 1% (10% divided by ten) to each of the second ten 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 ten years, no benefit is attributed.

continued...

...continued

Examples illustrating paragraph 70

4. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty 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 twenty or more years, the entity attributes benefit on a straight-line basis under paragraph 68. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5% of the present value of the expected medical costs (50% divided by twenty).

   For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten 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 ten years, no benefit is attributed.

71 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 end of the reporting period, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph 67(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.

Example illustrating paragraph 71

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

Unless paragraph 71A applies, 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.

71A In determining whether an employee's service in later years will lead to a materially higher level of benefit than in earlier years (see paragraph 67), an entity shall consider estimates of all factors that affect the level of benefits, including expected future increases in salaries, and its best estimate of benefits that are contingent on performance targets.

Actuarial assumptions

72 Actuarial assumptions shall be unbiased and mutually compatible.

73 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing long-term employee 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) current estimates of the expected mortality rates of plan members, 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;

  (iv) the proportion of plan members who will select each form of settlement option available under the plan terms; and

  (v) claim rates under medical plans; and

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

  (i) the discount rate (see paragraphs 78–81);

  (ii) future salary and benefit levels (see paragraphs 83–87);

  (iii) in the case of medical benefits, future medical costs (see paragraphs 88–91);

  (iv) taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service; and

  (v) the cost of administering claims and benefit payments relating to service before the reporting period.

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

75 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 which 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.

76 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 IAS 29 *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.

77 Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

Actuarial assumptions: discount rate

78 **The rate used to discount long-term employee benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the long-term employee benefit obligations.**

79 One actuarial assumption which 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.

80 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.

81 In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, 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 corporate or government bonds.

82 [Deleted]

Actuarial assumptions: salaries, benefits and medical costs

83 **Long-term benefit obligations shall be measured on a basis that reflects:**

(a) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;

(b) any estimated future salary increases that affect the benefits payable; 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 end of the reporting period; 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.**

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

85 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 if, 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;

(b) 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 98(c)); or

(c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

86 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 end of the reporting period. 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.

87 Some long-term employee benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.

88 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.

89 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.

90 The level and frequency of claims is particularly sensitive to the age, health status and sex 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.

91 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 end of the reporting period (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 83(c) and 87).

92–95 [Deleted]

Past service cost and curtailment

96 [Deleted]

96A In accordance with paragraph 61, an entity recognises:

(a) past service cost in the period of any plan amendment; and

(b) gains and losses on curtailment in the period when the curtailment occurs (see paragraph 98A).

97 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.

97A 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).

98 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) underestimates and overestimates 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 if the entity is obliged to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded. Such obligations may arise from legislation, the formal terms of a plan or a constructive obligation that goes beyond those terms. (There is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 85(b).)

(d) the increase in vested benefits (ie benefits that are not conditional on future employment, see paragraph 69) 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).

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

98A A curtailment occurs when an entity significantly reduces the number of employees covered by a plan or amends the terms of a defined benefit plan so that 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 the related restructuring.

99–101 [Deleted]

Measurement: plan assets

Fair value of plan assets

102 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus. 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).

103 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.

104 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 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

104A 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. An entity shall disaggregate changes in its right to reimbursement in the same way as for changes in plan assets (see paragraph 119C). The amounts presented in the statement of comprehensive income in accordance with paragraph 119A may be presented net of amounts relating to changes in the carrying amount of the right to reimbursement.

104B 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 7, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 104A does not apply (see paragraphs 39–42 and 104).

104C When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 104A 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 deficit or surplus. Paragraph 125D(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

104D If the right to reimbursement arises under an insurance policy 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 (subject to any reduction required if the reimbursement is not recoverable in full).

105–115 [Deleted]

Measurement: availability of economic benefits

115A A net defined benefit asset does not exceed the present value of economic benefits available to the entity (see paragraphs 115B–115J). Similarly, if minimum funding requirements will compel an entity to make contributions for employee service before the end of the reporting period and a resulting surplus would exceed the present value of economic benefits available to the entity, the entity recognises an additional liability that increases the net defined benefit liability or decreases the net defined benefit asset (see paragraph 115K).

Reduction in net defined benefit asset

115B When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

(a) the surplus in the defined benefit plan; and

(b) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (see paragraphs 115C–115J). The present value of these economic benefits shall be determined using the discount rate specified in paragraph 78.

115C The entity determines the amount of future economic benefits available:

(a) considering the maximum economic benefit available from refunds, reductions in future contributions or a combination of both, regardless of how the entity intends to use the surplus. An entity shall not recognise economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.

(b) in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan that are contracted or substantively enacted at the end of the reporting period.

(c) using assumptions consistent with:

(i) those used to determine the defined benefit obligation.

(ii) the situation that exists at the end of the reporting period.

(iii) a stable workforce in the future unless the entity is demonstrably committed at the end of the reporting period to reduce the number of employees covered by the plan.

115D An economic benefit is available to an entity as a refund only if the entity has an unconditional right to the refund during the life of the plan or when plan liabilities are settled (either gradually over time, or on wind-up). A right to a refund is not unconditional if it depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control. An unconditional right to a refund can exist regardless of the funding level of a plan at the end of the reporting period.

115E The economic benefit available as a refund is the amount of the surplus at the end of the reporting period that the entity has a right to receive as a refund, less any costs associated with obtaining the refund. For example, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.

115F If an entity has a right to a refund only when a plan is wound up, the economic benefit available as a refund includes the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than by the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

115G If the amount of a refund is determined as the full amount of the surplus or a proportion of the surplus, rather than a fixed amount, the entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date.

115H The economic benefit available as a reduction in future contributions is:

(a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to do so); plus

(b) the estimated current service cost to the entity (ie excluding amounts that will be borne by employees) for future periods over the shorter of the expected life of the plan and the expected life of the entity; less

(c) any estimated minimum funding requirement contributions that would be required for future service if there were no prepayment as described in (a).

115I An entity shall estimate the amount described in paragraph 115H(c) taking into account:

(a) assumptions consistent with the minimum funding basis. For factors not specified by that basis, an entity shall use assumptions that comply with paragraph 115C(c);

(b) the effect of any existing surplus determined using the minimum funding basis but excluding any prepayment as described in paragraph 115H(a); and

(c) any changes in assumptions expected as a result of the entity paying the minimum contributions when they are due.

115J When an entity determines the amount described in paragraph 115H, if the estimated minimum funding requirement contributions for future service exceed the estimated current service cost to the entity for future periods, that excess reduces the amount of any economic benefit available as a reduction in future contributions. However, the total of any estimated minimum funding requirement contributions (ie the amount in paragraph 115H(c)) does not exceed the total estimated current service cost to the entity for future periods (ie the amount in paragraph 115H(b)).

Additional liability arising from minimum funding requirement

115K If an entity has an obligation under a minimum funding requirement to pay contributions for current or past service, the entity determines whether the limit in paragraph 115B will have an effect when the entity pays those contributions. If that limit will have an effect, the entity adjusts the net defined benefit liability (asset) so that no gain or loss is expected to result from applying paragraph 115B when the contributions are paid.

Presentation

Statement of financial position

Offset

116 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.

117 The offsetting criteria are similar to those established for financial instruments in IAS 32 *Financial Instruments: Presentation*.

Current/non-current distinction

118 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 long-term employee benefits.

Statement of comprehensive income

119 [Deleted]

119A An entity shall present:

(a) service cost (see paragraphs 63–91 and 96A–98) and gains and losses arising from curtailments (see paragraph 98A) in profit or loss.

(b) net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss (see paragraphs 119B and 119C).

(c) **remeasurements of the net defined benefit liability (asset) in other comprehensive income (see paragraphs 115A–115K, 119C and 119D). Those remeasurements shall be transferred immediately to retained earnings. They shall not be reclassified to profit or loss in a subsequent period.**

119B Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) throughout the period by the discount rate specified in paragraph 78 as determined at the start of that period, taking account of any material changes in the net liability (asset).

119C Net interest on the net defined benefit liability (asset) can be disaggregated into interest income on plan assets, interest cost on the defined benefit obligation and the effect of the limit in paragraph 115B. Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the plan assets throughout the period by the discount rate specified in paragraph 78 as determined at the start of the period, taking account of any material changes in the plan assets. The remaining return on plan assets is a remeasurement of the net defined benefit liability (asset).

119D Remeasurements of a net defined benefit liability (asset) include gains and losses that arise 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 (a settlement). Before determining the effect of a settlement, an entity remeasures the net defined benefit liability (asset) using current actuarial assumptions (including current market interest rates and other current market prices). The gain or loss on settlement is the difference between the net defined benefit liability (asset), as remeasured at the transaction date, and the settlement price.

Disclosure

120–125 [Deleted]

125A An entity shall disclose information that:

(a) **explains the characteristics of its defined benefit plans (see paragraph 125C);**

(b) **identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 125D–125H); and**

(c) **describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 125I–125K).**

125B An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity could disaggregate disclosure about plans showing one or more of the following features:

(a) different geographical locations;

(b) different characteristics such as flat salary pension plans, final salary pension plans, post-employment medical plans, long-service leave or long-term disability benefits;

(c) different regulatory environments; or

(d) different funding arrangements, ie wholly unfunded or wholly or partly funded.

Characteristics of defined benefit plans

125C An entity shall disclose:

(a) information about the characteristics of its defined benefit plans, including:

(i) the nature of the benefits provided by the plan (eg final salary defined benefit plan or contribution-based plan with guarantee).

(ii) the effect of the regulatory framework in which the plan operates, for example the effect of any minimum funding requirements.

(iii) a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees.

(iv) any restrictions on the amount recognised as a net defined benefit asset in accordance with paragraph 115B. An entity shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or combination of both.

(b) a narrative description of the extent of the risks to which the plan exposes the entity and of any concentrations of risk. For example, if plan assets are invested primarily in one class of investments, eg property, the plan may expose the entity to a concentration of property market risk.

(c) a narrative description of any plan amendments, curtailments and non-routine settlements.

Explanation of amounts in the financial statements

125D An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the net defined benefit liability (asset), showing separate reconciliations for:

(i) plan assets.

(ii) the present value of the defined benefit obligation.

(iii) the effect of the limit in paragraph 115B.

(b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

125E Each reconciliation listed in paragraph 125D shall show each of the following, if applicable:

(a) service cost, showing current and past service cost separately.

(b) interest income or expense (see paragraphs 119B and 119C).

(c) remeasurements of the net defined benefit liability (asset), showing separately:

  (i) the return on plan assets, excluding amounts presented as interest income in (b).

  (ii) actuarial gains and losses arising from changes in demographic assumptions, showing separately the effect of non-routine settlements.

  (iii) actuarial gains and losses arising from changes in financial assumptions, showing separately the effect of non-routine settlements.

  (iv) the effect of the limit in paragraph 115B, excluding amounts included in interest income or exposure.

(d) gains and losses arising from curtailments.

(e) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency.

(f) contributions to the plan, showing separately those by the employer and by plan participants.

(g) payments from the plan, showing separately the effect of any non-routine settlements.

(h) the effects of business combinations and disposals.

Other information about amounts recognised in the financial statements

125F An entity shall disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets. At a minimum, an entity shall distinguish the following, subdividing each class of debt instruments and equity instruments into those that have a quoted market price in an active market and those that do not:

(a) property.

(b) government debt instruments.

(c) other debt instruments.

(d) the entity's own equity instruments.

(e) other equity instruments.

125G An entity shall disclose:

(a) quantitative information about actuarial assumptions used to determine the defined benefit obligation (see paragraph 73). Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

(b) a brief description of the process used to determine demographic actuarial assumptions to supplement the disclosures provided in accordance with (a).

125H An entity shall disclose the present value of the defined benefit obligation, adjusted to exclude the effect of projected growth in salaries.

Amount, timing and uncertainty of future cash flows

125I An entity shall disclose:

(a) how the effect of a change to each significant actuarial assumption that:

  (i) is reasonably possible at the end of the reporting period would have affected the defined benefit obligation at the end of the reporting period; and

  (ii) was reasonably possible at the beginning of the reporting period would have affected current service cost that was determined for the reporting period.

(b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

125J An entity shall disclose details of any asset-liability matching strategies used by the plan, including the use of annuities and other techniques, such as longevity swaps, to manage longevity risk.

125K An entity shall provide a narrative discussion of factors that could cause contributions over the next five years to differ significantly from current service cost over that period. For example, an entity shall disclose how it expects any surplus or deficit to affect the level and timing of its contributions over the next five years, and the period over which it expects the surplus or deficit to disappear.

126–131 [Deleted]

Termination benefits

132 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

133 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.

134 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.

135 An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or 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 long-term employee 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.

136 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 long-term employee benefits, rather than termination benefits and an entity accounts for them as long-term employee benefits. Some entities provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a long-term employee benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination is a termination benefit.

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

138 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 98A).

Measurement

139 Where termination benefits fall due more than 12 months after the reporting period, they shall be discounted using the discount rate specified in paragraph 78.

140 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

141 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by IAS 37 an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

142 As required by IAS 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.

143 Where required by IAS 24 an entity discloses information about termination benefits for key management personnel.

144–161 [Deleted]

Transition and effective date

162 An entity shall apply this [draft] Standard for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies this [draft] Standard for an earlier period, it shall disclose that fact.

Withdrawal of IFRIC 14

163 This [draft] Standard supersedes IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

Illustrative examples

These examples accompany, but are not part of, the draft amendments to IAS 19.

Example 1—Presentation of service cost, finance cost and remeasurement components

This example illustrates one possible way in which an entity can present changes in the net defined benefit liability in accordance with paragraph 119A. IAS 1 permits other presentations.

Profit or loss	**2011**	**2010**
Revenues	3,083	2,945
Cost of goods sold[(a)]	(1,918)	(1,799)
Gross margin	1,165	1,146
Other business expenses[(b)]	(760)	(811)
Total operating income	405	335
Finance costs[(c)]	(91)	(94)
Profit before tax	314	241
Tax expense	(129)	(82)
Profit or loss	**185**	**159**
Other comprehensive income		
Gains on property revaluation	22	–
Loss on remeasuring pension plan deficit	(55)	(36)
Other comprehensive income	**(33)**	**(36)**
Comprehensive income	**152**	**123**

(a) includes the service cost component of pensions for production employees

(b) includes the service cost component of pensions for other employees

(c) includes the finance cost component of pensions

Example 2—Effect of the minimum funding requirement when there is an IAS 19 surplus and the minimum funding contributions payable are fully refundable to the entity

Background

IE1 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IAS 19) of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to contribute 200 to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

Market value of assets	1,200
Present value of defined benefit obligation under IAS 19	(1,100)
Surplus	100

Application of requirements

IE2 Paragraph 115K of IAS 19 requires the entity to recognise a liability to the extent that the contributions payable are not fully available. Payment of the contributions of 200 will increase the IAS 19 surplus from 100 to 300. Under the rules of the plan this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognised for the obligation to pay the contributions and the net defined benefit asset is 100.

Example 3—Effect of a minimum funding requirement when there is an IAS 19 deficit and the minimum funding contributions payable would not be fully available

Background

IE3 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IAS 19) of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to pay additional contributions of 300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the IAS 19 surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the IAS 19 service cost. The year-end valuations for Plan B are set out below.

Market value of assets	1,000
Present value of defined benefit obligation under IAS 19	(1,100)
Deficit	(100)

Application of requirements

IE4 The payment of 300 would change the IAS 19 deficit of 100 to a surplus of 200. Of this 200, 60 per cent (120) is refundable.

IE5 Therefore, of the contributions of 300, 100 eliminates the IAS 19 deficit and 120 (60 per cent of 200) is available as an economic benefit. The remaining 80 (40 per cent of 200) of the contributions paid is not available to the entity.

IE6 Paragraph 115K of IAS 19 requires the entity to recognise a liability to the extent that the additional contributions payable are not available to it.

IE7 Therefore, the net defined benefit liability is 180, comprising the deficit of 100 plus the additional liability of 80 resulting from the requirement in paragraph 115K. No other liability is recognised in respect of the statutory obligation to pay contributions of 300.

Summary

Market value of assets	1,000
Present value of defined benefit obligation under IAS 19	(1,100)
Deficit	(100)
Additional liability in accordance with paragraph 115K	(80)
Net defined benefit liability	(180)

IE8 When the contributions of 300 are paid, the net defined benefit asset will be 120.

Example 4—Effect of a minimum funding requirement when the contributions payable would not be fully available and the effect on the economic benefit available as a future contribution reduction

Background

IE9 An entity has a funding level on the minimum funding basis (which it measures on a different basis from that required by IAS 19) of 95 per cent in Plan C. The minimum funding requirements require the entity to pay contributions to increase the funding level to 100 per cent over the next three years. The contributions are required to make good the deficit on the minimum funding basis (shortfall) and to cover future service.

IE10 Plan C also has an IAS 19 surplus at the end of the reporting period of 50, which cannot be refunded to the entity under any circumstances.

IE11 The nominal amounts of contributions required to satisfy the minimum funding requirements in respect of the shortfall and the future service for the next three years are set out below.

Year	Total contributions for minimum funding requirement	Contributions required to make good the shortfall	Contributions required to cover future service
1	135	120	15
2	125	112	13
3	115	104	11

Application of requirements

IE12 The entity's present obligation in respect of services already received includes the contributions required to make good the shortfall but does not include the contributions required to cover future service.

IE13 The present value of the entity's obligation, assuming a discount rate of 6 per cent per year, is approximately 300, calculated as follows:

$$[120/(1.06) + 112\,/(1.06)^2 + 104/(1.06)^3].$$

IE14 When these contributions are paid into the plan, the present value of the IAS 19 surplus (ie the fair value of plan assets less the present value of the defined benefit obligation) would, other things being equal, increase from 50 to 350 (300 + 50).

IE15 However, the surplus is not refundable although an asset may be available as a future contribution reduction.

IE16 In accordance with paragraph 115H of IAS 19, the economic benefit available as a reduction in future contributions is the sum of:

(a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to do so); plus

(b) the estimated current service cost to the entity (ie excluding amounts that will be borne by employees) for future periods over the shorter of the expected life of the plan and the expected life of the entity; less

(c) any estimated minimum funding requirement contributions that would be required for future service if there were no prepayment as described in (a).

IE17 In this example there is no prepayment as described in paragraph 115H(a). The amounts available as a reduction in future contributions when applying paragraph 115H are set out below.

Year	IAS 19 service cost	Minimum contributions required to cover future service	Amount available as contribution reduction
1	13	15	(2)
2	13	13	0
3	13	11	2
4+	13	9	4

IE18 Assuming a discount rate of 6 per cent, the present value of the economic benefit available as a future contribution reduction is therefore equal to:

$$(2)/(1.06) + 0/(1.06)^2 + 2/(1.06)^3 + 4/(1.06)^4 \ldots = 56.$$

Thus in accordance with paragraph 115B(b) of IAS 19, the present value of the economic benefit available from future contribution reductions is limited to 56.

IE19 Paragraph 115K of IAS 19 requires the entity to recognise a liability to the extent that the additional contributions payable will not be fully available. Therefore, the effect of the limit in paragraph 115B is 294 (50 + 300 − 56).

IE20 The entity recognises a net defined benefit liability of 244 in the statement of financial position. No other liability is recognised in respect of the obligation to make contributions to fund the minimum funding shortfall.

Summary

Surplus	50
Effect of limit in paragraph 115B	(294)
Net defined benefit liability	(244)

IE21 When the contributions of 300 are paid into the plan, the net defined benefit asset will become 56 (300 − 244).

Example 5—Effect of a prepayment when a minimum funding requirement contribution exceeds the expected future service charge

Background

IE22 An entity is required to fund Plan D so that no deficit arises on the minimum funding basis. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined on the minimum funding basis.

IE23 Plan D has an IAS 19 surplus of 35 at the beginning of 20X1. This example assumes that the discount rate and expected return on assets are 0 per cent, and that the plan cannot refund the surplus to the entity under any circumstances but can use the surplus for reductions of future contributions.

IE24 The minimum contributions required to cover future service are 15 for each of the next five years. The expected IAS 19 service cost is 10 in each year.

IE25 The entity makes a prepayment of 30 at the beginning of 20X1 in respect of years 20X1 and 20X2, increasing its surplus at the beginning of 20X1 to 65. That prepayment reduces the future contributions it expects to make in the following two years, as follows:

Year	IAS 19 service cost	Minimum funding requirement contribution before prepayment	Minimum funding requirement contribution after prepayment
20X1	10	15	0
20X2	10	15	0
20X3	10	15	15
20X4	10	15	15
20X5	10	15	15
Total	50	75	45

Application of requirements

IE26 In accordance with paragraphs 115H and115J of IAS 19, at the beginning of 20X1, the economic benefit available as a reduction in future contributions is the sum of:

(a) 30, being the prepayment of the minimum funding requirement contributions; and

(b) nil. The estimated minimum funding requirement contributions required for future service would be 75 if there was no prepayment. Those contributions exceed the estimated current service cost for future periods (50); therefore the entity cannot use any part of the surplus of 35 noted in paragraph IE23 (see paragraph 115J).

IE27 Assuming a discount rate of 0 per cent, the present value of the economic benefit available as a reduction in future contributions is equal to 30. Thus in accordance with paragraph 115B of IAS 19 the entity recognises an asset of 30 (because this is lower than the IAS 19 surplus of 65).

Example 6—Illustration of requirements in paragraphs 125D and 125E

Example 6 illustrates how an entity might comply with the proposed requirements in paragraphs 125D and 125E.

Net defined benefit liability	million	
	20X7	**20X8**
At 1 January	(1,097)	**(156)**
Current service cost	(255)	**(246)**
Past service cost	6	**(11)**
Net interest expense	(29)	**(47)**
Remeasurements		
Net return on assets	314	**(2,304)**
Actuarial gains arising from changes in demographic assumptions	259	**561**
Actuarial gains arising from changes in financial assumptions	127	**250**
Effect of non-routine settlements	22	**30**
Restriction on surplus	-	**(5)**
Foreign currency exchange rate changes	(7)	**(210)**
Contributions	504	**443**
At 31 December	(156)	**(1,695)**

Defined benefit obligation	million			
	UK	US	Rest of world	**Group**
At 1 January 20X7	(7,444)	(1,949)	(952)	**(10,345)**
Current service cost	(138)	(60)	(57)	**(255)**
Past service cost	-	7	(1)	**6**
Interest expense	(335)	(107)	(41)	**(483)**
Remeasurements				
Actuarial gains arising from changes in demographic assumptions	205	13	41	**259**
Actuarial gains arising from changes in financial assumptions	100	7	20	**127**
Non-routine settlements	26	(5)	4	**25**
Foreign currency exchange rate changes	-	34	(80)	**(46)**
Benefits paid	215	115	44	**374**
At 31 December 20X7	(7,371)	(1,945)	(1,022)	**(10,338)**
Current service cost	(126)	(61)	(59)	**(246)**
Past service cost	-	(10)	(1)	**(11)**
Interest expense	(377)	(121)	(53)	**(551)**
Remeasurements				
Actuarial gains arising from changes in demographic assumptions	505	26	30	**561**
Actuarial gains arising from changes in financial assumptions	210	12	28	**250**
Non-routine settlements	25	(12)	19	**32**
Foreign currency exchange rate changes	-	(753)	(353)	**(1,106)**
Benefits paid	249	126	55	**430**
At 31 December 20X8	(6,885)	(2,738)	(1,356)	**(10,979)**

Plan assets		million		
	UK	US	Rest of world	**Group**
At 1 January 20X7	6,554	1,953	741	**9,248**
Interest income	319	98	37	**454**
Remeasurements				
Net return on plan assets	286	46	(18)	**314**
Non-routine settlements	(5)	-	2	**(3)**
Foreign currency exchange rate changes	-	(29)	68	**39**
Contributions	397	8	99	**504**
Benefits paid	(215)	(115)	(44)	**(374)**
At 31 December 20X7	7,336	1,961	885	**10,182**
Interest income	364	96	43	**503**
Remeasurements				
Net return on plan assets	(1,556)	(614)	(134)	**(2,304)**
Non-routine settlements	(5)	-	3	**(2)**
Foreign currency exchange rate changes	-	598	298	**896**
Contributions	340	10	93	**443**
Benefits paid	(249)	(126)	(55)	**(430)**
At 31 December 20X7	6,230	1,925	1,133	**9,288**

Restriction on surplus	million	
	Rest of world	**Group**
At 1 January 20X7 and 1 January 20X8	24	**24**
Net interest	1	**1**
Remeasurement of restriction on surplus	(5)	**(5)**
At 31 December 20X8	20	**20**