IPSASB

IPSAS® 42 Summary—*Social Benefits*

This summary provides an overview of IPSAS 42, *Social Benefits.*

Project objective: To define social benefits, and determine when expenses and liabilities for social benefits are recognized and how they are measured.

Approved: The International Public Sector Accounting Standards Board® (IPSASB®) approved IPSAS 42, *Social Benefits* in December 2018. It was issued in January 2019

Project History: The IPSASB initiated a project on social benefits in 2002, and issued the Invitation to Comment, *Accounting for Social Policies of Government* in 2004.

Subsequently, in 2008 the IPSASB issued Exposure Draft (ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, and a Consultation Paper (CP), *Social Benefits: Issues in Recognition and Measurement*.

The IPSASB did not reach a consensus on when a present obligation arises for social benefits within the scope of the CP, and decided to defer further work on this topic until the completion of the *Conceptual Framework* (which was issued in 2014).

Meanwhile, in 2013, the IPSASB published Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*. This reflected the IPSASB's view that the financial statements cannot satisfy all of a user's information needs on social benefits. Further information about the long-term fiscal sustainability of those social benefit schemes is required.

The IPSASB issued a further CP, *Recognition and Measurement of Social Benefits*, in July 2015, followed by ED 63, *Social Benefits* (issued in October 2017).

IPSAS 42 is based on ED 63, but responds to comments received to that consultation.

Why the IPSASB Undertook this Project

The purpose of the IPSASB's project on social benefits is to establish requirements for defining, recognizing and measuring social benefits.

The delivery of social benefits to the public is a primary objective of most governments, and accounts for a large proportion of their expenditure.

Prior to IPSAS 42, *Social Benefits*, IPSAS did not provide guidance on accounting for social benefits; IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, excluded social benefit provisions in non-exchange transactions from its scope. The absence of such guidance was seen as one of the major gaps in the IPSASB's literature.

As a result, users may not have been able to obtain the information needed to evaluate the nature and financial effect of an individual social benefit scheme, or of the impact of social benefits on the finances of the government as a whole. IPSAS 42 addresses this need.

IPSAS 42 will enhance accountability and transparency, and increase comparability, which are in the public interest.

As well as building on the previous work of the IPSASB on social benefits, IPSAS 42 was influenced by more recent developments in the IPSASB's literature:

- *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*
- Recommended Practice Guideline 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*
- Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*

IPSAS 42 defines social benefits, and includes requirements for the recognition and measurement of social benefit schemes. IPSAS 42 also includes disclosure requirements that will provide additional information that users may need to evaluate the effect that social benefits have on a government's finances.

The IPSASB believes that IPSAS 42 will promote consistency and comparability in how social benefit schemes are reported by public sector entities.

> As well as social benefits, governments also provide services, for example healthcare and defense. Such services are outside the scope of social benefits.
>
> The IPSASB is addressing the accounting for these services as part of its non-exchange expenses project. ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) was issued alongside IPSAS 42, to enable stakeholders to identify and account more consistently for the full range of social obligations of government.

Scope of IPSAS 42

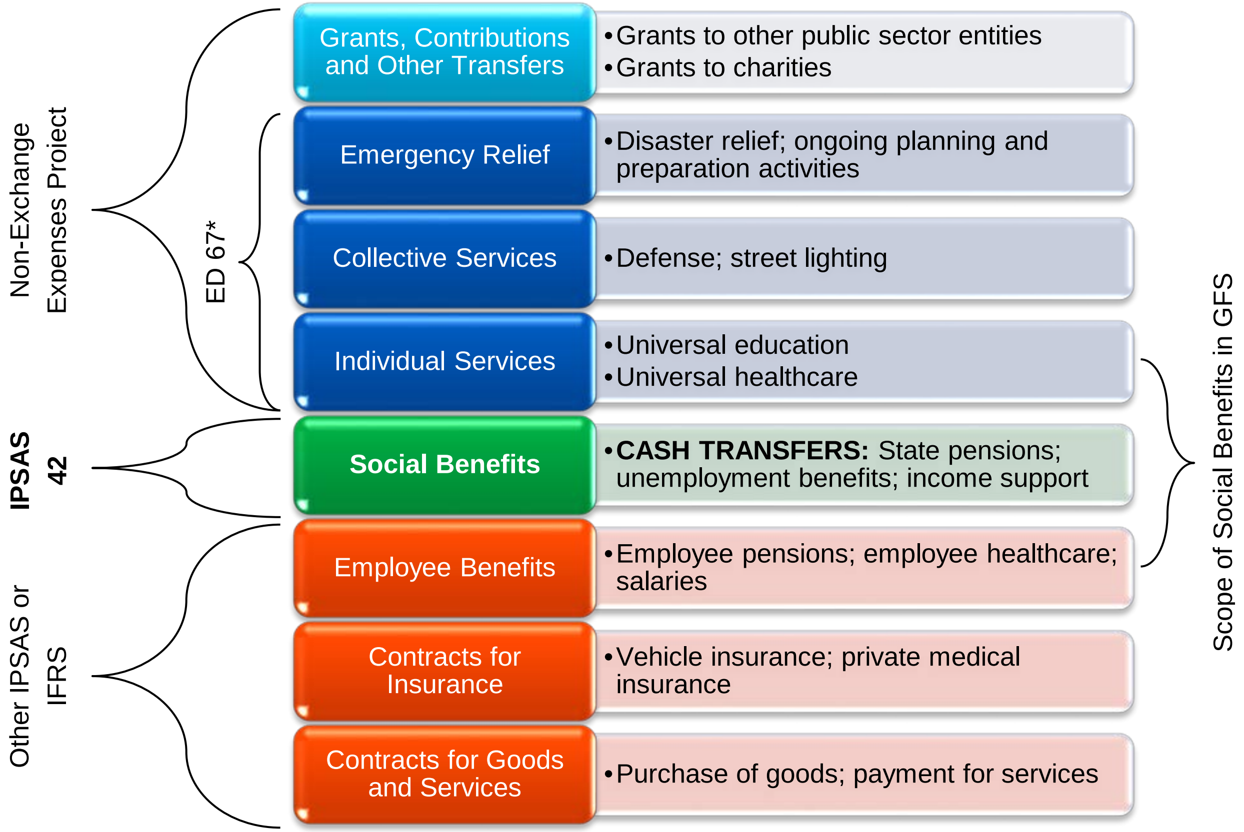
Figure 1 illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions, with examples.

Where a transaction is outside the scope of IPSAS 42, Figure 1 indicates how IPSAS will address the transaction.

For many governments, alignment with Government Finance Statistics (GFS) is important. Figure 1 illustrates those transactions within the GFS scope of social benefits.

Transactions within the scope of ED 67, issued alongside IPSAS 42, are separately identified (within the non-exchange expenses project).

Figure 1: Scope of IPSAS 42



* **ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19)** was issued on January 31, 2019, alongside IPSAS 42.

Definitions

IPSAS 42 defines social benefits and social risks

Definitions in IPSAS 42

Social benefits are cash transfers provided to:

(a) Specific individuals and/or households who meet eligibility criteria;

(b) Mitigate the effect of social risks; and

(c) Address the needs of society as a whole.

Social risks are events or circumstances that:

(a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and

(b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

Reasons for Changes to Social Benefits Definition since ED 63, *Social Benefits*

ED 63 specifically excluded collective services and universally accessible services (referred to as individual services in ED 67) from the scope of social benefits. Most respondents supported this scope.

However, respondents considered it important that the boundary between social benefits and individual services was clearly defined; and that the accounting treatments for social benefits and individual services should have the same conceptual basis. Any differences in treatment should relate to the different nature of the transactions.

This meant that respondents considered that the scope and definitions needed to be further clarified to avoid confusion.

The IPSASB agreed to clarify the boundary by defining social benefits as cash transfers in IPSAS 42.

General Approach: Recognition

The General Approach in IPSAS 42 includes a single recognition point for all social benefits.

Under the General Approach, a liability for a social benefit is recognized when the eligibility criteria to receive the next social benefit have been satisfied.

The General Approach does not include requirements for social contributions (revenue received in relation to a social benefit scheme). Social contributions are accounted for in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Recognition

A liability is a present obligation for an outflow of resources that results from a past event.

The key factor in determining when a liability for a social benefit arises is identifying the past event.

Under the General Approach, the past event that gives rise to a liability is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit.

The satisfaction of eligibility criteria for each social benefit payment is a separate past event.

Being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion, whether explicitly stated or implicit. This depends on the characteristics of each individual social benefit scheme.

Recognition Examples

Examples of when a beneficiary may first satisfy all the eligibility criteria for the provision of the next social benefit include:

- Reaching retirement age (in the case of a retirement pension);
- The death of a partner (in the case of a survivor benefit);
- Becoming unemployed (in the case of an unemployment benefit without a waiting period);
- Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

Changes since ED 63

Some respondents to ED 63 were concerned that ‘being alive’ had been over-emphasized. They considered that there were circumstances where reliance on being alive would be inappropriate.

The IPSASB considered that being alive would often be an eligibility criterion, and, in such cases, would therefore affect recognition of a liability. The IPSASB acknowledged, however, that this might not always be the case, and that IPSAS 42 should reflect this.

Review of IPSAS 42

The IPSASB noted that experience of applying IPSAS 42 may provide further evidence of the extent to which the approach meets users’ needs. Given the importance of the area, it concluded that a post-implementation review of IPSAS 42 may be appropriate at some point in the future.

General Approach: Measurement

Under the General Approach, expenses are measured at an amount equivalent to the amount of the liability.

The liability for a social benefit scheme is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.

Measurement of Expense

An entity recognizes an expense for a social benefit scheme, measured at the amount of the next payment following satisfaction of the eligibility criteria; discounting of the expense will not be required for most social benefits.

Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it measures the payment in advance (or expense recognized where the payment is irrecoverable) at the amount of the cash transferred.

Measurement of Liability

Under IPSAS 42, the liability for a social benefit scheme is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.

In this context, “costs” means the social benefit payments to be made (i.e., the cash transfers). The costs do not include other elements such as administrative costs and bank charges.

Because the satisfaction of eligibility criteria for each social benefit payment is a separate past event, the liability is for the next payment only. Consequently, liabilities in respect of social benefits will usually be short-term liabilities. As a result, an entity will often know the amounts involved without needing to make estimates. Similarly, because liabilities in respect of social benefits will usually be short-term liabilities, discounting will not be required for most social benefits.

Subsequent Measurement

The liability is reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability is recognized in surplus or deficit in the period in which the liability is settled.

Where a liability is discounted the liability is increased and interest expense recognized in each reporting period to reflect the unwinding of the discount.

Where a liability has yet to be settled, the liability is reviewed at each reporting date, and adjusted to reflect the current best estimate of the social benefit payment required to fulfill the liability.

General Approach: Disclosures

The General Approach requires entities to disclose information that:

(a) Explains the characteristics of its social benefit schemes; and

(b) Explains the demographic, economic and other external factors that may affect its social benefit schemes

Paragraphs 45–47 of IPSAS 1, *Presentation of Financial Statements*, provide guidance on materiality and aggregation. Entities may wish to consider these paragraphs when preparing their disclosures.

Characteristics of social benefit schemes

- The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).
- Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, and a summary of the main eligibility criteria that must be satisfied to receive the social benefits.
- A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means.
- Where a scheme is funded by social contributions:
  - o A cross reference to the location of information about those social contributions and any dedicated assets (where included in the entity's financial statements); or
  - o A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements.

Demographic, economic and other external factors

- A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes.

Other Disclosure Requirements

- The total expenditure on social benefits recognized in the statement of financial performance, analyzed by social benefit scheme.
- A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include:
  - o Changes to the level of social benefits provided; and
  - o Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.
- If a social benefit scheme satisfies the criteria to permit the use of the insurance approach, a statement to that effect.

Alternative Insurance Approach

IPSAS 42 includes the insurance approach as a possible alternative approach. Entities are permitted, *but not required*, to use this approach where a social benefit scheme meets certain criteria.

IPSAS 42 does not include requirements for the insurance approach, but directs entities to apply relevant international or national accounting standards by analogy.

Criteria for Using the Insurance Approach

IPSAS 42 permits entities to use the insurance approach where:

- The social benefit scheme is intended to be fully funded from contributions; and
- There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

IPSAS 42 includes guidance on how to determine whether a social benefit scheme is intended to be fully funded from contributions.

IPSAS 42 also includes indicators to assist entities in determining whether they are managing a scheme in the same way as an issuer of insurance contracts.

Which Insurance Standards?

Within the insurance approach section of IPSAS 42, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts*, and national standards that have adopted substantially the same principles as IFRS 17.

IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes, will provide information that meets users’ needs and satisfies the qualitative characteristics.

This may not be the case for other accounting standards dealing with insurance contracts. Consequently, IPSAS 42 does not allow an entity to apply by analogy an insurance standard that has not adopted substantially the same principles as IFRS 17.

Disclosures

Where an entity has elected to use the insurance approach, IPSAS 42 requires the entity to make the following disclosures:

- The basis for determining that the insurance approach is appropriate;
- The information required by the international or national accounting standard dealing with insurance contracts;
- Information about the characteristics of its social benefit schemes; and
- A description of any significant amendments to the social benefit scheme made during the reporting period.

Effective Date, Project History and Changes since ED 63, *Social Benefits*

The effective date of IPSAS 42 is January 1, 2022.

Effective Date

The effective date of IPSAS 42 is January 1, 2022, with earlier adoption encouraged.

The IPSASB selected this effective date in part because it expects to be able to finalize the proposed amendments included in ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) in time for those amendments to have the same effective date.

Governments and other public sector entities that provide social benefits, individual services and collective services will, therefore, be able to introduce new accounting policies for these transactions at the same time. This responds to concerns raised by stakeholders commenting on the proposals in ED 63.

Project History

To learn more about the project history, and to view the consultation documents and responses, please visit: [http://www.ipsasb.org/projects/social-benefits.](http://www.ipsasb.org/projects/social-benefits)

Changes since ED 63, *Social Benefits*

The most notable changes between ED 63 and IPSAS 42 are summarized in the table below:

Section	Changes
Definitions	• The definition of **Social Benefits** was clarified to focus on cash transfers. • The definition of **Universally Accessible Services** was removed.
General Approach	• The **Obligating Event Approach** was renamed. • The emphasis on **being alive** was reduced; but being alive is still seen as important. • The wording has been amended to clarify that the liability is for the **next social benefit payment**. • The disclosure requirements in respect of the **reconciliation of the social benefit liability** and the **best estimate of the undiscounted projected cash outflows** were removed.