



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

March 28, 2018

The Technical Director  
International Public Sector Accounting Standards Board  
529 Fifth Avenue  
New York NY 10017  
United States of America

Dear Sir,

**Re: IAA comments on the IPSASB Exposure Draft 63 (ED 63) on Social Benefits.**

In response to the request for comments on the October 2017 International Public Sector Accounting Standards Board (IPSASB) Exposure Draft 63 (ED 63) on Social Benefits, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

Our comments are structured around the specific matters for comment in the Exposure Draft.

These comments have been prepared by the IAA Social Security Committee. The IAA welcomes the opportunity to discuss these ideas further with you and to cooperate with IPSASB in the development of the final standard.

If you wish to discuss any of our feedback please do not hesitate to contact Barbara D'Ambrogio-Ola, Chair of the IAA Social Security Committee, via the IAA Secretariat.

Yours sincerely,

Masaaki Yoshimura  
President

Attachment: [IAA comments](#)

**Comments by the International Actuarial Association on the IPSASB Exposure Draft 63 (ED 63) on Social Benefits.**

**International Actuarial Association and its Due Process**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our seventy-three Full Member actuarial associations, listed in [Appendix A](#) to this statement, represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

We are pleased to be given the opportunity to provide input to the IPSASB on this important consultation paper. These comments have been prepared by the Social Security Committee of the IAA, whose members are listed in [Appendix B](#) to these comments. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s official web site.

Our comments are as follows:

**Specific Matter for Comment 1:** Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

**IAA Comments:**

The IAA agrees with the scope of this Exposure Draft. In our view, while the financial sustainability of universally accessible services like primary education, defence, police, etc. need to be assessed, the state usually does not have discretion on whether or not to provide such services since they are necessary for the continuous operation of society. Such services are provided to all households without applying any eligibility criteria. However, the cost of these services needs to be assessed against the taxation power of the state and decisions on how taxes are allocated between these services should be made by governments.

A particularly important case is universal health programs. Due to the ageing of the population, health systems are expected to become more and more costly. Actuaries advocate for rigorous assessment of long-term sustainability of these systems. We suggest considering the coverage of universally accessible health-related programs in a separate standard.

**Specific Matter for Comment 2:** Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?

**IAA Comments:**

The IAA agrees with all three definitions. Based on additional guidance provided in AG4 - AG7, our understanding is that while universally accessible services (such as universal health care) are excluded from the definition of social benefits, programs based on eligibility criteria (e.g. income and/or age) will be covered by this [draft] Standard.

The IAA suggests that more guidance should be provided in the situations where, for example, several programs based on eligibility criteria result, if considered together, in the universally accessible service.

**Specific Matter for Comment 3:** Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

**IAA Comments**

In general, we consider the insurance approach, or some modification of it that takes into account that there is no “profit” to be recognized, to be a step towards financial statements being aligned with the long-term financial sustainability of the program for some types of contributory social security schemes. The liability to be recognized would include reflection of contingent events which will take place in the future but would also recognize future contributions as an asset. However, we reiterate that the insurance approach is not applicable to all types of social security schemes even if they are expected to be fully financed by contributions. This is a result of the fact that social security schemes (1) are likely based on intergenerational and intragenerational solidarity and (2) are usually financed on an open group basis, taking into account contributions and benefits for many generations.

- (a) Considering the above, the IAA agrees that the use of the insurance approach should be optional. Further, we think that in order to enhance comparability of financial statements, IPSASB may wish to suggest that information based on the insurance approach may only be provided in the notes to the financial statements and on a voluntary basis.
- (b) The IAA considers the criteria for determining whether the insurance approach may be applied to be appropriate. In particular, we note that many social benefit schemes will not meet criteria AG 15 (a) since benefits under such programs can usually be significantly amended by governments passing legislation (for example, by raising the eligibility age or tightening other criteria for eligibility for benefits). Furthermore, all schemes with self-adjustment mechanisms that impact benefits will also fail to meet the above criteria.

- (c) The IAA has considered the IPSASB basis for conclusions (BC42- BC58) in respect of the use of IFRS17 and national standards that have adopted substantially the same principles as IFRS 17. We do not agree that the discount rate basis of IFRS 17 which includes both a liquidity and a risk adjustment is appropriate for social security benefits. The primary reasons are that social security schemes are not for profit and that governments have the flexibility, especially under dire financial conditions, to modify the terms of the social security system, e.g. decrease benefits, increase contributions or change other program features. Further, the design of social security schemes may include automatic adjustment mechanisms that may adjust benefits, contributions, or other parameters of a program. Finally, given the duration of the obligations and the nature of the expected cash flows, a risk adjustment may be disproportionately large.

We encourage the IPSASB to conduct a separate project related to the determination of appropriate discount rates. The IAA would be happy to collaborate with the IPSASB on such a project.

- (d) In addition to the disclosure requirement specified in paragraph 12, we strongly believe it is necessary to convey the degree of uncertainty as part of disclosure. Actuarial techniques such as sensitivity/stress testing and/or use of stochastic models to illustrate the range of uncertainty in the cash flow estimates are strongly encouraged and will provide proper perspective to the estimates involved.

In addition, we strongly encourage the IPSASB to add a compulsory requirement to include in financial statements disclosure information on the long-term sustainability of programs prepared in accordance with RPG1 (please refer to the IAA model International Standard of Practice No. 2 “Financial Analysis of Social Security Programs”

[http://www.actuaries.org/CTTEES\\_ASC/isaps/Final\\_ISAPs\\_posted/Conformance\\_Changes\\_Final\\_ISAPs\\_posted/ISAP2\\_Conformance\\_April2017.pdf](http://www.actuaries.org/CTTEES_ASC/isaps/Final_ISAPs_posted/Conformance_Changes_Final_ISAPs_posted/ISAP2_Conformance_April2017.pdf) for model disclosure framework).

**Specific Matter for Comment 4:** Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit? This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

## **IAA Comments**

We consider that under the obligating event approach, the proposed definition of past event (the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive) will give rise to a short-term liability included in the financial statements. While we do not oppose such a definition, it should be recognized that this approach provides very limited information to any user. As such, we strongly encourage the IPSASB to make a compulsory requirement to include in one’s financial statements disclosure information on the long-term

sustainability of all programs prepared in accordance with RPG1 and taking into account the considerations of Social Security Committee (SSC) of the IAA summarized in the paper [“Measuring and Reporting Actuarial Obligations of Social Security Systems”](#).

We did consider an alternative view included in this Exposure Draft, even if this view is not a part of ED 63. We conclude that concerns expressed regarding assessing the intergenerational impacts of social benefits as well as reflecting changes in policy (e.g., increasing the eligibility age) are valid. However, we strongly disagree with the approach formulated in AV8 which, in essence, corresponds to measuring obligations of a program using the “accrued-to-date” approach. In particular, we wish to list the following shortcomings of this approach in respect to social security retirement schemes (SSRSs):

- It will not indicate that two national SSRSs with the same accrued-to-date obligations on a closed-group basis may have very different sustainability statuses. For example, they might be subject to a different expected future evolution of demographics and economics (which are not considered by the closed group) or they might be at different levels of financing.
- It does not provide an adequate basis to assess the full impact of pension reforms. Any change in the value of the accrued-to-date pension obligations resulting from pension reform would only incorporate the impact on current pensions in payment and future pension payments that correspond to the accrued-to-date benefit entitlements of current contributors. This is important because, typically, the largest financial impact of pension reforms is on future pension payments that correspond to the future service benefit entitlements of current contributors and the pension benefits of new workers. This means that, under the closed group methodology, the financial impact of pension reforms could be significantly underestimated or missed altogether.
- It may introduce comparability issues in relation to pension scheme maturity. When the accrued-to-date pension obligations of various countries are compared, it is important to note that the size of accrued-to-date pension obligations depends on the stage of maturity of the national SSRS. Countries with mature pension systems may have large accrued pension obligations, but they might be financially sustainable when considering the net pension obligations under the open group method. In contrast, for countries which operate a relatively new SSRS with relatively low accrued-to-date pension obligations, this does not mean that the system is necessarily in a sound financial position when considering the net pension obligations under the open group method.
- It may introduce a bias for or against a particular financing approach. A system which is fully funded on a closed group basis without future accruals may be unsustainable, while a pay-as-you-go scheme on an open group basis might be sustainable. However, if the accrued-to-date net obligations are used, the opposite perception would be created since the future demographic and economic developments of a country are not taken into account under the closed group approach.

Thus, serious communication issues, including potential misunderstanding, can result by reporting a single number on the closed group approach (basically a backward-looking perspective).

Therefore, the IAA is in favour of the reporting approach proposed in the Exposure Draft if sufficient disclosure requirements are introduced.

**Specific Matter for Comment 5:** Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity’s social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity’s social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows. If not, what disclosure requirements should be included?

### **IAA Comments**

The IAA supports comprehensive disclosures that provide meaningful information and perspective that we believe to be critically important and relevant to decision-makers

- (a) We consider disclosures about the characteristics of an entity’s social benefit schemes (paragraph 31) appropriate. In our opinion, all disclosed information with respect to social benefits obligations needs to be accompanied by information about the corresponding assets, both investable assets (reserves) and future contributions/earmarked taxes. Therefore we are pleased with disclosure requirements 31 (a)(iii) in this regard.
- (b) We consider the proposed disclosure of the amounts in the financial statements (paragraphs 32–33) to be appropriate. However, we suggest additional disclosures as discussed below. In particular, we suggest that disclosures include references to the most recent actuarial assessment of a social security scheme if such assessment exists.
- (c) (i) We support the disclosure of the projected cash flows of social security schemes as well as key assumptions that the entity has relied on making its best estimate of the projected cash outflows. We also strongly support the inclusion of future contributors and beneficiaries in these projections.

We note two things. First, the disclosure of projected outflows should be accompanied by the disclosure of projected inflows (contributions, earmarked taxes and investment income). We note that according to paragraph BC93 of the Exposure Draft, the IPSASB has an ongoing project to review the requirements of all its revenue standards. Nevertheless, in order to provide users with balanced information, we suggest the inclusion of projected inflows in Exposure Draft 63 disclosure requirements.

Secondly, we strongly believe it is necessary to convey the degree of uncertainty as part of any disclosure. Actuarial techniques such as sensitivity/stress testing and/or use of stochastic models to illustrate the range of uncertainty in the cash flow estimates are strongly encouraged and will provide proper perspective to the estimates involved.

(ii) The period over which the future cash flows are disclosed depend on the nature of the social security scheme's obligations. In general, we advocate for a disclosure period longer than five years. For example, for retirement schemes the projection and disclosure period is typically extended to a minimum of 50 years.

We further note that paragraph 35 encourages but does not mandate providing information on the long-term sustainability of the entity's finances. As we discuss in our response to Specific Matter for Comment 6, we strongly recommend making the disclosure of the long-term sustainability mandatory. Further, we recommend that the methodologies used for accounting and/or statistical reporting need to enable the accurate assessment of the long-term financial sustainability of any social security scheme and/or the cost of benefits without a bias for or against a particular financing approach and the type of social security schemes. It would be more useful for decision-makers if the accounting and national reporting treatment were aligned with the financing methodology, especially when programs are financed using pay-as-you-go or partial funding.

For example, for pay-as-you-go or partially funded contributory social security retirement schemes (SSRSs), information regarding their sustainability needs to include the expected benefit payments to and contribution income and/or earmarked taxes from future participants (i.e., an open group).

For pure non-contributory SSRSs that are financed from general tax revenues, due to the often-conditional nature of their benefits and the general ability of governments to change future benefits and entitlement, it may not appropriate to show a single actuarial obligation number. However, expressing the cost of such programs as a percentage of future GDP is useful.

For contributory SSRSs that provide minimum pension guarantees and other non-contributory benefits which are financed by either earmarked tax revenues (state contributions) or general tax revenues (state subsidies), it is advisable to present the information for contribution-financed, earmarked tax-financed and general tax-financed benefits separately. This could be achieved by combining approaches described above.

Finally, the unique characteristics of social benefits schemes mean that a proper assessment of the financial sustainability of such programs requires the application of sound actuarial principles. Therefore, we respectfully recommend that actuarial calculations involving the obligations and cash flow projections for social benefits schemes be performed by qualified actuaries in compliance with standards of actuarial practice and professional codes of conduct.

**Specific Matter for Comment 6:** The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long Term Sustainability of an Entity's Finances, was developed to provide guidance on presenting this additional information. In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

### Advantages

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how? If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

### IAA Comments

We strongly encourage the IPSASB to undertake further work on reporting on long-term fiscal sustainability. We urge the IPSASB to make such reporting mandatory through disclosure requirements.

The IAA respectfully offers its services in assisting the IPSASB in this work. In particular, we consider the SSC paper "[Measuring and Reporting Actuarial Obligations of Social Security Systems](#)" to be a resource for the IPSASB deliberations.

In our opinion, social benefit programs rely extensively on solidarity, multigenerational risk pooling and income redistribution, even the systems that have some degree of linkage of benefits to contributions. SSRSs constitute a social contract that binds together large population groups and several generations. This implies that, first, it is of paramount concern that SSRSs are financially and intergenerationally sustainable in the long-term, and, secondly, reported financial information concerning them reflects their long-term social nature.

### Disadvantages

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

## **Appendix A**

### **Full Member Associations of the IAA (73 members)**

(29 March 2018)

Asociación Centroamericana de Actuarios (ACEA)  
Caribbean Actuarial Association  
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)  
Actuaries Institute Australia (Australia)  
Aktuarvereinigung Österreichs (AVÖ) (Austria)  
Institut des Actuaire en Belgique (Belgique)  
Aktuarsko Drustvo U Bosni I Hercegovini (Bosnia and Herzegovina)  
Instituto Brasileiro de Atuária (IBA) (Brazil)  
Bulgarian Actuarial Society (Bulgaria)  
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)  
China Association of Actuaries (China)  
Actuarial Institute of Chinese Taipei (Chinese Taipei)  
Asociación Colombiana de Actuarios (Colombia)  
Institut des Actuaire de Côte d'Ivoire (Côte D`Ivoire)  
Hrvatsko Aktuarsko Drustvo (Croatia)  
Cyprus Association of Actuaries (Cyprus)  
Česká Společnost Aktuárù (Czech Republic)  
Den Danske Aktuarforening (Denmark)  
Egyptian Society of Actuaries (Egypt)  
Eesti Aktuaaride Liit (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Institut des Actuaire (France)  
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)  
Actuarial Society of Ghana (Ghana)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Magyar Aktuárius Társaság (Hungary)  
Félag Islenskra Tryggingastærðfræðinga (Iceland)  
Institute of Actuaries of India (India)  
Persatuan Aktuaris Indonesia (Indonesia)  
Society of Actuaries in Ireland (Ireland)  
Israel Association of Actuaries (Israel)  
Istituto Italiano degli Attuari and Ordine degli Attuari (Italy)  
Institute of Actuaries of Japan (Japan)  
Japanese Society of Certified Pension Actuaries (Japan)  
Actuarial Society of Kazakhstan (Kazakhstan)  
The Actuarial Society of Kenya (Kenya)  
Latvijas Aktuaru Asociacija (Latvia)  
Lebanese Association of Actuaries (Lebanon)

**Full Member Associations of the IAA (73 members)**

...continued

Lietuvos Aktuaru Draugija (Lithuania)  
Macedonian Actuarial Association (Macedonia)  
Persatuan Aktuari Malaysia (Malaysia)  
Colegio Nacional de Actuarios A. C. (Mexico)  
Association Marocaine des Actuaire (Morocco)  
Het Koninklijk Actuarieel Genootschap (Netherlands)  
New Zealand Society of Actuaries (New Zealand)  
Den Norske Aktuarforening (Norway)  
Pakistan Society of Actuaries (Pakistan)  
Actuarial Society of the Philippines (Philippines)  
Polskie Stowarzyszenie Aktuaruszy (Poland)  
Instituto dos Actuários Portugueses (Portugal)  
Asociatia Romana de Actuarial (Romania)  
Russian Guild of Actuaries (Russia)  
Udruzenje Aktuara Srbije (Serbia)  
Singapore Actuarial Society (Singapore)  
Slovenska Spolocnost Aktuarov (Slovakia)  
Slovensko Aktuarsko Drustvo (Slovenia)  
Actuarial Society of South Africa (South Africa)  
Institute of Actuaries of Korea (South Korea)  
Col.legi d'Actuaris de Catalunya (Spain)  
Instituto de Actuarios Españoles (Spain)  
Actuarial Association of Sri Lanka (Sri Lanka)  
Svenska Aktuarieföreningen (Sweden)  
Association Suisse des Actuaire (Switzerland)  
Society of Actuaries of Thailand (Thailand)  
Actuarial Society of Turkey (Turkey)  
Association of Consulting Actuaries Limited (United Kingdom)  
Institute and Faculty of Actuaries (United Kingdom)  
American Academy of Actuaries (United States)  
ASPPA College of Pension Actuaries (United States)  
Casualty Actuarial Society (United States)  
Conference of Consulting Actuaries (United States)  
Society of Actuaries (United States)

## Appendix B

### Members of the Social Security Committee of the IAA

(29 March 2018)

#### Chairperson:

Barbara D'Ambrogi-Ola Suomen Aktuaariyhdistys

#### Co-Vice-Chairpersons:

Assia Billig Canadian Institute of Actuaries

Aldona Skucaite Lietuvos Aktuaru Draugija

#### Members:

Janet M. Barr	American Academy of Actuaries
Joseba Iñaki De La Peña	Instituto de Actuarios Españoles
Christelle Dieudonne	Institut des Actuaire
Maria Economou	Hellenic Actuarial Society
Rosa Maria Farell Campa	Colegio Nacional de Actuarios A. C.
Ana Haramija	Hrvatsko Aktuarsko Društvo
Atsushi Hayakawa	Japanese Society of Certified Pension Actuaries
Klaus Heubeck	Deutsche Aktuarvereinigung e. V. (DAV)
Martin Kosztolanyi	Slovenska Spolocnost Aktuarov
Christoph Krischanitz	Aktuarvereinigung Österreichs (AVÖ)
Sanjeeb Kumar	Institute of Actuaries of India
Thomas D Levy	Canadian Institute of Actuaries
Martin Kristofer Lunnon	Institute and Faculty of Actuaries
Raffaello Marcelloni	Istituto Italiano degli Attuari and Ordine degli Attuari
Mary Frances Miller	Casualty Actuarial Society
Ibrahim E. Muhanna	Lebanese Association of Actuaries
Roseanne Murphy Harris	Actuarial Society of South Africa
John Michael Newman	Actuaries Institute Australia
Tibor Párniczky	Magyar Aktuárius Társaság
Adam Justin Reese	Conference of Consulting Actuaries
Nobuhiro Shimizu	Institute of Actuaries of Japan
Constantinos Stavrou Stavrakis	Cyprus Association of Actuaries
Fructueux Tétiali	Institut des Actuaire de Côte d'Ivoire
Wilma Gomes Torres	Instituto Brasileiro de Atuária (IBA)
Diego Valero Carreras	Col.legi d'Actuaris de Catalunya
Stephen A. Yeboah	Actuarial Society of Ghana
Xiao Qiang Zhao	China Association of Actuaries