IPSASB

IPSAS® 39 Summary—Employee Benefits

This summary provides an overview of IPSAS 39, *Employee Benefits*.

Project objective: To issue a revised IPSAS which maintains convergence with IAS 19, *Employee Benefits*.

Approved: The International Public Sector Accounting Standards Board® (IPSASB®) approved IPSAS 39, *Employee Benefits,* in June 2016.

Project history: The project began in 2015. The IPSASB issued Exposure Draft (ED) 59, *Amendments to IPSAS 25, Employee Benefits,* in January 2016. The proposed amendments made a large number of changes to the text of IPSAS 25 that impaired its understandability. The IPSASB therefore decided to issue a new IPSAS 39, *Employee Benefits*, rather than a revised IPSAS 25. The final pronouncement, IPSAS 39, takes into account the responses received to ED 59.

Why the IPSASB Undertook this Project?

IPSAS 25 (2008) was a converged standard based on IAS 19 (2004) that needed to be updated to maintain alignment with the underlying IFRS.

Importance of pension liabilities in the public sector

The requirements for defined benefit pension plans are a key aspect of IPSAS 25. Pension liabilities are highly significant in the public sector. The new recognition, presentation and disclosure requirements in IPSAS 39 will ensure that the financial statements provide useful and transparent information about the liabilities related to defined benefit plans.

IFRS Convergence

In its role as the international standard setter for the public sector, the IPSASB develops IPSASs that are converged with IFRSs by adapting them to the public sector context. Since 2008, the International Accounting Standards Board has made several revisions to IAS 19 that are now addressed in IPSAS 39.

Objectives of financial reporting

The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reporting (GPFRs) for accountability purposes and for decision-making purposes. The accounting for employee benefits in IPSAS 39 helps achieving the objectives of financial reporting.

Main differences between IPSAS 39 and IPSAS 25

Recognition

Currently IPSAS 25 permits public sector entities to defer the recognition of certain actuarial gains and losses arising from defined benefit plans (the “corridor approach”). IPSAS 39 removed the “corridor approach”.

Presentation

IPSAS 39 eliminates presentational options on actuarial gains and losses that previously existed in IPSAS 25.

Disclosure

IPSAS 39 introduces disclosure objectives for defined benefit plans according to the characteristics, risks associated with them and their relationship with the entity`s financial statements.

Overview of Differences between IPSAS 39 and IPSAS 25

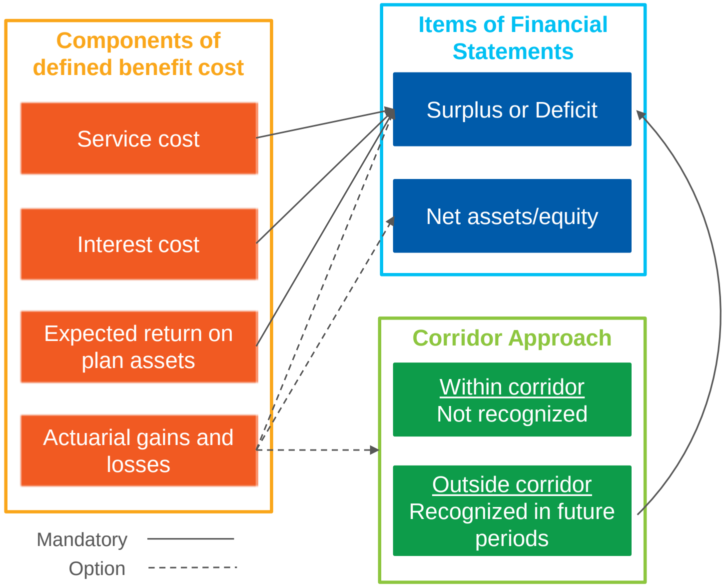
Removing the "corridor approach".

IPSAS 25

IPSAS 25 has three options for the recognition of actuarial gains and losses in:

1. Surplus or Deficit in the period in which they occur;
2. Net assets/equity in the period in which they occur; and
3. Future periods (the "corridor approach").

As a result, a deficit could be recognized as an asset, a surplus could be recognized as a liability and faithful representation and comparability between entities would be difficult to achieve.

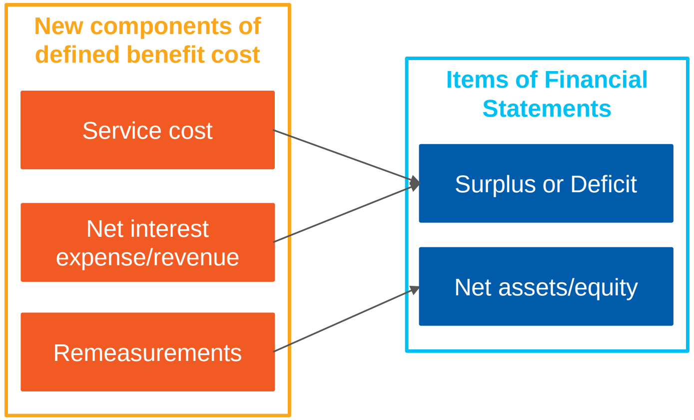


IPSAS 39

New approach:

- Recognizes remeasurements in net assets/equity in the period in which they occur; and
- Recognizes a surplus as a net defined benefit asset and a deficit as a net defined benefit liability.

By removing options and requiring entities to recognize changes immediately, comparability and understandability of information related to defined benefit plans in the period are improved.



Overview of Differences between IPSAS 39 and IPSAS 25

New components of defined benefit cost.

IPSAS 25

Components of defined benefit cost in IPSAS 25 that are amended in IPSAS 39 are:

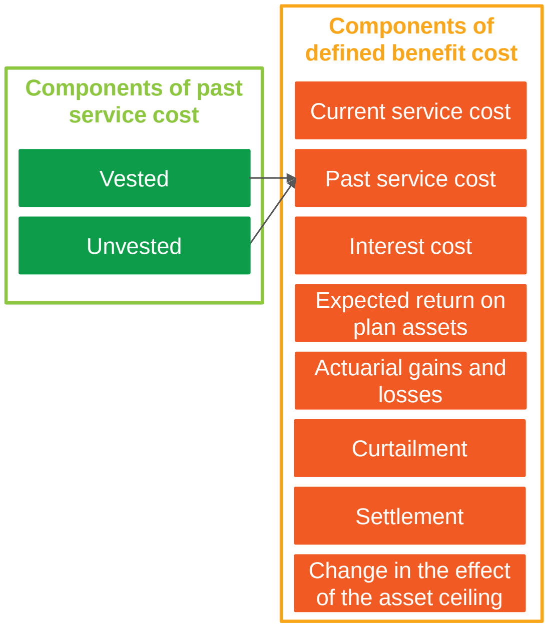
- Interest cost and expected return on plan assets – replaced by a single net interest component.
- Curtailments – as one form of past service cost.

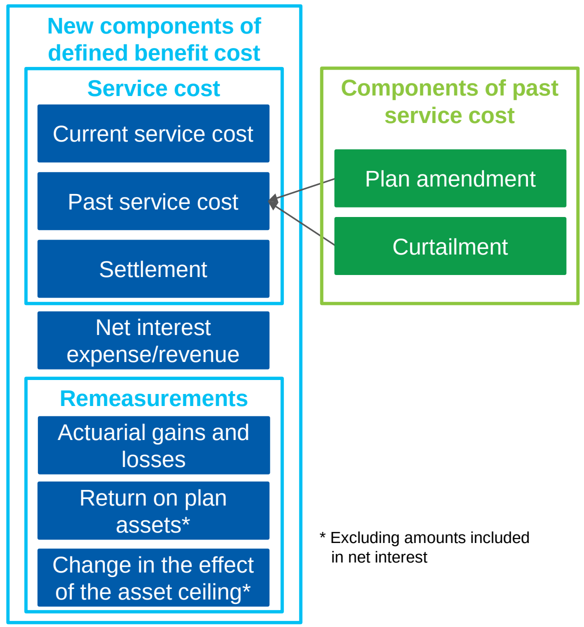
The net interest approach results in an entity recognizing interest revenue/expense due to the passage of time when the plan has a surplus/deficit.

IPSAS 39

New components:

- Service cost – the liability that arises from employees providing service during the period.
- Net interest – the interest expense/revenue on the net defined benefit liability (asset).
- Remeasurements – other changes in the value of the defined benefit obligation, such as changes in estimates and other changes in the value of plan assets.

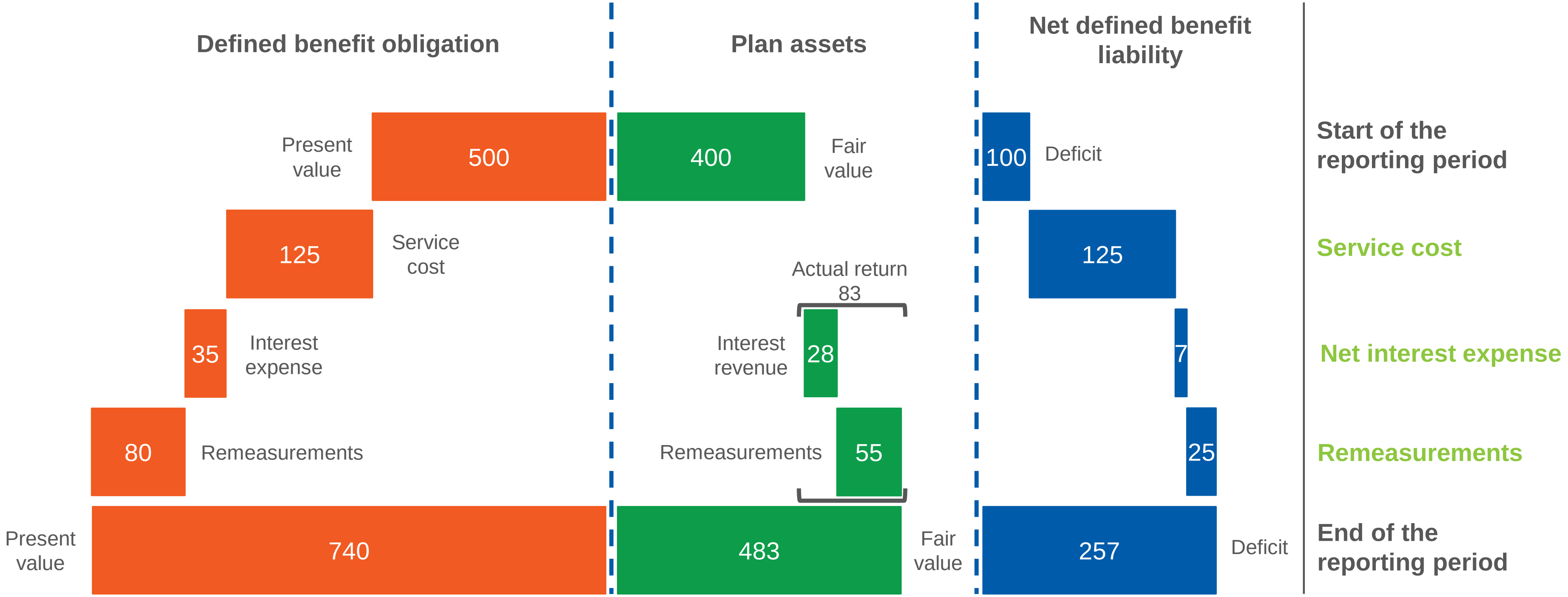




* Excluding amounts included in net interest

IPSASB

Illustrative example of the new components



IPSASB

Miscellaneous changes to defined benefit plans

IPSAS 39 addresses a number of other issues related to defined benefit plans.

Settlements

IPSAS 39 clarifies that a settlement is:

- The difference between the present value of the defined benefit obligation being settled and the settlement price; and
- A payment of benefits that is not set out in the terms of the plan.

As a consequence, any difference between an estimated benefit payment and the actual benefit payment is an actuarial gain or loss.

Disclosures

IPSAS 39 introduces explicit objectives for disclosures of defined benefit plans about:

- The characteristics of defined benefit plans and risks associated with them;
- The amounts in the financial statements arising from the plans; and
- The amount, timing and uncertainty of future cash flows.

Actuarial assumptions—Mortality

IPSAS 39 makes explicit that mortality assumptions used to determine the defined benefit obligation are the best estimate of the mortality of plan members both during and after employment.

Taxes and administration costs

IPSAS 39 clarifies that:

- Taxes payable by the plan on contributions related to service before the reporting date, or on benefits resulting from that service are included in the estimate of the present value of the defined benefit obligation;
- Other taxes should be deducted from the return on plan assets; and
- Administration costs directly related to the management of plan assets are deducted from the return on plan assets.

Changes to defined benefit cost

IPSAS 39:

- Does not distinguish the recognition of vested and unvested past service cost;
- Includes curtailments as one form of past service cost; and
- Recognizes that unvested past service cost results in the same accounting for past service cost and curtailments.

Presentation

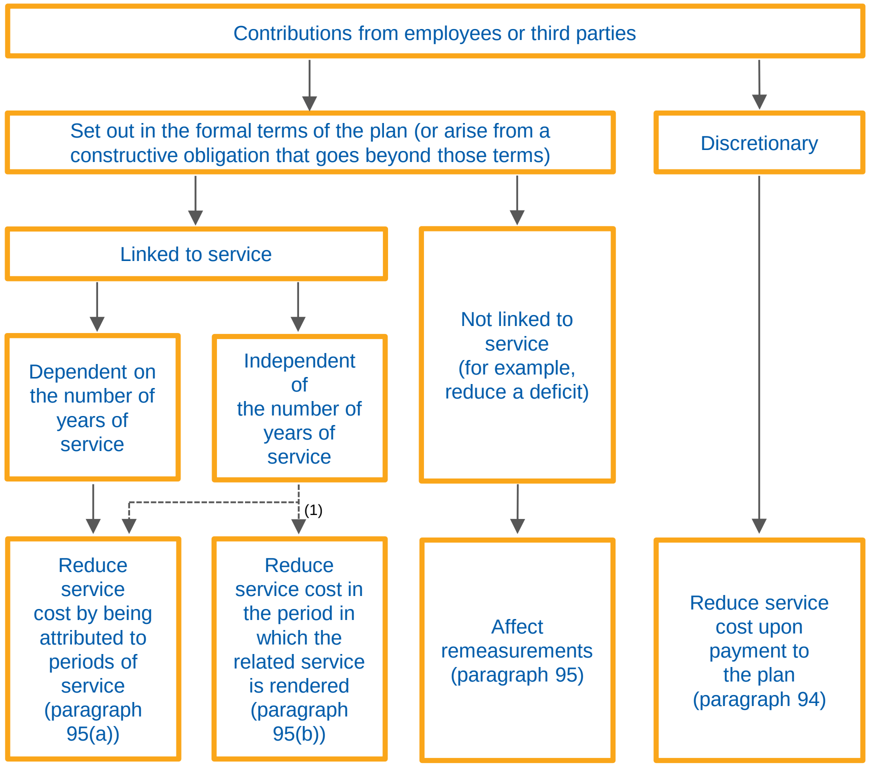
IPSAS 39 clarifies that the presentation of service cost and net interest on the net defined benefit liability (asset) is made in accordance with IPSAS 1, *Presentation of Financial Statements.*

Defined benefit plans—risk-sharing

IPSAS 39 clarifies the accounting for the risk-sharing features of defined benefit plans in several areas.

Employee and third-party contributions

IPSAS 39 clarifies the effect of employee and third-party contributions on service cost and remeasurements according to the following decision tree.



(1) This dotted arrow means that an entity is permitted to choose either accounting.

Conditional indexation

Some defined benefit plans provide benefits contingent on returns on plan assets (conditional indexation). IPSAS 39 clarifies that any conditional indexation should be reflected in the measurement of the defined benefit obligation.

Limits to employer contributions

IPSAS 39 clarifies that the measurement of the defined benefit obligation takes account of the effect on contributions by the employer. The effect of such a limit is determined over the shorter of the estimated life of the entity and the estimated life of the plan.

Change to the level of benefit

IPSAS 39 clarifies that the estimate of the ultimate cost of the benefits reflects the effect of terms of the plan that require or allow a change to the level of benefit.

IPSASB®

Other issues

IPSAS 39 also addresses a number of other issues raised in the private sector.

Classification of employee benefits

IPSAS 39 clarifies that short-term employee benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services.

Multi-employer plan disclosures

IPSAS 39 requires an entity:

- To provide a description of any agreed allocation of a deficit or surplus on wind-up of the plan or the entity's withdrawal from the plan; and
- To indicate the level of its participation in a multi-employer plan and the expected contributions to the plan for the next reporting period, if the entity accounts for that plan as if it were a defined contribution plan.

Other long-term employee benefits

As a consequence of changes to the accounting of defined benefit plans, IPSAS 39 changes the recognition and measurement of other long-term employee benefits.

Termination benefits

IPSAS 25 required that termination benefits are to be recognized when the entity is demonstrably committed to providing those benefits. The IPSASB is of the view that the factor determining the timing of recognition is the entity's inability to withdraw the offer of termination benefits. Therefore, IPSAS 39 requires that termination benefits shall be recognized when the entity can no longer withdraw that offer (for example, when the employee accepts the offer).

Effective Date and Project History

IPSAS 39 effective date is January 1, 2018.

Effective date of IPSAS 39 and replacement of IPSAS 25

The effective date of IPSAS 39 is January 1, 2018, with earlier adoption encouraged. IPSAS 39 supersedes IPSAS 25. IPSAS 25 remains applicable until IPSAS 39 is applied or becomes effective, whichever is earlier.

Project History

To know more about the project history, please visit:

http://www.ipsasb.org/projects/employee-benefits-limited-scope-project