

Institute of Actuaries of India

Subject SA4 – Pensions and Other Employee Benefits

November 2010 Examination

INDICATIVE SOLUTION

Introduction

The indicative solution has been written by the Examiners with the aim of helping candidates. The solutions given are only indicative. It is realized that there could be other points as valid answers and examiner have given credit for any alternative approach or interpretation which they consider to be reasonable

Q.1(i) **Estimated Projected Pension:**

	In illustration of 2004	In statement of 2010
Outstanding service till retirement at 60	60-25=35	60-31=29
Existing fund projected to retirement ()	$0 \times (1.04)^{35} = 0$	$450,000 \times (1.08)^{29} = 41,92,800$
Future contributions accumulated till retirement ()	$20\% \times 25000 \times 12 \times \bar{a}_{35}^{-1} @ 0.971\% \times (1.04)^{35} = 70,30,900$	$20\% \times 40,000 \times 12 \times \bar{a}_{29}^{-1} @ 1.41\% \times (1.08)^{29} = 2,13,18,200$
Total Projected fund at retirement ()	70,30,900	2,55,11,000
Projected pension amount at retirement (p.m.)	$(70,30,900 \div 14.5) \div 12 = 40,400$	$(2,55,11,000 \div 14.0) \div 12 = 1,51,900$
Salary projected at retirement (p.m.)	$25,000 \times (1.03)^{35} = 70,400$	$40,000 \times (1.065)^{29} = 2,48,400$
Projected pension as a % of projected salary at retirement	$(40,400 \div 70,400) = 57.4\%$	$(1,51,900 \div 2,48,400) = 61.2\%$

Additional assumptions/approximations :

- i.) Though the contributions have been paid at the end of month but for ease of calculation continuous annuities have been used
- ii.) There is no averaging of pensionable salary at retirement
- iii.) DC fund is used to secure pension allowing increases in line with price inflation with 50% dependants' pension
- iv.) Decrements i.e. mortality, withdrawals before retirement assumed to be zero
- v.) No commutation at retirement
- vi.) No expenses considered

(ii) **Key factors that might have increased the level of projected benefits :**

Increase in projected fund (`)	=2,55,11,000 – 70,30,900 =1,84,80,100
Increase in projected pension amount (` p.m.)	=151,900-40,400 =1,11,500
Enhancement in % pension	=61.2-57.4 =3.8% of projected final salary

The differences would have arisen due to:

- o Actual experience during 2004-10 has been different from that assumed in 2004, and
- o Impact due to differences in assumptions in 2010 compared to 2004

Difference due to actual experience between 2004-10:

The expected salary in 2010 estimated in 2004 was (`) $= (25,000) \times (1.03)^6$
=29,900

The actual salary in 2010 is (`) 40,000 and hence has made significant impact in projected benefits in nominal terms.

Expected fund value in 2010 estimated in 2004(`):

2004 fund projected to 2010	=	$0 \times (1.04)^6 = 0$
Expected DC contributions	=	$20\% \times 25,000 \times 12 \times \bar{a}_{60} \text{ @ } 0.971\% \times (1.04)^6$
	=	4,42,600
Total	=	4,42,600
Actual Fund value in 2010(`)	=	4,50,000
Hence investment gains till 2010(`)	=	7,400

Which is not significant. This would have been caused because of unexpected rise in salary (which is quite substantial i. e. 34%) as well as rise in interest rates. However, since investment gain due to accumulated contributions is not much, it appears that unexpected rise in salary might have taken place recently (say, due to one –off periodical rise) and investment return might have been more or less as expected.

This would have accumulated to $7,400 \times (1.04)^{29} = \text{ ` } 23,100$ by age 60

Further, the impact due to unexpected salary rise till 2010 would be
 $= 20\% \times 12 \times \bar{a}_{29} \text{ @ } 0.971\% \times (1.04)^{29} \times (40,000 - 29,900)$
 $= \text{ ` } 19,11,900$

Changes to assumptions in 2010 for future experience :

- **Pre-retirement:** The pre-retirement factors are :
 - Higher assumed nominal/net investment returns and hence investment income

Higher than expected salary increases and hence contributions Combined effect of changes to assumptions will be the total increase in projected fund less that attributed to pre-2010 experience, i.e.

$$= 1,84,80,100 - 19,11,900 - 23,100$$

$$= ₹ 1,65,45,100$$

Out of it, the impact of change in interest assumption will be in the following two:

- $450,000\{(1.08)^{29} - (1.04)^{29}\} = ₹ 27,89,400$ and
- $20\% \times 40,000 \times 12 \{ \bar{a}_{29} @ 4.8544\% \times (1.08)^{29} - \bar{a}_{29} @ 0.971\% \times (1.04)^{29} \}$
 $= 96,000(146.84154 - 78.87360)$
 $= ₹ 65,24,900$

Hence total impact due to change in interest assumption is ₹ 93,14,300 (=27,89,400 + 65,24,900)

And the impact due to change in salary escalation assumption will be

$$= 20\% \times 40,000 \times 12 \{ \bar{a}_{29} @ 1.41\% \times (1.08)^{29} - \bar{a}_{29} @ 4.8544\% \times (1.08)^{29} \}$$

$$= 96,000(222.06496 - 146.84154)$$

$$= ₹ 72,21,400$$

[to check - $93,14,300 + 72,21,400 = 1,65,35,700 \approx 1,65,45,100 \Rightarrow$ tallies approximately]

Post-retirement: The post retirement factors are :

- Higher than expected discount rate nominally and also net of assumed pension increases
- Higher life expectancy

Pension based on projected 2010 fund value using 2004 assumption of annuity factor, the pension will be:

$$= (255,11,000 \div 14.5) \div 12 = ₹ 1,46,600 \text{ p.m.}$$

And as % of projected salary = $1,46,600 \div 2,48,400 = 59\%$

i.e. there is a gain of $1,51,900 - 1,46,600 = ₹ 5,300 \text{ p.m.}$ or

$61\% - 59.0\% = 2.0\%$ of projected salary due to change in annuity factor

The part of it that can be attributed to increase in net yield :

2004 assumptions: net yield was 1.47% (=1.035/1.02-1), and

2010 assumptions: net yield is 2.90% (=1.065/1.035-1)

The thumb rule is that for each 1% reduction in post-retirement net yield, the liability increases by around 12%,. The enhancement in net yield would have reduced the annuity factor from 14.5 to 12.5 (=14.5 × $\frac{1}{1.17}$)

The balance is the reduction in pension due to increased life expectancy.

Summary of results:

	Projected Fund (`)	Projected Pension (p.m.) (`)	Pension as % of Projected FS
2004 Benefit illustration	70,30,900	40,400	57.4%
Impact of salary rise/ interest from 2004-2010	19,35,000	11,100	-
Impact due to pre-retirement interest assumption after 2010	93,14,300	53,500	-
Impact due to pre-retirement salary escalation assumption after 2010	72,21,400	41,500	-
Projected fund in 2010 statement	2,55,01,600	146,500	59%(of ` 2,48,400)
Increase in pension due to increase in net post retirement yield	-	23,500	9%
Reduction in pension due to increased life expectancy	-	(18,200)	(7%)
Projected pension in 2010 statement	-	151,800	61%(of ` 248,400)

(iii)a) **Points to be put forward by workers' union:**

- The DC scheme for new employees is likely to provide, on an average, more than 50% of FS Pension at retirement as is clear in two different extreme scenarios
- The pension under DC improves if interest rates and/or salary rises are higher as is clear from the two scenarios

- Those who will die before retirement will be eligible only for dependants' pension. Except in the initial few years, the dependants' benefits may be much higher under DC scheme compared to DB
- Some employees may not have spouse and /or children at retirement. Their pension under DC may be much higher in that case.
- Current investments are in fixed interest securities, A proportion of the fund invested in real assets (e.g. equity, property) may provide higher return enhancing the benefits under DC further
- The employees leaving before putting in certain minimum service may not get anything under DB scheme.
- In DC scheme employees are likely to be given option for investment in different funds. Some employees may lose their pension fund as certain funds may not perform adequately.
- On the other hand, DB scheme would provide security of same level to all
- In view of the above, the cost of the DB scheme for new employees (who are mostly in young age group) may be around 15% and it may not put any extra burden on the government in accepting WTU's proposal.
- It will remove the difference in benefits between old and new employees so far as pension is concerned, though PF scheme will still be different
- Operating two different Pension schemes increases administrative cost

(iii) b **Likely objections from the government:**

- o In following cases the cost of DB scheme for an employee may be More than his accumulated fund:
 - Employees entering into service at higher age
 - High fliers
 - Employees dying early
 - Those retiring early due to ill-health or other reasons
 - Employees having large families / more dependants
- o DC scheme is better for following employees and hence they may like to remain in DC scheme:
 - Early leavers
 - Those who are investment savvy and can make better investment fund choice providing better returns leading to higher benefits
 - The retiring member under DC scheme may opt for a pension depending

on his dependants. If he does not have any dependant, he would like to opt for a life annuity thereby enhancing his pension benefit

- The projected benefit in the illustration and statement are based on financial assumptions with a relationship, say

$$i - e \approx 1 \text{ to } 2\%$$

$$e - p \approx 1 \text{ to } 2\%$$

$$i - p \approx 3 \text{ to } 4\%$$

Where i = investment return, e = salary escalation & p = price inflation

If the economy of the country is growing at a faster pace, these relationships may not hold good even over the longer term. For example, $e > i$ or $i - p < 2/3\%$ etc. In that case cost of DB scheme will be much higher.

- Running DB scheme is more risky and due to this only DC scheme has been introduced
- Employees/ Unions' next demand will be to increase contribution from 5% to 10% to make it equivalent to benefits available to old employees

(iv) **Issues to be considered by PR:**

Key factors:

- The pension fund to be regulated by PR (for new government employees and the public) is a DC scheme in which the level of members' benefits would depend directly on the investment performance of pension funds. Hence PR has to ensure that PFMs do every such thing that ensures good investment performance
- The investment performance of different funds will be different. When choice is given to the members, PR has to ensure that members and/or their advisors get enough information to help them to exercise their choice properly.
- This would need:
 - Transparency from PFMs
 - Knowledgeable, honest and expert advisors
- Security and solvency of PFMs
 - Capital need

However, at the same time the advice should not be compulsory for the members. Informed and knowledgeable members should be able to decide /opt about the PFM

and the fund directly by themselves.

To address the above, PR needs to consider following issues on which regulations/guidelines would need to be issued by them:

- Involvement of advisors to give advice to members
 - In the selection of a PFM
 - In the selection of a fund of such PFM,
 - Help members in opening a pension account
 - Depositing contribution besides other servicing , e.g. switching etc.,
 - Minimum qualification and training of advisors
 - Issuance and renewal of license
 - cap on commission or fees payable to them and by whom – PFM or the client
 - Code of conduct for such advisors
 - Benefit illustration to be provided by advisors
 - Risks involved such as investment return is not achieved to the assumed level, annuity rates and similar.

- Advertisements by PFM and Advisors
- Investment Regulations :
 - Maximum and minimum, if any, proportion in volatile (e.g. equities) and less marketable (e.g. property, unquoted shares etc) assets
 - Exposure / Prudential norms to ensure diversification
 - Quality of assets – marketable, quoted, minimum ratings etc
 - Prohibition on certain investments, e.g. overseas investments, derivatives etc
 - Appointment of skilled fund managers, say appointment of Chief Investment Officer (CIO) may need approval of PR
 - Collective decision making – involvement of Investment Committee whose members should have certain Minimum qualification / experience
 - Use of investment softwares to ensure necessary information is available with Fund Managers

PFMs should be able to demonstrate that they have right set of investment skills- both individually and collectively as also the right structures and processes to carry out their role effectively

o Transparency:-

- Offer of different funds taking into account different members' age, outstanding terms to retirement, financial position, attitude to risk etc
- Investment objectives, expected returns, risks and other relevant characteristics of each fund
- Standard terminology
- Offer of a default fund for those members who don't exercise option themselves and leave investment decision on PFM. This fund will take individual member's circumstances into account and will focus on providing expected high returns to young members with a strategy to move to 100% medium to long term fixed interest securities and cash at retirement. Fixed interest securities of medium to long term are to match annuity rates while cash will be needed to match commuted value

o Reporting :

- To PR – different returns and their periodicity
- Statement of Investment Principles (including charges, if any), composition of funds, performance and Key Result Areas (KRAs) to members, at least annually.
- If there has been any departure from principles in respect of any fund, reasons there of
- Publishing daily / periodical NAVs
- Good Corporate Governance

o Miscellaneous :

- Switching from one fund to another of the same PFM
- Portability – switching pension account from one PFM to another. It is needed where a member can open only one account. If a member can open multiple pension accounts, then not necessary

- (v) **Problems likely to be faced by government in future:**
- Taxes will be required from current tax payers to pay PAYG benefits of previous generations
 - Current tax payers have also to pay taxes to fund pension benefits of new government employees. Hence current tax payers (taxable population of country) will be making double payment for government employees' pension benefits and hence increased taxes
 - Presently the contribution for new employees (who are not many in number) is not much and hence not visible but over a period of time the PAYG pension and new employees' contributions will go on rising and will lead to visible rise in taxes from current generation of tax payers.
 - With the passage of time and rise in number of new government employees, the investible fund may cause problem in future such as
 - Suitable assets may not be available
 - Large investment may destabilize the market
 - If invested in government bonds – means self-investment which may ultimately prove to be not different from PAYG system
 - Investment in shares of private companies would mean semi-nationalisation
 - Investment in overseas governments and / or companies would mean encouraging overseas economy at the cost of domestic economy (though where local economy is small compared to funds available for investment, then it is better to invest overseas)
 - Investment in property would mean nationalization of some private property. Further, it is not liquid and may cause problems when government may need cash.
 - Different schemes for old and new employees may
 - Create HR issues
 - Have more administrative expenses

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- Q.2 (a) Issues related to “Age Discrimination” have been debated for quite a long time in different countries and are reflective of social and political space where in the objective is to treat males and females on equal terms with reference to equableness of the cost and benefits. The sphere of employee benefits/pensions has been no exception.

Such governmental objectives typically reflect through the laws/rules/regulations (referred to as laws) that apply to employment conditions and keeping in view that in respect of employee benefits/pensions the key driver of the cost is age meaning thereby for the same benefits the related cost has to be age-variant or if the same cost has to apply for same age irrespective of gender, the benefits have to be gender-variant, the laws that apply to other aspects of employment have to have exemption provisions in respect of benefits/Pensions.

In the above backdrop the following points, at the least, should be taken in to account by the Multinational;

- 1) The existing Benefit/Pension scheme rules though apparently in conflict with anti-age discrimination employment laws that may come in to vogue, ultimately may find a place in the exemption rules for the reasons stated above.
- 2) An exemption may relate to DB schemes wherein the existing provisions may be allowed to be retained for existing members and new members required to be compliant with new provisions of the law. This will certainly require scheme rules significantly different from the existing. This will also require significant employee engagement and refocus on HR practices.
- 3) The scheme rules related to minimum/maximum age that most of the employers prefer on account of business issues related HR objectives, may be allowed to continue. However, maximum age for contribution may not be allowed but maximum number of years of pensionable service may be admissible.
- 4) There may be a situation where apparently the existing scheme rules discriminate against certain age range and such a situation may not be captured in the exemption scheme rules, the Regulator may allow the employer/trustees to deal with the situation in unique manner, for example;
 - retain the rules and “objectively” justify it.
 - amend the rules so that discrimination ceases.
 - Remove the rule
- 5) The Trustees/Employers may be required to provide evidence of “Objective justification” on case-by case basis.

(b) **Brief:**

The Actuarial Practice Standards, called Guidance Notes put in place by the Institute of Actuaries of India relating to Retirement Benefits Schemes are as under;

Guidance Note 11 (GN 11): Actuarial Investigation of Retirement Benefit Schemes.

Guidance Note 18 (GN 18): Retirement Benefit Schemes – Actuarial Reports

Guidance Note 26 (GN 26): Actuarial Reports under Accounting Standard 15 (revised 2005) issued by the Institute of Chartered Accountants of India.

GN 11: This guidance note spread over three sub-sections deals with;

- in sub-section 1, retirement benefit terminology and standard funding

- methods
- in sub-section 2, deals with various other issues including the assumptions involved in carrying out an actuarial valuation of retirement benefit schemes in India, and
 - in third subsection sets out the essential components of a retirement benefit actuarial report.

GN 18: This GN deals with preparation of actuarial report on funding when a scheme is set up or at intervals thereafter when an actuarial valuation is to be conducted for funding or in connection with **funding**. In relation to DC schemes, the GN 18 applies if the advice given is on the funding required to meet level of benefit (other than lump sum benefits) or on the benefits the fund will support, but not otherwise. The objectives of this GN aim to ensure that report contains sufficient information to enable understanding of the current funding level and also in the case of a Defined Benefit scheme, to enable understanding of the expected future course of a scheme's contribution rates.

GN 26: This GN provides guidance to actuaries in making actuarial valuations and preparing actuarial reports on valuation done under AS 15 (rev. 2005). The provisions of this GN also apply to reporting for expensing in financial statements of a reporting entity not falling within the purview of AS 15 (rev. 2005) but not specifically covered by any other Accounting Standard.

Provisions relating to choice of actuarial assumptions;

The guidance as applicable to choice of actuarial assumptions are covered under all the above three guidance Notes and relate to specific areas of actuarial work covered under these.

As the GN 11 relates to overall issues of actuarial reporting on retirement benefit schemes, the provisions with regard to the assumptions too are in general covering general issues (as against specific to funding or expensing). These are;

- i. The purpose of actuarial investigation has a bearing on the actuarial assumptions.
- ii. Special attention to be given to those assumptions to which the actuarial liability and contribution rate are especially sensitive.
- iii. In the case of new schemes or where the question of choice of assumptions comes up for the first time, experience of other similar schemes has to be relied upon including dependence on currently accepted actuarial opinions and other scheme specific data.
- iv. Statutorily prescribed pattern of investment has to be taken in to account and in case of existing funds, the fund's performance has to be taken in to account.
- v. Valuation for setting up book reserve or disclosure in accounts will demand unique issues to be considered including provisions, if any, in relevant Accounting Standards.
- vi. Projection for pay increases to take in to account the inflationary factors as well as career progression.
- vii. Assumption in regard to mortality has to depend upon latest published mortality table and adjustment to it, if required, to account for scheme specific experience.

- viii. Assumptions with regard to withdrawal rates require skilful handling as these have significant influence on the liability.
 - ix. In adopting basis and assumption to arrive at transfer values, we need to make distinction between individual transfer values and the bulk.
- GN 18 dealing with funding valuation provides in respect of assumptions as under;

- i. Both demographic and economic assumptions made explicitly for liability and asset valuations have to be made part of the report.
- ii. Where appropriate the report should state assumptions about future new entrants.

GN 26 draws attention to provisions in the AS 15 (rev. 2005) with regard to the basis upon which the various assumptions to be used in the actuarial valuation are to be determined. It further states that the actuarial assumptions are the enterprise's "best estimates" of different variables and responsibility for setting these financial assumptions rests with the enterprise and the actuary is required to advise the client on the determination of various assumptions and comment on the assumptions chosen by the client.

- (c) **Best estimate assumption:** It's the value or the number as the case may be, which has the actual value or the number 50 percent probability of falling on either side of it. In practice the average value or the number is taken as the best estimate.

Under acquisition environment the determination of liability as well as the assets and consequently the surplus or deficiency in case of funded scheme and the amount of liability in case of unfunded scheme affects the purchase/sale price.

While either party would want to have the assumptions set in a manner that affects favorably the transaction, the conflicting interests may ultimately lead to dispute. Even if one set of assumption principle ie Prudent, Optimostic, Pessimistic or Best is chosen, the same affects the liability and assets differently.

Prudent assumption ie building in margins against future unexpected adverse experience or Optimistic has the chance of throwing up amount or numbers that may turn out to be unacceptable to one or the other party, in retrospect. This is bound to result in undesirable consequence, particularly so if the parties still have some kind of business relationships.

In view of the above in acquisition environment, the normal practice is to use best estimate with clear understanding amongst both the parties as to its meaning and the method by which it is arrived at.

Sometimes allowance of underfunded/ overfunded scheme is made in the purchase price of the company and in such cases the transfer value may not be based on best estimate.

- (d) (i) **Immediate annuities:** Immediate annuities are assets of the scheme if they have been bought out in the name of the trustees. The liability has been extinguished if the benefit was bought out in the name of the member.

These contracts will cover some or all of the pensions in payment. The valuation method would usually be to take the value of contract to be equal to the value of liabilities.

The rationale for adopting the above approach is that the assets match the liabilities

and the scheme is immunized against deviations from the assumptions used to place a value on the liabilities.

However, if the insurer becomes insolvent, the liability to pay benefits reverts back to the Scheme Trustees.

Paid up non-profit and with profit deferred annuities:

Paid up non-profit deferred annuities are normally on the same basis as the liability they cover. The rationale for adopting this approach is same as that for immediate annuities ie that the assets match the liabilities and the scheme is immunized against deviations from the assumptions used to place a value on the liabilities.

Non-profit deferred annuities are usually bought in wind up situations and therefore are usually in the name of the member. Thus in this situation the liability in the scheme is extinguished and they are not an asset of the scheme.

With Profit deferred annuity contracts are uncommon but there may be some cases and if these are there, then for a final salary scheme the benefits of the scheme are fixed in terms of final salary rather than being subject to variation according to bonuses declared.

The promised benefits are normally valued using same methods and assumptions as for other liabilities. The asset is valued considering the assumption for the future bonus additions. However if the policy is likely to be surrendered then the surrender value would be taken as the value of the asset . The corresponding liabilities would be valued using valuation assumptions.

Deposit administration:

The method adopted will depend upon the terms of contract between the life insurer and the trustees. Typically the contract will specify a face value which increases annually at a rate decided by the life insurer. The face value of the asset is available to meet benefits but might be reduced if the contract is surrendered.

If the Deposit Administration contract is the only asset of the scheme and it is not going to be surrendered, the valuation rate of interest can reflect expected return on this asset. The interest rate is likely to be lower than adopted for a self-administered scheme because of the capital guarantees. The value of the liability will be calculated on this lower rate of interest and the value of assets will be taken as the face value of the contract on the valuation date.

Unit linked policies:

In case of a DC scheme, the value placed on these assets will depend on the benefits they cover. The rationale for this approach is that there is no risk involved to the scheme – the member will receive the value of the policy on withdrawal. The value of assets then is consistent with the liabilities.

If the assets cover part of the scheme benefits which are assessed using the long term valuation assumptions, the value placed on these assets is normally determined using the same method adopted for rest of the scheme assets.

- (d) (ii) Total insurance may either mean liabilities transferred to insurer as happens in case of immediate annuity, term insurance or non-profit deferred annuities.

Totally insured scheme may also mean no other scheme asset, in which case liability is valued keeping the return from insured scheme assets in mind.

- (e) The provisions of the Accounting Standard applicable in India, AS 15 (rev. 2005) which would have been applied to for financial statements of the Indian entities under purchase are different in number of significant ways than the IAS 19 under which the UK based Multinational is reporting. This would mean reworking on the financials of the Indian entities say for the latest three years and valuating the liabilities under IAS 19.

Some of the key differentiating aspects and consequences from acquisition perspective are;

- 1) Discount rate: As regards IAS 19, the rate used should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds should be used. As regards AS 15 (rev. 2005), the rate used should be determined by reference to market yields at the balance sheet date only on government bonds.
- 2) Recognition of Actuarial gains and losses: IAS 19 provides options to recognize actuarial gains and losses in the following manner;
 - i) By allowing a “corridor approach” or,
 - ii) Immediately in the statement of profit or loss, or
 - iii) Immediately outside the profit or loss in a statement of changes in equity titled ‘ statement of recognized income and expense’.

In case the option exercised by the Multinational is not as per ii) above, exercise has to be taken to assess the liability of both the entities on the same method.

- 3) Recognition of Defined Benefit Asset: Though both the AS 15 (rev. 2005) and IAS 19 specify an asset ceiling in case of a situation of defined benefit asset, the AS 15 (rev. 2005) provides that the asset should be recognized only to the extent of present value of any economic benefit available in the form of refunds from the plan or reductions in the future contribution to the plan. IAS 19 on the other hand provides with some stipulations that the assets should be recognized to the extent of the total of (i) any cumulative unrecognized net actuarial losses and past service cost, and (ii) present value of any economic benefits available in the form of refunds from the plan or reductions in future contribution to the plan.
- 5) Termination Benefits – recognition of liability: IAS 19 provides that an enterprise should recognize termination benefits as a liability and expense when, and only when, the enterprise 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. As against this

provision of IAS 19, the As 15 (rev. 2005) provides criteria for recognition of liability in respect of termination benefits.

- 6) Transitional Provisions: In respect of transitional liability for DB plans, IAS 19 provides that if the transitional liability is more than the liability that would have been recognised at the same date under the enterprise's previous accounting policy, the enterprise should make an irrevocable choice to recognise that increase as part of its DB liability (a) immediately under IAS 8: Net Profit or loss for the period, Fundamental Errors and Changes in Accounting Policies, or (b) as an expense on a straight line basis over up to five years from the date of adoption subject to certain conditions.

IAS 19 also requires that if the transitional liability is less than the liability that would have been recognised at the same date under the enterprise's previous accounting policy , the enterprise should recognise that decrease immediately under IAS 8.

The As 15 (rev. 2005), on the other hand provides no choice in this regard and requires that the difference between transitional liability as per this statement and the liability that would have been recognised as per the pre-revised AS 15 should be adjusted against the opening balance of revenue reserves and surplus.

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Total Marks [100]
