PSAB AT A GLANCE

Retirement Benefits, Post-employment Benefits, Compensated Absences & Termination Benefits

BDO

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Retirement Benefits, Post-employment Benefits, Compensated Absences & Termination Benefits[1]

SCOPE

Applies to:
- Section PS 3250 applies to obligations for employee retirement benefits in government financial statements.
- Section PS 3255 applies to post-employment benefits, compensated absences and termination benefits earned by employees that the government anticipates providing to them at a time when the employees are no longer providing permanent or temporary active service.

Does not apply to:
- Short-term employee benefits as these would be accounted for under the general provisions of accruing liabilities. Refer to paragraph PS 3255.05 for examples of such benefits.

DEFINED BENEFIT & DEFINED CONTRIBUTION PLANS

- When a government provides benefits under a defined benefit plan it bears the following risks:
  - Actuarial risk - the risk regarding the amount of benefits each employee will actually receive; and
  - Investment risk – the risk investment returns on assets set aside to pay for the cost of the employee benefits will fall short and the government will be responsible for funding the difference.
- Conversely, when a government provides benefits under a defined contribution plan it does not bear the actuarial or investment risks, instead it is the employees who bear these risks.
- The economic substance of the plan determines it's classification as either a defined benefit plan or a defined contribution plan.

DEFINED BENEFIT PENSION PLANS

- Specify either the benefits to be received by employees after retirement or the method for determining those benefits.
- **Liability and expense**
  - At the financial statement date, the retirement benefit liability must be reported on the Statement of Financial Position and the expenses for retirement benefits must be reported on the Statement of Operations on the basis of the value of the benefits attributed to employee services to that date.
  - The retirement benefit liability consists of:
    - The accrued benefit obligation, including effects of plan amendments, settlements and curtailments;
    - Unamortized actuarial gains and losses; LESS
    - Any plan assets.
  - The cost of the retirement benefits promised during the period consists of:
    - The retirement benefits expense; and
    - The retirement benefits interest expense.
      - The retirement benefits expense consists of:
        - The current period benefit cost;
        - The cost of plan amendments incurred in the period;
        - Net actuarial gains or losses recognized in determining the cost of the plan amendments according to paragraphs PS 3250.068 and .071
        - Gains and losses arising from plan settlements and curtailments incurred in the period;
        - Amortization of actuarial gains and losses;
        - The amount recognized as a result of a temporary deviation from the plan, determined according to paragraph PS 3250.073;
        - The change in the valuation allowance against the carrying amount of an accrued benefit asset, determined according to paragraph PS 3250.050; LESS
        - Employee contributions that were made during the period.
      - The retirement benefits interest expense is the net of:
        - The interest cost on the accrued benefit obligation calculated by applying the discount rate determined at the beginning of the period according to paragraph PS 3250.044 to the average value of the accrued benefit obligation for the period; and
        - The expected return on plan assets for a defined benefit plan, determined by applying the assumed rate of return on plan assets to the average market-related value of assets for that period.
- **Actuarial cost methods**
  - An accrued benefit method must be used to attribute the cost of retirement benefits to the periods of employee service.
    - The projected benefit method prorated on services is the accrued benefit method that should be used.

[1] Includes Section PS 3250, *Retirement Benefits,* and Section PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*.

DEFINED BENEFIT PENSION PLANS (CONTINUED)

- **Asset valuation**
  - Plan assets for a defined benefit plan must be valued at market-related values.
- **Measurement date**
  - Normally the plan assets and accrued benefit obligation are measured at the financial statement date.
  - However, an earlier date may be used as long as this is done consistently each year, and between the valuation date and the financial statement date no significant change relevant to the valuation occurs.
- **Actuarial assumptions**
  - Must be based on the government's best estimate of short-term forecasts and long-term experience.
  - Must be internally consistent.
- **Actuarial gains and losses**
  - Actuarial gains and losses, except for those described in paragraphs PS 3250.068, .071, and .078, must be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group.
- **Prior period service costs arising from plan amendments**
  - Are accounted for in the period of the plan amendment.
- **Plan settlements and curtailments**
  - Refer to PS 3250.074-.076 for guidance on plan settlements and curtailments.

DEFINED CONTRIBUTION PLANS

- A plan where the employer's contributions are fixed, normally as a percentage of compensation, and allocated to specific individuals.
- The retirement benefit for each employee is the amount that can be provided at retirement based on the accumulated contributions made on that individual's behalf and investment earnings on those contributions.
- **Liability and expense**
  - The <u>liability for retirement benefits</u> is the <u>difference</u> between:
    - The amount of contributions a government was required to make; and
    - The amount that was contributed by the financial statement date including accumulated interest on any outstanding amounts which are payable to the fund at the financial statement date.
  - The retirement benefit liability must be accounted for in the Statement of Financial Position
  - The <u>expense for retirement benefits</u> is:
    - The amount of contributions required to be provided for services employees rendered in the period.
  - Any interest accrued during the period on outstanding amounts payable to the fund must be accounted for as a <u>retirement benefit interest expense</u>.
  - Both the retirement benefit expense and the retirement benefit interest expense must be accounted for in the Statement of Operations.
  - When a past service plan amendment is made by a government, the cost of the related current and expected future years' contributions must be accounted for in the period the plan amendment occurs.

MULTIEMPLOYER & MULTIPLE-EMPLOYER BENEFIT PLANS

MULTIEMPLOYER PLANS

- A defined benefit plan that two or more governments / government organizations contribute to, normally pursuant to legislation or one or more collective bargaining agreements.
- A government that sponsors a defined benefit multiemployer retirement plan, accounts for its obligation in the plan by following the standards for defined benefit plans.
- An entity that participates in a multiemployer retirement benefit plan, but is not the sponsoring government, follows the standards for defined contribution plans.

MULTIPLE-EMPLOYER PLANS

- A defined benefit plan maintained by more than one entity that is not a multiemployer plan.
- Each entity providing benefits to employees through a defined benefit multiple-employer retirement plan follows the standards for defined benefit plans.

POST-EMPLOYMENT BENEFITS & COMPENSATED ABSENCES

- **Post-employment benefits**
  - Benefits expected to be provided subsequent to employment but prior to retirement to employees and their beneficiaries.
  - They include:
    - Long-term and short-term disability income benefits (including workers' compensation), severance benefits, salary continuation, supplemental unemployment benefits, job training and counseling, and continuation of benefits such as health care benefits and life insurance.
- **Compensated absences**
  - Benefits that employees will be paid for when they are absent from work.
  - They include:
    - Parental leaves, accumulated sick days, and sabbaticals that provide compensated, unrestricted time off for past service.
- **The characteristics of benefit plans**
  - The accounting recognition of the liability and expense will differ based on whether or not the post-employment benefits or compensated absences vest or accumulate. Therefore, it is important to correctly determine the substance of a plan.
    - Refer to the chart provided in Appendix A to Section PS 3255 for guidance in determining the correct accounting standards to apply.
- **Benefits that vest or accumulate**
  - A liability and an expense for post-employment benefits and compensated absences that <u>vest or accumulate</u> must be recognized by a government during the period when the employees provide the services to the government in return for the benefits, as long as payment of the benefits is probable and a reasonable estimate of the amounts can be made.
    - The guidance in Section PS 3250, *Retirement Benefits*, must be followed in accounting for these types of benefits.
  - Benefits that <u>accumulate but do not vest</u> (i.e. sick pay benefits) are normally only paid upon illness or an injury-related absence.
    - These benefits are obligations and thus need to be recognized in a government's financial statements.
    - The expectation of future utilization of the benefits would be considered in determining the measurement of the obligation.
- **Event-driven benefits**
  - These are post-employment benefits or compensated absences that <u>do not vest or accumulate</u>.
  - For these benefits, a government recognizes a liability and an expense when the event that creates the obligation for the government occurs.
  - A government must recognize an actuarial gain or loss for a separately measured plan that provides post-employment benefits or compensated absences that do not vest or accumulate:
    - Immediately, in the period in which it arises; or
    - Over a period linked to the type of benefit.
      - A government applies the basis for recognizing actuarial gains and losses consistently.

TERMINATION BENEFITS

- Include the following:
  - Contractual termination benefits – Benefits a government is required to provide to employees as part of the existing terms of a benefit arrangement when a specific event occurs that results in the downsizing and termination of a group of employees; and
  - Special termination benefits – Benefits that are not contractual termination benefits, which are offered to employees for a short period of time (not usually longer than twelve months) in exchange for employees' voluntary or involuntary termination of employment.
- Must be recognized as a liability and expense by a government when it is demonstrably committed to either:
  - Terminate the employment of an employee or group of employees; or
  - Provide termination benefits as a result of an offer made to encourage voluntary termination.
    - Refer to paragraphs PS 3255.29-.31 for guidance on when a government is demonstrably committed.
- The obligations of benefit plans in which terminating employees participate may increase or decrease as terminations occur.
  - When the change in the liabilities is directly related to the termination of employees, this change is accounted for as part of the termination.
    - This does not impact the timing or recognition of actuarial gains and losses.
  - When the change in the liabilities is not directly related to the termination of employees, this change is recognized either in the determination of actuarial gains or losses or as a curtailment gain or loss.

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