# IAS 19 — Employee Benefits (2011)



## Overview

IAS 19 *Employee Benefits* (amended 2011) outlines the accounting requirements for employee benefits, including short-term benefits (e.g. wages and salaries, annual leave), post-employment benefits such as retirement benefits, other long-term benefits (e.g. long service leave) and termination benefits. The standard establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable, and outlines how each category of employee benefits are measured, providing detailed guidance in particular about post-employment benefits.

IAS 19 (2011) was issued in 2011, supersedes IAS 19 *Employee Benefits* (1998), and is applicable to annual periods beginning on or after 1 January 2013.

## History of IAS 19

| Date | Development | Comments |
|---|---|---|
| April 1980 | Exposure Draft E16 *Accounting for Retirement Benefits in Financial Statements of Employers* published | |
| January 1983 | IAS 19 *Accounting for Retirement Benefits in Financial Statements of Employers* issued | Operative for financial statements covering periods beginning on or after 1 January 1985 |
| December 1992 | E47 *Retirement Benefit Costs* | |

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| | published | |
| December 1993 | IAS 19 *Retirement Benefit Costs* issued | Operative for financial statements covering periods beginning on or after 1 January 1995 |
| October 1996 | E54 *Employee Benefits* published | Comment deadline 31 January 1997 |
| February 1998 | IAS 19 *Employee Benefits* issued | Operative for financial statements covering periods beginning on or after 1 January 1999 |
| July 2000 | E67 *Pension Plan Assets* published | |
| October 2000 | Amended to change the definition of plan assets and to introduce recognition, measurement and disclosure requirements for reimbursements | Operative for annual financial statements covering periods beginning on or after 1 January 2001 |
| May 2002 | Amended to prevent the recognition of gains solely as a result of actuarial losses or past service cost and the recognition of losses solely as a result of actuarial gains | Operative for annual financial statements covering periods ending on or after 31 May 2002 |
| 5 December 2002 | ED 2 *Share-based Payment* published, proposing to replace the equity compensation benefits requirements of IAS 19 | Comment deadline 7 March 2003 |
| February 2004 | Equity compensation benefits requirements replaced by IFRS 2 *Share-based Payment* | Effective for annual reporting periods beginning on or after 1 January 2005 |

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|---|---|---|
| 29 April 2004 | Exposure Draft *Proposed Amendments to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures* published | Comment deadline 31 July 2004 |
| 19 December 2004 | *Actuarial Gains and Losses, Group Plans and Disclosures* issued | Effective for annual periods beginning on or after 1 January 2006 |
| 22 May 2008 | Amended by *Annual Improvements to IFRSs* (negative past service costs and curtailments) | Effective for annual periods beginning on or after 1 January 2009 |
| 20 August 2009 | ED/2009/10 *Discount Rate for Employee Benefits (Proposed amendments to IAS 19)* published | Comment deadline 30 September 2009 (proposals were not finalised) |
| 29 April 2010 | ED/2010/3 *Defined Benefit Plans (Proposed amendments to IAS 19)* published | Comment deadline 6 September 2010 |
| 16 June 2011 | IAS 19 *Employee Benefits* (amended 2011) issued | Effective for annual periods beginning on or after 1 January 2013 |
| 25 March 2013 | ED/2013/4 *Defined Benefit Plans: Employee Contributions (Proposed amendments to IAS 19)* published | Comment deadline 25 July 2013 |
| 21 November 2013 | *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)* issued | Effective for annual periods beginning on or after 1 July 2014 |
| 25 September 2014 | Amended by *Improvements to IFRSs 2014* (discount rate: regional market issue) | Effective for annual periods beginning on or after 1 January 2016 |

## Related Interpretations

- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

## Amendments under consideration by the IASB

- IAS 19/IFRIC 14 — Remeasurement at a plan amendment, curtailment or settlement / Availability of a refund of a surplus from a defined benefit plan
- Research project — Discount rates
- Post-employment Benefits — Comprehensive reconsideration of IAS 19 (longer term project)

In addition, the IASB has signalled an intention to conduct a post-implementation review, commencing in 2015.

## Summary of IAS 19 (2011)

### Amended version of IAS 19 issued in 2011

IAS 19 *Employee Benefits* (2011) is an amended version of, and supersedes, IAS 19 *Employee Benefits* (1998), effective for annual periods beginning on or after 1 January 2013. The summary that follows refers to IAS 19 (2011). Readers interested in the requirements of IAS 19 *Employee Benefits* (1998) should refer to our summary of IAS 19 (1998).

Changes introduced by IAS 19 (2011) as compared to IAS 19 (1998) include:

- Introducing a requirement to fully recognise changes in the net defined benefit liability (asset) including immediate recognition of defined benefit costs, and require disaggregation of the overall defined benefit cost into components and requiring the recognition of remeasurements in other comprehensive income (eliminating the 'corridor' approach)
- Introducing enhanced disclosures about defined benefit plans
- Modifications to the accounting for termination benefits, including distinguishing between benefits provided in exchange for service and benefits provided in exchange for the termination of employment, and changing the recognition and measurement of termination benefits
- Clarification of miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features
- Incorporating other matters submitted to the IFRS Interpretations Committee.

### Objective of IAS 19 (2011)

The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits, requiring an entity to recognise a liability where an employee has provided service and an expense when the entity consumes the economic benefits of employee service. [IAS 19(2011).2]

### Scope

IAS 19 applies to (among other kinds of employee benefits):

- wages and salaries
- compensated absences (paid vacation and sick leave)
- profit sharing and bonuses
- medical and life insurance benefits during employment
- non-monetary benefits such as houses, cars, and free or subsidised goods or services
- retirement benefits, including pensions and lump sum payments
- post-employment medical and life insurance benefits
- long-service or sabbatical leave
- 'jubilee' benefits
- deferred compensation programmes
- termination benefits.

IAS 19 (2011) does not apply to employee benefits within the scope of IFRS 2 *Share-based Payment* or the reporting by employee benefit plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

### Short-term employee benefits

Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits.[IAS 19(2011).8] Examples include wages, salaries, profit-sharing and bonuses and non-monetary benefits paid to current employees.

The undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in an accounting period is recognised in that period. [IAS 19(2011).11] The expected cost of short-term compensated absences is recognised as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts an entity expects to pay as a result of unused entitlements at the end of the period. [IAS 19(2011).13-16]

### Profit-sharing and bonus payments

An entity recognises the expected cost of profit-sharing and bonus payments when, and only when, it has a legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the expected obligation can be made. [IAS 19.19]

### Types of post-employment benefit plans

Post-employment benefit plans are informal or formal arrangements where an entity provides post-employment benefits to one or more employees, e.g. retirement benefits (pensions or lump sum payments), life insurance and medical care.

The accounting treatment for a post-employment benefit plan depends on the economic substance of the plan and results in the plan being classified as either a defined contribution plan or a defined benefit plan:

- **Defined contribution plans**. Under a defined contribution plan, the entity pays fixed contributions into a fund but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits. The entity's obligation is therefore effectively limited to the amount it agrees to contribute to the fund and effectively place actuarial and investment risk on the employee
- **Defined benefit plans** These are post-employment benefit plans other than a defined contribution plans. These plans create an obligation on the entity to provide agreed benefits to current and past employees and effectively places actuarial and investment risk on the entity.

### Defined contribution plans

For defined contribution plans, the amount recognised in the period is the contribution payable in exchange for service rendered by employees during the period. [IAS 19(2011).51]

Contributions to a defined contribution plan which are not expected to be wholly settled within 12 months after the end of the annual reporting period in which the employee renders the related service are discounted to their present value. [IAS 19.52]

### Defined benefit plans

*Basic requirements*

An entity is required to recognise the net defined benefit liability or asset in its statement of financial position. [IAS 19(2011).63] However, the measurement of a net defined benefit asset is the lower of any surplus in the fund and the 'asset ceiling' (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan). [IAS 19(2011).64]

*Measurement*

The measurement of a net defined benefit liability or assets requires the application of an actuarial valuation method, the attribution of benefits to periods of service, and the use of actuarial assumptions. [IAS 19(2011).66] The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the net deficit or surplus. [IAS 19(2011).113]

The determination of the net defined benefit liability (or asset) is carried out with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from those that would be determined at end of the reporting period. [IAS 19(2011).58]

The present value of an entity's defined benefit obligations and related service costs is determined using the 'projected unit credit method', which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately in building up the final obligation. [IAS 19(2011).67-68] This requires an entity to attribute benefit to the current period (to determine current service cost) and the current and prior periods (to determine the present value of defined benefit obligations). Benefit is attributed to periods of service using the plan's benefit formula, unless an employee's service in later years will lead to a materially higher of benefit than in earlier years, in which case a straight-line basis is used [IAS 19(2011).70]

*Actuarial assumptions used in measurement*

The overall actuarial assumptions used must be unbiased and mutually compatible, and represent the best estimate of the variables determining the ultimate post-employment benefit cost. [IAS 19(2011).75-76]:

- Financial assumptions must be based on market expectations at the end of the reporting period [IAS 19(2011).80]
- Mortality assumptions are determined by reference to the best estimate of the mortality of plan members during and after employment [IAS 19(2011).81]
- The discount rate used is determined by reference to market yields at the end of the reporting period on high quality corporate bonds, or where there is no deep market in such bonds, by reference to market yields on government bonds. Currencies and terms of bond yields used must be consistent with the currency and estimated term of the obligation being discounted [IAS 19(2011).83]
- Assumptions about expected salaries and benefits reflect the terms of the plan, future salary increases, any limits on the employer's share of cost, contributions from employees or third parties*, and estimated future changes in state benefits that impact benefits payable [IAS 19(2011).87]
- Medical cost assumptions incorporate future changes resulting from inflation and specific changes in medical costs [IAS 19(2011).96]

* *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)* amends IAS 19(2011) to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered. These amendments are effective for annual periods beginning on or after 1 July 2014.

*Past service costs*

Past service cost is the term used to describe the change in a defined benefit obligation for employee service in prior periods, arising as a result of changes to plan arrangements in the current period (i.e. plan amendments introducing or changing benefits payable, or curtailments which significantly reduce the number of covered employees) .

Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced). Past service cost is recognised as an expense at the earlier of the date when a plan amendment or curtailment occurs and the date when an entity recognises any termination benefits, or related restructuring costs under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. [IAS 19(2011).103]

Gains or losses on the settlement of a defined benefit plan are recognised when the settlement occurs. [IAS 19(2011).110]

Before past service costs are determined, or a gain or loss on settlement is recognised, the net defined benefit liability or asset is required to be remeasured, however an entity is not required to distinguish between past service costs resulting from curtailments and gains and losses on settlement where these transactions occur together. [IAS 19(2011).99-100]

*Recognition of defined benefit costs*

The components of defined benefit cost is recognised as follows: [IAS 19(2011).120-130]

| **Component** | **Recognition** |
|---|---|
| Service cost attributable to the current and past periods | Profit or loss |
| Net interest on the net defined benefit liability or asset, determined using the discount rate at the beginning of the period | Profit or loss |
| Remeasurements of the net defined benefit liability or asset, comprising:<br>• actuarial gains and losses<br>• return on plan assets<br>• some changes in the effect of the asset ceiling | Other comprehensive income<br>(Not reclassified to profit or loss in a subsequent period) |

*Other guidance*

IAS 19 also provides guidance in relation to:

- when an entity should recognise a reimbursement of expenditure to settle a defined benefit obligation [IAS 19(2011).116-119]
- when it is appropriate to offset an asset relating to one plan against a liability relating to another plan [IAS 19(2011).131-132]
- accounting for multi-employer plans by individual employers [IAS 19(2011).32-39]
- defined benefit plans sharing risks between entities under common control [IAS 19.40-42]
- entities participating in state plans [IAS 19(2011).43-45]
- insurance premiums paid to fund post-employment benefit plans [IAS 19(2011).46-49]

*Disclosures about defined benefit plans*

IAS 19(2011) sets the following disclosure objectives in relation to defined benefit plans [IAS 19(2011).135]:

- an explanation of the characteristics of an entity's defined benefit plans, and the associated risks
- identification and explanation of the amounts arising in the financial statements from defined benefit plans
- a description of how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

Extensive specific disclosures in relation to meeting each the above objectives are specified, e.g. a reconciliation from the opening balance to the closing balance of the net defined benefit liability or asset, disaggregation of the fair value of plan assets into classes, and sensitivity analysis of each significant actuarial assumption. [IAS 19(2011).136-147]

Additional disclosures are required in relation to multi-employer plans and defined benefit plans sharing risk between entities under common control. [IAS 19(2011).148-150].

### Other long-term benefits

IAS 19 (2011) prescribes a modified application of the post-employment benefit model described above for other long-term employee benefits: [IAS 19(2011).153-154]

- the recognition and measurement of a surplus or deficit in an other long-term employee benefit plan is consistent with the requirements outlined above
- service cost, net interest and remeasurements are all recognised in profit or loss (unless recognised in the cost of an asset under another IFRS), i.e. when compared to accounting for defined benefit plans, the effects of remeasurements are not recognised in other comprehensive income.

### Termination benefits

A termination benefit liability is recognised at the earlier of the following dates: [IAS 19.165-168]

- when the entity can no longer withdraw the offer of those benefits - additional guidance is provided on when this date occurs in relation to an employee's decision to accept an offer of benefits on termination, and as a result of an entity's decision to terminate an employee's employment
- when the entity recognises costs for a restructuring under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which involves the payment of termination benefits.

Termination benefits are measured in accordance with the nature of employee benefit, i.e. as an enhancement of other post-employment benefits, or otherwise as a short-term employee benefit or other long-term employee benefit. [IAS 19(2011).169]

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