

GN 28

Institute of Actuaries of India

Guidance Note on **Other Employee Benefits**

Actuarial valuation relating to Other Employee Benefits (excluding regular terminal benefits, leave travel concession, Interest guarantee relating to Provident Funds etc) under Accounting Standard - 15 (Revised 2005) issued by the Institute of Chartered Accountants of India.

A. Classification: Recommended Practice.

B. Legislation or Authority:

1. Accounting Standard 15 (revised 2005) - Employee Benefits issued by the Institute of Chartered Accountants of India – referred to here-in-after as AS15 (R).
2. Accounting Standard Board Guidance on Implementing AS 15 (R).

C. Other Professional Guidance:

1. Guidance Note 26 (GN 26) – “Actuarial Reports under Accounting Standard 15 (Revised 2005)”
2. Guidance Note No 18 Retirement Benefit Schemes – Actuarial reports.

D. Author:

Advisory Group - Pensions and Social Security of the Institute of Actuaries of India.

E. Application:

This Guidance Note applies for any actuarial report prepared as a requirement under AS 15 (R) in respect of valuation of Other Employee Benefits detailed below. This Guidance Note applies to all Fellow members of Institute of Actuaries of India.

F. Compliance

Members are reminded that they must always comply with the Professional conduct standards (PCS) and that Guidance Notes impose additional requirements under specific circumstances.

G. Objectives:

This Guidance Note gives guidance to actuaries on certain aspects of AS 15 (R) in particular, which deals with, other aspects of Employee Benefits, actuarial reports in respect of Defined Benefit Schemes and should be read in conjunction with that document.

1. INTRODUCTION.

GN 26 deals with various benefits provided by the employers to its employees on regular basis. There are certain benefits which are offered by way of additional benefits to the employee as an incentive for continuance in service and are of the under mentioned nature.

a. **Periodical Payments while in service:**

These benefits are also known as “Long service Award” but the amount of payment may vary with increasing service. Some employers link the amount of benefit to salary at the time it falls due and call it as “Retention Benefits”.

b. **Benefits to spouse and/or children on death of the employee in service:**

These benefits are in the shape of reimbursement of certain expenses such as Education Expenses, House Rent etc. These benefits are usually provided subject to monetary limits which may or may not be revised in future and other conditions in regard to the number of children (limited to two) and age of the child.

c. **Gift or Lump sum Payment on retirement:**

These benefits are usually ONE time expense. In case of gift the upper monetary limit on gift is usually placed.

2. Definition.

Definitions given hereinafter are in respect of terminology used in AS 15 (R) but not defined or defined but needs clarification. However, in case of any conflict with the definition or interpretation as given in AS 15 (R) , the provisions of AS 15 (R) shall prevail.

1. Currently actuarial reports are given within the framework of some of the provisions of various GNs issued from time to time. These GNs shall remain in force unless modified otherwise, for any actuarial report that may be required to be prepared by the reporting enterprise under pre-revised As 15.
2. It may be noted that while AS 15 (R) provides that it is the responsibility of the reporting enterprise to measure the obligations under defined benefit plans, the AS 15 (R) recognizes “*that for doing so the enterprise would normally use the services of a qualified actuary*”
3. Projected Unit Credit Method: Also called Projected Unit Method, under this method the amount of actuarial liability for the service reckoned as at the reporting date, is calculated after taking in to account all types of relevant decrements and projecting the qualifying salary up to the assumed date of cessation of service.
4. Past service Cost is the present value of defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of or changes to, post employment benefits or other long term benefits.

5. The enterprise accounts are generally prepared on a going concern basis. Accordingly calculations under AS 15 (R) should be prepared on the assumption of an ongoing scheme unless the circumstances indicate otherwise or unless there are specific instructions from the enterprise to the contrary. In the later case such specific instructions should be made part of the Actuarial report.

3. Relationships, Context and Information

1. Enterprise's accounts are the responsibility of the directors (or equivalent). The actuary should endeavour to establish the significance of AS 15 (R) results to the enterprise's accounts and measure of financial performance.
2. The actuary should be aware that the auditor may have specific requirements and should liaise with the auditor if requested to do so, by the client.
3. The actuary should ensure the employer knows that arrangements need to be in place to meet the time constraints of the Enterprise's financial reporting regime. The actuary should if necessary, initiate discussions with the enterprise or on other relevant aspects of the reporting exercise including assumptions, any split of work between different actuaries and the time scale for reporting.
4. For each reporting exercise the actuary should make arrangements with the employer to ensure access to all relevant information including, but not limited to:
 - a. Scheme membership data
 - b. details of scheme including documents such as trust deed and rules
 - c. details of any benefit improvements, benefit curtailments or any other amendments,
 - d. scheme financial statements such as relating to income, expenditure, assets.
 - e. details of bulk transfers or other statements, if any
 - f. details of any relevant constructive obligations and discretionary benefits
 - g. details of any material events, actions or changes. The actuary should ensure the enterprise is aware of the sort of events, actions or changes which could have material impact on the actuary's calculations.
 - h. Immediately preceding year's disclosures under AS 15 (R) as the case may be .

The above is not meant to be exhaustive.

3. Valuation Method:

1. For arriving at the present value (or actuarial values) in respect of defined benefit obligations, the related current service cost and, where applicable, past service cost, the Actuary is required to adopt the Projected Unit Credit Method. The results of the valuation of the various items should be prepared in a tabular form, which will form part of the Actuary's Report addressed to the client. The AS 15 (R) prescribes a list of "Disclosure items" pertaining to defined benefit plans. The valuation results table should be prepared on the same lines to ensure that no items are missed and the figures presented are duly reconciled.
2. The benefits described under 1(a) above, the proportionate accrued amount of the benefit should be valued. However the withdrawal rate is particularly important in this case. The salary increase is also to be considered where the benefit is linked to salary (Basic or gross/CTC).

3. In case of benefits described under 1(b) above, these are payable on death of the employee in service only and classified as “Defined Benefits”. However the application of Mortality Table in determination of Expected deaths during service is most important to be considered. The liability can be treated in a similar manner as pension benefit subject to other conditions applicable.
4. The benefits described under 1(c) above become payable on reaching the Normal Retirement Age or on putting in a minimum qualifying service or reaching the prescribed age. These can be valued in a similar manner to those applicable to benefits under 1(a) above.

4. Actuarial Assumptions

AS 15 (R) has set out the basis upon which the various assumptions to be used in the actuarial valuation are to be determined. The actuarial assumptions are the enterprise’s **best estimates** of the different variables and the responsibility for setting these financial assumptions rests with the enterprise and need to be determined in consultation with the actuary. However, this does not preclude the actuary from advising the client on the interpretation of AS 15 (R) and determination of the various assumptions nor from commenting on the assumptions chosen by the client, which the actuary believes do not comply with the requirements of AS 15 (R). Similar considerations would apply in the determination of Fair Value of plan Assets, wherever applicable.

5. Reporting

The Actuarial Report under AS 15 (R) should specifically state that in setting the assumptions the relevant sections of AS 15 (R) have been taken in to account. If for any reason, any of the assumptions are not in conformity with AS 15 (R), the actuary should state so giving the reasons for such choice.

No specific disclosures are required. However, the reporting as per provisions of paragraphs 129 and 130 of AS 15 (R) are necessary for determination and break-up of liability and net cost.

6. General

The main provisions of GN 26 continue to apply under this GN also. Where an actuary comes across situations not governed by this GN and GN 26, he may use his judgment as to the method to be used for the valuation and state so in the valuation report.