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C2.1 Expensing employee benefits costs, impact of assumptions and issues around assumptions setting

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Waves of Reforms...Oceans of Opportunities

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Expensing employee benefit costs

- Recognized in the period in which the *benefit is earned* by the employee not when paid/payable
- Accounting depends on the type of employee benefit:
 - *Short-term employee benefits* are charged to income statement on an undiscounted basis
 - *Long-term post-employment plans*:
 - Defined contribution - costs are charged to the income statement as and when due
 - Defined benefit - *actuarial valuation* required to determine cost/liability. *Projected Unit Credit Method* to be used for actuarial valuation
- Accounting challenges:
 - Actuarial assumptions
 - GAAP differences
 - Past service costs
 - Actuarial gains and losses
 - Other differences

Actuarial assumptions

Actuarial assumptions

Demographic

- **Mortality**
- Disability
- **Vesting conditions**
- Retirement
- Medical claim rates
- Employees with dependents

Financial

- **Discount rate**
- **Return on assets**
- **Salary increase**
- Future benefit levels
- Future medical costs

Assumptions have a significant impact on the employee benefit expense

Key assumptions

Assumption	Issues to Consider
Mortality	<ul style="list-style-type: none">• Difficulties in estimating life span after retirement accurately
Vesting conditions	<ul style="list-style-type: none">• Minimum employment period for vesting of retirement benefits• Uncertainty over the completion of vesting conditions
Discount rate	<ul style="list-style-type: none">• Yields of high quality corporate bonds versus government bond rate• Selection of bonds results in huge variances in the defined benefit cost• Most bond yields have trended downward in the last couple of years internationally leading to lower discount rates and increase in plan liabilities
Expected return rate on plan assets	<ul style="list-style-type: none">• Based on portfolio of plan assets• Positive correlation between countries with higher expected rates of return and the amount of plan assets that is held in equity
Salary increase	<ul style="list-style-type: none">• Salary growth estimated may change based on the actual performance of the employee• Uncertain economic environment will affect accuracy of estimates

Changes in assumptions have a significant impact on employee benefit liability and related costs recorded in the income statement (India) or Comprehensive Income (International)



Panel Discussion



Questions & Answers