



ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION

13th Global Conference of Actuaries 2011

Emerging Risks... Daring Solutions



Institute of Actuaries of India

IFRS - Pensions

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Scope of IAS 19



- Employee benefits
 - Short-term employee benefits, such as wages, salaries and social security contributions etc.
 - Post-employment benefits such as pensions etc.
 - Other long-term employee benefits, including long-service leave etc.
 - Termination benefits; and
 - Equity compensation plans
- Basic principle
 - 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

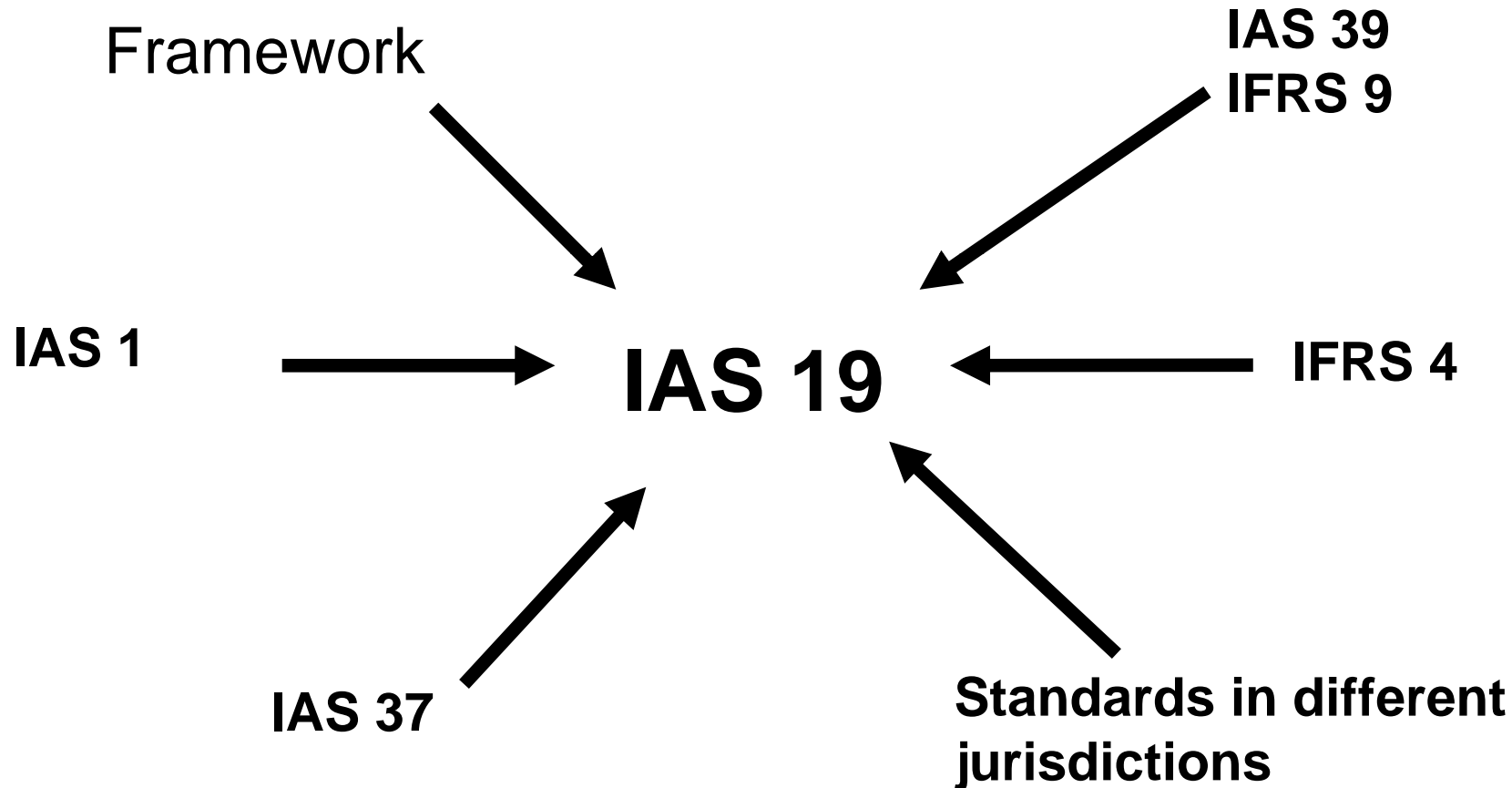


Changing regulatory environment

- ◎ Insurance contracts – IFRS 4
- ◎ Solvency II



Accounting issues around IAS 19

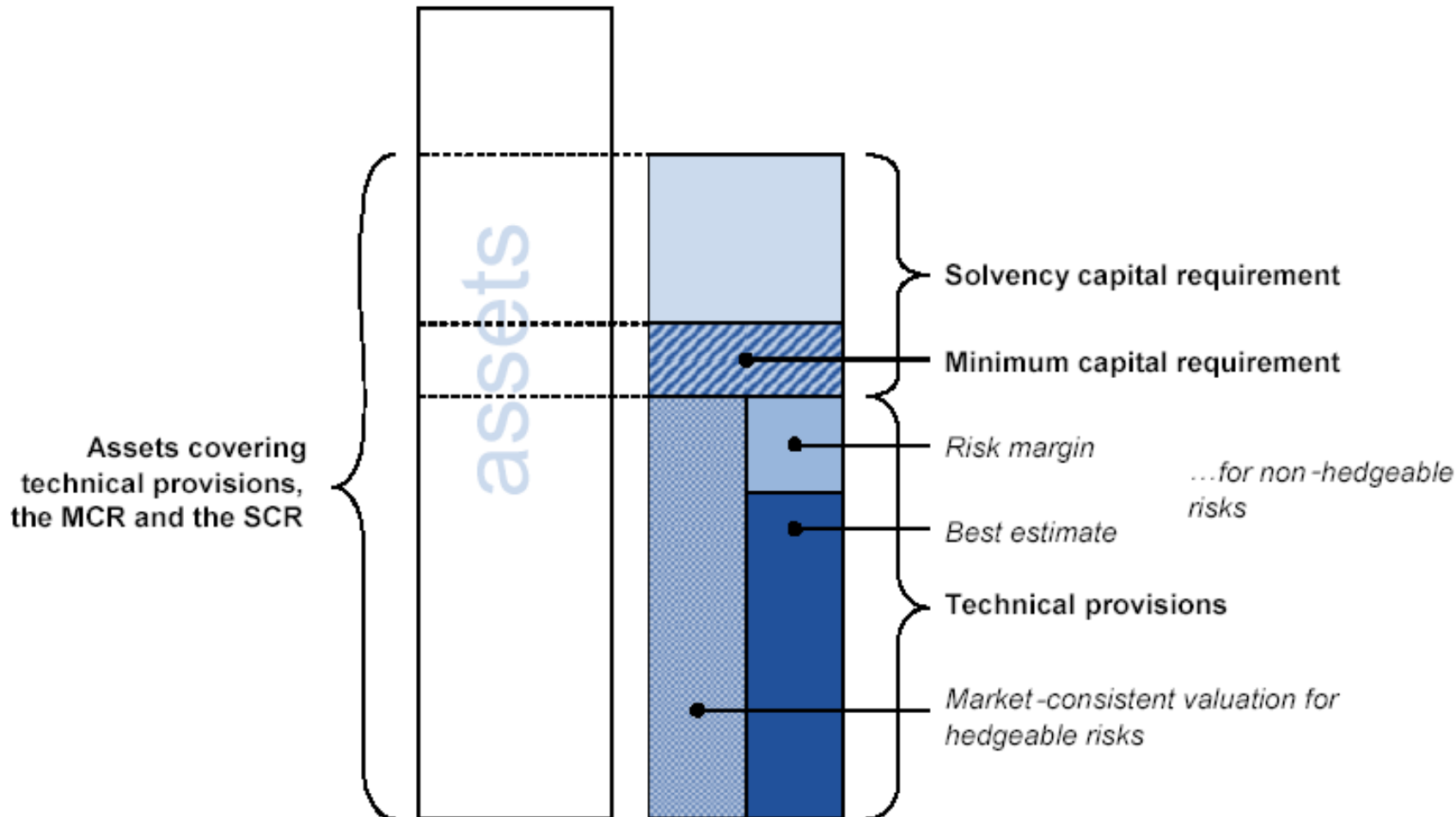


IFRS 4

- The proposals would require an insurer to measure its insurance contracts using a current measurement model (that is one where current estimates are re-measured each reporting period).
- The measurement approach is based on the following building blocks:
 - a current, unbiased and probability-weighted average of future cash flows expected to arise as the insurer fulfills the contract;
 - the effect of time value of money;
 - an explicit risk adjustment and
 - a residual margin calibrated so that no profit is recognised on inception.
- A simplified measurement approach is required for the unexpired coverage period for short-duration contracts in which the coverage period is approximately one year or less but is not available for other contracts.
- The board expects to issue the final standard in mid 2011 but has not yet proposed an effective date. Retrospective application will be required but with some practical expedients for transition.



Solvency II



Different pensions



- ◉ Defined benefit – Defined contribution (and hybrids)
- ◉ Best effort – Firm commitment
- ◉ Funded – Unfunded
- ◉ Insurance – pension fund – book reserve
- ◉ Single employer – multiple employers – collective multiemployer plans
- ◉ Labour market arrangements
- ◉ Social security

➤ DIFFERENT FLEXIBILITY



IAS 19 Discussion Paper March 2008

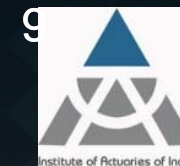


- Deferred recognition – the corridor method
- Presentation for DB plans – expected asset return and actuarial gains and losses
- Definitions of benefit promises
- Measurement of the liability for cash balance and similar plans
- Presentation for cash balance and similar plans

- Comprehensive review starting in 2011



Summary of ED proposals



Recognition

- All changes in value of plan assets and in defined benefit obligation recognised in period in which they occur

Presentation

- All changes in value of plan assets and in PEB obligation recognised in Statement of Comprehensive Income

Disclosures

- Improve disclosures, including new disclosures on risk and cashflows

Other issues

- Practice issues that can be dealt with expeditiously



Two separate phases

Part 1

- ◉ Recognition & presentation of changes in the defined benefit obligation and in plan assets
- ◉ Disclosures
- ◉ Other issues raised that can be addressed expeditiously

ED Q2 2010

Part 2

- ◉ Contribution-based promises
 - potentially as part of a comprehensive review of pension accounting.
- ◉ Comprehensive review

Project commencing
post-2011



Are pensions a form of insurance?



- If so, wouldn't it be logical to have similar accounting, risk margins and solvency requirements (& other terms and conditions) for pensions?
- Different views based on whether
 - A firm commitment or best effort pension fund?
 - A defined benefit or defined contribution (individual account) pension fund?



Are pensions a form of corporate debt?



- Employee's become bondholders as a part of their compensation is given to them as a pension promise
- If so, are pension commitments just a part of corporate debt?
- And if they are, there are no explicit risk margins or solvency requirements in other corporate debt, which generally is not even accounted for on a mark to market basis



Do employees/individuals understand the difference between pension funds and insurance?



- If they do, there can be different rules?
- If they don't, the rules need to be similar?
 - Especially when we talk of cross-border pensions
 - More financial literacy probably needed



Comprehensive review

- Definition of liability
- Consolidation vs net presentation
- Measurement
 - Insurance contracts?
 - IAS 37?
 - Fair value?



A photograph of a window looking out onto a snowy landscape. The window has a dark wooden frame. On the sill above the window, there are several decorative items: a dark bowl, a glass vase with dried flowers, and a dark bowl. To the left of the window, there is a dark, patterned fabric hanging. To the right, a white curtain is visible. The view outside the window shows a large, snow-covered mound in the foreground, with a wooden fence and snow-covered trees in the background. The text "THANK YOU!" is overlaid in a green, cursive font on the snow-covered mound.

THANK YOU!