7th Techtalk on Employee Benefits

Special Accounting for Employee Benefits

July 2023

Speakers:

Rajiv Sharma, Sr. Delivery Manager (Director), Mercer India

Shailesh Gupta, Sr. Consultant – Mercer India

Nikant Aggarwal, Delivery Manager (Associate Director) – Mercer India

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Housekeeping Points

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Mute

Q&A

IAI support

Recording

Feedback

CPD

Speakers and Facilitators

Institute of Actuaries of India

Rajiv Sharma

Shailesh Gupta

Nikant Aggarwal

Hemanshu Jain
(Facilitator)

Speaker Introductions

Rajiv Sharma

Rajiv is Sr. Delivery Manager (Director) at Mercer Consulting India Pvt. Ltd. and currently, leading a diverse group of 100+ actuarial professionals delivering actuarial services in employee benefits (DB schemes) and US healthcare domains.

He has about 15 years of experience with Mercer in both technical and leadership roles with extensive work experience of actuarial valuations of defined benefit schemes, accounting under US GAAP, IFRS, special accounting, actuarial analytics and financial reporting. Have expertise in offshore-onshore business model, developing center of excellence, offshore transitions, change management, capability enhancement and business / process transformation to deliver competitive and value-added services.

Before joining Mercer, Rajiv worked in a Public Sector Life Insurance company for 7 years in their Actuarial & Underwriting dept.

Speaker Introductions

Shailesh Gupta

Shailesh has more than 15 years of experience in the US pension domain. He is working as a senior consultant at Mercer (India) & responsible for the US client consulting on the pension plan valuations, plan designs, experience studies, costing projections. He consults with a variety of clients including private sector and not-for-profit organizations, ranging in size from less than 100 to over 10,000 employees. He advises clients across a broad range of retirement issues including funding, accounting, and pension risk transfers.

Before stepping into consulting role, he played diversified role on technical & people management front. It includes technical lead, training, business transitions, managing workflow of actuarial valuation work from Mercer Global services office based in India. He is also a subject matter expert for PPA regulation [Pension Protection Act] and develop resources/materials to further equip retirement consultants to build deeper relationships with clients and prospects.

Speaker Introductions

Nikant Aggarwal

Nikant is working as a Delivery Manager at Mercer Consulting India Pvt. Ltd. and responsible for leading, managing workflow and delivering actuarial valuation work to Mercer US consulting offices from Mercer Global services office based in India.

Overall, he has 14+ years' experience in the pension industry. He has experience in the areas of actuarial valuations of defined benefit schemes, accounting under US GAAP/IFRS, experience studies, projections, multi-national clients' accounting coordination. During his career, he got an opportunity to work for other geographies like Thailand, UAE & Japan valuations.

He is also training and SME lead, whereby his role is to understand the training requirements and manage the technical trainings at Mercer (India).

Presentation Disclaimer

This presentation has been prepared for educational purposes only. Some of the methodologies we share here are based on our understanding of relevant accounting standard guidance for the topic and practices followed by actuaries globally. There could be multiple different scenarios that are possible in reality and this presentation do not cover all. Our intent is to introduce you to principles and recommend you to apply your independent professional judgement.

Agenda

- Introduction to Special Accounting
- Understanding of following special accounting events with examples:
  - Settlement
  - Prior/Past service cost
  - Curtailment
- Q&A

Introduction to Special Accounting

Introduction to Special Accounting

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"Special Events" need "Special Accounting"!!

What are the "Special Events" related to an occupational DB schemes?

- Events which are non-routine events of an ongoing DB plan such as large terminations (involuntary), selling liabilities to an insurance company etc.
- Generally, do not happen every year in the life of a scheme.
- Also commonly known as "Significant Events" as these events *significantly* impact the plan's liabilities, assets (if funded), gains/losses etc. and therefore accounting statements.
- Require special calculations to determine the effect in the income statement for the accounting period typically in which event happened.
- Lead to "accelerated" recognitions of unrecognized amounts such as gains/losses, prior service cost.

Introduction to Special Accounting

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The special calculations are typically done in four steps:

1. Updated valuation results (re-measurement) as of the date of the event, as if the event had not taken place.
   - using current data and assumptions (in particular, discount rate)
   - re-measured results will be used to determine the balance sheet position **before** the event

2. Determination of costs or credits associated with the event.
   - change in assets (if funded) and plan's liabilities at the date of event

3. Revised valuation results as of the "date of the event", now fully reflecting the changes resulting from the event.

4. Update accounting disclosure & expense reflecting special event impacts.
   - reflect impact of the event and accelerated recognition of unrecognized amounts

Introduction to Special Accounting

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Common significant events:

- Settlements
- Prior/Past Service Cost
- Curtailments
- Business combinations & divestures / M&A / Transfers
- Special termination benefits

Special Accounting Event Settlement

Settlement

Introduction:

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A settlement event occurs when an enterprise / plan sponsor:

decides to make a **permanent reduction** in plan obligations resulting from a transfer of risk to an entity outside the control of plan sponsor.

- An irrevocable action
- Relieves employer/sponsor of primary responsibility of settled benefit obligation
- Eliminates significant risks related to obligations and assets used to effect the settlement

Examples:

- ✓ Lump sum payments in total above certain thresholds - *typical threshold is the sum of the service cost plus interest cost for the year*
- ✓ Annuity buy-outs: Purchasing nonparticipating annuities from an insurance company

Settlement

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Definitions under US GAAP and IFRS:

US GAAP

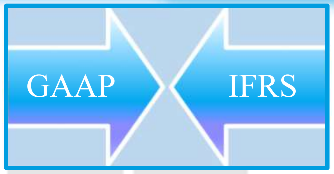
- Should meet following **three** requirements:
  a) It is **irrevocable**
  b) It **relives** the employer (or plan) of primary responsibility for a pension benefit obligation, and
  c) It eliminates **significant** risks related to the obligation and the assets used to effect the settlement

General Threshold: Lump sum paid in a year / Cost of annuity purchase ≥ Service Cost + Interest Cost, lower threshold optional

IFRS

- Must eliminate all legal or constructive obligation for all or part of a benefit - Significant settlement.
- Lump sums paid according to regular plan provisions are not settlements.
- However, lump sums paid as part of a window are settlement.

No recommended threshold limit



Settlement

How to measure in IFRS:

- Re-measure the liability ignoring the settlement event but using latest assumptions as of the measurement date.
- Segregate the re-measured PBO of settled participants of the plan to arrive at PBO after settlement. *Settled records are those who are going out of the plan in lieu of lump sum or annuity purchase*.
- Settlement **gain or loss** is generally measured as the **difference** between the PBO being settled and the actual settlement amount (*LS amount or cost of annuity purchase*).
- **Immediate recognition** of this entire gain/loss in pension expense (P&L) as "Settlement Gain/Loss" component of service cost.

Settlement

How to measure in US GAAP:

1. Estimate the unrecognized amounts (e.g. gain/loss) using re-measured PBO and latest assets just **before the settlement**.

2. Segregate the PBO of settled participants of the plan to arrive at **PBO after settlement**. *Settled records are those who are going* ***out of the plan permanently*** *in lieu of lump sum or annuity purchase*.

3. The **difference** (if any) between **PBO settled** and **Assets used** to settle the PBO becomes the **gain/loss** due to the event and **added** to both unrecognized gain/loss and re-measured PBO before settlement from step 1.

4. Settlement **gain or loss** is equal to-

    Unrecognized Gain/loss (Step 3) * Settlement Ratio

    where Settlement Ratio = Settlement Cost i.e. LS Paid / Annuity purchase cost ***divided by*** *re-measured PBO before settlement (Step 3)*

5. Settlement gain/loss is shown in P&L (NPBC) as an expense.

Accounting for settlement – example 1

Annuity purchase of $3,000,000

Decrease in PBO due to settlement: $3,000,000
Cost of annuity purchase: $3,000,000
Unrecognized PSC: $500,000
Unrecognized (gain)/loss: $7,000,000

US GAAP

Balance Sheet	Before Settlement [Re-measured]	Effect of Settlement	After Settlement
PBO	(50,000,000)	3,000,000	(47,000,000)
MVA	45,000,000	(3,000,000)	42,000,000
Funded Status	(5,000,000)	-	(5,000,000)
Unrecognized PSC	500,000	-	500,000
Unrecognized (gain)/loss	7,000,000	(420,000)	6,580,000
Accumulated contribution in excess of net periodic benefit cost	2,500,000	**(420,000)**	2,080,000

Settlement ratio	6%	= 3,000,000 / 50,000,000
Settlement expense	**420,000**	= 6% * 7,000,000

The settlement ratio equals the total settled amount of 3,000,000 divided by the total settlement adjusted PBO of 50,000,000, which equals 6.0%.

Accounting for settlement – example 2

Annuity purchase of $3,000,000, but PBO for group settled was $2,500,000 before annuity purchase

US GAAP

Balance Sheet	Before Settlement [Re-measured]	Adjustment due to cost of Settlement	After adjustment	Effect of Settlement	After Settlement
PBO	(50,000,000)	(500,000)	(50,500,000)	3,000,000	(47,500,000)
MVA	45,000,000	-	45,000,000	(3,000,000)	42,000,000
Funded Status	(5,000,000)	(500,000)	(5,500,000)	-	(5,500,000)
Unrecognized PSC	500,000	-	500,000	-	500,000
Unrecognized (gain)/loss	7,000,000	500,000	7,500,000	(445,545)	7,054,455
Accumulated contribution in excess of net periodic benefit cost	2,500,000	-	2,500,000	**(445,545)**	2,054,455

Settlement ratio	5.9%	= 3,000,000 / 50,500,000
Settlement expense	**445,545**	= 5.9% / 7,500,000

Settlement loss of $0.5M added to unrecognized loss

Accounting for settlement – example 2

GAAP

A. Change in benefit obligation	31 December YYYY
Benefit obligation at beginning of year	-
Service cost	-
Interest cost	-
Employee contributions	-
Plan amendments	-
Plan curtailments	-
Plan settlements	**(3,000,000)**
Benefits paid from the plan	-
Actuarial loss (gain)	-
Benefit obligation at end of year	-

B. Change in plan assets	
Fair value of plan assets at beginning of year	-
Actual return on plan assets	-
Employer contributions to plan	-
Plan settlements	**(3,000,000)**
Benefits paid from the plan	-
Plan combinations	-
Fair value of plan assets at end of year	-

C. Components of net periodic benefit cost	
Service cost	-
Interest cost	-
Expected return on plan assets	-
Amortization of initial net obligation (asset)	-
Amortization of prior service cost	-
Amortization of net (gain) loss	-
Curtailment (gain) / loss recognized	
Settlement (gain) / loss recognized	**445,545**
Special termination benefit recognized	-
Net periodic benefit cost	-

D. Changes recognized in other comprehensive income	
Changes in plan assets and benefit obligations recognized in other comprehensive income	
New prior service cost	-
Net loss (gain) arising during the year (includes curtailment gains not recognized as a component of net period cost)	-
Effect of exchange rates on amounts included in AOCI	-
Amounts recognized as a component of net periodic benefit cost	
Amortization or curtailment recognition of prior service credit (cost)	-
Amortization or settlement recognition of net gain (loss)	**[amortization of net gain(loss) before settlement] + (445,545)**
Total recognized in other comprehensive loss (income)	-
Total recognized in net periodic benefit and other comprehensive loss (income)	-

E. Accumulated contributions in excess of net periodic benefit cost	
Amount as of beginning of year	-
Net periodic pension (cost) income for fiscal year	-
Employer contributions made in fiscal year (excludes contributions made between measurement year end and fiscal year end)	-
Benefits paid directly by company in the fiscal year (excludes contributions made between measurement year end and fiscal year end)	-
FAS 88 (expense) income	**(445,545)**
Other gain / (loss) recognized	-
Plan combinations	-
Adjustment to match local books	-
Exchange rate adjustment	-
Preliminary amount as of end of year	-
Contributions and direct benefit payments made between measurement date and fiscal year end	-
Amount as of end of year	-

Annuity purchase amount

Loss recognized immediately due to settlement

IFRS

A. Change in defined benefit obligation	31 December YYYY
Defined benefit obligation at end of prior year	–
Service cost	
a. Current service cost	–
b. Past service cost	–
c. (Gain) / loss on settlements	**500,000**
Interest expense	–
Cash flows	
a. Benefit payments from plan assets	–
c. Settlement payments from plan assets	**(3,000,000)**
Remeasurements	
a. Effect of changes in demographic assumptions	
b. Effect of changes in financial assumptions	–
c. Effect of experience adjustments	–
Defined benefit obligation at end of year	–

B. Change in fair value of plan assets	
Fair value of plan assets at end of prior year	–
Interest income	–
Cash flows	
a. Total employer contributions	
(i) Employer contributions	–
c. Benefit payments from plan assets	–
e. Settlement payments from plan assets	**(3,000,000)**
Remeasurements	
a. Return on plan assets (excluding interest income)	–
Fair value of plan assets at end of year	–

C. Components of defined benefit cost	
Service cost	
a. Current service cost	–
b. Reimbursement service cost	–
c. Past service cost	–
d. (Gain) / loss on settlements	**500,000**
e. Total service cost	–
Net interest cost	
a. Interest expense on DBO	–
b. Interest (income) on plan assets	–
c. Interest (income) on reimbursement rights	–
d. Interest expense on effect of (asset ceiling)/onerous liability	–
e. Total net interest cost	–
Remeasurements of Other Long Term Benefits	–
Administrative expenses and/or taxes (not reserved within DBO)	–
Defined benefit cost included in P&L	–
Remeasurements of Other Long Term Benefits	–
Administrative expenses and/or taxes (not reserved within DBO)	–
Defined benefit cost included in P&L	–

Loss recognized immediately due to settlement

Special Accounting Event

Prior/Past Service Cost (PSC)

Plan amendment

Introduction:

Plan Amendments refer to any change of plan terms or arrangements that causes an increase or decrease in PBO/DBO.

Example:

- ✓ Change in benefit definition / formula,
- ✓ Change in retirement eligibility etc.

- ➢ Past Service Cost (called *prior service cost* under US GAAP) is triggered by a ***change in the liabilities (PBO/DBO)*** as a result of a plan amendment.

- ➢ Past Service Cost may be either **positive** (when benefits are introduced or improved) or negative (when existing benefits are reduced).

- ➢ Any plan amendment which reduces significantly benefits for future (and past) service should be accounted for as a Curtailment and not as Prior Service Cost.

Prior/Past service cost (PSC)

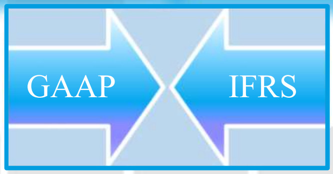
Recognition of Prior/Past Service Cost:

US GAAP

- Requires to be initially recognized in OCI and then **amortize** through P&L i.e. net periodic benefit cost.
- Amortized over the average future service without reflecting interest payments [straight line basis] in general.
- In cases where the population is mostly or all inactives, it is amortized over the average remaining lifetime.
- Generally, any new negative prior service cost is first used to offset an existing positive one.

IFRS

- Requires **immediate** recognition in P&L for the effects of plan amendments that create an increase (or decrease) to the benefit obligation (i.e. past service cost).
- Thus, full Past Service Cost is immediately recognized as component of NPPC (included in Service Cost)



Prior/Past service cost – example 1

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US GAAP

As of valuation date Jan 01, 2021, Company XYZ modified pension benefit formula for active employees, resultant an increase in PBO by 750,000 due to this plan amendment.

The average remaining service period was 10.5 years as of Jan 01 , 2021.

This one time loss should be amortized through pension expense (NPBC) based on straight line over the average remaining service period of employees.

Amortization of unrecognized prior service cost			
Financial Year	**Beginning of year Balance**	**Amortization**	**End of year Balance**
2021	750,000	71,429	678,571
2022	678,571	71,429	607,142
2023	607,142	71,429	535,713
2024	535,713	71,429	464,284
2025	464,284	71,429	392,855
2026	392,855	71,429	321,426
2027	321,426	71,429	249,997
2028	249,997	71,429	178,568
2029	178,568	71,429	107,139
2030	107,139	71,429	35,710
2031	35,710	35,710	0

Prior Service Cost Base

71,429 = 750,000 / 10.5

Prior/Past service cost – example 1

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GAAP

A. Change in benefit obligation	FYE 2021
Benefit obligation at beginning of year	-
Service cost	-
Interest cost	-
Employee contributions	-
Plan amendments	**750,000**
Plan curtailments	-
Plan settlements	-
Special termination benefits	-
Benefits paid from the plan	-
Actuarial loss (gain)	-
Exchange rate changes	-
Benefit obligation at end of year	-

B. Components of net periodic benefit cost	FY 2021
Service cost	-
Interest cost	-
Expected return on plan assets	-
Amortization of prior service cost	**71,429**
Amortization of net (gain) loss	-
Curtailment (gain) / loss recognized	-
Settlement (gain) / loss recognized	-
Special termination benefit recognized	-
Net periodic benefit cost	-

C. Changes recognized in other comprehensive income	FYE 2021
Changes in plan assets and benefit obligations recognized in other comprehensive income	
New prior service cost	**750,000**
Net loss (gain) arising during the year (includes curtailment gains not recognized as a component of net period cost)	-
Amounts recognized as a component of net periodic benefit cost	
Amortization or curtailment recognition of prior service credit (cost)	**(71,429)**
Amortization or settlement recognition of net gain (loss)	-
Total recognized in other comprehensive loss (income)	-
Total recognized in net periodic benefit and other comprehensive loss (income)	-

IFRS

A. Change in defined benefit obligation	FYE 2021
Defined benefit obligation at end of prior year	-
Service cost	-
a. Current service cost	-
b. Past service cost	**750,000**
c. (Gain) / loss on settlements	-
Interest expense	-
Cash flows	-
a. Benefit payments from plan assets	-
b. Benefit payments from employer	-
c. Settlement payments from plan assets	-
d. Settlement payments from employer	-
Remeasurements	-
a. Effect of changes in demographic assumptions	-
b. Effect of changes in financial assumptions	-
c. Effect of experience adjustments	-
Defined benefit obligation at end of year	-

B. Components of defined benefit cost	FYE 2021
Service cost	
Current service cost	-
Past service cost	**750,000**
(Gain) / loss on settlements	-
Total service cost	-
Net interest cost	
Interest expense on DBO	-
Interest (income) on plan assets	-
Total net interest cost	-
Administrative expenses and/or taxes (not reserved within DBO)	-
Defined benefit cost included in P&L	-

Increase in liability due to plan amendment

Amortization of PSC: 71,429 = 750,000 / 10.5

Fully recognized in P&L

Initially recognized in OCI with subsequent charging to the P&L

Prior/Past service cost – example 2 [Multiple plan amendments]

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The plan sponsor come up with one more amendment effective Jan 01, 2022 and PBO is increased by 400,000. The average remaining service period was 10.1 years as of Jan 01, 2022.

US GAAP											
Base 1				Base 2				Base 1 + Base 2			
Amortization of unrecognized prior service cost				Amortization of unrecognized prior service cost				Amortization of unrecognized prior service cost			
Financial Year	Beginning of year Balance	Amortization	End of year Balance	Financial Year	Beginning of year Balance	Amortization	End of year Balance	Financial Year	Beginning of year Balance	Amortization	End of year Balance
2021	750,000	71,429	678,571	2021				2021	750,000	71,429	678,571
2022	678,571	71,429	607,142	2022	400,000	39,604	360,396	2022	1,078,571	111,033	967,538
2023	607,142	71,429	535,713	2023	360,396	39,604	320,792	2023	967,538	111,033	856,505
2024	535,713	71,429	464,284	2024	320,792	39,604	281,188	2024	856,505	111,033	745,472
2025	464,284	71,429	392,855	2025	281,188	39,604	241,584	2025	745,472	111,033	634,439
2026	392,855	71,429	321,426	2026	241,584	39,604	201,980	2026	634,439	111,033	523,406
2027	321,426	71,429	249,997	2027	201,980	39,604	162,376	2027	523,406	111,033	412,373
2028	249,997	71,429	178,568	2028	162,376	39,604	122,772	2028	412,373	111,033	301,340
2029	178,568	71,429	107,139	2029	122,772	39,604	83,168	2029	301,340	111,033	190,307
2030	107,139	71,429	35,710	2030	83,168	39,604	43,564	2030	190,307	111,033	79,274
2031	35,710	35,710	0	2031	43,564	39,604	3,960	2031	79,274	75,314	3,960
				2032	3,960	3,960	0	2032	3,960	3,960	0

39,604 = 400,000 / 10.1

Special attention is required in the year 2031 as base 1 is fully amortized

Special Accounting Event
Curtailment

Curtailment

Introduction:

A curtailment occurs when an enterprise / plan sponsor either:

- ➢ intends to make a **material** reduction in the number of employees covered by a plan, or
- ➢ plans to amend the terms of a defined benefit plan such that the accrual of defined benefits for some or all future service is **eliminated** for a **significant** number of present employees.

- Curtailment is measured as **difference of PBO** "before" and "after" the event.

- Generally, **gain** on curtailment due to significant reduction of benefits rights.

Examples:

- ✓ Termination of employees earlier than expected
  - The closure of a business
  - Discontinuing a business segments
  - Reduction in force
- ✓ Freezing of a plan

Curtailment

Definitions under US GAAP and IFRS:

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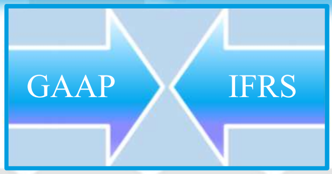
US GAAP

- A curtailment is defined as an event that **significantly reduces** the expected years of future services, or
- The **elimination**, for a **significant** number of active employees, of the right to earn benefits for some or all of their future service
- Any other event such as **reduction in the level of benefit** is **not** a curtailment. That would come as negative Prior Service Cost (prior service credit);

IFRS

- The definition of a curtailment is limited to **significant reduction** in number of employees covered by plan;
- Any other event such as **reduction in the level of benefit** is **not** a curtailment. That would come as **negative Past Service Cost** (past service credit);
- Under IAS19(R), both Curtailments and Past Service Costs are accounted for together under Service Cost.



Curtailment

How to measure in IFRS:

- The difference in PBO (*re-measured using latest assumptions*) before and after the event becomes the **curtailment gain/loss**.
- **Immediate recognition** of this entire gain/loss in pension expense (P&L) as “Past Service Cost” component of service cost.
- Note that in IFRS, there is no separate line to show “curtailment” gain/loss but it is recognized as past service cost.

Curtailment

How to measure in US GAAP:

The curtailment gain/loss to be recognized in pension expense (NPBC) is calculated as a **sum** of two components:

- Additional recognition of any unrecognized Prior Service Cost (PSC)
- Gain/Loss due to change in liability as a result of the event

Component 1) - Prior Service Cost component (PSC)

- Any unrecognized PSC (*re-measured*) just before the curtailment event to be recognized as below:

Unrecog. PSC * Curtailment Ratio

Curtailment Ratio =

$$\frac{\text{total reduction in exp. remaining future years of service}}{\text{total number of exp. years of future service before curtailment}}$$

Curtailment

How to measure in US GAAP:

Component 2) – Gain/Loss

Two scenarios are possible as per the change in liability due to event

Scenario 1: Decrease in liability due to curtailment

Net unrecognized loss* [pre-curtailment]

- PBO **gain** is first applied to **reduce any existing unrecognized loss**, then any excess is recognized as a **curtailment gain** in NPBC
- If PBO gain < existing unrecognized loss, then there is **no** P&L(NPBC) impact

Net unrecognized gain* [pre-curtailment]

- If there is an existing unrecognized **gain**, then entire PBO **gain flows** into P&L (NPBC)

Scenario 2: Increase in liability due to curtailment

Net unrecognized gain* [pre-curtailment]

- PBO **loss** is first applied to **reduce any existing unrecognized gain**, then any excess is recognized as a **curtailment loss** in NPBC
- If PBO loss < existing unrecognized gain, then there is **no** P&L(NPBC) impact

Net unrecognized loss* [pre-curtailment]

- If there is an existing unrecognized **loss**, then entire PBO **loss flows** into P&L (NPBC)

**Re-measured unrecognized gain/loss position just before curtailment event*

Curtailment accounting – example 1

(PBO reduction does not exceed offsetting unrecognized amounts)

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US GAAP

Decrease in PBO due to curtailment: $300
Unrecognized PSC: $100
Unrecognized (gain)/loss: $350

Balance Sheet	Before Curtailment	Effect of Curtailment	After Curtailment
PBO	(2,000)	300	(1,700)
MVA	1,400	-	1,400
Funded Status	(600)	300	(300)
Unrecognized PSC	100	(30)	70
Unrecognized (gain)/loss	350	(300)	50
Accumulated contribution in excess of net periodic benefit cost	(150)	**(30)**	(180)

Decrease in PBO due to curtailment	300
Expected total future years of service before curtailment	500
Reduction in expected total future years of service due to curtailment	150
Curtailment Ratio	30% = 150 / 500
Unrecognized prior service impact	30 = 30% * 100
Unrecognized (gain)/loss impact - PBO reduction of 300 is < 350	300
so full amount of 300 is applied to unrecognized loss	

The curtailment expense in this example is $30

Curtailment accounting – example 1

(PBO reduction does not exceed offsetting unrecognized

GAAP	
A. Change in benefit obligation	**31 December YYYY**
Benefit obligation at beginning of year	-
Service cost	-
Interest cost	-
Employee contributions	-
Plan amendments	-
Plan curtailments	**(300)**
Plan settlements	-
Special termination benefits	-
Benefits paid from the plan	-
b. Direct benefit payments	-
Plan combinations	-
Benefit obligation at end of year	-
B. Components of net periodic benefit cost	
Service cost	-
Interest cost	-
Expected return on plan assets	-
Amortization of prior service cost	-
Amortization of net (gain) loss	-
Curtailment (gain) / loss recognized	**30**
Settlement (gain) / loss recognized	
Special termination benefit recognized	-
Net periodic benefit cost	-
C. Changes recognized in other comprehensive income	
Changes in plan assets and benefit obligations recognized in other comprehensive income	
New prior service cost	-
Net loss (gain) arising during the year (includes curtailment gains not recognized as a component of net period cost)	-
Effect of exchange rates on amounts included in AOCI	-
Amounts recognized as a component of net periodic benefit cost	
Amortization or curtailment recognition of prior service credit (cost)	**(30)**
Amortization or settlement recognition of net gain (loss)	-
Total recognized in other comprehensive loss (income)	-
Total recognized in net periodic benefit and other comprehensive loss (income)	-
D. Accumulated contributions in excess of net periodic benefit cost	
Amount as of beginning of year	-
Net periodic pension (cost) income for fiscal year	-
Employer contributions made in fiscal year (excludes contributions made between measurement year end and fiscal year end)	-
Benefits paid directly by company in the fiscal year (excludes contributions made between measurement year end and fiscal year end)	-
FAS 88 (expense) income	**(30)**
Other gain / (loss) recognized	-
Plan combinations	-
Adjustment to match local books	-
Exchange rate adjustment	-
Preliminary amount as of end of year	-
Contributions and direct benefit payments made between measurement date and fiscal year end	-
Amount as of end of year	-

IFRS	
A.Change in defined benefit obligation	**31 December YYYY**
Defined benefit obligation at end of prior year	-
Service cost	
a. Current service cost	-
b. Past service cost	**(300)**
c. (Gain) / loss on settlements	-
Interest expense	-
Cash flows	
a. Benefit payments from plan assets	-
c. Settlement payments from plan assets	-
Remeasurements	
a. Effect of changes in demographic assumptions	
b. Effect of changes in financial assumptions	-
c. Effect of experience adjustments	-
Defined benefit obligation at end of year	-
B. Components of defined benefit cost	
Service cost	
a. Current service cost	-
b. Reimbursement service cost	-
c. Past service cost	**(300)**
d. (Gain) / loss on settlements	-
e. Total service cost	-
Net interest cost	
a. Interest expense on DBO	-
b. Interest (income) on plan assets	-
c. Interest (income) on reimbursement rights	-
d. Interest expense on effect of (asset ceiling)/onerous liability	-
e. Total net interest cost	-
Remeasurements of Other Long Term Benefits	-
Administrative expenses and/or taxes (not reserved within DBO)	-
Defined benefit cost included in P&L	-
Remeasurements (recognized in other comprehensive income)	
a. Effect of changes in demographic assumptions	-
b. Effect of changes in financial assumptions	-
c. Effect of experience adjustments	-
d. (Return) on plan assets (excluding interest income) *	-
e. (Return) on reimbursement rights (excluding interest income)	-
f. Changes in asset ceiling/onerous liability (excluding interest income)	-
g. Total remeasurements included in OCI	-
Total defined benefit cost recognized in P&L and	-

No separate sub-section for curtailment, it is shown under "Past service cost" (similar to PSC)

Decrease in PBO due to curtailment, the same will be offset the loss in gain/loss reconciliation

Additional amortization of PSC shown under curtailment in NPBC Same amount flows under FAS 88 head under accumulation contribution in excess of NPBC reconciliation

Curtailment accounting – example 2

(PBO reduction does exceed offsetting unrecognized amounts)

Decrease in PBO due to curtailment: $300
Unrecognized PSC: $100
Unrecognized (gain)/loss: **$200**

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US GAAP

Balance Sheet	Before Curtailment	Effect of Curtailment	After Curtailment
PBO	(2,000)	300	(1,700)
MVA	1,400	-	1,400
Funded Status	(600)	300	(300)
Unrecognized PSC	100	(30)	70
Unrecognized (gain)/loss	200	(200)	-
Accumulated contribution in excess of net periodic benefit cost	(300)	**70**	(230)

Decrease in PBO due to curtailment	300	
Expected future years of service before curtailment	500	
Reduction in expected future years of service due to curtailment	150	
Curtailment Ratio	30%	= 150 / 500
Unrecognized prior service impact	30	= 30% * 100
Unrecognized (gain)/loss impact - PBO reduction of 300 is > 200	200	
so 200 is applied to unrecognized loss and remaining 100 is recognized in P&L		

The curtailment expense in this example is an ***income*** item of $70 ($100 income offset by $30 additional recognition of PSC)

Curtailment accounting – example 3

(Plan has unrecognized *gain* before curtailment)

Decrease in PBO due to curtailment: $300
Unrecognized PSC: $100
Unrecognized (gain)/loss: **($250)**

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US GAAP

Balance Sheet	Before Curtailment	Effect of Curtailment	After Curtailment
PBO	(2,000)	300	(1,700)
MVA	1,400	-	1,400
Funded Status	(600)	300	(300)
Unrecognized PSC	100	(30)	70
Unrecognized (gain)/loss	(250)	-	(250)
Accumulated contribution in excess of net periodic benefit cost	(750)	**270**	(480)

Decrease in PBO due to curtailment	300
Expected future years of service before curtailment	500
Reduction in expected future years of service due to curtailment	150
Curtailment Ratio	30% = 150 / 500
Unrecognized prior service impact	30 = 30% * 100
Unrecognized (gain)/loss impact - because the plan has an unrecognized gain, so the rule state that there is no adjustment to the (gain)/loss line	0

The curtailment expense in this example is an ***income*** item of $270

Appendix - Re-measurement of pension expense when measurement date is not FYE

On May 01, 2023, the company closed a major plant and terminated the employees. The plant closing is considered a significant event and would require re-measurement of the plan assets and obligation as of May 01

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A. Net Periodic Benefit Cost	No Special Accounting	Special Accounting		
	Annual 2023 Expense	Jan 01 - April 30, 2023 Prior to Re-measurement	May 01- Dec 31, 2023 After Re-measurement	Total
Service Cost	65,000,000	21,666,667	7,000,000	28,666,667
Interest Cost	30,000,000	10,000,000	18,000,000	28,000,000
Expected Return on Plan Assets	(53,000,000)	(17,666,667)	(35,000,000)	52,666,667)
Amortization of Prior Service Cost (Credit)	(2,000,000)	(666,667)	(833,333)	(1,500,000)
Amortization of Net (Gain)/Loss	35,000,000	11,666,667	2,000,000	13,666,667
Settlement Charge (Credit)	-	-	-	-
Curtailment Charge (Credit)	-	-	**(4,000,000)**	(4,000,000)
Net Periodic Benefit Cost (including Settlement & Curtailment)	**75,000,000**	**25,000,000**	**(12,833,333)**	**12,166,667**
B. Reconciliation of Funded Status as of Beginning of Period:				
Projected Benefit Obligation	1,000,000,000	1,000,000,000	900,000,000	
Market Value of Assets	900,000,000	900,000,000	850,000,000	
Funded Status	(100,000,000)	(100,000,000)	(50,000,000)	
Net (Gain)/Loss	342,000,000	342,000,000	200,000,000	
Prior Service Cost/(Credit)	(6,000,000)	(6,000,000)	(5,333,333)	
C. Actuarial Assumptions				
Discount Rate	4.00%	4.00%	4.25%	
Expected Return on Plan Assets	6.25%	6.25%	6.25%	
Rate of Compensation Increases	4.00%	4.00%	4.00%	

All the numbers are simply prorated as per no. of months

Discount rate is re-determined as of May 01 due to re-measurement

Q&A