



Institute of Actuaries of India

Statutory body established under an Act of Parliament

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3rd February 2021

To

All practitioners in pension and other employee benefits area

Subject: Applicability of Checklist for compliance with APS 27

The Institute has released a ready reference to all fellow members who are practicing in Pension and Other Employee Benefits area. All practitioners in pension and other employee benefits area are advised to refer to the same.

This is introduced as a tool for Practicing Actuaries to ensure compliance with requirements of APS 27 with regards to routine accounting and financial reporting valuation of employee benefits.

The Checklist is effective from 1st April 2021 and the same is annexed as Annexure 1.

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Annexure 1

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Checklist for Professional Compliance with reporting requirements of APS 27 with regards to routine accounting and financial reporting valuation of employee benefits

Author: Advisory Group on Pension, Employee Benefits and Social Security (AGPEBSS) (approved by IAI)

Version: 1.00

Subject of Compliance: APS 27 - Employee Benefits - (Ver.1.00 / 01012018)

Introduction:

The Governing Council of Institute of Actuaries of India (the "Council"), in terms of the powers vested in it under rules of the Institute of Actuaries of India (IAI), has put in place the above APS which is classified as Practice Standard, meaning thereby that a breach of its provisions would of itself be a ground for complaint under disciplinary powers and would amount to a prima facie evidence of unprofessional conduct or professionally objectionable conduct. Such evidence could normally be set aside only if the member could show that in an actuarial advice given, any departure considered appropriate from the strict compliance with any aspect of the APS had been disclosed and justified. AGPEBSS thus intends to support Practicing Actuaries, to the extent that it is possible to do so, in ensuring that they are in strict compliance with this APS at all times and that to the extent it is not so, the same is made part of the actuarial report and justified.

Objectives of this Checklist: This checklist has been prepared so as to assist Practicing Actuaries, and others to whom such APS is applicable, in self-evaluating for compliance. The implied interpretation of the APS to which this Checklist applies is that of the AGPEBSS. It is emphasized that ultimate interpretation and the manner in which the applicable can be complied with shall in the nature of things rests with the Council and the Judicial Authority in India.



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It is clarified that this Checklist is expected to act as a ready reference tool for Practicing Actuaries to ensure compliance with requirements of APS 27 with regards to routine accounting and financial reporting valuation of employee benefits. Use of this checklist does not amount to certification that the Practicing Actuary has complied with all the provisions of the APS fully as in the nature of things such a judgmental process should rest with the Council and the Judicial Authority in India.

It is also clarified that this Checklist contains those elements of the APS 27 which are currently considered by AGPEBSS as key aspects to be monitored and there are other aspects as well which the Practicing Actuary needs to comply.

Checklist for Professional Compliance with reporting requirements of APS 27 Employee Benefits (the "Standard") with regards to accounting valuation of employee benefits

S. No.	Various Reporting requirements of APS 27	Yes / No
1.	Para 8.2 of the Standard, which reads as under: <i>"The member must ensure that his/her role in a particular assignment is clear and understood by the user. The member must state the capacity in which he/she is providing actuarial advice, the scope, its purpose, and for whom the actuarial work has been performed."</i>	
2.	Para 8.2 of the Standard, which reads as under: <i>"The member must clearly state the extent to which any third party can rely on the actuarial work performed and its limitations for use by third parties. Such third parties may include a company's statutory auditor or legal adviser."</i>	
3.	Para 8.3.1 of the Standard, which reads as under: <i>"The member may place reliance on information received from a third party as an input to perform actuarial work. The information relied upon, its source and the extent of the checks applied by the member in order to the accuracy and relevance of the information must be disclosed in the report."</i>	
4.	Para 8.3.2 of the Standard, which reads as under:	



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S. No.	Various Reporting requirements of APS 27	Yes / No
	<i>"The report shall state the extent to which assumptions take account of past experience of discretionary practices and information about the exercise of discretion in the future."</i>	
5.	<p>Para 8.3.3 of the Standard, which reads as under:</p> <p><i>"If there is any uncertainty (e.g. impact of legislation on the calculation of benefits), the report should include necessary references to the same."</i></p>	
6.	<p>Para 8.5.1 of the Standard, which reads as under:</p> <p><i>"In case the assumptions are not determined by the member but received as an input for the valuation (e.g. in case of valuations carried out to support accounting of defined benefit plans) and the member has relied on the same or has not validated the appropriateness or adequacy of the assumptions, the same must be clearly spelt out in his/her report along with his views on general appropriateness of the assumptions."</i></p>	
7.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"An opening statement indicating to whom the report is addressed, the purpose for which the investigation has been made, the date as at which the investigation has been made and the date of the report."</i></p>	
8.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"A brief summary of the data on which the investigation is based, including but not limited to the number of employees, total wages/salaries, etc. The report provided should state that the member is satisfied with the accuracy and sufficiency of the data. In case of any reservation as to the reliability of the data, appropriate qualification should be made therein."</i></p>	
9.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"A statement of benefits which have been valued and highlighting any changes since the most recent similar investigation."</i></p>	
10.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"The report should disclose if there is a history of discretionary benefits, and it should make reference to allowance, if any, that has been made for discretionary increase in benefits. If in the</i></p>	



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S. No.	Various Reporting requirements of APS 27	Yes / No
	<i>inter-valuation period, the benefits have been varied, a specific mention thereof should also be made in the report."</i>	
11.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"A brief resume of the investigations carried out, if any, to arrive at the assumptions should be described."</i></p>	
12.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"A statement as to whether the investigation has been carried out in accordance with this Standard and any other legislative/regulatory reference that the report is designed to be in accordance with the applicable regulations (e.g. Accounting Standards), as on the date of signing of the report."</i></p>	
13.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"There should be a statement indicating any departure from this Standard. Members are expected to comply with the Standard, unless convinced that full compliance would be inappropriate, in which case, a complete explanation and justification of all departures should be given."</i></p>	
14.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"In case of exercise of actuarial judgment, the report shall include an explanation of the basis of judgment."</i></p>	
15.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"The report shall make it clear to what extent any third party can rely on the actuarial work performed and its limitations for use by third parties."</i></p>	
16.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"The report shall disclose the information that has been relied upon, its source and the extent of the checks applied as to the accuracy and relevance of the information."</i></p>	
17.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"The report shall state the extent to which assumptions take account of past experience of discretionary practices and information about the exercise of discretion in the future."</i></p>	
18.	<p>Para 8.6 of the Standard, which reads as under:</p>	



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S. No.	Various Reporting requirements of APS 27	Yes / No
	<i>"In case the assumptions have been received as an input for the valuation and the same has been relied on or has not been validated for appropriateness or adequacy, the report shall clearly spell out the same."</i>	
19.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"A statement of the various assumptions made in valuing the liabilities and reasons for changes, if any, from the previous investigation."</i></p>	
20.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"A commentary on any material developments in the inter-investigation period which have led to a significant variation in the experience from the assumptions last made and their impact on the valuation."</i></p>	
21.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"A description of the actuarial methodology applied in calculation of the liabilities and approach to the valuation of assets, as applicable should be included."</i></p>	
22.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"When describing the method and assumptions used, the report should highlight the factors that the results will be most sensitive to, and where appropriate, also indicate the quantum of this sensitivity through scenarios."</i></p>	
23.	<p>Para 8.6 of the Standard, which reads as under:</p> <p><i>"A mention of the assets held, if any, to meet the liabilities. In particular, the source from which the information of the assets is obtained and if it is obtained from unaudited accounts or has been estimated by the actuary, a statement clearly stating this should be included in the valuation report. A table showing the nature of asset categories in which investment has been made by the fund should be mentioned."</i></p>	



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In respect of Valuation of Gratuity Plans for done for Accounting Purposes

S. No.	Various Reporting requirements of APS 27	Yes / No
24.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Data</i></p> <p><i>The valuation report shall include an appropriate summary statistics of data used in valuation. The summary statistics, at the minimum, shall include the following information:</i></p> <ul style="list-style-type: none"> - <i>Numbers of employees valued;</i> - <i>Total salary used in the valuation;</i> - <i>Average age;</i> - <i>Average past service / completed years of service, etc."</i> 	
25.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Assumptions</i></p> <p><i>The valuation report shall give details of the assumptions used in the valuation. The assumptions shall typically include:</i></p> <ul style="list-style-type: none"> - <i>Salary growth rate;</i> - <i>Discount rate;</i> - <i>Attrition rates;</i> - <i>Mortality / disability rates"</i> 	
26.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Benefit Valued</i></p> <p><i>The valuation report shall include complete description of the benefits valued. This shall, inter alia, include:</i></p> <ul style="list-style-type: none"> - <i>Specifying whether the gratuity benefit is considered with or without any monetary limit;</i> - <i>Giving a complete description of the benefits considered for valuation, including if the benefit offered is different from the minimum benefit prescribed under the Gratuity Act and / or if there are non-uniform accrual rate for gratuity benefit (e.g. a higher benefit is offered for later years of service).</i> - <i>Vesting period, if any;</i> - <i>Retirement / superannuation age"</i> 	



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27.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>“Modeling / Model</i></p> <p><i>The member shall ensure application on the Projected Unit Credit (PUC) Method in attributing benefit to the service rendered in the past. This shall mean:</i></p> <ul style="list-style-type: none">- <i>In case of employee’s service in later years leading to a materially higher level of benefit than in earlier years, an enterprise should attribute benefit on a straight-line basis from:</i><ul style="list-style-type: none"><i>(a) the date when service by the employee first leads to benefits under the plan; until</i><i>(b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.”</i>	
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In respect of Valuation of Leave (Privilege / Earned, Sick etc) plans for done for Accounting Purposes

S. No.	Various Reporting requirements of APS 27	Yes / No
28.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Data</i></p> <p><i>The valuation report shall include an appropriate summary statistics of data used in valuation. The summary statistics, at the minimum, shall include the following information:</i></p> <ul style="list-style-type: none"> - <i>Numbers of employees valued;</i> - <i>Leave balance as on the valuation date;</i> - <i>In case of limit on maximum accumulation on leaves, leave balance considered in the valuation;</i> - <i>Total salary used in the valuation for each type of projected consumption of leave (i.e. salary considered for encashment and avilment of leaves);</i> - <i>Average age;"</i> 	
29.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Assumptions</i></p> <p><i>The valuation report shall give details of the assumptions used in the valuation. The assumptions shall typically include:</i></p> <ul style="list-style-type: none"> - <i>Salary growth rate;</i> - <i>Discount rate;</i> - <i>Attrition rates;</i> - <i>Mortality / disability rates</i> - <i>Assumption used for projecting future consumption of leaves (i.e. rate of leave avilment and rate of leave encashment during employment)."</i> 	
30.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Benefit Valued</i></p> <p><i>The valuation report shall include complete description of the benefit valued. This shall, inter alia, include specifying how the employee may consume the leave lying to his credit i.e.:</i></p>	



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	<ul style="list-style-type: none"> - <i>Specifying whether leave encashment during service is allowed or not;</i> - <i>Specifying whether encashment of leaves upon termination of employment is allowed or not;</i> - <i>Any limitations of utilization / availment of leaves by the employee during employment.</i> - <i>Annual rate of accrual of leaves and any limit on maximum accumulation of leaves."</i> 	
31.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Modeling / Model</i></p> <p><i>To ensure appropriate value is put on the projected consumption of leaves, the model used for valuation of accumulated leave shall be capable of projecting the consumption of leave and leave balance at each future time period. In other words, the model shall take leave balance as on the valuation date as an input and project for each time period the number of leaves availed, number of leaves encashed and the remaining number of leaves."</i></p>	



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In respect of Valuation of Post-Retirement Medical Benefit Schemes for done for Accounting Purposes

S. No.	Various Reporting requirements of APS 27	Yes / No
32.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Data</i></p> <p><i>The valuation report shall include an appropriate summary statistics of data used in the valuation. The summary statistics of data shall be included separately for each beneficiary type i.e. current employees, retirees, spouse of retirees in case of death of the employee etc."</i></p>	
33.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Assumptions</i></p> <p><i>The valuation report shall give complete details of the assumptions used in the valuation. The assumptions shall typically include:</i></p> <ul style="list-style-type: none"> - <i>Frequency and severity of benefit considered for projecting benefit outgoes under the scheme. In case the availability of data constrains use of proper frequency and severity assumptions, average cost per beneficiary may be used to project benefit outgoes under the scheme. In such a case, the average cost per beneficiary considered for valuation must be included in the valuation report;</i> - <i>Future medical cost inflation;</i> - <i>Discount rate;</i> - <i>Attrition rate;</i> - <i>Mortality and disability rates (both pre and post-employment and for all beneficiaries);</i> - <i>Description of how impact of mortality improvements that may have happened since the publication of mortality tables used in the valuation until the projected benefit outgoes under the scheme has been considered in the valuation;"</i> 	
34.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Benefit Valued</i></p>	



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	<i>The valuation report shall include necessary description of the benefit valued in the valuation report, specifying the contributions payable under the scheme by the employees and / or beneficiaries under the scheme.</i>	
35.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>“Modeling / Model</i></p> <p><i>In case of benefit under the post-retirement medical benefit scheme extending to spouse of the employee as well, the model used by for valuation shall appropriately allow for joint-life probabilities.”</i></p>	
36.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>“Report / Output</i></p> <p><i>The report shall include the valuation output (i.e. liability) by beneficiary type i.e. the liability in respect of current employees as well as current beneficiaries.”</i></p>	



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In respect of Valuation of Pension Schemes for done for Accounting Purposes

S. No.	Various Reporting requirements of APS 27	Yes / No
37.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Data</i></p> <p><i>The valuation report shall include an appropriate summary statistics of data used in valuation in his / her valuation report. The summary statistics of data shall be included separately for each beneficiary type i.e. current employees, retirees, spouse of retirees in case of death of the employee etc."</i></p>	
38.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Assumptions</i></p> <p><i>The valuation report should include details of the assumptions used in the valuation. The assumptions shall typically include:</i></p> <ul style="list-style-type: none"> - <i>Salary growth rate considered during employment for each component of salary (e.g. for basic salary, dearness allowance, grade pay, etc);</i> - <i>Pension growth rate considered post-employment for each component of pension (e.g. for basic, dearness allowance, grade pay, etc);</i> - <i>In case of pension valuation of public sector undertakings, whether the impact of future merger of dearness allowance is considered in the valuation;</i> - <i>Discount rate;</i> - <i>Attrition rate;</i> - <i>Mortality / disability / morbidity rates (both pre and post-employment);</i> - <i>Description of how impact of mortality improvements that may have happened since the publication of mortality tables used in the valuation until the projected benefit outgoes under the scheme has been considered in the valuation;"</i> 	
39.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Benefit Valued</i></p> <p><i>The valuation report shall include necessary description of the benefit valued, including specifying the contributions payable</i></p>	



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	<i>under the scheme by the employees and / or beneficiaries under the scheme."</i>	
40.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Modeling / Model</i></p> <p><i>In case of benefit under the pension scheme extending to spouse of the employee as well, the model used by for valuation shall appropriately allow for joint-life probabilities."</i></p>	
41.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Report / Output</i></p> <p><i>The report shall include the valuation output (i.e. liability) by beneficiary type i.e. the liability in respect of current employees as well as current beneficiaries."</i></p>	



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In respect of Valuation of Long Service Award or Other Long Term Employee Benefit Schemes for done for Accounting Purposes

S. No.	Various Reporting requirements of APS 27	Yes / No
42.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Data</i></p> <p><i>The valuation report shall include an appropriate summary statistics of data used in valuation in his / her valuation report."</i></p>	
43.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Assumptions</i></p> <p><i>The valuation report shall include details of the assumptions used in the valuation. The assumptions shall typically include:</i></p> <ul style="list-style-type: none"> - <i>Salary growth rate, if relevant;</i> - <i>Discount rate;</i> - <i>Attrition rate;</i> - <i>Mortality / morbidity / disability rates (both pre and post-employment);</i> - <i>In case of benefit based on commodities (e.g. gold, silver etc), the current cost / price of the commodity used for valuation as well as assumption for future increase in the cost / price of the commodity."</i> 	
44.	<p>Requirement of Technical Application Section (TAS) of the Standard, which reads as under:</p> <p><i>"Modeling / Model</i></p> <p><i>The valuation model must ensure proper application on the Projected Unit Credit (PUC) Method in attributing benefit to the service rendered in the past. For example, in case of long service award payable after completion of 10 years of service, the model should ensure that for an employee who has completed, say, only 3 years of services, then only 3 / 10th of the benefit is recognised at the current valuation date."</i></p>	