



Social Benefits

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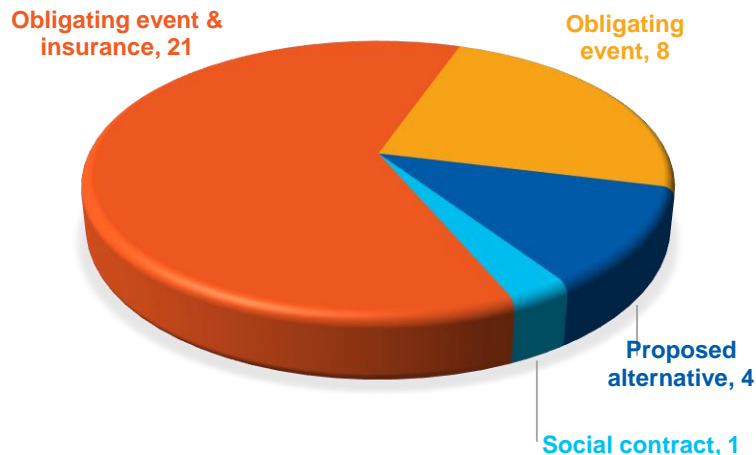
IPSASB Meeting

June 21-24, 2016

Toronto, Canada

Approaches to be included in an Exposure Draft (Agenda Item 6.1.1)

Approaches



Alternative or additional approaches

Contingent liabilities only

Use of IPSAS 25 model for funded pension benefits

Open group approach

Obligating event & social contract

Include contingent liabilities

Prospective information

Socio-economic benefits as assets

Staff recommendation

- Obligating event and insurance approaches

Accounting for the social contract approach (Agenda Item 6.1.2)

Specific Matter for Comment 8

In your view, under the social contract approach, should a public sector entity:

- (a) Recognize an obligation in respect of social benefits at the point at which:
 - (i) A claim becomes enforceable; or
 - (ii) A claim is approved?
- (b) Measure this liability at the cost of fulfillment?

Please explain the reasons for your views.

Factors

- Most respondents do not support this approach
- Most respondents did not comment on SMC 8
- Staff recommend approach not pursued (Agenda Item 6.1.1)

Staff recommendation

- No need to resolve accounting issues

Social benefits transactions not discussed in the CP (Agenda Item 6.1.3)

Include “transfers” and “intervention expenses”

- Outside scope proposed by IPSASB

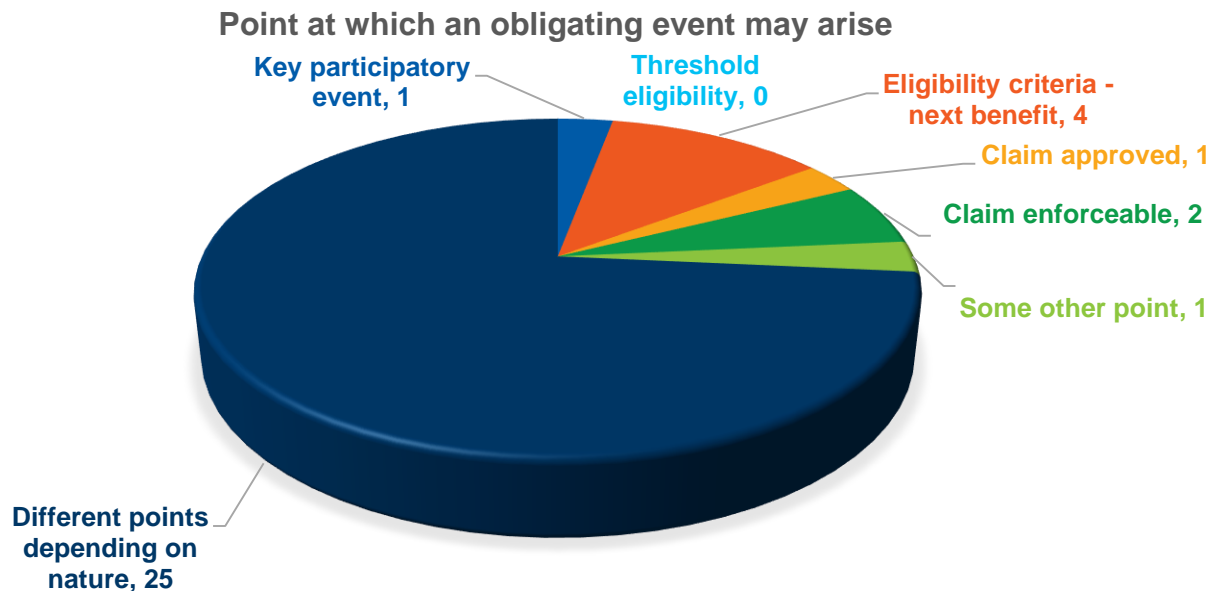
Supplementary pension scheme

- Interpretation issues

Staff conclusion

- No additional transactions need to be addressed

When an obligating event can occur under the obligating event approach (Agenda Item 6.1.4)



Responses

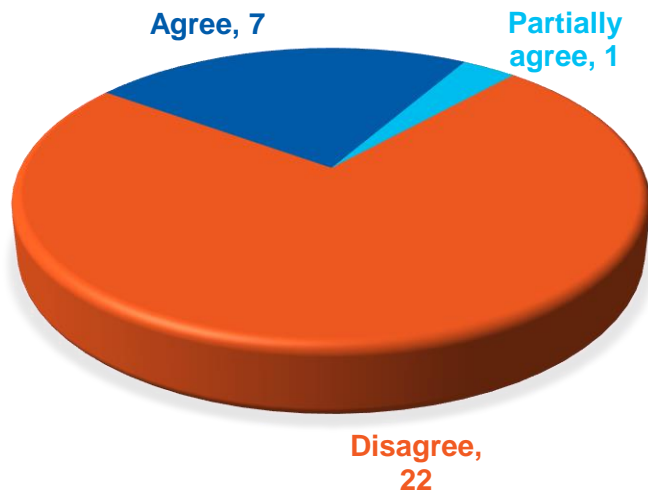
- Significant variation in range of points
- No agreement as to single point

Staff recommendation

- Agree depends on nature
- Consider details in September

Contributory and non-contributory benefits under the obligating event approach (Agenda Item 6.1.5)

Does an obligating event occur earlier for contributory benefits?



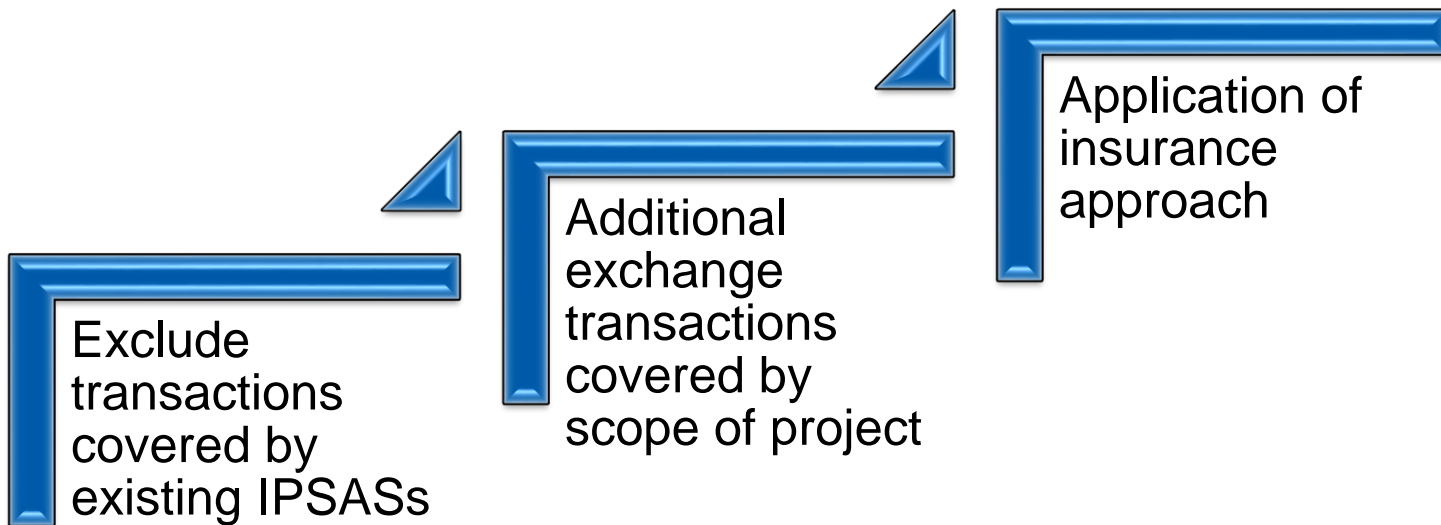
In principle no. For an event to be an obligating event in the absence of a legally binding obligation, it is necessary that the entity has no realistic alternative but to settle the obligation created by the event, and it should in theory not be affected by the way the funding of that obligation is designed.

However, the existence of a contributory element may increase the legitimate expectation that the public sector entity will pay the social benefits and is therefore an element to be considered in the assessment of whether or not a non-legal binding obligation has been created.

Staff recommendation

Definition of obligating event should not distinguish between contributory and non-contributory benefits

Exchange transactions under the obligating event approach (Agenda Item 6.1.6)



Measurement basis under the obligating event approach (Agenda Item 6.1.7)

Preliminary View 3

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.

Suggested exceptions:

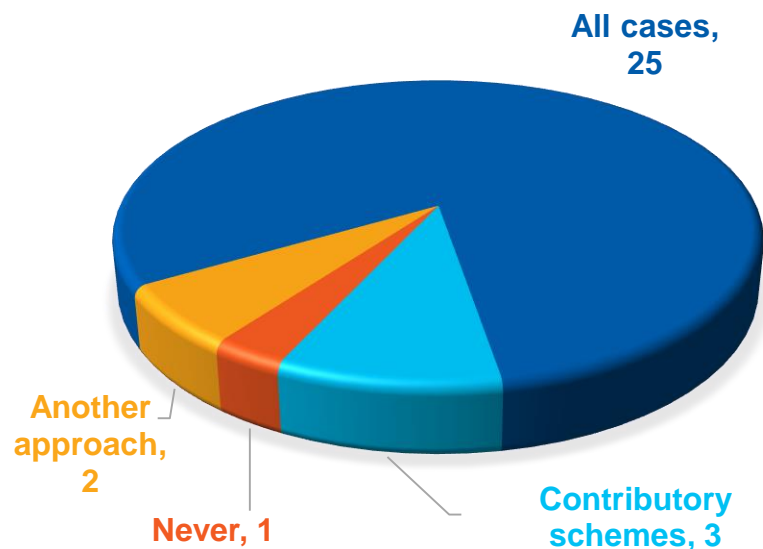
- Exchange transactions
- Definite plan to transfer the liability to another party

Staff recommendation

- Measure at cost of fulfillment

Presentation of assets under the obligating event approach (Agenda Item 6.1.8)

When should assets be presented?



Factors

- Assets unlikely to arise for non-contributory schemes
- Including in presentation is consistent with other IPSASs

Staff recommendation

- Include assets in presentation of a scheme in all cases

Application of the insurance approach (1)

(Agenda Item 6.1.9)

Possible coverage

Imputed contributions involve cash transfer

Low level of imputed contributions without a cash transfer

General taxation where reliable basis for allocation

Issues raised

No cause and effect between contributions and level of risk

Combining revenue and expense streams only relevant to exchange basis

Social benefits do not give rise to the same legal rights as insurance

Inconsistent measurement

Recognition of tax revenues

Staff recommendation

Limit approach to schemes intended to be fully funded from dedicated sources of revenue

Application of the insurance approach (2)

(Agenda Item 6.1.9)

Option	Advantages	Disadvantages
Insurance approach in IPSAS on social benefits	<ul style="list-style-type: none"> Consistent with proposals in CP Tailored to social benefits 	<ul style="list-style-type: none"> Increases duration of project No wider application
Separate IPSAS on insurance	<ul style="list-style-type: none"> Fills gap in IPSASB literature Could address both social benefits and wider application 	<ul style="list-style-type: none"> Not included in work plan Developing an additional standard may delay the social benefits project
Direct preparers to IFRS on insurance	<ul style="list-style-type: none"> Less IPSASB resources required Ensures consistency with IFRS 	<ul style="list-style-type: none"> IFRS not yet issued May require guidance on social benefit specific issues

Staff recommendation

- Direct preparers to an IFRS on insurance, and consider appropriate guidance

Accounting for the insurance approach (Agenda Items 6.1.10-6.1.14)

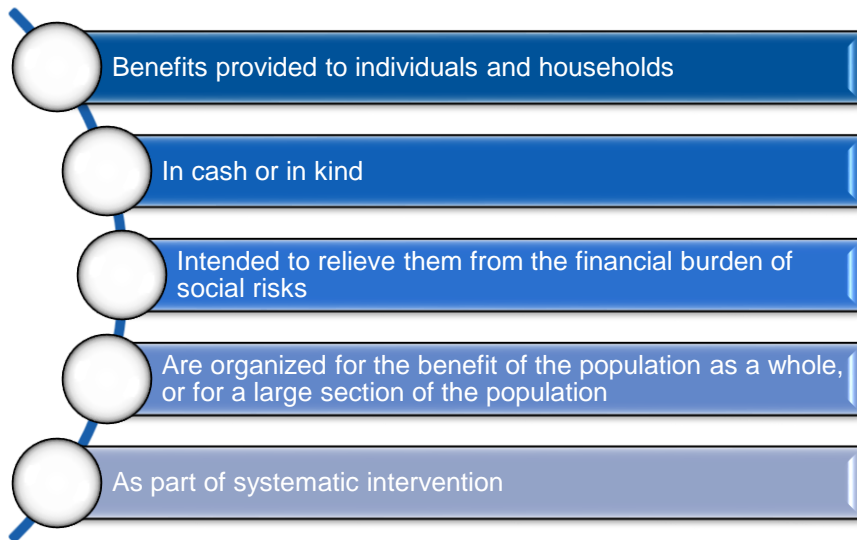
Paper	Topic	Proposal	Responses
6.1.10	Fully funded schemes	Surplus over coverage period Deficit recognized as expense	Majority support; minority: deficit over coverage period
6.1.11	Partially funded schemes (treatment of deficit)	Expense on initial recognition; over coverage period; offset against subsidy	Largest group support expense on initial recognition
6.1.12	Measurement basis	Cost of fulfillment or assumption price	Large majority for cost of fulfillment
6.1.13	Discount rate	Based on IPSAS 25	Supported by large majority
6.1.14	Subsequent measurement	Based on IASB proposals	Supported by large majority

Staff recommendation

- If the IPSASB agrees to refer users to an IFRS on insurance, appropriate to defer these decisions pending a review of the IFRS

Scope of the social benefits project (Agenda Item 6.1.15)

Factors



In scope

Social security

Social assistance

Social transfers in kind
addressing social risks

Outside scope

Benefits provided to
entities

Collective goods and
services

Individual arrangements

Ad hoc transfers

Social transfers in kind not
addressing social risks



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