

Social Benefits

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IPSASB Meeting

March 7–10, 2016

Washington, D.C., USA

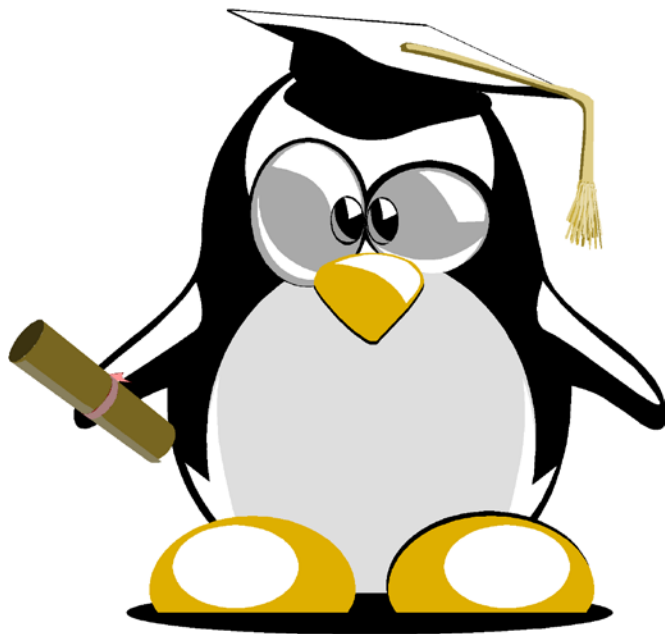
Scope and Definitions: Decisions Required (Agenda Item 8.2.1)

- Which definition of social benefits does the IPSASB support?
- Does the IPSASB support the proposals regarding scope, definition of social risks, and guidance?
 - Guidance in Application Guidance?
 - Address “universally accessible services” as scope exclusion?
- Defer decisions on other definitions (e.g., social benefits in kind, social assistance)?

Social Benefits: Alternative Definitions (Agenda Item 8.2.1)

- **Social Benefits** are benefits that are provided by a public sector entity:
 - To address the needs of society as a whole;
 - To mitigate the effect of social risks; and
 - Directly to specific individuals and/or households who meet eligibility criteria related to the mitigation of the effect of social risks, **rather than being universally accessible services.**
- **Social Benefits** are benefits that are provided by a public sector entity:
 - To mitigate the effect of social risks that society as a whole, (or large segments of it) are exposed to; and
 - To specific individuals and/or households who meet eligibility criteria related to the mitigation of the effect of social risks, **rather than being universally accessible services.**

Draft IFRS 17: Education Session (Agenda Item 8.2.2)



Draft IFRS 17, *Insurance Contracts*: Scope (Agenda Item 8.2.2)

- Applies to insurance contracts, not entities
- An entity applies IFRS 17 to:
 - Insurance contracts, including reinsurance contracts, it *issues*;
 - Reinsurance contracts it *holds*;
 - An investment contract with a discretionary participation feature that it *issues*, provided that the entity also issues insurance contracts.

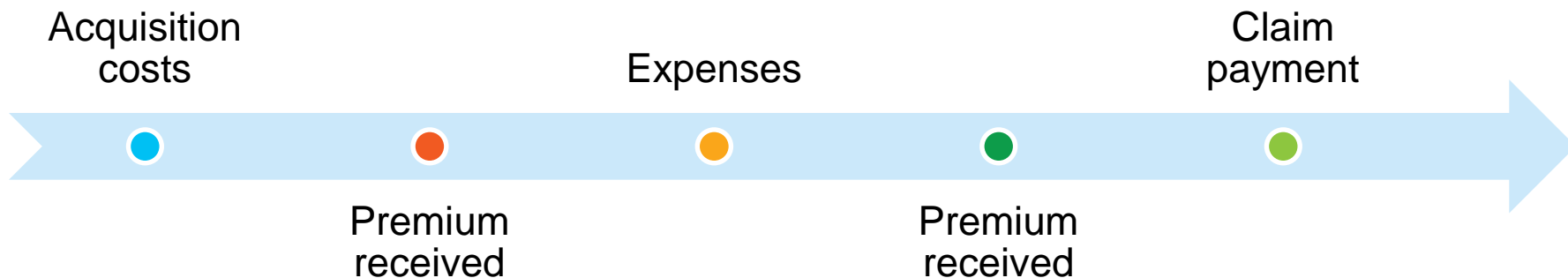
Draft IFRS 17: Definition of an insurance contract (Agenda Item 8.2.2)

A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Draft IFRS 17: Definition of an insurance contract (Agenda Item 8.2.2)

A social benefit scheme under which a public sector entity accepts significant insurance risk from the beneficiaries of the social benefit scheme by agreeing to compensate the beneficiaries if a specified uncertain future event (the social risk) adversely affects the beneficiaries.

Draft IFRS 17: Initial Measurement of Contract (Future Cash Flows) (Agenda Item 8.2.2)



Recognition:

Contract starts when coverage period begins, unless contract is onerous.

Contract boundary:

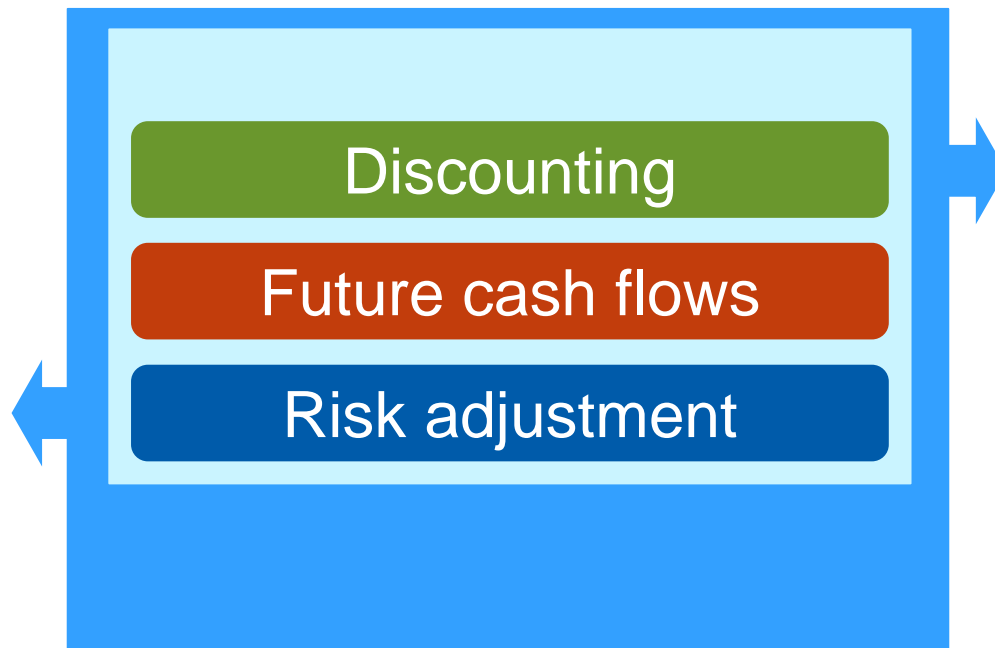
Contract ends when:

- Not required to provide coverage
- Can reprice to reflect risks
- Substantial modification

Draft IFRS 17: Initial Measurement (Agenda Item 8.2.2)

Compensation that makes entity indifferent between:

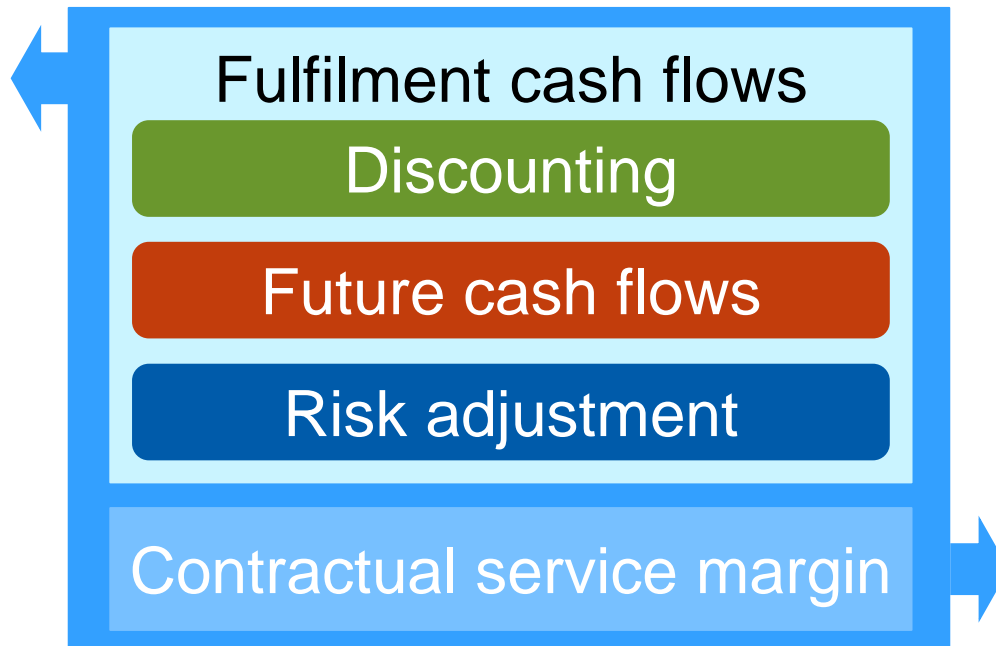
- Fulfilling a liability that has range of possible outcomes; and
- Fulfilling a liability that will generate fixed cash flows with the same expected present value



- Adjustment to convert future cash flows into a current amount.
- Rate reflects characteristics of **liability** cash flows.

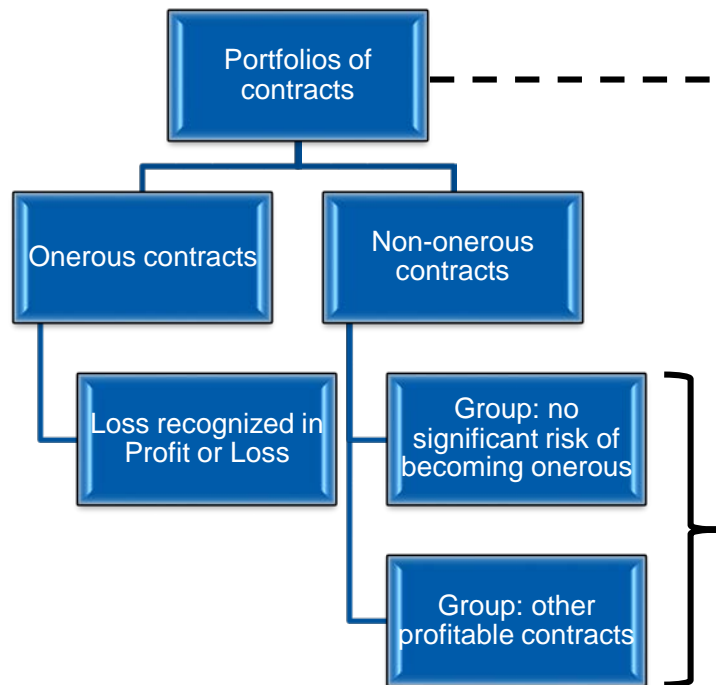
Draft IFRS 17: Initial Measurement (Agenda Item 8.2.2)

Probability-weighted estimate of cash inflows and outflows that will arise as the entity fulfils the contract.



Contractual service margin is measured as the **positive** (net inflow) difference between the risk-adjusted present value of expected inflows and outflows at inception.

Draft IFRS 17: Level of Aggregation (Agenda Item 8.2.2)

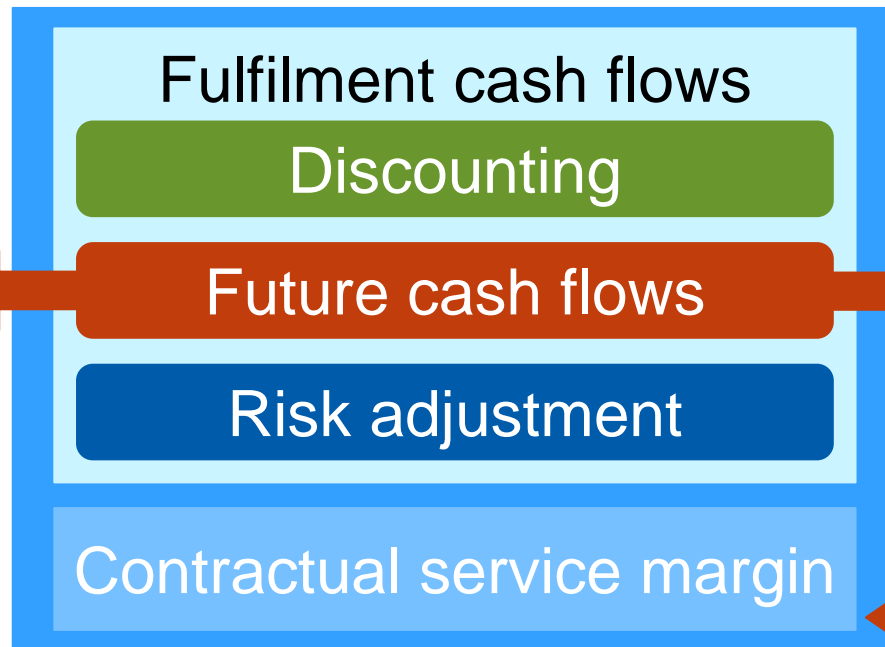


A **portfolio** is a group of contracts:

- Subject to similar risks (e.g. contracts within each product line, such as annuities or whole-life); and
- Managed together as a single pool

- 2 groups is minimum requirement
- Unearned profit (CSM) recognized as liability and released as insurance services provided
- Annual cohorts to ensure release of CSM based on coverage

Draft IFRS 17: Subsequent Measurement (Agenda Item 8.2.2)



Profit or Loss:
Underwriting Result

- Changes related to future services (estimates)

- Changes related to past and current services (actual)
- *Any changes not related to future services*

Draft IFRS 17: Subsequent Measurement (Agenda Item 8.2.2)

Profit or Loss:
Investment Result

- Unwinding of the discount
- Effect of change in discount rate on fulfilment cash flows (option)

Fulfilment cash flows

Discounting

Future cash flows

Risk adjustment

Contractual service margin

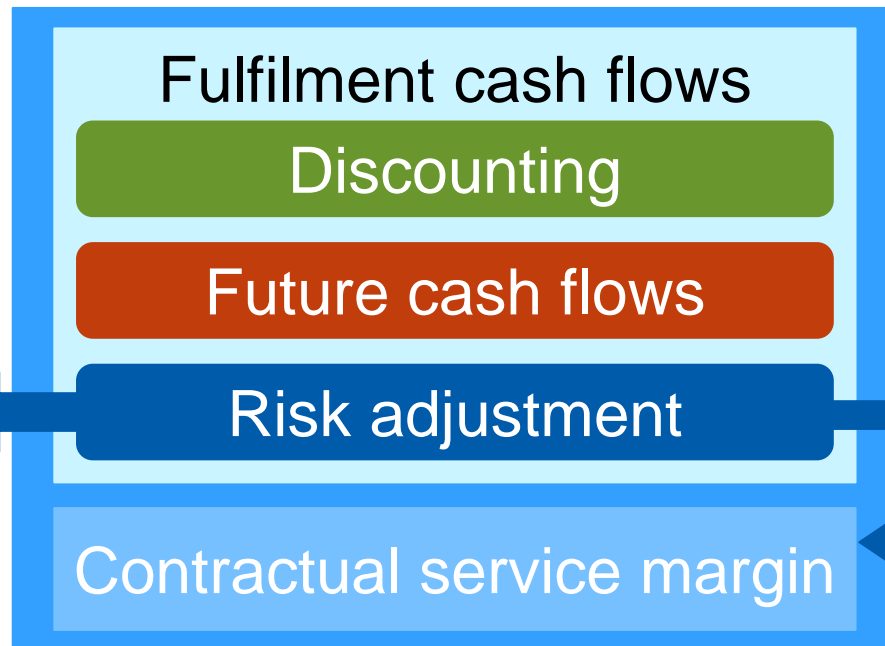
Other Comprehensive
Income

- Effect of change in discount rate on fulfilment cash flows (option)

Draft IFRS 17: Subsequent Measurement (Agenda Item 8.2.2)

Profit or Loss:
Underwriting Result

- Changes related to past and current services as entity is “released from risk”

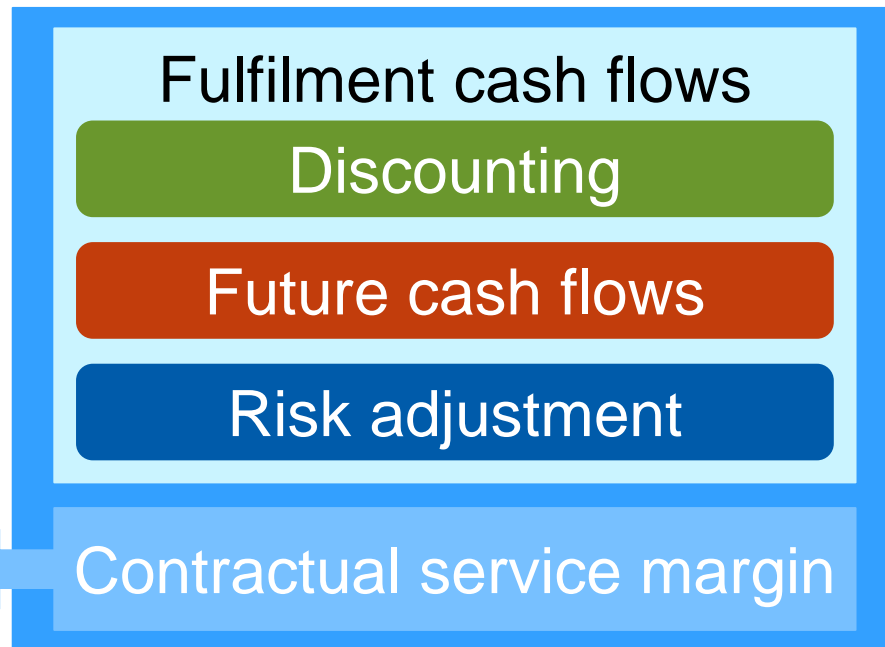


- Changes related to future services (estimates)

Draft IFRS 17: Subsequent Measurement (Agenda Item 8.2.2)

Profit or Loss:
Underwriting Result

- Recognize CSM as entity provides coverage:
 - Passage of time
 - Size and duration of contracts



Draft IFRS 17: Subsequent Measurement (Agenda Item 8.2.2)

Profit or Loss:
Investment Result

Fulfilment cash flows

Other Comprehensive
Income

Discounting

Profit or Loss:
Underwriting Result

Future cash flows

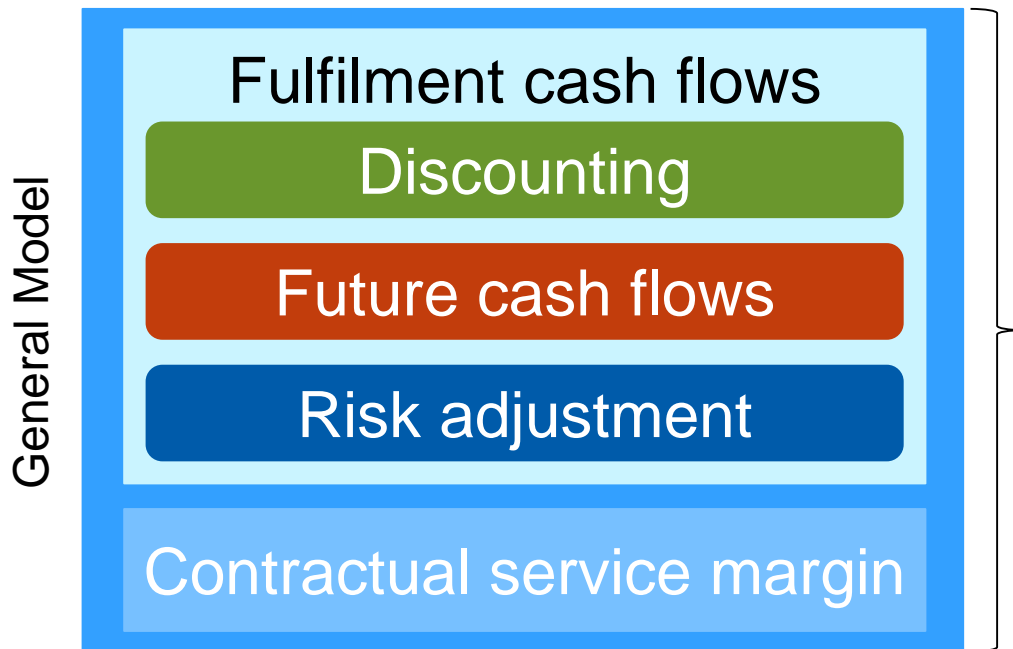
Risk adjustment

Contractual service margin

Draft IFRS 17: Premium Allocation Approach (Agenda Item 8.2.2)

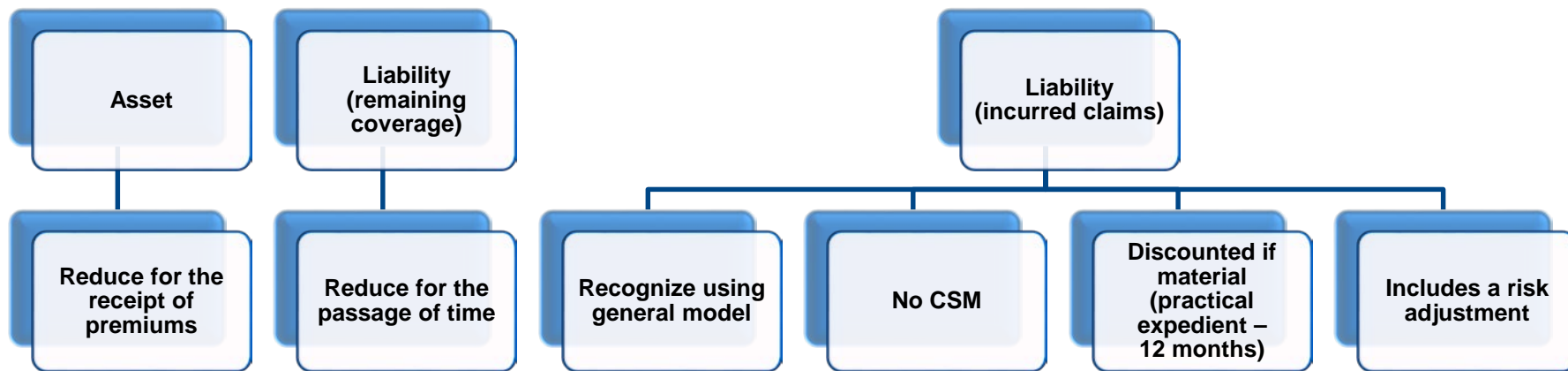
- Premium Allocation Approach (PAA)
 - **Optional** practical expedient
 - Subject to entry criteria
 - Should approximate the general model
 - Simplifies the measurement of the liability for remaining coverage
- PAA Eligibility:
 - Reasonable approximation to the general model
 - Coverage period 12 months or less; or
 - Both the following apply:
 - No significant changes in cash flow estimates are likely to occur before the claims are incurred
 - No significant judgment is needed to allocate the premium over time

Draft IFRS 17: PAA – Initial Measurement (Agenda Item 8.2.2)



- PAA assumes occur at the same rate
- Initial recognition:
 - **Liability:** PV of premiums received / receivable (less acquisition costs)
 - Remaining coverage
 - **Asset** as the PV of premiums receivable
 - No CSM recognized

Draft IFRS 17: PAA – Subsequent Measurement (Agenda Item 8.2.2)



Draft IFRS 17: Any Questions? (Agenda Item 8.2.2)



Insurance Approach: Decisions Required (1)

(Agenda Item 8.2.2)

- The insurance approach is only applicable to social benefit schemes where:
 - They are intended to be fully funded from contributions; and
 - There is evidence that the entity manages the scheme in the same way as the issuer of an insurance contract manages insurance contracts.
- No amendment to the forthcoming IFRS is required in respect of the premium allocation approach; preparers should be able to apply the approach where the criteria for doing so are met.
- The insurance approach should be optional.

Insurance Approach: Decisions Required (2) (Agenda Item 8.2.2)

- The IPSASB is asked to decide:
 - Whether an ED on social benefits should propose that preparers use the guidance on discount rates provided in IPSAS 39 rather than that in the IFRS on insurance costs; and
 - Whether an ED on social benefits should propose that no risk adjustment is applied when measuring social benefits under the insurance approach.

Obligating Event Approach: Decisions Required (1)

(Agenda Item 8.2.3)

- Does the IPSASB support the staff proposals that:
 - The key participatory event obligating event; and
 - The liability accumulates over time obligating eventShould not be included in the ED?
- If the IPSASB does not support these proposals, the IPSASB is asked to identify the elements of the analysis in paragraphs BC61–BC114 of the Basis for Conclusions with which it disagrees.

Obligating Event Approach: Decisions Required (2) (Agenda Item 8.2.3)

- Does the IPSASB support staff's proposals that:
 - The eligibility criteria for the next benefit would be appropriate where there are ongoing eligibility criteria to be met.
 - The threshold eligibility criteria would be appropriate where there are no ongoing eligibility criteria to be met.
 - “Staying alive” is not an implicit ongoing eligibility criteria that affects recognition, but only measurement.
- If not, the IPSASB is asked to identify an alternative approach, or identify any additional analysis that is required.

Presentation: Decisions Required (1)

(Agenda Item 8.2.4)

- The IPSASB is asked to agree:
 - The disclosure categories (characteristics and risks, amounts in financial statements, and future cash flows)
 - Applicability of the disclosure categories (characteristics and risks for all social benefits; amounts in financial statements for social benefits accounted for under the obligating event approach; and future cash flows for social benefits recognized when threshold eligibility criteria have been satisfied)

Presentation: Decisions Required (2)

(Agenda Item 8.2.4)

	Insurance approach	Threshold eligibility criteria	Eligibility criteria for next benefit
Characteristics and risks	✓	✓	✓
Amounts in financial statements	IFRS on insurance	✓	✓
Amount, timing and uncertainty of future cash flows	IFRS on insurance	✓	N/A

Presentation: Decisions Required (3) (Agenda Item 8.2.4)

- The IPSASB is asked to agree:
 - Level of aggregation/disaggregation (disclose individual social benefit schemes separately, and decide whether any further disaggregation is required)
 - Level of detail to be reported (based on the IASB's proposed wording)
 - Disclosures that explain the characteristics of its social benefit schemes and risks associated with them (does the IPSASB support the staff proposals)

Presentation: Decisions Required (4) (Agenda Item 8.2.4)

- The IPSASB is asked to agree:
 - Disclosures that identify and explain the amounts in its financial statements arising from its social benefit schemes (does the IPSASB support the staff proposals, including the ED adopting gross presentation)
 - Disclosures that describe how its social benefit schemes may affect the amount, timing and uncertainty of the entity's future cash flows (which options does the IPSASB wish to include in the ED)
 - Transitional arrangements (a disclosure where a liability could not be measured in a way that meets the QCs should be limited to the first financial statements produced following the effective date).



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