Social Benefits

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Toronto, Canada
Social Benefits

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

Approaches

- Obligating event & insurance, 21
- Obligating event, 8
- Proposed alternative, 4
- Social contract, 1

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
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

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
Social Benefits

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

Point at which an obligating event may arise

- Key participatory event, 1
- Threshold eligibility, 0
- Eligibility criteria - next benefit, 4
- Claim approved, 1
- Claim enforceable, 2
- Some other point, 1
- Different points depending on nature, 25

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

Staff recommendation
- Agree depends on nature
- Consider details in September
Does an obligating event occur earlier for contributory benefits?

- Agree, 7
- Partially agree, 1
- Disagree, 22

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
Social Benefits

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

Exclude transactions covered by existing IPSASs

Additional exchange transactions covered by scope of project

Application of insurance approach
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?

- All cases, 25
- Contributory schemes, 3
- Never, 1
- Another approach, 2

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
### Social Benefits

#### Application of the insurance approach (1)
(Agenda Item 6.1.9)

<table>
<thead>
<tr>
<th>Possible coverage</th>
<th>Issues raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imputed contributions involve cash transfer</td>
<td>No cause and effect between contributions and level of risk</td>
</tr>
<tr>
<td>Low level of imputed contributions without a cash transfer</td>
<td>Combining revenue and expense streams only relevant to exchange basis</td>
</tr>
<tr>
<td>General taxation where reliable basis for allocation</td>
<td>Social benefits do not give rise to the same legal rights as insurance</td>
</tr>
</tbody>
</table>

**Staff recommendation**

Limit approach to schemes intended to be **fully funded from dedicated sources** of revenue.
### Social Benefits

**Application of the insurance approach (2) (Agenda Item 6.1.9)**

<table>
<thead>
<tr>
<th>Option</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance approach in IPSAS on social benefits</td>
<td>• Consistent with proposals in CP</td>
<td>• Increases duration of project</td>
</tr>
<tr>
<td></td>
<td>• Tailored to social benefits</td>
<td>• No wider application</td>
</tr>
<tr>
<td>Separate IPSAS on insurance</td>
<td>• Fills gap in IPSASB literature</td>
<td>• Not included in work plan</td>
</tr>
<tr>
<td></td>
<td>• Could address both social benefits and wider application</td>
<td>• Developing an additional standard may delay the social benefits project</td>
</tr>
<tr>
<td>Direct preparers to IFRS on insurance</td>
<td>• Less IPSASB resources required</td>
<td>• IFRS not yet issued</td>
</tr>
<tr>
<td></td>
<td>• Ensures consistency with IFRS</td>
<td>• May require guidance on social benefit specific issues</td>
</tr>
</tbody>
</table>

**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)

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

**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
Social Benefits

Scope of the social benefits project
(Agenda Item 6.1.15)

Factors

- Benefits provided to individuals and households
- In cash or in kind
- Intended to relieve them from the financial burden of social risks
- Are organized for the benefit of the population as a whole, or for a large section of the population
- As part of systematic intervention

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