

Employee contributions

Simpler and clearer pension accounting

March 2013, Issue 2013/05

IN THE HEADLINES

kpmg.com/ifrs

“The proposals would affect only certain defined benefit plans in some jurisdictions, but the practical expedient would be welcomed by those affected.”

– Lynn Percy
KPMG’s global IFRS employee benefits leader

Simpler accounting for some

The proposed changes to pension accounting would provide some relief from the potentially burdensome requirements that many entities are applying for the first time in 2013.

However, not all entities would see the benefits of this practical expedient. The proposals are relevant only to defined benefit plans¹ that involve contributions from employees or third parties.

What’s the issue?

The issue addressed by this practical expedient arose when amendments were made in 2011 to the existing pension accounting requirements.

Some defined benefit plans require contributions not only from the employer, but also from employees or third parties. Under previous pension accounting, the contributions from employees or third parties were generally deducted from the service cost in the period in which they were received, and were not included in calculating the defined benefit obligation.

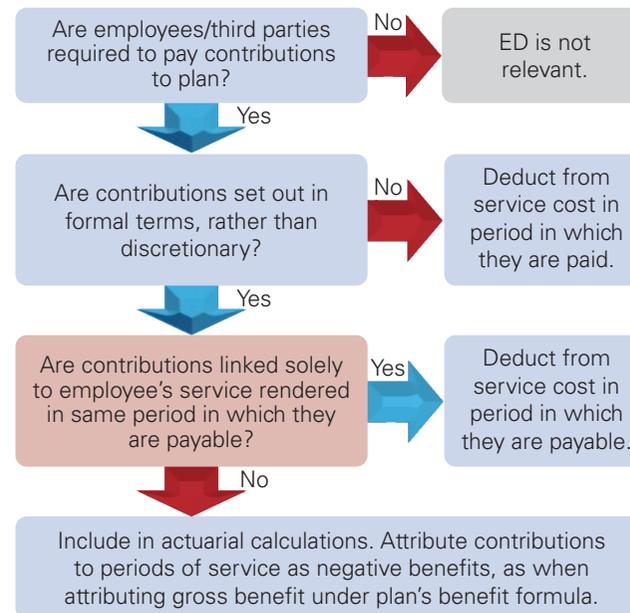
IAS 19 *Employee Benefits* (2011), which has been effective since 1 January 2013, requires the entity to:

- forecast future service-related contributions from employees or third parties; and
- attribute those contributions to periods of service as negative benefits under the plan’s benefit formula.

As a result, those contributions are included in calculating the defined benefit obligation. For many, this will be a significant change from previous practice, and could require complex and burdensome actuarial calculations.

How does the practical expedient work?

The exposure draft (ED) proposes an exemption that would reduce the complexity and burden of accounting for certain contributions from employees or third parties.



Under the proposals, these could be deducted from the service cost in the period in which they are payable if, and only if, they

are linked solely to the employee’s service rendered in the same period in which they are payable. The ED gives as an example contributions that are a fixed percentage of salary.

Not all jurisdictions would benefit

In some jurisdictions, it may be simple to determine whether the proposed exemption applies because laws or regulations require those contributions to be linked solely to the employee’s service. In others, however, this decision might be difficult and judgement would be needed.

Clearer accounting for others

Entities that cannot apply the proposed exemption would benefit instead from a clarification. The ED clarifies how contributions from employees or third parties should be included in determining the defined benefit obligation. They would be attributed to periods of service as negative benefits under the plan’s benefit formula, in the same way that the gross benefit is attributed – i.e. rather than assessing the attribution on a net basis.

Adoption

The ED does not propose an effective date but indicates that early adoption would be allowed. Retrospective application is proposed.

Next steps

For more information on the amendments, please speak to your usual KPMG contact or go to the [IASB press release](#). Comments are due to the IASB by 25 July 2013.

© 2013 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved. The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.

Publication name: *In the Headlines – Employee contributions*

Publication number: Issue 2013/05

Publication date: March 2013

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG International Cooperative (“KPMG International”) is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, in any manner whatsoever.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.