PSAB Public Sector Accounting Board

Exposure Draft

Employee Benefits, Proposed Section PS 3251

July 2021

COMMENTS TO PSAB MUST BE RECEIVED BY November 25, 2021

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by taking part in the Connect.FRASCanada.ca project or by submitting a comment letter. Please address your response to:

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This Exposure Draft reflects proposals made by the Public Sector Accounting Board (PSAB).

Individuals, governments and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments PSAB receives will be available on the website shortly after the comment deadline unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

INTRODUCTION

This Exposure Draft outlines the proposed principles for the first of several phases of the Public Sector Accounting Board's (PSAB) revised employee benefits standard. In this first phase, PSAB focused its efforts on the topics of deferral provisions and discount rate guidance. As communicated in the project update, future phases will focus on providing further guidance on the topic of non-traditional pension plans and other issues.

HIGHLIGHTS

PSAB proposes, subject to comments received following exposure, to issue a new employee benefits standard, EMPLOYEE BENEFITS, Section PS 3251. This Section would replace RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255. This proposed Section PS 3251 would apply to public sector entities that base their accounting policies on the CPA Canada Public Sector Accounting (PSA) Handbook.

This Exposure Draft uses the principles from International Public Sector Accounting Standard (IPSAS) 39, *Employment Benefits*, as a starting point. In developing the Exposure Draft, PSAB amended IPSAS 39 principles that were considered contrary to PSAB's existing and proposed Conceptual Framework, or inappropriate for application in Canada based on the Canadian public interest.

A Basis for Conclusions document accompanies this Exposure Draft. It provides information on how matters arising from comments received on PSAB's Invitations to Comment, "Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255" ("Deferral Provisions") and "Employment Benefits: Discount Rate Guidance in Section PS 3250" ("Discount Rate Guidance") have been addressed. The Basis for Conclusions also provides information on instances where IPSAS 39 principles were amended or not as they relate to deferral provisions and discount rate guidance.

MAIN FEATURES OF THE EXPOSURE DRAFT

The main features of the Exposure Draft are as follows:

- Accounting guidance for short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits have all been considered in this Exposure Draft.
- Accounting for defined benefit plans results in a public sector entity recognizing the following amounts in surplus or deficit: current service cost, any past service cost and gain or loss on settlement, and net interest on the net defined benefit liability (asset).
- Revaluations of the net defined benefit liability (asset) are recognized in net assets[1] and are not reclassified to surplus or deficit in subsequent periods.
- The discount rate used to discount post-employment benefit obligations is determined based on an assessment of the post-employment benefit plan's funding status.
- A simplified approach is used to account for other long-term employee benefits as they are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. This simplified method does not recognize revaluations in net assets.

1 If PSAB approves FINANCIAL STATEMENT PRESENTATION, Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component of net assets is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

BACKGROUND

This Exposure Draft outlines proposals for the proposed Section PS 3251. In its deliberations, PSAB focused on discount rate guidance and deferral provisions. The comments requested in this Exposure Draft also focus on these topics. In future phases of the revised employee benefits standard, the Board will make proposals on additional topics including specific guidance on accounting for risk-sharing provisions in public sector pension plans in Canada and other types of non-traditional plans.

Due to the multi-phase approach of starting with IPSAS 39, principles and guidance within this Exposure Draft that may also relate to the topics of risk-sharing and non-traditional plans will be deliberated by the Board during future phases of the project. PSAB may revisit some of the principles or definitions in this Exposure Draft during future phases. This Exposure Draft's objective is to finalize the core principles for discount rate guidance and deferral provisions. In addition to responding to this Exposure Draft, stakeholders will have an opportunity to comment on other proposals in later phases of this project, following the Board's due process.

IMPLICATIONS OF THE PROPOSALS

The proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted.

The intent of the proposals is to improve understandability of the financial reporting of employee benefits and provide financial statement users with better information for accountability purposes.

This Section would result in a public sector entity recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. This will enhance the usefulness of information provided to financial statement users by faithfully representing the plan's surplus or deficit position and providing relevant, verifiable, transparent and comparable information.

This Section would require a public sector entity to assess the funding status of its post-employment benefit plan(s) to determine the appropriate rate for discounting post-employment benefit obligations. Doing so will result in a net benefit liability (asset) that reflects the public sector entity's obligation to the plan, the long-term nature of the plan arrangement and the substance of the plan arrangement.

Consequential amendments

Proposed consequential amendments have been summarized later in this document. See pages 50-53.

COMMENTS REQUESTED

PSAB welcomes comments from individuals, governments and organizations on all aspects of the Exposure Draft.

As noted earlier, future phases will focus on providing further guidance on non-traditional pension plans and other issues and will include questions specific to those topics. For this Exposure Draft, PSAB is seeking responses to the following questions focused primarily on discount rate guidance and deferral provisions.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify, generically, the sources of the comments in the responses (e.g., budget or treasury officials or financial statements preparers). This promotes an understanding of how the proposals affect various aspects of an organization.

Comments are most helpful if they relate to a specific principle, paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

Please respond to the following questions:

Purpose and scope

1. Do you find the scope of this standard (paragraphs PS 3251.004-.008) to be clear? If not, please describe the situations for which the scope is unclear.

Glossary

2. Do the definitions contained in the Glossary help you interpret and apply the standard as it relates to the proposals outlined within this Exposure Draft? If not, what further clarifications or additional definitions[2] are necessary?

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

3. Would applying the guidance for recognizing a public sector entity's net defined benefit cost related to defined benefit plans that share risks between public sector entities under common control (paragraphs PS 3251.039-.042) change the accounting treatment for your involvement in a post-employment benefit plan? Please explain.

4. Is the guidance on category-wide plans (paragraphs PS 3251.043-.046) relevant for the Canadian public sector? If not, why?

5. Paragraph PS 3250.109 states that "sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government. For this reason, a multi-employer plan is accounted for by each participating government following the standards for defined contribution plans." Proposed paragraph PS 3251.033 of this Exposure Draft also states that when sufficient information is not available to use defined benefit accounting, a public sector entity should account for the plan as if it were a defined contribution plan. Would applying the guidance provided in proposed paragraphs PS 3251.033 and PS 3251.035 of this Exposure Draft change the accounting treatment for your involvement in a multi-employer plan? Please explain.

Post-employment benefits – defined benefit plans

Discount rate guidance

6. Is the guidance on assessing the funding status of a plan (paragraphs PS 3251.105-.110) clear and sufficient to determine funding status for identifying the appropriate rate to use to discount post-employment benefit obligations? If not, why?

7. Do you agree with the proposed discount rate approaches for fully funded (paragraphs PS 3251.111-.114), partially funded (paragraphs PS 3251.115-.117) and unfunded plans (paragraphs PS 3251.118-.120)? If not, please specify which approach you disagree with and why.

8. Do you foresee any challenges that may result from the proposed approach (paragraphs PS 3251.105-.110) to assessing the funding status of a post-employment benefit plan in order to determine the appropriate rate for discounting the post-employment benefit obligation? If so, please explain the source of those challenges and any modifications to the proposed guidance that would assist in reducing or eliminating those challenges.

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2 As PSAB deliberates and develops future proposals for the employee benefits standard as part of its multi-phase approach to this project, amendments to existing definitions or additional definitions may be added to the Glossary. With each phase, stakeholders will have an opportunity to provide comments in accordance with the Board's due process.

9. Do you foresee any challenges that may result from the proposed approach to apply a single discount rate to partially funded plans as outlined in paragraphs PS 3251.115-.117? If so, please explain the source of those challenges and any modifications that would assist in reducing or eliminating those challenges.

Revaluations on the net defined benefit liability (asset)

10. Do you agree that revaluations on the net defined benefit liability (asset) should be recognized in net assets[3] without subsequent recognition in surplus or deficit (paragraphs PS 3251.064(d) and PS 3251.144)? If not, please explain why and provide your opinion on how these amounts should be recognized.

11. PSAB acknowledges the potential increased volatility in net debt[4] that may arise as a result of public sector entities recognizing the impact of actuarial gains and losses immediately in the net defined benefit liability (asset) as compared to the approach in Section PS 3250. Would alternative presentation or disclosure options assist in addressing concerns regarding net debt volatility? If yes, please provide an explanation of which presentation or disclosures options should be considered, and how such options would assist in addressing concerns regarding increased volatility.

Transitional provisions

12. Do you agree with the proposed transitional provisions (paragraphs PS 3251.200-.202)? If not, what changes would you make to these provisions, and why?

Illustrative examples

13. Do the illustrative examples (Appendix) assist you with the interpretation and application of the proposed Section? If not, what additional examples would be necessary?

Other

14. Do you think that applying the proposals as outlined in this Exposure Draft would significantly change the understandability of financial reporting on employee benefits? If yes, please explain how understandability would be affected.

15. Do you think that applying the proposals as outlined in this Exposure Draft would result in a change in decision making for employee benefits? If yes, please explain the cause of the change. For example, would decision making change as a result of policies already in place in your organization or would changes occur as a result of legislative requirements.

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3 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

4 Through PSAB's ongoing Conceptual Framework and Reporting Model project, this is proposed to be renamed "net financial liabilities" under proposed Section PS 1202.

EMPLOYEE BENEFITS

TABLE OF CONTENTS **Paragraph**

PURPOSE AND SCOPE

.001 This Section establishes standards on how to account for and report obligations for **employee benefits** in a public sector entity's financial statements. This Section requires a public sector entity to recognize:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the public sector entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

.002 In this Section, terms that appear in **bold type** are defined in the Glossary.

.003 Accounting for all of the employee benefits incurred by a public sector entity is particularly important because many public sector entities have accumulated significant liabilities. Where those liabilities have not been recorded, financial statements do not adequately provide all of the information users need to help them assess a public sector entity's financial position and results of operations. It is important that financial statements account for a public sector entity's liabilities for all employee benefits to clearly show the extent to which these obligations are to be paid from cash to be raised from future tax and/or other revenue sources.

.004 *This Section should be applied by a public sector entity in accounting for all employee benefits.*

.005 The employee benefits to which this Section applies include those provided:

(a) under formal plans or other formal agreements between a public sector entity and individual employees, groups of employees or their representatives;

(b) under legislative requirements, or through industry arrangements, whereby public sector entities are required to contribute to national, provincial or territorial, municipal, industry, **joint defined benefit plans** or other **multi-employer plans**; or

(c) by those informal practices that give rise to a liability resulting from a constructive obligation.[5] Informal practices may give rise to a liability resulting from a constructive obligation where the public sector entity has no realistic alternative but to pay employee benefits. An example of a liability resulting from a constructive obligation is where a change in the public sector entity's informal practices would cause unacceptable damage to its relationship with employees.

.006 Employee benefits include:

(a) **short-term employee benefits**, such as the following, if expected to be settled within 12 months after the end of the reporting period in which the employees render the related services:

(i) wages, salaries and social security contributions;

(ii) paid annual leave and paid sick leave;

(iii) bonuses; and

(iv) non-monetary benefits (e.g., medical care) for current employees;

(b) **post-employment benefits**, such as the following:

(i) retirement benefits (e.g., pensions and lump sum payments on retirement); and

(ii) other post-employment benefits (e.g., life insurance and medical care);

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5 Determining the existence of a liability resulting from a constructive obligation would require the exercise of professional judgment, the consideration of individual circumstances and the criteria for recognition of a liability in accordance with LIABILITIES, Section PS 3200.

(c) **other long-term employee benefits**, such as the following:

  (i) long-term paid absences (e.g., long-service leave or sabbatical leave);

  (ii) other long-service benefits; and

  (iii) long-term disability benefits; and

(d) **termination benefits**.

.007 Employee benefits include benefits provided either to employees or to their dependents, and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependents, or to others, such as insurance companies.

.008 An employee may provide services to a public sector entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Section, employees include key management personnel as defined in RELATED PARTY DISCLOSURES, Section PS 2200.

SHORT-TERM EMPLOYEE BENEFITS

.009 A public sector entity need not reclassify a short-term employee benefit (see paragraph PS 3251.006(a)) if the public sector entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (e.g., a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the public sector entity considers whether the benefit still meets the definition of a short-term employee benefit.

Recognition and measurement

All short-term employee benefits

.010 *When an employee has rendered service to a public sector entity during an accounting period, the public sector entity should recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:*

(a) as a liability[6] (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, a public sector entity should recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense.

.011 For additional guidance on how a public sector entity would apply paragraph PS 3251.010 to short-term employee benefits in the form of paid absences and bonus plans, refer to paragraphs PS 3251.012, PS 3251.015 and PS 3251.018.

Short-term paid absences

.012 *A public sector entity should recognize the expected cost of short-term employee benefits in the form of paid absences under paragraph PS 3251.010 as follows:*

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and

(b) in the case of non-accumulating paid absences, when the absences occur.

6 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, liabilities for employee benefits would be classified as financial liabilities.

.013 A public sector entity may pay employees for absence for various reasons, including holidays, sickness, short-term disability, maternity or paternity leave, jury duty and military service. Entitlement to paid absences falls into one of two categories:

(a) accumulating; or

(b) non-accumulating.

.014 Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (i.e., employees are entitled to a cash payment for unused entitlement on leaving the public sector entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognized, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

.015 *A public sector entity should measure the expected cost of accumulating paid absences as the additional amount that the public sector entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.*

.016 The method specified in paragraph PS 3251.015 measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, a public sector entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

.017 Non-accumulating paid absences do not carry forward; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the public sector entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave, and paid absences for jury duty or military service. A public sector entity recognizes no liability or expense until the time of the absence because employee service does not increase the amount of the benefit.

Bonus plans

.018 *A public sector entity should recognize the expected cost of bonus payments under paragraph PS 3251.010 when, and only when:*

(a) the public sector entity has a present legal obligation or liability resulting from a constructive obligation to make such payments as a result of past events; and

(b) an estimate of the obligation that faithfully represents the obligation of the public sector entity, can be made.

A present obligation exists when, and only when, the public sector entity has no realistic alternative but to make the payments.

.019 Some public sector entities may have a bonus plan that is related to service delivery objectives or aspects of financial performance. Under such plans, employees receive specified amounts, dependent on an assessment of their contribution to the achievement of the objectives of the public sector entity or a segment of the public sector entity. In some cases, such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Some public sector entities may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets. Some bonus plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the public sector entity before the end of the reporting period. However, under other bonus plans, employees receive payments only if they remain with the public sector entity for a specified period, for example, a requirement that employees render services for the whole of the reporting period. Such plans may create a liability resulting from a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. Paragraph PS 3251.021 provides further conditions that are to be satisfied before a public sector entity would recognize the expected cost of performance-related payments, and bonus payments.

.020 A public sector entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, a public sector entity has a practice of paying bonuses. In such cases, the public sector entity may have a liability resulting from a constructive obligation because the public sector entity has no realistic alternative but to pay the bonus. The measurement of the liability resulting from a constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

.021 A public sector entity can make an estimate that faithfully represents its legal obligation or liability resulting from a constructive obligation under a performance-related payment plan, or bonus plan when, and only when:

(a) the formal terms of the plan contain a formula for determining the amount of the benefit;

(b) the public sector entity determines the amounts to be paid before the financial statements are authorized for issue; or

(c) past practice gives clear evidence of the amount of the public sector entity's liability resulting from a constructive obligation.

.022 If bonus payments are not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs PS 3251.175-.184).

Disclosure

.023 *For short-term employee benefits, financial statements should report employee benefit expense by function on the statement of operations and employee benefit liabilities*[7] *as a separate line on the statement of financial position.*

.024 *For short-term employee benefits, financial statements should also disclose:*

(a) adequate information about the nature and terms of a public sector entity's liabilities related to employee benefits; and

(b) the employee benefit expense of the accounting period recognized in the statement of operations by object in the notes or schedules.

POST-EMPOYMENT BENEFITS – DISTINCTION BETWEEN DEFINED CONTRIBUTION AND DEFINED BENEFIT PLANS

.025 Post-employment benefits include items such as the following:

(a) retirement benefits (e.g., pensions and lump sum payments on retirement); and

(b) other post-employment benefits (e.g., life insurance and medical care).

Arrangements whereby a public sector entity provides post-employment benefits are **post-employment benefit plans**. A public sector entity applies this Section to all such arrangements, whether or not they involve the establishment of a separate entity, such as a pension plan, superannuation plan or retirement benefit plan, to receive contributions and to pay benefits.

7 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, liabilities for employee benefits would be classified as financial liabilities.

.026 Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on the economic substance of the plan, as derived from its principal terms and conditions.

.027 Under defined contribution plans, the public sector entity's legal obligation or liability resulting from a constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by a public sector entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

.028 Examples of cases where a public sector entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the public sector entity has a legal obligation or liability resulting from a constructive obligation through:

(a) a plan benefit formula that is not linked solely to the amount of contributions and requires the public sector entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) those informal practices that give rise to a liability resulting from a constructive obligation. For example, a liability resulting from a constructive obligation may arise where a public sector entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

.029 Under defined benefit plans:

(a) the public sector entity's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the public sector entity. If actuarial or investment experience are worse than expected, the public sector entity's obligation may be increased.

.030 Paragraphs PS 3251.031-.054 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between public sector entities under common control, **category-wide plans**, joint defined benefit plans and insured benefits.

Multi-employer plans

.031 *A public sector entity should classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any liability resulting from a constructive obligation that goes beyond the formal terms).*

.032 *If a public sector entity participates in a multi-employer defined benefit plan, unless paragraph PS 3251.033 applies, it should:*

(a) account for its proportionate share of the defined benefit obligation, ***plan assets*** *and cost associated with the plan in the same way as for any other defined benefit plan; and*

(b) disclose the information required by paragraphs PS 3251.157-.170 (excluding paragraph PS 3251.170(d)).

.033 *When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, a public sector entity should:*

(a) account for the plan in accordance with paragraphs PS 3251.056-.057 as if it were a defined contribution plan; and

(b) disclose the information required by paragraph PS 3251.170.

.034 One example of a multi-employer defined benefit plan is one where employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the public sector entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the public sector entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

.035 Where sufficient information is available about a multi-employer defined benefit plan, a public sector entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, a public sector entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or

(b) the public sector entity does not have access to sufficient information about the plan that satisfies the requirements of this Section.

In those cases, a public sector entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph PS 3251.170(d).

.036 There may be a contractual agreement between the multi-employer plan and its participants that determines how the **surplus** in the plan will be distributed to the participants (or the **deficit** funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph PS 3251.033 would recognize the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.

.037 Multi-employer plans are distinct from group administration plans.[8] A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment-management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan, and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. A public sector entity would classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any liability resulting from a constructive obligation that goes beyond the formal terms).

.038 *In determining when to recognize, and how to measure, a liability relating to the **settlement** of a multi-employer defined benefit plan, or the public sector entity's withdrawal from a multi-employer defined benefit plan, a public sector entity should apply LIABILITIES, Section PS 3200, or CONTINGENT LIABILITIES, Section PS 3300.*

8 Group administration plans may also be referred to as multiple-employer plans.

Defined benefit plans that share risks between public sector entities under common control

.039 Defined benefit plans that share risks among various public sector entities under common control are not multi-employer plans. GOVERNMENT REPORTING ENTITY, Section PS 1300, outlines indicators of control.

.040 A public sector entity participating in such a plan obtains information about the plan as a whole, measured in accordance with this Section on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Section to individual public sector entities within the government reporting entity, the public sector entity would, in its separate or individual financial statements, recognize the net defined benefit cost so charged. If there is no such agreement, arrangement or policy, the net defined benefit cost would be recognized in the separate or individual financial statements of the controlling public sector entity for the plan. The controlled public sector entities would, in their separate or individual financial statements, on a defined contribution basis, recognize a cost equal to their contribution payable for the period.

.041 *The controlled public sector entity should disclose:*

(a) that it accounts on a defined contribution basis in its separate financial statements;

(b) provide details of the controlling public sector entity, and state that, in the controlling public sector entity's consolidated financial statements, accounting is on a defined benefit basis; and

(c) the disclosures required in paragraph PS 3251.172.

.042 *Participation in such a plan is a related party transaction for each participating public sector entity. A public sector entity should therefore, in its separate or individual financial statements, disclose the information required by paragraph PS 3251.172.*

Category-wide plans

.043 *A public sector entity should account for a category-wide plan in the same way as for a multi-employer plan (see paragraphs PS 3251.031-.032 and PS 3251.038).*

.044 Category-wide plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, provincial/territorial or local government or by another body (e.g., an agency created specifically for this purpose). This Section deals only with employee benefits of the public sector entity and does not address accounting for any obligations under category-wide plans related to employees and past employees of entities that are not controlled by the government reporting entity. While public sector entities may establish category-wide plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising in respect of such plans are not addressed in this Section. Some plans established by a public sector entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a category-wide plan, and additional voluntary benefits. Such plans are not category-wide plans.

.045 Many category-wide plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Entities covered by category-wide plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the public sector entity has a legal obligation or liability resulting from a constructive obligation to pay future benefits. If a public sector entity's only obligation is to pay the contributions as they fall due, and the public sector entity has no obligation to pay future benefits, it accounts for that category-wide plan as a defined contribution plan.

.046 A category-wide plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the category-wide plan will be characterized as a defined benefit plan by the controlling entity. Where that presumption is rebutted, the category-wide plan is accounted for as a defined contribution plan.

Joint defined benefit plans

.047 Public sector entities may participate jointly in defined benefit plans where the public sector entity shares the risks and rewards jointly with plan participants. Joint defined benefit plans are governed by a formal agreement, which establishes shared control over the plan. A governing board is generally appointed with equal representation and a mutually agreed-upon chair.

.048 A public sector entity would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the public sector entity and the plan members. The representatives of the public sector entity and plan members have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The significant risks associated with the benefit plan are shared on an equitable basis. Risk would not be considered to be equitably shared in an arrangement where the public sector entity and the other participants fund the plan equally but where the public sector entity retains the full risk of the accrued benefit obligation. If the public sector entity retains the residual risks, it is unlikely that the plan meets the definition of a joint defined benefit plan.

.049 *A public sector entity should account for its participation in a joint defined benefit plan in the same way as for a multi-employer defined benefit plan (see paragraphs PS 3251.032 and PS 3251.038).*

.050 A public sector entity may convert an existing defined benefit plan to a joint defined benefit plan. When converting to a joint plan, a public sector entity would consider any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues, a public sector entity would consider its specific circumstances and the terms of the joint defined benefit plan.

Insured benefits

.051 *A public sector entity may pay insurance premiums to fund a post-employment benefit plan. The public sector entity should treat such a plan as a defined contribution plan unless the public sector entity will have (either directly, or indirectly through the plan) a legal obligation or liability resulting from a constructive obligation either:*

(a) to pay the employee benefits directly when they fall due; or

(b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the public sector entity retains such a legal obligation or liability resulting from a constructive obligation, the public sector entity should treat the plan as a defined benefit plan.

.052 The benefits insured by an insurance policy need not have a direct or automatic relationship with the public sector entity's obligation for employee benefits.

.053 Where a public sector entity funds a post-employment benefit obligation by contributing to an insurance policy under which the public sector entity (either directly, indirectly through the plan, through the mechanism for setting future premiums, or through a related party relationship with the insurer) retains a legal obligation or liability resulting from a constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the public sector entity:

(a) accounts for a **qualifying insurance policy** as a plan asset; and

(b) recognizes other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph PS 3251.139).

.054 Where an insurance policy is in the name of a specified plan participant or a group of plan participants, and the public sector entity does not have any legal obligation or liability resulting from a constructive obligation to cover any loss on the policy, the public sector entity has no obligation to pay benefits to the employees, and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the public sector entity no longer has an asset or a liability. Therefore, a public sector entity treats such payments as contributions to a defined contribution plan.

POST-EMPLOYMENT BENEFITS – DEFINED CONTRIBUTION PLANS

.055 Accounting for defined contribution plans is straightforward because the public sector entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense, and there is no possibility of any **actuarial gains or losses**. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service.

Recognition and measurement

.056 *When an employee has rendered service to a public sector entity during a period, the public sector entity should recognize the contribution payable to a defined contribution plan in exchange for that service:*

(a) as a liability[9] (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, a public sector entity should recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense.

.057 *When contributions to a defined contribution plan are not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service, they should be discounted using a rate consistent with the discount rate for unfunded defined benefit plans as specified in paragraph PS 3251.118.*

Disclosure

.058 *For defined contribution plans, a public sector entity should disclose:*

(a) a general description of the post-employment benefit plan, contribution formulae and funding policy;

(b) the amount recognized as an expense for defined contribution plans; and

(c) a description of significant changes to benefit plans during the period.

.059 The description of significant changes to the post-employment benefit plans during the period and contribution formulae might include:

(a) demographic information about the participants;

(b) information on which employee group(s) are affected; or

(c) a description of the impact of such changes on current and future post-employment benefit obligations and related expenses.

9 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, liabilities for employee benefits would be classified as financial liabilities.

.060 The description of the funding policy might include:

(a) employee and public sector entity contributions during the period;

(b) major types of plan assets including total amounts and the basis for their valuation; and

(c) the extent to which the post-employment benefit plan holds securities of participating public sector and third-party entities.

.061 The level of detail disclosed by public sector entities would reflect the highly aggregated nature of financial statements. In deciding the level of detail to disclose, public sector entities would consider the usefulness of the information to the reader in assessing the nature of, and the costs associated with, a public sector entity's post-employment benefit plans. The level of disclosure would also consider the sensitivity of the information in relation to the public sector entity's financial position.

POST-EMPLOYMENT BENEFITS – DEFINED BENEFIT PLANS

.062 Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Recognition and measurement

.063 Defined benefit plans may be unfunded, or they may be fully or partially funded by contributions by a public sector entity, and sometimes its employees, into an entity, or fund, that is often legally separate from the public sector entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance associated with the contributions provided but also on a public sector entity's ability, and willingness, as well as possibly that of its employees, to make good on any shortfall. Therefore, the public sector entity is, in substance, underwriting actuarial and investment risks associated with the plan. Consequently, the expense recognized for a defined benefit plan is not necessarily just the amount of the contribution due for the period.

.064 Accounting by a public sector entity for defined benefit plans involves the following steps:

(a) Determining the cumulative plan **deficit or surplus**. This involves:

(i) using an actuarial technique, the projected unit credit method, to prepare an estimate that faithfully represents the ultimate cost to the public sector entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs PS 3251.075-.077). This requires a public sector entity to determine how much benefit is attributable to the current and prior periods (see paragraphs PS 3251.078-.082), and to make estimates (actuarial assumptions) about demographic variables (e.g., employee turnover and mortality) and financial variables (e.g., future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs PS 3251.083-.120);

(ii) discounting that benefit in order to determine the **present value of the defined benefit obligation** and the current **service cost** (see paragraphs PS 3251.075-.077 and PS 3251.103-.120); and

(iii) deducting the fair value of any plan assets (see paragraphs PS 3251.136-.138) from the present value of the defined benefit obligation;

(b) Determining the amount of the **net defined benefit liability (asset)** as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the **asset ceiling** (see paragraph PS 3251.072);

(c) Determining amounts to be recognized in annual surplus or deficit:

(i) current service cost (see paragraphs PS 3251.078-.082 and paragraph PS 3251.145);

(ii) any past service cost and gain or loss on settlement (see paragraphs PS 3251.121-.135); and

(iii) **net interest on the net defined benefit liability (asset)** (see paragraphs PS 3251.146-.150);

(d) Determining the **revaluations of the net defined benefit liability (asset)**, to be recognized in net assets,[10] comprising:

(i) actuarial gains and losses (see paragraphs PS 3251.152-.153);

(ii) **return on plan assets**, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph PS 3251.154); and

(iii) any change in the effect of the asset ceiling (see paragraph PS 3251.072), excluding amounts included in net interest on the net defined benefit liability (asset).

Where a public sector entity has more than one defined benefit plan, the public sector entity applies these procedures for each material plan separately.

.065 *A public sector entity should determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.*

.066 When making actuarial assumptions in the measurement of material post-employment benefit obligations, a public sector entity would obtain expert assistance from internal or external sources. One source of expert assistance is the qualified actuary carrying out the actuarial computations. Periodic assessments are needed to ensure that the assumptions continue to be relevant. For practical reasons, a public sector entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

.067 In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations required by this Section.

Accounting for the liability resulting from a constructive obligation

.068 *A public sector entity should account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any liability resulting from a constructive obligation that arises from the public sector entity's informal practices. Informal practices may give rise to a liability resulting from a constructive obligation where the public sector entity has no realistic alternative but to pay employee benefits.*

.069 An example of a liability resulting from a constructive obligation is where a change in the public sector entity's informal practices would cause unacceptable damage to its relationship with employees.

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10 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

.070 The formal terms of a defined benefit plan may permit a public sector entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for a public sector entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that a public sector entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of financial position

.071 *A public sector entity should recognize the net defined benefit liability (asset) as a liability[11] (asset) in the statement of financial position.*

.072 *When a public sector entity has a surplus in a defined benefit plan, it should measure the net defined benefit asset at the lower of:*

(a) the surplus in the defined benefit plan; and

(b) the asset ceiling, determined using the discount rate specified in paragraphs PS 3251.111-.114.

.073 A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. A public sector entity recognizes a net defined benefit asset in such cases because:

(a) the public sector entity controls the economic resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of a transaction that has already occurred (contributions paid by the public sector entity and service rendered by the employee); and

(c) future economic benefits are available to the public sector entity in the form of a reduction in future contributions or a cash refund, either directly to the public sector entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and measurement – Present value of defined benefit obligations and current service cost

.074 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

(a) to apply an actuarial valuation method (see paragraphs PS 3251.075-.077);

(b) to attribute benefit to periods of service (see paragraphs PS 3251.078-.082); and

(c) to make actuarial assumptions (see paragraphs PS 3251.083-.120).

Actuarial valuation method

.075 *A public sector entity should use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.*

.076 The projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs PS 3251.078-.082) and measures each unit separately to build up the final obligation (see paragraphs PS 3251.083-.120).

.077 A public sector entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before 12 months after the reporting period.

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11 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, liabilities for employee benefits would be classified as financial liabilities

Attributing benefit to periods of service

.078 *In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a public sector entity should attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a public sector entity should attribute benefit on a straight-line basis from:*

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until,

(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.

.079 The projected unit credit method requires a public sector entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the **present value of defined benefit obligations**). A public sector entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that a public sector entity expects to pay in future reporting periods. Actuarial techniques allow a public sector entity to measure that obligation in a way that faithfully represents the liability, supporting recognition of the liability.

.080 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (i.e., they are not vested). Employee service before the vesting date gives rise to a liability resulting from a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, a public sector entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits become payable only if a specified event occurs when an employee is no longer employed (e.g., post-employment medical benefits), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation but does not determine whether the obligation exists.

.081 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a public sector entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

.082 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph PS 3251.078(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Actuarial assumptions

.083 *Actuarial assumptions should be unbiased and mutually compatible.*

.084 Actuarial assumptions are a public sector entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) Demographic assumptions about the future characteristics of current and former employees (and their dependents) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) mortality (see paragraphs PS 3251.089-.090);

(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependents who will be eligible for benefits;

(iv) the proportion of plan members who will select each form of payment option available under the plan terms; and

(v) claim rates under medical plans.

(b) Financial assumptions, dealing with items such as:

(i) the discount rate (see paragraphs PS 3251.103-.120);

(ii) benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs PS 3251.091-.099);

(iii) in the case of medical benefits, future medical costs, including claim handling costs (i.e., the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs PS 3251.100-.102); and

(iv) taxes payable by the plan on contributions relating to service before the end of the reporting period or on benefits resulting from that service.

.085 Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

.086 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

.087 A public sector entity determines the discount rate and other financial assumptions in nominal (stated) terms.

.088 *Financial assumptions should be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.*

Actuarial assumptions – Mortality

.089 *A public sector entity should determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.*

.090 In order to estimate the ultimate cost of the benefit, a public sector entity takes into consideration expected changes in mortality, for example, by modifying standard mortality tables with estimates of mortality improvements.

Actuarial assumptions – Salaries, benefits and medical costs

.091 *A public sector entity should measure its defined benefit obligations on a basis that reflects:*

- *(a) the benefits set out in the terms of the plan (or any liability resulting from a constructive obligation that goes beyond those terms) at the end of the reporting period;*
- *(b) any estimated future salary increases that affect the benefits payable;*
- *(c) the effect of any limit on the public sector entity's share of the cost of the future benefits;*
- *(d) contributions from employees or third parties that reduce the ultimate cost to the public sector entity of those benefits; and*
- *(e) estimated future changes in the level of benefit entitlements from public pensions as per paragraph PS 3251.099 that affect the benefits payable under a defined benefit plan, if, and only if, either:*
  - *(i) those changes were enacted before the end of the reporting period; or*
  - *(ii) historical data, or other reliable evidence, indicate that those benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.*

.092 Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a liability resulting from a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

- (a) the public sector entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;
- (b) the public sector entity is obliged, by either the formal terms of a plan (or a liability resulting from a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph PS 3251.131(c)); or
- (c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

.093 Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a liability resulting from a constructive obligation) at the end of the reporting period. Such changes will result in:

- (a) past service cost, to the extent that they change benefits for service before the change; and
- (b) current service cost for periods after the change, to the extent that they change benefits for service after the change.

.094 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

.095 Some defined benefit plans limit the contributions that a public sector entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

- (a) the estimated life of the public sector entity; and
- (b) the estimated life of the plan.

.096 Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the public sector entity. A public sector entity considers whether third-party contributions reduce the cost of the benefits to the public sector entity, or are a reimbursement right as described in paragraph PS 3251.139. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a liability resulting from a constructive obligation that goes beyond those terms) or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

.097 Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service) or affect revaluations of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:

(a) if the amount of the contributions is dependent on the number of years of service, a public sector entity would attribute the contributions to periods of service using the same attribution method required by paragraph PS 3251.078 for the gross benefit (i.e., either using the plan's contribution formula or on a straight-line basis); or

(b) if the amount of the contributions is independent of the number of years of service, the public sector entity is permitted to recognize such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

.098 For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph PS 3251.097(a), changes in the contributions result in:

(a) current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a liability resulting from a constructive obligation); or

(b) actuarial gains and losses (if those changes are set out in the formal terms of a plan or arise from a liability resulting from a constructive obligation).

.099 Some post-employment benefits are linked to variables such as the level of benefit entitlements from public pensions or provincial and territorial health care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

.100 *Assumptions about medical costs should take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.*

.101 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. A public sector entity estimates future medical costs on the basis of historical data about the public sector entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care use or delivery patterns and changes in the health status of plan participants.

.102 The level and frequency of claims is particularly sensitive to the age, health status and gender of employees (and their dependents), and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Actuarial assumptions – Discount rate

.103 The rate used to discount post-employment benefit obligations should reflect the time value of money.

.104 One actuarial assumption that has a material effect is the discount rate. When determining the discount rate, consideration of the funding status of the post-employment benefit plan is required, as outlined in paragraphs PS 3251.105-.110.

Actuarial assumptions – Discount rate: Funding status

.105 The funding status of a post-employment benefit plan can range from fully funded, whereby sufficient plan assets have been set aside to fulfill its post-employment benefit obligations to current plan members and their beneficiaries, to unfunded, where no plan assets have been set aside and post-employment benefit obligations are fulfilled on a pay-as-you-go basis. Between the two ends of the spectrum are partially funded plans.

.106 *A public sector entity should, at the end of each fiscal year-end, assess the funding status of a post-employment benefit plan to determine the appropriate rate for discounting the associated obligations.*

.107 To assess the funding status of each of its post-employment benefit plans in accordance with paragraph PS 3251.106, a public sector entity would determine:

(a) the balance of post-employment benefit plan assets, at the end of the reporting period (also referred to as the "funding assessment date"), and the projected balance of post-employment benefit plan assets at the end of each subsequent reporting period using the expected market-based return on plan assets, assuming those plan assets are invested on an ongoing basis. For this funding status assessment, the projected plan assets balance would include projected cash flows related to current plan members as of the funding assessment date (e.g., contributions for current plan members in each projected future period). It would exclude projected cash flows related to future plan members (e.g., projected contributions from future plan members intended to satisfy projected post-employment benefits for current plan members). For each subsequent reporting period, the public sector entity would deduct the amount of projected benefit payments (per paragraph PS 3251.107(b)) from the reporting period's opening plan assets balance; and

(b) the amount of projected benefit payments expected to fulfill the obligations due to the plan's current members at the end of the reporting period (also referred to as the "funding assessment date"), and projected for each subsequent reporting period, determined in accordance with the projected unit credit method (per PS 3251.075-.082) and actuarial assumptions (per PS 3251.083-.102).

.108 Where the balance of plan assets for a post-employment benefit plan is projected to be greater than or equal to the benefit payments expected to fulfill the obligations for all subsequent reporting periods, as determined in accordance with paragraph PS 3251.107, the plan is fully funded and would apply a discount rate determined in accordance with paragraph PS 3251.111.

.109 Where the balance of plan assets for a post-employment benefit plan is not projected to be greater than or equal to the benefit payments expected to fulfill the obligations for all subsequent reporting periods, as determined in accordance with paragraph PS 3251.107, it is presumed that the plan is partially funded unless persuasive evidence as outlined in paragraph PS 3251.110 supports a fully funded status. A partially funded plan would apply a discount rate determined in accordance with paragraph PS 3251.116.

.110 A fully funded post-employment benefit plan may not consistently have 100 percent of the benefit obligation funded. Given the long-term nature of benefit obligations, temporary funding shortfalls may imply a short-term change in a plan's funding status or in the proportion of projected benefit payments to be satisfied by plan assets. In such circumstances, persuasive evidence may exist to rebut a presumptive partially funded status or a change in the proportion of projected benefit payments to be satisfied by plan assets as determined by paragraphs PS 3251.107 and PS 3251.109. This would result in a public sector entity continuing either to account for the plan on a fully funded basis, in accordance with paragraph PS 3251.111, or to maintain a previously determined partially funded discount rate, as determined in accordance with paragraph PS 3251.116. A public sector entity's assessment to rebut an implied change would consider the following factors:

(a) The public sector entity's funding policy – Does the public sector entity have a formal funding policy as set out in legislation, by-laws or contractual agreement that requires sufficient plan assets to be set aside to provide for a specified proportion of post-employment benefits?

(b) The public sector entity's practices – Is the public sector entity demonstrably committed to ensuring sufficient assets are set aside to provide for a specified portion of the post-employment benefits including:

(i) The public sector entity's corrective actions – When plan assets are considered insufficient to provide for post-employment benefits and the public sector entity has determined the insufficiency is not the result of a temporary situation, are actions taken by the public sector entity to correct the shortfall in a timely manner?

(ii) The public sector entity's accuracy in assessing historical fluctuations – The public sector entity has demonstrated an ability to accurately assess fluctuations in plan assets including the balance of projected plan assets to determine if shortfalls are the result of permanent or temporary fluctuations. Historical evidence may indicate if assessments have been accurate.

(iii) The public sector entity's historical actions – Is there historical evidence of the plan being consistently unfunded or underfunded, despite corrective actions taken, while the public sector entity's formal funding policy requires sufficient plan assets to be set aside or the public sector entity has persuasive evidence to support its intention to ensure sufficient plan assets are set aside?

In addition to the factors outlined in paragraphs PS 3251.110(a)-(b), professional judgment may be required to assess the unique circumstances and characteristics of a post-employment benefit plan in determining funding status.

Actuarial assumptions – Discount rate: Fully funded plans

.111 *For fully funded plans, the time value of money is interpreted as a discount rate that approximates the expected market-based return, at the end of the reporting period, on plan assets.*

.112 For post-employment benefit plans that are expected to be fully funded by plan assets, the discount rate used to discount the post-employment benefit obligation would reflect the economic substance of the benefit plan arrangement. In these cases, the public sector entity projects sufficient plan assets to be set aside solely for fulfilling the obligation. These assets are invested following an investment strategy designed to fulfill benefit payments to current plan members and their beneficiaries.

.113 In determining the expected market-based return on plan assets, the public sector entity's expected investment return on the assets of the plan at the end of the reporting period and any known changes to be made to the investment policy after the end of the reporting period would be considered.

.114 The expected market-based return on plan assets would be calculated in a manner that maximizes the use of relevant, observable, and verifiable inputs at the end of the reporting period and minimizes the use of unobservable inputs.

Actuarial assumptions – Discount rate: Partially funded plans

.115 In some cases, post-employment benefit plans may contain a portion of the plan's post-employment benefits that are funded by plan assets and a portion that are unfunded. These types of plans are referred to as "partially funded plans".

.116 *For post-employment benefit plans that are partially funded, a public sector entity should apply a single discount rate that reflects:*

(a) for periods where the balance of plan assets is projected to be greater than or equal to projected benefit payments for the period as determined by paragraphs PS 3251.107-.110, the expected market-based return on plan assets, consistent with paragraphs PS 3251.111-.114; and

(b) for periods where the balance of plan assets is not projected to be greater than or equal to projected benefit payments for the period as determined by paragraphs PS 3251.107-.110, the market yields of provincial government bonds, consistent with paragraphs PS 3251.118-.120.

.117 The single discount rate applied to a partially funded plan would be the single rate of return that, when applied to the plan, as a whole, results in a present value of the defined benefit obligation equal to the total of the present values determined if the rates outlined in paragraphs PS 3251.116 (a)-(b) were applied to each portion of the plan independently independently in accordance with the public sector entity's funding assessment (as per paragraph PS 3251.107).

Actuarial assumptions – Discount rate: Unfunded plans

.118 *For unfunded plans, the time value of money is interpreted as a discount rate determined by reference to market yields at the end of the reporting period on provincial government bonds with cash flows that are consistent with the timing and amount of expected benefit payments required to satisfy the post-employment benefit obligations.*

.119 The discount rate applied for unfunded plans reflects the time value of money, excluding of actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the public sector entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

.120 The discount rate reflects the estimated timing of benefit payments. In practice, a public sector entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Past service cost and gains and losses on settlement

.121 *When determining past service cost, or a gain or loss on settlement, a public sector entity should revalue the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices), reflecting:*

(a) the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and

(b) the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.

.122 A public sector entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when a public sector entity changes the benefits under the plan and settles the amended benefits later. In those cases, a public sector entity recognizes past service cost before any gain or loss on settlement.

.123 A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

.124 When a plan amendment, curtailment or settlement occurs, a public sector entity would recognize and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs PS 3251.121-.135. In doing so, a public sector entity would not consider the effect of the asset ceiling. A public sector entity would then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and would recognize any change in that effect in accordance with paragraph PS 3251.064(d).

Past service cost

.125 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

.126 *A public sector entity should recognize past service cost as an expense at the earlier of the following dates:*

(a) when the plan amendment or curtailment occurs; and

(b) when the entity recognizes related termination benefits (see paragraph PS 3251.191).

.127 A plan amendment occurs when a public sector entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

.128 A curtailment occurs when a public sector entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

.129 Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

.130 Where a public sector entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the public sector entity treats the change as a single net change.

.131 Past service cost excludes:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) underestimates and overestimates of discretionary pension increases when a public sector entity has a liability resulting from a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognized in the financial statements if the public sector entity is obliged, by either the formal terms of a plan (or a liability resulting from a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph PS 3251.092); and

(d) the increase in vested benefits (i.e., benefits that are not conditional on future employment, see paragraph PS 3251.080) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the public sector entity recognized the estimated cost of benefits as current service cost as the service was rendered).

Gains and losses on settlement

.132 The gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) the settlement price, including any plan assets transferred and any payments made directly by the public sector entity in connection with the settlement.

.133 *A public sector entity should recognize a gain or loss on the settlement of a defined benefit plan when the settlement occurs.*

.134 A settlement occurs when a public sector entity enters into a transaction that eliminates all further legal obligation or liability resulting from a constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant public sector entity obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

.135 In some cases, a public sector entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the public sector entity retains a legal obligation or liability resulting from a constructive obligation (see paragraph PS 3251.051) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs PS 3251.139-.142 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and measurement – Plan assets

Fair value of plan assets

.136 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the cumulative plan deficit or surplus.

.137 Plan assets exclude unpaid contributions due from the public sector entity to the fund, as well as any non-transferable financial instruments issued by the public sector entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

.138 Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

.139 *When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, a public sector entity should:*

(a) recognize its right to reimbursement as a separate asset. The public sector entity should measure the asset at fair value.

(b) disaggregate and recognize changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs PS 3251.148 and PS 3251.150). The components of defined benefit cost recognized in accordance with paragraph PS 3251.143 may be recognized net of amounts relating to changes in the carrying amount of the right to reimbursement.

.140 Sometimes, a public sector entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies are plan assets. A public sector entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph PS 3251.139 is not relevant (see paragraphs PS 3251.051-.054 and PS 3251.138).

.141 When an insurance policy held by a public sector entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph PS 3251.139 is relevant to such cases: the public sector entity recognizes its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph PS 3251.162(b) requires the public sector entity to disclose a brief description of the link between the reimbursement right and the related obligation.

.142 If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of defined benefit cost

.143 *A public sector entity should recognize the components of defined benefit cost, except to the extent they are recognized within the cost of assets or liabilities under TANGIBLE CAPITAL ASSETS, Section PS 3150, PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, or ASSET RETIREMENT OBLIGATIONS, Section PS 3280, as follows:*

(a) service cost (see paragraphs PS 3251.074-.135 and paragraph PS 3251.145) in surplus or deficit;

(b) net interest on the net defined benefit liability (asset) (see paragraphs PS 3251.146-.150) in surplus or deficit; and

(c) revaluations of the net defined benefit liability (asset) (see paragraphs PS 3251.151-.154) in net assets.[12]

.144 *Revaluations of the net defined benefit liability (asset) recognized in net assets*[12] *should not be reclassified to surplus or deficit in a subsequent period.*

Current service cost

.145 *A public sector entity should determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if a public sector entity revalues the net defined benefit liability (asset) in accordance with paragraph PS 3251.121, it should determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to revalue the net defined benefit liability (asset) in accordance with paragraph PS 3251.121(b).*

Net interest on the net defined benefit liability (asset)

.146 *A public sector entity should determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate used for the defined benefit obligation in accordance with paragraphs PS 3251.107-.110.*

.147 *To determine net interest in accordance with paragraph PS 3251.146, a public sector entity should use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if a public sector entity revalues the net defined benefit liability (asset) in accordance with paragraph PS 3251.121, the public sector entity should determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:*

(a) the net defined benefit liability (asset) determined in accordance with paragraph PS 3251.121(b); and

(b) the discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph PS 3251.121(b).

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12 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

In applying this paragraph, the public sector entity should also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

.148 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph PS 3251.072.

.149 Interest revenue on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph PS 3251.147. A public sector entity would determine the fair value of the plan assets at the start of the reporting period. However, if a public sector entity revalues the net defined benefit liability (asset) in accordance with paragraph PS 3251.121, the public sector entity would determine interest revenue for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to revalue the net defined benefit liability (asset) in accordance with paragraph PS 3251.121(b). The public sector entity would also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the revaluation of the net defined benefit liability (asset).

.150 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph PS 3251.147(b). A public sector entity would determine the effect of the asset ceiling at the start of the annual reporting period. However, if a public sector entity revalues the net defined benefit liability (asset) in accordance with paragraph PS 3251.121, the public sector entity would determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph PS 3251.124. The difference between interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the revaluation of the net defined benefit liability (asset).

Revaluations of the net defined benefit liability (asset)

.151 Revaluations of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses (see paragraphs PS 3251.152-.153);

(b) the return on plan assets (see paragraph PS 3251.154), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph PS 3251.149); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph PS 3251.150).

.152 Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

(a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) the effect of changes to assumptions concerning benefit payment options;

(c) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) the effect of changes in the discount rate.

.153 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

.154 In determining the return on plan assets, a public sector entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph PS 3251.084). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

.155 *A public sector entity should offset an asset relating to one plan against a liability relating to another plan when, and only when, the public sector entity:*

- *(a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and*
- *(b) intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously.*

Components of defined benefit cost

.156 Paragraph PS 3251.143 requires a public sector entity to recognize service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. This standard does not specify how a public sector entity would present service cost and net interest on the net defined benefit liability (asset). A public sector entity presents those components in accordance with FINANCIAL STATEMENT PRESENTATION, Section PS 1201.[13]

Disclosure

.157 For defined benefit plans, a public sector entity would disclose information that:

- (a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph PS 3251.161);
- (b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs PS 3251.162-.166); and
- (c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the public sector entity's future cash flows (see paragraphs PS 3251.167-.169).

.158 The level of detail disclosed by a public sector entity reflects the highly aggregated nature of the financial statements. In deciding on the level of detail to disclose, public sector entities consider the usefulness of the information to assessing the nature and extent of a public sector entity's employee benefits obligations. Full disclosure is particularly important when the obligations depend heavily on judgment and estimates.

.159 For example, a public sector entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

- (a) between amounts owing to active members, deferred members and pensioners.
- (b) between vested benefits and accrued but not vested benefits.
- (c) between conditional benefits, amounts attributable to future salary increases and other benefits.

13 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, a public sector entity would present the components of present service cost and net interest on the net defined benefit liability (asset) in accordance with proposed Section PS 1202.

.160 A public sector entity would assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, a public sector entity may disaggregate disclosure about plans showing one or more of the following features:

(a) different geographical locations;

(b) different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans;

(c) different regulatory environments;

(d) different reporting units; or

(e) different funding arrangements (e.g., wholly unfunded, wholly or partially funded).

Characteristics of defined benefit plans and risks associated with them

.161 *A public sector entity should disclose:*

(a) information about the characteristics of its defined benefit plans, including:

(i) the nature of the benefits provided by the plan (e.g., final salary defined benefit plan or contribution-based plan with guarantee).

(ii) a description of the regulatory framework in which the plan operates (e.g., the level of any minimum funding requirements), and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph PS 3251.072).

(iii) a description of any other entity's responsibilities for the governance of the plan (e.g., responsibilities of trustees or of management of the plan).

(b) a description of the risks to which the plan exposes the public sector entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments (e.g., property), the plan may expose the public sector entity to a concentration of property market risk.

(c) a description of any plan amendments, curtailments and settlements.

(d) the basis on which the discount rate has been determined, including:

(i) the funding status of the plan for purposes of selecting a discount rate basis and relevant supporting information;

(ii) the key assumptions and estimates used in the projection of the plan assets balance and projected benefit payment amounts per paragraph PS 3251.107; and

(iii) the methodology applied in selecting which discount rate to apply including significant methods and key assumptions used. In addition, for partially funded plans, the methodology for both the funded and unfunded discount rates used in the calculation of, and the resulting single discount rate determined in accordance with paragraph PS 3251.116.

Explanation of amounts in the financial statements

.162 *A public sector entity should provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:*

(a) the net defined benefit liability (asset), showing separate reconciliations for:

(i) plan assets;

(ii) the present value of the defined benefit obligation; and

(iii) the effect of the asset ceiling.

(b) *any reimbursement rights. A public sector entity should also describe the relationship between any reimbursement right and the related obligation.*

.163 Each reconciliation listed in paragraph PS 3251.162 would show each of the following, if applicable:

(a) current service cost;

(b) interest revenue or expense;

(c) revaluations of the net defined benefit liability (asset), showing separately:

(i) The return on plan assets, excluding amounts included in interest in (b).

(ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph PS 3251.084(a)).

(iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph PS 3251.084(b)).

(iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). A public sector entity would also disclose how it determined the maximum economic benefit available (i.e., whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both);

(d) past service cost and gains and losses arising from settlements. As permitted by paragraph PS 3251.122, past service cost and gains and losses arising from settlements need not be distinguished if they occur together;

(e) contributions to the plan, showing separately those by the employer and by plan participants;

(f) payments from the plan, showing separately the amount paid in respect of any settlements; and

(g) the effects of public sector combinations and disposals.

.164 A public sector entity would disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan assets into those that have a quoted market price in an active market and those that do not. For example, considering the level of disclosure discussed in paragraph PS 3251.158, a public sector entity could distinguish between:

(a) cash and cash equivalents;

(b) equity instruments (segregated by industry type, company size, geography, etc.);

(c) debt instruments (segregated by type of issuer, credit quality, geography, etc.);

(d) real estate (segregated by geography, etc.);

(e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps, etc.);

(f) investment funds (segregated by type of fund);

(g) asset-backed securities; and

(h) structured debt.

.165 A public sector entity would disclose the fair value of the public sector entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the public sector entity.

.166 A public sector entity would disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph PS 3251.084). Such disclosure would be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables). When a public sector entity provides disclosures in total for a grouping of plans, it would provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

.167 *A public sector entity should disclose:*

- *(a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph PS 3251.166) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date;*
- *(b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods; and*
- *(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.*

.168 A public sector entity would disclose a description of any asset-liability matching strategies used by the plan or the public sector entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

.169 To provide an indication of the effect of the defined benefit plan on the public sector entity's future cash flows, a public sector entity would disclose:

- (a) a description of any funding arrangements and funding policy that affect future contributions;
- (b) the expected contributions to the plan for the next reporting period; and
- (c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-employer plans

.170 *If a public sector entity participates in a multi-employer defined benefit plan, it should disclose:*

- *(a) a description of the funding arrangements, including the method used to determine the public sector entity's rate of contributions and any minimum funding requirements;*
- *(b) a description of the extent to which the public sector entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan;*
- *(c) a description of any agreed allocation of a deficit or surplus on:*
  - *(i) settlement of the plan; or*
  - *(ii) the public sector entity's withdrawal from the plan; and*
- *(d) if the public sector entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph PS 3251.033, it should disclose the following, in addition to the information required by (a)-(c) and instead of the information required by paragraphs PS 3251.161-.169:*
  - *(i) the fact that the plan is a defined benefit plan;*

(ii) *the reason why sufficient information is not available to enable the public sector entity to account for the plan as a defined benefit plan;*

(iii) *the expected contributions to the plan for the next reporting period;*

(iv) *information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the public sector entity; and*

(v) *an indication of the level of participation of the public sector entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the public sector entity's proportion of the total contributions to the plan or the public sector entity's proportion of the total number of active members, retired members and former members entitled to benefits, if that information is available.*

Joint defined benefit plans

.171 *For joint defined benefit plans, in addition to the disclosures required in paragraphs PS 3251.157-.169, a public sector entity should disclose:*

(a) *the significant accounting policies for joint defined benefit plans;*

(b) *a description of the unique nature and terms of any joint defined benefit plans;*

(c) *the public sector entity's share of the risks and benefits under the plans; and*

(d) *the total financial status of any joint defined benefit plans.*

Defined benefit plans that share risks between public sector entities under common control

.172 *If a public sector entity participates in a defined benefit plan that shares risks between public sector entities under common control, it should disclose:*

(a) *the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;*

(b) *the policy for determining the contribution to be paid by the public sector entity;*

(c) *if the public sector entity accounts for an allocation of the net defined benefit cost as noted in paragraph PS 3251.040, all the information about the plan as a whole required by paragraphs PS 3251.157-.169; and*

(d) *if the public sector entity accounts for the contribution payable for the period as noted in paragraph PS 3251.040, the information about the plan as a whole required by paragraphs PS 3251.157-.159, PS 3251.161, PS 3251.164-.166 and PS 3251.169(a)-(b).*

.173 RELATED PARTY DISCLOSURES, Section PS 2200, contains disclosure requirements that may be relevant for post-employment benefit plans.

.174 CONTINGENT LIABILITIES, Section PS 3300, contains disclosure requirements that may be relevant for post-employment benefit plans.

OTHER LONG-TERM EMPLOYEE BENEFITS

.175 Other long-term employee benefits include items such as the following, if not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service:

(a) long-term paid absences such as long-service or sabbatical leave;

(b) other long-service benefits;

(c) long-term disability benefits;

(d) bonuses;

(e) deferred remuneration; and

(f) compensation payable by the public sector entity until an individual enters new employment.

.176 The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, a simplified method of accounting for other long-term employee benefits is required. Unlike the accounting required for post-employment benefits, this method does not recognize revaluations in net assets.

.177 There is a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the public sector entity considers whether some or all long-term disability payments should be accounted for in accordance with paragraphs PS 3251.062-.174.

Recognition and measurement

.178 *In recognizing and measuring the surplus or deficit in a other long-term employee benefit plan, a public sector entity should apply paragraphs PS 3251.063-.120 and PS 3251.136-.138.*

.179 *A public sector entity should apply paragraphs PS 3251.139-.142 in recognizing and measuring any reimbursement right.*

.180 *For other long-term employee benefits, a public sector entity should recognize the net total of the following amounts in surplus or deficit, except to the extent they are recognized within the cost of assets or liabilities under TANGIBLE CAPITAL ASSETS, Section PS 3150, PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, or ASSET RETIREMENT OBLIGATIONS, Section PS 3280:*

(a) service cost (see paragraphs PS 3251.074-.135 and paragraph PS 3251.145);

(b) net interest on the net defined benefit liability (asset) (see paragraphs PS 3251.146-.150); and

(c) revaluations of the net defined benefit liability (asset) (see paragraphs 3251.151-.154).

.181 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required, and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability.

Disclosure

.182 *For other long-term employee benefits, financial statements should report employee benefit expense by function on the statement of operations and employee benefit liabilities[14] as a separate line on the statement of financial position.*

.183 *Financial statements should also disclose:*

(a) adequate information about the nature and terms of a public sector entity's liabilities related to employee benefits; and

(b) the employee benefit expense of the accounting period recognized in the statement of operations by object in the notes or schedules.

.184 Public sector entities are also encouraged to disclose:

(a) a general description of the other long-term employee benefits;

(b) information about key assumptions;

14 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, liabilities for employee benefits would be classified as financial liabilities.

(c) a reconciliation of assets and liabilities from the beginning of a fiscal period to the end of a fiscal period; and

(d) the expense for the period.

TERMINATION BENEFITS

.185 Termination benefits are considered separately from other employee benefits because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either a public sector entity's decision to terminate the employment or an employee's decision to accept a public sector entity's offer of benefits in exchange for termination of employment.

.186 Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without a public sector entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some public sector entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the public sector entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the public sector entity is a termination benefit.

.187 The form of the employee benefit does not determine whether it is in exchange provided for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

(a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly; or

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the public sector entity.

.188 For example, indicators that an employee benefit is provided in exchange for services, and would not be a termination benefit, include the following:

(a) the benefit is conditional on future service being provided (including benefits that increase if further service is provided); or

(b) the benefit is provided in accordance with the terms of an employee benefit plan.

.189 Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the public sector entity's past practice of providing similar benefits. As another example, if a public sector entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the public sector entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from a public sector entity's decision to terminate an employee's employment and are not conditional on future service being provided.

.190 Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Such benefits are post-employment benefits rather than termination benefits, and a public sector entity accounts for them as post-employment benefits.

Recognition

.191 *A public sector entity should recognize a liability and expense for termination benefits when the public sector entity can no longer withdraw the offer of those benefits.*

.192 For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when a public sector entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) when the employee accepts the offer; and

(b) when a restriction (e.g., a legal, regulatory or contractual requirement or other restriction) on the public sector entity's ability to withdraw the offer takes effect. This would be when the offer is made if the restriction existed at the time of the offer.

.193 For termination benefits payable as a result of a public sector entity's decision to terminate an employee's employment, the public sector entity can no longer withdraw the offer when the public sector entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;

(b) the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and

(c) the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

.194 When a public sector entity recognizes termination benefits, the public sector entity may also have to account for past service costs resulting from a plan amendment or a curtailment of other employee benefits (see paragraph PS 3251.126).

Measurement

.195 *A public sector entity should measure termination benefits on initial recognition, and should measure and recognize subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the public sector entity should apply the requirements for post-employment benefits. Otherwise:*

(a) if the termination benefits are expected to be settled within 12 months after the end of the reporting period in which the termination benefit is recognized, the public sector entity should apply the requirements for short-term employee benefits.

(b) if the termination benefits are not expected to be settled within 12 months after the end of the reporting period, the public sector entity should apply the requirements for other long-term employee benefits.

.196 Because termination benefits are not provided in exchange for service, paragraphs PS 3251.078-.082 relating to the attribution of the benefit to periods of service are not relevant.

Disclosure

.197 *For termination benefits, financial statements should report employee benefit expense by function on the statement of operations and employee benefit liabilities[15] as a separate line on the statement of financial position.*

15 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, liabilities for employee benefits would be classified as financial liabilities.

.198 *Financial statements should also disclose:*

(a) adequate information about the nature and terms of a public sector entity's liabilities related to employee benefits; and

(b) the employee benefit expense of the accounting period recognized in the statement of operations by object in the notes or schedules.

.199 Public sector entities are also encouraged to disclose:

(a) a general description of the termination benefits;

(b) information about key assumptions;

(c) a reconciliation of assets and liabilities from the beginning of a fiscal period to the end of a fiscal period; and

(d) the expense for the period.

The reconciliation of assets and liabilities would specifically identify the effects of termination benefits. Similarly, the expense for the period would specifically identify the amount due to termination benefits.

TRANSITIONAL PROVISIONS

.200 This Section applies to fiscal years beginning on or after April 1, 2026.

.201 *This Section should be applied retroactively.*

.202 A description of retroactive application is provided in ACCOUNTING CHANGES, Section PS 2120, except that:

(a) a public sector entity need not adjust the carrying amount of assets outside the scope of this Section for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the public sector entity adopts this Section.

(b) in financial statements for periods beginning before April 1, 2026, a public sector entity need not present comparative information for the disclosures required by paragraph PS 3251.167 about the sensitivity of the defined benefit obligation.

GLOSSARY

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

(b) the effects of changes in actuarial assumptions.

The **asset ceiling** is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the public sector entity) that:

(a) are held by an entity (a fund) that is legally separate from the public sector entity and exists solely to pay or fund employee benefits; and

(b) are available to be used only to pay or fund employee benefits, are not available to the public sector entity's own creditors (even in bankruptcy), and cannot be returned to the public sector entity, unless either:

(i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the public sector entity; or

(ii) the assets are returned to the public sector entity to reimburse it for employee benefits already paid.

Category-wide plans are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

The **deficit or surplus** is:

(a) the present value of the defined benefit obligation less

(b) the fair value of plan assets (if any).

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans are post-employment benefit plans under which a public sector entity pays fixed contributions into a separate entity (a fund) and will have no legal obligation or liability resulting from a constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Employee benefits are all forms of consideration given by a public sector entity in exchange for service rendered by employees or for the termination of employment.

A **joint defined benefit plan** is a contractual agreement between the public sector entity and other parties representing plan participants that has all of the following characteristics:

(a) co-operation toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the public sector entity and the plan members, or the representatives thereof;

(c) the public sector entity and representatives for plan members share control of decisions related to the administration of the post-employment benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the post-employment benefit plan are shared on an equitable basis between the public sector entity and the plan members, or the representatives thereof.

The contractual arrangement establishes that the parties have shared control over the post-employment benefit plan and ensures that neither party is in a position to control the plan unilaterally. Overall, there must be an equitable relationship among:

(a) the funding by the public sector entity of the post-employment benefit plan;

(b) the extent of control it is able to exercise over the plan; and

(c) the risks and benefits that accrue to the public sector entity from the plan.

Multi-employer plans are defined contribution plans (other than category-wide plans) or defined benefit plans (other than category-wide plans) that:

(a) pool the assets contributed by various entities that are not under common control; and

(b) use those assets to provide benefits to employees of more than one entity.

The **net defined benefit liability (asset)** is the cumulative plan deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Plan assets comprise:

(a) **assets held by a long-term employee benefit fund;** and

(b) qualifying insurance policies.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a public sector entity provides post-employment benefits for one or more employees.

The **present value of a defined benefit obligation** is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

A **qualifying insurance policy** is an insurance policy[16] issued by an insurer that is not a related party (as defined in RELATED PARTY DISCLOSURES, Section PS 2200) of the public sector entity, if the proceeds of the policy:

(a) can be used only to pay or fund employee benefits under a defined benefit plan; and

(b) are not available to the public sector entity's own creditors (even in bankruptcy) and cannot be paid to the public sector, unless either:

  (i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

  (ii) the proceeds are returned to the public sector entity to reimburse it for employee benefits already paid.

The **return on plan assets** is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less:

(a) any costs of managing the plan assets; and

(b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

Revaluations of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Service cost comprises:

(a) current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

(b) past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the public sector entity in the number of employees covered by a plan); and

(c) any gain or loss on settlement.

16 A qualifying insurance policy is not necessarily an insurance contract. The facts and circumstances of the terms of a legally binding agreement or insurance policy would need to be assessed to determine if it qualifies as a plan asset. Such assessment would consider ASSETS, Section PS 3210, CONTRACTUAL RIGHTS, Section PS 3380, and CONTRACTUAL OBLIGATIONS, Section PS 3390.

A **settlement** is a transaction that eliminates all further legal obligations or liabilities resulting from constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the reporting period in which the employees render the related service.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

(a) a public sector entity's decision to terminate an employee's employment before the normal retirement date; or

(b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

APPENDIX

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

The examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

Table of Contents **Paragraphs**

Accounting for a multi-employer plan (paragraph PS 3251.036)

Example 1

A1 Local Government Unit A participates in a multi-employer defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other local government units participating in the plan, there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual local government units participating in the plan. Local Government Unit A therefore accounts for the plan as if it were a defined contribution plan.

A2 Local Government Unit A recognizes a liability for the contributions in its financial statements.

Projected unit credit method (paragraph PS 3251.077)

Example 2

A3 A lump sum benefit is payable on termination of service and equal to 1 percent of final salary for each year of service. The salary in Year 1 is $10,000 and is assumed to increase at 7 percent (compound) each year. The discount rate used is 10 percent per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of Year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the public sector entity at an earlier or later date.

Year	*1*	*2*	*3*	*4*	*5*
Benefit attributed to:					
– prior years	0	131	262	393	524
– current year (1% of final salary)	131	131	131	131	131
– current and prior years	131	262	393	524	655
Year	*1*	*2*	*3*	*4*	*5*
Opening obligation	–	89	196	324	476
Interest at 10%	–	9	20	33	48
Current service cost	89	98	108	119	131
Closing obligation	89	196	324	476	655

Notes:

1. The opening obligation is the present value of benefit attributed to prior years.
2. The current service cost is the present value of benefit attributed to the current year.
3. The closing obligation is the present value of benefit attributed to current and prior years.

Attributing benefit to years of service (paragraph PS 3251.079)

Example 3

A4 A defined benefit plan provides a lump sum benefit of $100 payable on retirement for each year of service.

A5 A benefit of $100 is attributed to each year. The current service cost is the present value of $100. The present value of the defined benefit obligation is the present value of $100, multiplied by the number of years of service up to the end of the reporting period.

A6 If the benefit is payable immediately when the employee leaves the public sector entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

Example 4

A7 A plan provides a monthly pension of 0.2 percent of final salary for each year of service. The pension is payable from the age of 65.

A8 A benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2 percent of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2 percent of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

Vesting and non-vesting benefits (paragraph PS 3251.080)

Example 5

A9 A plan pays a benefit of $100 for each year of service. The benefits vest after 10 years of service.

A10 A benefit of $100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

Example 6

A11 A plan pays a benefit of $100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

A12 No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of $100 is attributed to each subsequent year.

Attributing benefits to accounting periods (paragraphs PS 3251.081-.082)

Example 7

A13 A plan pays a lump sum benefit of $1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

A14 A benefit of $100 ($1,000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

Example 8

A15 A plan pays a lump sum retirement benefit of $2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

A16 For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the public sector entity attributes benefit of $100 ($2,000 divided by 20) to each year from the age of 35 to the age of 55.

A17 For employees who join between the ages of 35 and 45, service beyond 20 years will lead to no material amount of further benefits. For these employees, the public sector entity attributes benefit of $100 ($2,000 divided by 20) to each of the first 20 years.

A18 For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the public sector entity attributes benefit of $200 ($2,000 divided by 10) to each of the first 10 years.

A19 For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

Example 9

A20 A post-employment medical plan reimburses 40 percent of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50 percent of those costs if the employee leaves after 20 or more years of service.

A21 Under the plan's benefit formula, the public sector entity attributes 4 percent of the present value of the expected medical costs (40 percent divided by 10) to each of the first ten years and 1 percent (10 percent divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

Example 10

A22 A post-employment medical plan reimburses 10 percent of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50 percent of those costs if the employee leaves after 20 or more years of service.

A23 Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the public sector entity attributes benefit on a straight-line basis under paragraph PS 3251.079. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5 percent of the present value of the expected medical costs (50 percent divided by 20).

A24 For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1 percent of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the 10th year and the estimated date of leaving.

For employees expected to leave within 10 years, no benefit is attributed.

Example 11

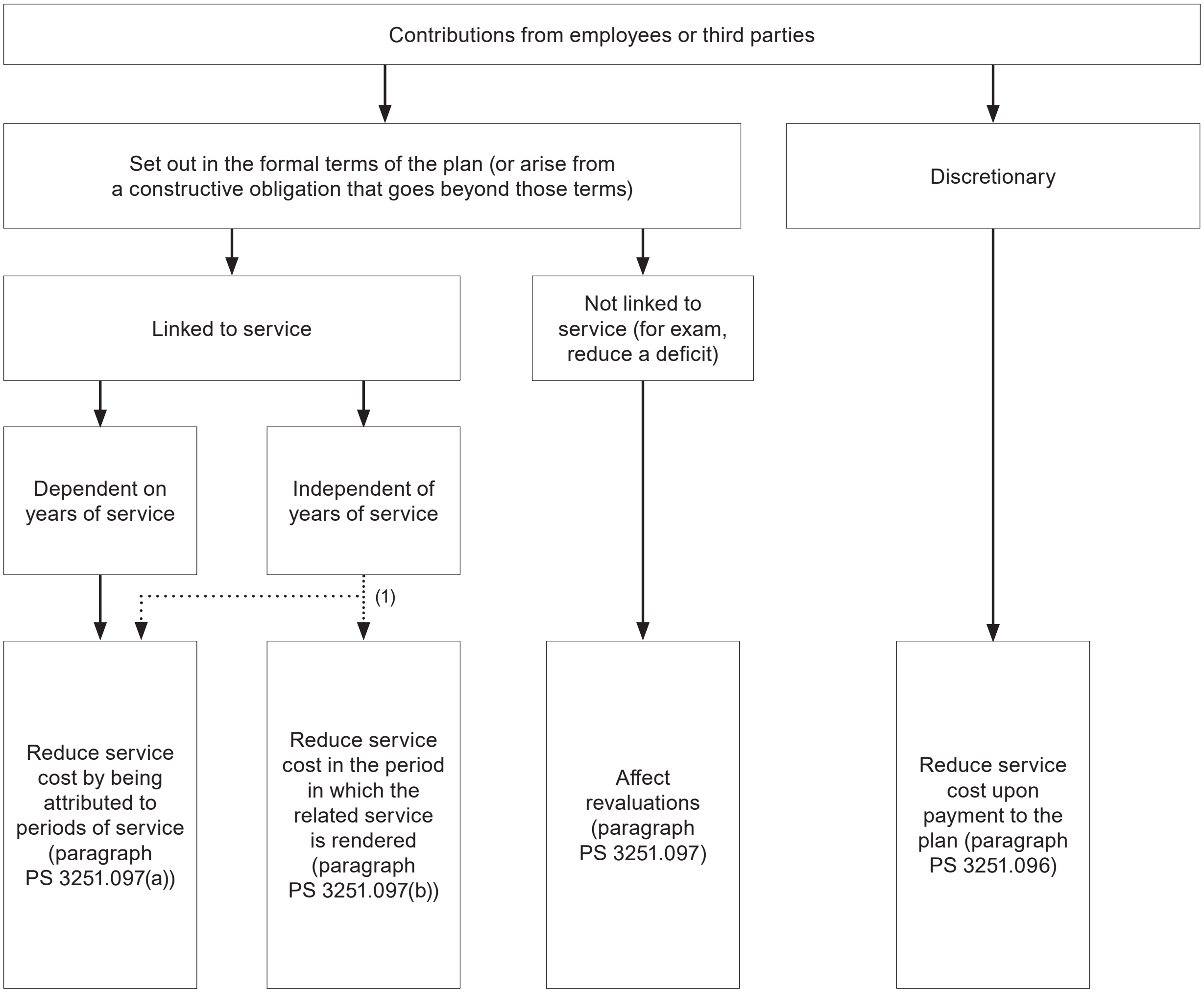
A25 Employees are entitled to a benefit of 3 percent of final salary for each year of service before the age of 55.

A26 Benefit of 3 percent of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Contributions from employees or third parties (paragraphs PS 3251.096-.097)

Example 12

A27 The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



(1) This dotted arrow means that a public sector entiy is permitted to choose either accounting.

Discount rate – Determining the funding status and calculating the discount rate for a partially funded plan (paragraphs PS 3251.105-.110 and .115-.117)

Example 13 – Determining the funding status

Background

A28 This illustrative example is intended to demonstrate the approach to assessing the funding status of a simple single employer defined benefit plan. It is not intended to provide detailed calculations for determining the present value of a defined benefit obligation.

A29 A public sector entity with a fiscal year-end of March 31 provides a single employer defined benefit plan for its employees. In accordance with paragraph PS 3251.106, at March 31 the public sector entity assesses the funding status of its post-employment benefit plan.

Determining the amount of projected benefit payments

A30 The public sector entity determines the amount of projected benefit payments expected to fulfill the obligations due to the plan's current members at the end of the reporting period, the amount projected as at March 31, Year 1, and for each subsequent reporting period in accordance with paragraph PS 3251.107(b).

A31 The entity determines the amount of projected benefit payments using the projected unit credit method in accordance with paragraph PS 3251.075-.076 (see "projected benefit payments" in Exhibit 2).

A32 The assumptions used in determining the projected benefit payments are consistent with the assumptions used to determine employee and employer contributions based on payroll for current members in accordance with paragraph PS 3251.083, which states "actuarial assumptions should be unbiased and mutually compatible."

Determining the balance of post-employment benefit plan assets

A33 The public sector entity then determines the balance of post-employment benefit plan assets, in accordance with paragraph PS 3251.107(a). This balance includes:

- the balance of plan assets, measured at fair value, at the funding assessment date;
- cash inflows relating to projected contributions (see Exhibit 1) for current plan members, made by both the employees and employer, excluding all projected contributions relating to or to be made by future plan members[17]; and
- cash inflows relating to projected investment earnings on existing plan assets, calculated based on the expected market-based return on those plan assets, invested on an ongoing basis.

A34 Key assumptions in determining inputs for calculating the plan assets balance for this single employer defined benefit plan include:

- The post-employment benefit plan's opening plan assets balance is $3,985,000.
- Active employees are required to contribute 10 percent of their salary to the post-employment benefit plan. For this single employer defined benefit plan, employees are not permitted to make additional contributions above 10 percent.
- The balance of plan assets is expected to be invested on an ongoing basis at an expected market-based return of 6 percent.
- For all years, as required by the post-employment benefit plan's contractual arrangement, the public sector entity is required to contribute 12 percent of current employee payroll to the post-employment benefit plan.
- Employee and employer contributions and benefit payments expenses occur halfway through the year for the purpose of calculating projected pension plan investment earnings.

Determining funding status of the plan

A35 In accordance with paragraph PS 3251.107(a), the public sector entity deducts the amount of projected benefit payments from the projected balance of plan assets as at March 31, Year 1, and for each subsequent reporting period (see Exhibit 2). The public sector entity assesses each year to determine when the projected plan assets balance is no longer greater than or equal to projected benefit payments. As per the figures outlined in Exhibit 3, for this single employer defined benefit plan the projected plan assets balance is no longer greater than or equal to projected benefit payments for periods subsequent to Year 26. In accordance with paragraph PS 3251.109, the public sector entity determines this single employer defined benefit plan to be a presumptive partially funded plan.

17 In determining the projected cash inflows for current plan members, the composition of current plan members is held as of the funding assessment date.

A36 After considering the factors outlined in paragraph PS 3251.110, the public sector entity did not identify persuasive evidence to rebut the presumptive partially funded status and will account for the plan on a partially funded basis.

Example 14 – Determining the discount rate for the partially funded plan

A37 After determining that the plan was partially funded, the public sector entity must determine the single rate of return that, when applied to the plan as a whole, results in a present value of the defined benefit obligation equal to the total of the present values determined if the rates outlined in paragraphs PS 3251.116(a)-(b) were applied to each portion of the plan independently (see Exhibit 3).

A38 In calculating the present values of the defined benefit obligating using the rates outlined in paragraphs PS 3251.116(a)-(b), the public sector entity used the following discount rates:

- For periods where the balance of plan assets is projected to be greater than or equal to projected benefit payments for the period, an expected market-based rate of return on plan assets of 6 percent was used.
- For periods where the balance of plan assets is not projected to be greater than or equal to projected benefit payments for the period, a provincial bond rate of 2.8 percent was used.

A39 Based on paragraphs PS 3251.116(a)-(b), before determining the single rate of return for the partially funded plan, the public sector entity calculated the present value of the defined obligation to be $10,385,842 by adding the present value of the “funded” benefit payments to the present value of “unfunded” benefit payments (see Exhibit 3).

A40 To determine the single rate of return for the partially funded plan, as per paragraph PS 3251.117, the public sector entity applied an iterative process to identify a discount rate that, when applied to the amount of projected benefit payments calculated in accordance with paragraph PS 3251.107(b), would also result in a present value of $10,385,842 for the plan.

A41 The single rate of return, as per paragraph PS 3251.117, was determined to be 3.78 percent, rounded. This discount rate would be used by the public sector entity to discount its post-employment benefit obligation.

Exhibit 1 – Projected contributions

Year[18]	Payroll for current employees (a)	Contributions from current employees (b) = (a) × 10%	Employer contributions for current employees (c) = (a) × 12%	Total contributions (d) = (b) + (c)
1	634,494	63,449	76,139	139,588
2	596,842	59,684	71,621	131,305
3	549,487	54,949	65,938	120,887
4	531,356	53,136	63,763	116,899
5	513,457	51,346	61,615	112,961
6	494,608	49,461	59,353	108,814
7	474,991	47,499	56,999	104,498
8	454,908	45,491	54,589	100,080
9	434,369	43,437	52,124	95,561
10	413,014	41,301	49,562	90,863
24	136,830	13,683	16,420	30,103
25	121,479	12,148	14,577	26,725
26	106,780	10,678	12,814	23,492
27	92,732	9,273	11,128	20,401
28	79,498	7,950	9,540	17,490
45	543	54	65	119
46	259	26	31	57
47	101	10	12	22
48	30	3	4	7
49	–	–	–	–
72	–	–	–	–
73	–	–	–	–
74	–	–	–	–
75	–	–	–	–
76	–	–	–	–

18 Years 11 to 23, 29 to 44, and 50 to 71 have been omitted from this table.

Exhibit 2 – Projected opening and ending plan assets balance

Year[19]	Projected opening plan assets[20] (a)	Projected total contributions[21] (b)	Projected benefit payments[22] (c)	Projected investment earnings[23] (d)	Projected ending plan assets[24] (e) = (a) + (b) + (d) – (c)
1	3,985,000	139,588	220,332	236,678	4,140,934
2	4,140,934	131,305	234,980	245,346	4,282,605
3	4,282,605	120,887	251,352	253,042	4,405,182
4	4,405,182	116,899	268,950	259,749	4,512,880
5	4,512,880	112,961	287,363	265,541	4,604,019
6	4,604,019	108,814	306,514	270,310	4,676,629
7	4,676,629	104,498	326,842	273,927	4,728,212
8	4,728,212	100,080	347,971	276,256	4,756,577
9	4,756,577	95,561	369,544	277,175	4,759,769
10	4,759,769	90,863	391,448	276,569	4,735,753
24	1,288,200	30,103	635,511	59,130	741,922
25	741,922	26,725	644,462	25,983	150,168
26	150,168	23,492	651,728	–	–
27	–	20,401	657,188	–	–
28	–	17,490	660,606	–	–
45	–	119	407,124	–	–
46	–	57	382,514	–	–
47	–	22	358,028	–	–
48	–	7	333,794	–	–
49	–	–	309,981	–	–
72	–	–	32	–	–
73	–	–	21	–	–
74	–	–	8	–	–
75	–	–	1	–	–
76	–	–	–	–	–

19 Years 11 to 23, 29 to 44, and 50 to 71 have been omitted from this table.

20 Projected opening plan assets is equal to the projected ending plan assets of the previous year.

21 From Exhibit 1, projected contributions, column (d).

22 Projected benefit payments were determined in accordance with the projected unit credit method as outlined in paragraphs PS 3251.075-.076.

23 Projected investment earnings are calculated using the expected market-based return of 6 percent. Contributions and benefit payments occur halfway through the year.

24 Projected ending plan assets are equal to the sum of projected opening plan assets, projected total contributions and projected investment earnings less projected benefit payments. If the total of these amounts is less than zero, a public sector entity should record projected ending plan assets as zero.

Exhibit 3 – Actuarial present value of projected benefit payments

			Projected benefit payments		Actuarial present values of projected benefit payments		
Year[25] (a)	Projected opening plan assets[26] (b)	Projected benefit payments[27] (c)	"Funded" portion of benefit payments[28] (d)	"Unfunded" portion of benefit payments[29] (e)	Present value of "funded" benefit payments[30] (f)	Present value of "unfunded" benefit payments[31] (g)	Present value of benefit payments using the single discount rate[32] (h)
1	3,985,000	220,332	220,332	–	207,860	–	212,312
2	4,140,934	234,980	234,980	–	209,131	–	218,186
3	4,282,605	251,352	251,352	–	211,040	–	224,893
4	4,405,182	268,950	268,950	–	213,034	–	231,880
5	4,512,880	287,363	287,363	–	214,734	–	238,737
6	4,604,019	306,514	306,514	–	216,080	–	245,379
7	4,676,629	326,842	326,842	–	217,369	–	252,129
8	4,728,212	347,971	347,971	–	218,321	–	258,657
9	4,756,577	369,544	369,544	–	218,733	–	264,695
10	4,759,769	391,448	391,448	–	218,583	–	270,179
24	1,288,200	635,511	635,511	–	156,958	–	261,017
25	741,922	644,462	644,462	–	150,159	–	255,059
26	150,168	651,728	–	651,728	–	317,867	248,546
27	–	657,188	–	657,188	–	311,800	241,506
28	–	660,606	–	660,606	–	304,884	233,926

25 Years 11 to 23, 29 to 44, and 50 to 71 have been omitted from this table.

26 From Exhibit 2, column (a).

27 From Exhibit 2, column (c).

28 When projected opening plan assets in column (a) are greater than projected benefit payments in column (c), the "funded" portion of benefit payments in column (d) equals the amount of projected benefit payments in column (c) and the "unfunded" portion of benefit payments is zero.

29 When projected opening plan assets in column (a) are less than projected benefit payments in column (c), the "unfunded" portion of benefit payments in column (e) equals the amount of projected benefit payments in column (c) and the "funded" portion of benefit payments is zero.

30 Present value of "funded" benefit payments was determined by calculating the present value of the "funded" portion of benefit payments using a discount rate of 6 percent.

31 Present value of "unfunded" benefit payments was determined by calculating the present value of the "unfunded" benefit payments using discount rate of 2.8 percent.

32 Present value of benefit payments in column (h) was calculated using an iterative process to determine the single discount rate that, when applied to the plan as a whole, would result in a present value of the defined benefit obligation equal to the total of the present values determined if the rates outlined in paragraphs PS 3251.116(a)-(b) were applied to each portion of the plan independently. The total projected benefit payments in column (c) were discounted using that rate. In this example, the calculated single discount rate was 3.78 percent, rounded.

Year[25] (a)	Projected opening plan assets[26] (b)	Projected benefit payments[27] (c)	Projected benefit payments: "Funded" portion of benefit payments[28] (d)	Projected benefit payments: "Unfunded" portion of benefit payments[29] (e)	Actuarial present values of projected benefit payments: Present value of "funded" benefit payments[30] (f)	Actuarial present values of projected benefit payments: Present value of "unfunded" benefit payments[31] (g)	Actuarial present values of projected benefit payments: Present value of benefit payments using the single discount rate[32] (h)
45	–	407,124	–	407,124	–	117,500	76,758
46	–	382,514	–	382,514	–	107,390	69,493
47	–	358,028	–	358,028	–	97,778	62,677
48	–	333,794	–	333,794	–	88,677	56,308
49	–	309,981	–	309,981	–	80,107	50,388
72	–	32	–	32	–	4	2
73	–	21	–	21	–	3	1
74	–	8	–	8	–	1	1
75	–	1	–	1	–	–	–
76	–	–	–	–	–	–	–
					4,999,827	5,386,015	10,385,842

Termination benefits (paragraphs PS 3251.185-.196)

Example 15

Background

A42 As a result of a recent acquisition, a public sector entity plans to close a factory in 10 months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the public sector entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

A43 Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of $30,000. Employees leaving before closure of the factory will receive $10,000.

A44 There are 120 employees at the factory. At the time of announcing the plan, the public sector entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are $3,200,000 (i.e., 20 × $10,000 + 100 × $30,000). The public sector entity accounts for benefits provided for termination of employment as termination benefits, as required by paragraph PS 3251.186, and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

A45 The benefit provided for termination of employment is $10,000. This is the amount that the public sector entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the public sector entity's decision to close the factory and terminate their employment (i.e., all employees will leave employment when the factory closes). Therefore, the public sector entity recognizes a liability of $1,200,000 (i.e., 120 × $10,000) for the termination benefits provided in accordance with the employee benefit plan when the plan of termination has been communicated to the affected employees.

Benefits provided for service

A46 The incremental benefits that employees will receive if they provide services for the full 10-month period are for services provided over that period. The public sector entity accounts for them as short-term employee benefits because the public sector entity expects to settle them before 12 months after the end of the reporting period. In this example, discounting is not required, so an expense of $200,000 (i.e., $2,000,000 ÷ 10) is recognized in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

CONSEQUENTIAL AMENDMENTS

The CPA Canada Public Sector Accounting (PSA) Handbook would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

Withdrawal of the existing Sections PS 3250 and PS 3255

RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255, would be withdrawn from the PSA Handbook and replaced with the proposed EMPLOYEE BENEFITS, Section PS 3251.

Amending references to existing Sections PS 3250 and PS 3255

As a result of withdrawing Sections PS 3250 and PS 3255, references to these Sections will be replaced with specific paragraph references or general references to the proposed Section PS 3251 in the following Sections:

FINANCIAL STATEMENT PRESENTATION, Section PS 1201

Liabilities

…

.047 Information to describe the nature and terms of a government's employee future benefits is outlined in EMPLOYEE BENEFITS, Section PS 3251 ~~RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS~~, ~~Section PS 3255~~. Information to describe a government's long-term debt is outlined in LONG-TERM DEBT, Section PS 3230.

LONG-TERM DEBT, SECTION PS 3230

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report long-term debt in government financial statements,[1] including debt issued on behalf of a government business enterprise. It does not address the presentation and disclosure of other long-term obligations of a government. General guidance regarding the presentation and disclosure of a government's liabilities is provided in FINANCIAL STATEMENT PRESENTATION, paragraphs PS 1201.044-.048. Employee benefits ~~Retirement benefits~~ are specifically dealt with in EMPLOYEE BENEFITS, Section PS 3251 ~~RETIREMENT BENEFITS, Section PS 3250. Other employee future benefits~~

~~are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255~~.

RESTRUCTURING TRANSACTIONS, Section PS 3430

Restructuring-related costs and events

…

.32 Restructuring-related costs would be recognized as an expense when incurred in accordance with individual Sections of the PSA Handbook. Restructuring is not an event that can justify a delay or an advance in recognition of these costs as expenses. For example, termination benefits would be recognized as an expense in accordance with guidance in EMPLOYEE BENEFITS, paragraph PS 3251.191 ~~POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, paragraph 3255.28~~.

…

.34 Restructuring may trigger a curtailment of a transferor's post-employment ~~retirement~~ benefit plans due to reduction of a significant number of employees. A transferor may decide to partially settle its obligation under a post-employment ~~retirement~~ benefit plan as a result of restructuring. Gain or loss on plan curtailment or settlement would be recognized in accordance with EMPLOYEE BENEFITS, Section PS 3251.133 ~~RETIREMENT BENEFITS, Section PS 3250~~.

FINANCIAL INSTRUMENTS, Section PS 3450

PURPOSE AND SCOPE

…

.003 This Section does not apply to:

…

(f) employer's rights and obligations for employee future benefits that are accounted for in accordance with EMPLOYEE BENEFITS, Section PS 3251 ~~RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255~~;

INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

~~April 2021~~ April 2023

Section	General applicability	Applies to GNFPOs with relevant transactions or circumstances	Limited or no applicability to GNFPOs
~~PS 3250, RETIREMENT BENEFITS~~ PS 3251, EMPLOYEE BENEFITS		X	
~~PS 3255, POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS~~	–	~~X~~	–

FIRST-TIME ADOPTION, Section PS 2125

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Exemptions

.08 A government organization may elect to use one or more of the following exemptions:

(a) ~~retirement and post-employment~~ employee benefits;

(b) business combinations;

(c) investments in government business enterprises;

(d) business partnerships; and

(e) tangible capital asset impairment.

A government organization should not apply these exemptions by analogy to any other items. [~~JAN. 2011~~ APRIL 2026]

Employee ~~Retirement and post-employment~~ benefits

.09 Under EMPLOYEE BENEFITS, Section PS 3251 ~~RETIREMENT BENEFITS, Section PS 3250, for defined benefit plans, and under POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255~~, net defined benefit liabilities (assets) and liabilities for other long-term employee benefits ~~accrued benefit obligations, post-employment benefits and compensated absences~~ are determined by a government organization by applying a discount rate with reference to the funding status of the plan ~~its plan asset earnings or with reference to its cost of borrowing~~. Retroactive application of Section PS 3251 ~~these Sections~~ requires a government organization to recalculate net defined benefit liabilities (assets) and liabilities for other long-term employee benefits ~~accrued benefit obligations, post-employment benefits and compensated absences~~ at the time of transition to Public Sector Accounting Standards. However, a first-time adopter may elect to delay application of Section PS 3251 ~~these Sections~~ relative to the discount rate used until the date of their next actuarial valuation or within three years of the transition date to Public Sector Accounting Standards, whichever is sooner. If a first-time adopter uses this election, it shall apply it to all plans.

~~.10 Under RETIREMENT BENEFITS, Section PS 3250, for defined benefit plans, and under POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255, a government organization amortizes actuarial gains and losses to the liability or asset, and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group. Retroactive application of this approach requires a government organization to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to Public Sector Accounting Standards into a recognized portion and an unrecognized portion. However, a first-time adopter may elect to~~

~~recognize all cumulative actuarial gains and losses as the date of transition to Public Sector recognized portion and an unrecognized portion. However, a first-time adopter may elect to recognize all cumulative actuarial gains and losses as the date of transition to Public Sector Accounting Standards directly in accumulated surplus / deficit. Actuarial gains and losses after the date of transition to Public Sector Accounting Standards are to be accounted for in accordance with Sections PS 3250 and PS 3255. If a first-time adopter uses this election, it shall apply it to all plans.~~

BASIS FOR CONCLUSIONS

TABLE OF CONTENTS **Paragraph**

Introduction

1 This Basis for Conclusions is a supporting document to the PSAB Exposure Draft, "Employee Benefits, Proposed Section PS 3251." It provides information on instances where IPSAS 39, *Employment Benefits*, principles were amended if they were considered contrary to PSAB's existing or proposed Conceptual Framework, or inappropriate for application in Canada based on the Canadian public interest. Comments received from the Board's Invitations to Comment, "Deferral Provisions" and "Discount Rate Guidance" were considered in assessing the need for amendment of the IPSAS 39 principles. The Basis for Conclusions is not authoritative accounting guidance issued by PSAB. Among other matters, it addresses:

(a) alternative views on the issues dealt with in the proposed standard; and

(b) the view taken by the Board, with appropriate reasons.

2 Prior to approving a final standard, the PSAB will review and deliberate responses to the Exposure Draft.

Background

3 As communicated in PSAB's June 2020 In Brief – A plain and simple overview of PSAB's 2020 decision to adapt IPSAS principles, when developing future standards, all existing projects underway were grandfathered and would be completed according to their existing project charters. As part of its revised Employee Benefits project plan, PSAB considered alternative approaches to completing the Employee Benefits project. The Board decided that using IPSAS 39 principles as the starting point for the project represented its view of the best approach to provide a high-quality solution to stakeholders in a timely manner.

4 The Exposure Draft uses the principles from IPSAS 39 as a starting point. In developing the Exposure Draft, PSAB amended IPSAS 39 principles that were considered contrary to PSAB's Conceptual Framework, or inappropriate for application in Canada based on the Canadian public interest.

5 This Basis for Conclusions focuses on where PSAB amended IPSAS 39 principles and provides the rationale for those amendments. Comments from the Board's Invitations to Comment were considered in assessing the need to amend the IPSAS 39 principles.

6 Since PSAB issued RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255, in 2001 and 2002, respectively, new types of pension plans have been introduced. There also have been developments in the related accounting concepts.

7 For example, financial crises, historically low interest rates, aging plan members and increasing longevity have led to pension reform in some jurisdictions, with some employers moving away from traditional defined benefit plans to share more risk with plan members. New shared-risk plans may contain features such as a contribution ceiling, target benefits, contingent benefits and contingent contributions that depend on the plan's actuarial funding status. The accounting implications of such features were not specifically considered when developing Sections PS 3250 and PS 3255 nor in the first phase of the proposed Section PS 3251. PSAB will consider the accounting implications of such features in future phases of the Employee Benefits project.

8 PSAB is developing the proposed Section PS 3251 using a multi-phase strategy. This Exposure Draft outlines proposals for the first phase of the proposed Section. The Board's consideration of amendments to IPSAS 39 principles related to the topics of discount rate guidance and deferral provisions. The Board plans to explore other topics in future phases of the project, including non-traditional pension plans.

9 Accounting guidance for short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits have all been considered in this Exposure Draft.

10 PSAB intends to issue the proposed Section PS 3251 to replace Sections PS 3250 and PS 3255.

Using IPSAS 39 principles and the International Public Sector Accounting Standards Board's (IPSASB) due process

11 As part of its development of a revised Employee Benefits project plan, PSAB determined that developing this proposed Exposure Draft by using IPSAS 39 principles was the best approach to provide a high-quality solution to stakeholders in a timely manner.

12 IPSAS 39 replaced IPSAS 25, on January 1, 2018. The IPSASB noted on its Employee Benefits project page that "this limited-scope project was part of the IPSASB's strategy to maintain its existing standards. IPSAS 39 reflects amendments made by the International Accounting Standards Board (IASB) to its equivalent standard, International Accounting Standard (IAS) 19, *Employee Benefits* up to December 2015." The version of IPSAS 39 used to develop this Exposure Draft includes amendments resulting from IPSAS guidance issued up to January 31, 2020.

13 Per its standard-setting Due Process Manual, PSAB notes that the IPSASB issues IPSASs according to its own rigorous due process. To be able to rely on the IPSASB's due process, PSAB staff monitors the IPSASB's activities to ensure that the IPSASB is following its due process.

14 Prior to using the IPSAS 39 principles to develop this Exposure Draft, PSAB assessed whether there were indications that the IPSASB did not meet its due process requirements in the development of IPSAS 25 and IPSAS 39. PSAB found no indications that IPSASB did not meet its due process requirements.

Exposure Draft Principles

15 As per PSAB's Due Process, this Basis for Conclusions explains the Board's consideration of and reasons for proposed amendments to IPSAS 39 principles relating to discount rate guidance and deferral provisions.

16 This Exposure Draft exposes for public comment all other non-amended IPSAS 39 principles to be used as part of the proposed Public Sector Accounting Standard. Where IPSAS principles have not been amended in developing Section PS 3251, PSAB concluded that the non-amended IPSAS 39 principles:

(a) aligned with the Board's existing or proposed Conceptual Framework; and

(b) were appropriate for application in Canada based on the Canadian public interest.

Developments since issuing Sections PS 3250 and PS 3255

17 Since PSAB issued Section PS 3250 and Section PS 3255 in 2001 and 2002, respectively, there have been significant developments in the area of pension accounting. In 2008, the IPSASB issued IPSAS 25, *Employee Benefits*. In 2018, the IPSASB issued IPSAS 39, *Employee Benefits*, to reflect amendments the IASB made to its equivalent standard IAS 19. The issuance of these standards has resulted in widespread review and adoption of revised pension accounting concepts by national public sector accounting standard setters.

18 IPSAS 25 and IPSAS 39 introduced significant changes in accounting guidance as compared to Sections PS 3250 and PS 3255, including:

(a) requiring the immediate recognition of actuarial gains and losses in a public sector entity's statement of financial position, and measurement of plan assets at market value;

(b) no recognition of actuarial gains and losses in the statement of operations; and

(c) requiring the rate used to discount a public sector entity's defined benefit obligation to reflect the time value of money.

19 By comparison, Sections PS 3250 and PS 3255 include three deferral provisions:

(a) the recognition of actuarial gains and losses relating to defined benefit plans and post-employment benefits that vest or accumulate over the expected average remaining service life of the related employee group;

(b) the recognition of actuarial gains and losses relating to defined benefit plans and post-employment benefits that do not vest or accumulate over a period linked to the type of benefit; and

(c) the measurement of plan assets at a value that is adjusted to market value over a period not to exceed five years.

As part of this project, PSAB considered if removing deferral provisions, per IPSAS 39, was appropriate for application in Canada based on the Canadian public interest.

20 Section PS 3250 also does not provide prescriptive guidance regarding the rate used to discount a public sector entity's defined benefit obligation. Appendix B of Section PS 3250 refers to two discount rates to illustrate the principle that actuarial assumptions underlying the valuation of the retirement benefit liability and expense should be internally consistent. In practice, the expected return on plan assets is often used to determine the present value of the accrued benefit obligation of benefit plans that are fully or partially funded. In practice, the public sector entity's cost of borrowing is often used to determine the present value of the accrued benefit obligation of benefit plans that are unfunded. As part of this Exposure Draft, PSAB considered whether the application of IPSAS 39 discount rate guidance was appropriate for application in Canada based on the Canadian public interest.

Deferral provisions

21 In November 2016, PSAB issued its Invitation to Comment, "Deferral Provisions." As previously discussed, deferral provisions, such as those in Section PS 3250, were common features in employee benefits standards that have been superseded in both the public and private sectors internationally. The Board considered whether deferral provisions that currently exist remain appropriate and justified and, therefore, would justify amending IPSAS 39 principles.

Recognition of actuarial gains and losses in the statement of operations

22 More than half of the respondents to PSAB's Invitation to Comment, "Deferral Provisions," supported deferred recognition of actuarial gains and losses in annual surplus/deficit. Respondent rationale for supporting deferred recognition in annual surplus/deficit included:

(a) mitigation of short-term fluctuations;

(b) stability and predictability of financial results; and

(c) all gains and losses are eventually recognized in the statement of operations.

23 Respondent rationale that supported no recognition of actuarial gains and losses in surplus/deficit included:

(a) elimination of volatility in annual surplus/deficit;

(b) facilitation of budget to actual comparison;

(c) consistency with other equivalent standards;

(d) removal of remeasurements that do not have predictive value; and

(e) reduction in budgetary pressures and potential sub-optimal decisions.

24 Respondent rationale that supported an immediate recognition approach included:

(a) simplicity and understandability of the approach;

(b) providing users with the most transparent and up-to-date best-estimate information;

(c) greater faithful representation of the risks associated with defined benefit plans;

(d) recognition of the volatile nature of the underlying transactions and events; and

(e) consistency with the accounting for changes in other accounting estimates.

25 In reviewing the existing IPSAS 39 principles, PSAB did not identify any compelling arguments that the principles were contrary to the Board's existing or proposed Conceptual Framework or would be inappropriate for application in Canada based on the Canadian public interest. As a result, the Board concluded that the no-recognition approach outlined in the IPSAS 39 principles would provide relevant and understandable information and a faithful representation of the liability associated with defined benefit plans on a public sector entity's financial statements.

26 In its deliberations, PSAB also considered whether to allow subsequent reclassification of amounts included in revaluations of the net defined benefit liability (asset) into the statement of operations. These deliberations considered respondents' views, as outlined in paragraphs 22-24, and the Canadian public interest. During these deliberations, the Board considered the impact of allowing or not allowing reclassification of amounts included in revaluations of the net defined benefit liability (asset) into the statement of operations. Though not reclassifying the amounts into the statement of operations will result in more volatility in net debt in the short term, the Board thinks that the volatility would be minimal over the long term as a result of revisions to underlying assumptions. In addition, through recognition of current service cost in the statement of operations, a public sector entity would accurately reflect the cost of the defined benefit obligations and the underlying assumptions. These deliberations also identified the difficulty in determining an appropriate, systematic and rational basis by which to reclassify revaluations of the net defined benefit liability (asset) into the statement of operations. With no appropriate basis by which to reclassify these revaluations, and considering the impact over the long term, the Board determined that the existing IPSAS 39 principles would not be inappropriate for application in Canada based on the Canadian public interest.

Recognition on the statement of financial position

Recognition within the net defined benefit liability/asset

27 Stakeholders responded to the question in PSAB's Invitation to Comment, "Deferral Provisions," as to whether the net defined benefit liability/asset should contain an unamortized actuarial gains and losses component. Most supported immediate recognition of actuarial gains and losses, noting that it:

(a) provides a more faithful representation of the public sector entity's financial position;

(b) increases understandability for users of the financial statements;

(c) provides users with the most transparent and up-to-date information; and

(d) increases comparability with other equivalent standards.

28 For respondents who supported deferred recognition, the rationale largely focused on the impact of immediate recognition on net debt and the associated volatility that may arise.

29 In its deliberations, PSAB considered the decision of whether or not to allow deferral of actuarial gains and losses within the statement of financial position, considering respondents' views as well as the Canadian public interest. As discussed in paragraph 26, deliberations focused on the long-term impact within net assets as well as the difficulty in determining an appropriate, systematic and rational basis by which to amortize these revaluations. As a result of these deliberations, the Board determined that the existing IPSAS 39 principles would not be inappropriate for application in Canada based on the Canadian public interest.

30 Following the existing IPSAS 39 principles would, in PSAB's view:

(a) allow public sector entities to demonstrate accountability through transparent and understandable financial information without the use of complex amortization; and

(b) faithfully represent the financial position of the plan and the best estimate of the value of the accrued benefit obligation and plan assets.

The existing IPSAS 39 principles for recognition of actuarial gains and losses within the net defined benefit liability (asset) are neither contrary to the Board's existing or proposed Conceptual Framework nor would be inappropriate in the Canadian public interest.

Recognition within net assets

31 Pursuant to IPSAS 39 principles, remeasurements of the net defined benefit liability (asset) consist of:

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Consequently, included in this group of remeasurements are both realized and unrealized components.

32 PSAB concluded that it may be challenging for some entities to split apart the realized and unrealized components of these remeasurements as would normally be expected with the Board's current revaluation of financial instruments. Furthermore, the Board concluded that attempting to do so may actually result in decreased accountability due to the overly complicated reporting. As a result, the Board concluded that including the full remeasurement in the accumulated other category[33] of net assets would be most appropriate.

33 Along with proposing remeasurements on the net defined benefit liability (asset) be recognized in the accumulated other component of net assets, PSAB also proposes to call such amounts "revaluations of the net defined benefit liability (asset)." This avoids conflicts with the term "unrealized remeasurements" that the Board used in its proposed Conceptual Framework.

Valuation of plan assets

34 Most respondents to PSAB's Invitation to Comment, "Deferral Provisions," supported valuing plan assets at market value. Rationale for market value included:

(a) faithful representation of the best estimate of the value of plan assets;

(b) enhanced comparability among public sector entities;

(c) consistency with the measurement of other financial assets managed on a fair value basis;

(d) consistency with how plan assets are measured in the plan's financial statements; and

(e) consistency with other equivalent standards;

35 Rationale for retaining the existing Section PS 3250's market-related value approach included:

(a) minimizing short-term fluctuations;

(b) providing a close approximation of current economic value; and

(c) reflecting better the long-term nature of plan assets in relation to the obligation settlement period.

33 If PSAB approves Section PS 1202 as proposed in the Exposure Draft, revaluations of the net defined benefit liability (asset) would be recognized in the accumulated other component of net assets. If the accumulated other component is not approved as part of proposed Section PS 1202, the Board may explore if an expansion of the accumulated remeasurements component of net assets beyond unrealized remeasurements is appropriate.

36 PSAB considered the existing IPSAS 39 principles that result in plan assets being valued at market value to be in line with the Board's existing and proposed Conceptual Framework and appropriate in the context of the Canadian public interest. Maintaining the existing IPSAS 39 principles would, in the Board's view, provide useful information to financial statements users because market value:

(a) faithfully represents the best estimate of the value of the assets set aside and restricted for meeting the obligation at the financial statement date; and

(b) provides relevant, verifiable, transparent, easy-to-understand and comparable information.

Discount rate guidance

37 Paragraph 18(c) discusses the IPSAS 39 principles related to discount rate guidance and paragraph 20 discusses the Section PS 3250 principles. In reaching its conclusion on the matter, PSAB considered stakeholder feedback to the Invitation to Comment, "Discount Rate Guidance."

Funding status

38 When asked if they supported different discount rate guidance for fully funded, partially funded and unfunded plans, respondents to PSAB's Invitation to Comment were split. Those who did not support using a different discount rate basis argued that a single discount rate would provide users with an estimate of the accrued benefit obligation that is more reliable, comparable and easily understood. They also argued that a single rate would simplify the application of the guidance and enhance the consistency of application. Furthermore, the entity's funding level does not affect the measurement of the underlying promise to provide benefit payments to plan members when due. Respondents who supported using different discount rate guidance argued that all public sector pension plans are unique and that one rate for all may be inappropriate. They also highlighted the strong governance frameworks that may require some plans be funded to a certain degree, thus making the funding status an important factor to consider when developing discount rate guidance.

39 In assessing the discount rate principles contained in IPSAS 39, PSAB considered the unique aspects of Canadian public sector pension plans and the feedback received from responses to the Invitation to Comment, "Discount Rate Guidance." Specifically, the Board considered:

(a) the Canadian public sector pension plan environment and its comparative strength to other jurisdictions; and

(b) the impact of a single discount rate approach and the appropriateness of a consistent application of a single discount rate regardless of funding status.

40 In its deliberations, the Board acknowledges that Canadian public sector pension plans are often recognized for their:

(a) strong, high-quality governance structures;

(b) risk-mitigation strategies;

(c) investment-management practices;

(d) investment policies; and

(e) strong performance records.

The Board also noted that senior government levels within the Canadian public sector have a high proportion of fully funded plans compared to other jurisdictions.

41 As a result, following its deliberations on discount rate guidance, PSAB determined that reflecting the funded status of a plan in the selection of a discount rate would better serve the Canadian public interest by reflecting the unique nature of the Canadian public sector pension plans as it relates to funding status and governance structures.

42 For the reasons identified in paragraphs 39-41, PSAB concluded that the IPSAS 39 principles related to discount rate guidance were inappropriate for application in Canada without some modification. Consequently, the Board proposes in this Exposure Draft that different discount rates be used to discount the net defined benefit liability (asset) based on the assessment of the plan's funding status as defined in the Exposure Draft. The rationale for the proposal principles for fully funded, partially funded and unfunded plans is provided below.

Fully funded plans

43 Most respondents to PSAB's Invitation to Comment, "Discount Rate Guidance" supported a discount rate based on the expected return on plan assets for fully funded plans, noting that the discount rate reflects:

(a) the true economic burden to the public sector entity;

(b) the plan's unique design, including the investment strategy a particular public sector entity applies to fulfill its obligation; and

(c) the long-term nature of the plans.

44 Other respondents, however, expressed concern with a discount rate based on the expected return on plan assets, noting that it:

(a) results in a counterintuitive outcome where a riskier plan's asset portfolio would result in a lower obligation;

(b) represents a future return that has not yet been earned; and

(c) is misaligned with what many other standard setters require.

Respondents who supported a discount rate other than an expected return on plan assets noted that objectivity is important when determining the discount rate, as well as comparability and consistency, and that a discount rate should not be influenced by the public sector entity's own circumstances.

45 In response to stakeholders, strong governance structures, investment-management practices and investment policies, PSAB identified an expected market-based return on plan assets as an appropriate discount rate for the liabilities of a fully funded plan. Therefore, the Board amended the IPSAS 39 principles related to discount rate to provide specific guidance to be applied for fully funded plans. In doing so, the Board specified that the discount rate used should be the expected market-based return on plan assets. The discount rate would incorporate and reflect the market's expected return on each of the asset classes in the plan's investment portfolio. The intent is that this would result in a net defined benefit liability (asset) that better reflects the public sector entity's obligation to the plan and the substance of the plan arrangement.

Partially funded plans

46 PSAB proposes an approach that would require a public sector entity to apply a single discount rate that reflects:

(a) the expected market-based return on plan assets for periods where the plan assets balance is projected to be greater than or equal to projected benefit payments for the period; and

(b) the market yields of provincial government bonds for periods where the plan assets balance is not projected to be greater than or equal to projected benefit payments for the period.

This proposed approach does not set a funding ratio threshold to identify fully funded or partially funded plans. Consideration of the guidance for determining funding status based on projected plan assets and benefit payments contained in this Exposure Draft as well as professional judgment will need to be applied to determine the rate to use. Doing so will reflect the various pension plan arrangements offered within Canada.

47 In determining a plan's funding status, a public sector entity would consider, among other items:

(a) its funding policy;

(b) its corrective actions;

(c) its accuracy in assessing historical fluctuations; and

(d) history.

This approach focuses on intent and avoids significant volatility as a result of temporary fluctuations in a plan's funding ratio, which some respondents raised as a concern. Professional judgment is required to assess the circumstances and characteristics unique to each post-employment benefit plan to assess funding status, changes in funding status or proportion of projected benefit payments to be satisfied by plan assets for purpose of determining the appropriate discount rate.

Unfunded plans

48 When it considered the appropriateness of the IPSAS 39 principles for the discount rate for fully funded and partially funded plans, PSAB identified and acknowledged the unique aspects of Canadian public sector pension plans in relation to their governance and investment-management practices. Consideration of these aspects informed the Board's conclusion that the IPSAS 39 discount rate principles for fully funded and partially funded plans should be modified for application in Canada.

49 Conversely, in the case of unfunded plans, sufficient plan assets are not segregated to provide for the obligations of the plan and the obligations are not expected to be funded through plan assets. PSAB determined that a discount rate based on the expected market-based return on plan assets, as proposed for fully funded plans, would be inappropriate for application to balances that are not expected to be funded by a plan's assets. Where plan assets do not exist, these characteristics do not provide a sufficient basis for the modification of the IPSAS 39 discount rate guidance.

50 When developing discount rate guidance for unfunded plans, PSAB considered the need to prescribe the type of government bond that reflects the time value of money and provide a comparable discount rate basis for unfunded plans in the public sector. The Board determined that unfunded plans should use a rate determined by reference to market yields at the end of the reporting period on Canada's deep market of established provincial government bonds, with cash flows that are consistent with the timing and amount of expected benefit payments required to satisfy the post-employment benefit obligations. This achieves comparability in the discount rates used for unfunded plans by directing preparers to a discount rate that is not impacted by public sector entity-specific factors and closely approximates the cost of borrowing available for most public sector entities. The Board did not prescribe a single curve or specific methodology that would be applied to all public sector entities in order to allow public sector entities to use their professional judgment in determining the appropriate basket of provincial government bonds that reflects the circumstances of their post-employment benefit plans.

51 Although PSAB has made minor amendments to the discount rate principles when developing the discount rate guidance for unfunded plans, the proposed guidance for unfunded plans is substantively consistent with IPSAS 39 principles.

Other topics

52 As noted in paragraph 11, as part of developing a revised Employee Benefits project plan, PSAB determined that developing the revised Exposure Draft by using IPSAS 39 principles was the best approach to provide a high-quality solution to stakeholders in a timely manner. As such, IPSAS 39 principles relating to topics outside of those topics previously discussed in this Basis for Conclusions are largely unmodified from IPSAS 39. In its deliberations the Board discussed that the intention of the principles within proposed Section 3251, excluding changes to discount

rate guidance and deferral provisions, was to leave current accounting practice for other topics largely unchanged even though the wording of the principles and guidance may differ from existing Sections PS 3250 and PS 3255. However, the Board did identify some changes to the guidance that would result in a change in current practice for Canadian public sector entities.

Net interest on the net defined benefit liability (asset)

53 The proposed guidance on the calculation of the net interest on the net defined benefit liability (asset) represents a change from existing Section PS 3250 as the proposed guidance determines the net interest by multiplying the net defined benefit liability (asset) by the discount rate used to discount the post-employment benefit obligation. In its deliberations, PSAB identified that this change may impact public sector entities that have partially funded and unfunded plans. In situations where the discount rate used to discount the post-employment benefit obligation is lower than the expected return on plan assets, the proposed net interest approach will increase the defined benefit cost recognized in the statement of operations.

54 The net interest approach, as discussed in the Basis for Conclusions for IAS 19 provides a simple solution that reflects the underlying economics of the net defined benefit liability (asset) and provides relevant and understandable information to users.

Joint defined benefit plans

55 Guidance on joint defined benefit plans is not included in IPSAS 39 but is included in the existing Section PS 3250 and proposed Section PS 3251. While this first phase of PSAB's Employee Benefits project focuses on the topics of discount rate guidance and deferral provisions, the Board acknowledges that many Canadian public sector entities currently use the existing joint defined benefit plan guidance. As such the Board determined it would serve the Canadian public interest to include the guidance in the first phase of the project with minor modifications. Principles and guidance within this Exposure Draft that also relate to the topics of risk-sharing and non-traditional plans will be deliberated by the Board during future phases of the project. At that time, as needed, those principles may be revisited.

56 PSAB deliberated minor modifications to the existing joint defined benefit plan guidance to change existing legal terminology to accounting terminology to remove the use of the term "sponsor" and, instead, refer to "participating entities". In addition, paragraph PS 3251.049 directs public sector entities to follow multi-employer plan guidance in accounting for its proportion of the joint defined benefit plan obligation. The Board determined that directing public sector entities to multi-employer plan guidance would help clarify the existing joint defined benefit plan guidance for respondents.

Disclosure

57 In its deliberations of proposed Section PS 3251 the Board discussed differences in disclosure requirements between existing Sections PS 3250 and PS 3255 and proposed Section PS 3251. The disclosure requirements as outlined in this Exposure Draft are based on the IPSAS 39 disclosure requirements and are, at times, more detailed than the existing requirements. The Board noted that the intention behind the disclosure requirements was consistent with the existing requirements and that the disclosure requirements would provide more relevant and understandable information to financial statement users.

Effective Date and Transition

58 The ability to compare information over time is relevant, and retroactive application would result in consistent information regarding employee benefits. Comparative information, when prepared on a consistent basis, provides useful information for financial statement users. Proposed Section PS 3251 will be effective for fiscal periods beginning on or after April 1, 2026.