



INTERNATIONAL ACTUARIAL ASSOCIATION
Pensions Benefits Accounting Sub-Committee (PBAS) Meeting
Berlin, Germany

Wednesday, May 30, 2018 – 14:00 – 16:00
Minutes

1. Opening of the meeting

Tim Furlan, chair of PBAS, opened the meeting and welcomed all attendees.

2. Minutes

The minutes of the last meeting held on 4 October 2017 in Chicago, were approved as presented.

3. IASB amendments to IAS 19 and IFRIC 14

Tim noted that the longstanding proposed amendment to IAS 19 revising accounting for settlements and curtailments had been passed.

The amendment to IFRIC 14 on accessibility of surplus and certain plan termination rules was still outstanding after discussions with the IASB 12 months ago.

It was agreed that no further action should be taken at this stage.

4. Update on other IASB projects

Tim noted that the IASB has finalised the conceptual framework. The IAA provided a submission on the latest draft in 2015. Not all feedback was taken up, but the issues that are probably most important to pension actuaries (OCI and recycling) have had acceptable outcomes. The conceptual framework has no immediate effect but will inform future standard development.

It was also noted that the final outcome of the discount rate research project that the IAA contributed to previously has not yet been published, but indications are that it will be published shortly.

There have been some indications that the IASB will commence its research project on pension benefits that depend on asset return. It was noted that this is a very limited subset of hybrid funds and care should be taken describing the project.

The information available to date suggests that the project will just consider capping project asset returns at the discount rate.

The committee discussed the potential impact on pension plans in different countries and noted the following:

| Country | Plan types | Accounting Issues |
|----------------|--|--|
| Australia | Some DB plans that offer the greater or a DB and DC benefit exist | Current practice is to use the discount rate when projecting the DC benefits to compare to the DB. So the indications are that the research project will confirm current practice. |
| Canada | There are floor offset plans. There are also some risk sharing, target benefit plans both multi- and single employer | The project will confirm current practice for floor offset plans. It is unclear if risk sharing plans will be captured. |
| Japan | There are a small number of cash balance plans that have benefits based on asset returns. There are also new "risk sharing plans" that require an additional contribution for the first certain number of years from the employer to cover potential risks. Following that period no further obligation for additional contributions is intended. | These cash balance plans would be captured. It is not clear if the "risk sharing plans" would be captured, or even if they would be treated as DB or DC. |
| Portugal | No relevant plans | |
| UK | A few cases of greater of DB and DC benefit. There is also a current proposal to launch a collective DC plan. | The proposal will confirm current practice for greater of plans. Given that it's only a proposal at this stage we don't know if there will be any impact from the proposal to cap asset return assumptions. It was observed that some flexibility for future designs would be desirable. |
| Sweden | There is a form of DC like plan set up as an employer book reserve. However, there are few cases because of the unfavourable accounting treatment. | These types of plans would benefit from the proposal to cap asset return assumptions. |
| Ireland | No relevant plans | |
| Finland | The plans of statutory pensions provided through insurance companies are DC. | The discount rate and the asset return assumptions are not consistent with each other. The |

| Country | Plan types | Accounting Issues |
|-------------|--|--|
| | The funded part of the statutory pensions through employers' own pension funds are DB and pay-as-you-go part DC. The limit between DB and DC is impacted by the asset return of the funded part and the pension increase assumption. The return doesn't impact on the total pension paid but has an impact on the contributions. | auditors require the pension increase assumption which is not market-consistent and higher than the market-consistent would be. In this respect, the accounting is similar to the plans in Sweden and would benefit from the proposed to cap asset return assumptions. |
| Switzerland | Switzerland has cash balance style plans with interest rates set by the Government. There are also risk sharing plans. | Auditors have agreed that the asset return assumption should be equal to the discount rate. |
| Germany | Cash balance style plans with guaranteed return of capital. | Accepted accounting practice is to use the higher of the fair value of the accounts and the present value of any guarantees for the DBO. This has a similar effect to a cap on asset return assumptions. |
| US | US arrangements include <ul style="list-style-type: none"> • Cash balance plans, although very few have benefits based on asset returns • Floor offset plans (greater of DB or DC) • Unit based plans • Retirement medical benefits (with an account) | Most US companies report under US GAAP. For those companies, the accounting requirements for these plans are unclear and practice varies from one company to another. For companies reporting under IFRS, the plans would appear to be captured under the project. |
| Bulgaria | No relevant plans | |
| Netherlands | The majority of plans are multi-employer and collective DC | Multi-employer plan accounting means that this is not an issue. |

The sub-committee agreed that the different types of plans listed above should be raised with the IASB so they can take an informed view on the scope of their project.

The committee also discussed the impression that employee benefits was not a high priority for the IASB. It was agreed that priorities could change in future and it would be appropriate to check in from time to time.

Action: Charles Cowling to reach out to his contact at the IASB and seek a meeting to discuss the IASB priorities.

5. Update on US FASB

It was noted that the sub-committee discussed in Chicago the comments from the FASB that no further work would be done on pensions standards given the decline in DB funds in the US. The sub-committee noted that DB funds were not declining at the same rate in other countries and many employers in those countries are required to apply US-GAAP because they are a subsidiary of a US multi-national.

Following that meeting Jim Verlautz contacted the American Academy of Actuaries. They suggested that the IAA draft a letter to the FASB in the first instance. They would like to review the letter and consider whether to co-sign.

Action: Jim to prepare a first draft of a letter to the FASB.

Jim also provided an overview of the FASB project to update some employee benefit disclosures. The final changes only removed the medical cost trend rate sensitivity disclosures. There had been a proposal to remove ABO disclosures, however that was not accepted in the final changes.

6. International Public Sector Accounting Standard Board update

Jason Malone noted that there was no relevant activity at the IPSASB.

7. Introduction to Sustainability Accounting Standards Board

Tim provided an overview of the SASB. It was noted that the SASB produces industry specific standards on Environmental, Social and Governance (ESG) disclosures. The standards do not have any specific pension requirements.

It was noted that many actuaries work with large pension funds who are increasingly interested in ESG investing. It will be important for actuaries to be aware of in their roles as advisors to those funds.

It was noted that the IAA has an Environment and Resource Working Group which Bob and Phil attended in Chicago and the role of pension actuaries working with large investors should be raised with that working group.

Action: Bob and Phil to relay this discussion to the Environment and Resource Working Group.

8. Other Business

No other business was noted.

9. Work Plan

The work plan for the PBAS was discussed. It was agreed the actions noted above represented an appropriate work plan for the PBAS.

10. Next Meeting

The next face to face meetings of the IAA will be in Mexico City, Mexico, between 27 November and 2 December 2018.

Attendees:

[To be completed]

Tim Furlan (chair)
Jason Malone (co-vice chair)
Jim Verlautz (co-vice chair)
Urs Barmettler
Nils Berner
Charles Cowling
Phillipe Demol
Jürgen Fodor
Yas Fujii
Jan de Mik
Ana Margarida Ramos
Philip Shier
Pentii Soninnen

Observers:

Tatiana Bitunska
Bob Scott
Kenji Sekine
John Smith