SPECIFIC ITEMS
SECTION 3462
employee future benefits

Basis for Conclusions

Employee Future Benefits, Section 3462 (November 2020)

Employee Future Benefits, Section 3462 (October 2013)

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PURPOSE AND SCOPE

.001 This Section establishes standards for the recognition, measurement and disclosure of the cost of employee future benefits. It requires an enterprise to recognize the cost of retirement benefits and certain post-employment benefits over the periods in which employees render services to the enterprise in return for the benefits. Other post-employment benefits are recognized when the event that obligates the enterprise occurs.

.002 This Section applies to benefits earned by active employees and expected to be provided to them when they are no longer providing active service, pursuant to the terms of an enterprise's undertaking to provide such benefits. Employee future benefits include:

(a) pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries, such as pension income, health care benefits, life insurance, and other miscellaneous benefits provided to employees after retirement;

(b) post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries, such as long- and short-term disability income benefits (including workers' compensation), severance benefits, salary continuation, supplemental unemployment benefits, job training and counselling, and continuation of benefits such as health care benefits and life insurance;

(c) compensated absences for which it is expected employees will be paid, such as parental leaves, accumulating sick days that vest or are paid without an illness-related absence, and sabbaticals that provide compensated, unrestricted time off for past service; and

(d) termination benefits.

.003 Active employees are those currently rendering service to the enterprise. Former employees are those who are retired, whose employment has been terminated or who have left the enterprise. Inactive employees are those who are not currently rendering service to the enterprise but whose employment has not been terminated. Active, former and inactive employees are referred to in this Section collectively as "employees".

.004 An enterprise's arrangement to provide future benefits to employees may take a variety of forms and may be financed in different ways. Future benefits may be provided either directly by an enterprise or through an intermediary, such as a pension plan or an insurance enterprise. This Section applies to any arrangement that is in substance a benefit plan regardless of its form or the manner or timing of its funding. Absent evidence to the contrary, it is presumed that an enterprise that has provided benefits in the past and is currently promising those benefits to employees will continue to provide those benefits in the future. This Section applies to future benefits for which an enterprise pays all or part of the cost. This Section applies to enterprises with funded benefit plans and/or unfunded benefit plans.

.005 This Section does not apply to benefits provided by an enterprise to employees during their active employment. Examples of these benefits are:

(a) salaries, wages, bonuses, fringe benefits, and similar items that are provided by an enterprise in the current reporting period, or within twelve months thereafter, in exchange for services rendered by employees in the current reporting period;

(b) occasional sick days and vacation days that do not vest or accumulate beyond twelve months after the current reporting period; and

(c) benefits provided under stock-based compensation arrangements (see STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870).

DEFINITIONS

.006 The following terms are used in this Section with the meanings specified:

(a) **Accrued benefit methods** are a family of actuarial cost methods in which a distinct unit of future benefit is attributed to each year of credited service and the actuarial present value of that unit of benefit is computed separately for the period during which it is presumed to have accrued. Two accrued benefit methods are:

(i) **Accumulated benefit method** — Benefits earned to date are based on the plan formula, the employee's history of pay, service and other factors, as of the date of determination.

(ii) **Projected benefit method prorated on services** — Generally, an equal portion of the total estimated future benefit (i.e., with salary projection or cost escalation, when appropriate) is attributed to each year of service in the attribution period. Some plans define different amounts of benefits for different years of service. For such plans, this method will not necessarily attribute an equal portion of the total estimated future benefit to each year of service in the attribution period (see paragraph 3462.042).

(b) **Actuarial assumptions** are estimates of future events that will affect an enterprise's costs, and obligation, for employee future benefits. Examples of these estimates are administration expenses and taxes (other than income taxes), termination rates, disability claim rates, rates of employee turnover, retirement age, mortality, dependency status, per capita claims costs by age and by type of benefit, health care cost trend rates, discount rates to reflect the time value of money, and future salary and benefit levels.

(c) An **actuarial cost method** is a method used to allocate the present value of a defined benefit plan's obligations to time periods in accordance with actuarial practice, usually in the form of a service cost and an accrued liability.

(d) **Actuarial gains and losses** are changes in the value of the defined benefit obligation resulting from:

(i) experience different from that assumed; or

(ii) changes in an actuarial assumption.

(e) **Actuarial present value** is the discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

(f) An **actuarial valuation** is an assessment of the financial status of a benefit plan. It includes the valuation of plan assets, if any, and the defined benefit obligation.

(g) An **attribution period** is the period of an employee's service to which an obligation for employee future benefits is assigned.

(h) A **benefit plan** is any arrangement that is mutually understood by an enterprise and its employees whereby the enterprise undertakes to provide its employees with benefits after active service in exchange for their services. Benefits may commence immediately upon termination or suspension of active service or may be deferred until an employee attains a specified age. Generally, a written plan provides the best evidence of the terms of the benefit plan. However, the terms of a benefit plan may also be discernible from a well-defined, although unwritten practice of paying benefits or from oral representations made to employees. For example, an indication that the terms of a benefit plan differ from the written plan may be discerned from an enterprise's past practice of providing regular increases in certain monetary benefits. An enterprise could have a present commitment to amend the benefit plan, either in writing or through practice or oral representations. Evidence of an enterprise's commitment to amend the benefit plan includes its past practices of amending the plan, identification of strategies to effect future changes, and the assessment of the feasibility and likelihood of making those changes in light of the expected economic and social costs. Anticipated amendments that are subject to negotiations do not constitute terms of a benefit plan until such amendments have been negotiated and agreed to by the enterprise and its employees.

(i) **Benefits that accumulate** are those for which the right to the benefit is earned but unused and may be carried forward to one or more periods subsequent to that in which they are earned, even though there may be a limit to the amount that can be carried forward.

(j) **Contractual termination benefits** are benefits required to be provided to employees under the existing terms of a benefit plan when a specified event, such as a plant closing, occurs.

(k) A **credited service period** is the employee service period for which benefits are earned pursuant to the terms of a benefit plan. The beginning of a credited service period may be the date of hire or a later date. For example, a plan may provide benefits only for service rendered after a specified age or period of employment.

(l) A **curtailment** is an event that, under a defined benefit plan, results in:

(i) a significant reduction of the expected years of future service of active employees; or

(ii) the elimination, for a significant number of active employees, of the right to earn defined benefits for some, or all, of their future services.

(m) A **defined benefit liability (asset)** is the amount of the defined benefit obligation less the fair value of plan assets, if any, adjusted for any valuation allowance in the case of a net asset.

(n) A **defined benefit obligation** is the actuarial present value of benefits attributed to employee services rendered to a particular date. As of a particular date prior to an employee's full eligibility date, an enterprise's defined benefit obligation in respect of the employee is the portion of the obligation for employee future benefits attributed to that employee's service rendered to that date. On and after the full eligibility date, the defined benefit obligation and obligation for employee future benefits for an employee are the same.

(o) A **defined benefit plan** is a benefit plan that is not a defined contribution plan.

(p) A **defined contribution plan** is a benefit plan that specifies how an enterprise's contributions to the plan are determined rather than the benefits to be received by an employee or the method of determining those benefits.

(q) An **expected future benefit** is a calculated amount representing the benefit the enterprise expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus and any reduction in future contributions. An enterprise determines its expected future benefit as the sum of:

(i) the present value of its expected future annual accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the enterprise is required to make regardless of any surplus; and

(ii) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

(r) **Fair value** is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(s) The **full eligibility date** is the date at which an employee has rendered all of the service necessary to earn the right to receive all of the benefits expected to be received by that employee (including any beneficiaries and dependants expected to receive benefits). Determination of the full eligibility date is affected by plan terms that provide incremental benefits expected to be received by or on behalf of an employee for additional years of service, unless those incremental benefits are insignificant.

(t) A **funded benefit plan** is a benefit plan in which the reporting entity is setting aside assets to pay the costs of benefits as they become due. The assets are set aside by the reporting entity in a separate legal entity, generally a trust, and the reporting entity cannot use the assets so set aside for its own purposes. When benefits become payable, they are paid out of the trust directly to the employees. Pension plans are generally funded because of legal requirements to set assets aside.

(u) An **insurance contract** is a policy in which an insurance enterprise assumes an unconditional legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An insurance contract is irrevocable and involves the transfer of significant risk from the enterprise (or the plan) to the insurance enterprise. When the insurance enterprise providing the policy is a captive insurer (an insurance enterprise that does business primarily with the enterprise and related parties), or when there is any reasonable doubt that the insurance enterprise will meet its obligations under the policy, the policy is not considered an insurance contract. Insurance contracts include annuity contracts.

(v) A **multiemployer plan** is a defined benefit plan to which two or more unrelated enterprises contribute, usually pursuant to one or more collective bargaining agreements. Unrelated enterprises are enterprises that do not meet the definition of related parties in RELATED PARTY TRANSACTIONS, Section 3840. Multiemployer plans may be referred to as "joint trust" or "union" plans. Characteristics of a multiemployer plan include the following:

(i) Assets contributed by one participating enterprise are not segregated in a separate account or restricted to provide benefits only to employees of the enterprise and, thus, may be used to provide benefits to employees of other participating enterprises.

(ii) Participating enterprises usually have a common industry bond or at least have the same labour union.

(iii) A multiemployer plan is usually administered by a board of trustees composed of management and labour representatives.

(w) A **multiple-employer plan** is a defined benefit plan maintained by more than one enterprise that is not a multiemployer plan. In contrast to multiemployer plans, a multiple-employer plan maintains separate accounts for each enterprise so that contributions provide benefits only for employees of the contributing enterprise. In addition, multiple-employer plans are generally not collectively bargained and are intended to allow participating enterprises, commonly in the same industry, to pool their plan assets for investment purposes and to reduce the cost of plan administration. Multiple-employer plans may have features that allow participating enterprises to have different benefit formulae, with the enterprise's contributions to the plan based on the benefit formula selected by the enterprise.

(x) An **obligation for employee future benefits** is the actuarial present value as of a particular date of benefits expected to be paid under a defined benefit plan. The obligation is measured on the basis of the expected amount and timing of future benefits, taking into consideration the expected future cost of providing the benefits and the extent to which the costs are shared by employees or others.

(y) **Plan assets are** assets that have been segregated and restricted in a trust or other legal entity separate from a reporting entity to provide for employee future benefits under the following conditions:

(i) The assets of the separate entity are to be used only to settle the related defined benefit obligation, are not available to the reporting entity's own creditors, and either cannot be returned to the reporting entity or can be returned to the reporting entity only if the remaining assets of the trust are sufficient to meet the plan's obligations.

(ii) To the extent that sufficient assets are in the separate entity, the reporting entity will have no obligation to pay the related employee future benefits directly.

Plan assets include any financial instruments issued by the reporting entity and held by the trust or other legal entity. For the purposes of this Section, plan assets do not include amounts held by the reporting entity and not yet paid into the trust or other legal entity. Plan assets may include certain arrangements with insurance enterprises (see paragraphs 3462.096-.100).

(z) **Remeasurements and other items** comprise the aggregate of:

(i) the difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation;

(ii) actuarial gains and losses;

(iii) the effect of any valuation allowance in the case of a net defined benefit asset, determined in accordance with paragraph 3462.086;

(iv) past service costs; and

(v) gains and losses arising from settlements and curtailments.

(aa) A **settlement** is a transaction in which an enterprise substantially discharges or settles all, or part, of a defined benefit obligation. A settlement is a transaction that is irrevocable, relieves the enterprise of primary responsibility for the defined benefit obligation and eliminates the significant risks associated with the defined benefit obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include:

(i) making lump-sum cash payments to employees in exchange for their rights to receive specified benefits; and

(ii) purchasing non-participating insurance contracts.

(bb) **Special termination benefits** are benefits that are not contractual termination benefits and that are offered to employees for a short period of time, normally not exceeding twelve months, in exchange for employees' voluntary or involuntary termination of employment.

(cc) An **unfunded benefit plan** is a benefit plan in which an enterprise pays all of the costs of benefits directly to its employees, their beneficiaries or estates, or to a third-party service provider on behalf of the employees, as the amounts become due.

(dd) Employee future benefits that **vest** are those for which, after a specific or determinable date, the entitlement ceases to be conditional on an employee remaining in the service of an enterprise.

(ee) A **valuation allowance** is the amount by which a defined benefit plan surplus exceeds the expected future benefit that the enterprise expects to realize from that surplus.

BASIC PRINCIPLES

.007 The objective of accounting for the cost of employee future benefits is to recognize a liability and a cost in the reporting period in which an employee has provided the service that gives rise to the benefits. Costs recognized may be expensed or be capitalized as part of an asset such as inventory or property, plant and equipment. Benefit plans are considered part of an employee's compensation arrangement. Certain benefit plans oblige an enterprise to provide benefits to an employee in future periods for service provided by the employee in the current period. The cost of providing future benefits under such plans is recognized in the period in which benefits are earned by the employee because the obligation to provide benefits arises as the employee renders the service.

.008 As set out in FINANCIAL STATEMENT CONCEPTS, Section 1000, liabilities have three essential characteristics:

(a) they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand;

(b) the duty or responsibility obligates the enterprise leaving it little or no discretion to avoid it; and

(c) the transaction or event obligating the enterprise has already occurred.

An obligation for employee future benefits possesses these characteristics. First, an enterprise has a responsibility to its employees to provide the benefits at a specified time in the future (i.e., when an employee retires or leaves the enterprise). Second, although the responsibility is not always contractual, the obligation is constructive or equitable in almost all cases, thereby leaving an enterprise little or no discretion to avoid it. Finally, an enterprise is obligated either by the rendering of service by the employee or, in the case of certain post-employment benefits, by an event such as an application for long-term disability benefits or parental leave.

Defined contribution plans and defined benefit plans

.009 Employee future benefits are provided under either a defined contribution plan or a defined benefit plan. When an enterprise provides benefits under a defined benefit plan, it is at risk with respect to the amount of the benefit that each employee will receive because the amount is not known with certainty until the benefits have all been paid or cease (actuarial risk). The enterprise is also at risk with respect to the investment returns on any assets set aside to pay for the cost of the benefits because any shortfall from expected returns must be funded by the enterprise (investment risk).

.010 When an enterprise provides benefits under a defined contribution plan, it does not assume the actuarial and investment risks inherent in a defined benefit plan. A defined contribution plan specifies how contributions are determined rather than the amount of benefits an employee is to receive or the method for determining those benefits. The enterprise contributes a certain amount to the fund in each period in exchange for services rendered by the employee and has no responsibility to make any further contributions. The employees are at risk because the amount of the benefit that will be payable to an individual employee is entirely dependent upon the amount of funds accumulated in the employee's account and the investment earnings on the accumulated funds.

.011 A particular benefit plan is classified as either a defined benefit plan or a defined contribution plan depending on the economic substance of the plan established by its terms and conditions. A benefit plan may contain characteristics of both defined benefit and defined contribution plans but is, in substance, one or the other. For example, a benefit plan may stipulate the basis of contributions on which future benefits are determined and, because of this, appear to be a defined contribution plan. However, the plan may make the enterprise responsible for specific employee future benefits or a specified level of future benefits. In such a case, the plan is, in substance, a defined benefit plan. Another example is a pension plan in which the benefits provided are the greater of the benefits under a defined benefit plan and the benefits under a defined contribution plan. Such a plan is accounted for as a defined benefit plan.

.012 In some circumstances, a benefit plan may incorporate both a defined contribution component and a defined benefit component. The components are accounted for separately according to their substance. For example, an enterprise may have changed a defined benefit plan to allow employees a choice of remaining in the defined benefit plan or switching to a defined contribution plan. The defined contribution plan is not set up separately but remains combined with the defined benefit plan for plan funding purposes. In such cases, the defined benefit component is accounted for as a defined benefit plan and the defined contribution component is accounted for as a defined contribution plan.

DEFINED CONTRIBUTION PLANS

.013 In accounting for a defined contribution plan, an enterprise's obligation for each reporting period is determined by the amounts to be contributed for that period. Consequently, no actuarial valuation is required to measure the liability or the cost. When contributions are due in periods after an employee retires, the liability is measured on a discounted basis and actuarial gains or losses may occur. The liability is measured on an undiscounted basis when the contributions fall due within the period or within twelve months thereafter.

.014 *For a defined contribution plan, an enterprise shall recognize a cost for a period comprising:*

(a) *the current service cost for the period;*

(b) *the past service costs for the period;*

(c) *the interest cost for the period on the estimated present value of any contributions required in future periods related to employee services rendered during the current period or prior periods; and*

(d) *a reduction for the interest income for the period on any unallocated plan surplus.*

The costs for the period are recognized either as an expense or as an amount capitalized as part of an asset such as inventory or property, plant and equipment.

Current service cost

.015 *For a defined contribution plan, an enterprise shall recognize as the current service cost of employee future benefits for a period:*

(a) *the contributions required to be made by the enterprise in the period in exchange for employee services rendered during the period; and*

(b) *the estimated present value of any contributions required to be made by the enterprise in future periods related to employee services rendered during the period.*

.016 An enterprise's current service cost of the future benefits related to an employee's services rendered during a period is the present value of contributions it is required to pay for those services. Any difference between that amount and the net amount paid is recognized as a liability or an asset. When a plan calls for contributions in future periods, such as in periods following retirement or termination of employment, the estimated cost is recognized during the employee's service period.

Past service costs

.017 When a defined contribution plan is initiated or amended, an enterprise may agree to make contributions in respect of past service. The cost of these contributions is recognized in the period in which the plan is initiated or in the period in which a plan amendment is agreed to.

Interest cost on contributions

.018 When an enterprise has accrued contributions required to be made in future periods as a result of employee services rendered during the current period or prior periods, the enterprise recognizes interest on those accrued contributions. The interest cost for the period is calculated by applying the discount rate determined in accordance with paragraph 3462.047 as of the beginning of the period (or end of the prior period) to the present value of the accrued contributions throughout that period. An undiscounted basis is inappropriate when a benefit plan requires contributions in a period more than twelve months into the future. A discounted basis most closely reflects the current actual cost of such contributions.

Interest income on plan surplus

.019 *For a defined contribution plan, an enterprise shall deduct the interest earned on any unallocated plan surplus in determining the cost for a period.*

.020 When a defined benefit plan is converted to a defined contribution plan, some plan assets may not be allocated to employees' individual accounts, thereby creating a surplus in the defined contribution plan. Interest earned in periods subsequent to the conversion on any such unallocated plan surplus is deducted in determining the cost for the defined contribution plan for the period. Any such plan surplus, which would be recognized as an asset, is subject to the limit on the carrying amount of that asset (see paragraphs 3462.067-.075).

DEFINED BENEFIT PLANS

General

.021 The objective of accounting for a defined benefit plan is to provide an appropriate allocation of the cost of the plan to the periods in which the related employee services are rendered. Accounting for defined benefit plans involves the use of an actuarial valuation and actuarial assumptions. The defined benefit obligation is measured on a discounted basis because it may be discharged many years after an employee renders the related service. There is a possibility of actuarial gains and losses as a result of differences between actuarial assumptions and actual experience. The cost recognized for a defined benefit plan for a period is not necessarily the amount of any contribution required for that period for funding purposes.

.022 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an enterprise and, sometimes, by its employees. Contributions are paid into a fund or a trust that is legally separate from the reporting entity and from which the employee benefits are paid. The adequacy of the fund to make all benefit payments as they fall due depends on the investment performance of the assets in the fund and the extent to which the amount and timing of benefit payments coincide with previous estimates made in funding valuations. The payment of benefits depends not only on the financial position of the fund but also on an enterprise's ability to make good any shortfall in the fund's assets. Therefore, the enterprise is, in substance, underwriting the actuarial and investment risks associated with the plan.

Recognition

.023 *For a defined benefit plan, an enterprise shall recognize:*

(a) the defined benefit liability (asset) in the balance sheet at the end of the period; and

(b) the costs of the plan for the period (see paragraphs 3462.076-.090)*, either as an expense or as an amount capitalized as part of an asset such as inventory or property, plant and equipment.*

.024 *An enterprise shall recognize the defined benefit obligation and the cost for employee future benefits in the period in which employees render services to the enterprise in return for the benefits, except for post-employment benefits and compensated absences that do not vest or accumulate. For such benefits, an enterprise shall recognize the defined benefit obligation and the cost for employee future benefits when the event that obligates the enterprise occurs.*

.025 A liability for pension benefits and other retirement benefits, as well as certain post-employment benefits and compensated absences, is accrued over the period in which service is rendered. For pension benefits, the right to benefits usually vests and the amount usually increases with the length of service provided by the employee. For other retirement benefits, the amount of benefits is not necessarily increased by the length of service provided by the employee but the right to benefits is earned either by the employee working a specified period of time, attaining a specified age while in service, or both. For certain post-employment benefits and compensated absences, the right to the benefit is earned by the employee rendering service and, based on the length of service provided, the amount of the benefit can increase.

.026 For post-employment benefits and compensated absences that vest or accumulate, a liability is accrued as employees render the service that gives rise to the benefits. Examples of these types of post-employment benefits and compensated absences are service-related long-term disability benefits, sabbaticals in which the leave is granted to provide unrestricted time off for past service, or vacation days that accumulate and are paid out when the employee retires. However, under some sabbatical arrangements, leave is granted only for an employee to perform research or public service to enhance the reputation of, or otherwise benefit, the enterprise. In such circumstances, a liability is not accrued in advance for the cost of the employee's services during such leave. In addition, as a practical matter, an enterprise is not required to accrue a liability for sick-pay benefits that accumulate but do not vest.

.027 For post-employment benefits and compensated absences that do not vest or accumulate, a liability is recognized when an event that obligates the enterprise occurs. Examples of these types of benefits and absences are parental leave and non-service-related, short- and long-term disability benefits.

.028 The terms of a plan may allow an enterprise to cancel the benefits. It is usually difficult for an enterprise to cancel benefits and retain its employees without providing some form of compensation. In the absence of evidence to the contrary, accounting for the cost of employee future benefits is based on the premise that an enterprise that is currently providing future benefits to employees under an existing plan will continue to do so over the remaining service lives of those employees, whether or not a legal obligation exists. Actuarial valuation methods allow the obligation for employee future benefits to be measured with sufficient reliability to justify recognition of the cost of those benefits during employees' working lives and, to the extent the cost is unpaid or unfunded, the related liability.

Examples

(a) Pension benefits — Employees are eligible to join a pension plan when they are hired. The pension benefit is $30 a month for each year of service. The benefits vest after 10 years of service. A liability and a cost are recognized as an employee provides service from the date of hire, even though the benefits do not vest until after 10 years of service.

(b) Sabbatical — Employees are entitled to take a sabbatical leave of one year with full pay after each six years of service. There is no restriction on employees' activities during their sabbatical leave. A liability and a cost are recognized over the six years following the date of hire or the date of completion of the last sabbatical leave, as the case may be.

(c) Parental leave — Employees are entitled to receive 50 percent of their current salary for up to six months when they take parental leave on the birth or adoption of a child. The enterprise does not recognize any liability until an employee applies for parental leave, at which point the enterprise recognizes a liability for the full duration of the leave. In this case, the application for leave is the event that obligates the enterprise.

Measurement of a defined benefit obligation

.029 *For defined benefit plans in which an actuarial valuation for funding purposes is required to be prepared to comply with legislative, regulatory or contractual requirements, an enterprise shall make an accounting policy choice to measure the defined benefit obligation as of the balance sheet date using:*

(a) an actuarial valuation prepared for accounting purposes as described in paragraphs 3462.035-*.061; or*

(b) the most recently completed actuarial valuation prepared for funding purposes, provided the valuation meets the criteria in paragraph 3462.029D*, and provided the guidance in paragraph* 3462.029AC *is applied.*

The enterprise applies the same choice to each defined benefit plan for which a funding valuation is required to be prepared to comply with legislative, regulatory or contractual requirements. In making this accounting policy choice, the enterprise need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06*(b).*

(paragraph 3462.029A amended and renumbered paragraph 3462.029AB)

(paragraph 3462.029B amended and combined with existing paragraph 3462.029)

(paragraph 3462.029C moved, amended and renumbered paragraph 3462.029AA)

.029AA *For other defined benefit plans for which there is no legislative, regulatory or contractual requirement to prepare an actuarial valuation for funding purposes, an enterprise shall measure the defined benefit obligation as of the balance sheet date using an actuarial valuation for accounting purposes as described in paragraphs* 3462.035-*.061.*

.029AB An actuarial valuation prepared for accounting purposes (an accounting valuation) has a different objective than an actuarial valuation prepared for funding purposes (a funding valuation), and may use different actuarial assumptions resulting in different obligation and cost numbers. Accounting valuations are prepared in accordance with generally accepted accounting principles using management's best estimates and the discount rate required by paragraph 3462.047. Funding valuations are prepared in accordance with legislative, regulatory or contractual requirements, generally to determine required contributions to the plan.

.029AC *For purposes of paragraph* 3462.029*(b), the defined benefit obligation is measured at the amount that is required to be funded by contributions in accordance with legislative, regulatory or contractual requirements, which could include cash contributions or a posted letter of credit. This amount includes the aggregate of all underlying components of the legislative, regulatory or contractual requirements.*

.029D For purposes of paragraphs 3462.029(b) and 3462.029AC, a funding valuation does not include a valuation prepared using a solvency, wind-up or similar valuation basis.

(paragraph 3462.030 moved, amended and renumbered 3462.029AB (formerly paragraph 3462.029A))

(paragraph 3462.031 deleted)

.032 For defined benefit plans specified in paragraph 3462.029, an enterprise may change its accounting policy on measurement of the defined benefit obligation between a funding valuation and an accounting valuation. For all types of benefit plans, an enterprise may change the actuarial cost method. When an enterprise makes any such change in accounting policy, it applies the change retrospectively in accordance with ACCOUNTING CHANGES, Section 1506, except as noted in paragraph 3462.033.

.033 An enterprise that includes employee benefit costs in the carrying amount of assets, such as inventories or property, plant and equipment, need not restate the carrying amount of those assets when making a change in accounting policy in accordance with paragraph 3462.032.

Actuarial valuation for accounting purposes

.034 *An enterprise that uses an actuarial valuation prepared for accounting purposes to determine the defined benefit obligation in accordance with paragraph* 3462.029*(a) or* 3462.029AA *shall follow the guidance in paragraphs* 3462.035-*.061.*

.035 *An enterprise shall determine its defined benefit obligation using:*

- *(a) the projected benefit method prorated on services, when future salary levels or cost escalation affect the amount of the employee future benefits; or*
- *(b) the accumulated benefit method, when future salary levels and cost escalation do not affect the amount of the employee future benefits.*

.036 An accrued benefit method attributes a distinct unit of future benefit to each year of credited service, and the actuarial present value of that unit is computed separately for the period in which it is deemed to have been earned.

.037 For certain benefit plans, such as career-average and final-pay pension plans and retiree health care plans, future salary levels or cost escalation affect the amount of the future benefits. For these plans, the cost of benefits provided in exchange for employee services is determined using the projected benefit method prorated on services. For flat-benefit plans in which benefits vary only with periods of service rendered without any commitment to change the benefit level, the projected benefit method prorated on services is equivalent to the accumulated benefit method.

Attribution period

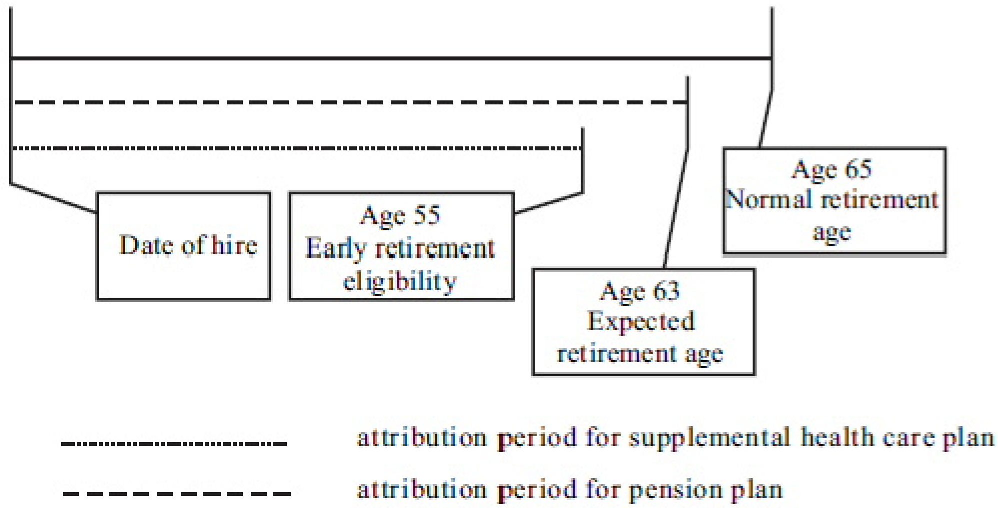
.038 *The attribution period shall begin on an employee's date of hire unless the plan's benefit formula grants credit for service only from a date after the date of hire. When the plan's benefit formula grants credit for service only from a date after the date of hire, the attribution period shall begin at the commencement of the credited service period. However, when the plan's benefit formula grants credit for service only from a date after the date of hire and the credited service period is insignificant relative to the total service period, the obligation for employee future benefits shall be attributed from the date of hire. The attribution period shall end on the full eligibility date.*

.039 An obligation for employee future benefits is attributed to the periods in which an employee renders the service that gives rise to the benefits. For plans in which an employee starts earning benefits when hired, attribution starts from the date of hire. Some plans require an employee to work for a short period of time after the date of hire before earning benefits. When a plan has a credited service period that is significant, and a qualification period that is insignificant, in relation to the employee's total years of service prior to full eligibility, the obligation for employee future benefits is attributed from the start of the credited service period stipulated by the plan. When a plan has a credited service period that is insignificant, and a qualification period that is significant, compared to an employee's total years of service prior to full eligibility, the obligation for employee future benefits is attributed from the date of hire and not from the start of the credited service period stipulated by the plan.

.040 Some benefit plans provide incremental benefits for additional years of service beyond the end of the credited service period. For example, in certain pension plans that limit credited service periods to a maximum number of years but take subsequent salary increases into account in determining the amount of pension entitlements, significant incremental benefits can be earned beyond the end of the credited service period. In such circumstances, the attribution period may end either at retirement or at the end of the credited service period. For benefit plans, other than pension plans, that provide significant incremental benefits after the credited service period, the attribution period ends at the full eligibility date when additional benefits are no longer earned by rendering further service. For all benefit plans, when incremental benefits are insignificant, the attribution period is not extended for additional years of service.

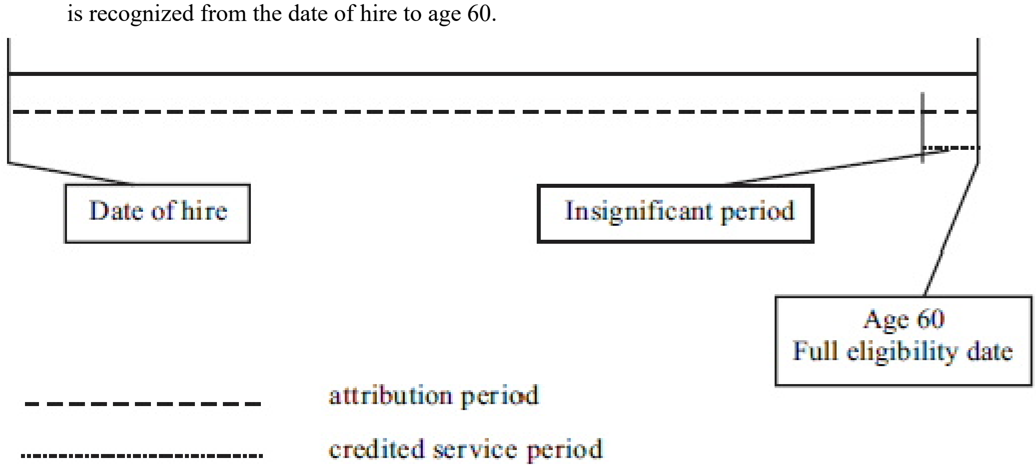
Examples

(a) A company has a defined benefit plan specifying that employees join the plan when they are hired. The plan provides a final average earnings pension upon retirement and employees become eligible for supplemental health care benefits when they become eligible for early retirement. The earliest age at which someone can retire and receive benefits under the plan is 55, the expected retirement age is 63 and the normal retirement age is 65.

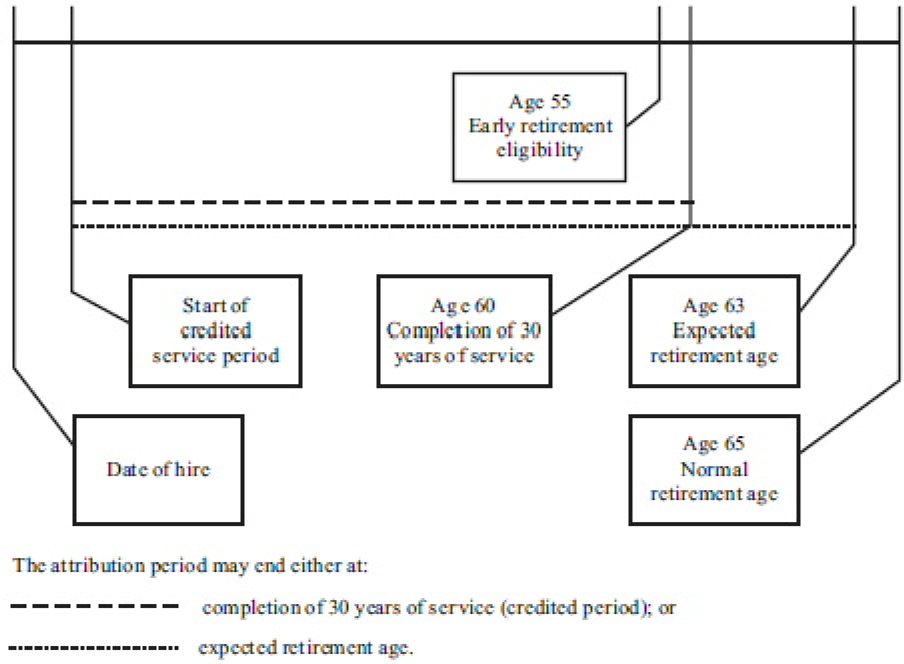


The attribution period for the supplemental health care plan starts at the date of hire and ends when an employee becomes eligible to retire, at age 55. The attribution period for the pension plan also starts at the date of hire but ends at the expected retirement age of 63. The attribution period for the supplemental health plan is shorter because the employee has fulfilled the eligibility provisions of the plan upon becoming eligible for early retirement and is entitled to the benefits upon retirement. No further benefit is conferred on the employee in the years between becoming eligible for early retirement and expected retirement age. The attribution period for the pension plan is longer because the employee continues to earn additional pension benefits in the years between becoming eligible for early retirement and the expected retirement age.

(b) A company has a benefit plan with a formula that provides 100 percent benefit coverage for service for the year in which an employee attains age 60. The plan has a one-year credited service period. Employees are expected to have rendered an average of 20 years of service at the age of 60. Accordingly, the credited service period is insignificant in relation to total years of service prior to full eligibility. In these circumstances, the service cost is recognized from the date of hire to age 60.

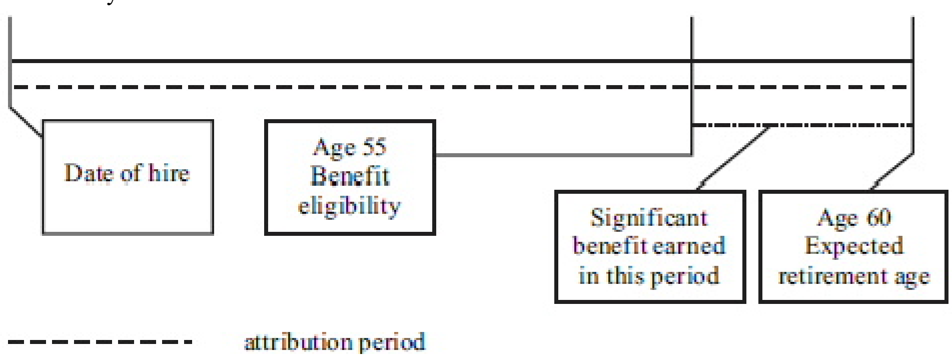


(c) A company has a pension plan for its employees providing a pension for each year of membership in the plan equal to one and a half percent multiplied by the average of the highest five consecutive years of pensionable earnings. Employees become eligible to join the plan after two years of service. Employees do not earn any benefits in the two years of service after the date of hire and before joining the plan. Employees do not earn additional pension benefits after having provided 30 years of service. The earliest age at which an employee may become eligible for retirement is 55, the expected retirement age is 63 and the normal retirement age is 65. Employees are expected to have rendered an average of 30 years of service at age 60.



The attribution period for an employee starts two years after the date of hire and may end either at the attainment of the expected retirement age or at the completion of 30 years of service (the credited service period).

(d) A company has a plan that provides life insurance benefits to employees who render 20 years of service and attain the age of 55 while in service. The benefit amount under the policy is equal to 20 percent of salary in the final year of service. A 55-year-old employee currently earning a salary of $90,000 has worked for the company for 22 years. The employee is expected to retire at age 60 and is expected to be earning $120,000 at that time. The employee is eligible for life insurance coverage under the plan at age 55, when the employee has met the age and service requirements. However, because the employee's salary continues to increase each year, the employee is not eligible for the full expected benefit until retirement at age 60 because an incremental benefit is earned for each additional year of service beyond age 55. That is, the employee earns an additional benefit, from age 55 to retirement at age 60, equal to 20 percent of the increase in salary for service during each of those years.



.041 For plans providing post-employment benefits and compensated absences that vest or accumulate, the attribution period generally starts at the date of hire and ends at the expected date of the event giving rise to the obligation for employee future benefits.

Attribution method

.042 *For a defined benefit pension plan, the obligation for employee future benefits shall be attributed to each year of service in the attribution period based on the plan's benefit formula, except when the plan does not state or imply a benefit formula or when an employee's service in later years will lead to a significantly higher level of benefit than in earlier years. In those circumstances, the obligation shall be attributed on a straight-line basis to each year of service in the attribution period. For a defined benefit plan other than a pension plan, the obligation for employee future benefits shall be attributed on a straight-line basis to each year of service in the attribution period unless the plan formula* *attributes a significantly higher level of benefits to employees' early years of service. In those circumstances, the obligation shall be attributed based on the plan's benefit formula.*

.043 Different plans have different formulae for determining benefits:

(a) Some plans have benefit formulae that attribute all, or a significantly higher level, of the total benefits to later years of service, thereby achieving, in substance, a delayed vesting of benefits. The obligation for employee future benefits for these types of plans is attributed on a straight-line basis over each year in the attribution period because the employee has earned benefits in each of the years in the credited service period.

(b) Some plans have terms that make it difficult to attribute benefits to years of service following a plan benefit formula. Plan terms may be ambiguous and quite difficult to apply at dates between the beginning and end of the attribution period. Thus, for a defined benefit plan other than a pension plan, the obligation for employee future benefits is attributed on a straight-line basis over each year in the attribution period unless the plan's benefit formula attributes a significantly higher level of benefits to the employees' early years of service, in which case, attribution is based on the plan's benefit formula.

(c) For plans providing post-employment benefits and compensated absences that vest or accumulate, the attribution method may follow the standards for a defined benefit pension plan or a defined benefit plan other than a pension plan, provided the basis chosen is applied consistently from period to period.

Actuarial assumptions

.044 *Each actuarial assumption shall be management's best estimate solely with respect to that individual assumption, determined on the basis that the plan will continue to be in effect in the absence of evidence to the contrary. The set of actuarial assumptions for each plan shall be internally consistent.*

.045 Actuarial assumptions include:

(a) demographic assumptions about the future characteristics of employees and their beneficiaries who are eligible for benefits, including:

(i) mortality, both during and after employment;

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

(iii) the proportion of employees with their beneficiaries eligible for benefits; and

(iv) per capita claims cost by age and by type of benefit;

and

(b) financial assumptions, including:

(i) the discount rate for future cash flows;

(ii) future salary and benefit levels; and

(iii) future medical costs, in the case of medical benefits.

.046 In making actuarial assumptions, management takes into account the relationships between the factors for which assumptions are required, and keeps the assumptions internally consistent. For example, assumptions that include a general inflation factor use consistent estimates of that factor. All assumptions are based on the presumption that the plan will continue in effect in the absence of evidence that it will not continue. The actuarial assumptions used for funding purposes may differ from those used for an actuarial valuation prepared for accounting purposes (see paragraph 3462.029AB).

Discount rate

.047 *The discount rate used to determine the defined benefit obligation shall be an interest rate determined at the date of the actuarial valuation by reference to:*

(a) market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or

(b) the interest rate inherent in the amount at which the defined benefit obligation could be settled.

.048 The objective of selecting a discount rate is to measure the single amount that, if invested in a portfolio of high-quality debt instruments, would provide the necessary pre-tax cash flows to pay the accrued benefits when due. For example, the current market value of a portfolio of high-quality zero coupon bonds acquired to pay the cost of benefits, when due, equals the amount of the actuarial present value of the benefits because cash inflows equal cash outflows in timing and amount. There is no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay interest semi-annually or have maturities that do not extend far enough into the future to meet expected benefit payments, the discount rate (the yield to maturity) needs to incorporate reinvestment rates expected to be available in the future. Those reinvestment rates are extrapolated from the existing yield curve.

.049 When rates on high-quality corporate bonds are available, they are used to determine the discount rate. When the maturities of corporate bonds do not extend far enough into the future to match the cash flows inherent in the defined benefit obligation, the rates on government bonds are used to determine the discount rate for the expected benefit payments that are farther into the future than the corporate bond maturities.

.050 The discount rate reflects the estimated timing of benefit payments. When some benefits are payable after the maturity of all available corporate or government bonds, the present value of that portion of the benefits is unlikely to vary significantly as a result of the selected discount rate. For that portion of the benefits, an enterprise may use a discount rate based on the yield of the last maturing corporate or government bond available.

.051 Immediate settlement of a defined benefit obligation may be possible through, for example, the purchase of an insurance contract, such as an annuity contract, that transfers the significant risks associated with the defined benefit obligation to a third-party insurer. In such circumstances, the interest rate inherent in the amount at which the defined benefit obligation could be settled may be used in determining the discount rate.

Future changes in compensation levels, benefits and cost sharing

.052 *The defined benefit obligation shall be measured on a basis that takes account of:*

- *(a) future compensation levels;*
- *(b) expected changes in benefits defined in monetary terms;*
- *(c) automatic benefit changes specified by the plan that are expected to occur; and*
- *(d) expected amendments in the cost-sharing provisions of the benefit plan.*

.053 A defined benefit obligation is measured using assumed future compensation levels when the benefit formula is based on future compensation levels. Therefore, all expected changes in future compensation, whether due to general price level inflation, seniority, promotion, productivity increases or other factors, such as supply and demand in the employment market, are included in the measurement of the defined benefit obligation. Examples of the types of plans in which the benefit formula is based on future compensation levels are career-average, final-pay benefit plans and salary-related life insurance benefit plans. For certain flat-benefit plans, benefits vary only with periods of service rendered. For these plans, future compensation levels do not enter into the determination of the defined benefit obligation.

.054 A past practice of regular increases in future benefits defined in monetary terms (i.e., a defined dollar amount of benefit or a defined percentage of salary) may indicate that an enterprise has a present commitment to provide monetary benefits attributable to past service that are greater than the monetary benefits defined by the written plan. When an enterprise has a substantive commitment to increase benefits, the increased level of benefits forms the basis to measure the defined benefit obligation. For example, a regular practice of updating the base year of a career-average pension plan or of providing regular increases in the benefit under a flat-benefit plan may indicate that the benefit plan encompasses these increases.

.055 Automatic benefit changes specified by a benefit plan and expected to occur are included in the measurement of the defined benefit obligation. Examples of automatic benefit changes are:

- (a) specified cost-of-living adjustments; and
- (b) changes in the cost of benefits in kind, such as health care benefits, that are provided through the direct rendering of services, payment directly to service providers or reimbursement of employees' payments for those services.

.056 A plan amendment is taken into account in the measurement of a defined benefit obligation once it is agreed to, even when some provisions begin to take effect only in future periods. For example, if a plan amendment grants a different benefit level for employees retiring after a specified future date, the current period measurements of the defined benefit obligation and the benefit cost take into account the increased or reduced benefit level for employees expected to retire after the specified future date.

.057 Except in the circumstances discussed in paragraph 3462.058, an enterprise's cost-sharing policy constitutes part of the substance of the cost-sharing provisions of a benefit plan. An enterprise's cost-sharing policy is evident when:

- (a) the enterprise has had a practice of:
  - (i) maintaining a consistent level of cost sharing with its employees; or
  - (ii) increasing or reducing its share of the cost of covered benefits consistently through changes in employees' contributions towards their benefits, deductibles, co-insurance provisions, out-of-pocket limitations, or some combination thereof;

or

- (b) the enterprise has the ability, and has communicated to affected employees and their beneficiaries its intent, to institute different cost-sharing provisions at a specified time or when certain conditions exist (for example, when health care cost increases exceed a certain level).

.058 An enterprise's past practice of maintaining a consistent level of cost sharing is not part of the substance of a benefit plan when accompanied by identifiable offsetting changes in other benefits or compensation or when the enterprise has incurred significant costs, such as work stoppages, to effect that cost-sharing policy. Similarly, an enterprise's communication of its intent is not part of the substance of a benefit plan when employees are unwilling to accept the change, thereby creating the potential for adverse consequences to the enterprise's operations, or when some compensation, including other modifications to plan benefits, is required to gain the employees' acceptance.

.059 In the case of benefit plans providing medical coverage, certain medical claims may be covered by governmental programs under existing law or by other providers of health care benefits. Benefit coverage by governmental programs is assumed to continue as provided by the present law and by other providers pursuant to their present plans. Enacted changes in the law or amendments to the plans of other health care providers that will take effect in future periods and affect the future level of their benefit coverage are taken into account in current period measurements of plan benefits expected to be provided in those future periods. Future changes in laws concerning medical costs covered by governmental programs and future changes in the plans of other providers are not anticipated.

Medical costs

.060 *Actuarial assumptions about medical costs shall reflect expected future changes in the cost of medical services resulting from general price-level inflation, specific changes in the prices of medical services, and changes in medical practices and technology.*

.061 Measurement of the cost of future medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. The level and frequency of claims are particularly sensitive to the age of employees (and their beneficiaries) and may be sensitive to other factors such as gender and geographical location. An enterprise estimates future medical costs on the basis of historical data about its own experience, supplemented when necessary by historical data from other enterprises, insurance enterprises, medical providers or other sources. Historical data from other enterprises is adjusted to reflect any differences in demographic mix of the population. Historical data, either from the reporting entity or other enterprises, is also adjusted when there is reliable evidence that historical trends will not continue.

Remeasurement of a defined benefit obligation

.062 *The actuarial valuation of the defined benefit obligation shall be determined in accordance with paragraph* 3462.029 *or paragraph* 3462.029AA *at least every three years but may occur more frequently (for example, when a significant event takes place). In the years between valuations, the enterprise uses a roll-forward technique to estimate the defined benefit obligation. In doing so, the enterprise exercises judgment and takes into account factors such as:*

(a) the amount from the last actuarial determination of the defined benefit obligation;

(b) the increase in the obligation due to the passage of time;

(c) the increase in the obligation due to the rendering of service in the current year; and

(d) any benefit payments.

A similar process occurs when an actuarial valuation is performed during the year and rolled forward to the end of the year.

.063 A new actuarial valuation of the defined benefit obligation is performed in the year in which a significant event takes place. This valuation may be as of the date of the significant event, the end of the year in which the significant event occurs, or any date in between. Examples of events that may be significant and require a remeasurement of the defined benefit obligation include a settlement, a curtailment or a plan amendment such as a grant of benefits calculated by reference to past service. A significant change in the interest rate used in determining the discount rate to measure the defined benefit obligation does not trigger a requirement for a new actuarial valuation.

.064 Paragraph 3462.062 describes the application of a roll-forward technique to estimate the defined benefit obligation. In applying this technique, an enterprise takes into consideration the following guidance:

(a) Since the defined benefit obligation is the discounted value of expected benefit payments, these payments will be discounted by one year less in the year following an actuarial valuation than in the year of the valuation. The increase in the obligation due to the passage of time is calculated by multiplying the obligation at the end of the previous year by the discount rate used in the valuation.

(b) The defined benefit obligation under a defined benefit plan also changes each year due to the additional year of employees' service. The current service cost is estimated by multiplying the current service cost for the prior year by (1 + d) when d is the discount rate, expressed as a percentage.

Plan assets

.065 *Plan assets shall be measured at fair value as of the balance sheet date.*

.066 The fair value of plan assets is normally market value. When market values are not readily available for certain assets, such as real estate investments, a method that provides an approximation of market value is used. For example, an enterprise may obtain independent appraisals or review market values of similar assets during the year, and update that valuation for known changes in conditions between the valuation date and the balance sheet date.

Limit on the carrying amount of a defined benefit asset

.067 *When the fair value of plan assets exceeds the defined benefit obligation, that plan surplus shall be recognized as a defined benefit asset on the balance sheet only to the extent it is expected to be realized by the enterprise. The enterprise shall recognize a valuation allowance for any excess of the plan surplus over the expected future benefit. A change in the valuation allowance shall be recognized in income for the period in which the change occurs.*

.068 To determine the extent to which a defined benefit asset may be impaired, an enterprise determines the expected future benefit that it expects to realize from the plan surplus.

.069 An expected future benefit consists of any withdrawable surplus and reduction in future contributions and is determined as the sum of:

(a) the present value of its expected future annual accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the enterprise is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

.070 An enterprise's expected future annual accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its defined benefit obligation, including the discount rate used to measure that obligation. These expected future annual accruals for service, less required employee contributions and minimum contributions the enterprise is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is that same discount rate.

.071 The objective of paragraph 3462.067 is to limit an enterprise's defined benefit asset as of the balance sheet date to the amount that it can realize in the future (i.e., the expected future benefit). Any surplus currently in the plan may be available to reduce an enterprise's future contributions. Therefore, the value of the defined benefit asset is limited to the present value of the future cash flow streams described in paragraph 3462.069(a) together with the amount in paragraph 3462.069(b).

.072 The present value of expected future annual accruals for service for the current number of active employees is determined on the basis of the current work force. An enterprise normally assumes that the current number of active employees and the demographic composition of the employee group stay constant. However, when an enterprise has existing plans to make significant reductions in its work force, the enterprise reflects these planned reductions in the number of employees used to compute the expected future benefit amount.

.073 When administration expenses are paid by the plan and included in the calculation of the current service cost, a best estimate of the future administration expense is included in the expected future annual accruals for service. When administration expenses are paid by the plan and not included in the calculation of the current service cost, the discount rate referred to in paragraph 3462.070 is adjusted to reflect the deduction of the administration expenses.

.074 Key factors in determining an enterprise's expected future benefit from a defined benefit plan with a plan surplus are the ability and intent of the enterprise to withdraw assets from the plan. The expected future benefit includes amounts to which an enterprise has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus an enterprise is currently required, or intends, to allocate to employees. An enterprise may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, an enterprise excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between an enterprise and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

.075 When an enterprise is required to continue making contributions in the future even though plan assets currently exceed the defined benefit obligation, the amount of these contributions reduces the expected future benefit.

Determination of the cost for the period

.076 The total cost of a defined benefit plan for a period comprises:

(a) changes in the defined benefit obligation other than those resulting from benefit payments to plan members;

(b) the amount of any plan assets transferred and any payments made directly by the enterprise in connection with a settlement;

(c) the actual return on plan assets, determined in accordance with paragraph 3462.077; and

(d) the change in a valuation allowance, determined in accordance with paragraph 3462.067.

The total cost of a defined benefit plan is reduced by any employee contributions, determined in accordance with paragraphs 3462.081-.083.

.077 The actual return on plan assets for a period is determined as follows:

(a) the difference between:

(i) fair value of plan assets at the beginning of the period, reduced by any reduction in plan assets for benefit payments or settlements, and increased by any contributions to the plan; and

(ii) the fair value of plan assets at the end of the period, less

(b) any costs of managing plan assets paid for by the plan sponsor.

.078 The actual return on plan assets consists of interest, dividends and other income derived from plan assets, together with realized and unrealized gains or losses on plan assets, adjusted for any costs of managing plan assets. Such costs may be paid by the plan sponsor (see paragraph 3462.077(b)) or by the plan itself, in which case, those costs have reduced plan assets at the end of the period (see paragraph 3462.077(a)(ii)). However, other administration costs, such as audit and actuarial fees, are not deducted from the actual return on plan assets.

Components of the cost for the period

.079 The components of the total cost of a defined benefit plan for the period are as follows:

(a) current service cost;

(b) finance cost; and

(c) remeasurements and other items.

Current service cost

.080 Current service cost for the period is the actuarial present value of benefits attributed to employees' services rendered during that period, reduced to reflect employee contributions.

.081 Contributions towards the cost of retirement benefits may be received from active employees or from retirees. For example, employees may contribute to a pension plan during their service life and retirees may contribute towards the cost of a drug plan.

.082 Contributions received during a period from active employees towards the cost of a pension plan reduce the current service cost in the period.

.083 When contributions are expected to be received from employees in future periods towards the cost of retirement benefits other than pensions, an enterprise's defined benefit obligation is measured as the actuarial present value of the benefits expected to be provided, reduced by the actuarial present value of contributions expected to be received from employees in future periods. In determining the amount of those contributions, an enterprise considers any related plan provisions, such as its past practice of consistently increasing or reducing the contribution rate as described in paragraphs 3462.057-.058. An obligation to return contributions received from employees who do not attain eligibility for future benefits, together with any interest accrued on those contributions, is recognized as a component of an enterprise's defined benefit obligation. These factors are reflected also in an enterprise's current service cost.

Finance cost

.084 Finance cost for the period is the net interest on the defined benefit liability. Finance cost for a defined benefit asset is a credit. Finance cost is generally determined by multiplying the defined benefit liability (asset) at the start of the period by the discount rate used in determining the defined benefit obligation at the start of the period.

Remeasurements and other items

.085 Remeasurements and other items for the period comprise the aggregate of:

(a) the difference between the actual return on plan assets and the return calculated using the discount rate referred to in paragraph 3462.084;

(b) actuarial gains and losses;

(c) the effect of any valuation allowance in the case of a net defined benefit asset;

(d) past service costs; and

(e) gains and losses arising from settlements and curtailments.

.086 The effect of a valuation allowance included in remeasurements and other items has two elements:

(a) the change in the valuation allowance for the period; and

(b) the effect of the valuation allowance on finance cost.

The effect of a valuation allowance on finance cost arises because a valuation allowance reduces the defined benefit asset and, thus, affects the finance cost calculated in accordance with paragraph 3462.084. However, the existence of a valuation allowance does not affect the actual return on plan assets. Consequently, when a valuation allowance exists, remeasurements and other items include an amount to offset the above effect on finance cost. That credit amount is calculated by multiplying the valuation allowance at the start of the period by the discount rate used in calculating finance cost.

.087 Past service costs are changes in the defined benefit obligation for employee service in prior periods that arise from the introduction or withdrawal of, or amendment to, a defined benefit plan in the current period.

.088 The gain or loss from a settlement, determined as of the date of the settlement, is the difference between:

(a) the amount of the defined benefit obligation being settled; and

(b) the settlement price, including the fair value of any plan assets transferred and any payments made directly by the enterprise in connection with the settlement.

.089 The gain or loss from a curtailment, determined as of the date of the curtailment, is the change in the defined benefit obligation resulting from the curtailment.

.090 The amount of remeasurements and other items may be calculated by deducting current service cost and finance cost from total defined benefit cost (see paragraph 3462.076); or alternatively, by determining each of the components of remeasurements and other items separately as described in paragraphs 3462.085-.089.

Enterprises with two or more plans

.091 *An enterprise that has two or more defined benefit plans shall determine a cost, a defined benefit obligation, and plan assets by applying paragraphs* 3462.023-*.090 to each separately measured plan or aggregation of plans.*

.092 For purposes of paragraph 3462.091, each funded benefit plan is a separately measured plan. Unfunded benefit plans may be aggregated for measurement purposes only when they provide:

(a) different benefits to the same group of employees and their beneficiaries; or

(b) the same benefits to different groups of employees and their beneficiaries.

.093 An enterprise may have two or more unfunded benefit plans that provide different benefits to the same group of employees and their beneficiaries. For example, the enterprise may have separate medical care, dental care and eye care plans that provide benefit coverage to all retirees of the enterprise. The enterprise may combine those plans for measurement purposes. Similarly, an enterprise may have two or more unfunded benefit plans that provide the same benefits to different groups of employees and their beneficiaries. For example, an enterprise may have substantially the same retirement medical care plans at each of its operating locations. The enterprise may combine those plans for measurement purposes.

.094 When an enterprise has a benefit plan in which the defined benefit obligation exceeds the fair value of the plan assets, and another benefit plan in which the fair value of the plan assets exceeds the defined benefit obligation, the amounts in the two plans are generally not netted. Netting in such circumstances is appropriate only when the enterprise has a clear right to use the assets of one plan to pay for the benefits to be provided by the other plan.

.095 *An enterprise that has two or more defined benefit plans shall present separately in the balance sheet a defined benefit asset of one defined benefit plan and a defined benefit liability of another defined benefit plan, except when the enterprise:*

(a) has a right to use the assets of one plan to pay for the benefits to be provided by the other plan; and

(b) intends to exercise that right.

Insurance contracts and arrangements

.096 Employee future benefits may be provided or funded by an enterprise through insurance contracts. An insurance contract involves the transfer of significant risk from the enterprise (or the plan) to the insurance enterprise, even though the enterprise retains credit risk associated with the possibility of a default by the insurance enterprise. Examples of significant risks associated with a defined benefit obligation are mortality risk and the risk that the inflation rate may change significantly.

.097 When an enterprise has settled a defined benefit obligation through the purchase of an insurance contract, the benefits provided or funded by the insurance contract are excluded from the defined benefit obligation and the insurance contract is excluded from plan assets, except for any participation right (see paragraph 3462.100).

.098 Other arrangements with an insurance enterprise do not meet the definition of an insurance contract because the insurance enterprise does not assume an unconditional legal obligation to provide specified benefits to specified individuals. For example, a yearly renewable term contract with an insurance enterprise may provide sufficient cash only to pay for benefits provided in the current period. In such cases, there is no transfer of most of the risk inherent in the defined benefit obligation and the enterprise accounts for its obligations to employees under its benefit plans without regard to the insurance arrangement.

.099 Participating insurance policies provide that a purchaser (either a plan or an enterprise) may participate in the experience of an insurance enterprise. The insurance enterprise ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the policy. The participation dividend is a partial return of the premium paid by the purchaser and therefore, by the terms of the definition, the participating insurance policy is not an insurance contract. Since, in substance, the participation dividend is a return on investment of the participation right, it is accounted for separately as an investment. However, the component of the participating insurance policy that involves a payment of a fixed consideration or premium may satisfy the definition of an insurance contract. When an enterprise has transferred significant risk associated with a defined benefit obligation to an insurance enterprise through a participating insurance policy, a portion of this policy that represents the payment of the fixed consideration or premium may meet the definition of an insurance contract. In such cases, this portion does constitute a settlement and is accounted for as such (see paragraph 3462.063). When an enterprise remains subject to significant risks and rewards associated with the defined benefit obligation covered or the assets transferred to an insurance enterprise, the purchase of the policy from the insurance enterprise does not constitute a settlement. The enterprise continues to account for the benefits covered by the policy as described in paragraph 3462.098.

.100 The purchase price of a participating insurance policy ordinarily is higher than the price of an equivalent policy without a participating right. The difference represents the cost of the participating right, which is recognized separately at the date of purchase as an investment.

TERMINATION BENEFITS

.101 *An enterprise that offers special termination benefits to employees for voluntary terminations shall recognize a liability and an expense when employees accept the offer and the amount of the special termination benefits can be reasonably estimated.*

.102 *An enterprise that offers special termination benefits to employees for involuntary terminations shall recognize a liability and an expense in the period in which:*

(a) management having the appropriate level of authority approves and commits the enterprise to a plan of termination and establishes the benefits that employees will receive upon their termination of employment;

(b) the benefit arrangement is communicated to employees in sufficient detail to enable them to determine the type and amount of benefits they will receive when their employment is terminated;

(c) the plan of termination specifically identifies the target level of reduction in the number of employees, the job classifications or functions and their locations; and

(d) the period of time to complete the plan of termination indicates that significant changes to the plan of termination are not likely.

.103 *An enterprise that is required by the existing terms of a benefit plan to provide contractual termination benefits to employees shall recognize a liability and an expense when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated.*

.104 An enterprise may provide benefits to employees when their employment is terminated. These benefits may be either contractual termination benefits required by the existing terms of a benefit plan when a specified event, such as a plant closing, occurs or special termination benefits offered for a short period of time. A plan of termination for special termination benefits normally does not cover a period exceeding twelve months. Special termination benefits may be provided for involuntary or voluntary termination of service.

.105 Termination benefits may take various forms including lump-sum payments, periodic future payments, or both. They may be paid directly from an enterprise's assets, from an existing benefit plan or a new benefit plan, or from a combination thereof. The cost of termination benefits recognized as a liability and an expense includes the amount of any lump-sum payments and the present value of any expected future payments. A situation involving termination benefits may also involve a curtailment and is accounted for as such (see paragraph 3462.063).

.106 The liability and expense recognized in respect of employees who accept an offer of special termination benefits:

(a) for a defined benefit pension plan, is the difference between:

  (i) the defined benefit obligation in respect of those employees under existing benefit plans, assuming that those employees would retire or terminate their employment immediately, without taking into account any special termination benefits; and

  (ii) the defined benefit obligation in paragraph 3462.106(a)(i) adjusted to reflect the special termination benefits; and

(b) for a defined benefit plan other than a pension plan, is the difference between:

  (i) the defined benefit obligation in respect of those employees under existing benefit plans, assuming that those employees not yet fully eligible for benefits would terminate their employment at their full eligibility date and that fully eligible employees would retire immediately, without taking into account any special termination benefits; and

  (ii) the defined benefit obligation in paragraph 3462.106(b)(i) adjusted to reflect the special termination benefits.

The liability and expense for special termination benefits includes only the value of the additional benefits that arises from the offer of special termination benefits. Other changes in the defined benefit obligation resulting from employees now terminating employment at a date earlier than originally assumed are recognized either in the determination of actuarial gains or losses, or as a curtailment gain or loss (see paragraph 3462.063), and are included in remeasurements and other items (see paragraph 3462.085).

.107 An enterprise may offer special termination benefits to employees who leave voluntarily but terminate the employment of additional employees involuntarily if target reduction levels are not achieved. In those circumstances, the liability for termination benefits is recognized for all targeted terminations when the criteria in paragraph 3462.102 are met. The excess of the cost of voluntary termination benefits over the cost of the involuntary termination benefits is recognized when employees accept the offer and the amount can be reasonably estimated.

Example

An enterprise's plan of termination offers $15,000 to each employee who leaves voluntarily. The target reduction level is 300. Employees whose employment is terminated involuntarily will each receive a benefit of $9,000. The liability to be recognized when the plan of termination is approved (and the conditions in paragraph 3462.102 are met) is 300 × $9,000 = $2,700,000. When employees accept the voluntary offer of the $15,000 benefit, an additional liability for $6,000 per employee is accrued (see paragraph 3462.101).

DISCONTINUED OPERATIONS

.108 When a settlement or curtailment gain or loss or the cost of special or contractual termination benefits, including post-employment benefits, is directly related to a discontinued operation (see DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475), it is:

(a) recognized and measured in accordance with this Section; and

(b) presented in accordance with Section 3475.

MULTIEMPLOYER AND MULTIPLE-EMPLOYER BENEFIT PLANS

.109 When benefits are provided to employees through a multiemployer plan, the amount for which an individual enterprise is obligated under the plan may not be quantified. Generally, a contribution rate is established for each period to ensure that the plan assets are adequate to cover the plan's future benefit payments.

.110 Although a multiemployer plan may have the characteristics of a defined benefit plan, sufficient information to follow the standards on defined benefit plans in this Section is normally not available. In such circumstances, a multiemployer plan is accounted for following the standards on defined contribution plans in paragraphs 3462.013-.020.

.111 When benefits are provided to employees through a defined benefit multiple-employer plan, each enterprise in the plan follows the standards on defined benefit plans in this Section and bases its accounting for plan assets on its proportionate interest in the assets of the multiple-employer plan.

.112 The definition of a multiemployer plan refers to enterprises that are unrelated. Enterprises within a related group, such as a parent company and its subsidiaries, may share a benefit plan that satisfies the definition of a multiemployer benefit plan other than the requirement that the enterprises be unrelated. The costs of the benefit plan are not always allocated to, or funded separately by, the individual enterprises within the related group. As a result, individual enterprises within the related group are not able to identify their share of the underlying assets and liabilities. In such circumstances, a benefit plan is accounted for by the parent company and its subsidiaries in their individual financial statements following the standards on defined contribution plans in paragraphs 3462.013-.020. In its consolidated financial statements, the company accounts for the plan following the standards on defined benefit plans in this Section. Additional disclosures are required in the non-consolidated financial statements of the parent company and in the financial statements of its subsidiaries to indicate that defined contribution plan accounting has been used (see paragraph 3462.114(b)).

DISCLOSURE

General

.113 *An enterprise shall provide the disclosures required by paragraphs* 3462.114-*.118 separately for plans that provide:*

(a) pension benefits; and

(b) primarily other employee future benefits.

Multiemployer plans

.114 *An enterprise shall disclose the following information about multiemployer plans:*

(a) a general description of the plan, including whether the plan is a pension plan or a plan other than a pension plan such as a retiree health care plan, and whether the plan is a defined benefit plan or a defined contribution plan; and

(b) when the plan is a multiemployer defined benefit plan but sufficient information is not available to use defined benefit plan accounting, and defined contribution plan accounting is used:

(i) the fact that the plan is a defined benefit plan;

(ii) the reason why it is being accounted for as a defined contribution plan;

(iii) any available information about the plan's surplus or deficit; and

(iv) the nature and effect of significant changes in the contractual elements of the plan.

Defined benefit plans

.115 *An enterprise shall disclose the following information about defined benefit plans:*

(a) a general description of each type of plan, including whether the plan is a pension plan or a plan other than a pension plan such as a retiree health care plan;

(b) the fair value of plan assets at the end of the period;

(c) the defined benefit obligation at the end of the period;

(d) the plan surplus or deficit at the end of the period (the difference between amount (c) and amount (b));

(e) any difference between the plan surplus or deficit at the end of the period and the amount recognized in the balance sheet as a result of a valuation allowance;

(f) if not separately presented on the face of the income statement, the amount of remeasurements and other items for the period (see paragraphs 3462.085-.090)*;*

(g) the effective date of the most recently completed actuarial valuation used in determining the defined benefit obligation; and

(h) the nature and effect of significant changes in the contractual elements of the plans during the period.

.116 DISCLOSURE OF ACCOUNTING POLICIES, Section 1505, requires disclosure of significant accounting policies. For defined benefit plans specified in paragraph 3462.029, this requirement includes whether the defined benefit obligation is measured using a funding valuation or an accounting valuation.

.117 ACCOUNTING CHANGES, Section 1506, requires disclosure of changes in accounting policies. For defined benefit plans specified in paragraph 3462.029, this requirement includes any change in whether a defined benefit obligation is determined using a funding valuation or an accounting valuation. For all defined benefit plans, this requirement includes any change in the actuarial cost method used.

Termination benefits

.118 *An enterprise shall disclose the nature and, if not separately presented on the face of the income statement, the effect of any termination benefits provided in the period.*

EFFECTIVE DATE AND TRANSITION

.119 Except as specified in paragraph 3462.119A-.119B, an enterprise applies this Section to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted, but only for all of an enterprise's benefit plans.

.119A Amendments to paragraphs 3462.029, 3462.034 and 3462.046, and new paragraphs 3462.029A-.029D, issued in October 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted, but only for all of an enterprise's defined benefit plans.

.119B Amendments to paragraphs 3462.029, 3462.029AB, 3462.029D, 3462.032, 3462.034, 3462.046, 3462.062 and 3462.116-.117, and new paragraphs 3462.029AA and 3462.029AC, issued in November 2020, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. An enterprise applies these amendments as specified in paragraphs 3462.125-.127. Earlier application is permitted, but only for all of an enterprise's defined benefit plans.

.119C An enterprise may only apply paragraphs 3462.120-.124 when preparing its annual financial statements relating to the first fiscal year in which Section 3462 is effective.

.120 An enterprise applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, except as specified in paragraphs 3462.121-.124.

.121 When an enterprise includes employee benefit costs in the carrying amount of assets, such as inventories or property, plant and equipment, it need not restate the carrying amount of those assets at the date of application of this Section.

.122 When an enterprise previously used a measurement date prior to the balance sheet date for plan assets and the defined benefit obligation rather than measuring them as of the balance sheet date, it applies the following transitional approach:

(a) Use the measurement of plan assets and defined benefit obligations that the enterprise applied for year-end reporting for the year immediately preceding the year to which the Section is first applied, which may have been determined using a measurement date of up to three months prior to the balance sheet date. The enterprise does not remeasure plan assets and defined benefit obligations as of the beginning of the year in which this Section is first applied.

(b) Restate those measurements retrospectively to reflect any changes in accounting policies in accordance with ACCOUNTING CHANGES, Section 1506, other than the change in the measurement date. For example, an enterprise might previously have deferred and amortized actuarial gains and losses, and past service costs, for its defined benefit plans, or an enterprise may have decided to change from using an accounting valuation to a funding valuation to measure its defined benefit obligation.

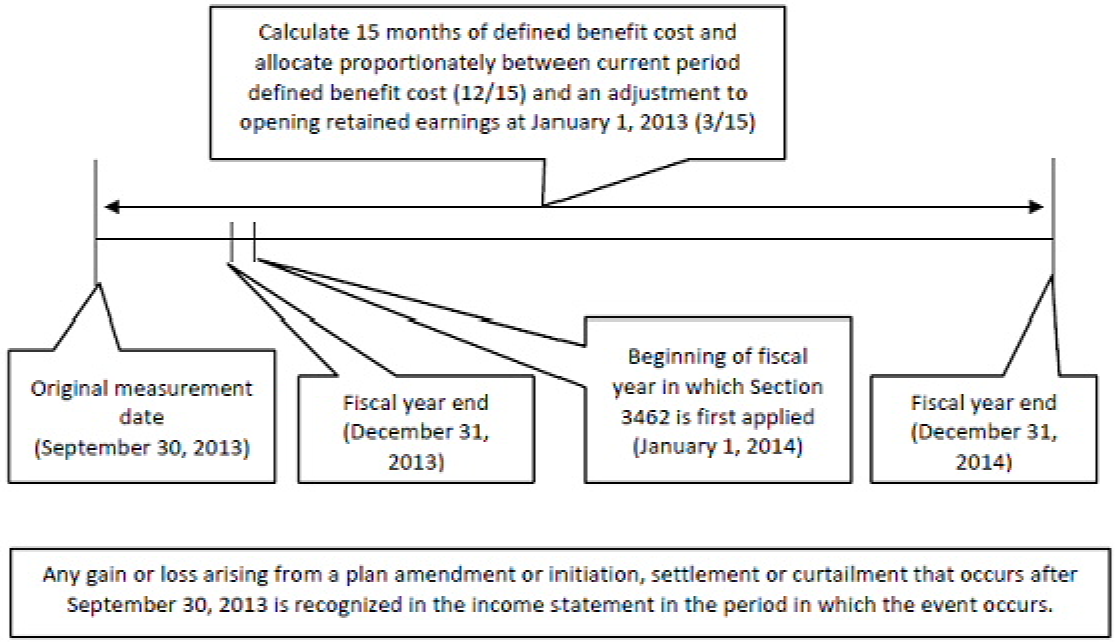
(c) Determine the defined benefit obligation as of the balance sheet date for the year in which this Section is first applied, either by an actuarial valuation as of that date or by a roll-forward of an earlier actuarial valuation prepared within the last three years in accordance with paragraph 3462.062. Determine the fair value of plan assets as of the balance sheet date for the year in which this Section is first applied in accordance with paragraphs 3462.065-.066.

(d) Using the amounts determined in (c), calculate defined benefit cost for the period between the measurement date for the year immediately preceding the year in which this Section is first applied and the balance sheet date for the year in which this Section is first applied, exclusive of any gain or loss arising from a plan amendment or initiation, settlement or curtailment.

(e) Allocate the defined benefit cost determined in (d) proportionately such that twelve months of costs are allocated to the current year, and adjust opening retained earnings for the earliest prior year presented by any remainder. For example, a calendar-year enterprise may have previously used a September 30, 2013 measurement date for the year ended December 31, 2013 and have no plan amendment or initiation, settlement or curtailment during the 15-month period between October 1, 2013 and December 31, 2014. The enterprise would allocate twelve-fifteenths of the defined benefit cost to the current period defined benefit cost for 2014 and the remainder as an adjustment to opening retained earnings at January 1, 2013.

(f) Any gain or loss arising from a plan amendment or initiation, settlement or curtailment between the measurement date that is used for the immediately preceding year and the beginning of the year in which this Section is first applied is recognized as a component of defined benefit cost in the period in which the event occurs and not as an adjustment of retained earnings.

.123 The transitional approach for the measurement date provisions is illustrated in the following diagram using the dates from the example in paragraph 3462.122(e):



.124 Paragraph 3462.115(f) requires disclosure of the amount of remeasurements and other items for the period, if not separately presented on the face of the income statement. An enterprise applying paragraph 3462.122 determines the amount of remeasurements and other items for the year in which this Section is first applied as follows:

(a) For the defined benefit cost calculated in paragraph 3462.122(d), determine the amount of remeasurements and other items (see paragraphs 3462.085-.090) included in that defined benefit cost.

(b) Allocate the remeasurements and other items proportionately as described in paragraph 3462.122(e) to determine the portion applicable to the year in which this Section is first applied.

.125 For those defined benefit plans specified in paragraph 3462.029 for which the defined benefit obligation is measured using a funding valuation, an enterprise applies new paragraph 3462.029AC, and the amendments to paragraph 3462.029D, at the beginning of the first fiscal year in which these amendments are first applied. An enterprise applies these amendments as follows:

(a) When an enterprise has a completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at the date that the amendments are first applied, the enterprise uses that most recently completed funding valuation and applies the roll-forward technique as required by paragraph 3462.062. The cumulative effect of applying the amendments is recorded in opening retained earnings at the date that the amendments are first applied. In this case, the financial statements of prior periods presented for comparative purposes are not restated.

(b) When an enterprise does not have a completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at the date that the amendments are first applied, the enterprise applies the amendments prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g). The effect of applying the amendments is recorded in net income in the year that such a funding valuation is completed. In this case, there is no adjustment to opening retained earnings.

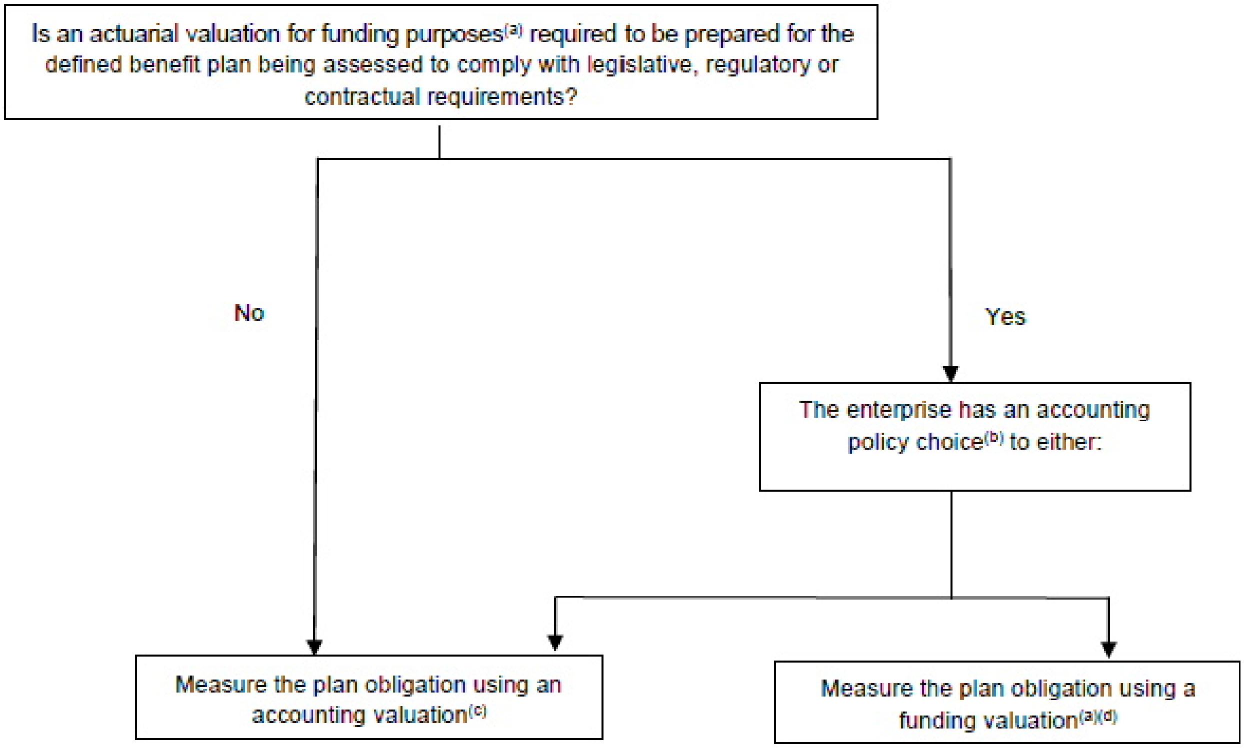
.126 For those defined benefit plans specified in new paragraph 3462.029AA, an enterprise applies new paragraph 3462.029AA at the beginning of the first fiscal year in which these amendments are first applied. The cumulative effect of applying the amendments is recorded in opening retained earnings at the date that the amendments are first applied. In this case, the financial statements of prior periods presented for comparative purposes are not restated.

.127 When an enterprise includes employee benefit costs in the carrying amount of assets, such as inventories or property, plant and equipment, it need not restate the carrying amount of those assets at the date that the amendments specified in paragraph 3462.119B are first applied.

DECISION TREE — DETERMINING ELIGIBILITY FOR USING A FUNDING VALUATION TO MEASURE THE DEFINED BENEFIT OBLIGATION FOR A DEFINED BENEFIT PLAN

This material is illustrative only.

This decision tree illustrates the assessment an enterprise makes to determine when it is eligible to apply an accounting policy choice to measure the defined benefit obligation for a defined benefit plan using a funding valuation as described in paragraphs 3462.029-.033.



(a) Excludes funding valuations prepared using a solvency, wind-up or similar valuation basis.

(b) The same accounting policy choice must be applied to each defined benefit plan for which a funding valuation is required to be prepared to comply with legislative, regulatory or contractual requirements.

(c) Determined in accordance with paragraphs 3462.035-.061.

(d) Determined in accordance with paragraphs 3462.029(b), 3462.029AC and 3462.029D.

ILLUSTRATIVE EXAMPLE

This material is illustrative only.

This example illustrates the requirement in paragraph 3462.029AC that "the defined benefit obligation is measured at the amount that is required to be funded by contributions in accordance with legislative, regulatory or contractual requirements, which could include cash contributions or a posted letter of credit. This amount includes the aggregate of all underlying components of the legislative, regulatory or contractual requirements."

A Canadian private company has a defined benefit pension plan. The defined benefit obligation will be measured at the amount required to be funded by contributions in accordance with legislative, regulatory or contractual requirements and all components of a funding valuation required to be funded by legislative, regulatory or contractual requirements will be included in that measurement.