# SECTION PS 3255
# post-employment benefits, compensated absences and termination benefits

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## PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report obligations for post-employment benefits, compensated absences and termination benefits in government financial statements.

.02 This Section applies to post-employment benefits, compensated absences and termination benefits earned by employees and expected to be provided to them when they are no longer providing active service either on a temporary or permanent basis. For the purposes of this Section:

(a) **Post-employment benefits** are expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include 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.

(b) **Compensated absences** are benefits for employee absences for which employees will be paid. These benefits include parental leaves, accumulated sick days, and sabbaticals that provide compensated, unrestricted time off for past service.

(c) **Termination benefits** include the following:

(i) Contractual termination benefits are benefits required to be provided to employees under the existing terms of a benefit arrangement when a specific event occurs that results in the downsizing and termination of a group of employees.

(ii) 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.

.03 The glossary in RETIREMENT BENEFITS, Section PS 3250, provides definitions for other relevant terms.

.04 This Section does not apply to short-term employee benefits, which would be accounted for under the general provisions for accruing liabilities. This accounting is generally straightforward because no actuarial assumptions are required and the liabilities are measured on an undiscounted basis.

.05 Examples of such short-term employee benefits are:

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

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

.06 Post-employment benefits, compensated absences and termination benefits are liabilities of a government. Accounting for all benefit plans is important because many governments have accumulated significant related liabilities. The fundamental accounting task is to determine the amount of the liability for these benefits and to what periods to attribute the costs.

.07 These standards are consistent with those established in RETIREMENT BENEFITS, Section PS 3250. The standards set out in that Section are appropriate for accounting for and disclosing post-employment benefits, compensated absences and termination benefits of a government. For example, a government providing these types of benefits through a defined contribution plan, multiemployer plan or joint defined benefit plan would refer to the guidance set out in Section PS 3250. This Section sets out those areas where the accounting and reporting are different from Section PS 3250.

**The objectives of funding and accounting**

.08 Determining whether an employee future benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.

.09 The accounting objective is to measure and report the obligation for employee future benefits and to attribute the costs of those benefits to the appropriate periods. Accordingly, it is necessary to develop accounting estimates of liabilities for post-employment benefits, compensated absences and termination benefits and for expenses using an actuarial cost method and actuarial assumptions that ensure essential information required for fair presentation of financial condition and results of operations can be reported in government financial statements. In some circumstances, estimates and averages may provide a reliable approximation of the detailed computations required by this Section.

.10 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.

**POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES**

**The characteristics of benefit plans**

.11 Post-employment benefits and compensated absences may have different characteristics. Some benefits may be vesting or accumulating while others are not. Distinguishing whether or not the post-employment benefits or compensated absences vest or accumulate is important since the accounting recognition of the liability and expense depends on the characteristics of the individual benefit arrangements. Because benefit plans are often complex, careful analysis and professional judgment are needed to determine the substance of a particular plan. The chart included as Appendix A is intended to assist in determining the appropriate accounting standards for various types of benefits.

.12 A benefit vests if, after a specific or determinable date, the employees' right to receive the benefit is no longer conditional on the employees remaining in the service of the government.

.13 A benefit accumulates if the employee rendering service earns the right to the benefit and, based on the length of service provided, the amount of the benefit increases. The benefit is earned but unused; the employee retains the right to use the benefit in future periods. This would be the case even if benefits increase only once as more years of service are rendered. Examples of this type of benefit include severance plans not related to retirement that provide a defined benefit based on years of service and accumulating sick leave entitlements.

.14 Post-employment benefits and compensated absences that vest or accumulate are accounted for in accordance with paragraphs PS 3255.15-.20. Post-employment benefits and compensated absences that do not vest or accumulate (event-driven benefits) are accounted for in accordance with paragraphs PS 3255.21-.25.

**Benefits that vest or accumulate**

.15 For post-employment benefits and compensated absences that vest or accumulate, obligations result from a government promise to provide benefits to employees in return for their services. As employees render services, the value of the post-employment benefits and compensated absences attributed to those services would be recorded as a financial liability and expense. RETIREMENT BENEFITS, Section PS 3250, provides general principles that are appropriate to govern the accounting for and disclosure of post-employment benefits and compensated absences that vest or accumulate. [Former paragraph PS 3255.15, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.16 *A government should recognize a financial liability and an expense for post-employment benefits and compensated absences that vest or accumulate in the period in which employees render services to the government in return for the benefits. RETIREMENT BENEFITS, Section* PS 3250, *should be followed in accounting for such benefits.* [APRIL 2026] [Former paragraph PS 3255.16, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.17 Examples of post-employment benefits and compensated absences are sick days that are paid out when the employee terminates, or sabbaticals in which the leave is granted to provide unrestricted time off for past service. 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 government. In such circumstances, a liability is not accrued in advance for the cost of the employee's services during such leave.

.18 If a benefit vests or accumulates, the accrued benefit obligation is accrued as employees render the service that gives rise to the benefits, assuming payment of benefits is probable and the amounts can be reasonably estimated. The service period would be the period from the date the employee is first eligible for benefits (generally the date of hire) to the expected date of the payment of the benefits.

.19 Sick pay benefits or other benefits that accumulate but do not vest are normally paid only upon an illness or injury-related absence. Such benefits are obligations and would be recognized.

.20 The measurement of the obligation for benefits that accumulate but do not vest would consider the expectation of future utilization of the benefits. After review of the circumstances, it may be determined that this obligation is not significant and may not justify accrual. For example, when measuring the obligation for accumulating non-vesting sick pay benefits, a government would consider the extent to which accumulated sick days are expected to be used by employees.

**Event-driven benefits**

.21 For post-employment benefits or compensated absences that do not vest or accumulate, a liability is recognized when an event that obligates the government occurs. The expected cost of providing the benefits is recognized immediately in the period when the event that obligates the government occurs. For example, benefits provided to employees in the event of an accident or injury would be accrued when the accident or injury occurs. Examples of such benefits are self-insured short-term and long-term disability benefits not related to service and self-insured workers' compensation benefits.

.22 *A government should recognize a financial liability and an expense for post-employment benefits and compensated absences that do not vest or accumulate when the event that obligates the government occurs.* [APRIL 2026] [Former paragraph PS 3255.22, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.23 As noted in paragraph PS 3255.07, RETIREMENT BENEFITS, Section PS 3250, sets out principles appropriate for accounting for and disclosing post-employment benefits and compensated absences. This Section sets out those areas where the accounting and disclosure are different. For event-driven benefits, the treatment of actuarial gains and losses is one such exception.

.24 *For a separately measured plan providing post-employment benefits or compensated absences that do not vest or accumulate, a government should recognize any actuarial gain or loss:*

*(a) immediately, in the period in which it arises; or*

*(b) over a period linked to the type of benefit.* [JAN. 2004]

.25 As an example, actuarial gains and losses arising under a plan providing long-term disability benefits to former employees may be recognized immediately or amortized over the average expected period during which benefits will be paid. Once chosen, the basis for recognizing actuarial gains and losses is applied consistently.

**TERMINATION BENEFITS**

.26 Termination benefits addressed by this Section include early retirement window enhancements, closure benefits and severance benefits relating to a government reorganization or downsizing. Termination benefits are defined in paragraph PS 3255.02.

.27 Some governments provide employee benefits described as termination benefits or severance benefits. Many of these benefits are actually retirement benefits or post-employment benefits rather than termination benefits. Such benefits are payable regardless of the reason for an employee's departure. In other words, the payment of such benefits is certain but the timing of their payment is uncertain. A government would account for such benefits following the standards set out for retirement benefits or post-employment benefits.

.28 *A government should recognize termination benefits as a financial liability and expense when it is demonstrably committed to either:*

*(a) terminate the employment of an employee or group of employees; or*

*(b) provide termination benefits as a result of an offer to encourage voluntary termination.* [APRIL 2026]

[Former paragraph PS 3255.28, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.29 A government is demonstrably committed to provide voluntary special termination benefits when the employee accepts the offer and the amount can be reasonably estimated.

.30 For contractual termination benefits, a government is demonstrably committed when it is probable that the specific event that results in the downsizing and termination of a group of employees will occur and the amount can be reasonably estimated.

.31 A government is demonstrably committed to provide involuntary special termination benefits when:

(a) the government body, management board or person with the appropriate level of authority has committed the government to the plan of termination and establishes the benefits that employees will receive upon their termination of employment;

(b) the termination benefits arrangements have been 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 time frame for implementing the plan has been identified and indicates that significant changes to the plan of termination are not likely.

When all of these factors exist, the government cannot realistically withdraw from a detailed plan for the termination.

.32 If the time frame for implementing a plan relates to several accounting periods, the estimated cost of the involuntary termination benefits would be determined on a present value basis in the current period and recognized as a financial liability and expense in that period. Estimates may need to be re-evaluated as new events occur, as more experience is acquired, or as additional information is obtained. [Former paragraph PS 3255.32, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.33 Terminations may result in increases or decreases in obligations of benefit plans in which terminating employees participate. Changes in liabilities directly related to the termination of employees, such as the value of the additional benefit that arises from the offer of termination benefits, would be accounted for as part of the termination. Accounting for termination benefits does not impact the timing and recognition of actuarial gains and losses.

.34 Other changes in the liability not directly related to the termination of employees would be recognized either in the determination of actuarial gains or losses or as a curtailment gain or loss.

**DISCLOSURE**

.35 For post-employment benefits and compensated absences, financial statements would disclose information similar to the disclosures required in RETIREMENT BENEFITS, Section PS 3250. Some of the required disclosures will not be relevant for certain of these other types of benefits. For example, current period benefit cost and the components of the retirement benefits interest expense may not be relevant for event-driven post-employment benefits. In such circumstances, a simplified basis of disclosure may be appropriate. Professional judgment will be necessary to determine what disclosures will meet the requirements set out in PS 3250.

.36 For post-employment benefits and compensated absences, governments are encouraged to disclose a general description of the plans, information about key assumptions, a reconciliation of assets and accrued benefit obligations from the beginning of a fiscal period to the end of a fiscal period, and the expense for the period. The reconciliation of assets and accrued benefit obligations would specifically identify the effects of termination benefits. Similarly, the expense for the period would specifically identify the amount due to termination benefits.

**EFFECTIVE DATE AND TRANSITIONAL PROVISIONS**

.37 This Section applies to fiscal years beginning on or after January 1, 2004. Earlier adoption is encouraged.

.38 When implementing this Section, governments may have an initial unrecorded liability.

.39 The initial unrecorded liability would be accounted for as a change in accounting policy applied retroactively. This method is recommended because it ensures that all liabilities incurred to the financial statement date are accounted for in the statement of financial position. Such an accounting is needed to help users of financial statements assess the impact those liabilities may have on:

(a) a government's future cash requirements from revenues and other sources;

(b) a government's ability to meet its financial obligations, both short-term and long-term; and

(c) a government's ability to maintain the level and quality of its services and to finance new programs.

.40 *This Section should be accounted for as a change in accounting policy applied retroactively.* [JAN. 2004]

.41 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 3255.15-.16, PS 3255.22, PS 3255.28 and PS 3255.32. The amendments are applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.

**APPENDIX A**

**CHARACTERISTICS OF BENEFIT PLANS**

The following chart assists in determining which paragraphs of this Section apply based on the characteristics of the benefits. The examples provided are illustrative only and are not intended to be a complete listing of the possible types of benefit arrangements. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

| **Does the benefit vest?** | **Does the benefit accumulate?** | **Paragraphs that apply** | **Example of benefit** |
|---|---|---|---|
| Yes | Yes | PS 3255.15-.20 (accrual accounting) | Sick leave bank paid upon termination or retirement |
| | | | >Unrestricted sabbatical |
| Yes | No | PS 3255.15-.20 (accrual accounting) | Future lump sum amounts paid unconditionally under certain job guarantee clauses |
| No | Yes | PS 3255.15-.20 (accrual accounting) | Self-insured long-term disability income benefits where the benefit is a function of years of service |
| | | | Accumulating non-vesting sick leave paid only upon illness-related absence |

| | | | |
|---|---|---|---|
| No | No | PS 3255.21-.25 (event-driven accounting) | Self-insured long-term disability income benefits where the benefit is not a function of service |
| | | | Health and dental benefits that continue during disability |

**APPENDIX B**

**ILLUSTRATIVE EXAMPLE**

The following example has been prepared to illustrate how the standards in Section PS 3255 might be implemented.

The example is illustrative only and matters of principle relating to particular situations should be decided in the context of the Section. It is not intended to indicate preferred formats nor to prescribe standardized note disclosure, as variations in format and wording will be necessary to meet the requirements of differing circumstances. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

For ease of presentation, selections are made from accounting alternatives permitted by the Section.

**Accumulating sick leave bank**

The government provides benefits for sick leave under the following conditions:

(a) All employees receive one day of sick leave per month.

(b) Sick leave can only be used for paid time off for illness of the employee or dependent. Sick leave taken off in time is paid at the employee's normal rate of pay.

(c) Unused sick days are accumulated in a bank. There is no limit to the accumulation of sick leave balances.

(d) If an employee terminates with at least 10 years of service, he or she will be paid in cash for 50 percent of the days accumulated in the sick leave bank. Payment is made at the final pay rate.

The government has a reserve fund set aside to partially fund the liability. This reserve fund was established under government by-law and does not meet the definition of a plan asset as described in RETIREMENT BENEFITS, Section PS 3250. Therefore, for purposes of this Section, the plan is considered unfunded.

In 20X3 the government adopted accrual accounting for the sick leave plan. Prior to that date the government recognized benefit expenses equal to its payments for the actual payouts and no liability for accumulated sick leave was recorded in the statement of financial position.

At the beginning of fiscal year 20X3, an actuarial valuation of the government's obligations for the accumulated sick leave bank was done for accounting purposes using the projected benefit method pro rated on services. Key actuarial assumptions used in the valuation were based on the government's best estimates. Those assumptions involve forecasts of expected future inflation rates, wage and salary increases, cost of long-term debt, and employee turnover and mortality. A second actuarial valuation for accounting purposes was performed at the end of fiscal year 20X5. During the second valuation, the actuarial assumptions included in the first one were reviewed and no changes were considered necessary.

| ($ thousands) | | April 1, 20X2 | March 31, 20X5 |
|---|---|---|---|
| Accrued benefit obligation | | 10,000 | 12,000 |
| Expected average remaining service life of related employee groups (EARSL) | | | 12 |
| Expected current period benefit cost: | | | |
| 20X3 | | 350 | |
| 20X4 | | 380 | |
| 20X5 | | 400 | |
| 20X6 | | | 400 |
| 20X7 | | | 420 |
| 20X8 | | | 440 |
| Expected cost of long-term debt (%) | | 8% | |
| Expected salary escalations | | 5.5% | |
| Expected inflation rates | | 5.5% | |
| Benefit payments | 20X3 | 250 | |
| | 20X4 | 280 | |
| | 20X5 | 290 | |

**Exhibit I — Interest during the year on the average liability for sick leave**

| ($ thousands) | 20X3 | 20X4 | 20X5 | 20X6 |
|---|---|---|---|---|
| Interest on expected average accrued benefit obligation: | | | | |
| Accrued benefit obligation — opening balance (a) | 10,000 | 10,904 | 11,880 | 12,000 |
| Add: Current period benefit cost (b) | 175 | 190 | 200 | 200 |
| Deduct: Benefit payments (b) | (125) | (140) | (145) | (155) |
| Average accrued benefit obligation | 10,050 | 10,954 | 11,935 | 12,045 |
| | ===== | ===== | ===== | ===== |
| Interest at 8% on average accrued benefit obligation (c) | 804 | 876 | 955 | 964 |

(a) In the period of an actuarial valuation, the opening balance of the accrued benefit obligation is the actuarially determined amounts (opening balances 20X3 and 20X6). In the periods between valuations (20X4 and 20X5), the opening balance is equal to the expected closing balance for the previous year.

(b) Accrued, or assumed to take place, evenly throughout the year, therefore interest is accrued on one-half of the total.

(c) Interest during the year on average liability outstanding during the year = 8% of average accrued benefit obligation.

**Exhibit II — Expected closing balance of accrued benefit obligation**

| ($ thousands) | 20X3 | 20X4 | 20X5 | 20X6 |
|---|---|---|---|---|
| Accrued benefit obligation — opening balance (a) | 10,000 | 10,904 | 11,880 | 12,000 |
| Add: Current period benefit cost | 350 | 380 | 400 | 400 |
| Interest accrued (Exhibit I) | 804 | 876 | 955 | 964 |
| Deduct: Benefit payments | (250) | (280) | (290) | (310) |
| Expected closing balance | 10,904 | 11,880 | 12,945 | 13,054 |
| | ===== | ===== | ===== | ===== |

(a) A straight-line method is used to amortize actuarial gains and losses over the expected average remaining service life of the related employee groups. Amortization commences in the year following the effective date of the related actuarial valuation.

**Exhibit III — Amortization of actuarial gains / losses on accrued benefit obligation (a)**

| ($ thousands) | 20X3 | 20X4 | 20X5 | 20X6 |
|---|---|---|---|---|
| Expected closing balance of accrued benefit obligation at March 31 (Exhibit II) | N/A | N/A | 12,945 | N/A |
| Actual accrued benefit obligation (per the March 31, 20X3 actuarial valuation) | | | 12,000 | |
| Actuarial gain (loss) | | | 945 | |
| | | | ====== | |
| EARSL | | | 12 years | |
| Annual amortization over EARSL | | | 79 | |

(a) A straight-line method is used to amortize actuarial gains and losses over the expected average remaining service life of the related employee groups. Amortization commences in the year following the effective date of the related actuarial valuation.

**Exhibit IV — Unamortized actuarial gains and losses**

| ($ thousands) | 20X3 | 20X4 | 20X5 | 20X6 |
|---|---|---|---|---|
| Unamortized actuarial gains and losses — opening balance | N/A | N/A | — | 945 |
| Actuarial gains (losses) due to: | | | | |

| | | |
|---|---|---|
| — accrued benefit obligation (Exhibit III) | 945 | — |
| Amortization recorded during the year: | | |
| — accrued benefit obligation (Exhibit III) | — | 79 |
| | 945 | 866 |
| | === | === |

**Exhibit V — Liability for accumulating sick leave recorded in the statement of financial position**

| ($ thousands) | 20X3 | 20X4 | 20X5 | 20X6 |
|---|---|---|---|---|
| Accrued benefit obligation — closing balance (a) (Exhibit II) | 10,904 | 11,880 | 12,000 | 13,054 |
| Unamortized actuarial gains / losses (Exhibit IV) | — | — | 945 | 866 |
| Liability for accumulating sick leave | 10,904 | 11,880 | 12,945 | 13,920 |
| | ===== | ===== | ===== | ===== |

(a) In the period of an actuarial valuation, this is the actuarially determined amount (closing balance 20X5). In the periods between valuations, this is an expected closing balance.

**Exhibit VI — Expenses recorded in the statement of operations**

| ($ thousands) | 20X3 | 20X4 | 20X5 | 20X6 |
|---|---|---|---|---|
| Sick leave expense: | | | | |
| Current period benefit cost | 350 | 380 | 400 | 400 |
| Amortization of actuarial gains / losses (Exhibit III) | — | — | — | 79 |
| Sick leave benefit expense | 350 | 380 | 400 | 321 |
| Sick leave interest expense (Exhibit I) | 804 | 876 | 955 | 964 |
| Total expenses related to sick leave benefits | 1,154 | 1,256 | 1,355 | 1,285 |
| | ==== | ==== | ==== | ==== |