



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 28 FEBRUARY 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: PAUL SUTCLIFFE & JOHN STANFORD
SUBJECT: SOCIAL SECURITY PENSIONS

ACTION REQUIRED

Members are asked to:

- **Review** the extracts from a draft ED on State Pensions and provide further directions for development of a full draft ED; and
- **Note** the response of the Advisory Expert Group to the proposals of the Task Force on Employers' Retirement Schemes for modifications to the SNA for pensions and employee pensions.

AGENDA MATERIAL

	Pages
9.2 Extracts of Draft ED on Social Security Pensions	9.4 – 9.24
9.3 Report on SNA revision as recommended by Advisory Expert Group	To be tabled

DRAFT ED ON SOCIAL SECURITY PENSIONS

Introduction and Background

A further version of the ED extracts is at Agenda Item 9.2. Only a clean copy is included. A marked-up copy showing changes from the version on the agenda papers for Cape Town is available from staff on request.

At the Cape Town meeting members agreed that for this meeting the extracts of the ED on basic/welfare pensions should be redrafted to reflect that “staying alive” should not be included as an implicit eligibility criterion and that present obligations arise on a “due and payable” basis. Members noted they could usefully consider the implications of this approach for dealing with social security pensions and directed that the scope of the revised extracts provided for consideration at this meeting not be limited to the basic/welfare pension, but should also include the general/contributory pension. Members also directed that additional disclosures should be developed providing an assessment of the present value of future cash transfers to current participants of pension programs and major age-related cash transfers. Whether or not this approach would be further developed and its scope, would then be dependant on discussion at this meeting.

These directions mirrored those for non-age related social benefits at Agenda Item 8. The rationale is that the obligating events for the basic/welfare pension, the general/contributory pension and other age related cash transfers are the same: the satisfaction of all eligibility

criteria and the date at which the amount “due” becomes legally “payable”. In common with non-age related cash transfers considered at Agenda Items 8.1 and 8.2 the present obligation does not extend beyond the next date at which a transfer is to be legally made. This means that at the reporting date liabilities are only the amounts that are legally payable before or at the reporting date and are outstanding at the reporting date. Disclosure requirements in this draft are analogous to those for non-age related social policy obligations at Agenda Item 8.2.

Scope of the project

The scope exclusions in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* included:

- Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of the goods and services provided, directly in return from the recipients of those benefits; and
- Those arising from employee benefits except employee termination benefits arising as a result of a restructuring as dealt with in this Standard.

The scope of the ED extracts at Item 8.2 includes all age-related social benefits. These are the basic/welfare pension, the general/contributory pension, age-related cash transfers and age-related individual goods and services provided in non-exchange transactions. Both the basic/welfare pension and the general contributory pension share the common characteristic that the benefits provided are not approximately equal in value to the contributions made by individuals and are therefore non-exchange transactions. For the basic/welfare pension any benefits provided are not related to the amount of any contributions. The general/contributory pension does involve contributions and the amount of benefits may vary with the amount of those contributions, but transactions involving the general/contributory pension are non-exchange transactions.

The ED extracts do not address non-age related social benefits, where there is no eligibility criterion that individuals have reached a pensionable age laid down in legislation, nor do they deal with employee benefits as these are exchange transactions.

In some jurisdictions the general/contributory pension (and possibly the basic/welfare pension) might be administered through composite social security schemes, which provide post-employment benefits as consideration for services rendered as government employees and to employees of private sector entities in return for consideration provided to the government or government scheme by the private sector employer. In these cases, the composite social security scheme includes both exchange and non-exchange transactions. The ED extracts do not deal with obligations in composite social security schemes that arise from exchange transactions, including in exchange transactions in respect of contributions made by, or on behalf of private sector employees.

Members are asked to provide directions on whether the “due and payable” approach is to be adopted and further developed as necessary for both the basic/welfare pension and the general/contributory pension, and whether that development is to reflect that the basic/welfare and general/contributory components should be combined. In addition, members are requested to provide directions on additional disclosures and refinements to this approach. At a future point members will need to determine whether a full ED covering the basic/welfare pension, the general/contributory pension and age-related cash transfers should

be developed, or, alternatively whether these areas should be consolidated into the general social policy obligations ED on non-age related social benefits at Agenda Item 8.2.

PROPOSALS FOR CHANGES IN THE SNA

The Cape Town agenda papers contained a report by the Task Force on Employers' Retirement Schemes containing proposals for modifications to the current approach to pensions and retirement benefits in the System of National Accounts (SNA). An accompanying paper developed by staff highlighted the main points from an accrual accounting perspective. The proposals of the Task Force were considered by the Advisory Expert Group at a meeting in February 2006. It is hoped that a report of that meeting will be available to be tabled.

Draft Extract of ED for IPSASB Review March 2006

Accounting for State Pensions
(and other age-related social
benefits)

**Extracts for consideration for inclusion in
Proposed International Public Sector Accounting
Standard**

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

Accounting for State Pensions (and other age related social benefits)

Objective

1. The objective of this (extract of) Standard is to establish requirements for accounting for state pension arrangements in non exchange transactions. It includes basic/welfare pensions, general/contributory pensions and other age-related cash transfers in which no contribution is made or where some contribution is required to access benefits, but the amount of the contribution is not approximately equal to the benefits provided. It excludes pensions provided as consideration in an exchange transaction, including the provision of post-employment benefits to the employees of public sector entities.
2. The Standard applies both to arrangements where there is no relationship between the amounts of the pension benefits and the amount of contributions made by either an individual or a third party such as an employer, and also to arrangements where the amount of benefits is partially dependant upon the amount of contributions made by either an individual or third parties, including employers, but the benefits provided are not approximately equal to the value of the contributions made. The Standard also deals with certain other social benefits of government provided in non-exchange transactions only to recipients that have reached a specified pensionable age laid down in legislation. Such benefits are provided by governments and other public sector entities to address a number of age-related social risks facing individuals and households.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for:**

- (a) **Basic/welfare pensions;**
- (b) **General/contributory pensions;**
- (c) **Age-related cash transfers; and**
- (d) **Age-related individual goods and services.**

(Staff Note 1: The above paragraph is only needed if this is a stand alone ED.)

4. Many jurisdictions have programs or arrangements to provide benefits for individuals who have reached a specified age. Such benefits are often cash transfers which enable an individual to supplement their own resources or resources from post-employment benefits provided as consideration for services rendered as employees. Such cash transfers are commonly known as pensions. Benefits under pension arrangements may be dependent upon the amount of contributions paid over a recipient's working life by either the individual or his/her employer. Benefits, which are dependant on the amount of contributions are within the scope of this Standard unless the benefits provided are approximately equal to the contributions made.

5. In some cases certain cash transfers may be referred to as pensions although entitlement does not depend on reaching the specified pensionable age laid down in legislation, for example disability pensions payable to individuals who are considered no longer capable of working due to injury or certain medical conditions. This Standard does not apply to such cash transfers.

6. Age related social benefits also include individual goods and services, such as health care. They may also include ancillary age-related cash transfers, eligibility for which is restricted to individuals that have reached pensionable age. For example, in some jurisdictions there may be forms of housing benefit or additional income support that are only available to those who have reached pensionable age, perhaps where the

eligibility criteria for the basic/welfare pension are rigorous and individuals are not entitled to a full benefit under the basic/welfare pension. In jurisdictions with cold winter climates there may be programs to subsidize the utility bills of individuals who have reached a specified age. Such programs reflect the increased vulnerability of the aged to hypothermia and the fact that utility bills are likely to consume a larger proportion of an individual's income than for an individual still in the workforce. Transactions relating to such programs are within the scope of this Standard if the value of the resources transferred is not approximately equal to the value of any contributions made by recipients.

7. This Standard does not apply to employee benefits, including post-employment benefits provided to government employees or non-government employees in exchange for their services as employees. Such benefits are exchange transactions. Requirements in respect of employment benefits should be accounted for in accordance with the separate Standard dealing with employee benefits.

8. In some jurisdictions the government or other public sector entity acts as the guarantor of last resort for all or part of the benefits payable where a private sector retirement benefit plan is unable to meet obligations.. In order to meet such guarantees government may operate a fund financed by contributions levied on some or all defined benefit plans operating in a jurisdiction and may have powers to impose further conditions on defined benefit plans. Alternatively, such guarantees, where called upon, may be financed from general taxation. Such guarantees may give rise to provisions or contingent liabilities. However, they are not social security pensions or age related cash transfers and are not within the scope of this Standard.

Government Business Enterprises

(Staff Note 2: Usual exclusion will be included if this is a stand alone ED)

Definitions

9. **The following terms are used in this Standard with the meanings specified:** *(Staff Note 3: Additional definitions will be added as needed if this becomes a stand alone ED)*

Age related cash transfers are cash transfers, other than a pension, payable only to individuals who have reached pensionable age, where the amount of the transfer is not approximately equal to the amount of any contributions made by or on behalf of the recipient.

Age related goods and services are goods and services provided only to individuals who have reached pensionable age, where the amount of the resources transferred is not approximately equal to the amount of any contributions made by or on behalf of the recipient.

A **basic/welfare aged pension** is a cash transfer payable only to individuals who have reached pensionable age, where the amount of the transfer is not related to the amount of any contributions made by or on behalf of the beneficiary .

A **cash transfer** is a non-exchange transaction in cash, or an expense paid through the tax system, to protect individuals against certain social risks where use of the cash payment is at the discretion of the individual.

Composite social security schemes are programs established by legislation that:

- a) Operate as multi-employer plans to provide post-employment benefits; and
- b) Provide benefits that are not consideration in exchange for service rendered by employees

A cash transfer is **“due and payable”** when eligibility criteria have been satisfied and, in accordance with legislation , regulations and other authorities the date at which the transfer is to be made has been reached.

An **eligibility criterion** is a requirement that an applicant must meet for entitlement to individual goods and services and cash transfers.

A **general/contributory aged pension** is a cash transfer payable only to individuals who have reached pensionable age where the amount of the transfer may be dependant on the amount of any contributions made by or on behalf of the

beneficiary but the benefits provided are not approximately equal to the contributions.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

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

- (a) pool the assets contributed by various entities that are not under common control; and**
- (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.**

A participant in a cash transfer program is an individual that has satisfied all eligibility criteria at the reporting date.

Pensionable age is an age specified in legislation at which an individual becomes eligible for individual social benefits and cash transfers not otherwise provided.

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment

A social risk is an event or circumstance that may adversely affect the welfare of individuals or households either by imposing additional demands on their resources or by reducing their incomes.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards and are reproduced in the Glossary of Defined Terms published separately.

Aged Pensions

10. Many jurisdictions provide cash transfers known as pensions to those who have reached a specified age laid down in legislation -defined in this Standard as the pensionable age. There are two principal types of aged pension:

- the basic/welfare pension; and
- the general/contributory pension

Basic/Welfare Pensions

11. Arrangements for the basic/welfare pension vary significantly in different jurisdictions. In many jurisdictions basic/welfare pension programs do not require any contributions by or on behalf of individuals. They operate as “safety nets” for individuals, who have not met the eligibility criteria for the general/contributory pension or whose contribution record is insufficient to provide more than a low level of benefits under the general/contributory pension. The key characteristics of the basic/welfare pension as defined in this Standard are that the cash transfers payable :

- are only available to those who have reached pensionable age; and
- are not dependant on the amount of any contributions made by or on behalf of an individual or on an individual’s earnings.

12. In some jurisdictions eligibility criteria may need to be satisfied for the basic/welfare aged pension additional to the criterion that individuals have reached pensionable age. Worldwide there is very significant variation in both the eligibility criteria and the way these criteria operate. For example, criteria may include the period for which an individual has been a taxpayer. Where an individual has only recently established residency in a jurisdiction or where a continuous period of residency was interrupted, there may be reductions in entitlement levels.

13. The regulations governing the basic/welfare pension in some jurisdictions may require an individual to have a record of making contributions over a specified period in order to be eligible for a full entitlement. An abatement from the full entitlement applies where an

individual's contribution period is below that period. There may also be requirements that an individual have a record of making contributions over a minimum period in order to be eligible for any entitlement under a program. However, such conditions are in the nature of threshold requirements and the benefits payable are not related to the amount of those contributions.

14. In some jurisdictions, the basic/welfare pension is means-tested. For example, individuals whose annual income and/or assets are above specified thresholds may forfeit eligibility completely or may be subject to an abatement from the full entitlement.

15. In some jurisdictions the basic/welfare aged pension may be provided as part of a composite social security scheme that includes the general/contributory scheme and a post-employment plan. In other jurisdictions, the basic/welfare aged pension is administered separately from any general/contributory scheme and post-employment plan.

General/Contributory Pensions

16. The main characteristic of general/contributory pension schemes is that they require contributions by or on behalf of an individual during their working lives or other periods specified in governing legislation or regulations and benefits are related to the amount of those contributions. However, the benefits provided are not approximately equal to the value of the contributions made. As for the basic/welfare scheme there may be other eligibility criteria involving factors such as residency.. General/contributory programs may be administered on a stand-alone basis or together with the basic/welfare scheme in a composite social security program. If the composite social security scheme is used to administer both benefits provided as consideration for employment services rendered and benefits which are not consideration for employment services rendered it will be necessary to distinguish the two components. Only the latter will be within the scope of this Standard.

Age-Related Cash Transfers

17. Certain programs, other than the basic/welfare and general/contributory pensions, involve cash transfers which are payable only to those who have reached pensionable age. In some cases such programs may be linked to the basic/welfare program. For example, in some jurisdictions further cash transfers may be payable to those who are

ineligible for the basic/welfare program or who have not qualified for the full entitlement under that program.

18. The key characteristic shared by basic/welfare and general/contributory pensions and age-related cash transfers is that the purposes for which the cash transfers may be used are at the discretion of the recipient. If a recipient has to validate that the cash has been used for a specified purpose the transaction is a reimbursement rather than a cash transfer and is to be treated as an individual good or service.

Due and Payable

19. This Standard uses the term “due and payable” in the context of cash transfers arising from the basic/welfare pension, the general/contributory pension and age-related cash transfers. The term indicates that

- an individual has satisfied all eligibility criteria; and
- the date laid down in legislation or regulations on which the next cash transfer is to be made as a result of satisfaction of those eligibility criteria has been reached.

(Staff Note 3: If a decision is taken by members to proceed with a separate ED it will be necessary to insert grey letter commentary on age-related goods and services. Such commentary will be similar to paragraphs 13-16 of Agenda Item 8.2.)

(Staff Note 4: If a decision is taken by members to proceed with a separate ED the following terms will be defined and included in paragraph 9 and commentary will be inserted on the definitions. These definitions will be the same as those in paragraph 10 of Item 8.2 and the commentary will be the same as paragraphs 21-31 of Agenda Item 8.2.

- **Obligating Events and Present Obligations**
- **Legal Obligations and Constructive Obligations,**
- **Contingent Liabilities**

Present Obligation: Age Related Individual Goods and Services

(Staff Note 5: Requirements in relation to present obligations will mirror those in paragraphs 32-36 of Agenda Item 8.2 i.e. no present obligation arises before goods and services are delivered and then to the provider/deliverer rather than to the beneficiary)

Present Obligation: Basic/Welfare Pensions, General/Contributory Pensions and Age Related Cash Transfers

20. A present obligation for basic/welfare pensions, general/contributory pensions and age-related cash transfers arises when such transfers are due and payable.

21. This Standard requires an entity to recognize a liability for the basic/welfare pension, the general/contributory pension and age-related cash transfers when an individual satisfies all eligibility criteria laid down in the legislation, regulations or authorities governing the program and the amount due as a result of satisfaction of those eligibility criteria is payable. This is because, where eligibility criteria have been satisfied and the amount due as a result is payable, an entity will have no realistic alternative but to settle its obligations for a transfer of resources for the amount payable

22. This Standard acknowledges that governments can modify eligibility criteria. However, it is unlikely that such changes will be retrospective. The assessment of whether a government has no realistic alternative but to settle an obligation is made within the framework of existing legislation. Whilst governments can modify eligibility criteria it is unlikely that such changes will be retrospective. This Standard takes the view that it should not pre-empt that legislative changes will occur, or what those changes may be. Changes in present obligations arising from legislative change are therefore made only when such changes have been enacted or are virtually certain to be enacted. This Standard therefore reflects the view that a government has no realistic alternative but to provide to recipients payments of pensions and other age-related cash transfers they are presently entitled to as a consequence of satisfying eligibility criteria when those amounts become payable.

23. Under certain programs and arrangements an individual or household will purchase specified goods and services from a third party and seek reimbursement from a public sector entity rather than receiving goods and services directly from the public sector entity or third party. Where an individual purchases goods and services and seeks reimbursement from a public sector entity a present obligation will arise at the point at which the goods and services are provided to the individual, provided it can be demonstrated that the individual had a prior authorization to purchase the goods and services and had met all eligibility criteria and the entity providing the reimbursement has sufficient information to measure the amount outstanding reliably. Under such circumstances the individual is, in substance, acting as an agent of the public sector entity and is incurring expenditure on behalf of that entity.

Initial Recognition

24. Where a present obligation has arisen a liability in respect of a cash transfer shall be recognized when:

- (a) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and**
- (b) a reliable estimate can be made of the amount of the obligation**

Probable Outflow of Resources Embodying Economic Benefits or Service Potential

25. For a liability arising from a present obligation to be recognized an outflow of resources embodying economic benefits or service potential must be probable. There may be rare instances where a present obligation arises from a legal obligation, but it is deemed that an outflow of economic benefits and service potential is not probable. In such cases an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Reliable Estimates

26. There may be cases where, although a liability exists, no reliable estimate can be made of the amount. In the context of the requirements of this Standard in relation to social benefits such instances are likely to be extremely rare. Where no reliable estimate can be made a liability exists that cannot be recognized. That liability is disclosed as a contingent liability (see paragraph 31)

Contingent Liabilities

(Staff Note 6: Requirements relating to Contingent Liabilities will mirror those in SPO ED at paragraphs 43-44 of ED at Item 8.2)

Measurement : Basic/Welfare Pensions, General/Contributory Pensions and Age Related Cash Transfers

27. **The amount recognized as a liability in respect of the basic/welfare pension, the general/contributory pension and age-related cash transfers shall be the amounts that are due and payable at the reporting date.**
28. Under the requirements of this Standard liabilities arise at the reporting date for the basic/welfare pension, the general/contributory pension and age-related cash transfer programs for amounts due and payable and outstanding at the reporting date. In accordance with the definition of “due and payable” in paragraph 9 no liability is recognized if the eligibility criteria have been satisfied, but, under the terms of governing legislation, regulations or authorities the amount to which eligibility has been validated is not payable until after the reporting date.

Presentation and Disclosures

Line Items

29. The amount of Liabilities Arising from the Basic/Welfare Pension, the General/Contributory Pension and Age-Related Cash Transfers shall be separately disclosed on the face of the Statement of Financial Position.

30. This Standard. requires governments to present the aggregate amount of liabilities related to the basic/welfare pension, the general/contributory pension and age-related cash transfers as a separate line item on the face of the Statement of Financial Position. In accordance with the requirements of paragraph 90 and 122 (c) of IPSAS 1 (to be updated when revised IPSAS 1 is approved) an entity will include additional line items on the face of the statement of financial position or, by way of note disclosure, additional information which is not presented on the face of the financial statements, when such information is necessary for a fair presentation.

Contingent Liabilities

31. Unless the possibility of any outflow in settlement is remote, an entity should disclose for the basic/welfare pension, the general/contributory pension and age-related cash transfers as one class at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) An estimate of the aggregate financial effect, measured under paragraphs 27-28;**
- (b) An indication of the uncertainties relating to the amount or timing of any outflow; and**
- (c) The possibility of any reimbursement.**

32. In accordance with (Staff Note 6) an entity does not recognize a contingent liability. For the basic/welfare pension. general/contributory pension and age-related cash transfers a contingent liability will be disclosed where a large number of individuals have applied for a pension

or other age-related benefit, but, due to ambiguity over interpretation of the rules governing the program, there is uncertainty over whether one or more of the eligibility criteria have been met. If the eligibility criterion/criteria in question had been met the individuals would have been entitled to receive a payment before or on the reporting date.

33. This may have led to a legal action by applicants that should result in a clarification of the nature and extent of any liability. If the results of this legal action will not be known until after the reporting date then a contingent liability will be disclosed unless the possibility of a judgment inimical to the government is remote. Such a disclosure includes, where feasible, an estimate of the financial implications in the event of the court deciding that the eligibility criterion/criteria in question has been satisfied. The financial effect of the contingency is the aggregate amount that is due and payable in the event of the success of the legal action by the applicants.

34. In accordance with the requirements in this Standard(see Staff Note 5) there are no obligating events in respect of age-related individual goods and services until the goods and services are delivered, and then only to the provider of goods and services to the reporting entity. Therefore an entity does not disclose the existence of a contingent liability in respect of age-related individual goods and services.

Disclosure of Information on Present Value of basic/welfare pension, general/contributory pension and major age-related cash transfer programs and arrangements

35. An entity shall disclose in a separate statement the present value of future cash transfers for the basic/welfare pension, the general/contributory pension and all major age-related cash transfer programs and arrangements for all participants at the reporting date.

36. The disclosure required by this Standard is for the present value of cash transfers for current participants at the reporting date. In accordance with the definition at paragraph 8 a participant is an individual who has satisfied all eligibility criteria at the reporting date. The disclosure does not include individuals, who are making contributions or for whom contributions are being made by third parties, if those individuals have not satisfied all eligibility criteria. For example

if a general/contributory pension has a pensionable age of 62 years the disclosure would not include an estimate of the present value of future cash transfers for any individual who has not reached the age of 62 years. In making the disclosure an entity needs to be aware of amounts that are payable to the estate of a deceased participant, for example where the terms of a pension or major age-related cash transfer program provide for a lump sum to be paid to a participant's estate in the event of the participant's death

37. The disclosure is made in the context of the current legislative framework for pensions and other major age-related cash transfer programs. In accordance with paragraph 22 the disclosure does not take account of possible changes to the legislative framework, for example a broadening or narrowing of eligibility criteria, unless such change has been enacted or is virtually certain to be enacted.

38. In making an assessment of the present value of future cash transfers the entity shall discount the projected amount of those future cash transfers. The discount rate used will reflect the estimated timing of benefit payments and will be related to the yield on government bonds at the reporting date.

39. This Standard requires entities to use a discount rate which reflects the time value of money. This is the yield on government bonds. The discount rate should reflect market yields at the reporting date on government bonds with an expected term consistent with the expected term of the cash transfers. In rare cases there may be cash transfers which are payable beyond the final maturity of available government bonds. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of cash transfers under a pension program or age-related cash transfer program or arrangement is unlikely to be particularly sensitive to the discount rate applied to cash transfers that are payable beyond the final maturity of the available corporate or government bonds

40. An entity shall disclose the following information for the basic/welfare pension, the general/contributory pension and each major age-related cash transfer program:

(a) A general description of the basic/welfare pension, the general/contributory pension and each major age-related cash

transfer program, including the principal legislation and regulations governing the program or arrangement and the number of participants at the reporting date.

(b)The rate used to discount future cash transfers to their present value.

(c)Estimated future increases of benefits under each pension and other major program.

(d)The principal actuarial assumptions, if any, used at the reporting date.

(e)Changes to the principal actuarial assumptions since the last reporting date.

(f)Comparative figures for the 4 years immediately preceding the reporting period.

41. The projections needed in order to make the disclosures are likely to require actuarial assumptions. The principal actuarial assumption for pensions and other age-related cash transfer programs is life expectancy. However, other demographic factors such as emigration and the extent to which existing participants will cease to satisfy other eligibility criteria and financial factors including future benefit increases may require actuarially based assessments.

42. Where actuarial assumptions are used this Standard requires the disclosure of the principal assumptions used to provide the projections of future cash transfers and any changes to those assumptions since projections disclosed at the previous reporting date. This information is useful in facilitating the assessment of the viability of the projections. The Standard also requires comparative information, which provides an indication of the rate at which the projected financial impact of a particular cash transfer program or arrangement is decreasing.

43. Professional judgment is applied in determining which age-related cash transfer programs are major programs by reference to the qualitative characteristics of financial reporting in IPSAS 1. Such a judgment is based primarily on the current annual expenditure of a program.

44. The disclosures required by this Standard may be a useful input to assessments of the sustainability of key pension programs and major age-related cash transfer programs. However, such assessments need to take into account a wide range of factors not addressed in this Standard.

Transitional Provisions

45. The full requirement for comparative information at paragraph 40 (f) does not take effect until a date five years after the adoption of this Standard. During this 5 year period entities are required to provide comparative information on an incremental basis. There is no requirement for comparative information in the first year of adoption of this Standard.

46. This Standard does not require the disclosure of full comparative information on the projected cost of major cash transfer programs until a date five years after the initial adoption of this Standard. During the period between initial adoption and the fifth year of adoption entities are required to disclose comparative information about the projected cost of pensions and major age-related cash transfer programs on an incremental basis i.e. on the first year of adoption entities are only required to disclose projected cost information for that year, in the second year cost information for that year and the initial year until at the of the fifth year a disclosure, which fully reflects the requirements of paragraph 40 (f) can be made. Entities are encouraged to present full comparative information if possible before the end of the transitional period .

Effective Date

(Staff Note 7: To be considered when approach determined)

PROJECTIONS OF FUTURE CASH TRANSFERS OF PENSION PROGRAMS AND A MAJOR AGE-RELATED CASH TRANSFER PROGRAM: ILLUSTRATIVE EXAMPLE

Basic/Welfare Pension

<i>Present Value of Future Cash Transfers for Current Participants</i>	31 Dec 20x5 (millions of currency units)	31 Dec 20x4 (millions of currency units)	31 Dec 20x3 (millions of currency units)	31 Dec 20x2 (millions of currency units)	31 Dec 20x1 (millions of currency units)
Benefit Payments	1,000	950	910	880	860

Notes

Basic/Welfare Pension

1. The basic/welfare pension is administered under the provisions of the Social Assistance Act 1962 as amended by the Social Assistance Acts of 1990 and 2002. Regulations laid under these Acts provide a number of detailed requirements.
2. The basic/welfare pension is payable to all individuals over the age of 62 years who have been residents for a minimum of ten years when they reach the age of 62 years and have annual incomes not higher than 20,000 currency units per annum and assets no greater than 50,000 currency units. Basic/welfare pension is not payable to individuals who are no longer residents. As at 31 December 20x5 1,500,000 individuals were in receipt of benefit, compared with 1,490,000, at 31 December 20x4.
3. In making the projections key assumptions in relation to those who are in receipt of the basic/welfare pension are that (figures in brackets indicate where these assumptions have changed since 31 December 20x4):
 - the average life expectancy for individuals eligible and in receipt of the basic/welfare pension is 83 years 2 months for women and 78 years 5 months for men (83 years 1 months for women and 78 years 3 months for men)
 - 2.4% of those eligible and in receipt of the basic/welfare pension will cease to satisfy eligibility requirements related to

- annual income and asset holdings over the 4 years following the reporting date
- 1.1% of those eligible and in receipt of the basic/welfare pension will cease to maintain resident status and will forfeit eligibility as a result.
4. It is assumed that the basic/welfare pension will increase in line with government targets for inflation plus one percentage point. Currently the inflation target is 2% a year.
 5. Because of the time value of money cash outflows in years immediately following the reporting date are more onerous than those arising in later years. For this reason projections are discounted. For this purpose a discount rate determined by reference to the yield on government bonds is used. This is a weighted average discount rate that reflects the estimated timing and amount of projected transfer payments. The rate used at the reporting date is 2.2% real. This compared with a rate of 2.1% real at 31.12 20x4.
 6. The potential costs are determined on the basis of actuarial estimates made by the Government's in-house actuary

General/Contributory Pension

<i>Present Value of Future Cash Transfers for Current Participants</i>	31 Dec 20x5 (millions of currency units)	31 Dec 20x4 (millions of currency units)	31 Dec 20x3 (millions of currency units)	31 Dec 20x2 (millions of currency units)	31 Dec 20x1 (millions of currency units)
Benefit Payments	2,000	1,950	1,920	1, 870	1, 855

Notes

General/Contributory Pension

1. The general/contributory pension is administered under the provisions of the Social Security Act 1966 as amended by the Social Security Acts of 1988 and 2003. Regulations laid under these Acts provide a number of detailed requirements.
2. The general/contributory pension is payable to all individuals over the age of 62 years who have a record of contributions of at least 5 years. The general/contributory pension not subject to a residency requirement.

As at 31 December 20x5 1,800,000 individuals were in receipt of benefit, compared with 1,780,000, at 31 December 20x4.

3. In making the projections key assumptions in relation to those who are in receipt of the general/contributory pension are that (figures in brackets indicate where these assumptions have changed since 31 December 20xy):

- the average life expectancy for individuals eligible and in receipt of the general/contributory pension is 84 years 1 months for women and 79 years for men (83 years 11 months for women and 78 years 11 months for men)

4. It is assumed that the general/contributory pension will increase in line with government targets for inflation plus one percentage point. Currently the inflation target is 2% a year.

5. Because of the time value of money cash outflows in years immediately following the reporting date are more onerous than those arising in later years. For this reason projections are discounted. For this purpose a discount rate determined by reference to the yield on government bonds is used. This is a weighted average discount rate that reflects the estimated timing and amount of projected transfer payments. The rate used at the reporting date is 2.3% real. This compared with a rate of 2.2% real at 31.12 20x4.

6. The potential costs are determined on the basis of actuarial estimates made by the Government's in-house actuary

Age-Related Income Support

<i>Present Value of Future Cash Transfers for Current Participants</i>	31 Dec 20x5 (millions of currency units)	31 Dec 20x4 (millions of currency units)	31 Dec 20x3 (millions of currency units)	31 Dec 20x2 (millions of currency units)	31 Dec 20x1 (millions of currency units)
Benefit Payments	150	145	142	140	139

Notes

Age-Related Income Support

1. Age-related income support is administered under the provisions of the Social Assistance Act 1992 as amended by the Social Assistance Act of 2002. Regulations laid under these Acts provide a number of detailed requirements.

2. Age-related income support is payable to all individuals over the age of 62 years who meet the criteria for the basic/welfare pension for annual income and asset holdings-i.e. have annual incomes not higher than 20,000 currency units per annum and assets no greater than 50,000 currency units- but do not meet the residency requirement for the basic/welfare pension. Age-related income support is not payable to individuals who are no longer residents. As at 31 December 20x5 200,000 individuals were in receipt of benefit, compared with 198,000 at 31 December 20x4.
3. In making the projections key assumptions in relation to those who are in receipt of age-related income support is that (figures in brackets indicate where these assumptions have changed since 31 December 20x4):
 - the average life expectancy for individuals eligible and in receipt of age-related income support is 81 years 7 months for women and 77 years 2 months for men (81 years 6 months for women and 77 years 1 months for men)
 - 4.2% of those eligible and in receipt of the basic/welfare pension will cease to satisfy eligibility requirements related to annual income and asset holdings over the 4 years following the reporting date
 - 5.2 % of those eligible and in receipt of age-related income support will cease to maintain resident status and will forfeit eligibility as a result.
4. It is assumed that age-related income support will increase in line with government targets for inflation plus one percentage point. Currently the inflation target is 2% a year.
5. Because of the time value of money cash outflows in years immediately following the reporting date are more onerous than those arising in later years. For this reason projections are discounted. For this purpose a discount rate determined by reference to the yield on government bonds is used. This is a weighted average discount rate that reflects the estimated timing and amount of projected transfer payments. The rate used at the reporting date is 2.2% real. This compared with a rate of 2.1% real at 31.12 20xy.
6. The potential costs are determined on the basis of actuarial estimates made by the Government's in-house actuary