

Attributing Benefit to Periods of Service (IAS 19 *Employee Benefits*)

The Committee received a request about the periods of service to which an entity attributes benefit for a particular defined benefit plan. Under the terms of the plan:

- a. employees are entitled to a lump sum benefit payment when they reach a specified retirement age provided they are employed by the entity when they reach that retirement age; and
- b. the amount of the retirement benefit to which an employee is entitled depends on the length of employee service with the entity before the retirement age and is capped at a specified number of consecutive years of service.

To illustrate the fact pattern described in the request, assume an entity sponsors a defined benefit plan for its employees. Under the terms of the plan:

- a. employees are entitled to a retirement benefit only when they reach the retirement age of 62 provided they are employed by the entity when they reach that retirement age;
- b. the amount of the retirement benefit is calculated as one month of final salary for each year of service with the entity before the retirement age;
- c. the retirement benefit is capped at 16 years of service (that is, the maximum retirement benefit to which an employee is entitled is 16 months of final salary); and
- d. the retirement benefit is calculated using only the number of consecutive years of employee service with the entity immediately before the retirement age.

Paragraphs 70–74 of IAS 19 require an entity to attribute benefit to periods of service under the plan’s benefit formula from the date when employee service first leads to benefits under the plan until the date when further employee service will lead to no material amount of further benefits under the plan.

Paragraph 71 requires an entity to attribute benefit to periods in which the obligation to provide post-employment benefits arises. That paragraph also specifies that the obligation arises as employees render services in return for post-employment benefits an entity expects to pay in future reporting periods.

Paragraph 72 specifies that employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service an employee will have to render before becoming entitled to the benefit is reduced.

For the defined benefit plan illustrated in this agenda decision:

- a. if an employee joins the entity before the age of 46 (that is, there are more than 16 years before the employee’s retirement age), any service the employee renders before the age of 46 does not lead to benefits under the plan. Employee service before the age of 46 affects neither the timing nor the amount of the retirement benefit. Accordingly, the entity’s obligation to provide the retirement benefit arises for employee service rendered only from the age of 46.
- b. if an employee joins the entity on or after the age of 46, any service the employee renders leads to benefits under the plan. Employee service rendered from the date of employment affects the amount of the retirement benefit. Accordingly, the entity’s obligation to provide the retirement benefit arises from the date the employee first renders service.

Paragraph 73 of IAS 19 specifies that an entity’s obligation increases until the date when further service by the employee will lead to no material amount of further benefits under the plan. The Committee observed that:

- a. each year of service between the age of 46 and the age of 62 leads to further benefits because service rendered in each of those years reduces the amount of future service an employee will have to render before becoming entitled to the retirement benefit.
- b. an employee will receive no material amount of further benefits from the age of 62, regardless of the age at which the employee joins the entity. The entity therefore attributes retirement benefit only until the age of 62.

Consequently, for the defined benefit plan illustrated in this agenda decision, the Committee concluded that the entity attributes retirement benefit to each year in which an employee renders service from the age of 46 to the age of 62 (or, if employment commences on or after the age of 46, from the date the employee first renders service to the age of 62). The Committee’s conclusion aligns with the outcome set out in the

first part of Example 2 illustrating paragraph 73 (that is, for employees who join before the age of 35), which is part of IAS 19.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the periods to which retirement benefit is attributed in the fact pattern described in the request. Consequently, the Committee decided not to add a standard-setting project to the work plan.