International Accounting Standard 26

Accounting and Reporting by Retirement Benefit Plans

IAS 26 *Accounting and Reporting by Retirement Benefit Plans* was issued by the International Accounting Standards Committee in January 1987, and reformatted in 1994.

In April 2001 the International Accounting Standards Board resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

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paragraphs

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ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

International Accounting Standard 26 *Accounting and Reporting by Retirement Benefit Plans* (IAS 26) is set out in paragraphs 1–37. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 26 should be read in the context of the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

International Accounting Standard 26
Accounting and Reporting by Retirement Benefit Plans

Scope

1 **This Standard shall be applied in the financial statements of retirement benefit plans where such financial statements are prepared.**

2 Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'. This Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan. All other Standards apply to the financial statements of retirement benefit plans to the extent that they are not superseded by this Standard.

3 This Standard deals with accounting and reporting by the plan to all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.

4 IAS 19 *Employee Benefits* is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence this Standard complements IAS 19.

5 Retirement benefit plans may be defined contribution plans or defined benefit plans. Many require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.

6 Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.

7 This Standard does not deal with other forms of employment benefits such as employment termination indemnities, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security type arrangements are also excluded from the scope of this Standard.

Definitions

8 **The following terms are used in this Standard with the meanings specified:**

Retirement benefit plans **are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices.**

Defined contribution plans **are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.**

Defined benefit plans **are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.**

Funding **is the transfer of assets to an entity (the *fund*) separate from the employer's entity to meet future obligations for the payment of retirement benefits.**

For the purposes of this Standard the following terms are also used:

Participants **are the members of a retirement benefit plan and others who are entitled to benefits under the plan.**

Net assets available for benefits **are the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits.**

Actuarial present value of promised retirement benefits **is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.**

Vested benefits **are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.**

9 Some retirement benefit plans have sponsors other than employers; this Standard also applies to the financial statements of such plans.

10 Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired a degree of obligation as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.

11 Many retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this Standard to describe such parties regardless of whether a trust has been formed.

12 Retirement benefit plans are normally described as either defined contribution plans or defined benefit plans, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. Such hybrid plans are considered to be defined benefit plans for the purposes of this Standard.

Defined contribution plans

13 The financial statements of a defined contribution plan shall contain a statement of net assets available for benefits and a description of the funding policy.

14 Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.

15 The participants are interested in the activities of the plan because they directly affect the level of their future benefits. Participants are interested in knowing whether contributions have been received and proper control has been exercised to protect the rights of beneficiaries. An employer is interested in the efficient and fair operation of the plan.

16 The objective of reporting by a defined contribution plan is periodically to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements including the following:

(a) a description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;

(b) statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and

(c) a description of the investment policies.

Defined benefit plans

17 The financial statements of a defined benefit plan shall contain either:

(a) a statement that shows:

(i) the net assets available for benefits;

(ii) the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; and

(iii) the resulting excess or deficit; or

(b) a statement of net assets available for benefits including either:

(i) a note disclosing the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; or

(ii) a reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation shall be used as a base and the date of the valuation disclosed.

18 For the purposes of paragraph 17, the actuarial present value of promised retirement benefits shall be based on the benefits promised under the terms of the plan on service rendered to date using either current salary levels or projected salary levels with disclosure of the basis used. The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits shall also be disclosed.

19 The financial statements shall explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.

20 Under a defined benefit plan, the payment of promised retirement benefits depends on the financial position of the plan and the ability of contributors to make future contributions to the plan as well as the investment performance and operating efficiency of the plan.

21 A defined benefit plan needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels.

22 The objective of reporting by a defined benefit plan is periodically to provide information about the financial resources and activities of the plan that is useful in assessing the relationships between the accumulation of resources and plan benefits over time. This objective is usually achieved by providing financial statements including the following:

(a) a description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;

(b) statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;

(c) actuarial information either as part of the statements or by way of a separate report; and

(d) a description of the investment policies.

Actuarial present value of promised retirement benefits

23 The present value of the expected payments by a retirement benefit plan may be calculated and reported using current salary levels or projected salary levels up to the time of retirement of participants.

24 The reasons given for adopting a current salary approach include:

(a) the actuarial present value of promised retirement benefits, being the sum of the amounts presently attributable to each participant in the plan, can be calculated more objectively than with projected salary levels because it involves fewer assumptions;

(b) increases in benefits attributable to a salary increase become an obligation of the plan at the time of the salary increase; and