

IAS 19 *Employee Benefits* (January 2012)

Applying the definition of termination benefits to ‘Altersteilzeit’ plans

The Interpretations Committee received a request for guidance regarding the application of IAS 19 (2011) to ‘Altersteilzeit’ plans (ATZ plans) in Germany. ATZ plans are early retirement programmes designed to create an incentive for employees within a certain age group to smooth the transition from (full- or part-time) employment into retirement before the employees’ legal retirement age. ATZ plans offer bonus payments to employees in exchange for a 50 per cent reduction in working hours. Their employment is terminated at the end of a required service period. The bonus payments are wholly conditional on the completion of the required service period. If employment ends before the required service is provided, the employees do not receive the bonus payments. ATZ plans typically operate over a period of one to six years. Eligibility for the benefit would be on the basis of the employee’s age but would also typically include a past service requirement. IAS 19 (2011) was the result of revisions issued in 2011 to IAS 19. These revisions, among other things, amended the guidance relating to termination benefits.

Paragraph 8 of IAS 19 (2011) defines termination benefits as ‘employee benefits provided in exchange for the termination of an employee’s employment as a result of either:

- (a) an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- (b) an employee’s decision to accept an offer of benefits in exchange for the termination of employment.’

The Committee observed that ATZ plans have attributes of both required service and termination benefits. The Committee noted that the distinction between benefits provided in exchange for services and termination benefits should be based on:

- (a) all the relevant facts and circumstances for each individual entity’s offer of benefits under the plan considered;
- (b) the indicators provided in paragraph 162 of IAS 19 (2011); and
- (c) the definitions of the different categories of employee benefits in IAS 19 (2011).

The Committee noted that, in the fact pattern described above, consistently with paragraph 162(a) of IAS 19 (2011), the fact that the bonus payments are wholly conditional upon completion of an employee service over a period indicates that the benefits are in exchange for that service. They therefore do not meet the definition of termination benefits.

On the basis of the analysis described above, the Committee decided not to add the issue to its agenda.