

## **IAS 19 *Employee Benefits* (January 2008)**

### ***Pension promises based on performance hurdles***

The IFRIC received a request to clarify the measurement of the defined benefit obligation when pension promises are based on achieving specific performance targets. Performance targets may relate to various forms of pension promises ranging from additional pensionable earnings from performance bonuses to more complex arrangements relating to additional sponsor contributions or years of deemed service. The issue is how defined benefit plans with such features should be accounted for in accordance with IAS 19.

The IFRIC noted that paragraph 73 of IAS 19 states that ‘Actuarial assumptions are an entity’s best estimates of the variables that will determine the ultimate cost of providing post-employment benefits.’ Performance targets are variables that will affect the ultimate cost of providing the post-employment benefits. They should therefore be included in the determination of the benefit.

The IFRIC also noted that paragraph 67 of IAS 19 requires benefits to be attributed to periods of service according to the benefit formula, unless an employee’s service in later years will lead to a materially higher level of benefit than in earlier years. When benefits are affected by performance hurdles, the effect on the attribution of benefits must also be considered.

Given the requirements in IAS 19, the IFRIC did not expect divergence in practice and decided not to add the issue to its agenda.