



Project	Post-employment benefits
Topic	Administration Costs

Purpose of this paper

1. In March 2009, the Board asked the staff to reconsider the accounting for plan administration costs in light of its decision on the accounting for plan taxes and the presentation of changes in the net defined benefit asset or liability.
2. IAS 19 currently allows administration costs to be included as part of the:
 - (a) return on plan assets; or
 - (b) actuarial assumptions used to estimate the defined benefit obligation.The Board expressed concern there is a free choice of where the costs are included, and that this reduces the comparability of financial statements.
3. This paper asks the Board to determine how the administration costs should be accounted.
4. As discussed in the analysis below, the staff recommends that the Board remove the definition of return on plan assets. By default that means that administrative costs that relate to providing the benefit would be included in the defined benefit obligation. The standard would be silent on other administration costs and an entity would have to account for these as appropriate.
5. If the Board does not agree with this recommendation, then the staff recommends that IAS 19 is amended to require administrative costs to be included in the defined benefit obligation unless (i) they relate to the management of plan assets and (ii) the benefit promise does not depend on the return on those plan assets.

This paper has been prepared by the technical staff of the IASB for discussion at a public meeting of the IASB. The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.
Decisions made by the Board are reported in IASB *Update*.
Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

Current requirements

6. In May 2008, the Board amended the definition of return on plan assets in IAS 19 as follows:

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

7. The Board also added the following to paragraph BC75 of the Basis for Conclusions to IAS 19:

The IASB concluded that if the actuarial assumptions used to measure the defined benefit obligation include an allowance for plan administration costs, the deduction of such costs in calculating the return on plan assets would result in double-counting them. Therefore, as part of Improvements to IFRSs issued in May 2008, the IASB amended the definition of the return on plan assets to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.

8. Paragraph 107 of IAS 19 further states that (much the same as the definition):

In determining the expected and actual return on plan assets, an entity deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

9. It should be noted that BC75 states that in response to comments received on E54 (being the IASC exposure draft that led to IAS 19), that all plan administration costs (not just investment administration costs as proposed in E54) should be deducted in determining the return on plan assets. The staff believes this was in response to comments that the proposed treatment would have been far too complex given the immaterial impact of the costs.

Staff analysis and recommendation

10. As noted above, IAS 19 currently allows administration costs to be included as part of the:
- (a) return on plan assets; or
 - (b) actuarial assumptions used to estimate the defined benefit obligation

11. There are two effects that arise from this choice:
 - (a) Presentation - Costs accounted for as a reduction in the return on plan assets would be presented in the remeasurements component net of tax while costs accounted for as part of the defined benefit obligation would be presented together with service costs.
 - (b) Recognition – Costs accounted for as part of the defined benefit obligation would include all costs relating to past service, even if they are expected to arise in the future, while costs accounted for as part of the return on plan assets will only include those arising in the current period.
12. We believe there are two broad categories of administration costs:
 - (a) costs that relate to the management of the investment of plan assets
 - (b) general costs, such as costs of administering benefit payments
13. For salary related promises, we think it is appropriate for costs relating to investment management to be included in the return on plan assets and any other costs to be included with the defined benefit obligation. In that way, similar defined benefit obligations would include the same administrative costs, regardless of whether the plan is funded or unfunded. Thus, all else being equal, funded and unfunded plans should measure their defined benefit obligations at the same amount.
14. However it is important to note that some promises are dependent on the return on plan assets (for example, some contribution-based promises). In these cases, we think the costs related to investment management could be included in the measurement of the defined benefit obligation.
15. We think there are two ways of achieving this result:
 - (a) remove the definition of the return on plan assets; or
 - (b) amend the definition of the return on plan assets.

Part one - Removing the definition

16. The current standard includes a definition of return on plan assets. It is needed to allow for a discussion of the expected return on plan assets. Given the Board's recent decisions on the presentation and recognition of changes in the

plan assets, many of the provisions in the current standard relating to the expected return on assets are expected to be deleted.

17. If the definition is removed, then assumptions about the administration costs of providing the benefits for past service would be required to be included in the calculation of the defined benefit obligation. This is because paragraph 73 of IAS 19 requires the actuarial assumptions to be the entity's best estimates of the variables that will determine the ultimate cost of providing the benefits. The standard would remain silent regarding the accounting for other administration costs and it would be up to the entity to account for these as appropriate.
18. It should be noted that this should result in the same outcome discussed in paragraphs 13 and 14, that a funded and an unfunded plan should still end up measuring their defined benefit obligation at the same amount.
19. Concerns over the choice of where the other administration costs are accounted for could be alleviated by requiring disclosure of such, when material, within the opening-to-closing reconciliation of changes in plan assets and the defined benefit obligation.
20. It could be argued that the definition of the expected return on plan assets might be needed for disclosure purposes. The staff does not believe that this implies that a detailed definition of the return on plan assets is needed for the standard as a whole.

Part 1 - Staff Recommendation and Question for Board

Based on the above, the staff recommends that the definition of the return on plan assets is removed. If the Board does not agree with this recommendation then it will need to consider amending the requirements as discussed below.

Does the Board agree?

Part two - Amending the requirements

21. If the Board wishes to keep the definition of the return on plan assets, it would need to be amended to achieve the accounting for administrative costs set out in paragraphs 13 and 14.

Part 2 - Staff Recommendation and Question for Board

The staff recommends that IAS 19 is amended to require administrative costs to be included in the defined benefit obligation unless they relate to the management of plan assets and the benefit promise does not depend on the return on those plan assets.

Does the Board agree?