



Project **Post-employment benefits**

Topic **Service cost**

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### Purpose of this paper

1. This paper asks the Board to decide whether changes in the estimate of service cost should be included in the remeasurement component of changes in the net defined benefit asset or liability.

### Staff analysis

2. Some contend that actuarial gains and losses on the defined benefit obligation can be analysed into:
  - (a) those arising from changes in interest rate assumptions, and
  - (b) those arising from changes in other assumptions.

The discussion paper characterised (b) as changes in estimate of service cost.

3. The question is whether such changes in the estimate of service cost should be presented as part of service cost (and thus presented in profit or loss), or whether all the actuarial gains and losses on the defined benefit obligation are remeasurements (and thus presented in other comprehensive income).
4. The discussion paper *Preliminary Views on Amendments to IAS 19 Employee Benefits* described two approaches that presented amounts in other comprehensive income. In those approaches, the Board stated that entities should account for changes in the estimate of service costs in the same way as service costs. The Board argued that gains or losses associated with service costs

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This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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are a re-estimate of service costs and to do otherwise might encourage misestimation of service costs to achieve an accounting result.

5. Some comment letters criticised this view on the grounds that:
  - (a) the division of actuarial gains and losses into different types is arbitrary.
  - (b) it is not meaningful to disaggregate gains and losses into those arising from changes in the interest rate and those arising from other changes because of the interaction between the interest rate and other assumptions, in particular inflation assumptions.
  - (c) only the current estimate of the service cost is relevant in projecting the ongoing operational costs of the business entity. Those holding this view stated that it is not useful to combine information with different predictive value by combining the current estimate of the service cost with changes in the estimate of service cost.
6. In February 2009, we argued that:
  - (a) it is arbitrary and complex to divide the gains and losses on the defined benefit obligation into those arising from changes in the discount rate and those arising from other factors.
  - (b) changes in plan liabilities arising from other factors are just as much remeasurements as changes arising from changes in the discount rate.
7. In February 2009, the Board was persuaded by those arguments and tentatively decided that remeasurements should include actuarial gains or losses on the defined benefit obligation, including changes in estimates of service cost. We have no reason to revise that conclusion and note that it is consistent with the definition of a remeasurement proposed in agenda paper 18 (Financial Statement Presentation: Definition and presentation of remeasurements) for the December meeting.

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**Service costs**

Does the Board agree that changes in service cost caused by changes in all assumptions should be in the remeasurement component?