IAS - 26

Accounting and Reporting by Retirement Benefit Plans

By: http://www.WorldGAAPInfo.com

International Accounting Standard No. 26 (IAS 26)

Accounting and financial reporting by retirement benefit plans

Scope

1. **This Standard is applied in the preparation of financial statements of retirement benefit plans, where such statements are prepared and presented.**

2. The retirement benefit plans are known, sometimes under other names, such as pension plans' or 'supplementary pension benefits. “The retirement benefit plans are considered the norm, as a separate entity from the employers and individuals participating in those plans. The rest of the rules apply to the financial statements of retirement benefit plans, to the extent not superseded by this Standard.

3. This Standard deals with accounting and information to submit, by the plan, all shareholders, defined as a group. Not about the individual information to members about their rights.

4. IAS 19 Employee benefits related to identification of the cost of retirement benefits, the financial statements of employers who have established a plan. Therefore, this Standard is complementary to that IAS 19.

5. The plans of retirement benefits can be defined contribution or defined benefit. Many require the creation of separate funds, which may or may not have independent legal personality and may or may not have trusteeship. These funds are those that receive contributions and pay benefits in retirement. This Standard is applicable regardless of the establishment of separate fund or of a trusteeship of the plan.

6. The retirement benefit plans whose assets have been invested in an insurance company, subject to the same requirements for accounting and capitalization than those where investments are managed privately. Therefore, these plans fall within the scope of this Standard, unless the contract with the insurance company was made on behalf of an individual participant or group of members and the obligation on retirement benefits rests solely about this company.

7. This standard does not address other types of social benefits such as employee severance payments, deferred compensation agreements, the prolonged absence bonuses, retirement plans or anticipated restructuring plan, the insurance programs Sickness and forecasting systems or collective bonuses to workers. Also excluded from the scope of the standard social security programs of the government.

Definitions

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

   Retirement benefit plans are arrangements in which an entity is committed to providing benefits to its employees at the time of or after completing their service, whether in the form of regular income or lump sum, provided such benefits, or contributions to them, can be determined or estimated prior to the time of withdrawal, either from the terms in a document or the practices of the entity.

   Defined contribution plans are retirement benefit plans, in which the amounts paid as benefits are determined on the basis of contributions to the fund and the

returns on the investment it has generated.

Defined benefit plans are retirement benefit plans, which amounts to pay for benefits are determined by a formula, usually based on employees' wages in the years of service or both.

Contributions to a fund transfer is the process of plan assets to a separate entity (the fund) to meet the payment of obligations arising from the retirement benefit plan.

For purposes of this Standard are also used these terms with the meanings described below:

Participants are members of the retirement benefit plan and other persons entitled to benefits under the terms of the plan.

Net assets available for benefits are plan assets less liabilities of the different actuarial present value of promised benefits.

Actuarial present value of promised retirement benefits is a retirement benefit plan, the present value of expected payments to the employees, past and present, on account of services rendered by them so far.

Irrevocable benefits are benefits derived from the conditions of a retirement benefit plan, in which the right to receive is not conditional upon continued employment.

9. Some retirement benefit plans are financed by persons other than employers; this Standard also applies to the financial statements on the plans.

10. Most of the retirement benefit plans are based on a contractual agreement. Some plans are informal, but they have become mandatory as a result of customs established by employers. While some plans permit employers to terminate at some point with all the obligations resulting there from, it is usually difficult for the employer to cancel a plan if employees are to remain at your service. The same bases of accounting and financial reporting applicable to formal and informal plans.

11. Many benefit plans provide for the establishment of separate funds, which are the rates and benefits are claimed. These funds are administered by third parties, who act independently in managing fund assets. These people are called trustees in some countries. The term trustee is used in this Standard to describe such persons, regardless of the legal existence of the trust.

12. Typically, retirement benefit plans are one of the above mentioned two types: defined contribution plans or defined benefit plans. Each has its distinctive features, but occasionally can be found in characters of both plans. Such hybrid schemes are considered, for purposes of this Standard, as defined benefit plans.

Defined contribution plans

13. Financial statements from a defined contribution plan must include a statement of net assets available for payment of benefits, as well as a description of the policy of capitalization.

14. In a defined contribution plan, the amount of future benefits to members is determined by employer contributions, employee or both, along with the efficiency achieved in the management of the fund and investment income from the same. The release of free contributions, usually the employer of their obligations to the fund. Normally, you do not need the advice of a professional actuary, although such advice is sometimes used to estimate the performance achievable in the future taking into account the input current, as well as various levels of future contributions and earnings that we achieve the investments.

15. Members are interested in the activities of the plan as they directly affect the amount of future benefits. The participants also were interested in knowing whether contributions have been received and whether it has exercised proper control to protect the rights of beneficiaries. The employer, meanwhile, is interested in the efficient and equitable operation of the fund.

16. The purpose of the information from a defined contribution plan is to report periodically on the status of the plan and the yields on their investments. This usually is achieved by providing financial statements that include the following:

(a) a description of the most significant effect of exercise and any changes to the plan, as well as their partners, terms and conditions;

(b) statements showing the transactions and investment performance in the year and the financial situation of the plan at year-end and

(c) a description of investment policy.

Defined benefit plans

17. The financial statements from a defined benefit plan must contain the information listed in any of the following sections:

(a) a statement showing:

(i) the net assets available for payment of benefits;

(ii) the actuarial present value of promised benefits, distinguishing between benefits irrevocable and which are not, and

(iii) the surplus or deficit, or

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

(i) a note which discloses the actuarial present value of promised benefits and irrevocable distinction between benefits which are not, or

(ii) a reference to the attached report of the actuary that contains this information.

If you have not prepared an actuarial valuation at the date of the financial statements, the most recent assessment that is available to be used as a basis, reporting on the date it was made.

18. **For purposes of paragraph 17, the actuarial present value of defined-benefit should be based on the defined benefit under the plan, taking into account the services rendered through the date of accountability. The establishment of the specific figure will be either based on current wages or projects, with explicit indication of the method used. It must also prove the effect of any change in actuarial assumptions that may have a significant impact on the actuarial present value of promised benefits.**

19. The financial statements should explain the relationship between the actuarial present value of promised benefits and the net assets available for payment of such benefits, as well as the policy for the capitalization of the benefits promised.

20. In a defined benefit plan, payment of promised benefits depends on the financial status of the plan and the ability of contributors to make future contributions, such as investment performance of the plan and the efficiency achieved in management.

21. In a defined benefit plan, you need regular advice from a professional actuary to assess the financial plan, review the actuarial assumptions and make recommendations on standards to be achieved by future contributions.

22. The purpose of the information regularly from a benefit plan is to account for financial resources and plan activities, data that are useful in assessing the relationship between the accumulation of resources and benefits paid by the plan every time. This usually is achieved by providing financial statements that include the following:

(a) a description of the most significant effect of exercise and any changes to the plan, as well as their partners, terms and conditions;

(b) statements showing the transactions and investment performance in the year and the financial situation of the plan at the end of the year;

(c) actuarial information either presented as part of previous statements or separately, and

(d) a description of investment policy

Actuarial present value of promised retirement benefits

23. The present value of the services performed pursuant to a retirement benefit plan can be calculated either based on current salary levels or projected at the time of the withdrawal of members, also will provide information on such calculations.

24. Among the main reasons that may support the adoption of the method of current wages, are the following:

(a) the actuarial present value of promised retirement benefits, i.e. the sum of the amounts presently attributable to each participant in the plan, can be calculated more objectively by using the projected wages, because it means fewer hypothesis value;

(b) increases in benefits related to an increase in salary shall become obligations for the plan at the time of such increases, and

(c) using current wages, the amount of the actuarial value of promised retirement benefits is more closely related to the amount payable should there be cessation or discontinuance of the plan.

25. Among the main reasons that may support the adoption of the projected earnings method, the following:

(a) the financial information must be prepared on the basis of the continuity of the plan, whatever the make estimates and assumptions;

(b) in the case of final payments under plans, benefits are determined by wages at the time of retirement or near the same time, so it is necessary to make projections for salaries, contribution levels and rates of return of investment, and

(c) failure to incorporate salary projections, when most of the capitalization is based on such data may result in the plan appear in the information presented, as super capitalization when in fact it is not, or appears adequately capitalized when in fact it is.

26. Within the financial statements from the plan, provided the actuarial present value of promised retirement benefits based on current salaries, to indicate the amount of accrued liabilities to date of the financial statements. The actuarial present value of promised retirement benefits based on projected earnings is provided to indicate the amount of potential liabilities in a continuous management regime, a hypothesis that is generally taken as a basis for capitalization. Besides presenting the current actuarial value of promised retirement benefits, may be necessary to give an explanation sufficient to indicate clearly the context in which this figure should be interpreted. This explanation may take the form of information about the capitalization in the future and the policy of capitalization based on earnings projections. All this may come within the financial statements or in the actuarial report.

Frequency of actuarial valuations

27. In many countries, actuarial valuations require a frequency not exceeding three years. If you have not prepared an actuarial valuation at the date of the financial statements, the most recent assessment of availability is used as a basis, reporting on the date it was made.

Contents of statement

28. In the case of defined contribution plans, the information is supplied using one of the following formats which reflect different practices in the presentation of actuarial

information:

(a) the financial statements shall include a statement showing net assets available for payment of benefits, the actuarial present value of promised retirement benefits and the deficit or surplus to compare two quantities. The financial statements on the plan also contains statements that show the changes in net assets available for payment of benefits, as well as the actuarial present value of promised retirement benefits. The financial statements include a separate actuary's report supporting the calculation of the actuarial value of promised retirement benefits;

(b) financial statements including the statement of net assets available for payment of benefits and the status of such changes in net assets. The actuarial present value of promised retirement benefits is detailed in a note to the previous statements. Financial statements may also include an actuarial report supporting the calculation of the actuarial value of promised retirement benefits and

(c) financial statements that include the status of net assets available for payment of benefits and the status of such changes in net assets, providing separately, through the report of the actuary, the actuarial present value of promised benefits retirement.

In each of these formats, information, financial statements may be accompanied by a report from the Trust (as a management report) and a report on investment.

29. Supporters of the formats described in paragraphs 28 (a) and (b), estimate that the quantification of promised retirement benefits and other information supplied to help users assess the current status of the plan and the likelihood to fulfill the commitments it. We also believe that the financial statements should be complete in themselves, without having to rely on the reports or statements which may accompany them. However, some believe that the format described in paragraph 28 (a) may lead to the impression that there is an obligation, when the actuarial present value of promised retirement benefits does not, in his view, all the characteristics of a liability.

30. Those who support the format described in paragraph 28 (c) believe that the actuarial present value of promised retirement benefits should not be included in the statement of net assets available for payment of benefits, as in format described in paragraph 28 (a), or even be broken down in a note as in the format of paragraph 28 (b) because that amount would be compared directly with the amount of plan assets and such a comparison may not be valid. They contend that actuaries do not necessarily compare actuarial present value of promised retirement benefits with market values of investments, but instead, may simply evaluate the present value of expected cash flows of investments. Therefore, those who support this format, it is unlikely that such a comparison may lead to an actuarial valuation of the overall plan, and they do that may mislead the reader of the information. Moreover, some believe that the information on retirement benefits promised, whether quantitative or not, but must be contained in the separate report of the actuary, which can be provided adequate explanation.

31. This Standard accepts the position of allowing the presentation of information concerning the retirement benefits promised in an actuarial report to be provided separately. Norma rejects the arguments against the quantification of the actuarial present value of promised retirement benefits. Accordingly, the formats described in paragraphs 28 (a) and (b) are considered acceptable in the context of the Standard, as

well as the format described in paragraph 28 (c) provided that the financial statements contained herein refer to the attached actuarial report that includes the actuarial present value of promised retirement benefits.

Concerning all plans

Valuation of plan assets

32. The investment plan for retirement benefits should be accounted for at fair value. In the case of listed securities, fair value is the market. When there are investments within the plan whose fair value cannot be estimated, it must prove why it was not possible using this method of valuation.

33. Typically, investments that the materialization of the plan assets of benefits are accounted at fair value. In the case of listed securities, fair value is generally the market value, as it is seen as the most useful measure of the value of them at the date of the financial statements, as well as ROI for the period. Titles with a fixed value of reimbursement that have been purchased to comply with the plan at the time of maturity, or a part thereof, may be accounted for amounts based on its redemption value of to obtain a steady return until maturity. When there are no reasonable values for some of the investment plan for retirement benefits, for example if you have all the capital of an entity, is disclosed in the financial statements the reason for not using fair value. If there are investments that are not accounted for by their market value or fair value, the latter is also disclosed in the financial statements. Assets employed in managing the operations of the fund are accounted for by applying the standard that is relevant, according to their nature.

Information Disclosure

34. Financial statements of a retirement benefit plan, whether defined benefit or contribution, must also include the following:

(a) a statement of changes in net assets available for payment of benefits;

(b) a summary of significant accounting policies and

(c) a description of the plan and the effect of any changes in the plan during the year.

35. The financial statements provided by retirement benefit plans include, to the extent they are applicable, the following data:

(a) a statement of net assets to meet performance showing:

(i) assets at year-end, properly classified;

(ii) the basis of valuation of assets;

(iii) details of any individual investment that exceeds 5% of net assets for benefits or 5% of any class or category of securities;

(iv) details of any investment in the employer and

(v) liabilities other than the actuarial present value of promised retirement benefits;

(b) a statement showing the evolution in the performance of the net assets available for payment of benefits, showing that:

(i) employer contributions;

(ii) employee contributions;

(iii) investment returns such as interest and dividends;

(iv) other income;

(v) benefits paid or payable in the year-end thereof (detailing, for example, plans for retirement benefits, death and disability, as well as the benefits paid by lump sum payments);

(vi) costs of administration and management;

(vii) other expenses;

(viii) taxes on earnings;

(ix) the loss or gain on disposal of investments and changes in the amount of the same, and

(x) transfers made to or received from other plans;

(c) a description of the policy on the establishment and maintenance of the fund;

(d) for defined benefit plans, the actuarial present value of promised retirement benefits (being able to distinguish between benefits that vest and those are not) depending on the retirement benefits promised under the plan and services provided to date, using current salary levels or projected, may include this information in the attached report of the actuary, which must be read and interpreted in conjunction with the financial statements and

(e) for defined contribution plans, a description of the actuarial assumptions made and the method used to calculate the present value of defined benefit.

36. The information provided by a retirement benefit plan contains a description of the plan itself, either as part of the financial statements or in a separate document. Such information may include the following:

(a) the names of employers and the identification of groups of employees covered;

(b) the number of members who receive benefits and the number of other stakeholders, properly classified;

(c) the type of plan: defined contribution or defined benefit;

(d) a footnote will be required if the participants make their contributions to the plan;

(e) a description of the retirement benefits promised to participants;

(f) a description of any conditions for the termination of the plan and

(g) changes in (a) and (f) during the period covered by the information.
It is not uncommon practice to refer to user information to other documents readily accessible and understandable, which describes the plan, and include only the information referred to in this paragraph, the following changes to the issuance of such documents.

Effective Date

37. This standard is effective for financial statements covering periods beginning on or after January 1, 1988.