IPSAS 39 Employee Benefits – as adopted by the Maltese Government

Guidelines

IPSAS Implementation Team

May 2019

Table of Contents

Introduction

1. IPSAS 39 Employee Benefits – as adopted by the Maltese Government

1.1 These guidelines refer to the Employee Benefits accounting standard as adopted by the Maltese Government. This version is based on the original IPSAS 39 developed by the International Public Sector Accounting Standards Board (IPSASB). Modifications were made to bring the IPSAS closer to the local context.

2. Scope

2.1 These guidelines were prepared to enable the users to:

2.1.1 Develop a working-level knowledge of the principles contained in the accounting standard and to

2.1.2 Understand and appreciate the major challenges and benefits resulting from the implementation of IPSAS 39.[1]

3. Target Audience

3.1 These guidelines are designed for financial and non-financial employees employed in Ministries and Departments of the Government of Malta.

4. Guidelines Structure

4.1 These guidelines shall provide overview of the principles contained in the standard, covering definitions and the impact of implementation as it affects recognition, measurement and disclosure of information about employee benefits.

[1] References to IPSAS 39 or any other IPSAS shall be taken as meaning 'as adopted by the Maltese Government'

A. Employee Benefits Defined

1. Employee Benefits are defined in IPSAS 39 as all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment, and are classified into four categories:

- Short-term employee benefits;
- Post-employment benefits;
- Other long-term benefits; and
- Termination benefits

1.1 **Short-term employee benefits** are benefits (other than termination benefits) that are due to be settled wholly **before 12 months** after the end of the reporting period in which the employees render the related service. Such benefits include:

1.1.1 Salaries, wages, social security contributions;

1.1.2 Short-term compensated absences (such as paid annual leave and paid sick leave);

1.1.3 Performance related payments (bonuses); and

1.1.4 Non-monetary benefits (aka fringe benefits) provided to current employees (such as medical care, free or subsidised goods, low cost housing, and use of vehicles).

1.2 **Post-employment benefits** are payable **after** an employee has left the entity's employment. The predominant post-employment benefit is a pension. Other post-employment benefits include post-employment life insurance, and post-employment medical care. IPSAS 39 envisages that, typically, pensions are payable from a scheme, administered by or on behalf of an employer in which the employee is a participating member. Pension schemes are classified in IPSAS 39 as:

1.2.1 **Defined contribution plans**. These are plans where the employer and/or employee make specified, fixed contributions to the plan during a set period. The actual pension payable on retirement will generally be based on the contributions credited to the employee's account in such a plan plus any investment earnings on the money in the account (where the contributions are invested).

1.2.2 **Defined benefit plans**. These are plans where the pension payable on retirement is calculated using a formula based on an employee's remuneration and length of service.

1.2.3 Multi-employer plans. These could be either defined contribution plans or defined benefit plans, but the key characteristics are that:

- the employing entities are not part of the same group of entities;
- all members pay the same contributions; and
- all members receive the same benefits regardless of which entity employs them.

1.2.4 State plans. As with multi-employer plans, these could be either defined contribution plans or defined benefit plans. The key difference is that state plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, state or local government or by another body, which will usually have been created specifically for that purpose. ***State plans are outside the scope of IPSAS 39*.**

1.3 <u>Other long-term employee benefits</u> are benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within 12 months after the end of the period in which the employees render the related service. They include benefits such as long-term disability benefits and long-term leave.

1.4 <u>**Termination benefits** are payable as a result of either:</u>

1.4.1 An entity's decision to terminate an employee's employment before the normal retirement date;

1.4.2 An employee's decision to accept voluntary redundancy in exchange for those benefits.

B. Impact of IPSAS 39 Implementation

1. In the **cash-based system**, employee benefits are expensed when there is a cash outlay and there is no recognition or measurement of liabilities that accrue as a result of the employee rendering services for which the employee is not recompensed immediately.

2. **Major implementation challenges are not expected for most Central Government entities either at initial adoption or in subsequent periods: these entities will primarily need to focus on accounting for short-term employee benefits**. Accounting for post-retirement benefits, and the associated challenges, will be handled by a designated entity in Central Government.

3. **Why adopt IPSAS for Employee Benefits?** IPSAS provide information supporting better financial management. The implementation of IPSAS 39 will lead to:
   - **3.1** **Improved accounting and reporting** of employee benefits in that the true cost of employing staff will be recognised in the period in which their services are provided; and
   - **3.2** **Improved accountability and transparency** over the size of the pension liabilities accruing in the public service pension schemes; leading to
   - **3.3** **Enhanced credibility,** as reports and financial statements will be based on international accounting standards and show the true extent of employee-related liabilities.

4. The benefits outlined above can only materialise with a **change** in some of the **current processes** used by Central Government entities, and a strict adherence to others, such as:
   - **4.1** Linking untaken leave records to salaries;
   - **4.2** Ensuring that all employees maintain up-to-date leave records that are inputted in the IT system each month; and
   - **4.3** Maintaining accurate records of starters and leavers.

C. Short-Term Benefits

1. **Short-term benefits**: Ministries and Departments will be responsible for implementing the requirements of IPSAS 39 in respect of short-term benefits.

2. **Short-term benefits include:**

   - Salaries, wages and social security contributions; and
   - Paid leave (including annual leave, sick leave and maternity leave);
   - Performance related payments (bonuses);
   - Non-monetary benefits (aka fringe benefits).

2.1 Salaries, wages and social security contributions: recognition and measurement:

2.1.1 Salaries and wages are paid to employees **every four weeks** and the **total annual amount due** to the employee is paid **within the financial year**. Salaries, wages and social security contributions are

- Measured at undiscounted cost and recognised as an expense in the Statement of Financial Performance when incurred.
- Any amounts payable to the Inland Revenue Department at the year-end in respect of tax and social security contributions shall be recorded as creditors.
- **Example 1**: Employees are paid every four weeks. If the employees are paid €2,000 on the 14th of January 2015, then a department reporting its salaries expenditure for **2014** needs to accrue €1,000 representing the **2** weeks of **2014** salary **paid** in **2015** as follows:

Debit Salaries	€1,000
Credit Accrued Salaries	€1,000

2.2 Paid leave - recognition and measurement:

2.2.1 Recognition

- Entitlement to paid absences falls in two categories:
  - Accumulating, that is carried forward if not used in full. These can also be
    - Vesting - cash payment for unused entitlement due when leaving entity
    - Non-vesting – no cash payment for unused entitlement due when leaving entity
  - Non-accumulating, that is the current period's entitlement is not

carried forward and is non-vesting.

- Civil servants in Malta can carry over up to 50 per cent of their leave entitlement into the following year, however accumulated leave is non-vesting.

- Ministries and Departments shall recognise as a *liability* the *undiscounted cost of leave untaken* as at the reporting date.

- The accrual for leave is accumulated as the employee provides the service that entitles them to the leave, and reduced as the employee takes the leave.

- Leave is measured at the amount the Ministry or Department would expect to pay to discharge the liability for accumulated untaken leave.

- The amount the Ministry or Department expects to pay is based on the employee’s hourly rate, worked out as follows:
  - *Annual Salary ÷ (No of weeks in a year x Number of hours per week).*

- Measuring the accrual for leave in this way does not necessary imply that additional payments shall be made.

- **Example 2**: As at 31 December 2017 an employee has accrued 10 days of leave, which are to be carried forward and taken in 2018. This implies that in 2017, the employee worked 10 extra days (more than expected) but has earned the same salary. In 2018, the employee will take these 10 days of leave, thereby working less than expected whilst still earning the agreed gross salary. This implies that in 2017, an accrual for the extra 10 days has to be accounted for and will be reversed again in 2018.

<u>IPSAS Team Note:</u>

An obligation arises if employees do not avail themselves of their leave entitlement throughout the year, as it will mean that the leave balance will roll forward to the next year. Given this situation, whether the leave balance will be paid to the employees or be availed of in the future, it still needs to be accrued in the year when incurred.

2.2 Initial Measurement of paid leave

- A Ministry or Department shall measure the opening liability for the first IPSAS-compliant Statement of Financial Position based on an assessment of the cost of untaken leave for each employee;

- **Example 3:** a department needs to calculate the accrued leave balance as at 31 December 2015, representing untaken leave in 2015 carried over to 2016. Only three staff members are carrying leave over to 2016. The finance department has arrived at the accrued leave balance as follows:

Name	Leave Balance c/f (hours)	Hourly Rate (€)	Leave Accrued (€)
A SMITH	30	20	600
B BORG	40	30	1,200
A ABELA	10	35	350
Total Leave Accrued			**2,150**

The journal entry recording the accrued leave balance is as follows:

Accrued leave balances:	
Debit Salaries (leave balance)	€2,150
Credit Accrued Salaries (leave balance)	€2,150
Being the balance of untaken leave at year end, now accrued for	

The following extracts show the presentation of this balance on the financial statements:

Extract from Statement of Financial Performance	
Expenditure	
Salaries and other employee benefits* *(*the leave balance will be shown as part of other employee benefits)*	€2,150

Extract from Statement of Financial Position	
Current Liabilities	
Trade creditors and other payables* *(*the leave balance will be shown as part of trade creditors and other payables)*	€2,150

Extract from the Notes to the financial statements	
Trade creditors and other payables	
Accruals* *(*the accrued leave balance will be shown as part of other accruals)*	€2,150

2.2.3 Subsequent Measurement of paid leave

- Each Ministry or Department shall re-measure the liability as at subsequent reporting dates. Any changes need to be recognised in the financial statements.

IPSAS Team Note:

Donated Leave: Public employees may, for humanitarian reasons, donate their vacation leave or time-off-in-lieu to their colleagues, in part or full, at any time during the calendar year. The balance of donated leave must be accrued for at the end of each reporting period.

2.3 Performance related payments (performance bonuses):

2.3.1 Recognition

- An entity shall recognise the expected cost of performance bonus payments when:
  - The entity has a present legal (or contractual) or a constructive obligation to make such payments as a result of past events; and
  - A reliable estimate of the obligation can be made.
- An entity can make a reliable estimate of its obligation under a performance bonus scheme, when:
  - The formal terms of the bonus plan contain a formula for determining the amount of the benefit (e.g. a percentage (%) of the annual basic salary, with a set maximum, based on the employee's performance, such as a maximum of 10% of the employee's annual basic salary);
  - The entity determines the amounts to be paid before the financial statements are authorised for issue; or
  - Past practice gives clear evidence of the amount of the entity's obligation.

IPSAS Team Note:

A **constructive obligation** is an obligation that derives from an entity's actions when:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept particular responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

2.3.2 Accruing for performance bonuses

- At the end of each financial period, each ministry and department needs to accrue for performance bonuses due for services performed in a particular year and paid in the following year.
- Should the amounts of the performance bonuses to be paid not be available when accounting for these bonuses, an estimate should be accrued for, for example, based on prior years' bonus payments.

2.3.3 Example 4

Five employees in a particular department were entitled to receive a bonus in 2015, based on their performance in 2014. The entitlement, established as a percentage of their annual basic salary, was a maximum 10% based on their annual performance. The amounts to be paid, amounting to €10,000, were authorised for payment at the end of February 2015. Once these were authorised, an obligation for payment was created and these were paid in June 2015.

As the obligation arose as a result of the employees' performance in 2014, the finance department recognised these bonuses as a 2014 expense. The finance department accrued for these expenses as follows:

Accrued performance bonuses:	
Debit Salaries (performance bonuses)	€10,000
Credit Accrued Salaries (performance bonuses)	€10,000
Being performance bonuses due for 2014, now accrued for.	

The following extracts show the presentation of this balance on the financial statements:

Extract from Statement of Financial Performance	
Expenditure	
Salaries and other employee benefits* (*the bonuses will be shown as part of other employee benefits)	€10,000

Extract from the Notes to the financial statements	
Trade creditors and other payables	
Accruals* (*the accrued bonuses will be shown as part of other accruals)	€10,000

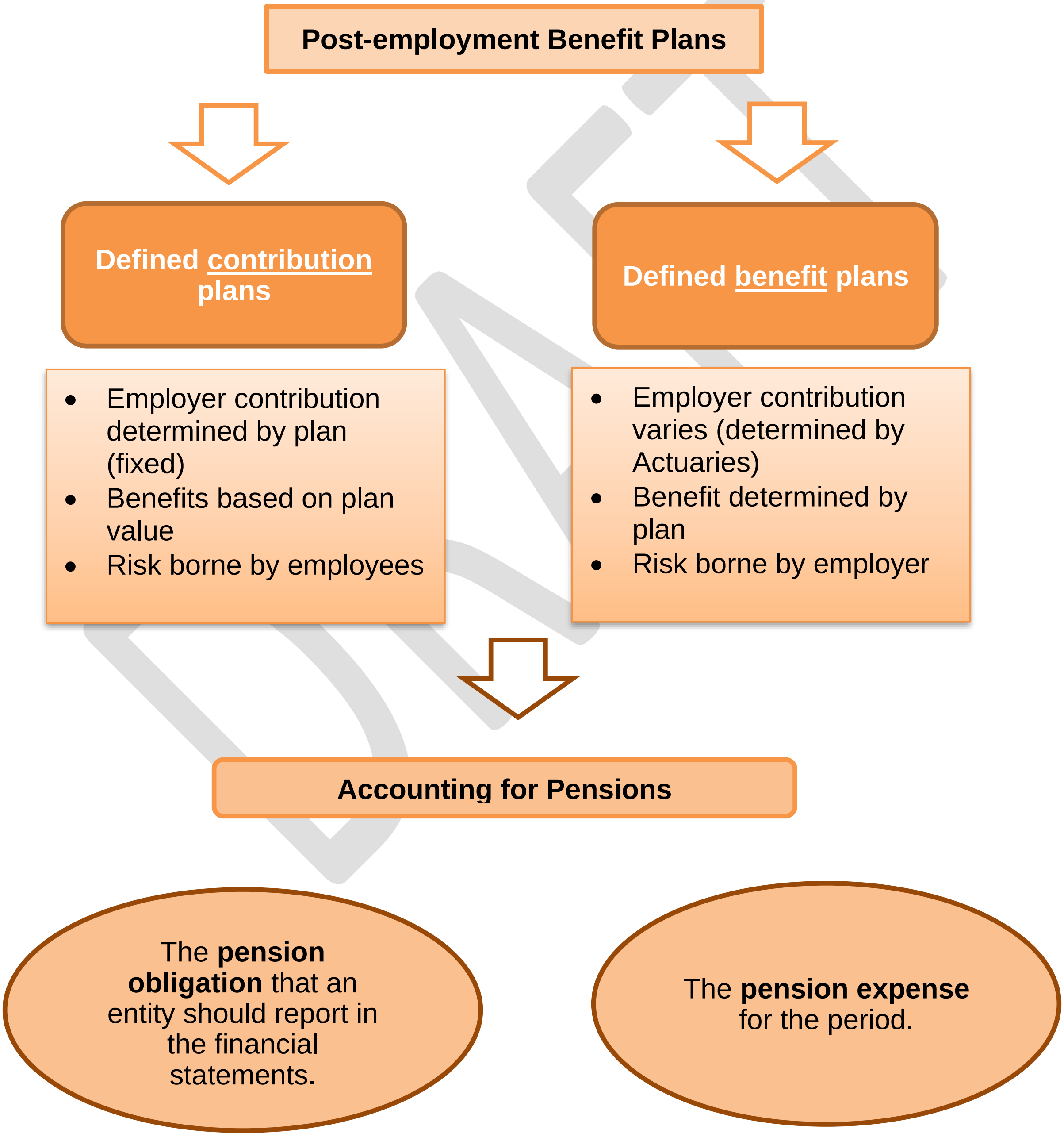
Extract from Statement of Financial Position	
Current Liabilities	
Trade creditors and other payables* (*the bonuses will be shown as part of trade creditors and other payables)	€10,000

D. Post-Employment Benefits

1. **<u>Post-employment benefits:</u>** include items such as the following:

    - Retirement benefits (e.g. pensions and lump sum payments on retirement); and
    - Other post-employment benefits, such as post-employment life insurance, and post-employment medical care.

2 Post-employment benefit plans are classified as follows:



IPSAS Team Note:

The employer's **pension obligation** is the deferred compensation obligation it has to its employees for their service under the terms of the pension plan.

3. Defined contribution plan – Recognition and Measurement

3.1 A Defined **Contribution** plan is an employee benefit plan in which the employer undertakes to contribute a specific amount each period to the fund. Since the employer is responsible only for his contributions, the employer does not bear the risks related to the plan - those risks are borne by the employees. The contributions made by the employer are based on the **current number of employees** and their **current salary levels**.

3.2 Accounting for a Defined **Contribution** plan

3.2.1 The employer records a pension expense equal to the contributions made towards the fund.

3.2.2 The employer records a liability (accrued expense), after deducting any contribution already paid.

- **Example 5**
  Entity A has a defined contribution plan. In January 2013 the entity paid €10,000 contribution to a defined contribution plan in part exchange for services performed by the entity's employees in December 2012.
  Therefore, the entity needs to accrue for that expense in 2012, whilst recording the payment, in 2013, as follows:

Recorded in 2012 and 2013 respectively as follows:

Defined Contributions plan – pension expense	
Debit Salaries (pension expense)	€10,000
Credit Accrued Benefits	€10,000
Being the contribution towards the pension plan in 2013, accrued for in 2012	

Defined Contributions plan – pension payment	
Debit Accrued Benefits	€10,000
Credit Bank	€10,000
Being the payment of the contribution towards the pension plan in 2013.	

Note:
- ✓ The contributions are usually collected in a trust representing the employees, which manages the contributions on their behalf.
- ✓ As this is a defined contribution plan, future increases in the salary level, fall in the mortality rate, changes in inflation or expected/ market returns will have no impact on the entity's expense and liability related to the plan.

4. Defined benefit plan – Recognition and Measurement

4.1 Accounting for a Defined **Benefit** plan

4.1.1 The accounting for defined benefit plans is more complex because actuarial assumptions are required to measure the obligation and expenses. There may be actuarial gains or losses and the obligation is measured on a discounted basis as settlement may occur years after services have been rendered.

> IPSAS Team Note:
>
> **Defined benefit plans** can be funded, unfunded or partially funded plans.
> - ✓ **Funded plans** are plans where the future liabilities for pension benefits are provided for in advance by the accumulation of assets held externally to the employing entity's business.
> - ✓ **Unfunded plans** are plans where pension benefits are paid directly by the employer. No assets are set aside in advance to provide for future liabilities; instead pension liabilities are met out of the employer's own resources.
>
> The Government of Malta Treasury pension is a **defined benefit, unfunded plan.**

- **Example 6**

  Entity X has a post-employment benefits plan, which entitles its employees to an amount equivalent to the product of its basic salary and number of years of service at the time of retirement. Entity Y too has a pension plan but its agreement with the employees requires entity Y to contribute an amount equal to the sum of current basic salaries of current employees to the fund.

  Entity X's plan is a *defined benefit plan* because it entitles employees to a defined amount in future (based on future salary).

Entity Y's is a *defined contribution plan* because the employees only receive an amount equal to their salaries today.

4.2 Recognition – the entity needs to:

4.2.1 Determine the deficit or surplus by:

- Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that the employees have earned in return for their service in the current and prior periods.
- Discounting the benefit in order to determine the present value of the defined benefit obligation and the current service cost.
- Deducting the fair value of any plan assets from the present value of the defined benefit obligation.

4.2.2 Determine the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined above, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

4.2.3 Determine amounts to be recognised in surplus or deficit:

- Current service cost
- Any past service cost and gain or loss on settlement
- Net interest on the net defined benefit liability (asset).

4.2.4 Determine the remeasurements of the net defined liability (asset), to be recognised in net assets/equity, comprising:

- Actuarial gains or losses
- Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) and
- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

4.2.5 As the Government of Malta's defined benefit plans are unfunded and there are no plan assets, the entity must focus on

- The **defined benefit obligation** to pay pensions in the future. This liability is the present value (future payments discounted to current prices) of the future pension payments and the
- The **defined benefit cost** for the period. This comprises:
  - Current service cost;
  - Past service cost[2];
  - Effects of curtailments or settlements[3];

[2] In the Maltese defined benefit plans, there are no past service costs (improvements in pensions to be paid in the future and backdated to past service).
[3] In the Maltese defined benefit plans, no curtailment costs are expected.

- Interest cost, and
- Actuarial gains and losses.
  [The service costs, curtailments, settlements and the interest cost are recognised in the Statement of Financial Performance. Actuarial gains and losses are recognised in Accumulated Surplus/Deficit].

IPSAS Team Note:

- **Present value of a defined benefit obligation** is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
- **Current Service Cost** is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
- **Past service cost** is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan);
- **Interest cost** is the increase during a period in the present value of a defined benefit obligation as the benefits become one period closer to settlement.
- **Actuarial gains and losses include:**
  - Experience adjustments (the effect of difference between the previous actuarial assumptions and what has actually occurred); and
  - The effects of changes in actuarial assumptions.

4.3 Measurement

4.3.1 In order to measure the present value of the liability and the related current service cost, it is necessary to:
- Obtain an actuarial valuation; and
- Attribute benefit to periods of service.

4.3.2 **Obtain an actuarial valuation: Using the Projected Unit Credit (PUC) Method to measure liabilities and costs.** This means attributing benefit to periods of service and:
- Making **actuarial assumptions** about:

    - Demographic variables. These include employee turnover and mortality rates – both of current employees and of current pensioners;
    - Financial variables. These include future increases in salaries, the discount rate and the inflation rate.
- Using an **appropriate rate to discount the liability**
    - The rate should reflect the time value of money and be consistent with the currency and estimated term of the post-employment benefit obligations. ***The discount rate should be the real rate – that is, the gross rate less inflation. The rate usually refers to market yields at the reporting date on government bonds***.

4.3.3 The information required for the actuarial valuation includes

- Numbers of staff (including joiners and leavers in the reporting period) in each scheme and the total salaries paid during the year;
- Numbers of pensioners (including new pensioners and deaths) and the total pensions paid in the year;
- The expected retirement pattern over a number of years; and
- The benefit structure, including, for example, age requirements or restrictions, pension caps and the pension calculation formula.

4.3.4 The Actuary calculates:

- **The current service cost.** This is the increase in the present value of the pension liabilities resulting from employee service in the current period; and
- **The interest cost.** This is the increase during the period in the present value of the pension liabilities because benefits are one year closer to settlement.

  Both the current service cost and the interest cost are recognised as an expense in the Statement of Financial Position Performance.
- **Actuarial gains and losses.** They result from increases or decreases in the present value of the liability caused by either:
    - A difference between the experience of the pension scheme and the underlying actuarial assumption – for example, unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries; or
    - Changes in the underlying actuarial assumptions, such as a change in the estimate of future employee turnover, early retirement or mortality or of increases in salaries; or changes in the discount rate.

  Actuarial gains and losses are accounted for in accumulated surplus/deficit.

4.3.5 Example 7

An entity pays post-employment benefits as **one lump sum** on termination of employment. This sum is established as a percentage of the final annual salary. The entity decided that it shall pay, for each year of service, 5% of the final annual salary. The current salary is €20,000, increasing by 10% every year (compound). The discount rate used is 5 per cent per year.

What is the service cost and defined benefit obligation for an employee working with an entity from the age of 60, and retiring after 5 years[4] [assuming that there are no changes in actuarial assumptions]?

Solution

- Current salary €20,000
- **Salary** 10% annual increase (compounded): 1st year €20,000, 2nd €22,000, 3rd €24,200, 4th €26,620, 5th €29,282.
- **Benefit** = 5% of the final salary = 5% of €29,282 = €1,464 per year.
  If the benefit is paid for each year of service, then the benefit will amount to, on termination of employment, €1,464 x 5 years **= €7,320**.
- **Current Service Cost**:
  - In the 1st year, the entity will have a current service cost of €1,464 discounted by 5% over a 4 year period (as sum will paid out after the 5th year) = PV (0.05, 4,, -1464) [5]= €1,204
  - 2nd year €1,265,
  - 3rd year €1,328,
  - 4th year €1,394 and
  - 5th year €1,464.

- **Defined benefit obligation**:
  - At the end of the 1st year €1,204 (equivalent to the service cost).
  - 2nd year €1,265 x 2 years = €2,530,
  - 3rd year €1,328 x 3 years = €3,984,
  - 4th year €1,394 x 4 = €5,576 and
  - 5th year €1,464 x 5 = €7,320.
- **Interest Cost @5%**: this represents the % interest of the closing obligation and is equal to the difference between the PV of the obligation, for example €1,464 in year 1 is equivalent to €1,204 and in year 2 €1,265 – the difference is the interest cost, amounting to €61, €126 in year 3, €198 in year 4 and €280 in year 5.
  - At the end of the 1st year €1,204 (equivalent to the service cost).

[4] This example is a very simplistic representation to explain the service cost and defined benefit obligation concepts.
[5] This is based on the Excel formula for PV (present value), one of the financial functions calculating the present value of a future amount.

- 2nd year €1,265 x 2 years = €2,530,

	Year 1 (€)	Year 2 (€)	Year 3(€)	Year 4(€)	Year 5(€)
Opening obligation	0	1,204	2,530	3,984	5,576
Interest Cost @ 5%	0	61	126	198	280
Current Service Cost	1,204	1,265	1,328	1,394	1,464
Closing obligation	**1,204**	**2,530**	**3,984**	**5,576**	**7,320**

The Statement of Financial Performance shall report annually the interest cost and the service cost. Below is an extract from year 3:

Extract from the Statement of Financial Performance (year 3)	
Expenditure	
Present value of service cost for period	€1,328
Interest cost	€126

The Statement of Financial Position shall show the entity's obligation at the end of each year. Below is an extract from year 3:

Extract from Statement of Financial Position	
Non - current Liability	
Present value of defined benefit obligation at end of period	€3,984

4.3.6 Example 8

Disclose the following on the Statement of Financial Position and the Statement of Financial Performance

	€
Present value of defined benefit obligation at the start of period	**500,000**
Interest cost at (e.g.10% based on Malta Government Bonds' yields)	50,000
Present value of service cost for period	100,000
Benefits paid during period	(45,000)
Present value of defined benefit obligation at the end of period	**700,000**[6]
Actuarial loss on defined benefit obligation	95,000

Extract from the Statement of Financial Performance	
Expenditure	
Present value of service cost for period	€100,000
Interest cost	€50,000

Extract from Statement of Financial Position	
Non-current Liability	
Present value of defined benefit obligation at end of period	€660,000

Extract from Statement of Financial Position	
Current Liability	
Present value of defined benefit obligation at end of period	€40,000

[6] The obligation is split between €40,000 as current and €660,000 as non-current liability.

Extract from Statement of Financial Position	
Net Assets/Equity	
Accumulated surplus/deficit:	
Actuarial loss on defined benefit obligation	€95,000

5. **Multi-employer plans:** Multi-employer plans are defined contribution plans or defined benefit plans that:
   - Pool the assets contributed by various entities that are not under common control; and
   - Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

5.1 One example of a multi-employer defined benefit plan is one where:
   - The plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and
   - Employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity [the risk that the assumptions actuaries implement into a model, to determine a benefit plan, may turn out wrong or inaccurate]. This risk arises if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

5.2 Where sufficient information is available about a multi-employer plan defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets, and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan.

5.3 An entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

- The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual entities participating in the plan; or
- The entity does not have access to sufficient information about the plan that satisfies the requirements of this Standard.

5.4 Example 9

A government unit has agreed to participate in a multi-employer plan with other similar entities. However, as there are actuarial risks associated with the current and former employees of the other entities participating in the plan, there is no consistent and reliable basis for allocating the obligation and cost to the entities participating in the plan.

This unit therefore accounts for the plan as if it were a defined contribution plan. The plan has agreed, under a binding arrangement, a schedule of contributions with the participating employers in the plan. The entity recognizes a liability for the contributions adjusted for the time value of money and an equal expense in surplus or deficit.

D.1 Post-employment benefits: the local context

1. **Post-employment Benefits (Treasury Pension) in Malta include**:

    - Police pensions payable by virtue of the Police Pensions Regulations, 1990;
    - Malta Armed Forces pensions payable under the Malta Armed Forces Act 1970 (as amended);
    - Pensions payable under the Civil Protection Act 1999 (as amended);
    - Pensions payable by virtue of the Members of Parliament Pensions Act 1979 (as amended);
    - Pre-1979 Service pensions;
    - Pensions payable by virtue of the Widows' and Orphans' Pensions Act 1921 (as amended).
    - Members of the Judiciary (Cap. 564, 2016)

2. **Police, Malta Armed Forces, Civil Protection, MPs and Judiciary's pensions**: The pension schemes operated in respect of the police, armed forces, civil protection officers, MPs and judiciary are all *defined benefit, non-contributory, unfunded pension plans.*

3. **Closed schemes: the Pre-1979 Service pensions and the pensions payable by virtue of the Widows' and Orphans' Pensions Act 1921 (as amended)**

3.1 The pre-1979 Service scheme closed to new members on 15 January 1979, and contributions in respect of widows and orphans' pensions ceased after May 1979.

3.2 The pre-1979 Service scheme closed to new members on 15 January 1979; although, at the time of writing these guidelines, some 1,000 current employees of the Maltese Government are members of the pre-1979 Service scheme, it is anticipated that all will have retired by the time the IPSAS 39 is implemented.

3.3 The accounting and reporting principles for these schemes are the same as those for the active schemes, but there are some differences in the disclosures that will be provided in the financial statements and thus in the information that the Actuary will need. The differences are as follows:

3.3.1 Recognition: The defined benefit cost for the reporting period will comprise the interest cost and actuarial gains and losses only. There is no current service cost.

3.3.2 Measurement

- The Actuary will not need to attribute costs to periods of service. As there are no current employees, the Actuary will only need information about the pensioners.
- It is possible that the appropriate discount rate for these closed schemes will differ from the rate used for the active schemes because the standard

requires the rate to be consistent with the estimated term of the post-employment benefit obligations: that estimated term is likely to be far shorter for these schemes than for the active schemes.

4. The Treasury Pensions System

4.1 This system is currently used by the Gozo Treasury section and deals with the following pensions:

- Widows and orphans pension
- Members of Parliament pension
- Police pension prior to 1979
- Police pension after 1979
- AFM pension prior to 1979
- AFM pension after 1979
- Members of the Judicature pension
- Attorney General pension
- Special pension

5. The Treasury Pensions Manual

5.1 The Treasury Pensions Section have published a manual intended to inform officers entitled to a Treasury pension of their rights and entitlements, and the obligations that have to be fulfilled in order to be granted this pension.

5.2 The manual outlines the eligibility for a pension, such as

- A full pension is awarded after 30 years of reckonable continuous service.
- Reckonable service commences on the day when the pensionable public officer begins to receive a pay, either full or half pay.
- If the reckonable service is less than 30 years, then the pension is calculated pro-rata.
- In the case of the Police Force, AFM and Correctional Services personnel, a full pension is awarded on the completion of 25 years in the service (if reckonable service is more than 10 and less than 25, then pension is pro-rata).
- The pension or gratuity may be suspended or reduced in cases of negligence, irregularities and misconduct.
- The bonus and income supplement are due to those pensioners who do not receive a Social Security pension and are not in full time employment or are self-employed.

5.3 The manual states that the pension awarded cannot be more than 2/3rd of the highest income ever received by the public official.

5.4 **Example 11**: A public officer has a salary of €14,000 and 30 years or more reckonable service – his pension would be calculated as follows

30 x 12 (months)/540 x 14,000 = €9,333 (full pension – $2/3^{rd}$)

[Note: division by 540 - the proportion of two-thirds pension or pro-rata to the number of years in employment 360 months/540 = 0.666666. This is equivalent to $2/3^{rd}$]

5.5 Commuted pensions: when a pensioner chooses to reduce the pension by a quarter, to convert that quarter to a gratuity.

5.6 A gratuity is composed of a quarter of a pension multiplied by 12.5.

5.7 **Example 12**: if in the example above the public officer opted for a commuted pension, €9,333 x ¾ = €6,999.75 (commuted pension),

Gratuity = €9,333 x ¼ = €2,333.25 x 12.5 = €29,165.62

5.8 **Example 13: Calculation of a Pension – Civil Service Prior to 15/1/1979**

Annual salary €16,184
Number of Years (30 or less) 23 years
Number of Months 9 months
Uncommuted pension 16184 x [(23 x 12) + 9]/540 = €8,541.56
Commuted pension 8541.56 x ¾ = €6,406.17
Gratuity 8541.56-6406.17 = 2135.39 x 12.5 = €26,692.36

Example 14: Calculation of a Pension – AFM and Police

Annual salary €12189
Number of Years (25 or less) 25 years
Uncommuted pension 12189 x [(25 x 12)/450] = €8,126
Commuted pension 8126 x ¾ = €6,094
Gratuity 8126-6094 = 2032 x 12.5 = €25,400

5.9 Calculation of pension

- Last annual salary (or average salary of the last 3 years if there was a change in the last three years).
- Where public officers are requested to stay in service after their 61^{st} birthday, the $2/3^{rd}$ pension must be increased by 1/80 for every year over 60 and gratuity decreases by 1/80 for every year over 60.

6. NSO: the development of a model for the calculation of pension entitlements for Malta

6.1 The National Statistics Office, as part of their reporting requirements to Eurostat, are, as from 2017, required to record pension obligations of government employer pension schemes as well as social security pension schemes on a supplementary table.

6.2 Freiburg University have been entrusted with presenting to the NSO a model for the calculation of pension entitlements for Malta.

E. Other long-term employee benefits

1. **<u>Other long-term employee benefits</u>** are employee benefits (other than post-retirement benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service. These include:
    - Long-term paid absences such as long service or sabbatical leave;
    - Long-term disability benefits;
    - Performance related payments (bonuses) paid twelve months or more after the end of the period in which the employees render the related service; and
    - Deferred compensation paid twelve months or more after the end of the period in which it is earned.

2. Other long-term benefits shall be accounted for as described on paragraph 4.3.5 above, similar to defined benefit plans.

3. **Example 10**
   Mr. Borg is being offered the possibility to work beyond the age of 60 until the age of 65, and in return, if he does work till he is 65, he shall be offered 5% of the final salary (as a lump sum) for each year in employment after the age of 60, payable on retirement. Mr. Borg would be 60 on 1 January 2011, with a final salary on 31 December 2011 of €50,000.
   Scenario 1: The entity made the following actuarial assumptions (as at 31 December 2011):
    - Mr. Borg's salary should increase by 7% annually (compounded).
    - Termination of employment probability before 1 January 2016: 30%
    - Discount rate 10% per annum.

   Scenario 2: The entity revised the actuarial assumptions as at 31 December 2012:

    - Mr. Borg's salary should increase by 20% annually (compounded).
    - Termination of employment probability before 1 January 2016: 20%
    - Discount rate 10% per annum.

   Show the entries in the Statement of Financial Performance and Financial Position as at 31 December 2012 for both scenarios.

How would disclosure change if the employee is not required to retire at 65, and the benefit vests and is payable on the employee's 65th birthday?

Solution

Scenario 1: Actuarial calculations based on assumptions as at 31 December 2011

- Service Costs
  Final Salary as at 31 December 2015:
  31/12/2012 - €50,000 x 1.07 = €53,500
  31/12/2013 - €53,500 x 1.07 = €57,245
  31/12/2014 - €57,245 x 1.07 = €61,252
  31/12/2015 - €61,252 x 1.07 = **€65,540**

  Defined benefit is 5% of Final Salary = 5% of **€65,540**= €3,277

  Termination of employment probability before 1/1/2016 = 30%, therefore adjusted **Defined Benefit** = €3,277 x 70% = **€2,294**

  2011: Present Value of €2,294 = PV (0.1, 4,, -2,294) = €1,567

  2012: Present Value of €2,294 = PV (0.1, 3,, -2,294) = €1,724

  2013: Present Value of €2,294 = PV (0.1, 2,, -2,294) = €1,896

  2014: Present Value of €2,294 = PV (0.1, 1,, -2,294) = €2,085

  2015: Present Value of €2,294 = PV (0.1, 0,, -2,294) = €2,294

  Therefore, scenario 1:

	31/12/2011	**31/12/2012**	**31/12/2013**	**31/12/2014**	**31/12/2015**
Opening obligation	0	1,567	3,447	5,687	8,341
Interest Cost @ 10%	0	157	345	569	834
Current Service Cost	1,567	1,724	1,896	2,085	2,294
Closing obligation	**1,567**	**3,448**	**5,687**	**8,341**	**11,469**

Extract from the Statement of Financial Performance (31.12.2012)	
Expenditure	
Present value of service cost for period	€1,723
Interest cost	€157

Extract from Statement of Financial Position (31.12.2012)	
Non - current Liability	
Present value of defined benefit obligation at end of period	€3,448

Scenario 2: Actuarial calculations based on assumptions as at 31 December 2012

- Service Costs
  Final Salary as at 31 December 2015:
  31/12/2012 - €50,000 x 1.07 = €53,500
  31/12/2013 - €53,500 x 1.20 = €64,200
  31/12/2014 - €64,200 x 1.20 = €77,040
  31/12/2015 - €77,040 x 1.20 = **€92,448**

  As from 31/12/2012:

  Defined benefit is 5% of Final Salary = 5% of **€92,448** = €4,622

  Termination of employment probability before 1/1/2016 = 20%, therefore adjusted **Defined Benefit** = €4,622 x 80% = **€3,698**

  2011: Present Value of €2,294 = PV (0.1, 4,, -2,294) = €1,567

  2012: Present Value of €3,698 = PV (0.1, 3,, -3,698) = €2,778

  2013: Present Value of €3,698 = PV (0.1, 2,, -3,698) = €3,056

  2014: Present Value of €3,698 = PV (0.1, 1,, -3,698) = €3,362

  2015: Present Value of €3,698 = PV (0.1, 0,, -3,698) = €3,698

Therefore, scenario 2:

	31/12/2011	**31/12/2012**	**31/12/2013**	**31/12/2014**	**31/12/2015**
Opening obligation	0	1,567	5,556	9,168	13,447
Interest Cost @ 10%	0	157	556	917	1,345
Current Service Cost	1,567	2,778	3,056	3,362	3,698
Actuarial Loss		1,054*			
Closing obligation	**1,567**	**5,556**	**9,168**	**13,447**	**18,490****

*[Actuarial loss = increase in service cost from €1,724 to €2,778 following changes that took place under scenario 2]

**[€18,490 is equivalent to €3,698 annual service cost over a 5 year period]

Extract from the Statement of Financial Performance (31.12.2012)	
Expenditure	
Present value of service cost for period	€2,778
Interest cost	€157

Extract from Statement of Financial Position (31.12.2012)	
Non - Current Liability	
Present value of defined benefit obligation at end of period	€5,556

Extract from Statement of Financial Position (31,12,2012)	
Net Assets/Equity	
Accumulated surplus/deficit: Actuarial loss on defined benefit obligation	€1,054

If Mr. Borg is given the opportunity to work beyond the age of 65, the benefits paid on his 65^{th} birthday will not be considered as post-employment benefits but **other long-term employee benefits.**

F. Termination benefits

1. **Termination benefits** are employee benefits provided in exchange for the termination of an employee's employment as a result of either:
    - An **entity's decision** to terminate an employee's employment before the normal retirement date; or
    - An **employee's decision** to accept an offer of benefits in exchange for the termination of employment.

2. An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment.

3. Termination benefits are typically lump sum payments, but sometimes also include:
    - Enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.
    - Salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

4. **Recognition**: An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates:
    - When the entity can no longer withdraw the offer of those benefits; and
    - When the entity can no longer withdraw from a restructuring plan, recognising costs for a restructuring, involving the payment of termination benefits.

5. For termination benefits payable as a result of an **employee's decision** to accept an offer of benefits in exchange for the termination of employment, the **time** when an entity can no longer withdraw the offer of termination benefits is the earlier of:
    - When the employee accepts the offer; and
    - When a restriction (e.g. a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

6. For termination benefits payable as a result of an **entity's decision** to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:
    - Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

- The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
- The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

7. When an entity recognizes termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits.

8. **Measurement:** An entity shall measure termination benefits on initial recognition, and shall measure and recognize subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

- If the termination benefits are **expected** to be settled wholly **before twelve months** after the end of the reporting period in which the termination benefit is recognized, the entity shall apply the requirements for **short-term employee benefits**.
- If the termination benefits are **not expected** to be settled wholly **before twelve months** after the end of the reporting period, the entity shall apply the requirements for **other long-term employee benefits**.

9. **Example 11**

An entity needs to reduce the size of its operations if it is to remain sustainable; therefore, it has decided to close off three outlets in a period of 8 months. During these 8 months, in accordance with its termination plan, it will retain skeleton staff until final closure. Staff who stay until the final closure will be offered €40,000, whilst the other staff will receive €15,000.

From the 60 employees currently employed in these three outlets, 21 will be remaining as skeleton staff whilst the remaining 39 will be immediately terminated. Termination benefits shall amount to €15,000 x 60 employees = €900,000. These are the benefits set out in the termination plan directly as a result of the closure of the three outlets.

The amount payable to the skeleton staff for services rendered during the 8 months until final closure, shall amount to €25,000 (€40,000 - €15,000) x 21 employees = €525,000.

Therefore, the entity shall recognise €900,000 as termination benefits and €525,000 as short-term employee benefits.

Accruing for Termination benefits incurred	
Debit Salaries (termination benefits)	€900,000
Debit Salaries (Short-term benefits)	€525,000
Credit Accrued Benefits	€1,425,000
Being the accruals of termination benefits in the year when incurred	

G. Disclosure

1. **Disclosures**

1.1 Short-term benefits: The standard does not require specific disclosures about short-term benefits. Other standards may require disclosures. IPSAS 20 Related Party Disclosures requires disclosures of the aggregate remuneration of key management personnel and IPSAS 1 requires the disclosure of information about employee benefits.

1.2 Post-employment Benefits—Defined Contribution Plans: An entity shall disclose the amount recognized as an expense for defined contribution plans (where required by IPSAS 20, an entity discloses information about contributions to defined contribution plans for key management personnel).

1.3 Post-employment Benefits—Defined Benefit Plans: An entity shall disclose information that:

1.3.1 Explains the characteristics of its defined benefit plans and risks associated with them; information about the characteristics of its defined benefit plans, including:

- The nature of the benefits provided by the plan (e.g. final salary defined benefit plan or contribution-based plan with guarantee).
- A description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling.
- A description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.
- A description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g. property, the plan may expose the entity to a concentration of property market risk.
- A description of any plan amendments, curtailments and settlements.
- The basis on which the discount rate has been determined.

1.3.2 Identifies and explains the amounts in its financial statements arising from its defined benefit plans:

- an entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:
  - The net defined benefit liability (asset), showing separate reconciliations for:
    - Plan assets.
    - The present value of the defined benefit obligation.
    - The effect of the asset ceiling.
  - Any reimbursement rights. An entity shall also describe the

relationship between any reimbursement right and the related obligation.

- Each reconciliation listed above **(1.3.2)** shall show each of the following, if applicable:
  - Current service cost.
  - Interest revenue or expense.
  - Remeasurements of the net defined benefit liability (asset), showing separately:
    - The return on plan assets, excluding amounts included in interest above.
    - Actuarial gains and losses arising from changes in demographic assumptions.
    - Actuarial gains and losses arising from changes in financial assumptions.
    - Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest above. An entity shall also disclose how it determined the maximum economic benefit available, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.
  - Past service cost and gains and losses arising from settlements. (past service cost and gains and losses arising from settlements need not be distinguished if they occur together).
  - The effect of changes in foreign exchange rates.
  - Contributions to the plan, showing separately those by the employer and by plan participants.
  - Payments from the plan, showing separately the amount paid in respect of any settlements.
  - The effects of public sector combinations and disposals.

- An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Such disclosure shall be in absolute terms (e.g. as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

1.3.3 Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

- An entity shall disclose:
  - A sensitivity analysis for each significant actuarial assumption as

of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.

- The methods and assumptions used in preparing the sensitivity analyses and the limitations of those methods.
- Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

- An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.
- To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:
    - A description of any funding arrangements and funding policy that affect future contributions.
    - The expected contributions to the plan for the next reporting period. Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

1.4 <u>Other Long-Term Benefits:</u> Although this Standard does not require specific disclosures about other long-term employee benefits, other IPSASs may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

1.5 <u>Termination Benefits:</u> Although this Standard does not require specific disclosures about other long-term employee benefits, other IPSASs may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

1.6 Illustrative disclosure requirements:

Statement of Financial Performance as at 31st December 2013 (extract)			
	Notes	2013 (€)	2012 (€)
<u>Expenditure</u>			
Salaries and other employee benefits	2	x	x

Statement of Financial Position as at 31st December 2013 (extract)			
	Notes	2013 (€)	2012 (€)
<u>Current Liabilities</u>			
Employee benefits	3	x	x
Provisions	4	x	x
<u>Non- Current Liabilities</u>			
Employee benefits	3	x	x

Extract from Notes to the Financial Statements

1. **Accounting Policies**

a) **Employee Benefits**

Short and long-term employee benefits
The cost of all short-term employee benefits, such as leave pay, is recognised during the period in which the employee renders the related service. The entity recognises the expected cost of performance bonuses only when the entity has a present legal or constructive obligation to make such payment, and a reliable estimate can be made.

Post-employment benefits
The entity provides a defined benefit plan (known as the Treasury Pension plan). The officers who qualify for this pension plan include the

- Police - pensions payable by virtue of the Police Pensions Regulations, 1990;
- Malta Armed Forces pensions payable under the Malta Armed Forces Act 1970 (as amended);
- Pensions payable under the Civil Protection Act 1999 (as amended);
- Pensions payable by virtue of the Members of Parliament Pensions Act 1979 (as amended);
- Pre-1979 Service pensions;
- Pensions payable by virtue of the Widows' and Orphans' Pensions Act 1921 (as amended).
- Members of the Judiciary (Cap. 564, 2016)

The pension is awarded as a result of dedicated and loyal service. When the service rendered by a public officer is deemed unsatisfactory, the pension may be computed at a reduced rate.
The pension awarded cannot exceed two thirds of the highest income ever received by the officer.

	2013	2012
Notes contd.		
2. Salaries and other employee benefits	€	€
Salaries and wages	X	X
Pension costs: Current Service Cost	X	X
Pension costs: Interest Cost	X	X
Performance and other bonuses	X	X
	X	X

	2013	2012
Notes contd.	€	€
3. **Employee Benefits**		
Benefit Liability		
Opening Balance: Defined Benefit Obligation	X	X
Interest Cost	X	X
Current Service Cost	X	X
Contributions paid	(X)	(X)
Actuarial Gains/(Losses)	(X)	X
Closing Balance: Defined Benefit Obligation	X	X
Current Defined Benefit Obligation	X	X
Non-current Defined Benefit Obligation	X	X
The principal assumptions used in determining the		
defined benefit obligation are as follows:	X%	X%
Discount Rate	X%	X%
General Inflation Rate	X%	X%
Estimated future salary increases		
A 1% change in the discount rate would:	X	X
Increase current service cost (1% increase)	X	X
Decrease current service cost (1% decrease)	X	X
Increase interest cost (1% increase)	X	X
Decrease interest cost (1% decrease)	X	X
Increase defined benefit obligation (1% increase)	X	X
Decrease defined benefit obligation (1% decrease)		

Notes contd. 4. Current Provisions	Leave Benefits €	Performance Benefits €	Total Benefits €
Balance at the beginning of the year	X	X	X
Additional provisions raised	X	X	X
Provision utilised	X	X	X
Balance as at 31 December 2013	X	X	X

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Glossary

‘’Accruals-based accounting’’ Accruals-based accounting is a system of accounting based on the accrual principal, under which revenue is recognised (recorded) when earned, and expenses are recognised when incurred.

“Active scheme” An active scheme is a pension scheme in which employees are accruing benefits under that scheme in respect of current service (active members).

“Actuarial assumptions” The set of assumptions about inflation, increase in earnings, staff turnover and mortality etc., used by the actuary in an actuarial valuation.

“Actuarial gains and losses” Changes in the actuarially determined liability that arise because:

a) Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or

b) The actuarial assumptions have changed.

“Actuary” A professional adviser on financial questions involving probabilities relating to mortality etc. that have an impact on the present value of a liability.

‘’Cash-based accounting’’ Cash-based accounting is an accounting method in which income is recorded when cash is received, and expenses are recorded when cash is paid out.

‘’Central Government Entities (CGEs)’’ The term CGEs refers only to ministries and departments of the Government of Malta.

“Closed scheme” A pension scheme that does not admit new members. (Contributions may or may not continue and benefits may or may not be provided for future service to existing members.)

“Defined benefit scheme” A scheme where benefits are linked through a formula to the members' earnings and/or length of pensionable employment.

“Defined contribution” The provision of an individual member’s benefits by reference to contributions paid into a pension scheme by or in respect of that member, usually increased by the investment return on those contributions.

“Defined contribution scheme” A scheme that provides benefits on a defined contribution basis.

“Employee benefits” Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

“Interest cost” The expected increase during the period in the present value of the scheme liabilities because benefits are one period closer to crystallisation.

‘’International Public Sector Accounting Standards (IPSAS)’’ IPSAS are a set of accrual-based accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.

“Member” A person who has been admitted to membership of a [pension scheme] and is entitled to benefit under the scheme. (Sometimes narrowly used to refer only to an active member.)

“Multi-employer plans” Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:
(a) Pool the assets contributed by various entities that are not under common control; and
(b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

“Other long-term employee benefits” Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

“Post-employment benefits” Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

“Short-term employee benefits” Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

“State plans” State plans are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

“Termination benefits” Termination benefits are 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.