

In Brief

A plain and simple overview of PSAB's Exposure Draft, Employee Benefits, Proposed Section PS 3251

This is an overview of the key proposals in PSAB's Exposure Draft, "Employee Benefits, Proposed Section PS 3251"

Project objectives:	To issue a new employee benefits standard to replace the following sections of the PSA Handbook: <ul style="list-style-type: none"> • PS 3250, <i>Retirement Benefits</i>; and • PS 3255, <i>Post-employment Benefits, Compensated Absences and Termination Benefits</i>.
The project stage:	PSAB is consulting with stakeholders as part of the first phase of the revised employee benefits standard. The first phase of this multi-phase standard is focused on the topics of deferral provisions and discount rate guidance. Future phases will focus on non-traditional pension plans and other issues.
Next steps:	PSAB will use stakeholder feedback to finalize the first phase of the new employee benefits standard, which will replace existing sections PS 3250 and PS 3255.
Comment deadline:	November 25, 2021
How to respond:	Share your feedback by taking part in the Connect.FRASCANADA.CA project or by submitting a comment letter .

In Brief

A plain and simple overview of PSAB's Exposure Draft, Employee Benefits, Proposed Section PS 3251

Why did PSAB undertake this project?

The current standards in the PSA Handbook on retirement benefits, post-employment benefits, compensated absences, and termination benefits were developed more than two decades ago.

Canadian pension plans have evolved significantly over the past two decades. Historically low interest rates, aging plan members, and increasing longevity have led to substantial pension reform in many jurisdictions. New forms of pension plans have been adopted to allow for these risks to be shared between employers and plan members.

International and other national standard setters have issued updated guidance in response to changes in global pension plans. As a result, there is a disconnect between Canadian public sector entities and our international peers.

Through its Employee Benefits project, PSAB will deliver a principles-based employee benefits standard that addresses current and emerging key issues faced by Canadians and public sector plans.



In Brief

A plain and simple overview of PSAB's Exposure Draft, Employee Benefits, Proposed Section PS 3251

What is PSAB's project approach?

PSAB is using a multi-phase strategy for the development of the new employee benefits standard, with IPSAS 39 as a starting point. This Exposure Draft contains the proposed guidance for the first phase of the standard.

This Exposure Draft outlines the proposed principles for the first phase of PSAB's revised employee benefits standard.

In this phase, PSAB will focus its efforts on the topics of deferral provisions and discount rate guidance. In future phases, PSAB will focus on guidance for non-traditional pension plans and other issues.

This Exposure Draft uses the principles of IPSAS 39 as a starting point. The principles were amended if they were:

- contrary to PSAB's conceptual framework; or
- not appropriate for application in Canada based on the Canadian public interest.

While the Exposure Draft focuses on finalizing guidance for deferral provisions and discount rate, the multi-phase approach is intended to allow further revision of the proposed guidance, as additional topics are considered.

What are the key proposed changes in accounting guidance for deferral provisions?

Under the proposed principles, revaluations of the net defined benefit liability (asset) are recognized immediately on the statement of financial position. Deferral and amortization of actuarial gains and losses is no longer used.

The proposed approach for actuarial gains and losses in this Exposure Draft differs from existing sections PS 3250 and PS 3255. A deferral and amortization approach of these amounts would no longer be used.

Under the proposed guidance, revaluations of the net defined benefit liability (asset), which include actuarial gains and losses, are recognized immediately on the statement of position within:

- the net defined benefit liability (asset); and
- the accumulated other component of net assets.

Revaluations of the net defined benefit liability (asset) are not reclassified to surplus or deficit in a subsequent period.

This approach aligns with the decisions of many other standard setters, given the challenge in identifying an appropriate basis for reclassifying these revaluations.

Through recognition of current service cost in the statement of operations, a public sector entity would accurately reflect the cost of the defined benefit obligations and underlying assumptions.

The Exposure Draft also proposes that plan assets would be measured at market value.

What are the key proposed changes in accounting guidance for discount rate?

PSAB proposes that a public sector entity would assess the funding status of a post-employment benefit plan to determine the appropriate discount rate.

Canadian public sector pension plans are often recognized for their:

- strong, high-quality governance structures;
- risk-mitigation strategies;
- investment-management practices;
- investment policies; and
- strong performance records.

Furthermore, federal, provincial, and territorial level governments within Canada have a high proportion of fully funded plans compared to international jurisdictions. Reflecting the unique nature of these pension plans, the Exposure Draft proposes that the rate used to discount a post-employment benefit plan would depend on the plan's funding status—the proportion of the plan that is assessed to be sufficiently funded by existing plan assets

Following the proposed guidance, in assessing the funding status of its post-employment benefits plan(s), a public sector entity would consider the following on an annual basis:

- The proportion of the current and projected plan assets balance compared to projected benefit payments.
- The unique circumstances and characteristics of their post-employment benefit plan.

In Brief

A plain and simple overview of PSAB's Exposure Draft, Employee Benefits, Proposed Section PS 3251

Post-employment benefit plans would use the following discount rates, based on the funding status.

Funding status	Comparison of projected balance of plan assets vs. projected benefit payment obligations	Discount rate used
Fully funded plans	Projected balance of plan assets exceeds projected benefit payment obligations for all projected periods	Expected market-based return on plan assets
Unfunded plans	Project balance of plan assets does not exceed projected benefit payment obligations for any projected period	Provincial government bonds
Partially funded plans	Projected balance of plan assets exceeds projected benefit periods for fewer than all projected periods	Single discount rate that reflects: <ul style="list-style-type: none">• the fully funded rate for periods where the balance of plan assets is projected to be greater than or equal to projected benefit payments, and• the unfunded rate for all other periods

What other proposed changes to accounting guidance are included?

Proposed principles outside the topics of deferral provisions and discount rate guidance are largely unchanged from IPSAS 39, with a few noted exceptions.

Net interest on the net defined benefit liability (asset)

Proposed principles for determining net interest on the net defined benefit differ from existing section PS 3250. The proposed guidance determines the net interest by multiplying the net defined benefit liability (asset) by the rate used to discount the post-employment benefit obligation.

In situations where the rate used to discount the post-employment benefit obligation is lower than the expected return on plan assets, the net interest approach may increase the defined benefit cost recognized in the statement of operations compared to the existing guidance in PS 3250.

Joint defined benefit plans

Proposed guidance for joint defined benefit plans is included in the first phase of the standard to ensure that entities currently relying on this guidance are not impacted by the proposed guidance prior to PSAB's consideration of topics (such as risk-sharing and non-traditional plans) in future phases.

PSAB has proposed minor modifications to the existing guidance for joint defined benefit plans, including:

- changing legal terminology to accounting terminology by replacing references to “sponsor” with “participating entities”; and
- directing entities to use multi-employer plan guidance.

Disclosure

The disclosure requirements proposed in this Exposure Draft are, at times, more detailed than the existing requirements. The intent behind the disclosures is largely consistent with PS 3250 and PS 3255; PSAB's proposals serve the Canadian public interest by providing more relevant and understandable information.

In Brief

A plain and simple overview of PSAB's Exposure Draft, Employee Benefits, Proposed Section PS 3251

When are the proposals effective?

The proposals are effective for fiscal years beginning on or after April 1, 2026.

An effective date of April 1, 2026 will allow for three complete budget cycles prior to transition.

The proposals require retroactive transition.

As PSAB completes future phases of the revised employee benefits standard, effective dates for those phases will be communicated.



In Brief

A plain and simple overview of PSAB's Exposure Draft, Employee Benefits, Proposed Section PS 3251

Next steps

The deadline for comments is November 25, 2021.

Comment on the proposals

Read the [Exposure Draft, "Employee Benefits, Proposed Section PS 3251"](#) and our other supporting materials.

Submit your feedback by taking part in the [Connect.FRASCanada.ca](https://connect.frascanada.ca) project or by submitting a [comment letter](#).

We value your input and look forward to your feedback.

Contacts

Riley Turnbull, CPA, CA
Principal, Public Sector Accounting Board
Phone: +1 (416) 204 3245
Email: rturnbull@psabcanada.ca

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting Board
Phone: +1 (416) 204 3451
Email: mpuskaric@psabcanada.ca