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| FRD 112D |  |  | Defined Benefit Superannuation Obligations (May 2014) |
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| Purpose |  |  | * + 1. To prescribe for the recognition by entities of the defined benefit liabilities or assets for their employees.     2. To prescribe requirements for the disclosure of the defined benefit liabilities or assets by the Department of Treasury and Finance (DTF) on behalf of the State. |
| Application |  |  | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act 1994*. Application by State owned corporations are encouraged. |
| Operative date |  |  | Annual reporting periods commencing on, or after, 1 July 2013, superseding FRD 112C. |
| Requirements |  |  | Recognition of defined benefit plans in financial statements of entities |
|  |  |  | The following entities must recognise the net benefit liabilities or assets related to their employees’ defined superannuation benefit in accordance with the requirements of AASB 119 *Employee Benefits*:   1. Entities with employees who are members of defined benefit plans not listed in Appendix A; 2. Entities listed in Appendix B with employees who are members of the defined benefit plans listed in Appendix A, for which the emerging cost of funding the liability is met wholly or in part by the Commonwealth Government; and 3. Entities listed in Appendix C with employees who are members of the defined benefit plans listed in Appendix A, which are not controlled by the State of Victoria (the State) and their financial position and result are thus not included in the Annual Financial Report (AFR) of the State. |
|  |  |  | All other entities are exempt from the recognition of the net defined benefit liabilities or assets related to the defined benefit plans listed in Appendix A. Instead, these entities are to account for contributions to these plans as if they were defined contribution plans under AASB 119 *Employee Benefits*, consistent with the disclosure requirements of AASB 119.149. |
|  |  |  | DTF’s disclosure of aggregate defined benefit plans on behalf of the State |
|  |  |  | DTF must disclose in its administered items note, the defined benefit liability or asset of all other public sector agencies in respect of the defined benefit plans listed in Appendix A, together with the State’s share, of the defined benefit liability or asset relating to the defined benefit plans of entities listed in Appendix C. |
|  |  |  | In addition, DTF is required to provide the following disclosures in relation to this administered defined benefit liability or asset in its annual report:   1. a general description of DTF’s administrative role in managing the defined benefit liability or asset on behalf of the State; 2. a general description of the administered defined benefit liability or asset; 3. a reconciliation of opening and closing balances of the present value of the administered defined benefit liability or asset showing separately, if applicable, the effect during the period attributable to each of the following:    1. current service cost;    2. interest expense;    3. contributions by plan participants;    4. actuarial gains and losses;    5. benefits paid;    6. past service cost;    7. curtailments; and    8. settlements. 4. a reconciliation of the opening and closing balances of the fair value of administered plan assets showing separately, if applicable, the effects during the period attributable to each of the following:    1. interest income    2. return on plan assets (excluding interest income);    3. actuarial gains and losses;    4. contributions by the employer;    5. contributions by plan participants;    6. benefits paid; and    7. settlements. 5. a reconciliation of the outstanding amount for each of the administered defined benefit plan listed in Appendix A to the total defined benefit liability or asset disclosed in the Statement of Administered Assets and Liabilities; 6. the principal actuarial assumptions used as at the end of the reporting period, including, when applicable:    1. the discount rates;    2. the expected rates of return on any plan assets for the periods presented in the financial statements;    3. the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases); and    4. any other material actuarial assumptions used.   Each actuarial assumption should be disclosed in absolute terms and not just as a margin between different percentages or other variables; and   1. disaggregate the fair value for each category of administered plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan assets into those that have a quoted market price in an active market (as defined by AASB 13 *Fair Value Measurement*) and those that don’t. It shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets.   Illustrations of the disclosures required by paragraphs 4.4(a)-(g) are provided in Appendix D of this FRD as guidance for DTF. |
|  |  |  | Consolidation  Entities that are consolidated in the AFR of the State must notify DTF of contributions made to superannuation plans, distinguishing between those made to defined benefit plans and those made to defined contribution plans. |
| Definitions |  |  | Refer to AASB 119 for the following definitions:  Actuarial gains and losses;  Current service cost;  Defined benefit plans;  Defined contribution plans;  Fair value;  Net defined benefit liability (or asset);  Past service cost;  Post-employment benefits;  Post-employment benefit plans;  Present value of a defined benefit obligation  Return on plan assets; and  Settlement |
| Guidance |  |  | **DTF (on behalf of the State) and entities listed in Appendices B and C** |
|  |  |  | AASB 119 defines “defined benefit plans” to be post-employment benefit plans other than defined contribution plans. This definition is broader than under AAS 25 *Financial Reporting by Superannuation Plans*. |
|  |  |  | AASB 119 prescribes requirements to recognise obligations arising from defined benefit plans, and specifies the measurement criteria. |
|  |  |  | Because the ultimate cost of the post-employment benefit is uncertain, entities are required to undertake a valuation at each reporting period to determine the present value of the defined benefit obligation. The involvement of a qualified actuary in the measurement of the post-employment benefit on an annual basis is encouraged. |
|  |  |  | An entity should refer to the requirements of AASB 119 where the actuarial valuation of the entity’s defined benefit liability was conducted before the reporting date. |
|  |  |  | All other entities (including DTF) |
|  |  |  | Entities are required to recognise and disclose the superannuation contribution paid or payable to the relevant superannuation plan in exchange for the service rendered to the entity during the period as set out in AASB 119. |
|  |  |  | This FRD requires relevant entities to notify the CFO of DTF of contributions made to defined benefit and defined contribution plans separately. Such information will assist DTF in reporting on behalf of the State, the consolidated whole of State / general government sector superannuation expense. |
|  |  |  | **Members of Vision Super sub plans** |
|  |  |  | Certain entities, such as water authorities, are common members of Vision Super sub plans and, as such, are considered to belong to *‘multi-employer plans’* for the purposes of AASB 119. Consequently, Vision Super has advised entities that contribute to this *‘multi-employer plan’* that they are unable to supply the information necessary for entities to individually report obligations as *‘defined benefit plans’*. Accordingly, after consultation with regulators and auditors, Vision Super has advised these entities to instead make disclosures as a *‘defined contribution plan’* as provided for by paragraph 32 of AASB 119. |
|  |  |  | Vision Super has also advised that it will give further advice in relation to the disclosures required. |
| Relevant pronouncements |  |  | AASB 119 Employee Benefits  AASB 1050 Administered Items |
| Background |  |  | AASB 119 requires that where an entity’s legal or constructive obligation to contribute to a superannuation plan is limited to the amount that it agrees to contribute to the plan on behalf of current employees, the plan is classified as a defined contribution plan for purposes of recognition, measurement and disclosure. |
|  |  |  | The State’s public sector superannuation plans are funded by public sector agencies on the basis that contributions are remitted to the plans at rates at least equal to those necessary to fully fund the future accrual of benefits from current services; contributions are set for three years in advance based on each plan's actuarial assumptions. Any additional employer contributions required in respect of the past service of the entity's employees are paid by DTF on behalf of the State from the Consolidated Fund. |
|  |  |  | With certain exemptions, public sector agencies have no legal or constructive obligation to pay future benefits; their only obligation is to pay the contributions as they fall due. If the entity ceases to employ members of the State public sector superannuation plan(s), it will have no obligation to pay the benefits earned by those employees in previous years; DTF, on behalf of the State, will meet any such obligations. |
|  |  |  | S.90(2) of the *State Superannuation Act 1988* and s.20 of the *Emergency Services Superannuation Act 1986* allows each plan to be supplemented from the State’s Consolidated Fund. |
|  |  |  | For the reasons outlined above, and with some exceptions, the State plans are treated as defined contribution plans in the financial reports of public sector agencies. |
|  |  |  | The State plans were initially treated as defined benefit plans in the financial statements of DTF and in the financial statements of the State. However, since the financial year ending 30 June 2010, the accounting policy for the recognition of the aggregate defined benefit liability or asset associated with defined benefit plans listed in Appendix A by DTF was changed from ‘controlled’ to ‘administered’. This is in accordance with the requirements under AASB 1050 *Administered Items* where a liability does not involve a sacrifice of the assets that the government department controls at the end of the period, this liability is not a controlled liability and is not recognised in the department’s financial statements. |
|  |  |  | Therefore, this FRD has been updated to reflect the change in accounting policy and also to prescribe DTF’s minimum disclosures for the administered defined benefit liability or asset on behalf of the State. This is to maintain the government policy for transparency and accountability. |
|  |  |  | AASB 119 *Employee Benefits* requires the recognition of actuarial gains and losses immediately in other comprehensive income and it will not be reclassified into the profit or loss. |
|  |  |  | Measurement of defined benefit expense – the annual expense for a funded benefit plan will include net interest expense or income , calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets and is expected to increase the benefit expense for most entities because the discount rate is normally lower than the expected return on asset assumption. However, the change will have no effect on total comprehensive income as the increased charge in the profit or loss is offset by a credit in other comprehensive income. |
|  |  |  | There is no change to the discount rate which remains a high quality corporate bond rate with a deep market and a government bond rate in other markets. |
| Model for Disclosure within Financial Report |  |  | AASB 101 requires disclosure of accounting policies used that are relevant to gaining an understanding of the financial report. For entities that are not required to recognise the defined benefit liabilities or assets, they should refer to the latest publication of the *Model Report for Victorian Government Departments* (The *Model*) for illustrations of appropriate disclosure of accounting policies,.  Appendix D illustrates the disclosure requirements of paragraphs 4.4(a)-(g) of this FRD, that are specific to DTF in relation to the aggregate administered defined benefit liability or asset, and its related movements, disclosed in the administered note. |

# Appendix A

Defined Benefit Plans:

* State Superannuation Fund
* Emergency Services Superannuation Scheme
* Health Super Defined Benefit Scheme
* Constitutionally Protected Schemes

# Appendix B

Commonwealth Funded Entities consolidated in the AFR:

* Department of Human Services (Director of Housing partially funded).

# Appendix C

Commonwealth Funded Entities not consolidated in the AFR:

* All Victorian universities (partially funded).

# Appendix D

Illustrative disclosure for DTF based on the requirements of paragraphs 4.4(a)-(g) of this FRD

DTF manages the State’s superannuation liability by:

* conducting regular actuarial valuations of the State’s public sector superannuation schemes;
* monitoring the performance of the associated superannuation assets, the majority of which are required to be invested with the Victorian Funds Management Corporation (VFMC);
* prudentially supervising VFMC; and
* providing advice to government on a wide range of superannuation issues.

The State’s superannuation liability with respect to superannuation funds operated principally for General Government Sector employees was $ XX million (20XX - $XX million). This liability represents the State’s share of the shortfall between the total net assets of the State’s General Government Sector superannuation funds at 30 June 20XX and the total benefits that members have accrued up to that date, determined by an actuarial assessment. The balance of the superannuation liability with respect to these funds is to be met by Commonwealth funded agencies (for example, universities) and self-funded entities. In accordance with the State Superannuation Act 1988, the Government, through the Consolidated Fund, is primarily responsible for meeting the employer’s share of the superannuation liability of the State Superannuation Fund components of the Emergency Services Superannuation Scheme. However, under the terms of that Act, the Minister for Finance can effectively pass this liability to individual authorities.

In addition, the accrued benefits arising from pension entitlements has increased by $XX million (20XX – $XX million). These entitlements are constitutionally protected schemes operated principally for judges. No assets are held in respect of these schemes and pensions are directly payable from the Consolidated Fund.

Reconciliation of the present value of the defined benefit obligation

|  |  |  |
| --- | --- | --- |
|  | 20XX $ million | 20XY $ million |
| **Balance at the start of the period** |  |  |
| Current service cost |  |  |
| Interest expense |  |  |
| Contributions by plan participants |  |  |
| Actuarial (gains)/losses |  |  |
| Benefits paid |  |  |
| Balance at the end of the period |  |  |

Reconciliation of fair value of superannuation plan assets

|  |  |  |
| --- | --- | --- |
|  | 20XX $ million | 20XY $ million |
| **Balance at the start of the period** |  |  |
| Return on plan assets |  |  |
| Actuarial gains/(losses) |  |  |
| Employer contributions |  |  |
| Contributions by plan participants |  |  |
| Benefits paid (including tax paid) |  |  |
| Balance at the end of the period |  |  |

Reconciliation of assets and liabilities disclosed in the Administered Statement of Assets and Liabilities

|  |  |  |
| --- | --- | --- |
|  | 20XX $ million | 20XY $ million |
| State Superannuation Fund/Emergency Services Superannuation Scheme |  |  |
| Other funds |  |  |
| Total superannuation liability |  |  |

Actuarial assumptions

|  |  |  |
| --- | --- | --- |
|  | 20XX % | 20XY % |
| **State Superannuation Fund/Emergency Services Superannuation Scheme** |  |  |
| Expected return on assets |  |  |
| Discount rate |  |  |
| Wages growth |  |  |
| Inflation rate |  |  |
|  |  |  |
| **Constitutionally protected pensions** |  |  |
| Discount rate |  |  |
| Wages growth |  |  |
| Inflation rate |  |  |
|  |  |  |
| **Health Superannuation Fund** |  |  |
| Expected return on assets |  |  |
| Discount rate |  |  |
| Wages growth |  |  |
| Inflation rate |  |  |

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class

|  |  |  |
| --- | --- | --- |
| Categories of plan assets | % | Fair value   $ |
| The major categories of plan assets are as follows: |  |  |
|  |  |  |
| **Quoted in active markets** |  |  |
| Domestic equity | X | X |
| International equity | X | X |
|  |  |  |
| **Unquoted investments** |  |  |
| Domestic debt assets | X | X |
| Property | X | X |
| Cash | X | X |
| Other | X | X |
|  | 100.0 | X |