

ACCOUNTING STANDARDS ADVISORY FORUM (ASAF)

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Research on Pensions: Hybrid Plans

Purpose

1. This paper:

- (a) summarizes the results of research performed to date by Canada, Germany, Japan, the U.K. and the U.S. on hybrid pension plans¹, including the challenges in applying current accounting standards to these plans;
- (b) presents a proposal that the IASB consider this research and either add it as another dimension to the feasibility study in its research pipeline or take on a project to address hybrid pension plans; and
- (c) seeks feedback from ASAF members through this discussion.

Overview of Questions

2. ASAF members are asked to:

- (a) share recent developments in their jurisdictions reflecting the ongoing evolution of hybrid pension plans;
- (b) provide their thoughts on the merit of the research on hybrid pension plans;

¹ Hybrid pension plans are new types of pension plans that are neither defined contribution plans nor defined benefit plans. They have elements of both traditional defined contribution plans and traditional defined benefit plans and have evolved in order to reduce the risks to which plan sponsors are exposed from defined benefit plans.

- (c) provide their comments on a proposal that the IASB consider the research and either add it as another dimension to the feasibility study in its research pipeline or take on a project to address hybrid pension plans; and
- (d) advise on the next steps presented and suggest other activities.

Executive Summary

3. Hybrid pension plans are becoming more pervasive and the accounting for these plans does not fall out easily from the application of the current binary accounting model, which was designed for traditional defined contribution plans and traditional defined benefit plans.
4. A group of standard-setters has conducted research to understand the experiences to date with hybrid pension plans. Specifically, this paper illustrates the application of different approaches to the classification and measurement of hybrid pension plans that contain risk-sharing features, by reporting on the experiences of several jurisdictions in applying IFRS[®] Standards and their local GAAPs (when different from IFRS[®] Standards) to a sample of such plans.
5. Our findings point to the need for further guidance on accounting for hybrid pension plans to better reflect their economic characteristics and reduce diversity in practice. This paper identifies possible ideas to explore in developing solutions for the accounting challenges posed by these plans, that consider feedback received from the International Forum of Accounting Standard Setters (IFASS) participants at their September 2017 meeting. The paper also outlines activities in progress to expand the research performed to date.
6. This paper proposes that the IASB consider this research on hybrid pension plans and either add it as another dimension to the feasibility study, “Pension Benefits that Depend on Asset Returns,” in its research pipeline or take on a project to address hybrid pension plans.

Materials Provided

[Background](#)

Required reading

[Motivation for the Research, and Scope](#)

[Related Activities of Others](#)

[Research to Date](#)

[Discussion](#)

Required reading

[Analyzing Hybrid Plans across Several Jurisdictions](#)

[Findings and Observations](#)

[Ideas to Explore](#)

[Additional Feedback from IFASS Participants](#)

[Expanding Research to Other Jurisdictions](#)

[Expanding Research to Financial Statement Users and Academics](#)

[Proposal](#)

[Next Steps](#)

Required reading

[Questions for ASAF members](#)

Required reading

[Appendix A](#) – Pensions Working Group members

Optional reading

[Appendix B](#) – Hybrid Plan Statistics by Jurisdiction

Optional reading

[Appendix C](#) – Anchor Plans – Key Features

Optional reading

[Appendix D](#) – Example Hybrid Plans – Key Features

Required reading

[Appendix E](#) – Examples of Helpful Guidance from IFRS® Standards for the Example Hybrid Plans Optional reading

[Appendix F](#) – Accounting Challenges in Applying IAS 19 to Example Hybrid Pension Plans Required reading

Background

Motivation for the Research, and Scope

7. New types of pension plans that are neither defined contribution plans nor defined benefit plans (i.e., hybrid pension plans) are becoming more prevalent in multiple jurisdictions, including Canada, Germany, Japan and the U.S. Hybrid pension plans have elements of both traditional defined contribution plans and traditional defined benefit plans and have evolved in order to reduce the risks to which plan sponsors are exposed from defined benefit plans.
8. Issues arise in accounting for these plans under both IFRS® Standards and several local GAAPs. It is important that financial statements provide users with relevant information that faithfully represents the economic characteristics, including risks, associated with the plan sponsor's pension benefit obligation.
9. A Working Group of staff from national standard-setters in Canada, Germany, Japan, the U.K. and the U.S.², with the support of others from the standard-setting bodies represented by the Working Group, embarked on research to produce evidence demonstrating whether there is a need for accounting guidance addressing hybrid pension plans. The Working Group seeks to:
 - (a) understand the experiences of jurisdictions around the world with hybrid pension plans and whether common issues arise; and
 - (b) determine whether existing standards adequately deal with such plans and identify possible improvements, if needed.

² See [Appendix A](#) for a list of the current members of the Working Group.

10. The goal is to share the results of the research with the IASB and other standard-setters to support the improvement of financial information reported about the obligations of hybrid pension plans.
11. To keep the scope manageable, the Working Group’s research effort focuses on post-employment retirement benefit plans, referred to as pension plans. It excludes other post-employment benefits, for example, post-employment medical care, and post-employment life insurance benefits.

Related Activities of Others

IASB’s Feasibility Study on Pensions

12. After considering the feedback from its 2015 Agenda Consultation, the IASB created a pipeline of future research projects and indicated that it expected to start, or restart, work on these projects before the next Agenda Consultation. The next Agenda Consultation is expected to start around 2021.
13. Included in this research pipeline is a project for a feasibility study, “Pension Benefits that Depend on Asset Returns.” The IASB’s [Research Programme](#) webpage describes its [research pipeline](#). Following is an extract from the webpage as of May 23, 2018, describing the timing and details of this feasibility study:

The Board decided in February 2018 that in the next few months the staff should aim to:

...

- d. start the research on Pension Benefits that Depend on Asset Returns.

...

Feasibility studies	Description	Comments
Pension Benefits that Depend on Asset Returns	The project’s objective will be to assess whether it would be feasible to develop an approach that focuses on the relationship between the cash flows included in the measurement of those benefits and the discount rate.	If the research establishes that this approach would not be feasible, the staff expects to recommend no work on pensions.

EFRAG's Research Project on Pension Plans

14. EFRAG has an active [research project on pension plans](#) to consider possible amendments to the accounting requirements in IAS 19 *Employee Benefits* in relation to plans in which the promised benefit is linked to the return on specified assets. This project is not expected to result in a recommendation that the IAS 19 model be fundamentally revised.
15. The [EFRAG Update – December 2017](#) reported on the EFRAG Technical Expert Group's (TEG) most recent discussion on this topic. Members discussed the scope of the project, the different approaches being considered, how a fulfilment value approach might be applied to pension plans, and the basis for comparing the advantages and limitations of the different approaches. No decisions were taken at this meeting.
16. The Working Group notes that some interplay with the EFRAG research project on pension plans could affect our work and, thus, we will continue to monitor this project.

Research to Date

17. The Working Group began its research in the first half of 2016 with each standard-setting body represented contributing toward an environmental scan of pension obligations by private sector entities reporting under IFRS Standards and local GAAPs. Over several months, the Working Group analyzed input gathered collectively through close to 25 points of contact with audit firms and benefit consulting firms across our jurisdictions. This comprehensive scan enabled us to understand the characteristics of pension obligations, including hybrid pension plans (hybrid plans), in terms of their nature and prevalence, risks faced by the plan sponsor, market trends, legislative/regulatory environment, and any accounting difficulties encountered. In particular, it provided insights into the different types of pension plans that are currently in place in our jurisdictions and those that are emerging.
18. The Working Group discussed its environmental scans with others from the standard-setting bodies represented by the Working Group and identified pension

schemes trending toward hybrid plans in multiple jurisdictions. [Appendix B](#) provides a statistical overview of the increasing prevalence of hybrid plans.

19. The discussion focused on the many accounting issues raised by hybrid plans because they do not fit into the traditional pension accounting model.
20. It is important to note that through this research the Working Group found that the term ‘hybrid plans’ can take on different meanings. The term is used in this paper as described in [footnote 1](#) on the first page.
21. The Working Group focused next on how to account for hybrid plans, by determining the similarities and differences in the accounting for such plans across several different jurisdictions. The Working Group sought first to identify the issues, and then explore how to better account for the economic characteristics of these plans compared to current practices by:
 - (a) considering different pension plans ranging from a traditional DB plan to a traditional DC plan and three to four plans in between; and
 - (b) analyzing the accounting for these plans under IFRS Standards and several different local GAAPs.
22. This analysis began with an examination of the key features of a traditional DB plan and a traditional DC plan (sometimes referred to as “anchor plans” — see [Appendix C](#)). Understanding these features was useful in identifying the example plans discussed in this paper and understanding how they differ from the types of plans in existence when today’s pension accounting standards were developed. The remainder of the Working Group’s analysis, as described in [paragraph 21\(b\)](#), focused only on the example hybrid plans selected.

Discussion

Analyzing Hybrid Plans across Several Jurisdictions

23. The Working Group (we) selected four example hybrid plans that came to our attention that we thought best illustrated the accounting challenges posed by such plans, as determined from our initial outreach. These example plans consist of two

shared-risk plans, a security-linked plan and a cash balance plan. See Overview of Example Hybrid Plans in [paragraph 26](#) of this paper for high-level descriptions of each plan.

24. Each jurisdiction conducted limited outreach within its jurisdiction to hear from a representative number of audit firms and benefit consulting firms about the example plans. The Working Group designed a template to capture respondent views and observations on a consistent basis, focusing on the following:

- (a) **Domestic pension experience**, such as the extent to which pension schemes with terms similar to those of the example plans exist.
- (b) **Local GAAP experience** as well as **IFRS Standards experience**, such as identifying for each of these GAAPs:
 - (i) any key accounting requirements addressing the example plans;
 - (ii) the accounting found in practice when such plans exist in the jurisdiction;
 - (iii) the expected accounting for the example plans when such plans do not exist in the jurisdiction; and
 - (iv) whether preparers apply (or it is expected they would apply, when similar plans do not currently exist in the jurisdiction) consistent accounting policies that properly reflect the economic substance of the example plans, leading to useful, reliable and relevant information for financial statement users.
- (c) **Areas for improvement** (i.e., key shortcomings in IFRS Standards for which further research and development work could be done to identify possible improvements).

25. We compiled the results of this outreach, supplementing them with our own views when analyzing the experiences across our jurisdictions in the areas described above.

Findings and Observations

Example hybrid plans

26. The following table facilitates an understanding of our findings and observations by providing a high-level description of each example plan, and information about its existence across our five jurisdictions:

Overview of Example Hybrid Plans

	Shared-risk plan #1	Shared-risk plan #2	Cash balance plan	Security-linked plan
High-level Description	<ul style="list-style-type: none"> • Benefit plan in which the associated risks are shared between the plan sponsor and the plan members • Benefits established pursuant to a formula, but not guaranteed by the plan sponsor • A funding policy and stipulated thresholds ensure equal contributions by both parties are managed within a reasonable range (e.g., when plan assets become too low relative to plan liabilities, a requirement exists for both parties to make additional contributions up to a maximum of the initial contribution rate followed by a reduction in benefits to plan members), while providing a high probability that a target level of benefits will be paid 	<ul style="list-style-type: none"> • Benefit plan based on a traditional DB plan, with modifications • Plan sponsor promises to make risk-sharing contributions of an actual amount equal to or less than a maximum amount that is prescribed by law and statistically calculated as the amount of losses that would unexpectedly occur over a fixed period, and is agreed to by both parties at the inception of the plan • Modifications include the adjustment ratio that comes into effect in the benefit formula • The benefit formula: <ul style="list-style-type: none"> ○ Benefits paid under this plan = (benefits under a traditional DB plan) x (adjustment ratio) • Adjustment ratio based on the funded status of the plan 	<ul style="list-style-type: none"> • Benefit plan with benefits in the form of a current account balance that is a function of both current and past salary-based principal credits and future interest credits thereon at a fixed or variable rate based on those principal credits • Individual account balances are determined by reference to a hypothetical account, rather than specific assets, and the benefit is dependent on the: <ul style="list-style-type: none"> ○ promised service crediting rate (i.e., dollar denominated or pay-based); and ○ fixed or variable crediting rate (i.e., based on treasury yield or market/asset based), rather than the actual return on plan assets 	<ul style="list-style-type: none"> • Benefit plan in which the plan sponsor makes contributions to the plan members' pension accounts with these contributions invested in a specified securities portfolio generating returns • Benefits consist of the accumulated contributions plus the return generated by investing these contributions, with the plan sponsor guaranteeing a minimum return (of at least 0% but usually higher) on the invested contributions

	Shared-risk plan #1	Shared-risk plan #2	Cash balance plan	Security-linked plan
		(i.e., < 1 for underfunded plans and > 1 for overfunded plans)		
Plan existence (within jurisdictions)	<ul style="list-style-type: none"> • Exists only in Canada • Rare, but emerging, in Canada's private sector; awaiting enabling regulation • More prevalent in Canada's public sector 	<ul style="list-style-type: none"> • Exists in U.S. and Japan, but not common in either 	<ul style="list-style-type: none"> • Exists in U.S., Germany and Japan, and common in all three 	<ul style="list-style-type: none"> • Exists in > 1 jurisdiction <ul style="list-style-type: none"> ○ U.S. – not common ○ Germany – common and on the rise ○ Canada – may exist to some extent in Canada; if so, not common
Existence of similar plans (within jurisdictions)	<ul style="list-style-type: none"> • Similar plans in Canada and U.K., for example: <ul style="list-style-type: none"> ○ Canada – some private sector plans contain certain aspects of this example plan ○ U.K. – Railways Pension Scheme. However, rare and becoming more so • Germany has growing interest in establishing these plans 	<ul style="list-style-type: none"> • Similar plans in Canada and U.S., for example: <ul style="list-style-type: none"> ○ Canada – some plans having similarities with Shared-risk plan #1 ○ U.S. – variable annuity plan 	<ul style="list-style-type: none"> • Similar plans in U.K., but rare and becoming more so 	<ul style="list-style-type: none"> • Similar plans in Canada, U.K. and U.S, for example: <ul style="list-style-type: none"> ▪ Canada and U.K. – DC plan with a DB floor/underpin ○ U.K. <ul style="list-style-type: none"> ▪ DC scheme with a profit investment option (guarantees written by investment provider) ▪ DC scheme with guaranteed return ○ U.S. <ul style="list-style-type: none"> ▪ Cash balance plan ▪ Floor-offset plan

27. For a more detailed description of each example plan, ASAF members are directed to [Appendix D](#), which describes key features.

Accounting challenges

28. We heard from our outreach that in terms of the example plans, classification and measurement issues present the greatest accounting challenges. The following sections, divided by [IFRS Standards](#) and [Local GAAPs](#), summarize our findings:

IFRS Standards

29. Although we did not find explicit requirements relating to the example plans when considering the guidance in IFRS Standards, we found helpful guidance addressing specific aspects of those plans such as:

- (a) guidance on distinguishing between DC and DB plans [helpful for shared-risk plan #1 in considering the economic substance of the plan as derived from its terms and conditions];
- (b) examples of actuarial assumptions that reflect future benefit changes [helpful for both shared-risk plans in, for example, considering benefits that vary in response to a performance target or other criteria]; and
- (c) [IFRIC® Draft Interpretation D9 Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions](#) (IFRIC D9) proposed in July 2004 for promised returns on contributions or notional contributions [helpful for the cash balance plan in considering how to measure benefits with a promised return, which is either fixed or variable].

For further details, see [Appendix E](#).

30. In considering the guidance in IFRS Standards, we found diversity in terms of the expected classification of the plan, for shared-risk plan #2 and the security-linked plan, both across the five jurisdictions and within specific jurisdictions. As shown in [Appendix F](#), the expected classification of shared-risk plan #2 could be DC or DB, whereas the security-linked plan could be DC account with a DB guarantee, DB only, or DC or DB depending on whether the concept in IFRIC D9 applies.

31. As also illustrated in [Appendix F](#), our outreach indicated that shared-risk plan #1 and the cash balance plan would be classified as DB plans across all five jurisdictions.

32. The shared-risk plans and the security-linked plan all contain an element of risk-sharing (characterized for our purposes as from the perspective of the plan sponsor), expressed as a minimum guaranteed return on assets or additional contingent contributions based on a target benefit. However, these different forms of risk-sharing may be classified differently and, therefore, accounted for differently.
33. Notwithstanding this risk-sharing commonality between the shared-risk plans and the security-linked plan, it is unlikely that a single solution (i.e., one size fits all) would result in a classification outcome that produces an improved reporting of the actual economics of the plans. This observation is based on past unsuccessful attempts to define the scope for certain hybrid plans (e.g., IFRIC agenda decision not to finalize IFRIC D9 — employee benefit plans with a guaranteed return on contributions or notional contributions).
34. Similarly, in considering the guidance in IFRS Standards, we found challenges in terms of measurement. These challenges related primarily to how to measure the obligation, in, for example:
- (a) determining the portion of risks and costs retained by the plan sponsor for shared-risk plan #1; and
 - (b) deciding on the appropriate discount rate for the security-linked plan.

We provide further details of these and other measurement challenges under IFRS Standards in [Appendix F](#).

Local GAAPS

35. By way of background, we explain what constitutes local GAAP in each of our five jurisdictions both in general terms and in respect of the accounting for employee benefits:

Canada	Germany	Japan	U.K.	U.S.
<ul style="list-style-type: none"> • Publicly accountable enterprises apply IFRS Standards, unless they are cross-listed in the U.S., in which case they can choose between IFRS Standards and U.S. GAAP. • Private enterprises and not-for-profit organizations (NFPOs) can choose between IFRS Standards and separate sets of domestic standards developed by the Canadian Accounting Standards Board for these two categories of reporting entities. • The private enterprise employee benefits standard is converged with IAS 19, except that for DB plans, the domestic standard: <ul style="list-style-type: none"> ○ permits the use of a funding valuation; and ○ requires remeasurements and other items to be recognized in profit or loss (OCI does not exist). • NFPOs have specific requirements for recognition and presentation of remeasurements and other items. Otherwise, they 	<ul style="list-style-type: none"> • German GAAP generally required for separate financial statements for all entities. (IFRS Standards required for consolidated financial statements of publicly listed companies.) • German GAAP does not distinguish between DC or DB plans. • Pension liability measured: <ul style="list-style-type: none"> ○ At fulfilment value (applying actuarial guidelines); or ○ At FV of securities if promise solely linked to specific securities as long as the FV of the securities exceeds the eventually guaranteed minimum pension benefit. Otherwise, the pension liability equals the fulfilment value of the guaranteed minimum pension benefit. • All changes in the pension obligation are recognized through profit or loss. • Discounting requires use of moving average duration-matching market interest rates of the past ten years as announced 	<ul style="list-style-type: none"> • Voluntary application of IFRS Standards permitted for consolidated financial statements of companies that meet certain criteria; otherwise Japanese GAAP, U.S. GAAP or JMIS³ applied. • Japanese GAAP for DB plans similar to IAS 19, with differences in some areas, including: <ul style="list-style-type: none"> ○ Actuarial gains and losses and past service costs recognized in OCI are subsequently recycled to profit or loss. ○ Discount rate determined on basis of yield of low-risk bonds (the yield of government bonds, 	<ul style="list-style-type: none"> • Publicly listed companies are required to apply IFRS Standards in the preparation of their group accounts but may choose between IFRS Standards and U.K. and Ireland GAAP for the preparation of their individual parent accounts. Other entities have a free choice between the two frameworks. • U.K. GAAP for employee benefits is largely based on IFRS for SMEs[®] which, in turn, is largely based on IFRS Standards. (However, U.K. GAAP does not require IFRIC 14 <i>IAS 19 – The Limit</i> 	<ul style="list-style-type: none"> • The U.S. Securities and Exchange Commission (SEC) does not permit its domestic issuers to use IFRS Standards in preparing their financial statements; rather, it requires U.S. GAAP. However, the SEC permits Foreign Private Issuers to apply IFRS Standards as issued by the IASB, instead of U.S. GAAP. • U.S. GAAP for employee benefits was similar to IAS 19, but differences arose in 2011 as a result of the amendments to IAS 19. • Some differences for measurement such as: <ul style="list-style-type: none"> ○ U.S GAAP has specific requirements for cash balance plans; and ○ U.S. GAAP uses a settlement rate for the discount rate. • Key differences in the periodic benefit cost that include: <ul style="list-style-type: none"> ○ Actuarial gains and losses permitted to be immediately

³ Japan's Modified International Standards (JMIS) are standards and interpretations issued by the IASB with certain deletions or modifications where considered necessary.

Canada	Germany	Japan	U.K.	U.S.
follow the private enterprise standard.	monthly by the Deutsche Bundesbank.	governmental agency bonds or high-quality corporate bonds).	<i>on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> accounting that recognizes an additional liability.)	recognized in earnings or deferred by recognizing in OCI with subsequent amortization to earnings; <ul style="list-style-type: none"> ○ Expected return on plan assets determined by multiplying a market-related value of plan assets by the expected long-term rate of return on plan assets; and ○ Prior service costs required to be recognized in OCI with subsequent amortization to earnings.

36. Different from IFRS Standards, under local GAAP we found the following explicit requirements (cited within square brackets) applicable to the example plans indicated:

(a) Shared-risk plan #2

- (i) Japanese GAAP — Treat as a DC plan. [Practical Issues Task Force (PITF) No. 33, Practical Solution on Accounting for Risk-sharing Pension Plans].

(b) Cash balance plan

- (i) U.S. GAAP — When the plan has a fixed interest crediting rate, follow specific guidance for these plans on the traditional unit credit method [See ASC 715-30-20, 715-30-35-71, 715-30-35-72].

(c) Security-linked plan

- (i) German GAAP — When pension benefit is solely linked to securities, pension liability equals greater of fair value of securities or minimum guarantee; otherwise, pension liability equals fulfillment value of the pension promise [Handelsgesetzbuch (HGB – German commercial code) section 253 (1)].
- (ii) U.S. GAAP — Guidance on floor-offset plans could be applied whereby the plan is accounted for as two separate plans, (i.e., DB for guarantee and DC for base plan) [ASC 715-70-55-2, 715-70-55-3].

37. From our initial outreach, U.S. respondents noted that there is limited guidance on cash balance plans in the FASB's Codification, resulting in the use of professional judgment and diversity in practice. Findings included the following:

- (a) Definition of cash balance plans does not reflect attributes of many such plans as they currently exist.
- (b) Confusion with U.S. GAAP paragraph ASC 715-30-35-71 (which states: “the benefit promise in a cash balance ... plan as described in the definition of the term, is not pay-related”), as the characteristic of the plan, per the definition, describes a “principal crediting rate as a percentage of salary”, which would imply that the plan is pay-related.

(c) No guidance on what features to consider when determining the appropriate benefit attribution approach or what approaches would be appropriate for the different features.

38. We point out that Canadian GAAP for private enterprises⁴ includes some high-level guidance that discusses splitting a plan into two components, (i.e., DB and DC), and accounting for these components according to their substance. This guidance would help in accounting for the security-linked plan.

39. In considering local GAAPs, we found that across the five jurisdictions, shared-risk plan #1 and the cash balance plan would be expected to follow DB accounting. These findings are consistent with the expectations for these plans under IFRS Standards (see paragraphs 29-34).

40. In the case of the security-linked plan, in common with our findings from an IFRS Standards perspective, we continued to find diversity across the five jurisdictions in terms of how this plan would be classified. Further, we found more than one jurisdiction that would classify the plan differently under local GAAP than they would under IFRS Standards. For example, under local GAAP, the U.S. would classify the plan as DB, or DC with a DB underpin, depending on the circumstances, and the U.K. would split the security-linked plan into two separate plans: a DB plan for the guarantee component and a DC plan for the remainder. However, under IFRS Standards, in the U.S. there would be diversity in the classification of the plan depending on whether the concept of IFRIC D9 applies⁵, and the U.K. would classify it as a DC account with a DB guarantee.

41. As under IFRS Standards, we found diversity expected in practice when applying local GAAP to shared-risk plan #2 across the five jurisdictions, with DB, DC, and DB followed by DC, classifications identified as possibilities.

⁴ Section 3462, *Employee Future Benefits*, in Accounting Standards for Private Enterprises (ASPE) in Part II of the CPA Canada Handbook – Accounting. The AcSB developed this separate set of accounting standards for private enterprises. Private enterprises can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

⁵ The WG notes that the applicability of this concept would be relevant for Foreign Private Issuers applying IFRS Standards as issued by the IASB.

Ideas to Explore

42. In considering the preceding analysis of the experiences of the five jurisdictions with the four selected example plans, we offer (beginning in [paragraph 45](#) below), possible avenues to explore in accounting for hybrid plans. With these ideas, we suggest developing principles-based guidance with flexibility to more faithfully reflect the economics of hybrid plans.
43. We acknowledge the following:
- (a) Some ideas are not distinct and may overlap with others. However, they are meant as ideas to explore. We have included each idea to provide a basis for soliciting input from other jurisdictions, as particular ideas might resonate with the additional jurisdictions.
 - (b) New ideas may be identified.
 - (c) By expanding our research beyond the five jurisdictions, we may find that some ideas will become more helpful than others and some ideas may fall away.
 - (d) Given the different features among hybrid plans, it is unlikely that a single approach will address the accounting for all hybrid plans. Thus, a future model will likely include elements of some, but not all, ideas.
44. For each idea, we include the following:
- (a) An assessment (in boxed text) of the extent to which the idea could potentially be applied to our example plans for measurement purposes. In reflecting on these ideas, we reviewed the IASB's work done on its currently inactive research project on post-employment benefits (see [IASB November 2015 Agenda Paper 15B](#) for details of this work). We note that the IASB did not outright reject any of the following ideas, but had difficulty finding the right scope to avoid arbitrary accounting issues.
 - (b) Feedback received at the September 2017 IFASS meeting, where we presented our research performed to date.
45. **Unbundling guarantees/risk elements from contribution-based promises.**
- Sometimes, a risk-sharing element leads to DB accounting; other times, benefits are unbundled into DC and DB elements. For example, unbundling might occur in

one or two jurisdictions when the DC element of the plan is held in individual participant accounts. Consideration could be given to separating the DC element and guarantee (DB element) and accounting for each of these elements accordingly. (A similar idea would be separately analyzing the plan cash flows as DC and DB.)

Potential solution for:

- Security-linked plan — Separate the contribution-based promise (DC element) from the guarantee (DB element)
- Shared-risk plan #2 — If constructive obligation to make additional contributions (DB element) is viewed separately from the main part (DC element)

Feedback from September 2017 IFASS meeting

- Support on its own as well as in combination with [“focus on guarantees”](#).

46. Likelihood of plan sponsor absorbing risk. As we observed with shared-risk plan #2, some view the likelihood of the plan sponsor absorbing risk as the determining factor on how to account for the plan (i.e., if the likelihood is low, treat as a DC plan). Consideration could be given to incorporating the probability of the plan sponsor absorbing risk into a new accounting model for hybrid plans.

Potential solution for:

- Security-linked plan — If likelihood of occurrence of additional cash outflows arising from the guarantee promise is considered to be unlikely, then account for plan as a DC plan
- Shared-risk plan #2 — If highly unlikely that a constructive obligation would arise, then account for plan as a DC plan

Feedback from September 2017 IFASS meeting

- Little support as this approach could be complex and likelihood is a concept not easily incorporated into a standard.

47. Specific measurement methodology. The classification of hybrid plans as DC or DB plans is often not the main issue. Rather, the required measurement methods often result in inappropriate reporting in terms of reflecting the economics of the plan. Consideration could be given to focusing on the unique aspects of hybrid plans and developing a measurement methodology that addresses these aspects by, for example:

(a) differentiating between benefits linked and not linked to a return on assets; and

(b) measuring the liability either at a buy-out amount (the amount by which the liability could be transferred to another party) when benefits are not linked to a return on assets, or discounting the liability using a related asset return when they are linked. Discounting the liability at the related asset return would be an extension of the logic of IAS 19, which deems the fair value of qualifying insurance policies to be equal to the present value of the related obligations (IAS 19.115). Some object to discounting liabilities using an asset related return because it anticipates the income that will be earned on the assets — the plan sponsor remains at risk that the income will be less than anticipated. However, if the notion of a liability ‘linked to a return on asset’ were appropriately specified, this objection would not hold, as any shortfall on the expected return on assets would be met by a corresponding reduction in the liability.

Potential solution for:

- Shared-risk plan #1 — Consider whether measurement of the obligation is linked or not linked to measurement of the plan assets – see extract of the meeting report for the [January 15, 2015](#) meeting of the [Canadian Public Sector Accounting Discussion Group](#)
- Security-linked plan — Reflect economics of the plan by differentiating between benefits linked and not linked to a return on assets
- Shared-risk plan #2 — If constructive obligation to make additional contributions is viewed as a separate liability
- Cash-balance plan —
(a) and (b) above may address plans with interest crediting rate based on treasury-yield, market/asset ratio, or bound or adjusted by caps, minimums or margins;
(b) above may also address plans with pay-based benefits/service crediting rate if the benefit obligation equals the account balance (walkaway balance)

Feedback from September 2017 IFASS meeting

- Support, but only when combined with “[focus on guarantees](#)” or “[flexibility in measurement methodology](#)”.⁶

48. Focus on guarantees. With a commonality in many of the example plans appearing to be risk-sharing, we suggest that one area to further analyze and explore is how to define and measure a guarantee. Perhaps the guidance in IAS 19 on categorization of risks could be expanded, with the aim to achieve more consistency in pension plan accounting. A starting point could be some thinking on risk-sharing that the Working Group developed that examined the different types of

⁶ A break-out group supported idea “[flexibility in measurement methodology](#)”, but only when combined with “[specific measurement methodology](#)”. Another group disagreed on the basis that providing flexibility is not the role of a standard-setter.

risk shared between plan sponsors and plan participants in order to gain a better understanding of risks and potential commonalities.

Potential solution for:

- Shared-risk plan #1 — Even though plan does not guarantee benefits, we could consider examining conditional risks inherent in the plan and accounting for these risks, for example, indexation risk – indexation adjustments, which link the benefits to inflation (conditional on available funds)
- Security-linked plan — Apply measurement methodology for the guaranteed promise
- Shared-risk plan #2 — If constructive obligation to make additional contributions is viewed as a separate liability, apply measurement methodology for this liability

Feedback from September 2017 IFASS meeting

- Support, but only when combined with “[unbundling guarantees/risk elements from contribution-based promises](#)” or “[specific measurement methodology](#)”.

49. **Flexibility in measurement methodology.** In our analysis of the example plans, some of the measurement challenges stemmed from applying the projected unit credit method. Thus, consideration could be given to revisiting this methodology to accommodate hybrid plans by explicitly permitting flexibility in the adjustments or considering an alternative to the projected unit credit method. We see this approach as moving away from strict/prescriptive guidance such as that found in U.S. GAAP and towards more flexible guidance, necessary for fair presentation.

Potential solution for all four example hybrid plans. However, we note that further details would need to be fleshed out and then analyzed.

Feedback from September 2017 IFASS meeting

- Support, but only when combined with “[unbundling guarantees/risk elements from contribution-based promises](#)” or “[specific measurement methodology](#)”.

50. **Fulfilment value approach.** The fulfilment value of pension obligations could be measured corresponding to the building block model used in IFRS 17 *Insurance Contracts* as follows:

(a) A current, unbiased estimate of the cash flows expected to fulfil the obligation.

The estimate of cash flows reflects the perspective of the entity, provided that the estimates of any relevant market variables are consistent with the observable market prices for those variables.

- (b) An adjustment for the time value of money, using discount rates that reflect the characteristics of the cash flows.

The discount rate should be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the pension contracts, in terms of, for example, timing, currency, and liquidity. The discount rates exclude the effect of any factors that influence the observable market prices, but do not affect the future cash flows of the pension obligation, for example, an entity's own credit risk. Accordingly, to the extent that the amount, timing or uncertainty of the cash flows that arise from a pension scheme depend wholly or partly on asset returns, the characteristics of the liability reflect that dependence.

- (c) An adjustment for the effects of risk and uncertainty.

The risk adjustment is defined as being the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the pension obligation.

51. The fulfilment measurement model⁷ would solve the issues relating to hybrid plans as follows:

- (a) discount rates would reflect the characteristics of the cash flows (i.e., they would reflect the dependence on the asset returns of the underlying reference assets);
- (b) the value would also reflect the value of 'higher-of' options appropriately; and
- (c) the value would provide relevant information about the nature and risks of the pension promise.

Potential solution for:

- Shared-risk plan #1 — For reasons noted in the description above. Also, likely to apply to 'greater of' plans in Canada that offer members the greater of the pension that can be purchased by their DC account or a minimum DB pension.
- Shared-risk plan #2 — If constructive obligation to make additional contribution is viewed as a separate liability, apply measurement methodology for this liability

⁷

Presentation of fulfilment value is beyond the scope of this paper.

- Cash-balance plan —
May address plans with pay-based benefits/service crediting rate by using the value that would reflect the payment options (lump sum or annuity) appropriately, and provide relevant information about the nature and risks of the pension promise.
May address plans with variable interest crediting rate by using a discount rate that would reflect the dependence on the asset returns of the underlying reference assets and by using the value that would reflect 'higher-of' options appropriately.

Feedback from September 2017 IFASS meeting

- Little support, although those who supported it did so as a longer-term solution, since it would require a rewrite of IAS 19 and it may be best to wait and see how the implementation of IFRS 17 *Insurance Contracts* proceeds.

52. Measure the effect of risk-bearing arrangements that represent purely financial risks on a net rather than a gross basis. When a plan shares risks between the plan member and plan sponsor, IAS 19 requires that the defined benefit obligation reflect the best estimate of the effect of the risk-sharing feature. For example, if a plan requires the payment of additional benefits contingent on returns on plan assets, IAS 19 requires that the best estimate of the additional benefits be included in the estimated cash outflows and discounted at a high-quality corporate bond rate. However, such a feature could be effectively managed on a net rather than gross basis, for example, using a hypothetical derivative to reflect the expected returns on plan assets. Measuring the risk exposure at the cost of the derivative that would effectively neutralize it would be more representationally faithful.

53. Under this approach, risks other than purely financial risks, such as changes to estimates of mortality, employee turnover or salary increases that cannot be managed on a net basis, would continue to be reflected in the obligation at the best estimate of the estimated cash outflows.

This idea requires further discussion and analysis before it can be assessed as a potential solution for our example plans.

Feedback from September 2017 IFASS meeting

- Little support given insufficient time to discuss or not fully understood.

Further analysis

54. Based on the feedback received from IFASS participants, we have given further consideration to these ideas and suggest that some no longer be pursued, while others deserve further thought as potential solutions.
55. We think that “[unbundling guarantees/risk elements from contribution-based promises](#)” and “[focus on guarantees](#)” could be combined and should be considered further. “[Specific measurement methodology](#)” is a more general idea that we think also holds promise, as the methodology could be tailored to address particular characteristics of hybrid pension plans. The following paragraphs explain our thoughts more fully. [Paragraph 61](#) (“Pension obligation measured by reference to the underlying assets when benefit linked to specified assets”) explains the manner in which the methodology could be applied to certain hybrid plans if the pension obligation is measured by reference to the underlying assets when the benefit is linked to specified assets.
- 56. Unbundling DC component and DB component (especially guarantees):**
Sometimes, a hybrid pension plan includes a feature that obliges the entity to make further payments to the employee benefit fund if the fund does not hold sufficient assets to pay all employee benefits. Such a feature is often a guarantee. The entity has to account for the plan as a DB plan even when the probability for further payments is remote. An idea to address the issues associated with this accounting is to separate the plan into a DC component and a DB component and account for the components accordingly.
57. If the feature in question is just a guarantee (e.g., guarantee a rate of return for a contribution of 1%), the guarantee as the DB component could be measured at fair value by option pricing or some other methodology instead of using DB accounting.
58. A challenge with this model is identifying the relevant information related to the DB component necessary to apply the DB accounting (e.g., the potential payments to the fund, actuarial assumptions, etc.). The alternative identified in the previous paragraph, of measuring the guarantee through option pricing techniques could be also be criticized as being inherently complex and difficult to apply. The IASB discussed this model in its 2008 Discussion Paper, “Preliminary Views on

Amendments to IAS 19 *Employee Benefits*,” but rejected it because it would mix different measurement bases for one obligation and might provide opportunities for accounting arbitrage. Notwithstanding, unbundling of the DC component and DB component of a pension plan could enhance the usefulness of the information provided.

59. The so-called “D9 model” could also be subsumed by the unbundling idea. This model was discussed in the IFRIC Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*. An IASB staff paper describing this model noted that the model requires entities to measure benefits with a variable return at the fair value of the underlying reference assets and those with a fixed return using the projected unit credit method. It explained that this means that an additional liability would be recognized if the fair value of the underlying reference asset is larger than the amount under the IAS 19 model. (If not, no additional liability would be recognized as the intrinsic value is zero.)
60. While the D9 model is used in practice the IASB was unable to set a scope that is not arbitrary and has only minimal boundary effects. Difficulty with the scope is one reason why the IASB stopped its examination of this approach.
61. **Pension obligation measured by reference to the underlying assets when benefit linked to specified assets:** In some hybrid pension plans, the employee benefit is linked solely to specified assets (e.g., a securities portfolio). When the employee benefit is due the entity transfers the underlying assets (e.g., as a lump sum payment) to the employee. Features in the plan could require DB accounting, (e.g., due to a legal or a constructive obligation to payout at least the contribution made to the portfolio (i.e. a guaranteed return of 0%)).
62. These plans could be measured by reference to the underlying asset (i.e., the fair value of the assets is deemed to be the present value of the related obligation). When the plan includes a guarantee, the entity’s liability could be the higher of the fair value of the assets and the present value of the guarantee measured using the projected unit credit method.
63. This model simplifies the accounting for these plans and provides more useful information about them. However, as with the other models discussed, it is

challenging to define the scope appropriately. In addition, some may criticize this model for using a different measurement basis compared to other DB plans. We note that this idea is the focus of EFRAG's current research project on pension plans (see Related Activities of Others – [EFRAG's Research Project on Pension Plans](#)).

Additional Feedback from IFASS Participants

64. In addition to the feedback received on the ideas to explore, IFASS participants also provided the following feedback based on questions posed to break-out groups:

- (a) Some IFASS member jurisdictions reported pension trends similar to those in our five jurisdictions, as follows:
 - (i) A movement away from traditional DB plans; and
 - (ii) DB plans closing to new members with DC plans opening and/or hybrid plans being created in their place.
- (b) Most groups supported the need for further guidance within IFRS Standards and the several local GAAPs presented to account for hybrid pension plans in a way that more faithfully represents their economic characteristics. Suggestions and comments included the following:
 - (i) Adding more guidance or changing existing guidance in IAS 19, but first stepping back to clarify the issue (i.e., Are we trying to solve a measurement objective, a classification objective, or both?);
 - (ii) Trying a pragmatic approach such as adding to IAS 19 a middle section to make that standard more inclusive of hybrid plans, and then accounting for hybrid plans as "DC+" or "DB-"⁸; and

⁸ The WG thinks "DC+" refers to accounting for a hybrid plan by accounting for the DC component first and then layering on the accounting for other characteristics. "DB-" refers to accounting for a hybrid plan by accounting for the DB component first and then adjusting for the effects of other characteristics.

(iii) IAS 19 is currently binary (i.e., a pension plan is either DB or DC), but perhaps could benefit from the addition of a measurement objective, given the pension world has become more complex since the standard was written.

(c) IFASS participants suggested the following additional activities that could be undertaken to move this topic forward:

(i) Review the paper prepared by IASB staff for the ASAF December 2015 meeting on the post-employment benefits project related to research on the changing nature of pension promises (which included information about global trends in pensions and a discussion of potential models that might address the issue of hybrid plans) for a list of jurisdictions examined and issues noted; and

(ii) Consider the discount rate project being undertaken by some jurisdictions, which is also important and could be relevant.

Expanding Research to Other Jurisdictions

65. Given our goal to contribute to global standard-setting and to produce evidence demonstrating whether there is a need for accounting guidance addressing hybrid plans, we think it is important that our research capture a complete and comprehensive data set that reflects more than just the jurisdictions represented by our Working Group.

66. Accordingly, in April 2018, we distributed a questionnaire to IFASS members via the IFASS ShareFile site to expand the data collected to include their jurisdictions. Completed questionnaires were requested by June 15, 2018. The information we obtain will contribute to a more globally inclusive data set that will allow a more rigorous testing of our findings to date.

Expanding Research to Financial Statement Users and Academics

67. We are now performing outreach to financial statement users and academics in our five jurisdictions to gather evidence from stakeholder groups beyond audit firms and benefit consulting firms. Specifically, this outreach will capture:

- (a) views from users on financial statement information about hybrid pension plans based on their experiences examining the information of publicly accountable enterprises acting as sponsors of such plans; and
- (b) the academic perspective on accounting for the pension benefit obligation, as well as academic literature that is relevant to hybrid pension plans.

Proposal

68. We think that our research, though not yet completed:

- (a) provides evidence from multiple jurisdictions to support a need for guidance on accounting for hybrid pension plans; and
- (b) is sufficiently complete to be brought to the attention of others with a view to encouraging standard-setting action on this topic.

69. We propose that the IASB consider the research performed to date and either add it as another dimension to the feasibility study, "Pension Benefits that Depend on Asset Returns," in its research pipeline, or take on a project to address hybrid pension plans.

70. We stand ready to assist the IASB as it begins its activities in this area.

Next Steps

71. Next steps include the following:

- (a) expand research to other jurisdictions by summarizing and analyzing the data collected from IFASS member jurisdictions;
- (b) expand outreach to financial statement users and academics within several jurisdictions; and
- (c) continue to monitor related activities.

Questions for ASAF members

Discussion Questions

1. Are there recent developments in your jurisdiction that reflect the ongoing evolution of hybrid pension plans? (paragraphs [17-18](#))
2. Do you think our research on hybrid pension plans has merit? If not, why not? (paragraphs [17-63](#))
3. Do you agree with our proposal? (paragraphs [68-70](#))
4. Do you agree with the next steps? (paragraph [71](#)) Do you have additional activities to suggest?

Appendix A

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Appendix B

Hybrid Plan Statistics by Jurisdiction

(Extract from data obtained in 2016 by the Working Group, updated based on availability of new data)

Defined Benefit (DB) plans have been on the decline and many have been closed to new employees, frozen for all employees, or converted to defined contribution (DC) plans. Hybrid plans have been on the rise, in some cases, in conjunction with the closure of existing DB plans. The top reasons for moving from DB to DC or hybrid plans include:

- (1) Reducing cost volatility
- (2) Reducing overall cost
- (3) Simplifying administration
- (4) Offering benefits similar to competitors.

The charts below demonstrate the prevalence of hybrid plans by jurisdiction.

Canada

The downward trend in the total number of registered pension plans for the private sector in Canada and shift away from DB plans and into other types of plans such as hybrid plans began in 2011. The chart⁹ below shows this trend.

Registered Pension Plans for the Private Sector in Canada — Number of Plans and Percentage of Total								
Year	Defined Contribution		Defined Benefit		Other ¹⁰ (Hybrid, Combination, Other)		Total	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
1990	10,865	57.2	7,898	41.6	221	1.2	18,984	100
2000	7,346	51.4	6,654	46.6	281	2.0	14,281	100
2010	5,978	33.4	11,330	63.4	572	3.2	17,880	100
2011	5,965	32.8	11,565	63.7	629	3.5	18,159	100
2012	5,853	33.7	10,814	62.3	682	3.9	17,349	100
2013	5,787	34.1	10,445	61.5	759	4.5	16,991	100
2014	5,717	34.6	10,017	60.6	799	4.8	16,533	100
2015	5,612	35.4	9,431	59.4	829	5.2	15,872	100
2016	5,566	35.5	9,223	58.9	874	5.6	15,663	100

⁹ Information obtained from the [Statistics Canada website](#) (table 280-0016).

¹⁰ Other plans as described by Statistics Canada consist of hybrid plans, combination or composite plans, and other plans as follows:

- Hybrid — Plan in which the pension benefit is the better of that provided by DB or DC provisions;
- Combination or composite — Plan that has both DB and DC characteristics; and
- Other — Includes plans that may be for different classes of employees or one benefit type may be for current employees and other for new employees.

From 1990 to 2016, the total number of registered pension plans for the private sector in Canada fell by 17%, which included a 49% decline in DC plans, a 17% increase in DB plans, and a 295% increase in other plans (hybrid, combination, other).

From 2011 to 2016, DB plans decreased by 20% and other plans (hybrid, combination, other) increased by 39%.

Germany

Since the late 1970s there has been a trend to reduce sponsor's risks through:

- (1) Contribution-oriented promises
- (2) Increasing prevalence of lump-sum payments
- (3) Linking promises to underlying indexes/funds/assets
- (4) Linking pension to company's net income
- (5) Reinsurance of pension promise.

The following chart shows types of plans in 27 of the DAX30 companies currently open to new participants:

Percentage of Open Plans in Germany for 2015	
DB	15%
Contribution-Based Promises	85%

The following chart shows the increasing importance of occupational pension plans in Germany¹¹:

Germany	2001	2003	2005	2007	2009	2011	2013	2015
Number of participants in occupational pension plans (millions)	14.6	16.9	18.3	18.6	18.7	19.5	20.2	20.4

¹¹ Information obtained from the [Federal Ministry of Labour and Social Affairs](#).

Japan

Non-DC plans¹² are declining in favour of DC plans. The percentage of participants in corporate non-DC pension plans was 71.6% percent and 78.4 percent as of March 2017¹³ and March 2012, respectively. Japanese law permits traditional DB plans, traditional DC plans, cash balance plans and after April 1, 2017, risk-sharing plans.

The following chart shows the number of “non-DC” plans decreasing since 2011:

Japan	2002	2003	2004	2005	2010	2011	2012	2013	2014	2015	2016
Non-DC Plans¹⁴	15	316	992	1,430	10,053	14,985	14,692	14,296	13,883	13,661	13,507
Traditional DC Plans	361	845	1,402	1,866	3,705	4,135	4,247	4,434	4,635	4,964	5,349
Total Number of Plans	376	1,161	2,394	3,296	13,758	19,120	18,939	18,730	18,518	18,625	18,856

United Kingdom

From 2006–2015:

- (1) Percentage of schemes open to new members and future accrual fell from 43 percent to 13 percent.
- (2) Percentage of schemes closed to new members and future accrual rose from 12 percent to 34 percent.
- (3) Percentage of schemes open to new members and new accrual has dropped by two-thirds since 2006.
- (4) In 2014, 54 percent of the FTSE100 had employees in DB plans and it is expected that by 2018, less than 40 percent of the companies will have DB schemes open for any employees.

¹² The term ‘non-DC plans’ refers to plans that are similar to how IAS 19 defines DB plans (i.e., other than DC plans). Cash balance plans are classified as ‘non-DC plans’.

¹³ Fiscal year begins in April and ends in March (e.g., Year ending March 2017 belong as part of 2016).

¹⁴ Information obtained from http://www.mhlw.go.jp/file/05-Shingikai-12601000-Seisakutoukatsukan-Sanjikanshitsu_Shakaihoshoutantou/0000169636.pdf.

The tables below show the percentage that each type of plan represents out of total schemes for 2015 and 2016 and total open schemes for 2015:

Number and Percentage of Schemes in the U.K. for 2015 and 2016 ¹⁵				
Type of Schemes	2015 Number of Plans	2015 Percentage of Total	2016 Number of Plans	2016 Percentage of Total
DB	5,270	11.63%	5,170	12.16%
Hybrid: Mixed Benefit ¹⁶	370	0.82%	180	0.42%
Hybrid: Dual-Section ¹⁷	1,010	2.23%	910	2.14%
Total Hybrid	1,380	3.05%	1,090	2.56%
DC (Trust)	36,370	80.23%	33,650	79.12%
DC (Workplace Contract)	2,310	5.10%	2,620	6.16%
Total DC	38,680	85.33%	36,270	85.28%
Total Schemes	45,330	100.00%	42,530	100.00%

Number and Percentage of Open Schemes in the U.K. for 2015		
Type of Open Schemes	Number of Plans	Percentage of Total
DB	820	2.61%
Hybrid: Mixed Benefit	60	0.19%
Hybrid: Dual-Section	480	1.53%
Total Hybrid	540	1.72%
DC (Trust)	28,020	89.09%
DC (Workplace Contract)	2,070	6.58%
Total DC	30,090	95.67%
Total Open Schemes	31,450	100.00%

For 2015, contribution-based promises are credited to a pension building block with a fixed interest rate (22 percent), paid into a notional investment fund (52 percent), or paid into an insurance policy (26 percent).

¹⁵ Information obtained from the Pensions Regulator – Presentation of Scheme Return Data – [December 2016 data](#) [2015 data from a similar source].

¹⁶ Hybrid: Mixed Benefit schemes offer one set of benefits with elements of both DB and DC schemes, such as a DC scheme with an underpin on a DB basis.

¹⁷ Hybrid: Dual-Section schemes have two sections, one offering DC benefits and the other offering DB benefits.

United States

As demonstrated in the chart below, for newly hired salaried employees, DB plans are declining in favour of the increasing prevalence of DC plans. Hybrid plans have increased overall from 1998 to 2017.

U.S. ^{18,19}	1998	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
Traditional DB Plans	238	216	134	53	47	37	31	22	21	19	16
Traditional DC Plans	199	210	259	355	367	382	390	401	410	415	419
Hybrid Plans²⁰	50	66	104	91	85	80	78	76	69	66	65
Total Number of Plans	487	492	497	499	499	499	499	499	500	500	500

¹⁸ Data provided for U.S. based *Fortune 500* companies, not aggregate for all companies in the U.S. Other notes regarding this data:

- Trend data captures changes to their retirement plans from 1998 through June 2017.
- In earlier years, sums do not equal 500 because a small number of today's *Fortune 500* companies did not exist at the time.
- Where there have been mergers or spinoffs, the analysis used the data on the largest salaried plan for results prior to the merger or spinoff.

¹⁹ Information obtained from: Willis Towers Watson: Insider Volume 28, Number 2, February 2018. Provided by U.S. Counterpart.

²⁰ Hybrid plans include cash balance plans in this data, even though U.S. GAAP classifies this type of plan as a defined benefit plan.

- Source of data describes hybrid plans as a type of retirement plan that guarantees the amount of an employee's benefit, like a traditional DB plan, but describes the benefit as a lump sum account balance. These plans generally allow employees to take their account balance with them when they leave the company, or transfer it to another employer-sponsored plan or Individual Retirement Account.
 - Cash balance plan — A hybrid plan that resembles a defined contribution plan. This career average plan expresses benefits in terms of hypothetical accounts that are credited with interest and cash balance credits (employer allocations) that may be age- and/or service -based or a flat percentage of pay
 - Pension Equity Plan — A hybrid pension plan with defined contribution characteristics. For each year worked, employees are credited with a percentage (credit may vary by age and/or service).

Appendix C

Anchor Plans – Key Features

	Traditional DC Plan	Traditional DB Plan
General definition	Retirement plan in which the employer, the employee, or both, make contributions, sometimes at a specified rate, to the employee's account. The benefit the employee ultimately receives is determined by the amounts contributed to the account, investment gains or losses and any forfeitures or administrative expenses charged to the account. The employee bears the risks associated with the investments in the account, thereby affecting the ultimate amount of benefits that he/she will receive upon retirement.	Retirement plan in which benefits are calculated according to a formula or rule. The benefit formula typically is a function of certain factors, such as age, length of employment service and compensation. The plan defines the amount of benefit to be provided to the plan participant (retiree). The employer bears the risk of guaranteeing a stated retirement income commencing at a specified age.
Plan Example	Employee may contribute up to 3 percent of eligible compensation. Employer makes matching contributions at 35 percent of the first 5 percent of compensation contributed by a participant. Employer may make additional annual discretionary contributions.	The normal annual retirement benefit, payable monthly, is generally an amount equal to the number of years of credited service (up to a maximum of twenty-five years) multiplied by two percent of the participant's average salary in the past 5 years.
Benefit Calculation	Does not require actuarial valuation. A formula is used to stipulate how funds are allocated to individual accounts. Formula examples: <ul style="list-style-type: none"> • A formula that provides a uniform percentage of compensation or uniform dollar amount. • A comparability allocation formula, through which plan participants are divided into allocation groups, and the amount allocated to the participants in each group varies. 	Based on the selected actuarial valuation method and appropriate actuarial valuation assumptions (including compensation increases, turnover, mortality, vesting, etc.). A formula is used to determine the guaranteed final benefit level. Formula examples: <ul style="list-style-type: none"> • Flat-benefit formula that bases benefits on a flat dollar amount for each year of service recognized under the plan. • Career-average formula that defines pay as all earnings during plan participation in order to calculate benefits.

	Traditional DC Plan	Traditional DB Plan
	<ul style="list-style-type: none"> • A permitted disparity allocation formula, through which an employer may choose to provide an extra benefit to plan participants whose compensation is above some defined level. 	<ul style="list-style-type: none"> • Final-average formula that defines pay as only those earnings received during an averaging period just prior or retirement.
Plan Funding	<ul style="list-style-type: none"> • Typically funded by both employees and employers • Possible discretion in funding • No significant unfunded liabilities 	<ul style="list-style-type: none"> • Typically funded by employers • Funding flexibility, depending on jurisdictional regulations • Potential for unfunded liabilities
Plan Distribution	Retirement benefits are usually a lump-sum amount.	Retirement benefits are usually expressed as a life annuity.
Assuming Retirement Income Risk	The employee bears: <ul style="list-style-type: none"> • The risk of not contributing enough to the plan • Investment risk • Longevity risk 	The employer bears: <ul style="list-style-type: none"> • The private plan sponsor bankruptcy risk • Investment risk • Longevity risk
Past Service Benefits	May not provide past service benefits.	May provide past service benefits.

Appendix D

Example Hybrid Plans – Key Features

Key Features	Shared-risk Plan #1	Shared-risk Plan #2	Cash Balance Plan	Security-linked Plan
Benefit determination	Benefits established pursuant to a formula. Targeted benefit with contributions and benefits managed through a funding policy.	Benefit determined based on the formula: (benefits under traditional DB plan) x (adjustment ratio), with adjustment ratio < 1 if plan underfunded and > 1 if plan overfunded	Benefit defined in terms of hypothetical accounts credited based on: 1) yearly service (dollar denominated or percentage of pay): and 2) interest on accounts based on fixed or variable crediting rate. Account balance usually paid out as lump sum or annuity (based on current interest rates and life expectancy at retirement).	Plan member account increases each year with contributions by the plan sponsor and return generated. Benefit consists of the amount accumulated in the account upon retirement with a minimum guaranteed return on the contributions.
Guarantee	Targeted benefit but not guaranteed by the plan sponsor. Both the plan sponsor and plan members participate equally in funding the plan.	Targeted benefit but not guaranteed by the plan sponsor.	Not guaranteed by the plan sponsor.	Plan member guaranteed benefit not lower than paid-in contributions, (i.e., at least 0% return on the contributions invested in securities). Often a higher rate of return guaranteed.

Key Features	Shared-risk Plan #1	Shared-risk Plan #2	Cash Balance Plan	Security-linked Plan
Benefits tied to Plan Assets	Dependent upon funding status of the plan.	Dependent upon funding status of the plan.	When benefits based on variable crediting rate that is market/asset based, earnings accrete based on how investments perform.	Benefits tied to FV of securities with a minimum guaranteed return.
Contributions to plan member's account	No contributions physically made to plan member's account.	No contributions physically made to plan member's account.	No contributions physically made to plan member's account.	Contributions by plan sponsor made annually to plan member's account.
Contributions	Contributions of plan sponsor = contributions of plan members. An increase in contributions equally from both parties may be needed under a funding deficit recovery plan, although this increase is limited to a specific % of the initial contribution rate.	Risk-sharing contributions to be made by the plan sponsor and agreed to by both parties at the inception of the plan.	Plan sponsor makes contributions that can accumulate to the actuarial PV of the benefit due at the time of distribution to each participant pursuant the plan's terms.	See above.
Funding Policy	The funding policy is required, by regulation, to include the following primary and secondary risk management goals: Primary — at least a 97.5% probability that the past base benefits ²¹ will not be reduced over a 20-year period (this goal to be tested annually); and Secondary — an expected escalation (inflationary) adjustment of the base benefit that shall, on average, over a 20-year period, exceed 75% of the increase in the Consumer Price Index ²² .	Plan sponsor promises to make additional risk-sharing contributions over 20 years at inception of the plan.	Not specifically addressed.	Not specifically addressed.

²¹ "Base benefits" means the total amount of all benefits paid or payable, including all vested base benefits as at the relevant date and all vested ancillary benefits as at the relevant date.

²² The Consumer Price Index is an indicator of changes in consumer prices.

Key Features	Shared-risk Plan #1	Shared-risk Plan #2	Cash Balance Plan	Security-linked Plan
	Additional contributions made if ratio of assets/liabilities less than 100% in two successive funding valuations: <ul style="list-style-type: none">• if ratio <100%, deficit recovery actions must be taken; and• if >105%, funding excess utilization actions must be taken.			

Appendix E

Examples of Helpful Guidance from IFRS[®] Standards for the Example Hybrid Plans

E1. Shared-risk Plan #1

- (a) IAS 19.27-.29 (Post-employment benefits: distinction between defined contribution plans and defined benefit plans)
- (b) IAS 19.88 (Actuarial assumptions: salaries, benefits and medical costs — Examples that reflect future benefit changes that are set out in the formal terms of a plan (or constructive obligation that goes beyond those terms))
- (c) IAS 19.91 (Actuarial assumptions: salaries, benefits and medical costs — Guidance on limiting the contributions that an entity is required to pay)
- (d) IAS 19 BC28-30 (Distinction between defined contribution plans and defined benefit plans)
- (e) IAS 19 BC143-150 (Actuarial assumptions — risk-sharing: amendments issued in 2011)

E2. Shared-risk Plan #2

- (a) IAS 19.88(c) (Actuarial assumptions: salaries, benefits and medical costs — specific example of benefits that vary in response to a performance target or other criteria)

E3. Cash Balance Plan

- (a) [IFRIC's Draft Interpretation D9 Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions](#) dated July 2004 that provides guidance on measuring benefits with a promised return, which is either fixed or variable

E4. Security-linked Plan

- (a) IAS 19.27-.29 and IAS 19 BC 143-150 (as above)

Appendix F

Accounting Challenges in Applying IAS 19 to Example Hybrid Pension Plans

Classification: Defined Benefit Plan (DB plan) or Defined Contribution Plan (DC plan)?

Shared-risk Plan #1	Shared-risk Plan #2	Cash Balance Plan	Security-linked Plan
<ul style="list-style-type: none"> From our outreach²³, we found that each of the five jurisdictions represented in the Working Group would classify this example plan consistently as a DB plan under IAS 19 We note that the Canadian AcSB's IFRS® Discussion Group discussed such classification at its June 2014 meeting²⁴. Members supported the classification of the plan as a DB plan for the reasons noted below. They also noted that although the likelihood of the entity increasing its contributions may be low, probability is not a relevant factor. <p><u>Factors supporting classification as DB plan</u></p> <ul style="list-style-type: none"> Plan is not a DC plan <ul style="list-style-type: none"> Plan sponsor (entity) exposed to potential variability in contributions <ul style="list-style-type: none"> Funding shared between employees and the plan sponsor 	<ul style="list-style-type: none"> From our outreach, we found diversity in terms of the expected classification of this plan across the five jurisdictions represented by the Working Group and within these jurisdictions as shown below. We include the factors considered in arriving at each classification. <p>Canada:</p> <ul style="list-style-type: none"> DB <ul style="list-style-type: none"> Plan sponsor retains some element of risk for the next 20 years following the inception of the plan — risks revert to employees because benefit pay-outs are linked to the "adjustment ratio" DC <ul style="list-style-type: none"> One outreach respondent classified the plan as a DC plan without providing rationale, while noting he had no direct experience with these plans. [Although a minority view, it is noted here 	<ul style="list-style-type: none"> From our outreach, we found that each of the five jurisdictions represented in the Working Group would classify this example plan consistently as a DB plan under IAS 19 Canadian outreach on this example plan provided the following rationale for DB classification under IAS 19 that applies to certain cash balance plans: <ul style="list-style-type: none"> Plan sponsor retains risk relating to preservation of capital and, in some cases, annuities Takes into account return guarantees and service-related accruals 	<ul style="list-style-type: none"> From our outreach, we found diversity in terms of the expected classification of this plan across the five jurisdictions represented by the Working Group and within these jurisdictions as shown below. We include the factors considered in arriving at each classification. <p>Canada and the U.K. — DC account with DB guarantee</p> <ul style="list-style-type: none"> Provides a DC account with minimum DB guarantee Also some respondents in the U.K. noted that the guaranteed return aspect is covered by DB guidance in IAS 19 <p>Germany — DB</p> <ul style="list-style-type: none"> Plan sponsor retains some risk due to the guarantee However, some respondents to the outreach in Germany argue

²³ Each jurisdiction conducted limited outreach within its jurisdiction to hear from a representative number of audit firms and benefit consulting firms about the example plans.

²⁴ A variation of shared-risk plan #1 was discussed at the [January 15, 2015 meeting](#) and [May 6, 2014 meeting](#) of the Canadian Public Sector Accounting Discussion Group, and the [June 12, 2014 meeting](#) of the Canadian AcSB's IFRS Discussion Group. The underlying fact pattern considers the Canadian province of New Brunswick's shared-risk plan legislation introduced in 2012 in its "[Pension Benefits Act](#)", in Part 2 of that Act titled "Shared Risk Pension Plans". Part 2 defines these plans as "the form of a defined benefit plan provided for under this Part and the regulations". (See pages 106-117.)

Shared-risk Plan #1	Shared-risk Plan #2	Cash Balance Plan	Security-linked Plan
<ul style="list-style-type: none"> ▪ When funding levels not sufficient to meet goals, funding deficit recovery plan mandated <ul style="list-style-type: none"> – Actions include increasing contributions to a maximum amount ○ IAS 19.8 definition of a DC plan requires that “entity ... will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods” ○ When entity has residual risk that may require additional contributions, plan is by definition a DB plan <p><u>Factors supporting classification as DC plan</u></p> <ul style="list-style-type: none"> • Although entity exposed to potential variability in contributions in the future, extent of increase is predetermined and capped • Benefit payments cannot exceed funds available in the plan and may be reduced if funding insufficient, as funding deficit recovery plan includes ability to reduce benefits • Employees collectively bear risk that plan assets will be sufficient • A DB liability does not exist because plan sponsor’s sole obligation is to make specified contributions 	<p>because it is consistent with the views in Germany, Japan, and the U.K.]</p> <p>Germany — DC</p> <ul style="list-style-type: none"> • Assumes traditional plan is fictional and not part of the pension scheme accounting • Plan sponsor is only required to pay the contributions and is not obliged to make further payments <p>Japan — DC</p> <ul style="list-style-type: none"> • Plan sponsor does not retain risk of making additional contributions <p>U.K. — DC</p> <ul style="list-style-type: none"> • Plan sponsor makes upfront contributions and does not have a legal (nor, one assumes, a constructive) obligation to make further contributions if those made upfront prove to be insufficient to meet target benefits • If there is a constructive obligation, use DB accounting <p>U.S. — DC or DB</p> <ul style="list-style-type: none"> ○ Need to consider conditions on benefits and contributions within or outside the plan terms including constructive obligations 		<p>that the plan is like a DC plan because the guarantee is normally not relevant. Performance of securities is usually higher than guaranteed minimum pension benefit. IAS 19 requires the plan to be accounted for as a DB plan because of the guarantee.</p> <p>Japan — DB</p> <ul style="list-style-type: none"> • Sponsor retains risk of making additional contributions <p>U.S. — Diversity in classification</p> <ul style="list-style-type: none"> • Need to determine if the concept of the IFRIC D9 Draft Whitepaper applies (i.e., IFRIC® Draft Interpretation D9 Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions proposed in July 2004 for promised returns on contributions or notional contributions)

Measurement

Shared-risk Plan #1	Shared-risk Plan #2	Cash Balance Plan	Security-linked Plan
<p>Determination of actuarial assumptions in measurement of present value (PV) of the defined benefit obligation (DBO) <u>Risk-sharing features</u></p> <ul style="list-style-type: none"> The 2011 amendments to IAS 19 clarified that the current model for accounting for DB plans is based on the ultimate cost of the benefit and takes into account risk-sharing features that reduce the ultimate cost of the benefit to the entity. [IAS 19.87(c); IAS 19.88(c); BC145; BC150(c)]²⁵ However, some respondents to Canada’s outreach conducted in March – April 2017 confirmed findings of some outreach conducted a year earlier regarding accounting measurement challenges associated with a shared-risk plan. <ul style="list-style-type: none"> Guidance on measurement of the DBO is insufficient and inconsistent application would arise as these plans emerge in Canada: <ul style="list-style-type: none"> Share(s) of risks and costs retained by plan sponsor difficult to determine given the “tiering” of the required adjustments resulting from funding deficit recovery plans/actions 	<p>Issues primarily relate to classification when the plans are classified as DB plans. Some respondents to our outreach noted the following measurement issues:</p> <ul style="list-style-type: none"> Difficulty in measuring the obligation because the pension benefits are variable (adjusted) according to the funding status Whether risk-sharing contributions are viewed as being paid in exchange for employee service <p>When the plans are classified as DC plans, measurement is usually straightforward. However, some stakeholders have raised the following questions:</p> <ul style="list-style-type: none"> What happens if the employer makes contributions to the plan to cover the unfunded portion? Would the classification as DC plan be revoked? How should the existence of a constructive obligation be assessed in this context? 	<p>Use of projected unit credit method in determination of PV of DBO</p> <ul style="list-style-type: none"> IAS 19 requires use of the projected unit credit method for DB plans. However, U.S. GAAP provides specific guidance for cash balance plans with a fixed interest crediting rate that deems the projected unit credit method to be inappropriate (i.e., “... use of the projected unit credit method is neither required nor appropriate for purposes of measuring the benefit obligation and the annual cost of benefits earned...”), based on the consideration that the benefit promise in such a cash balance arrangement is not pay-related. U.S. GAAP requires use of the traditional unit credit method for cash balance plans with a fixed interest crediting rate. The benefit obligation calculated under the traditional unit credit method is usually lower than the amount calculated under the projected unit credit method. Under U.S. GAAP, there is diversity in accounting for cash balance plans with a variable interest crediting rate due to lack of specific guidance. Some entities use the projected unit credit method to account for this type of cash balance plan. U.S. cash balance plans include: <ul style="list-style-type: none"> variations for amounts earned for services provided, including pay-based benefits — pensionable earnings for the year that are based on percentage of pay, which may be based on service, age, or business classification; and variations for earnings on account balances earned each year, including a variable crediting rate (e.g., 	<p>Actuarial assumption: discount rate in measurement of PV of the DBO</p> <ul style="list-style-type: none"> The guarantee included in the security-linked plan of receiving at least the capital contributed requires DB accounting. Therefore, the DBO is estimated based on the expected return on the securities portfolio. IAS 19 requires use of a discount rate based on market yields at the end of the reporting period on high quality corporate bonds to discount the DBO With bond rates generally lower than expected rates of return on securities portfolios, the DBO would be higher than the value of the securities portfolio, creating a net defined benefit liability

25 Square brackets represent Working Group thoughts and/or references to IAS 19-related material.

Shared-risk Plan #1	Shared-risk Plan #2	Cash Balance Plan	Security-linked Plan
<p>mandated for these plans²⁶</p> <ul style="list-style-type: none"> ▪ Shared-risk plan features differ from plan to plan: <ul style="list-style-type: none"> ➢ minimum/maximum contribution levels; ➢ procedures for sharing increases and decreases in costs between plan sponsor and plan members; ➢ which benefits are guaranteed and to what extent; and ➢ funding policy targets. • In addition, one respondent to Canada’s outreach conducted in March – April 2017 expects inconsistent measurement results across entities from the requirement in IAS 19.88(c) to use management’s best estimate assumptions about the factors that will affect the level of contributions and benefits <ul style="list-style-type: none"> ○ Shared-risk plans require plan member and plan sponsor contributions to increase in the event a plan deficit arises and some of these plans offer conditional ancillary benefits such as early retirement benefits and bridging benefits 		<p>earnings accrete based on a look-back yield of a 30-year treasury rate each year).</p> <ul style="list-style-type: none"> • Some respondents to the U.S.’ outreach questioned which method to use in this determination of the PV of the DBO as a result of the guidance in U.S. GAAP for cash balance plans with a fixed interest crediting rate, as described above. In addition, some respondents requested guidance for cash balance plans based on variable factors such as a variable interest crediting rate and a variable percentage of pay for different years of service. • In considering what we heard from our outreach on the U.S. example plan from a U.S. GAAP perspective, we expect measurement challenges to arise under IFRS® Standards in determining which actuarial valuation method to use for a cash balance plan: <ul style="list-style-type: none"> ○ with a fixed interest crediting rate since U.S. GAAP deems use of the projected unit credit method inappropriate in this case, and IAS 19 requires that method for DB plans; and ○ with a variable interest crediting rate since both IAS 19 and U.S. GAAP do not provide guidance on this type of cash balance plan. <p>[Although IFRIC D9 appears to address cash balance plans with a fixed or variable interest crediting rate.]</p>	<ul style="list-style-type: none"> • Some respondents to our outreach argued: <ul style="list-style-type: none"> ○ A perpetual overestimation of the liability arises ○ The outcome is illogical because the PV of the DBO equals the higher of the value of the securities portfolio and the PV of the guarantee

²⁶ Funding deficit recovery plan/actions from sample fact pattern: If funding levels are not sufficient to meet the goals (i.e., if the ratio of assets/liabilities is less than 100% in two successive funding valuations), a funding deficit recovery plan is mandated. Funding deficit recovery actions available are as follows:

- An increase in contributions of the employer and the employee (up to a maximum of 25% of the initial contribution rate or 2% of earnings);
- A reduction or removal of ancillary benefits if they are not vested;
- A reduction of future base benefits if the amount of the reduction does not exceed 5% of the amount of the base benefits in effect immediately before the funding deficit recovery plan is implemented;
- A reduction of remaining future base benefits; and
- If the above actions are not sufficient, a reduction of past base benefits of members and former members (until the funded ratio returns to 105% and the stated risk management goals are met).