

23 July 2019

DBP Contributors Scheme - Reporting by Employers

The two letters are attached which are relevant to any employers contributing to and required to comply with international financial reporting standards in respect of the DBP Contributors Scheme.

Letter A applies to public benefit entities which adopt Public Benefit Entity International Public Sector Accounting Standard 25 Employee Benefits (PBE IPSAS 25).

Letter B applies to for-profit entities which adopt the current New Zealand Equivalent to International Accounting Standard 19 Employee Benefits (NZ IAS 19).

Please ensure that you use the correct disclosure.

23 July 2019

DBP Contributors Scheme – Reporting by Employers

The attached information is relevant to any employer contributing to and required to comply with international financial reporting standards in respect of the DBP Contributors Scheme.

Future updates will be posted on our website – www.npf.co.nz. If you would like to receive an email advising you of new updates, please email enquiries@npf.co.nz with the words “IFRS Updates Request” in the subject line.

The following disclosure applies to public benefit entities which adopt Public Benefit Entity International Public Sector Accounting Standard 25 Employee Benefits (PBE IPSAS 25). Specifically the standard issued September 2014, incorporating amendments to 31 January 2017 and effective for reporting periods beginning 1 January 2017.

Separate disclosures, which are provided on our website, apply to for-profit entities.

Please ensure that you use the correct disclosure.

DBP Contributors Scheme – Reporting by Employers PBE IPSAS25

The objectives of Public Benefit Entity International Public Sector Accounting Standard 25 Employee Benefits (“PBE IPSAS 25”) are to prescribe the accounting and disclosure for employee benefits by employers. It requires an employer to recognise:

- a liability, when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense, when the employer consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

NPF has sought advice from the Actuary to the DBPC Scheme, Christine D A Ormrod of PricewaterhouseCoopers, as to her understanding of the requirements of PBE IPSAS 25, as they relate to the DBPC Scheme. This advice is based on PBE IPSAS 25 issued in September 2014 and incorporating amendments to 31 January 2017. Based on her advice, NPF now confirm as follows:

- Under the standard, the DBPC Scheme is categorised as a “defined benefit plan” and as a “multi-employer plan”. Various sections of PBE IPSAS 25, which relate to multi-employer plans, are reproduced in [Appendix 1](#).
- Multi-employer defined benefit schemes (such as the DBPC Scheme) must be reported on as defined benefit schemes unless “sufficient information is not available”. The possible reasons for this are set out in paragraph 35 of PBE IPSAS 25, as either:
 - (a) the participating employer does not have access to the necessary information; or
 - (b) the scheme exposes the participating employers to actuarial risks associated with the current and former employees of other participating employers, with the result that there is no consistent and reliable basis for allocating the obligation, scheme assets and cost to individual participating employers.

In the Actuary’s view, (b) applies to the DBPC Scheme.

This means defined contribution style reporting should be used, and employers must disclose the information required under paragraph 33 of PBE IPSAS 25. Employers will also need to make a disclosure under PBE IPSAS 25, in relation to their contingent liabilities under the DBPC Scheme.

Sample wording for these two disclosures is shown in [Appendix 2](#).

APPENDIX 1 – Sections of PBE IPSAS 25 relating to Multi-employer Plans

PBE IPSAS 25

32. An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:

- (a) Account for its proportionate share of the defined benefit obligation, plan assets, and cost associated with the plan in the same way as for any other defined benefit plan; and**
- (b) Disclose the information required by paragraph 141.**

33. When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

- (a) Account for the plan under paragraphs 55-57 as if it were a defined contribution plan;**
- (b) Disclose:**
 - (i) The fact that the plan is a defined benefit plan; and**
 - (ii) The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and**
- (c) To the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:**
 - (i) Any available information about that surplus or deficit;**
 - (ii) The basis used to determine that surplus or deficit; and**
 - (iii) The implications, if any, for the entity.**

35. Where sufficient information is available about a multi-employer plan that is a defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets, and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, there may be cases where an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

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

In those cases, an entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph 33.

36. There may be a contractual agreement between the multi-employer plan and its participant entities that determines how the surplus in the plan will be distributed to the participant entities (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 33 recognises the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.

37. PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to disclose information about some contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

- (a) Actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or
- (b) Any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

APPENDIX 2 – Disclosures

Paragraph 33

(a) Liability/Asset – Overdue/prepaid contributions at balance date.

Expense – contributions due in respect of the financial year.

(b) The DBP Contributors Scheme ('the Scheme') is a multi-employer defined benefit scheme.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine, from the terms of the Scheme, the extent to which the deficit will affect future contributions by employers, as there is no prescribed basis for allocation.

(c) As at 31 March 2019, the Scheme had a past service deficit of \$1.8 million (1.9% of the liabilities). This amount is exclusive of Employer Superannuation Contribution Tax. This deficit was calculated using a discount rate equal to the expected return on the assets but otherwise the assumptions and methodology were consistent with the requirements of PBE IPSAS 25.

The current employer contribution rate is one times contributor contributions, inclusive of Employer Contribution Withholding Tax. The Actuary has recommended a stepped approach to changing the employer contribution rate, as follows:

1 April 2020 – 31 March 2021	Three times contributor contributions
1 April 2021 – 31 March 2022	Four times contributor contributions
From 1 April 2022	Five times contributor contributions

The key assumptions in the review were:

- the difference between the future investment returns and the rates of CPI inflation assumed when calculating future factors for transfers from this Scheme to the DBP Annuitants Scheme (DBPA Scheme)
- the pensioner mortality assumptions, which are based on the results of a recent pensioners' mortality investigation, and include an allowance for improving mortality
- the future investment returns assumed for the Scheme over the next ten years.

The following table shows the Scheme investment return over the next ten years, and the difference between investment return and CPI inflation assumed when calculating future factors for transfers from the Scheme to the DBPA Scheme.

Valuation date	31 March 2019	31 March 2018
	%	%
DBPC Scheme investment return, next 10 years	1.7	1.1
Transfer factors: Difference between investment return and CPI inflation		
First 10 years	0.4	(0.3)
Thereafter	1.5	1.8

Paragraph 36

The employer is a participating employer in the DBP Contributors Scheme ('the Scheme') which is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the employer could be responsible for any deficit of the Scheme (see note [.....]). Similarly, if a number of employers cease to have employees participating in the Scheme; the employer could be responsible for an increased share of any deficit.

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The following disclosure applies to for-profit entities which adopt New Zealand Equivalent to International Accounting Standard 19 Employee Benefits (NZ IAS 19). Specifically the standard issued November 2012, incorporating amendments to 31 March 2018 and effective for reporting periods beginning 1 January 2019.

Separate disclosures, which are provided on our website, apply to public benefit entities.

Please ensure that you use the correct disclosure.

DBP Contributors Scheme – Reporting by Employers NZ IAS 19

The objectives of New Zealand Equivalent to International Accounting Standard 19 (“NZ IAS 19”) are to prescribe the accounting and disclosure for employee benefits by employers. It requires an employer to recognise:

- a liability, when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense, when the employer consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

NPF has sought advice from the Actuary to the DBPC Scheme, Christine D A Ormrod of PricewaterhouseCoopers, as to her understanding of the requirements of NZ IAS 19, as they relate to the DBPC Scheme. This advice is based on NZ IAS 19 issued November 2012, incorporating amendments to 31 March 2018 and effective for reporting periods beginning 1 January 2019. Based on her advice, NPF now confirm as follows.

- Under the standard, the DBPC Scheme is categorised as a “defined benefit plan” and as a “multi-employer plan”. Various sections of NZ IAS 19, which relate to multi-employer plans, are reproduced in [Appendix 1](#).
- Multi-employer defined benefit schemes (such as the DBPC Scheme) must be reported on as defined benefit schemes unless “sufficient information is not available”. The possible reasons for this are set out in paragraph 36 of NZ IAS 19, as either:
 - (a) the scheme exposes the participating employers to actuarial risks associated with the current and former employers of other participating employers, with the result that there is no consistent and reliable basis for allocating the obligation, scheme assets and cost to individual participating employers; or
 - (b) the participating employer does not have access to sufficient information.

In the Actuary’s view, (a) applies to the DBPC Scheme.

This means defined contribution style reporting should be used, and employers must disclose the information required under paragraph 148 of NZ IAS 19.

Sample wording for this disclosure is shown in [Appendix 2](#).

APPENDIX 1 – Sections of NZ IAS 19 relating to Multi-employer Plans

NZ IAS 19

32. An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

33. If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:

(a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and

(b) disclose the information required by paragraphs 135-148 (excluding paragraph 148(d)).

34. When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:

(a) account for the plan in accordance with paragraphs 51 and 52 as if it were a defined contribution plan; and

(b) disclose the information required by paragraph 148.

36. Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

a) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or

b) the entity does not have access to sufficient information about the plan to satisfy the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the information required by paragraph 148.

37. There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

148. If an entity participates in a multi-employer defined benefit plan, it shall disclose:

a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

c) a description of any agreed allocation of a deficit or surplus on:

(i) wind-up of the plan; or

(ii) the entity's withdrawal from the plan.

d) if the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)-(c) and instead of the information required by paragraphs 139-147:

- (i) the fact that the plan is a defined benefit plan.
- (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.
- (iii) the expected contributions to the plan for the next annual reporting period.
- (iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.
- (v) an indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

APPENDIX 2 – Disclosures

Paragraph 51

- (c) Liability/Asset – Overdue/prepaid contributions at balance date.
- (d) Expense – contributions due in respect of the financial year.

Paragraph 148

(e) The funding arrangements are governed by the requirement of Section 44 of the National Provident Fund Restructuring Act 1990, which requires that any increase or decrease to the employer contribution rate should:

“...result in contributions being at a level which, on reasonable assumptions, is likely to achieve neither a surplus or a deficit in the trust fund of the DBP contributors’ scheme... at the time that the last contributor to that scheme ceases to so contribute.”

and by the Trust Deed, which requires the employers to contribute such amount as the Board of Trustees of the National Provident Fund, after consultation with the Actuary, may direct.

(f) In practice, at present, a single contribution rate is determined for all employers which is expressed as a multiple of the contributions of members of the Scheme who are employees of that employer. The current employer contribution rate is one time contributor contributions, inclusive of Employer Contribution Withholding Tax. The Actuary has recommended a stepped approach to changing the employer contribution rate, as follows:

1 April 2020 – 31 March 2021	Three times contributor contributions
1 April 2021 – 31 March 2022	Four times contributor contributions
From 1 April 2022	Five times contributor contributions

There is no minimum funding requirement.

(g) The employer contribution rate is determined by the Board of Trustees of the National Provident Fund (‘the Board’) following consultation with the Actuary. Current practice is for the employer to contribute a multiple of its members’ contributions.

(h)

- (i) The Trust Deed specifies that immediately before the DBP Contributors Scheme (‘the Scheme’) is wound up, the assets and the interests of all contributors in the Scheme will be transferred to the DBP Annuitants Scheme.
- (ii) Employers have no right to withdraw from the plan.

(i)

- (i) The Scheme is a multi-employer defined benefit scheme.
- (ii) Insufficient information is available to use defined benefit accounting, as it is not possible to determine, from the terms of the Scheme, the extent to which the deficit will affect future contributions by employers, as there is no prescribed basis for allocation.
- (iii) The current employer contribution rate is one time contributor contributions, inclusive of Employer Contribution Withholding Tax. The Actuary has recommended a stepped approach to changing the employer contribution rate, as follows:

1 April 2020 – 31 March 2021 Three times contributor contributions
 1 April 2021 – 31 March 2022 Four times contributor contributions
 From 1 April 2022 Five times contributor contributions

(iv) (c) As at 31 March 2019, the Scheme had a past service deficit of \$1.8 million (1.9% of the liabilities). This amount is exclusive of Employer Superannuation Contribution Tax. This surplus was calculated using a discount rate equal to the expected return on the assets but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19. The current employer contribution rate is one times contributor contributions, inclusive of Employer Contribution Withholding Tax. The Actuary has recommended a stepped approach to changing the employer contribution rate, as follows:

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Contributors

- (i) The Scheme had 141 members at 31 March 2018. ??? of these are employees of XYZ.