



To:	AASB Members	Date:	27 May 2010
From:	Dean Ardern	Agenda Item:	8.1
Subject:	ED 179 <i>Superannuation Plans and Approved Deposit Funds</i>	File:	P19

Action

Consider staff proposals in relation to measuring obligations to defined benefit members arising from insurance arrangements.

Background

Accounting for insurance arrangements

At its December 2009 meeting, the Board decided to give further consideration to the implications of measuring any obligations to defined benefit members arising from insurance arrangements under the approach in AASB 119 *Employee Benefits* for measuring defined benefit obligations. This decision was made in light of comments made by respondents to the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds* in relation to insurance contracts. ED 179 proposes that obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund (ADF) be measured in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*.

The following table puts the scope of Agenda paper 8.2 in the context of all of the different types of insurance arrangements provided by Australian plans that the Board will need to consider.

	Plan acting as an agent for an external insurer	Plan reinsuring benefits with an external insurer	Plan 'self-insuring' benefits
Defined contribution	To be discussed at a future meeting	To be discussed at a future meeting	To be discussed at a future meeting
Defined benefit	To be discussed at a future meeting	Discussed in Agenda paper 8.2	Discussed in Agenda paper 8.2

Some plans, particularly ‘hybrid’ plans, currently ‘self-insure’ the insurance benefits of defined contribution members. Accordingly, it is likely that these plans would face many of the same types of issues discussed in Agenda paper 8.2. However, staff consider that it would be more efficient for the Board to focus on the implications of measuring insurance obligations to defined benefit members under the approach in AASB 119 in the first instance (and consider the possible implications of measuring insurance obligations to defined contribution members at a future meeting) because:

- (a) insurance obligations in relation to defined benefit members are arguably different in nature from insurance obligations in relation to defined contribution members. For instance, defined benefit entitlements (including insurance benefits) may be considered a ‘bundled’ financial product, the components of which may not be capable of being measured separately. In contrast, defined contribution entitlements normally consist of readily separable retirement and insurance components; and
- (b) ‘self-insured’ defined contribution members are relatively less common than ‘self-insured’ defined benefit members.

Extra submission on ED 179

In May 2010, the AASB received a supplementary submission (copy attached) from Towers Watson. [Watson Wyatt made a submission on ED 179 (submission # 8). Subsequent to the submission being received, Watson Wyatt and Towers Perrin merged globally and become Towers Watson.] While the submission raises a number of issues that are relevant to the matters discussed in Agenda paper 8.2 to this meeting, staff do not intend to address the issues raised in the submission directly.

Attachments

- Agenda paper 8.2 An issues paper discussing the implications of measuring any obligations to defined benefit members arising from insurance arrangements under the approach in AASB 119 *Employee Benefits* for measuring defined benefit obligations
- Agenda paper 8.3 A copy of a submission on some of the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds* from Towers Watson (dated 18 May 2010)
- Agenda paper 8.4 Proposed timetable for completion of a draft replacement Standard for *AAS 25 Financial Reporting by Superannuation Plans*