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Guidance on PSAK 24 (revised 2004) Employee Benefits launched

The implementation guidance on PSAK 24 (revised 2004) Employee Benefits or "PSAK 24R" has been finalized and will soon be available to the public. The PSAK 24R guidance addresses the following issues:

- Actuarial Valuation Method
- Attribution of Benefit Amounts to Periods of Service
- Actuarial Assumptions
- Plan Assets
- Asset Limitation on the Balance Sheet
- Past Service Costs and Vesting Issue
- Initial Implementation of PSAK 24
- Disclosures
- Curtailments and Settlements

These issues are discussed below.

Actuarial Valuation Method

PSAK 24R stipulates that when performing actuarial calculation, the Projected Unit Credit method is the only actuarial method allowed. The guidance provides an example of the application of the Projected Unit Credit method.

Attribution of Benefit Amounts to Periods of Service

In allocating the benefit amounts to periods of service it is assumed that the provisions of Labor Law no. 13 of 2003 will result in benefits that increase significantly in later years compared to the earlier years. Consequently, in accordance with PSAK 24 R, the benefits under Labor Law are allocated on a straight line basis over the worker's period of service.

The guidance also provides an actuarial math formula for determining other long-term benefits (assuming benefits increase significantly).

Actuarial Assumptions

Actuarial assumptions are very important in preparing an actuarial calculation. Professional judgement should be applied when determining such actuarial assumptions.

One of the assumptions is the discount rate that under PSAK 24 R should refer to a high-quality corporate bond rate. The guidance provides a description on how to determine such a rate. A bond rated A+ by a reputable rating agency, as an example, can be viewed as a high-quality bond. The guidance further elaborates techniques to determine the discount rate through extrapolation of the yield curve.

Other matters related to actuarial assumptions addressed by the guidance include:

- Explanation about factors that should be considered when determining assumptions relating to salary increases
- List of mortality tables often used in actuarial calculation (such as CSO 1980, Indonesian Mortality Table, etc)
- Assumption about disability, which is usually determined at 5-10% of the mortality rate
- Assumptions relating to voluntary resignation
- Assumptions relating to post-employment health care
- Explanation about reasons for actuarial gains or losses.

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Plan Assets

PSAK 24 requires that a plan asset is recognized in the financial statements at its fair value. The guidance clarifies that, when the employee benefits obligation is funded through a pension plan, it can be assumed that the net asset of the pension plan, minus contributions not yet paid by the company, has been recorded at fair value, as stipulated under PSAK 18.

The guidance also provides an explanation on how to offset an employee benefits obligation with a plan asset.

Asset Limitation on the Balance Sheet

Under PSAK 54, it is possible that employee benefits obligation results in a negative number, in other words there is an asset, rather than an obligation, arising from employee benefits. This may be the case, for example, when the company has more than enough plan assets to cover their employee benefits obligation. PSAK 54 determines that recognition of an asset arising from employee benefits should be limited by comparing certain numbers. The calculation to determine the asset limitation can become complicated; therefore the guidance provides examples taken from the appendix of IAS 19 Employee Benefits, to describe how the asset limitation applies.

Past Service Costs and Vesting Issue

The guidance clarifies that, with regard to past service costs, not all benefits vest immediately; some benefits might vest at a later stage or period. Those that usually vest immediately include benefits due to an employee's voluntary resignation, death or disability whilst some others, in particular pension benefits vest when the triggering event, i.e. pension, takes place.

Initial Implementation of PSAK 24

One of the issues that arises when PSAK 24 R is initially adopted is how far back should a company calculate its past service costs when determining its employee benefits obligation. The consideration is legal obligation for employee benefits arose not only in 2003 with the enactment of Labor Law, but went back further to various times in the past in which various labor-related regulations were issued; in 1964, 1996 ("Permen no. 3 of 1996"), and 2000 ("Kepmen 150 of 2000"), for example. The question is how far back in time should the obligation be traced? Each company should answer this question by considering practicality (i.e. availability of data) and materiality.

The guidance also provides a sample calculation of past service costs when PSAK 24 R is initially adopted.

Disclosures – Defined Benefits

PSAK 24 R requires that a company discloses, among other things:

- a description of the benefits plan
- details of the employee benefits obligation and related expenses
- movements in plan assets
- actual return on plan assets
- main actuarial assumptions.

The guidance provides an example of these required disclosures.

Curtailments and Settlements

The guidance provides further description, qualitatively as well as quantitatively, of certain matters relating to curtailments and settlements.

If you have any concerns or questions regarding matters in this NewsFlash, please contact your engagement partner or Dudi Kurniawan of the PricewaterhouseCoopers Technical Committee at 62 21 52890711.

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