



EUROPEAN COMMISSION  
EUROSTAT

Directorate C: National Accounts, Prices and Key Indicators  
Task Force EPSAS

**EPSAS WG 16/14**  
**Luxembourg, 08 November 2016**

**EPSAS Working Group**  
To be held in Rome  
on 22-23 November 2016, starting at 09:30,

**Item 7 of the Agenda**

**EPSAS issue paper on the accounting treatment of social benefits**

*Paper by Ernst & Young on behalf of Eurostat*

*- for discussion*

**Accounting treatment of social  
benefits with a view to financial  
reporting requirements under  
the future EPSAS**

8 November 2016

## Table of contents

1.	Objectives of the Issue Paper .....	2
2.	Background .....	3
3.	Main types of social benefits used in the EU Member States and their materiality .....	5
3.1	Main types of social benefits used in the EU Member States .....	5
3.2	Materiality of social benefits in selected EU Member States .....	5
4.	Approaches for classifying social benefits .....	8
4.1	Functional classification .....	8
4.2	ESA classification and comparison .....	8
5.	Description of accounting guidance available in international accounting frameworks and in statistical rules .....	12
5.1	International Public Sector Accounting Standards (IPSAS).....	12
5.1.1	Scope and definitions .....	14
5.1.2	Recognition.....	18
5.1.3	Measurement .....	20
5.2	European Union Accounting Rules (EAR) .....	22
5.3	International Financial Reporting Standards (IFRS) .....	22
5.4	ESA 2010.....	23
6.	Country analysis of recognition and measurement of social benefits .....	42
6.1	Selection of countries .....	42
6.2	Methodology .....	42
6.3	France.....	42
6.4	Sweden .....	43
6.5	New Zealand.....	43
7.	Problematic points/issues with regards to accounting for social benefits .....	45
7.1	Limitations of accounting for social benefits under general purpose financial statements .....	45
7.2	First-time adoption of accounting for social benefits .....	45
7.3	Scope.....	45
7.4	Recognition .....	46
7.5	Measurement.....	47
7.6	Accounting for insurance-based social benefits schemes that are not fully funded .....	47
8.	Discussion of matters relevant for a European harmonization .....	48
8.1	Can a single accounting model be applied for all classes of social benefits?.....	48
8.2	Advantages and disadvantages of the existing approaches to recognition and measurement .....	48
8.3	EY's recommendations on the way forward .....	50
9.	Implications that should be noted for employee benefits (pensions) from the conclusions on social benefits .....	51
	Appendix 1: Main types of social benefits used in the EU Member States .....	52
	Appendix 2: Categorization of social benefits under GFS.....	60
	Appendix 3: IPSASB's Social Benefits Roadmap.....	62
	Appendix 4: Accounting for social benefits under GFS .....	63
	Appendix 4: Detailed results of the country analysis .....	65

## 1. Objectives of the Issue Paper

The principal objective of this issue paper is to provide a stock-taking of accounting for social benefits and an analysis of the current status of the discussions on accounting for social benefits.

EY was asked by Eurostat to

- (a) summarise the approaches taken at the accounting standard level concerning the recognition and measurement of social benefits in two Member States with high accounting maturity as well as in New Zealand
- (b) assess the approaches taken at the accounting standard level concerning the scope, recognition and measurement of social benefits under the existing international financial reporting frameworks (IPSAS , IFRS, EC rules ) and statistical rules (GFS/ESA) and
- (c) to develop an approach for organising the future discussion on social benefits with the EPSAS stakeholders.

The issues paper shall address the following questions:

*What are the main types of social benefits used in the EU MSs? How can they be classified? What is their materiality level within government spending?*

*What are the problematic points/issues with regards to recognition and measurement of social benefits? Can a single accounting model be applied for all classes of social benefits?*

*For the main social benefit classes, what are the advantages and disadvantages of the existing approaches to scope, recognition and measurement?*

*The IPSASB Consultation Paper on social benefits takes the GFS definitions and classification as a basis. What are the consequences for a possible convergence between IPSAS and GFS/ESA?*

*What way forward would EY recommend on social benefits?*

*Are there any implications that should be noted for employee benefits from the conclusions on social benefits?*

## 2. Background

The delivery of social benefits to citizens is one of the primary objectives of most governments in the world. Member States' budgets consequently show that social benefits are often one of the major expenditure items and that these expenditures have even been increased in the last couple of years. Factors such as ageing populations and technological advances creating new demands by citizens are for example leading to increases in health care expenditure and pensions for elderly people.

In the public consultation "Assessment of the suitability of the International Public Sector Accounting Standards for the Member States" from 2012 missing guidance on accounting for social benefits within IPSASB's literature was considered to be one of the main arguments against the implementation of IPSAS.<sup>1</sup> It was argued by participants of the consultation that the recognition, measurement and disclosure of social benefits are currently not covered by IPSASB's literature.<sup>2</sup> Also the EY study from 2012 reported that the missing guidance on social benefits under IPSAS "... is viewed as a major drawback as most of public expenses concern social benefits."<sup>3</sup> The Report from the Commission to the Council and the European Parliament "Towards implementing harmonised public sector accounting standards in the Member States" underlined that "[a]t its current state of development, the suite of standards is not complete in terms of coverage or its practical applicability to some important types of government flows, such as taxes and social benefits [...]".<sup>4</sup> In that context the Commission Staff Working Document expressed the need for a specific IPSAS standard on social benefits.<sup>5</sup> Then in 2014 the report "Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards" recommended that accounting for social benefits should be covered by EPSAS given their relevance and significance for government entities.<sup>6</sup>

The PwC report from 2014 also found that at that point in time, 16 out of 28 central governments recognized expenses for social benefits when the cash payment is made.<sup>7</sup> Two Member States recognized expenses when the budgetary commitment is made and nine Member States recognized them when the right of individuals to receive the benefit is established. None of the Member States referred to the point in time when the key participatory event takes place or when eligibility criteria are met.

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<sup>1</sup> See European Commission/Eurostat, Public consultation - Assessment of the suitability of the International Public Sector Accounting Standards for the Member States, Summary of Responses, Luxembourg, 18.12.2012, p. 5.

<sup>2</sup> See *ibid*, p. 8.

<sup>3</sup> See Ernst & Young, Overview and comparison of public accounting and auditing practices in the 27 EU Member States, Prepared for Eurostat, Final Report, 19.12.2012, p. 156.

<sup>4</sup> See European Commission, Report from the Commission to the Council and the European Parliament - Towards implementing harmonised public sector accounting standards in the Member States, COM(2013) 114 final, Brussels, 06.03.2013, p. 8.

<sup>5</sup> See European Commission, Commission Staff Working Document, SWD(2013) 57 final, Accompanying the Report from the Commission to the Council and the European Parliament, Brussels, 06.03.2013, p. 105 f.

<sup>6</sup> See PwC, Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards-Report, 2013/S 107-182395, 01.08.2014, p. 14 and 130.

<sup>7</sup> See *ibid*, p. 107.

Figure 1 below summarizes the results regarding the recognition of expenses on social benefits by Member States:

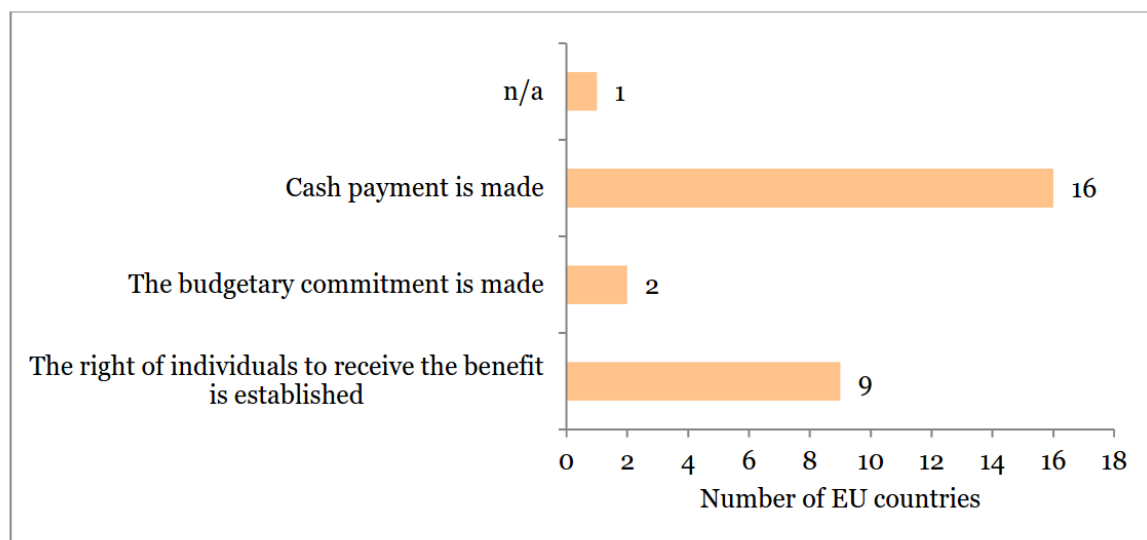


Figure 1: Timing of recognition of expenses on social benefits

Source: PwC, Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards-Report, 2013/S 107-182395, 01.08.2014, p. 107.

The OECD survey on “Accrual Practices and Reform Experiences in OECD Countries: Results of the OECD 16 Accruals Survey” from March 2016 showed that respondents to the survey are reluctant to account for liabilities relating to social benefits. The following reasons for not reporting social benefits liabilities were provided by participants:<sup>8</sup>

- ▶ Missing contractual entitlements of beneficiaries;
- ▶ Absence of a reference accounting treatment;
- ▶ Potentially significant amounts of liabilities related to these systems.

The survey report also stated that “In previous Symposiums, some countries mentioned that the sustainability of their pensions and social benefits policies was assessed in the fiscal sustainability report, which compares future revenues and spending and therefore highlights possible fiscal imbalances, rather than in the balance sheet.”<sup>9</sup>

<sup>8</sup> See OECD, Accrual Practices and Reform Experiences in OECD Countries: Results of the OECD 16 Accruals Survey, presented at the 16th Annual OECD Public Sector Accruals Symposium, OECD Conference Center, 21-22 March 2016, p. 9.

<sup>9</sup> See *ibid*, p. 9, footnote 5.

### 3. Main types of social benefits used in the EU Member States and their materiality

#### 3.1 Main types of social benefits used in the EU Member States

Based on the link provided by Eurostat (<http://ec.europa.eu/social/main.jsp?catId=858>) EY prepared a summary of the main types of social benefits in Member States.<sup>10</sup> This summary can be found in Appendix 1 to this issue paper.

In the summary the social benefits were classified according to the structure presented at the country-individual websites. The following six classes of social benefits were used:

- ▶ Family
- ▶ Health
- ▶ Disability (Invalidity and accidents at work)
- ▶ Pensions
- ▶ Social assistance
- ▶ Unemployment

For each Member State the main types of social benefits are presented which were listed on the country-individual websites. All social benefits shown in the table are program-based social benefits. Ad-hoc social benefits (e.g. disaster relief) were not identified.

The website states that the status of the social benefits is as of 2014. The research of EY was performed between 15th of June and 8th of July 2016. Changes after that date were not considered. In some cases the terminology used in the country-individual websites was aligned for clarification purposes.

#### 3.2 Materiality of social benefits in selected EU Member States

To assess the materiality of social benefits for EU Member States a sample of six Member States was selected. The sample included smaller as well as larger Member States. For this sample expenditures for social benefits based on Eurostat COFOG<sup>11</sup> data were taken into relation to total general government expenditures.

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<sup>10</sup> This website provides further links to the social benefits provided by each Member State.

<sup>11</sup> The Classification of the Functions of Government (COFOG) proposes a functional classification of government expenditures. Total government expenditures is divided into 10 functional categories, each of which is further subdivided into a series of subcategories. The data used in Table 1 has been derived from COFOG category 10 "Social protection". Please refer to Eurostat's Manual on sources and methods for the compilation of COFOG statistics (see <http://ec.europa.eu/eurostat/documents/3859598/5917333/KS-RA-11-013-EN.PDF>, accessed on 2.11.2016).

Years	Belgium	France	Germany	Italy	Netherlands	Sweden
2011	34,7%	42,4%	42,1%	40,3%	35,2%	40,4%
2012	34,9%	42,6%	42,3%	40,3%	35,7%	40,9%
2013	36,1%	42,8%	42,3%	41,2%	36,7%	41,4%
2014	36,2%	43,1%	42,4%	41,9%	36,5%	41,1%

Table 1: Social benefit expenditures as a percentage of total general government expenditures, 2011-2014.

Source: EY based on Eurostat data, <http://ec.europa.eu/eurostat/web/government-finance-statistics/data/database> , accessed on 2.11.2016

The table shows that except for Belgium and the Netherlands all Member States have a proportion of expenditures for social benefits to total general government expenditures of more than 40%.

The following table shows social benefit expenditures as a percentage of total GDP from 2011-2014:

Years	Belgium	France	Germany	Italy	Netherlands	Sweden
2011	18,9%	23,7%	18,8%	19,8%	16,5%	20,4%
2012	19,5%	24,2%	18,8%	20,5%	16,8%	21,1%
2013	20,1%	24,4%	18,8%	21,0%	17,0%	21,6%
2014	19,9%	24,8%	18,8%	21,4%	16,9%	21,3%

Table 2: Social benefit expenditures as a percentage of GDP, 2011-2014.

Source: EY based on Eurostat data, <http://ec.europa.eu/eurostat/web/government-finance-statistics/data/database> , accessed on 2.11.2016

Table 2 shows that compared to GDP, France has the highest expenditures on social benefits, whereas the Netherlands have the lowest.

The following chart then illustrates how social benefit expenditures have developed over time:



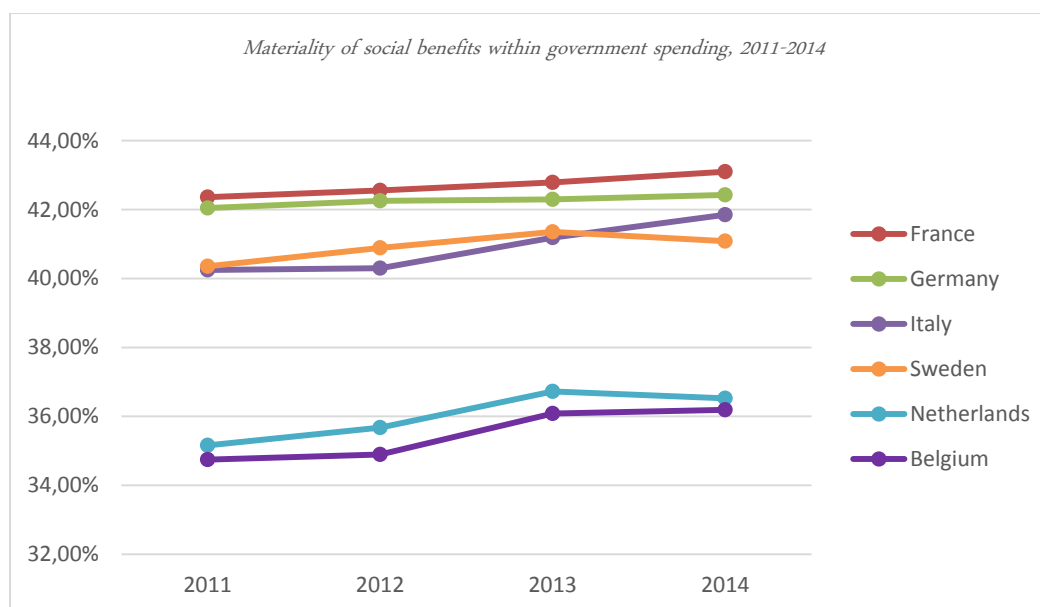


Figure 2: Development of social benefit expenditures as a percentage of total general government expenditures from 2011 to 2014

Source: EY based on Eurostat data, <http://ec.europa.eu/eurostat/web/government-finance-statistics/data/database>, accessed on 2.11.2016

In general it can be stated that in the countries analysed expenditures for social benefits have increased over time. Finally, the table and figure below shows how the total social benefits expenditures of each country is split among the different COFOG subcategories:

COFOG sub-categories (2014)	Belgium	France	Germany	Italy	Netherlands	Sweden
Old age	44,60%	55,18%	48,50%	65,20%	40,39%	51,56%
Sickness and disability	15,35%	11,58%	15,91%	8,31%	27,87%	21,44%
Family and children	11,69%	10,19%	8,22%	6,59%	5,68%	11,87%
Unemployment	11,24%	7,99%	9,56%	5,74%	11,02%	6,55%
Survivors	9,31%	6,54%	9,86%	12,84%	0,73%	1,58%
Social exclusion n.e.c. <sup>12</sup>	5,46%	4,00%	1,90%	1,16%	11,51%	4,92%
Social protection n.e.c.	1,34%	0,85%	3,69%	0,03%	0,07%	0,46%
Housing	0,99%	3,67%	2,33%	0,13%	2,54%	1,61%
R&D Social protection	0,03%	0,00%	0,02%	0,01%	0,20%	0,01%

Table 3: Breakdown of total social benefit expenses by COFOG subcategory, 2014.<sup>13</sup>

Source: EY based on Eurostat data, <http://ec.europa.eu/eurostat/web/government-finance-statistics/data/database>, accessed on 2.11.2016

<sup>12</sup> n.e.c. stands for "non-specified categories".

<sup>13</sup> The data shown in table 3 is based on COFOG category 10 "Social protection".

## 4. Approaches for classifying social benefits in statistics

### 4.1 Functional classification

One approach for classifying social benefits is the use of a functional classification. Such an approach is the “Classification of Functions of Government”, abbreviated as COFOG.<sup>14</sup> The following divisions of the COFOG can be of relevance with respect to classifying social benefits:

- ▶ 706 Housing and community amenities
- ▶ 707 Health
- ▶ 710 Social protection.

Social protection is further sub-classified in the following groups:

- ▶ 7101 Sickness and disability
- ▶ 7102 Old age
- ▶ 7103 Survivors
- ▶ 7104 Family and children
- ▶ 7105 Unemployment
- ▶ 7106 Housing
- ▶ 7107 Social exclusion n.e.c.
- ▶ 7108 R&D social protection
- ▶ 7109 Social protection n.e.c.

In the summary on the main types of social benefits used in the EU Member States the social benefits were classified according to the structure presented at the country-individual websites (see Chapter 3.1 and Appendix 1). The following six classes of social benefits were identified:

- ▶ Family
- ▶ Health
- ▶ Disability (Invalidity and accidents at work)
- ▶ Pensions
- ▶ Social assistance
- ▶ Unemployment

### 4.2 ESA classification and comparison

Social benefits are defined in chapter 4 of ESA 2010 as being “transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organized schemes, or outside such schemes by government units and non-profit institutions serving households (NPISHs)”<sup>15</sup>. In the ESA 2010

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<sup>14</sup> The COFOG was developed in its current version in 1999 by the OECD and published by the United Nations Statistical Division as a standard for classifying the purposes of government activities.

<sup>15</sup> Eurostat, European System of Accounts - ESA 2010, para. 4.83.

classification system, social benefits are included within the category “social contributions and benefits (D.6)”.

As will be shown in the analysis below, the classification of social benefits under ESA 2010 can be visualized as follows:

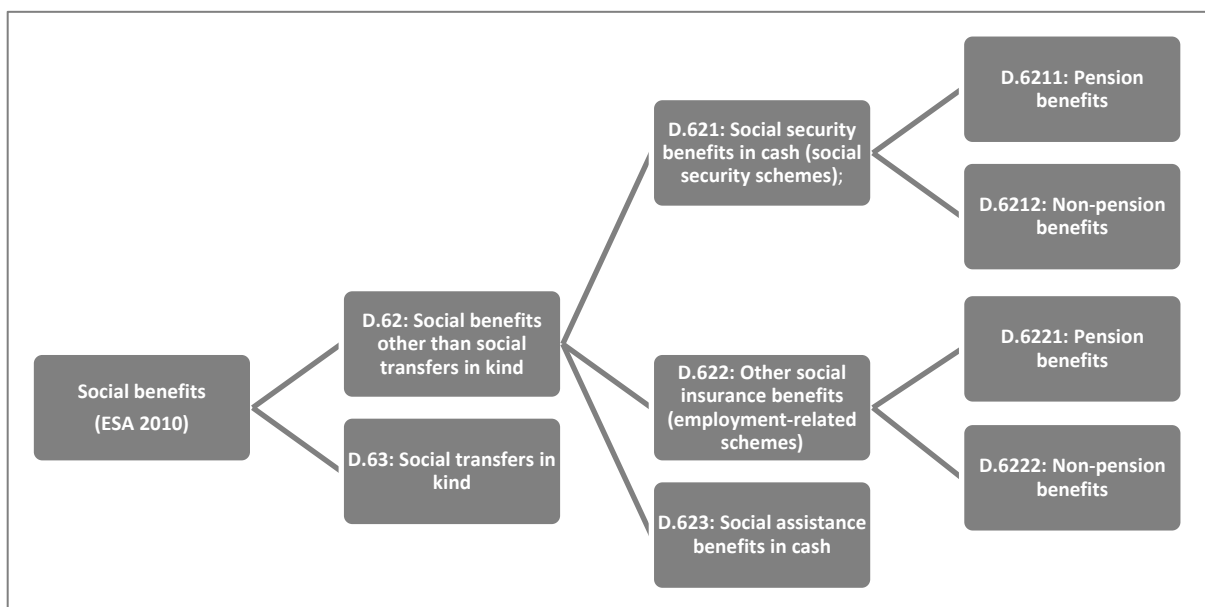


Figure 3: Classification of social benefits under ESA 2010

As shown in Figure 3, social benefits are on the one hand divided into “Social benefits other than social transfers in kind” (category D.62) and on the other hand “social transfers in kind” (category D.63). The former category is further subdivided into different subcategories. The following sections review each of these categories in more detail.

### Social benefits other than social transfers in kind (D.62)

The category “Social benefits other than social transfers in kind” (category D.62) is further subdivided into the following three sub-categories:

- ▶ Social security benefits in cash (D.621);
- ▶ Other social insurance benefits (D.622); and
- ▶ Social assistance benefits in cash (D.623).

*Social security benefits in cash* (D.621) are social benefits provided under *social security schemes* and payable in cash to households by social security funds managing such schemes. Social security schemes cover the entire community, or large portions of the community, and are imposed, controlled and financed by government. Social security benefits are further subdivided between “social security pension benefits” (D.6211) on the one hand and “social security non-pension benefits” (D.6212), which includes all other forms of benefits, on the other hand.

*Other social insurance benefits* (D.622) are social benefits (in cash or in kind) payable by employers in the context of *other employment-related schemes*. Such schemes derive from an employer-employee relationship and are part of the conditions of employment. Other social insurance benefits are also further subdivided between *other social insurance pen-*

*sion benefits* (D.6221) and *other social insurance non-pension benefits* (D.6222). Unlike social security schemes, the responsibility for the provision of social benefits does in this case devolve to the employer, and not to the government. However, as mentioned in chapter 4 of ESA 2010, “social insurance schemes organised by government for their own employees as opposed to the working population at large - meaning that government acts as employer - are classified as other employment-related schemes and not as social security schemes”<sup>16</sup>.

However it has to be noted that social security schemes and other employment-related schemes are both *social insurance schemes*. Chapter 17 of ESA 2010 defines social insurance schemes as “schemes in which participants are obliged, or encouraged, by a third party to take out insurance against certain social risks or circumstances that may adversely affect their welfare or that of their dependants”<sup>17</sup>. The key characteristic of social insurance schemes is that participants pay social contributions into the scheme in order to secure entitlement to social benefits in the current or subsequent periods, for themselves, their dependants or survivors.

The third sub-category, *social assistance benefits in cash* (D.623) corresponds to benefits payable to households by government or by non-profit institutions to meet the same needs as social insurance benefits. However, unlike the two first sub-categories, social assistance is not part of social insurance. The difference between social assistance and social insurance is that social assistance benefits are payable independently of whether the beneficiary has participated in, and consequently paid contributions to, a social insurance scheme. Furthermore, social assistance is distinguished from social security by the eligibility to receive social assistance. Unlike social security, which covers large portions of the populations, the conditions under which social assistance is granted are often restrictive. For example, it requires an assessment of such factors as the level of available income and the perceived needs of a household, with only those households falling below a certain threshold being entitled to a certain form of social assistance.

### **Social transfers in kind (D.63)**

“Social transfers in kind” (category D.63) consist of individual goods and services provided for free or at prices that are not economically significant to individual households by government units and non-profit institutions. This includes mainly education and health services, but also other kinds of services such as housing services or cultural and recreational services.

The analysis above has shown that the approach followed by ESA 2010 for classifying social benefits is based on the type of arrangement/scheme under which the benefits are provided rather than the function (for example health, old age, unemployment) or purpose for which the benefits is provided. In line with this analysis, social benefits provided by government can thus fall under the following four categories, depending on the particular arrangement/scheme under which they are provided:

- ▶ Benefits payable (in cash) under social security schemes (recorded under D.621) and including employee benefits covered by a social security scheme;
- ▶ Benefits payable (in cash or in kind) under employment-related schemes where government acts as employer (recorded under D.622);

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<sup>16</sup> Eurostat, European System of Accounts - ESA 2010, para. 4.90.

<sup>17</sup> Eurostat, European System of Accounts - ESA 2010, para. 17.01.

- ▶ Benefits payable under social assistance (recorded under D.623); or
- ▶ Social transfers in kind (recorded under D.63).

Appendix 4 “Accounting for social benefits under GFS” of the issues paper shows that the GFS approach for classifying social benefits is similar to the ESA approach.

## 5. Description of accounting guidance available in international accounting frameworks and in statistical rules

### 5.1 International Public Sector Accounting Standards (IPSAS)

The IPSASB has been working on the issue of accounting for social benefits since 2002.<sup>18</sup> Since then a number of pronouncements were made. In terms of pronouncements it started with an Invitation to Comment, *Accounting for Social Policies of Government* by the Public Sector Committee in 2004. In 2008, Exposure Draft (ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*; Consultation Paper, *Social Benefits: Issues in Recognition and Measurement*, and a Project Brief, *Long-Term Fiscal Sustainability*, were issued.

The majority of respondents to ED 34 opposed the approach proposed in the ED. They did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Some also expressed reservations that the approach to determining the amount of disclosures would pre-judge subsequent approaches to recognition and measurement. The majority of respondents supported a project on long-term fiscal sustainability in line with the project brief. The IPSASB decided not to develop ED 34 into an IPSAS. The IPSASB also recognized the linkages between the Conceptual Framework and accounting for social benefits as the elements and recognition phase of the Conceptual Framework would define a liability. This definition and supporting analysis would impact the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the Conceptual Framework. In 2008 the IPSASB initiated a project on the long-term sustainability of the public finances in 2008, based on the project brief. As a result, the IPSASB issued Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* that was published in July 2013.

Currently, the existing IPSASs do not address accounting for social benefits provided in non-exchange transactions. IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets* explicitly excludes from its scope "those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits" (see IPSAS 19.1(a)).

In the context of the development of RPG 1 the IPSASB was of the view that financial statements cannot satisfy all users' information needs on social benefits. Users also need information about the long-term fiscal sustainability of those schemes. Irrespective of the scope exclusion of social benefits in IPSAS 19, assets and liabilities in general purpose financial statements (GPFS) are limited to present rights and obligations that arise from past events. In the context of social benefits, general purpose financial reports (GPFR) prepared in accordance with RPG 1 requires to provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who are not currently contributing to a scheme that would entitle them to future benefits. Such obligations do not meet the definition of a present obligation, and so are not recognized in the GPFS. RPG 1 therefore provides guidance on prepar-

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<sup>18</sup> A summary of the history of the IPSASB's project on social benefits can be found in the IPSASB's Consultation Paper, *Recognition and Measurement of Social Benefits* from July 2015, p. 13 ff.

ing GPFR that can meet users' needs for information about the long-term fiscal sustainability of an entity, including the social benefit schemes the entity provides.

GPFR based on RPG 1 will also include information about the expected resources to be realized in the future that will be used to finance social benefits. In many jurisdictions this will include future taxation income. Because an entity does not currently control these resources, they are not recognized in the financial statements.

The following figure illustrates the additional information that is provided in GPFR based on RPG 1. The blue boxes indicate information reported in the GPFS whereas the white boxes indicate information reported in GPFR in accordance with RPG 1.

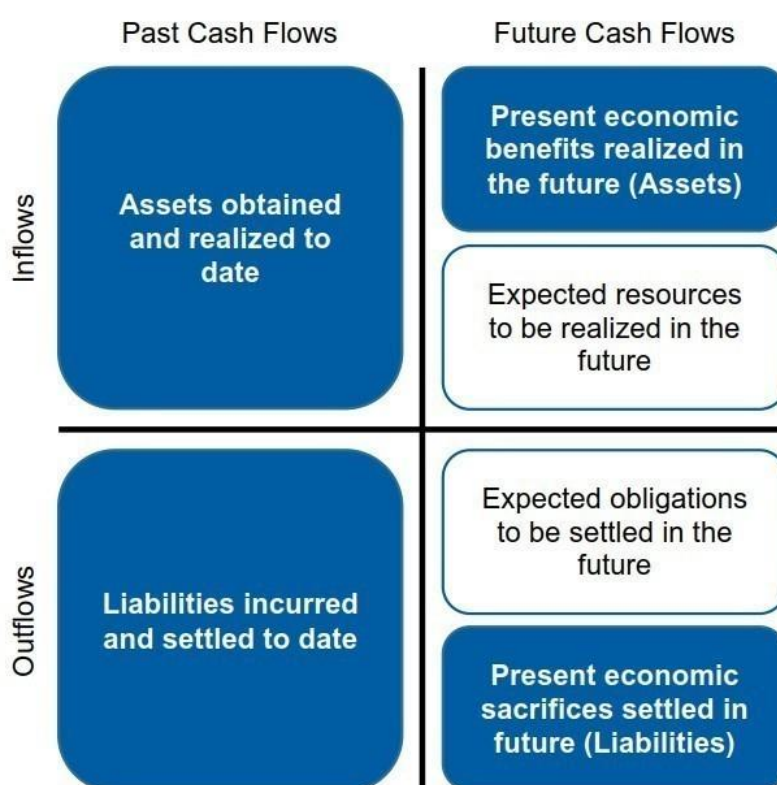


Figure 5: Information provided by general purpose financial reports based on RPG 1

Source: IPSASB Consultation Paper, *Recognition and Measurement of Social Benefits*, July 2015, p. 17

In the second half of 2013 the IPSASB agreed to restart the work on accounting for social benefits in the public sector. In July 2015 the IPSASB issued the Consultation Paper (CP), *Recognition and Measurement of Social Benefits* with the aim to advance the discussion on the possible accounting treatments for social benefits. The CP builds on the IPSASB's previous work in this area, but also develops new ideas and concepts based on RPG 1 and the Conceptual Framework.

The CP proposes the following objective for a future IPSAS on social benefits:

"IPSASs shall require an entity to provide information that helps users of its financial statements and general purpose financial reports assess:

- (a) The nature of social benefits provided by the entity, and the key features of the operation of the scheme; and

- (b) The impact of social benefits provided on the entity's financial performance and financial position."

In the following the issue paper summarizes the proposals of the IPSASB's Consultation Paper, *Recognition and Measurement of Social Benefits* and further discussion results regarding the scope and the concepts of recognition and measurement. An overview of IPSASB's social benefits roadmap can be found in Appendix 3.

### 5.1.1 Scope and definitions

As outlined before existing IPSASs do not provide requirements and guidance on how to account for social benefits in general. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes provisions related to social benefits in non-exchange transactions from its scope. Some social benefits provided through exchange transactions (such as employee benefits and concessionary loans) are addressed in other IPSASs. IPSAS 19.9 clarifies that the exclusion of provisions related to social benefits in non-exchange transactions would encompass those circumstances where a charge is levied in respect of the benefit, but there is no direct relationship between the charge and the benefit received.

Paragraph 7 of IPSAS 19 describes social benefits as "goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
- (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income."

In its Consultation Paper, *Social Benefits: Issues in Recognition and Measurement* from 2008 the IPSASB defined social benefits as:"

- (a) Cash transfers; and
- (b) Collective and individual goods and services that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks."

The CP related in its definition social benefits to social risks. Therefore an approach similar to Government Finance Statistics was used.<sup>19</sup> As a consequence, the proposed definition of social benefits had a narrower scope of social benefits compared to the description in IPSAS 19.

With regard to the scope of the social benefits project the 2015 Consultation Paper, *Recognition and Measurement of Social Benefits* proposed to adopt the approach to defining and classifying social benefits used in GFS. The proposed definition in the CP describes social benefits as "benefits payable to individuals and households, in cash or in kind, to mitigate the effect of social risks." Social risks are defined as "events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income." These definitions are based on the approach adopted in statistical reporting. Sickness, unemployment, retire-

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<sup>19</sup> See IMF, Government Finance Statistics Manual 2014, para. 2.46.



ment, housing, education or other family circumstances may be the cause for governments to provide such social benefits.

The CP outlined that the scope of the social benefits project includes any benefits that meet the definition of a social benefit, whatever the administrative arrangements and funding arrangements (i.e. either contributory or non-contributory) for those benefits are. As such, the scope of the project is significantly narrower than what the IPSASB's had previously pronounced.

The following graph summarizes the scope of IPSASB's current social benefits project:

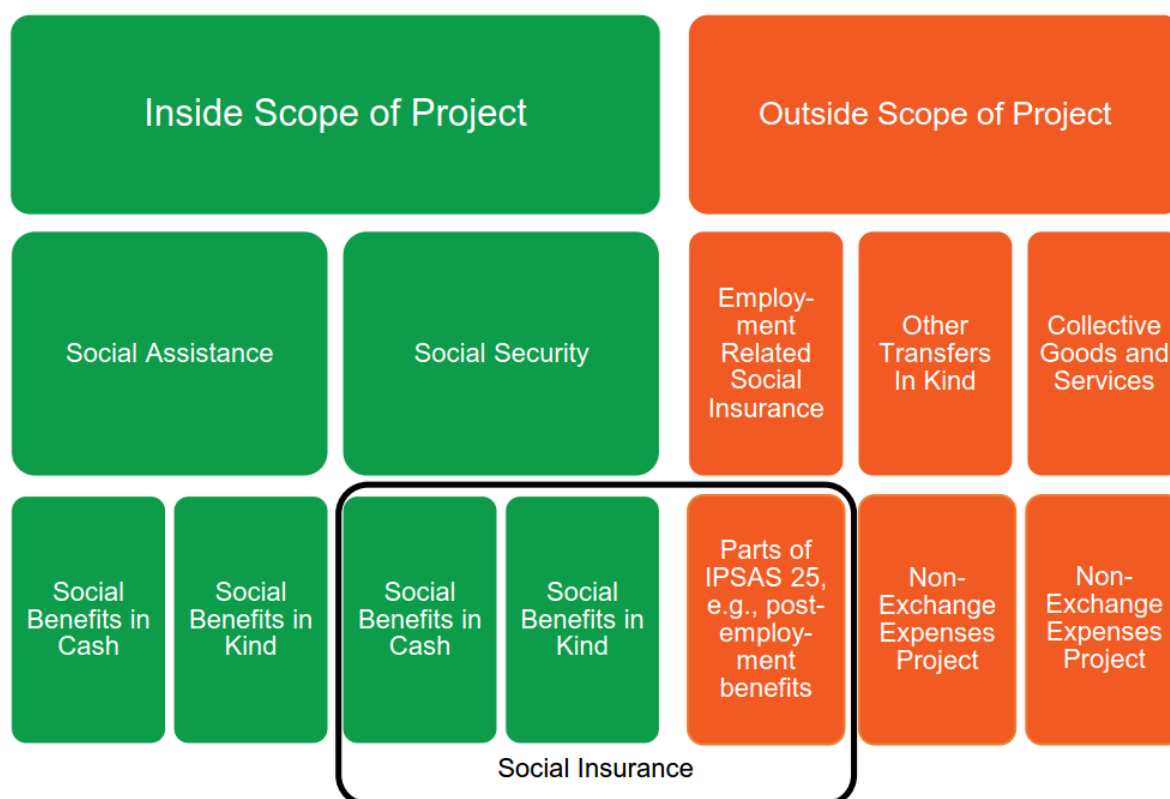


Figure 6: Proposed scope of IPSASB's current social benefits project  
Source: IPSASB, Recognition and Measurement of Social Benefits from July 2015, p. 13

In line with ESA the CP distinguishes between:

- ▶ Social assistance; and
- ▶ Social insurance.

Social benefits provided under both social assistance and social security can be provided either in cash or in kind. The IPSASB proposed the following definition for social benefits in its 2015 Consultation Paper: "Benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks."

Social assistance and social insurance provided by governments to households in the form of cash payments can be used indistinguishably from income from other sources. In the case of social benefits in kind services are provided directly to households by the public sector. Here the public sector either reimburses a service provider for services delivered to the households, or reimburses the households for costs associated with acquiring those services. These services could be provided to household by vouchers.

According to the SNA social assistance provides similar benefits to social insurance schemes. However, these benefits are provided without any formal requirement to participate as evidenced by the payment of contributions. Access to benefits under social assistance is typically provided when eligibility criteria are met and the respective risk has been materialized. As a consequence in terms of financing of social assistance, social assistance payments are therefore funded from the general resources of government.

Other than social assistance, social insurance requires formal participation by the beneficiaries. Social insurance is treated in national accounting similarly to a contractual insurance scheme where the policyholder insures against certain contingencies.

Some social insurance schemes are akin to non-life insurance schemes, i.e. they are spreading risks among all the participants in the scheme (for example unemployment schemes). Other social insurance schemes are akin to life insurance schemes, spreading the risk of one particular participant to the scheme over time (for example, employment-related pension schemes), with only limited redistribution between participants.

The SNA differs between two categories of social insurance schemes, namely social security schemes and employment-related schemes. Employment-related schemes arise out of an employer-employee relationship. It has to be noted that where a government provides employment related schemes, these only cover its own employees.

Social security schemes are operated by a government and are social insurance schemes covering the community as a whole, or large sections of the community. These schemes provide benefits such as pensions and unemployment benefits. In that context it has to be noted that social security schemes operate outside any employer-employee relationship.

Employment-related social insurance schemes are the second category of social insurance. The terms and conditions of these schemes are determined by the employer, sometimes in conjunction with the employees and forms part of the contractual agreement of the employer-employee relationship. Similarly to social security schemes employment-related social insurance schemes provide social benefits such as employment-related pensions and health benefits. The underlying difference between the two is that employment-related social insurance schemes operate within an employer-employee relationship, whereas social security schemes do not. Governments and other public sector entities may operate employment-related social insurance schemes in addition to any social security schemes they operate.

Employment-related social insurance schemes are considered to be outside the scope of the social benefits project. Such schemes are provided by the employer, and provide benefits such as medical benefits or occupational pensions. For example, when a government provides employment-related social insurance schemes such as pensions in its role as an employer, then these schemes are outside the scope of the social benefits project. For the accounting of employment-related social insurance schemes provided by a government IPSAS 25/39 applies.

The proposed definition of social benefits also implies that other transfers in kind and collective goods and services are outside the scope of this project. They are treated in the IPSASB's project on non-exchange expenses. Next to employment-related social insurance schemes also social benefits that are already addressed by other IPSASs, e.g. concessionary student loans covered under IPSAS 28-30 or guarantees issued to other entities, such

as social security funds, in respect of social benefits are also excluded from the scope of the project.

As the IPSASB is considering to use the SNA classification for the scope of accounting for social benefits, this has the following implications:

The universal provision of services such as education and health are not considered as social benefits and are considered as ongoing activities of government. As a consequence, health care insurance would therefore be not within the scope of the social benefits project. The rationale for excluding collective goods and services such as education or health out of scope would be that they do not relate to protecting a particular household against social risks. In such cases benefits would be made generally available and the level of benefits or service provided would not vary directly, or would vary only marginally, with an individual or household's eligibility.

To sum up, the IPSASB proposed the following SNA-based categories to define the scope of reporting for social benefits in its 2015 CP:

- ▶ Social assistance; and
- ▶ Social insurance, comprising:
  - ▶ Social security schemes (covering the community as a whole or large segments of the community); and
  - ▶ Employment related schemes (other than employment related social insurance).

In March 2016 the IPSASB decided that the scope of the project should focus on individuals and households. Therefore, grants to charities or grants to companies to promote economic regeneration would not be within the scope of IPSASB's project on social benefits. They would be covered in the non-exchange expenses project.

In the June 2016 meeting it was discussed by the IPSASB whether social benefits are provided as part of the systematic intervention by a public sector entity. GFS considers that social benefits arise from systematic interventions and not ad-hoc transfers such as in response to natural disasters such as floods and earthquakes. In the June meeting the IPSASB also discussed whether the scope of the social benefits projects should be extended to include social transfers in kind that address social risks. This proposal would have meant that services provided directly by governments to recipients, like health care and education would have been within the scope of the social benefits project. The IPSASB considered that services such as universal health care and education were better suited to the non-exchange expenses project. In the September 2016 meeting the IPSASB discussed whether a distinction between benefits that are provided generally or specifically would be beneficial to define the scope. IPSASB's staff considered that "there will be practical advantages from distinguishing a liability that arises from benefits provided to specific, identifiable individuals or households from a liability that arises from universal benefits that are made generally available."<sup>20</sup> Staff has identified that there will arise different measurement issues in each case:

- ▶ Where benefits are provided to specific individuals or households, any resulting liability can be measured by reference to that individual's or household's entitlement

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<sup>20</sup> See IPSASB Meeting September 2016, Agenda Item 7.2.1, para. 10.

to the benefit. An entity's total liability for a particular benefit will be the best estimate of the sum of the liabilities in respect of each individual or household.

- ▶ Where universal benefits are provided, any liability cannot be determined by calculating the liability for each individual or household. It is argued that rather liabilities will arise from the entity's provision of services. As such liabilities will not vary directly with individuals' or households' entitlement to those benefits. As a consequence the use of a different measurement approach than referring to the individual's or household's entitlement will be required.

As a consequence out of those findings the IPSASB staff suggested in the September 2016 meeting that universal benefits should be excluded from the scope of the ED given the fact that a social benefit needs to be measured by reference to an individual's or household's entitlement.<sup>21</sup>

The IPSASB has not finally determined how universal benefits can be differentiated from benefits provided to individuals or households. In the September 2016 meeting the IPSASB discussed whether for example disaster aid should be considered as a universal benefit or a benefit provided to individuals or households. The IPSASB agreed that in the December meeting the character of eligibility criteria as a differentiating factor need to be further discussed.

In its September 2016 meeting the IPSASB also reconfirmed that the scope of the social benefits project should be aligned with GFS as far as possible. However, definitions and terminology (such as for social risks) might depart from the GFS terminology. The IPSASB currently defines social benefits as follows:

**“Social Benefits** are benefits that are:

- (a) Organized for the benefit of the population as a whole, or for a large section of the population;
- (b) Provided to mitigate the effect of social risks;
- (c) Provided as part of the systematic intervention by a public sector entity;
- (d) Provided to specific individuals and/or households rather than made generally available; and
- (e) Provided in cash or in kind.”<sup>22</sup>

The guidance on the definition of social benefits currently foresees with respect to social benefits provided in kind (e.g. where a government program provides healthcare insurance for those who are unable to afford private healthcare insurance): “Where benefits in kind are made generally available, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] IPSAS.”

## 5.1.2 Recognition

IPSASB's CP *Recognition and Measurement of Social Benefits* identifies three broad approaches to accounting for social benefits.

### a) Obligating event approach

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<sup>21</sup> See *ibid*, para. 13.

<sup>22</sup> See *ibid*, para. 27.

Under the obligating event approach social benefits are considered by reference to the definition of a liability in the Conceptual Framework. Under this approach, obligations to pay social benefits are seen as no different (in principle) than other obligations. Under this approach, the key issue is when a present obligation arises. The IPSASB has identified five distinct points at which a case can be made for recognizing an obligation in the financial statements.

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved; or
- (e) A claim is enforceable.

The five distinct points for recognizing an obligation is illustrated in the diagram below:

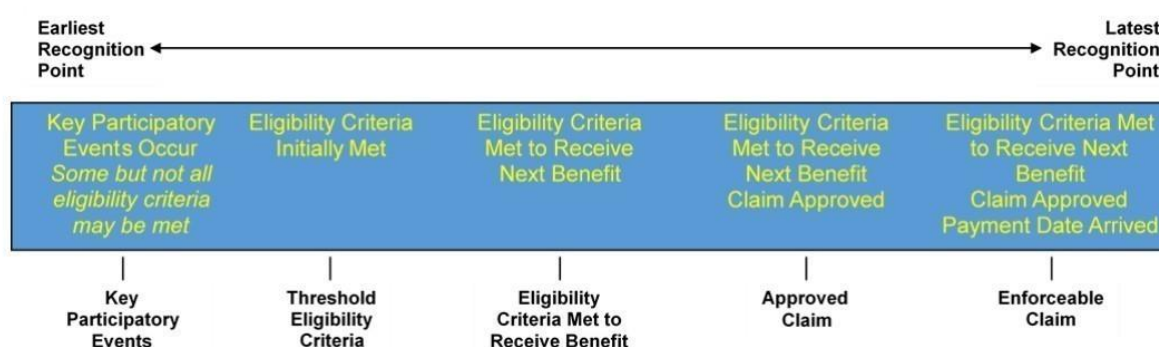


Figure 7: The five points at which an obligating event may give rise to amounts being recognized in the financial statements

Source: IPSASB, Recognition and Measurement of Social Benefits from July 2015, p. 36

### b) The Social Contract Approach

The social contract approach acknowledges, as commitments, both:

- (a) Public sector obligations to provide goods, services and cash transfers to individuals or households; and
- (b) The rights of individuals or households to receive those benefits.

The approach also acknowledges that the ongoing duty of individuals or households to contribute taxes and other sources of finance effectively offsets such obligations. There is a social contract between the state and the citizens under which citizens agree to pay taxes to enable the state to provide social benefits. This is analogous to an executory contract, where an entity would not recognize a liability until the counterparty to a contract had performed their obligations. Under this approach, present obligations only arise once claims for social benefits become enforceable (or, under an alternative approach, claims for social benefits are approved).

### c) The Insurance Approach

The IPSASB has also developed a new approach to recognizing and measuring some social benefits, based on insurance accounting. The insurance approach considers that at least some social benefits are similar in practice to insurance contracts. As such, it may be ap-

appropriate to use an insurance accounting model when accounting for these benefits. The insurance approach is only suited to contributory schemes, where future contributions are compared to future payments to recipients and the net present value of the scheme is shown in the statement of financial position. This approach recognizes a present obligation to pay benefits at the point that coverage begins. The approach also recognizes a right to future receipts resulting from the provision of that coverage.

Given the IPSASB's conclusion that the insurance approach seems to be most suited to contributory schemes, it may be appropriate to adopt the insurance approach for contributory benefits, and another approach for non-contributory benefits (i.e., some benefits are accounted for using one approach and other benefits are accounted for using a different approach, depending on the nature of the individual benefits). Complex issues can arise under the insurance approach in respect of partially subsidized schemes and significant changes to the terms of schemes.

The CP outlines that the obligating event approach and the social event approach could be applicable to all social benefits, whereas the insurance approach is limited to contributory social benefits. Unlike the first two options, the insurance approach implicitly reflects the view that a combination of approaches may be required to reflect the different economic circumstances arising in respect of social benefits.

### **Summary on the recognition approaches and preliminary results of the consultation**

In the CP the IPSASB came to a preliminary view that a combination of the obligating event approach and (for some or all contributory schemes) the insurance approach may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB has come to the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

Based on the responses to the CP *Recognition and Measurement of Social Benefits* the IPSASB agreed in its June 2016 meeting to progress the obligating event approach and the insurance approach; however, the social contract approach will not be progressed. The IPSASB agreed that the insurance approach will only be applicable to fully funded schemes, with preparers being referred to the forthcoming IFRS on insurance for the requirements.

### **5.1.3 Measurement**

In terms of measurement the IPSASB CP *Recognition and Measurement of Social Benefits* suggest different measurement approaches depending on the respective recognition approach.

Under the *obligating event approach* the IPSASB held a preliminary view in its CP that liabilities in respect of social benefits should be measured using the cost of fulfilment. The cost of fulfilment is defined as "the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner" and it should reflect the estimated value of the required benefits.

The IPSASB provided the following rationale for proposing cost of fulfilment as a measurement basis for social benefits under the obligating event approach:

- ▶ Many social benefits liabilities will arise from non-exchange transactions. There may be no consideration on which a historical cost value could be based. Historical cost

can also be difficult to apply to liabilities that may vary in amount, which may be the case with some social benefits.

- ▶ It is extremely unlikely that there will be a market value for social benefits.
- ▶ In the context of social benefits, the cost of release as a measurement basis is not applicable as a transfer of the liability will rarely be practically possible. Where a public sector entity uses reinsurance in respect of a social insurance scheme, the cost of release may be an appropriate measure of the liability.
- ▶ The assumption price is not relevant to the measurement of social benefits under the obligating event approach. Under this approach, the liability is viewed as arising as a result of the public sector entity's own actions.

If the measurement of the liability requires an estimate of benefits to be provided in future periods, this may affect the cost of fulfilment. This is because there will be a degree of uncertainty regarding the cost of the future benefits. The expected costs will also need to be discounted to reflect their current value where fulfilment will not take place for an extended period. The CP referred to IPSAS 19 and IPSAS 25 for guidance on the discount rates that should be applied.

The *social contract approach* also foresees that the respective liability would be measured at the cost of fulfilment. Given the fact the IPSASB decided to preclude the social contract approach from the forthcoming ED, measurement of liabilities under the social contract is not discussed in further detail.

Under the *insurance approach* two scenarios need to be distinguished: In the first scenario, the social security scheme is designed to be fully financed through contributions. The scheme is designed to operate without any subsidy from general taxation (unsubsidized schemes). In the second scenario, the social security scheme is designed to operate with a subsidy from general taxation. The scheme is designed to be partially financed through contributions and partly through the tax subsidy (subsidized schemes).

For unsubsidized schemes, at initial recognition the statement of financial position would show the expected surplus (if any) from the scheme, and a current estimate of the amount of future net cash flows from the scheme, discounted to reflect the timing of those net cash flows. The IPSASB's CP proposes that in those circumstances where the contributions are designed to exceed the expected benefits paid, the expected surplus should be recognized in surplus or deficit over the coverage period of the scheme.

For the initial recognition of subsidized schemes, the question is how the expected deficit under the insurance approach should be treated. The IPSASB has identified the following approaches:

1. The entity should recognize a liability and an expense on initial recognition. This would be the same treatment that this CP proposes for a deficit where a scheme is intended to be fully financed from contributions.
2. The entity should adjust the obligation determined from the future cash flows to reflect the planned subsidy. This treatment considers the planned subsidy to be a form of contribution and adjusts the cash flows accordingly.

In terms of measurement of the liabilities under the insurance approach the CP states that “the IASB’s proposals for insurance accounting require a risk adjustment to be made to the estimate of the future cash flows. The risk adjustment reflects the compensation that the entity would require for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the contract.” Therefore, if a risk adjustment is applied when estimating the future cash flows, then it is proposed that the resulting measurement basis will be the assumption price. According to the IPSASB’s Conceptual Framework the assumption price of a liability is “the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability”.<sup>23</sup>

The CP considers that the main advantage of using the assumption price measurement basis is that there may be significant risks associated with the estimated cash flows. It may be appropriate, therefore, to make a prudential adjustment to increase the likelihood that the reported liability will be adequate. Such an adjustment may be a factor in assessing the contribution rate funding the liability and hence more useful for decision-making purposes.

The main advantage of using the cost of fulfilment measurement basis is that this represents the best estimate of the cost that is expected to be incurred. A differentiation can be made between the public and private sector in this instance as going concern or solvency concerns differ between the sectors.

## 5.2 European Union Accounting Rules (EAR)

EAR 10 excludes provisions or contingencies arising from social benefits granted by the European Union for which no direct charge is levied in return from the recipients of the benefit (i.e. social policy obligations). In this context, it has however to be noted, that para. 6.3 of EAR 10 specifies that where the European Union elects to recognise in its financial statements provisions for social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, it should make certain disclosures as required in paragraphs 6.1 and 6.2 of EAR 10.

With respect to recognition of obligations arising from social benefits para. 3.8) a) specifies that payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed and include payments in respect of social benefits where formal agreements for specified amounts exist.

With respect to onerous contracts, para. 5.18 a) specifies that contracts to provide social benefits entered into with the expectation that the European Union does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits are excluded from the scope of EAR 10.

## 5.3 International Financial Reporting Standards (IFRS)

Governments and other public sector entities are characterized by incurring liabilities related to their service delivery objectives.<sup>24</sup> Many liabilities arise from non-exchange transactions and include those related to social benefits. The accounting for social benefits is

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<sup>23</sup> See IPSASB Conceptual Framework, Preface, para. 7.87.

<sup>24</sup> See IPSASB Conceptual Framework, Preface, para. 17.



therefore a unique feature of the public sector as private sector entities do not provide social benefits in non-exchange transactions.<sup>25</sup>

In the private sector with IFRS 4 there is a specific standard for accounting of insurance contracts. The objective of IFRS 4 is to specify the financial reporting for insurance contracts by any entity that issues such contracts (insurer) until the IASB completes the second phase of its project on insurance contracts. This second phase of the development of a revised IFRS 4 is still ongoing. The IASB is currently at an advanced stage in its project to replace IFRS 4 with a new IFRS Standard that sets out comprehensive requirements for insurance contracts. The revised standard is expected to be issued in March 2017.

The current version of IFRS 4 applies to all insurance contracts that a private sector entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. The standard currently permits insurers to retain most aspects of their previous (national) accounting for insurance contracts. The nature and extent of judgements and estimates will, therefore, depend largely on that previous accounting. In 2013 the IASB has issued an Exposure Draft that proposes a current measurement model, where estimates are re-measured each reporting period. The proposed measurement of the insurance contract liability is based on the building block approach consisting of 1) probability-weighted present value of future net cash flows expected to arise as the insurer fulfils the contract, 2) an explicit risk adjustment and 3) a contractual service margin representing the unearned profit of the contract. A simplified approach is permitted if it provides a reasonable approximation to the building block approach or if the coverage period is one year or less.

## 5.4 ESA 2010

The time of recording of social benefits under ESA 2010 depends on whether the benefits are provided in cash or in kind.<sup>26</sup>

- (a) Social benefits in cash are recorded when the claims on the benefits are established;
- (b) Social benefits in kind are recorded at the time the services are provided, or at the time the changes of ownership of goods provided directly to households by non-market producers take place.

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<sup>25</sup> For the accounting of employment-related social insurance schemes provided by a government IPSAS 25/39 applies (see Chapter 5.1.1). The equivalent standard under IFRS is IAS 19.

<sup>26</sup> ESA 2010, para. 4.106.

## 6. Country analysis of recognition and measurement of social benefits

### 6.1 Selection of countries

The following section provides an overview on how social benefits are treated in two EU Member States (France and Sweden). In addition it was looked at New Zealand. The selection of the countries was based on the following assumptions:

- ▶ France: Similarities between IPSAS accounting rules and the French Central Government Accounting Standards
- ▶ Sweden: Next to a high accounting maturity in the 2014 PwC study Sweden has experience of using an accrual-based accounting approach for more than 20 years
- ▶ New Zealand: New Zealand is considered to be one of the most advanced countries with regards to applying accrual accounting/IPSAS in the world.

The aim of this analysis is to identify the current state of accounting for social benefits in the respective countries. The aim was to identify the recognition and measurement requirements.

### 6.2 Methodology

To analyse the accounting treatment of social benefits EY led semi-structured interviews based on a questionnaire. Respondents to the questionnaire were government representatives (France and Sweden) and EY staff (in the case of New Zealand). They were first asked to provide an overview of social benefits provided by government and their financing (contributory versus non-contributory). In a second step they were asked for the accounting framework applied by the entities providing the social benefits. The next question then focused on the recognition and measurement requirements for liabilities associated with the provision of social benefits. In the following a summary of the results of the interviews is presented country by country. The full results provided by respondents can be found in Annex 4 to the issues paper.

### 6.3 France

In France social security entities prepare their own financial statements and - with the exception of the "Pôle emploi" apply the "plan comptable unique des organismes de sécurité sociale (PCUOSS)" which was derived from the private sector accounting regulations in France.<sup>27</sup>

Liabilities for social benefits are typically recognized when the claim is enforceable. In terms of the measurement of the liability related to social benefits the cost of fulfilment is used. Future outflows of resources for social benefits that relate to periods beyond the reporting period are not considered liabilities for that reporting period. As a maximum the liability related to social benefits comprise benefits of the current accounting period. Pay-

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<sup>27</sup> For historical reasons, the Pôle emploi prepares accounts in accordance with private sector local accounting standards and applies the "plan comptable general" (PCG).

ments for social benefits that are paid in January (or later in that following year) but relate to the previous accounting period are accrued.

## 6.4 Sweden

In Sweden entities providing social benefits prepare their own financial statements and apply country-specific accounting requirements that are in many respects corresponding with IPSAS. Liabilities for most social benefits (except for health care benefits and financial support that is provided as social assistance) are recognized when the claim is enforceable. Only when there is a legal obligation to provide a social benefit and the due date has arrived, the claim is considered to be enforceable.

In terms of the measurement of the liability related to social benefits the cost of fulfilment are used. However, future outflow of resources related to the social benefits beyond the amount due are not considered in the liability.

## 6.5 New Zealand

In New Zealand entities in charge of social benefits prepare their own financial statements and apply the NZ PBE Standards that are based on IPSAS (with minor modifications to be more applicable to the New Zealand environment and to cover transactions not currently covered by IPSAS (such as business combinations and income tax). In New Zealand welfare benefits (such as job seeker support and emergency benefit, sole parent support, disability allowance and accommodation assistance) are recognised in the period when an application for a benefit has been received and the eligibility criteria are met. Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown. In terms of measurement of welfare benefits, the amount of the entitlement is taken as a measurement basis. The amount of the entitlement does not reflect future obligations unless there is a current obligation to make a payment related to social benefits (i.e. the criteria are met for the next payment).

The accounting principles for the New Zealand Superannuation benefit are the same than for welfare benefit. Such benefit is recognised in the period when an application for the benefit has been received and the eligibility criteria have been met. In line with welfare benefits it is measured based on the amount of entitlement. Government Super Fund benefit is accounted for in accordance with PBE IPSAS 25 as a post-employment defined benefit scheme.

Accident Compensation Corporation liabilities are recognised as per the requirements of PBE IFRS 4 Insurance Contracts. The outstanding claims liability consists of certain specified expected future payments. In terms of measurement, the accrued outstanding claims liability is the central estimate of the present value of expected future payments on claims occurring on or before the balance date, plus a risk margin to ensure the accrued liability is sufficient to meet all the costs of future claim payments to a 75% confidence level (essentially a risk margin is added to the central estimate to increase the probability to a 75% confidence level that the estimate will not be less than actual payouts). This measurement ap-

proach is in accordance with PBE IFRS 4.<sup>28</sup> Financial assets backing the liabilities are required to be measured at fair value.

Family tax credits, other “working for families” tax credits, KiwiSaver subsidies/ Kickstarter and paid parental leave which are all administered by Inland Revenue are primarily grants and subsidies. Where these grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown. In terms of measurement, also the amount of the entitlement is taken as a measurement basis.

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<sup>28</sup> PBE IFRS 4 is based on NZ IFRS 4. NZ IFRS 4 is based on IFRS 4 but has significant additional requirements around recognition and measurement. For example it requires a central estimate of future expected payments to a level of 75%.

## 7. Problematic points/issues with regards to accounting for social benefits

### 7.1 Limitations of accounting for social benefits under general purpose financial statements

It has to be considered that a future IPSAS on social benefits will only comprise such liabilities that are based on present obligations arising from past events. As a consequence, GPFS based on IPSAS will not or only partly provide information about the sustainability of an entity's service delivery over the long term.

### 7.2 First-time adoption of accounting for social benefits

A principle question with regards to accounting for social benefits is whether EPSAS should require accounting for social benefits from first-time adoption of EPSAS or whether accounting for social benefits should be required only at a later stage of EPSAS implementation. The IPSASB envisages approving an IPSAS on accounting for social benefits in September 2018. Therefore, from a timing perspective it might be feasible to have an EPSAS ready until 2020. Given the complexity of accounting for social benefits it could however be considered, that during a transition period entities might have a choice to apply the standard on accounting for social benefits or might be exempted from certain requirements.

### 7.3 Scope

The IPSASB envisages classifying social benefits in accordance with national accounting. Under the precondition that a future EPSAS would be based on a future IPSAS on social benefits, in principle convergence between EPSAS and ESA could be achieved. Adopting for EPSAS the same boundary as for ESA would be helpful in classifying transactions as Member States are already making classification decisions under the statistical reporting framework. Such an approach would also support comparability between EPSAS and national accounting.

Transactions where IPSAS and ESA might deviate are social transfers in kind that address social risks (e.g. healthcare). Including such transactions within the scope of an IPSAS on social benefits would imply that services provided directly by governments to recipients, for example, health care and education, would be within the scope of the social benefits project. Other than under ESA, services such as universal health care and education would therefore be within the scope of the future IPSAS. The following table illustrates how staff of the IPSASB classified social benefits that would be within and outside the social benefits project:

Within the scope	Outside the scope
<ul style="list-style-type: none"> <li>• Social security (in line with ESA 2010)</li> <li>• Social assistance (in line with ESA 2010)</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits provided to entities rather than individuals or households (for example, grants to charities or grants to companies to promote economic regeneration)</li> <li>• Provision of collective goods and ser-</li> </ul>

	<p>vices</p> <ul style="list-style-type: none"> <li>• Private arrangements (i.e., transactions between a public sector entity and one individual or household)</li> <li>• Ad-hoc transfers (for example, in response to disaster relief)</li> <li>• Social transfers in kind that do not address social risks (for example, recreation, cultural or sporting services such as parks, museums and sports facilities)</li> <li>• Universal services such as healthcare</li> </ul>
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Table 4: Scope of IPSASB's social benefits project

Source: Paul Mason, Social Benefits, IPSASB Meeting, September 20-23, 2016, Toronto Canada

The table shows that the IPSASB envisages to classify universal services outside the scope of the social benefits project. This would then be in line with the treatment of universal services in ESA 2010. Given the fact that discussions are ongoing it is recommended that the European Commission/Eurostat closely monitors whether alignment with ESA 2010 will be ensured or not.

A consequence of using the statistical classification would be that the proposed scope is limited to those social benefits that are provided to protect the entire population, or a particular segment of the population, against social risks. The universal provision of services such as education and health would not be considered as social benefits and would be considered as ongoing activities of government. In that context it also needs to be considered which social benefits transactions will fall within social benefits and which will fall within non-exchange expenses (which is also a current project of the IPSASB, please see figure 6, Proposed scope of IPSASB's current social benefits project for more details).

## 7.4 Recognition

One of the main discussion points currently is at what point an obligating event might arise under the obligating event approach.<sup>29</sup> In its Consultation Paper from 2015 the IPSASB has identified five distinct points at which a case can be made for recognizing an obligation in the financial statements. The results of the IPSASB's consultation have shown that there is a significant variation in range of points in the view of respondents and there is no agreement as to a single point yet.

In its June 2016 meeting the IPSASB has tentatively decided that a future ED should recognize that the obligating event will be dependent on the nature of the social benefit or the legal framework under which the benefit arises. It has to be noted that this decision is in line with the majority of responses to the consultation of the CP.

In its September 2016 meeting the IPSASB considered respondents' comments on the five obligating events identified in the CP. The responses to the IPSASB's 2015 CP showed that the "eligibility criteria to receive the next benefit have been satisfied" obligating event has

<sup>29</sup> See IPSASB September 2016 Meeting, Agenda Item 7.2.2.

received most support by respondents.<sup>30</sup> The IPSASB also noted respondents' suggestion to include a further obligating event, whereby a liability accrues over time. The IPSASB therefore agreed to include the "threshold eligibility obligating event" in the ED. The IPSASB also agreed that the ED should treat the potential obligating event "claim has been approved and claim is enforceable" as subset of the potential obligating event "eligibility criteria to receive the next benefit have been satisfied". The IPSASB also instructed staff to give further consideration to the potential obligating event "key participatory events have occurred", and in particular the similarities with insurance schemes; and to the additional obligating event identified by respondents.

The question for a future EPSAS on social benefits is therefore at what point an obligating event might arise and a liability should be recognized.

## 7.5 Measurement

With regards to the measurement of liabilities resulting from social benefits under the obligating event approach no major issues were identified. The IPSASB proposed in its CP the cost of fulfilment as an adequate measurement basis under the obligating event approach. The results of the IPSASB's consultation has shown that respondents agreed that under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.

With regards to the appropriate measurement basis under the insurance approach the IPSASB has decided to refer to the forthcoming IFRS on insurance. However it has to be noted that the insurance approach will only be applicable to fully funded schemes.

## 7.6 Accounting for insurance-based social benefits schemes that are not fully funded

As outlined above the IPSASB has decided to refer to the forthcoming IFRS on insurance for insurance-based social benefits that are fully funded. Therefore, the question remains how to account for insurance-based social benefits that are not fully funded. Given the fact that comparability of financial statements will be affected by this gap the EPSAS project should therefore closely monitor the progress of the IPSASB's project on social benefits and see how IPSAS will treat such social benefits schemes.

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<sup>30</sup> See IPSASB September 2016 Meeting, Agenda Item 7.2.2.

## 8. Discussion of matters relevant for a European harmonization

### 8.1 Can a single accounting model be applied for all classes of social benefits?

The IPSASB has identified in its 2015 CP three approaches to accounting for social benefits, the obligating event approach, the social contract approach and the insurance approach. Each of those approaches has its own characteristics in terms of recognition and measurement of social benefits.

As outlined before the IPSASB agreed in its June 2016 meeting to only progress the obligating event approach and the insurance approach. The IPSASB agreed that the insurance approach will only be applicable to fully funded schemes, with preparers being referred to the forthcoming IFRS on insurance for the requirements.

Given that:

1. for insurance-type social benefits that are based on fully funded schemes the insurance approach instead of the obligating event approach will be proposed by the IPSASB;
2. under the obligating event approach the obligating event will be dependent on the nature of the social benefit or the legal framework under which the benefit arises

it is unlikely that under IPSAS a single accounting model will be applied for all classes of social benefits.

### 8.2 Advantages and disadvantages of the existing approaches to recognition and measurement

The following tables provide advantages and disadvantages of the obligating event approach and the insurance approach (for contributory schemes). The evaluation of the options against the objectives of financial reporting done by the IPSASB in its Consultation Paper from 2015 is taken as a basis. Given the fact that the IPSASB will not progress the social contract approach this approach is not further analysed.

Obligating event approach	
<p><u>Advantages</u></p> <ul style="list-style-type: none"> <li>+ Provides information on the performance of each scheme by reporting the expenses and the liabilities arising from both legally binding and non-legally binding obligations recognized in the reporting period. =&gt; provides information about the cost of services and the entity's financial capacity.</li> <li>+ With respect to comparability, the obligating event approach will provide information that enables users to identify similarities in, and differences between, the liabilities arising from different social benefit schemes.</li> </ul>	<p><u>Disadvantages</u></p> <ul style="list-style-type: none"> <li>- Does not or only partly provide information about the sustainability of the entity's service delivery over the long term. It has to be noted that this disadvantage applies to all approaches and is caused by the perspective that general purpose financial statements take.</li> <li>- For the sub-options which recognize a liability before all eligibility criteria have been satisfied, it is questionable whether the recognition of liabilities and expenses, without the recognition of the future tax revenues that will finance those transactions, provides relevant infor-</li> </ul>



<ul style="list-style-type: none"> <li>+ Depending on the potential obligating event used (= the sub-option) as recognition criterion, information is provided regarding current and long-term liabilities that may contribute to assessments of liquidity and solvency.</li> <li>+ Some of the sub-options will relate to future periods. To differing degrees, this information has predictive value in terms of future cash outflows generated in the current accounting period.</li> </ul>	<p>mation.</p> <ul style="list-style-type: none"> <li>- Sub-options that consider a requirement to satisfy ongoing eligibility criteria (including revalidation) require maybe more complex calculations. Such information may be difficult for non-experts to understand. However, accounting for pension obligations in the public sector requires the same level of understanding.</li> </ul>
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### Insurance approach (for contributory schemes)

<p><u>Advantages</u></p> <ul style="list-style-type: none"> <li>+ Provides information regarding the performance of each scheme by determining expected levels of benefits to be paid and contributions to be received, and reporting variations from those levels. In considering future cash flows, the insurance approach considers both legally binding and non-legally binding obligations. =&gt; provides information about the cost of services and the entity's financial capacity.</li> <li>+ With respect to comparability, the insurance approach provides information that enables users to identify similarities in, and differences between, different social security schemes.</li> <li>+ Provides information regarding cash flows (both inflows and outflows) over the coverage period of a social benefit scheme that will be relevant to assessments of liquidity and, to varying degrees, solvency.</li> <li>+ Provides information on expected future cash flows (both inflows and outflows).</li> </ul>	<p><u>Disadvantages</u></p> <ul style="list-style-type: none"> <li>- Does not or only partly provide information about the sustainability of the entity's service delivery over the long term. It has to be noted that this disadvantage applies to all approaches and is caused by the perspective that general purpose financial statements take.</li> <li>- The calculations that underpin the information provided by the insurance approach are complex. Such information may be difficult for non-experts to understand. However, accounting for pension obligations in the public sector requires the same level of understanding.</li> </ul>
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### 8.3 EY's recommendations on the way forward

Against the background that an Exposure Draft on social benefits will likely be approved in June 2017, it is recommended that the European Commission/Eurostat closely monitors further progress of the project and how decisions taken by the IPSASB will affect the EPSAS project. The issuance of an Exposure Draft on social benefits by the IPSASB in 2017 will offer the opportunity to feed the European Commission's and Member States' views on future requirements on accounting for social benefits into the IPSASB's discussions.

As the scope of accounting for social benefits will be reflected in the definition of social benefits EY recommends to assess whether the proposed definition of social benefits will be in line with the EPSAS objectives. A matter for consideration in this context is whether social transfers in kind that address social risks will be included within the scope of accounting for social benefits or not. A further discussion point regarding the scope is whether for example disaster aid should be considered as a universal benefit or a benefit provided to individuals or households. If it would be considered as a universal benefit then it would be out of the scope of the project.

Given the fact that the IPSASB envisages that the insurance approach shall be applicable to fully funded schemes and that preparers shall be referred to the forthcoming IFRS, also the developments at the IFRS level regarding insurance accounting would be worthwhile monitoring.

Meanwhile EY recommends that the European Commission/Eurostat should consider to conduct a survey of all the accounting practices of Member States regarding social benefits. With regards to recognition of social benefits the aim of the survey should be to identify the current points at which an obligating event may give rise to amounts being recognized in the financial statements. Having an overview about the current recognition points will also be helpful in the context of the upcoming IPSASB ED on social benefits. The survey should also look at the current measurement approaches of Member States regarding social benefits. Focus should be laid on insurance accounting approaches that Member States currently follow. In this context it should also be surveyed how Member States account for insurance-based social benefits that are not fully funded.

From a quantitative perspective it would certainly be of interest what effects accounting for social benefits would have on Member States balance sheets. To determine the impact on Member States' balance sheets different scenarios should be simulated.

## 9. Implications that should be noted for employee benefits (pensions) from the conclusions on social benefits

At this stage no conclusions can be drawn. The IPSASB's project on social benefits is currently in a discussion phase by the IPSASB and no implications that should be noted for employee benefits (pensions) can be derived.

## Appendix 1: Main types of social benefits used in the EU Member States

Country	Family	Health	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
<b>Austria</b>	<ul style="list-style-type: none"> <li>▶ Family benefits</li> <li>▶ Maternity and paternity benefits</li> <li>▶</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sickness cash benefits</li> <li>▶ Rehabilitation allowance</li> <li>▶ Long-term care benefits</li> <li>▶ Benefits in-kind for people in need of care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits in respect of accidents at work and occupational diseases</li> </ul>	<ul style="list-style-type: none"> <li>▶ Old-age pensions and benefits</li> <li>▶ Survivor's benefits</li> <li>▶ Orphan's pension</li> <li>▶ Funeral expenses</li> </ul>	<ul style="list-style-type: none"> <li>▶ Needs-oriented guaranteed minimum resources</li> <li>▶ Supplementary benefits (needs which are not covered by the minimum standard (for example expenses for appropriate accommodation and heating)</li> <li>▶ Sickness insurance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefit</li> <li>▶ Unemployment assistance</li> <li>▶ Retraining allowance</li> </ul>
<b>Belgium</b>	<ul style="list-style-type: none"> <li>▶ Family allowances</li> <li>▶ Maternity and paternity benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits</li> <li>▶ Long-term care benefits</li> <li>▶ Sickness cash benefits</li> <li>▶</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits in respect of accidents at work and occupational diseases</li> <li>▶ Invalidity benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivor's benefits</li> <li>▶ Old-age pensions and benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Integration income</li> <li>▶ Other social assistance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>
<b>Bulgaria</b>	<ul style="list-style-type: none"> <li>▶ Family child benefits</li> <li>▶ Other family allowances and benefits</li> <li>▶ Maternity and paternity</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits</li> <li>▶ Sickness benefits (sick pay)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits for persons with disabilities</li> <li>▶ Temporary incapacity to work</li> </ul>	<ul style="list-style-type: none"> <li>▶ Old-age benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Guaranteed minimum income</li> <li>▶ Social benefits programs for long-term care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>
<b>Croatia</b>	<ul style="list-style-type: none"> <li>▶ Child benefits</li> <li>▶ Maternity/paternity benefits</li> <li>▶ Other family benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Mandatory health insurance</li> <li>▶ Benefits for caregivers</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability benefits</li> <li>▶ Benefits for accidents at work and occupational dis-</li> </ul>	<ul style="list-style-type: none"> <li>▶ Old-age pension</li> <li>▶ Survivors' pensions</li> </ul>	<ul style="list-style-type: none"> <li>▶ Guaranteed minimum social assistance benefit</li> <li>▶ Housing allow-</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>

Country	Family	Health	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
		<ul style="list-style-type: none"> <li>▶ Long-term care benefits</li> <li>▶ Sickness cash benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ eases</li> </ul>		<ul style="list-style-type: none"> <li>▶ ance</li> <li>▶ Fuel allowance</li> <li>▶ Personal needs allowance for a residential care beneficiary</li> <li>▶ One-time assistance</li> <li>▶ Job-seeker benefit</li> <li>▶ Education-related allowances</li> <li>▶ Home assistance</li> <li>▶ Residential/semi-residential care</li> <li>▶ Organized living service</li> <li>▶ Early intervention</li> </ul>	
<b>Cyprus</b>	<ul style="list-style-type: none"> <li>▶ Child benefit</li> <li>▶ Single parent family benefit</li> <li>▶ Maternity benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefit</li> <li>▶ Long-term social care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits for employment accidents and occupational diseases</li> <li>▶ Sickness benefit</li> <li>▶ Incapacity pension</li> <li>▶ Incapacity benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Old-age pension</li> <li>▶ Payment of a lump sum instead of a pension</li> <li>▶ Widow's/widower's pension</li> <li>▶ Orphan's benefit</li> <li>▶ Funeral grant</li> </ul>	<ul style="list-style-type: none"> <li>▶ Guaranteed minimum income</li> <li>▶ Social pension</li> <li>▶ Household allowance for pensioners on low incomes</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefit</li> </ul>
<b>Czech Re-</b>	<ul style="list-style-type: none"> <li>▶ Child care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability pension</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivors</li> </ul>	<ul style="list-style-type: none"> <li>▶ Living allowance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assistance</li> </ul>

Country	Family	Health	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
<b>public</b>	<ul style="list-style-type: none"> <li>▶ Housing benefits</li> <li>▶ One-off benefits</li> <li>▶ Foster care</li> </ul>	<ul style="list-style-type: none"> <li>benefit</li> <li>▶ Sickness benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits for persons with disabilities</li> </ul>	<ul style="list-style-type: none"> <li>benefits</li> <li>▶ Special pension contributions and supplements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Housing supplement</li> <li>▶ Extraordinary immediate assistance</li> </ul>	<ul style="list-style-type: none"> <li>with finding work</li> <li>▶ Unemployment support</li> <li>▶ retraining</li> </ul>
<b>Denmark</b>	<ul style="list-style-type: none"> <li>▶ Child benefits</li> <li>▶ Child care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits cards</li> <li>▶ Nursing care at home</li> <li>▶ Benefits for caregiving</li> </ul>	<ul style="list-style-type: none"> <li>▶ Incapacity/invalidity benefits</li> <li>▶ Flexible job benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivor's benefit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Direct social security benefit</li> <li>▶ Education allowance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social unemployment benefit in special cases</li> </ul>
<b>Estonia</b>	<ul style="list-style-type: none"> <li>▶ Child allowances</li> <li>▶ Family and children's benefits</li> <li>▶ Parental benefit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits in respect of accidents at work and occupational diseases</li> <li>▶ Social benefits for disabled persons</li> <li>▶ Pension for incapacity for work</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivor's pension</li> <li>▶ Old-age pension</li> <li>▶ Non-resident pension</li> </ul>	<ul style="list-style-type: none"> <li>▶ State pensions</li> <li>▶ State pensions insurance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment insurance benefit</li> </ul>
<b>Finland</b>	<ul style="list-style-type: none"> <li>▶ Maternity and paternity benefits</li> <li>▶ Child benefit</li> <li>▶ Support with care for young children</li> </ul>	<ul style="list-style-type: none"> <li>▶ Public healthcare benefits</li> <li>▶ Sickness allowance</li> <li>▶ Services and support for the elderly and people with disabilities</li> <li>▶ Support for carers</li> <li>▶ Reimbursements for the cost of medical treat-</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ National pensions</li> <li>▶ Disability pension</li> <li>▶ Family pension</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social assistance</li> <li>▶ Supplementary special assistance</li> <li>▶ Preventive social assistance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Basic unemployment allowance</li> <li>▶ Labour market subsidy</li> </ul>

Country	Family	Health	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
		ment				
<b>France</b>	<ul style="list-style-type: none"> <li>▶ Family allowances</li> <li>▶ Early childhood benefit</li> <li>▶ Special allowances such as the disabled child education allowance, the back-to-school allowance or the daily parental presence allowances</li> </ul>	<ul style="list-style-type: none"> <li>▶ Long-term care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability pension</li> <li>▶ Long-term care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Pensions and old age benefits</li> <li>▶ Survivor's pension</li> <li>▶ Widow's allowance</li> <li>▶ Death grant</li> </ul>	<ul style="list-style-type: none"> <li>▶ Income Support</li> <li>▶ Other benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>
<b>Germany</b>	<ul style="list-style-type: none"> <li>▶ Maternity and paternity benefits</li> <li>▶ Family benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Healthcare benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social compensation benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivor's benefits/pension</li> <li>▶ Orphan's pension for children of policy holders</li> </ul>	<ul style="list-style-type: none"> <li>▶ Minimum benefit system</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefit</li> </ul>
<b>Greece</b>	<ul style="list-style-type: none"> <li>▶ Family benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits</li> <li>▶ Illness benefits in cash</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits in kind and cash in case of occupational disease</li> <li>▶ Benefits in kind and cash in case of a work accident</li> <li>▶ Covering of funeral costs in the event of death</li> <li>▶ Pension's social solidarity benefit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivor's benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits due to minimum resources</li> <li>▶ Long-term care benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>
<b>Hungary</b>	<ul style="list-style-type: none"> <li>▶ Family benefits</li> <li>▶ Maternity and paternity benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Long-term care</li> <li>▶ Sickness cash benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits in respect of accidents at work and occupa-</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivor's benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits due to minimum resources</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>

Country	Family	Health	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
			<ul style="list-style-type: none"> <li>▸ tional diseases</li> <li>▸ Invalidity benefits</li> </ul>			
<b>Ireland</b>	<ul style="list-style-type: none"> <li>▸ Child benefit</li> <li>▸ Other family benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Benefits for caregivers</li> <li>▸ Illness benefit</li> <li>▸ Supporting people in their homes or in nursing homes</li> </ul>	<ul style="list-style-type: none"> <li>▸ Injury benefit</li> <li>▸ Disablement pension</li> <li>▸ Incapacity supplement</li> <li>▸ Death benefits</li> <li>▸ Medical care scheme</li> <li>▸ Constant attendance allowance</li> </ul>	<ul style="list-style-type: none"> <li>▸ State pension</li> <li>▸ Widow' and widower's or surviving civil partner's pensions</li> <li>▸ Guardian's payments</li> </ul>	<ul style="list-style-type: none"> <li>▸ Benefits to help people reach a basic standard of living</li> </ul>	<ul style="list-style-type: none"> <li>▸ Unemployment benefits</li> </ul>
<b>Italy</b>	<ul style="list-style-type: none"> <li>▸ Social inclusion and income support measures</li> <li>▸ Maternity and paternity leave</li> </ul>	<ul style="list-style-type: none"> <li>▸ Statutory sick pay</li> <li>▸ Health care benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Benefits in case of accidents at work or occupational disease</li> <li>▸ Civil incapacity and long-term care benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Survivor benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Social security system</li> </ul>	<ul style="list-style-type: none"> <li>▸ Unemployment benefits</li> </ul>
<b>Latvia</b>	<ul style="list-style-type: none"> <li>▸ Benefits for families with children</li> <li>▸ Benefits for guardians, foster families and adopters</li> </ul>	<ul style="list-style-type: none"> <li>▸ Health care benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Benefits for disabled persons</li> </ul>	<ul style="list-style-type: none"> <li>▸ Survivor's pension</li> </ul>	<ul style="list-style-type: none"> <li>▸ Social assistance services</li> <li>▸ Minimal resources benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Unemployment benefits</li> </ul>
<b>Lithuania</b>	<ul style="list-style-type: none"> <li>▸ Family benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Long-term care and nursing</li> <li>▸ Health care benefits</li> <li>▸ Sickness benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Disability pension</li> <li>▸ Social security benefits in cases of accidents at work and occupational diseases</li> </ul>	<ul style="list-style-type: none"> <li>▸ Survivor's and orphan's pensions</li> </ul>	<ul style="list-style-type: none"> <li>▸ Cash support for people on low incomes</li> </ul>	<ul style="list-style-type: none"> <li>▸ Unemployment benefits</li> </ul>
<b>Luxembourg</b>	<ul style="list-style-type: none"> <li>▸ Family benefits</li> <li>▸ Maternity and paternity benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Compulsory health insurance</li> <li>▸ Sickness cash benefits</li> </ul>	<ul style="list-style-type: none"> <li>▸ Invalidity pension</li> <li>▸ Benefits for workplace accidents and occupational ill-</li> </ul>	<ul style="list-style-type: none"> <li>▸ Old-age pensions and benefits</li> <li>▸ Survivor's</li> </ul>	<ul style="list-style-type: none"> <li>▸ Guaranteed income plan and other welfare payments</li> </ul>	<ul style="list-style-type: none"> <li>▸ Unemployment benefits</li> </ul>



Country	Family	Health	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
		<ul style="list-style-type: none"> <li>▶ Long term care</li> <li>▶ Sickness cash benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Vocational rehabilitation benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ pensions</li> </ul>		
<b>Malta</b>	<ul style="list-style-type: none"> <li>▶ Family benefits</li> <li>▶ Maternity benefits or benefits for maternity leave</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits</li> <li>▶ Long-term care</li> <li>▶ Sickness benefit rates</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability pension</li> <li>▶ Benefit claim for Injury at Work Disease/Medical Condition related to Work</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivor's pension</li> <li>▶ Contributory pension for retirement</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social assistance</li> <li>▶ Benefits due to minimum resources</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> <li>▶ Special unemployment benefit</li> </ul>
<b>Netherlands</b>	<ul style="list-style-type: none"> <li>▶ Benefits for children (only if beneficiary is covered for national insurance)</li> <li>▶ Child care benefit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Long-term care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Invalidity benefits</li> <li>▶ Sick pay and benefits in the event of illness</li> </ul>	<ul style="list-style-type: none"> <li>▶ Surviving dependent's benefit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social assistance benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>
<b>Poland</b>	<ul style="list-style-type: none"> <li>▶ Family benefits for students</li> <li>▶ Supplements to family benefits</li> <li>▶ Maternity allowance and leave</li> <li>▶ Parental allowance and leave</li> </ul>	<ul style="list-style-type: none"> <li>▶ Special caregiver's allowance</li> <li>▶ Benefits for long-term care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability benefits</li> <li>▶ Accidents at work and occupational disease</li> </ul>	<ul style="list-style-type: none"> <li>▶ Funeral costs</li> <li>▶ Survivor's pension to family members of the insured deceased person</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social assistance benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>
<b>Portugal</b>	<ul style="list-style-type: none"> <li>▶ Family expenses related to children and young persons</li> <li>▶ Maternity, paternity and adoption social benefits</li> <li>▶ Child benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits</li> <li>▶ Long-term care</li> </ul>	<ul style="list-style-type: none"> <li>▶ (Social) invalidity pension</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survivor's benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social integration income</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social unemployment benefits</li> </ul>
<b>Romania</b>	<ul style="list-style-type: none"> <li>▶ Maternity benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health insurance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability pensions</li> </ul>	<ul style="list-style-type: none"> <li>▶ Old-age pen-</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social aid in cash</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment</li> </ul>

Country	Family	Health	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
	<ul style="list-style-type: none"> <li>▶ State child benefit</li> <li>▶ Child-raising leave and allowance</li> <li>▶ Family support benefit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Healthcare for non-insured persons</li> <li>▶ Sickness benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Work accidents and occupational illnesses</li> </ul>	<ul style="list-style-type: none"> <li>sions</li> <li>▶ Survivor's pension</li> <li>▶ Death grants</li> </ul>	<ul style="list-style-type: none"> <li>and in-kind</li> <li>▶ Long-term care</li> </ul>	<ul style="list-style-type: none"> <li>benefits</li> </ul>
<b>Slovakia</b>	<ul style="list-style-type: none"> <li>▶ Family benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Emergency healthcare without health insurance</li> <li>▶ Incapacity/ sickness benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Severe disability allowances</li> </ul>	<ul style="list-style-type: none"> <li>▶ Funeral grant</li> <li>▶ Orphan's pension</li> <li>▶ Widow's widower's pension</li> <li>▶ Old-age pension</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits due to minimum resources</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>
<b>Slovenia</b>	<ul style="list-style-type: none"> <li>▶ Child benefits</li> <li>▶ Other family allowances</li> <li>▶ Parental protection</li> </ul>	<ul style="list-style-type: none"> <li>▶ Carers benefits</li> <li>▶ Sick pay</li> <li>▶ Health care benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Occupational injury and occupational diseases</li> <li>▶ Rights for disability insurance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Widow's pensions</li> <li>▶ Orphans pensions</li> <li>▶ Survivors' pensions</li> <li>▶ Pensions</li> </ul>	<ul style="list-style-type: none"> <li>▶ Minimum resources long-term care</li> <li>▶ Home help</li> <li>▶ Institutional care (system of services)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li> </ul>
<b>Spain</b>	<ul style="list-style-type: none"> <li>▶ Benefits for "maternidad no contributiva" (maternity/paternity allowance)</li> <li>▶ Other family allowances</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care for beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits for permanent invalidity</li> <li>▶ Benefits for industrial injuries and occupational diseases</li> </ul>	<ul style="list-style-type: none"> <li>▶ Death and survivor's pensions</li> </ul>	<ul style="list-style-type: none"> <li>▶ Social welfare</li> <li>▶ Long-term care,</li> <li>▶ Care for dependents</li> <li>▶ Minimum income</li> </ul>	<ul style="list-style-type: none"> <li>▶ Employment allowance</li> </ul>
<b>Sweden</b>	<ul style="list-style-type: none"> <li>▶ Child allowance, extended child allowance, large family supplement</li> <li>▶ Other benefits for parents</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits</li> <li>▶ Sickness cash benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits for children with disabilities</li> <li>▶ Benefits for people with disabilities</li> </ul>	<ul style="list-style-type: none"> <li>▶ Income related retirement pension</li> <li>▶ Guaranteed pensions for</li> </ul>	<ul style="list-style-type: none"> <li>▶ Financial support</li> </ul>	<ul style="list-style-type: none"> <li>▶ Previous work requirements</li> <li>▶ Requirements from the Swedish Public Employment</li> </ul>

Country	Family	Health	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
	<ul style="list-style-type: none"> <li>▶ Benefits for students</li> <li>▶ Housing benefits</li> </ul>			<p>people with low or now income</p> <ul style="list-style-type: none"> <li>▶ Survivor pension</li> <li>▶ Other survivor protection</li> <li>▶ Housing supplement</li> <li>▶ Pensioner income support</li> </ul>		Service
<b>United Kingdom</b>	<ul style="list-style-type: none"> <li>▶ Child benefits</li> <li>▶ Family-related benefits</li> <li>▶ Maternity benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability-related benefits</li> <li>▶ Accidents at work and occupational diseases</li> </ul>	<ul style="list-style-type: none"> <li>▶ Bereavement benefits</li> <li>▶ Widowed parent's allowance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Pension credit</li> <li>▶ Working tax credits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Job Seeker's allowance</li> <li>▶ Universal credit</li> </ul>

## Appendix 2: Categorization of social benefits under GFS

<b>Social benefits (GFS)</b>	
271: Social security benefits	Social benefits expense payable in cash or in kind to households by social security schemes.
2711: Social security benefits in cash	Typical social security benefits in cash include extended sickness and invalidity benefits, maternity allowances, children's or family allowances, unemployment benefits, retirement and survivors' pensions, and death benefits.
2712: Social security benefits in kind	Social security benefits in kind typically consist of goods and services purchased from a market producer on behalf of households and benefits related to the reimbursements of costs of goods and services purchased by households in accordance with the rules of the scheme. These benefits are likely to consist of medical or dental treatments, surgery, hospital accommodation, spectacles or contact lenses, pharmaceutical products, home care, and similar goods or services.
272: Social assistance benefits	Social assistance benefits are transfers payable in cash or in kind to households to meet the same needs as social insurance benefits but that are not made under a social insurance scheme. Eligibility to receive such benefits is not dependent on having elected to participate as demonstrated by the payment of contributions. Social assistance benefits therefore exclude all benefits payable by social security funds. Para. 6.102 of the GFSM lists a number of circumstances that leads to a classification as social assistance benefits.
2721: Social assistance benefits in cash	No examples provided.
2722: Social assistance benefits in kind	No examples provided.
273: Employment-related social benefits	Employment-related social benefits are defined as social benefits payable in cash or in kind by government or public sector units to their employees or employees of other government or public sector units participating in the scheme. The kinds of benefits provided relate to non-pension benefits, and are similar to those listed for social security schemes, such as the

	<p>continued payment of wages during periods of absence from work as a result of ill health, accidents, maternity, etc.; family, education, or other allowances; severance allowances in the event of redundancy, incapacity, or accidental death; general medical expenses not related to the employees' work; and charges for convalescent and retirement homes.</p>
<p>2731: Employment-related social benefits in cash</p>	<p>When using the accrual basis of recording, the payment of pensions and other retirement benefits through these employment-related pension schemes is recorded as reductions in liabilities. However, when using the cash basis of recording, the liability did not accumulate through imputed contributions recorded in the past, and all payment of these employment-related pensions should be recorded as employment-related social benefits (2731).</p>
<p>2732: Employment-related social benefits in kind</p>	<p>No examples provided.</p>

## Appendix 3: IPSASB's Social Benefits Roadmap

<b>Meeting</b>	<b>Objective: IPSASB to consider:</b>
September 2016	<ol style="list-style-type: none"> <li>1. Decision on scope of project (including initial discussion on definitions)</li> <li>2. Decision on when an obligating event may occur</li> <li>3. Initial discussion on disclosures</li> </ol>
December 2016	<ol style="list-style-type: none"> <li>1. Draft ED: Scope</li> <li>2. Draft ED: Definitions</li> <li>3. Draft ED: Recognition</li> <li>4. Draft ED: Measurement</li> </ol>
March 2017	<ol style="list-style-type: none"> <li>1. Review previous sections of ED</li> <li>2. Draft ED: Disclosure</li> <li>3. Draft ED: Application Guidance</li> <li>4. Draft ED: Illustrative Examples</li> </ol>
June 2017	<ol style="list-style-type: none"> <li>1. Review of full draft ED</li> <li>2. Approval of ED</li> </ol>
September 2017	Consultation Period
December 2017	
March 2018	<ol style="list-style-type: none"> <li>1. Review of Responses</li> <li>2. Initial discussion on issues raised</li> </ol>
June 2018	<ol style="list-style-type: none"> <li>1. Discussion of issues raised</li> <li>2. Review first draft of proposed IPSAS</li> </ol>
September 2018	<ol style="list-style-type: none"> <li>1. Review of draft IPSAS</li> <li>2. Approval of IPSAS</li> </ol>

Source: IPSASB Meeting Agenda Paper for the September 2016 Meeting, Agenda Item 7.1.3

## Appendix 4: Accounting for social benefits under GFS

The Government Finance Statistics Manual (GFSM) 2014 defines social benefits as “current transfers receivable by households intended to provide for the needs that arise from social risks - for example, sickness, unemployment, retirement, housing, education, or family circumstances”<sup>31</sup>. Social risks are defined by the GFSM as “events or circumstances that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their income”.

According to the GFSM, social benefits are classified first according to the type of social protection<sup>32</sup> arrangement governing their payment: *social security*, *social assistance*, or *employment-related social insurance schemes*, and then by whether the payment was made in cash or in kind. Please see below figure illustrating this classification.

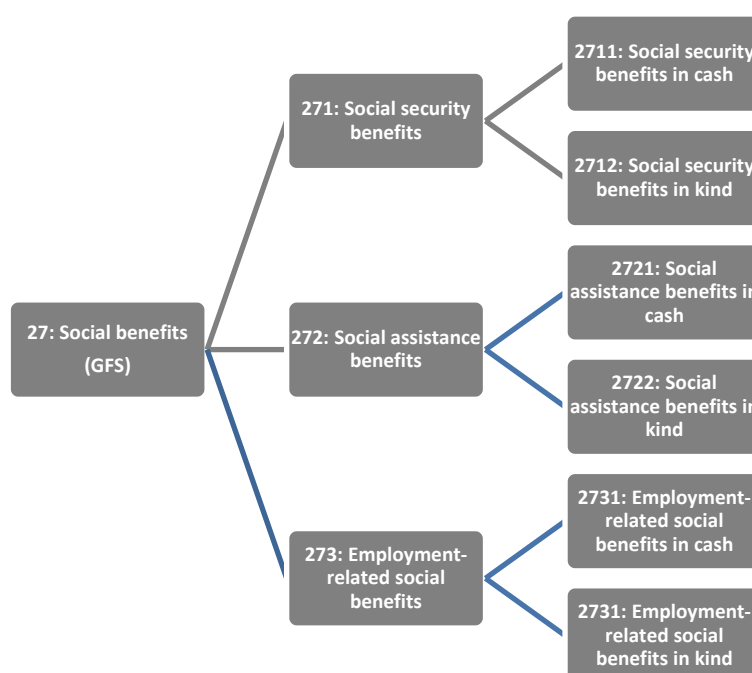


Figure 4: Classification of social benefits under GFS  
Source: IMF, Government Finance Statistics Manual - GFSM 2014, para. 6.98.

These benefits are further subdivided between those relating to pensions and those relating to all other forms of benefits (“non-pension benefits”).<sup>33</sup> This shows that the ESA approach for classifying social benefits is similar to the GFS approach.

<sup>31</sup> See IMF, Government Finance Statistics Manual - GFSM 2014, para. 6.96.

<sup>32</sup> The IMF defines “social protection” as the systematic intervention intended to relieve households and individuals of the burden of a defined set of social risks. Social risks are defined as events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their income. Needs may occur due to sickness, unemployment, retirement, housing, education, or family circumstances. See IMF, Government Finance Statistics Manual - GFSM 2014, para. A.21.

<sup>33</sup> See IMF, Government Finance Statistics Manual - GFSM 2014, para. 6.98.

Social security benefits are social benefits expense payable in cash or in kind to households by social security schemes. In contrast, social assistance benefits are defined as “transfers payable in cash or in kind to households to meet the same needs as social insurance benefits but that are not made under a social insurance scheme”<sup>34</sup>. The eligibility to receive social assistance benefits is therefore not dependent on having elected to participate as demonstrated by the payment of contributions. Contributions are therefore not a prerequisite for social assistance benefits. Para. 6.102 of the GFSM outlines circumstances that could lead to a classification of social benefits as social assistance benefits:

- ▶ No social insurance scheme exists to cover the circumstances in question.
- ▶ Although a social insurance scheme, or schemes, may exist, the households in question do not participate and are not eligible for social insurance benefits.
- ▶ Contributions to social insurance schemes were made on behalf of households who cannot otherwise afford to participate in the scheme, in order to secure entitlement to the benefits of the scheme for them.
- ▶ Social insurance benefits are deemed to be inadequate to cover the needs in question, so the social assistance benefits are being paid in addition.
- ▶ Implicit social assistance benefits were paid resulting from payable tax credits.
- ▶ As a matter of general social policy.

It has to be noted that under GFS social assistance benefits do not include transfers made in response to events or circumstances, such as natural disasters, which are not normally covered by social insurance schemes. Such transfers are recorded under *transfers not elsewhere classified*.

According to para. 6.104 employment-related social benefits are “social benefits payable in cash or in kind by government or public sector units to their employees or employees of other government or public sector units participating in the scheme”<sup>35</sup>.

The only classification difference between GFS and ESA 2010 relates to “social transfers in kind”: those transfers are recorded as a separate type of social benefit under ESA but not under GFS.<sup>36</sup> As a result, in GFS social benefits provided by government can fall into three main categories:

- ▶ Social security benefits;
- ▶ Social assistance benefits; and
- ▶ Employment-related social benefits;

whereas the main categories under ESA are:

- ▶ Social benefits other than social transfers in kind
- ▶ Social transfers in kind.

Appendix 2 *Categorization of social benefits under GFS* provides an overview and some illustrative examples of the categorization of social benefits under GFS.

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<sup>34</sup> See IMF, Government Finance Statistics Manual - GFSM 2014, para. 6.101.

<sup>35</sup> Or to survivors and dependents of the employees who are eligible for such payments.

<sup>36</sup> In the GFSM, social transfers in kind are included as respective sub-categories within *social security benefits*, *social assistance benefits* and *employment-related social benefits*. See IMF, Government Finance Statistics Manual - GFSM 2014, para. 6.98.



## Appendix 4: Detailed results of the country analysis

### A. France

#### 1. Social benefits provided

*Please specify whether a social benefit is provided on a contributory (c) or a non-contributory (nc) basis. In case of a mixed approach between contributory and non-contributory financed schemes/funds etc. please provide more details.*

*For health care benefits please note that only such benefits are in the scope of our study that are not collective goods, e.g. sickness insurance as part of social assistance. Universal health care benefits are therefore not included.*

Answer:

The organisation of the social security system in France can be described as complex.

These are the four main branches in the French social security system:

- Family
- Health
- Pensions
- Accidents at work and sicknesses at work

Social assistance (which is fully non-contributory) and unemployment benefits (partially contributory) are separate from these four branches. At the moment social assistance is dealt with both by the Central government and local authorities. However, the accounting principles are the same as that for the social security sector. Unemployment benefits are provided by the "Pôle emploi" and this organisation is not considered to be part of the four branches of social security in France either.

The French social security system is characterized by a "répartition" approach (contributions received in one year are used to pay the social benefits incurred as of that same year). Most of the social benefits provided are financed by contributions collected during the same year as when the social benefits are incurred. Generally social benefits in France can be considered as not fully contributory as part of the general taxation revenues might be transferred to the social security sector

In France, the structure of the French social security system is such that the individual entities that provide social benefits have no present obligation to serve long-term obligations linked to social security. It is to be noted that the French Central government is not considered to control social security entities. In this context, further work on the level of aggregation of entities at which relevant information on longer-term obligations should be presented (in the notes to the financial statements or in other reports) is currently being performed.

Also the difference between employer-employee relationships (where IAS 19/IPSAS 25(now IPSAS 39) applies) and social security has to be noted. The French social security system cannot be considered as comparable to a defined benefits scheme in the sense of IAS 19/IPSAS 25 (now IPSAS 39). Employee benefits for statutory civil servants are based on an employer-employee relationship which is different from benefits provided by social security in France.

Family	Health*	Disability (Invalidity and accidents at work)	Pensions
<ul style="list-style-type: none"> <li>▶ Family allowances (nc)</li> <li>▶ Early childhood benefit (nc)</li> <li>▶ Special allowances such as the disabled child education allowance, the back-to-school allowance or daily parental presence allowance (nc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Long-term care, e.g. majoration pour tierce personne (MTP) or prestation complémentaire pour recours à tierce personne (PCRTP)</li> <li>▶ Day to day health care</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability pension (nc)</li> <li>▶ Long-term care (nc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Pensions and old age benefits (c)</li> <li>▶ Survivor's pension (c)</li> <li>▶ Widow's allowance (c)</li> <li>▶ Death grant (c)</li> </ul>

**Social assistance\*:**

- ▶ Income Support (RSA) (nc)
- ▶ Other benefits (nc)

**Unemployment\*:**

- ▶ Unemployment benefits (c<sup>37</sup>)

\* This reflects that social assistance and unemployment are considered as being not part of the social security system in France.

**2. What Ministry/Department is in charge of the benefits? What accounting framework does this entity use?**

Answer:

Concerning social security benefits there is only one type of accounting (accrual accounting) and the specific accounting regulations are derived from the private sector accounting standards. The underlying chart of accounts (CoA) is the "plan comptable unique des organismes de sécurité sociale - PCUOSS". This CoA was adopted in 2001.

<sup>37</sup> If there are any gaps between revenue and expenses these are covered by borrowings.

In France a law was issued in 2001 which specifically says that accrual accounting is to be used by public sector entities and that public sector accounting had to be derived from private sector requirements (except for some specific cases where transactions are totally different). Thus, the basis for public sector accounting in France is derived from private sector accounting principles.

Social benefit(s)	Entity in charge for those social benefits	Does this entity prepare its own financial statements?	Accounting framework used (e.g. IPSAS, IFRS, national GAAP)	a) Recognition requirements (especially whether liability is recognized and at what point in time) and b) Measurement requirements
Family allowances	Caisses d'allocations familiales (Caf) and Caisses de Mutualité sociale agricole	Yes, in accordance with the plan comptable unique des organismes de sécurité sociale (PCUOSS)	Plan comptable unique des organismes de sécurité sociale (PCUOSS)	a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment
Early childhood benefit	Caisses d'assurance maladie des travailleurs salariés ; Caisses d'allocations familiales (Caf)	Yes, in accordance with the plan comptable unique des organismes de sécurité sociale (PCUOSS)	Plan comptable unique des organismes de sécurité sociale (PCUOSS)	a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment
Special allowances such as the disabled child education allow-	Caisses d'allocations familiales (Caf)	Yes	Plan comptable unique des organismes de sécurité sociale (PCUOSS)	a) Liability is recognized when the claim is enforceable.

ance, the back-to-school allowance or daily parental presence allowance				b) Cost of fulfilment
Long-term care	Caisses d'assurance maladie des travailleurs salariés (CAMTS) ; Caisses d'allocations familiales (Caf)	Yes, in accordance with the plan comptable unique des organismes de sécurité sociale (PCUOSS)	Plan comptable unique des organismes de sécurité sociale (PCUOSS)	a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment
Disability pension	Caisses d'assurance maladie des travailleurs salariés (CAMTS)	Yes, in accordance with the plan comptable unique des organismes de sécurité sociale (PCUOSS)	Plan comptable unique des organismes de sécurité sociale (PCUOSS)	a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment
- Pensions and old age benefits - Survivor's pension - Widow's allowance	Caisses d'assurance vieillesse des travailleurs salariés (CAVTS)	Yes, in accordance with the plan comptable unique des organismes de sécurité sociale (PCUOSS)	Plan comptable unique des organismes de sécurité sociale (PCUOSS)	a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment
Death grant	Caisses	Yes, in accord-	Plan comptable unique des organismes de sécurité so-	a) Liability is recog-

	d'assurance maladie des travailleurs salariés (CAMTS) ; Caisses d'assurance vieillesse des travailleurs salariés (CAVTS)	ance with the plan comptable unique des organismes de sécurité sociale (PCUOSS)	ciale (PCUOSS)	nized when the claim is enforceable. b) Cost of fulfilment
Income Support (RSA)	Caisses d'allocations familiales (Caf)	Yes, in accordance with the plan comptable unique des organismes de sécurité sociale (PCUOSS)	Plan comptable unique des organismes de sécurité sociale (PCUOSS)	a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment
Unemployment benefits	Pôle Emploi	For historical reasons, that public sector entity establishes accounts in accordance with private sector local accounting standards (PCG)	Plan comptable général (PCG)	a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment

**3. Does the national/central government prepare consolidated financial statements?**

Answer:

The Central Government in France prepares separate financial statements. French social security funds are not included in the Central Government reporting entity. Due to their administrative arrangements and specific financing rules, for accounting purposes they are considered as being **not controlled** by the State (see Compte Général de l'Etat 2015, p. 251).

**4. If the national/central government prepares consolidated financial statements: Are the financial statements of the separate entities providing social benefits consolidated into these consolidated financial statements?**

Answer:

Social security entities in France prepare individual financial statements. The scope of the Central Government Accounts comprises Ministries and public authorities but not social security funds and bodies. Social security bodies and equivalent are considered not to be controlled by Central Government due to their specific management and financing methods.

## **B. Sweden**

### **1. Social benefits provided**

*Please specify whether a social benefit is provided on a contributory (c) or a non-contributory (nc) basis. In case of a mixed approach between contributory and non-contributory financed schemes/funds etc. please provide more details.*

Answer:

The contributions in the Swedish system are in most cases paid in the form of employers' contributions, with a percentage of the salary. There is a connection between the contribution paid (in principle the income) and the benefit you are entitled to receive, but it is not in all cases very strong. For pensions benefits there is a combination of employers' contributions and a "general pension fee" paid by the individual together with ordinary income tax.

*\* For health care benefits please note that only such benefits are in the scope of our study that are not collective goods, e.g. sickness insurance provided as social assistance. Universal health care benefits (e.g. statutory health insurance) are therefore not included.*

Answer:

The national health care service in Sweden, most hospitals and health care centres, are run by the county councils. The national healthcare is financed by a combination of county council tax, transfers from central government and a limited fee paid by the individual at each visit to a hospital or a health care centre. If this should not be included, you can just remove it from our answer. Above this there are some health care services which can be paid by the Social Insurance Authority. The health care benefits are not given as cash benefits and thus there are no obligations for future benefits. The benefits are given as health care services and e.g. the hospitals do not recognize obligations for future services. Of course hospitals would however recognize accounts payable in their ordinary business.

Family	Health*	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
<ul style="list-style-type: none"> <li>▶ Child allowance, extended child allowance, large family supplement (nc)</li> <li>▶ Other benefits for parents, mainly Parental leave cash benefits (c)</li> <li>▶ Benefits for students (nc)</li> <li>▶ Housing benefits (nc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care benefits (c)</li> <li>▶ Sickness cash benefits (c)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits for children with disabilities (nc)</li> <li>▶ Benefits for people with disabilities (nc)</li> <li>▶ Work injury cash benefits (c)</li> <li>▶ Personal assistance benefit for disabled (nc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Income related retirement pension (c)</li> <li>▶ Guaranteed pensions for people with low or now income (nc)</li> <li>▶ Survivor pension (c)</li> <li>▶ Other survivor protection (nc)</li> <li>▶ Housing supplement (nc)</li> <li>▶ Pensioner income support (nc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Financial support (nc)</li> </ul>	<ul style="list-style-type: none"> <li>Cash benefits for unemployed (c) (Previous work requirements from the Swedish Public Employment Service)</li> </ul>

## 2. What Ministry/Department is in charge of the benefits? What accounting framework does this entity use?

### Answer:

In Sweden the ministries are not responsible for providing the benefits. Instead, agencies subordinate to the government as a whole provide the benefits. The agencies are connected to a certain ministry, but the ministries do not prepare their own financial statements. Each agency prepares its own financial statements. The ministries together constitute The Government Offices, technically a separate agency preparing its own financial statements. The agency The Government Offices, however, does not record the social benefits.

- ▶ The Social Insurance Authority (Försäkringskassan) and The Swedish Pensions Agency are connected to the Ministry of Health and Social affairs.
- ▶ The Swedish Public Employment Service (Arbetsförmedlingen) is connected to the Ministry of Labour.
- ▶ The Student Aid Authority is connected to the Ministry of Education.
- ▶ The municipalities and county councils are principally autonomous from the central government, although they receive large transfers from central government.



Social benefit(s)	Entity in charge for those social benefits	Does this entity prepare its own financial statements?	Accounting framework used (e.g. IPSAS, IFRS, national GAAP)	a) Recognition requirements (especially whether liability is recognized and at what point in time) and b) Measurement requirements
<ul style="list-style-type: none"> <li>▶ Family benefits</li> <li>▶ Child benefits (except benefits for students)</li> <li>▶ Sickness cash benefits</li> <li>▶ Disability</li> </ul>	<p>Social Insurance Authority (Försäkringskassan)</p>	<p>Yes</p>	<p>National principles, in many respects corresponding with IPSAS</p>	<p>a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment</p>
<ul style="list-style-type: none"> <li>▶ Pensions</li> </ul>	<p>The Swedish Pensions Agency</p>	<p>Yes</p>	<p>National principles, to a large extent corresponding with IPSAS</p>	<p>a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment</p>
<ul style="list-style-type: none"> <li>▶ Unemployment benefits</li>   <li>▶ Other benefits</li> </ul>	<p>(Unemployment insurance associations, to large degree financed from) The Swedish Public Employment Service (PES). Other benefits through The Swedish PES</p>	<p>Yes</p>	<p>National principles, to a large extent corresponding with IPSAS</p>	<p>a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment</p>

▶ Benefits for students	The Student Aid Authority	Yes	National principles, to a large extent corresponding with IPSAS	a) Liability is recognized when the claim is enforceable. b) Cost of fulfilment
▶ Health care benefits	County councils	Yes	Municipal law and regulations in many respects corresponding with IPSAS	Liabilities are not recognized besides accounts payable in their ordinary business.
▶ Financial support (general)	Municipalities	Yes	Municipal law and regulations in many respects corresponding with IPSAS	Liabilities are not recognized.

### 3. Does the national/central government prepare consolidated financial statements?

Answer:

Yes. The central government prepares consolidated financial statements included in a Central Government Annual Report. The annual report for the previous year is submitted to the Parliament in April each year.

### 4. If the national/central government prepares consolidated financial statements: Are the financial statements of the separate entities providing social benefits consolidated into these consolidated financial statements?

Answer:

Yes. The entities providing social benefits that are part of the Central Government Sector, do all prepare annual reports for each entity respectively, including financial statements consolidated in these consolidated financial statements. Benefits provided by municipalities and county councils are not included in the Central Government Annual Report as they are separate entities with their own financial statements. The contributions to the municipalities and country councils are included in the Central Government Annual Report.

## C. New Zealand

### 1. Social benefits provided

Please specify whether a social benefit is provided on a contributory (c) or a non-contributory (nc) basis. In case of a mixed approach between contributory and non-contributory financed schemes/funds etc. please provide more details.

\* For health care benefits please note that only such benefits are in the scope of our study that are not collective goods, e.g. sickness insurance as part of social assistance. Universal health care benefits are therefore not included.

Answer:

Country	Family	Health*	Disability (Invalidity and accidents at work)	Pensions	Social assistance	Unemployment
<b>New Zealand</b>	<ul style="list-style-type: none"> <li>▶ Family tax credit (nc)</li> <li>▶ Other “working for families” tax credits (nc)</li> <li>▶ Paid parental leave (c)</li> <li>▶ Sole parent support (nc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Disability allowance (nc) [Note 1]</li> <li>▶ Other health care subsidies and allowances [Note 2] (c + nc - [Note 3])</li> </ul>	<ul style="list-style-type: none"> <li>▶ Accident Compensation Corporation claims (c)</li> <li>▶ Disability allowance [Note 1] (nc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ New Zealand superannuation (c)</li> <li>▶ KiwiSaver subsidies / Kickstarter (c)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Supported living payment (nc)</li> <li>▶ Accommodation assistance (nc)</li> <li>▶ Social Housing - Income-related rent subsidy (nc)</li> <li>▶ Student allowances (nc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Job seeker support and emergency benefit (nc)</li> </ul>

The **Government Super Fund** in New Zealand is a government defined benefit plan. It was closed to new members from 1 July 1992. Benefits provided by the Government Super Fund are considered as a post-employment benefit and are accounted for in accordance with PBE IP-SAS 25.

Notes:

[1] Covers both health care costs for people with disabilities, and weekly allowance for people with disabilities. Therefore it is included under both Health and Disability.

- [2] Including subsidised doctor visits and subsidised prescriptions via the Community Services Card, payments towards dental work, and payments towards glasses.
- [3] In some cases, health benefits need to be paid back by the recipient of the benefit. For example, if the Ministry of Social Development (MSD) provides funds to a recipient for obtaining glasses, the recipient will have to pay the funds back to the MSD. Also, when the MSD provides funds to a recipient for dental work, depending on the recipient's situation the recipient may need to repay the funds back to the MSD.

## 2. What Ministry/Department is in charge of the benefits? What accounting framework does this entity use?

Answer:

Social benefit(s)	Entity in charge for those social benefits	Does this entity prepare its own financial statements?	Accounting framework used (e.g. IPSAS, IFRS, national GAAP)	c) Recognition requirements (especially whether liability is recognized and at what point in time) and d) Measurement requirements
<ul style="list-style-type: none"> <li>- Job seeker support and emergency benefit</li> <li>- Supported living payment</li> <li>- Sole parent support</li> <li>- Disability allowance</li> <li>- Other health care subsidies and allowances [see previous section]</li> <li>- Accommodation assistance</li> <li>- Social housing - Income-related rent subsidy</li> <li>- Other health care allowances (e.g. dental care and glasses)</li> <li>- Student allowance</li> </ul>	Ministry of Social Development ("MSD") [Note 2]	Yes	PBE Standards [Note 1]	<p>a) Welfare benefits are recognised in the period when an application for a benefit has been received and the eligibility criteria are met.</p> <p>Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown [Note 3].</p> <p>b) Amount of entitlement [Note 4]</p>

Social benefit(s)	Entity in charge for those social benefits	Does this entity prepare its own financial statements?	Accounting framework used (e.g. IPSAS, IFRS, national GAAP)	c) Recognition requirements (especially whether liability is recognized and at what point in time) and d) Measurement requirements
- New Zealand superannuation	New Zealand Superannuation Fund ("NZ Super Fund")	Yes	PBE Standards [Note 1]	<p>a) New Zealand Superannuation benefit is recognised in the period when an application for the benefit has been received and the eligibility criteria have been met [Note 5].</p> <p>b) NZ Super - Amount of entitlement [Note 4]</p>
- Accident Compensation Corporation claims	Accident Compensation Corporation ("ACC")	Yes	PBE Standards [Note 1]	<p>a) ACC claims and the liability for these claims are recognised as per the requirements of PBE IFRS 4 Insurance Contracts [Note 6]. The outstanding claims liability consists of expected future payments associated with:</p> <ul style="list-style-type: none"> <li>- Claims reported and accepted as at the liability valuation date that remain unsettled as at the valuation date;</li> <li>- Claims incurred but not reported to, or accepted by, ACC as at the valuation date;</li> <li>- Closed claims that are expected, on the basis of actuarial projections, to be reopened after the valuation date</li> <li>- The costs of managing reported but unsettled, reopened and IBNR (incurred but not yet reported) claims. [Note 7].</li> <li>- Any assets backing the liabilities are required to be measured at fair value.</li> </ul>

Social benefit(s)	Entity in charge for those social benefits	Does this entity prepare its own financial statements?	Accounting framework used (e.g. IPSAS, IFRS, national GAAP)	c) Recognition requirements (especially whether liability is recognized and at what point in time) and d) Measurement requirements
				b) The accrued outstanding claims liability is the central estimate of the present value of expected future payments on claims occurring on or before the balance date, plus a risk margin to ensure the accrued liability is sufficient to meet all the costs of future claim payments 75% of the time.
<ul style="list-style-type: none"> <li>- Family tax credits</li> <li>- Other “working for families” tax credits</li> <li>- KiwiSaver subsidies / Kick-starter</li> <li>- Paid parental leave</li> </ul>	Inland Revenue [Note 2]	Yes	PBE Standards [Note 1]	<p>a) Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown [Note 8].</p> <p>b) Amount of entitlement [Note 4]</p>

*Notes:*

- [1] PBE Standards are based on IPSAS, but minor changes have been made in some cases to be more applicable to the New Zealand environment. In addition, standards of the IASB like IFRS 3, 4 and 5 and IAS 12 and 34 are included in the New Zealand accounting framework for public benefit entities (PBE). In New Zealand, in order to comply with GAAP, PBEs must comply with PBE Standards. PBE Standards apply to public sector PBEs, as well as to private sector not-for-profit PBEs.
- [2] Inland Revenue (IR) is in charge of the respective benefits listed in the table, but the benefits are reported in the “non-departmental” schedules of the IR, rather than in the departmental financial statements. Non-departmental schedules disclose the ‘appropriations’ or funding that is the responsibility of the minister to administer, but they are not an expense of the department - they are instead an expense of the Government. The non-departmental schedules are prepared in accordance with the measurement and recognition re-

quirements of PBE Standards (whereas disclosures in the non-departmental schedules are required to materially comply with PBE Standards to the extent possible).

- [3] This is the accounting policy as per the MSD's non-departmental financial statements, which is consistent with the accounting policy in the NZ Government's financial statements.
- [4] This is not explicitly stated in the financial statements but is our understanding of the accounting treatment. The measurement of the entitlement is the amount payable/owing at that date. The amount of the entitlement does not reflect future obligations unless there is a current obligation to make a payment related to social benefits (ie the criteria are met for the next payment).
- [5] This recognition policy is from the NZ Government's financial statements. It is not specifically stated in the financial statements of NZ Super Fund, but this would be the policy used by the Fund (except that the Fund recognises this item as a capital distribution to the Crown, rather than an expense, whereas the NZ Government recognises it as an expense).
- [6] PBE IFRS 4 is the PBE Standard on insurance contracts, applicable to New Zealand public benefit entities. This standard is ultimately based on IFRS 4, but has been amended for New Zealand-specific requirements.
- [7] The above recognition policy is based on the outstanding liability accounting policy in ACC's financial statements, which is consistent with the NZ Government's financial statements.
- [8] This recognition policy is from the NZ Government's financial statements. It is not specifically stated in the non-departmental financial statements of Inland Revenue, but this would be the policy used by Inland Revenue.

### **3. Does the national/central government prepare consolidated financial statements?**

Yes (and these financial statements comply with PBE Standards (see Note 1 in previous section)).

### **4. If the national/central government prepares consolidated financial statements: Are the financial statements of the separate entities providing social benefits consolidated into these consolidated financial statements?**

The following entities that provide social benefits are consolidated into the NZ Government's financial statements:

- ▶ Ministry of Social Development
- ▶ New Zealand Superannuation Fund
- ▶ Accident Compensation Corporation
- ▶ Inland Revenue





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