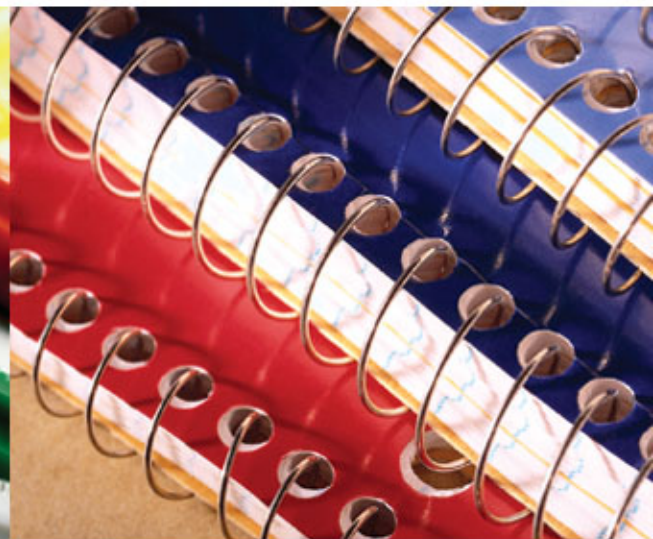


Leave Valuations

9th Current Issues in Retirement Benefits
8 October 2013



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Background

- ❖ AS 15 (revised 2005)
- ❖ Compensated Absences
- ❖ Casual / Annual Leave
- ❖ Privilege / Earned Leave
- ❖ Sick Leave
- ❖ Short Term (STCA)
- ❖ Long Term (LTCA)
- ❖ Accrual
- ❖ Encashment
- ❖ Availment
- ❖ Lapses



Short Term (STCA) / Long Term (LTCA)

- ❖ Paragraph 7.2: falls due wholly within twelve months
- ❖ Paragraph 8 (b): expected to occur within twelve months
- ❖ ASB Guidance Question 3
- ❖ Opinion of Expert Advisory Committee, The Chartered Accountant, October 2007 Issue

- ❖ Benefit is considered as a whole – either ‘Short Term’ or ‘Long Term’ – not split as ‘Short Term’ or ‘Long Term’
- ❖ Schedule VI – ‘Current’ and ‘Non-Current’ – is the split of ‘First Year’ and ‘Future Year’ – on Net Basis?



STCA: General

- ❖ Undiscounted Basis
- ❖ Should we provide Actuarial Certification? – say if an employer requires
- ❖ Paragraph 15 Example: Not clear if this is only for Short Term or the same has to be considered for Long Term



LTCA: General

- ❖ Company Policy: LIFO / FIFO – many companies do not have – should we assume LIFO if not provided – included in report?
- ❖ Disclosure – Paragraph 130 requires Current Service Cost; Interest Cost; Paragraph 132 says No Specific Disclosures
- ❖ Some companies require Full Disclosure
- ❖ Measurement Report vs Disclosure Report vs GN 26



LTCA: Estimation

- ❖ Estimate differs significantly between actuaries – Is it OK? – Reputation Issue?
- ❖ Leave split for Encashment vs Availment – Fixed Days vs Proportionate Rule – Basis?
- ❖ Different Salary for Encashment vs Availment
- ❖ Estimation of Service Cost – is this required?
- ❖ What is the accrual for the current year – Zero for LIFO? – if fully used as per Paragraph 15
- ❖ Benefits Paid – What are the Availment Benefits Paid?
- ❖ Urgent Need for Uniform Method / Approach?

Leave Roll Forward Model: LIFO

Long Term Compensated Absences - LIFO Method

Inputs	
Current Age	51 Years
Retirement Age	58 Years
Opening Balance	120 days
Entitlement	30 days per annum
Availment	10 days per annum in service
Encashment	8 days per annum in service

Legends

- (1) Opening Leave Balance
 - (2) Leave Aailed (In Service)
 - (3) Leave Encashed (In Service)
 - (4) Leave Encashed (At Exit)
 - (5) Leave Lapsed
 - (6) Closing Leave Balance
- (6) = (1) - (2) - (3) - (4) - (5)

Age	Start F Balance						Current L Balance						End F Balance					
	(1)	(2)	(3)	(4)	(5)	(6)	(1)	(2)	(3)	(4)	(5)	(6)	(1)	(2)	(3)	(4)	(5)	(6)
51	120	0	0	0	0	120	30	10	8	0	0	12	150	10	8	0	0	132
52	120	0	6	0	0	114	12	10	2	0	0	0	132	10	8	0	0	114
53	114	10	8	0	0	96	0	0	0	0	0	0	114	10	8	0	0	96
54	96	10	8	0	0	78	0	0	0	0	0	0	96	10	8	0	0	78
55	78	10	8	0	0	60	0	0	0	0	0	0	78	10	8	0	0	60
56	60	10	8	0	0	42	0	0	0	0	0	0	60	10	8	0	0	42
57	42	10	8	0	0	24	0	0	0	0	0	0	42	10	8	0	0	24
58	24	10	8	6	0	0	0	0	0	0	0	0	24	10	8	6	0	0
59	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Opening Liability						Service Cost						Closing Liability					

Encashment vs Availment: Fixed Days Rule OR Proportionate Days Rule

Leave Roll Forward Model: FIFO

Long Term Compensated Absences - FIFO Method

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Age	Start F Balance						Current L Balance						End F Balance					
	(1)	(2)	(3)	(4)	(5)	(6)	(1)	(2)	(3)	(4)	(5)	(6)	(1)	(2)	(3)	(4)	(5)	(6)
51	120	10	8	0	0	102	30	0	0	0	0	30	150	10	8	0	0	132
52	102	10	8	0	0	84	30	0	0	0	0	30	132	10	8	0	0	114
53	84	10	8	0	0	66	30	0	0	0	0	30	114	10	8	0	0	96
54	66	10	8	0	0	48	30	0	0	0	0	30	96	10	8	0	0	78
55	48	10	8	0	0	30	30	0	0	0	0	30	78	10	8	0	0	60
56	30	10	8	0	0	12	30	0	0	0	0	30	60	10	8	0	0	42
57	12	10	2	0	0	0	30	0	6	0	0	24	42	10	8	0	0	24
58	0	0	0	0	0	0	24	10	8	6	0	0	24	10	8	6	0	0
59	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Opening Liability						Service Cost						Closing Liability					

Encashment vs Availment: Fixed Days Rule OR Proportionate Days Rule



LTCA: Assumptions

- ❖ Salary Escalation (for different salaries?)
- ❖ Attrition Rate
- ❖ Encashment vs Availment vs Lapses (for different decrements?)
- ❖ Long Term?
- ❖ Arbitrary – varies significantly between employers and actuaries
- ❖ Revision Frequency
- ❖ Need for Benchmark – When / How / Whom?



Thank You!