Application Guidance for PSAK 24 Implementation

ACCOUNTING FOR EMPLOYEE BENEFIT

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ACCOUNTING FOR EMPLOYEE BENEFIT
The accounting for employee benefits, for pensions in particular, is complex. The liabilities in defined benefit pension plans are frequently material. They are long-term and difficult to measure, and this gives rise to difficulty in measuring the cost attributable to each year.

Employee benefits are all forms of consideration given or promised by an entity in exchange for services rendered by its employees. These benefits include salary-related benefits (such as wages, profit-sharing, bonuses and compensated absences, such as paid holiday and long-service leave), termination benefits (such as severance and redundancy pay) and post-employment benefits (such as retirement benefit plans). PSAK 24 (equivalent to IAS 19) is relevant for all employee benefits except for those to which PSAK 53.

Post-employment benefits include pensions, post-employment life insurance and medical care. Pensions are Provided to employees either through defined contribution plans or defined benefit plans.

Recognition and measurement for short-term benefits is relatively straight-forward, because actuarial assumptions are not required and the obligations are not discounted. However, long-term benefits, particularly post-employment benefits, give rise to more complicated measurement issues.

Defined contribution plans
Accounting for defined contribution plans is straight- forward: the cost of defined contribution plans is the contribution payable by the employer for that accounting period.

Defined benefit plans
Accounting for defined benefit plans is complex, because actuarial assumptions and valuation methods are required that is also called as **projected unit credit** method which currently a sole accepted accounting method to measure the balance sheet obligation and the expense. The expense recognised generally differs from the contributions to the trust it made in the period. Subject to certain conditions, the amount recognised on the balance sheet is the difference between the defined benefit obligation and the plan assets.

There are two degree of pension benefit; vested and non-vested benefit, 1) Vested benefits are those that the employee is entitled to receive even if he or she renders no additional services to the company, most pension plans require a certain minimum number of years of service to the employer before an employee achieves vested benefits status. 2) Non-vested benefit are benefit which not meet the category of vested benefit. The required measure is to bases the deferred compensation amount on both vested and non-vested service using **future salaries (or final pay)**. This measurement of the pension obligation is called the defined benefit obligation.

This measurement approach is used due to going concern accounting principles that an entity should not assume its employees to stop rendering services before its vested period, it should be a consistent approach like not to assume that an entity might stop to operate in a normal business condition.

Actuarial Assumption

To calculate the defined benefit obligation, estimates (actuarial assumptions) regarding demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) are made and included in a valuation model. The resulting benefit obligation is then discounted to present value. This normally requires the expertise of an actuary.

Where defined benefit plans are funded, the plan assets are measured at fair value. Where no market price is available, the fair value of plan assets is estimated, for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity of those assets. Plan assets are tightly defined, and only assets that meet a strict definition may be offset against the plan's defined benefit obligations, resulting in a net surplus or deficit that is shown on the balance sheet.

Plan assets that is qualified to be presented net with the defined benefit obligation is:

- The asset trusted must be accumulated in the separate legal entity from reporting entity, and its primary function is only to fund pension benefit, and those fund cannot be use by any means by the reporting entity (e.g: to pay reporting entity debt) even in bankruptcy.
- The asset trusted in form of insurance policy is inforced and issued by insurance entities that is not related parties by the definition of PSAK 7: Related Parties (equivalent to IAS 24) that its primary function is only to fund pension benefit, and those fund cannot be use by any means by reporting entity unless in the situation where the asset surplus is not part of the policy participation features.

At each balance sheet date, the plan assets and the defined benefit obligation are re-measured. The income statement reflects the change in the surplus or deficit except for the following; contributions to the plan and benefits paid by the plan, along with business combinations and remeasurement gains and losses.

Remeasurement gains and losses comprise actuarial gains and losses, return on plan assets (excluding amounts included in net interest on the net defined benefit liability or asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability or asset). Re-measurements are recognised in other comprehensive income in equity section.

Service Cost

The amount of pension expense (income) to be recognised in profit or loss is comprised of the following individual components unless they are required or permitted to be included in the costs of an asset:

- service cost (the present value of the benefits earned by active employees); and
- net interest cost (the unwinding of the discount on the defined benefit obligation and a theoretical return on plan assets).

Service costs comprises the 1) 'current service costs', which is the increase in the present value of the defined benefit obligation resulting from employee services in one accounting period or current period, 2) 'Past-service costs' (as defined below and including any gain or loss on curtailment) and any gain or loss on settlement.

Service cost in Indonesia law context

Our law context requires that a company operated in Indonesia, to pay certain amount of pension benefit, that means the company constructively liable to defined benefit plans and cannot rely only on its contribution to defined contribution plans for example a company cannot rely on the payment it made to BPJS Ketenagakerjaan which meet the definition of defined contribution plans, the features requires the Company to make some certain amount every month from the basis of employee salary and bear the portion of total contribution, the ultimate payment is directly paid to employees and the company has no constructive liability to cover any deficit or any losses from the accumulation of contribution it made (by both the employer and employees), which means the employee bear the risk and reward to the contribution paid to the trust and BPJS meet the definition of defined contribution plan.

In addition to that, Indonesia law require a pension benefit plan that must be paid by the company itself and treated as a distinct pension benefit paid by social security (e.g BPJS Ketenagakerjaan) as explained above, it is mandated in our current law system UU Cipta Kerja No. 11 year 2020 and also in our previous regulation UU Ketenagakerjaan No. 13 year 2003.

The pension age is not defined in the law script but rather mandated the company to arrange and to set by its own terms with its employees on its work contract. In Indonesia social-cultural context usually employees deemed to reach pension age at the average of 55, but is not required to do so if otherwise agreed within individual level.

The pension benefit that a company will bear upon employee pension age is established with detail within the law script (both previous and the latest version) and it can be forced. The law script define detailed formula, note that the formulation might be adjusted by the company as long as the output payment will be greater than the original formulation. Here is the details of the formulation presented below:

Termination of Employee Due to	UU Ketenagakerjaan No. 13 Yr 2003 (Previous)	UU Ciptaker No. 11 Yr 2020 (Current)
Normal Retirement	2 x Severance Pay + 1 x Long - Service Pay + 15% (2 x Severance Pay + 1 x Long - Service Pay)	1.75 x Severance Pay + 1 x Long – Service Pay
Death Benefit	2 x Severance Pay + 1 x Long - Service Pay + 15% (2 x Severance Pay + 1 x Long - Service Pay)	2 x Severance Pay + 1 x Long – Service Pay
Voluntary Resignation	Agreed upon severance pay	Based on work contract or collective agreement
Disability/Long Illnesses	2 x Severance Pay + 2 x Long - Service Pay + 15% (2 x Severance Pay + 1 x Long - Service Pay)	2 x Severance Pay + 1 x Long – Service Pay

Severance Pay is: (number of years of employee service with maximum multiplier of 9) x (Final monthly pay rates); employee years of service is rounded up to a year for partial year (with months) cases.

Long – Service Pay is:

Working Period	Long Service Pay Formula
3 – 5 years	2 x Final monthly pay rates
6 – 8 years	3 x Final monthly pay rates
9 – 11 years	4 x Final monthly pay rates
12 – 14 years	5 x Final monthly pay rates
15 – 17 years	6 x Final monthly pay rates
18 – 20 years	7 x Final monthly pay rates
21 – 23 years	8 x Final monthly pay rates
> 24 years	10 x Final monthly pay rates

Example of Defined Benefit Obligation and Annual Service Cost Calculation:

For example company A has 1 employee that serves the company for 10 years, the currently the employee age is 45, current monthly salary rates is Rp 12,000,000.- the expected retirement age is 55, with 5% salary growth per annum, the effective interest rate of high quality bonds with similar terms with employee remaining service until retirement age (55 – 45 = 10 years) is 8% per annum. Determine the defined benefit obligation and annual service cost, assuming the company has applied the accounting requirement since beginning.

Solution and highlights of facts:

The employee service period is for 10 years and have remaining 10 years of service total is 20 years, which means the employee also have vested benefit according to the current Indonesia law. The pension formula for the employee is:

Type of payment	Formula
Severance Pay for 20 years	9 x Monthly Final Pay Rates
Long–Service Pay for 20 years	7 x Monthly Final Pay Rates

Example of Defined Benefit Obligation and Annual Service Cost Calculation (Continued):

Employee final pay at pension age if current monthly salary is Rp 12,000,000.- with 5% salary growth per annum is: Current Salary x $(1 + g)^n$, where g: growth rate, n: remaining employee service year until pension age;

Rp 12,000,000 x $(1.05)^{10}$ = Rp 12,000,000 x 1.6289 = Rp 19,500,000 (Rounded)

Severance Pay is = Rp 19,500,000 x 9 = Rp 175,500,000

Long – Service Pay is = Rp 19,500,000 x 7 = Rp 136,500,000

The pension formula is: 1.75 x Severance Pay + 1 x Long–Service Pay

The pension benefit with current employee service years of 10 years is:

1.75 x Rp 175,500,000 + 1 x Rp 136,500,000 = Rp 443,625,000

The amount of total benefit is divided by total service years including current service years and future remaining service years to calculate yearly cost which is 10 years of service plus 10 years of remaining service years until pension age = 20 years.

Then Rp 443,625,000 / 20 years = Rp 22,181,250 is the undiscounted benefit per year. The discounted benefit per year is the present value of Rp 22,181,250 assuming those amount of payment will be made upon retirement which is at the end of year 10, means the period factor is 10, we discount this using 8% per annum that reflected high quality bonds effective interest rate with the maturity terms of 10 years; Here is the formulation:

$$\frac{22{,}181{,}250}{(1+i)^n} = \frac{22{,}181{,}250}{(1+0.08)^{10}} = \frac{22{,}181{,}250}{(1.08)^{10}} = \frac{22{,}181{,}250}{2.1589} = \text{Rp } 10{,}274{,}211$$

The present value of Rp 22,181,250 10 years from now is determined at Rp 10,274,211 which is also called the estimated annual service cost, then we can get the defined benefit obligation by multiplying current service years of the employee with the present value of the annual service cost which means: 10 x Rp 10,274,211 = Rp 102,742,105.-

Assuming company A has applied the accounting requirements since beginning then the balance of defined benefit obligation at the start of the accounting period is Rp 10,274,211 x 9 = Rp 92,467,895 and the current service cost amounted of Rp 10,274,211 is debiting (Dr) employee benefit expenses in statement of profit and loss, and crediting (Cr) defined benefit obligation in balance sheet, therefore the ending balance of defined benefit obligation in the balance sheet is presenting the amount of Rp 102,742,105.-

Permanent Employees Vs. Non Permanent Employees issue

There are two type of employees, permanent employees called as “Perjanjian Kerja Waktu Tidak Tertentu or PKWTT” and non permanent employees also called as “Perjanjian Kerja Waktu Tertentu or PKWT”. The type of employees that is rightful to the company pension benefit is the permanent ones, we also should pointed out our current observation to general practices is that many company employs a practice to keep extending non permanent employee contract to a indefinite period for a in nature permanent work type (or indefinite time work type). This practices might be a misinterpretation of the law in its whole context, our current law prohibit business to do such practices and give an explanation what should be defined as non permanent employees. On articles 56 define PKWT as a work agreement for a certain time is a work agreement based on: a) period of time; or b) completion of a particular job.

And in addition to that on articles 59 point 1 give some more detail explanation of a definition of a work agreement for a certain time, that can only be made for certain jobs according to type and the nature or activity of the work will be completed within a certain time, as explained below:

a) Work that is once completed or which temporary nature;
b) Work estimated to be completed in the not too distant future;
c) Seasonal work;
d) Product-related work, new activities, or additional products which is still in the trial or assessment; or
e) The type and nature of work or activities is not permanent.

Also in the the same articles point 2 and 3 stated that a work agreement for a certain time cannot be held for permanent work and work agreement for a certain time which is not fulfill the provisions as referred above, is by the law become a permanent employee or “PKWTT” contract.

Net Interest Cost

Net interest on the net defined benefit liability (asset) is defined as ‘the change during the period in the net defined benefit liability (asset) that arises from the passage of time’. [PSAK 24 para 8]. The net interest cost can be viewed as comprising theoretical interest income on plan assets, interest cost on the defined benefit obligation (that is, representing the unwinding of the discount on the plan obligation) and interest on the effect of the asset ceiling. [PSAK 24 para 124].

An entity shall calculate net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate. The entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period (unless there is a plan amendment, curtailment or settlement during the reporting period).

It shall also take into account any changes in the net defined benefit liability (asset) resulting from contributions to the plan or benefit payments. The discount rate applicable to any financial year is an appropriate high quality corporate bond rate (or government bond rate if appropriate) in the currency in which the liabilities are denominated.

Past Service Cost

Past-service costs are defined as a change in the present value of the defined benefit obligation for employee services in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan). Past-service costs need to be recognised as an expense generally when a plan amendment or curtailment occurs.

Settlement gains or losses are recognised in the income statement when the settlement occurs. A settlement is defined as 'a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan' (other than benefit payments). Settlement gains or losses are recognised in the income statement when the settlement occurs.

Where changes in the terms or membership of a defined benefit plan result in the amendment, curtailment or settlement, PSAK 24 requires to remeasure the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of amendment.

ISAK 15, 'PSAK 24 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the amount that can be recognised as an asset when plan assets exceed the defined benefit obligation creating a net surplus. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

The impact to past service cost due to changes from UU Ketenagakerjaan to UU Ciptaker

Note that in Indonesia context currently that the slight changes in formulation adjustment from previous and current regulation must be reflected through past service cost as curtailment and in effect of that is reducing the defined benefit obligation since the new formulation slightly reduce the ultimate payment amount if the company chose to amend its formulation following the minimum payment required under the new law.

Financial Statements Disclosures Requirements

Companies should provide reconciliation from the beginning balance to the ending balance for each of the following:

1. Plan assets.
2. Defined benefit obligation.
3. Funded status of the plan.

This reconciliation should report the following, where appropriate.

- Current service cost.
- Interest revenue or expense.
- Remeasurements of the net defined benefit liability (asset) showing separately.
  - a) The return on plan assets, excluding amounts of interest revenue computed in point no. 2;
  - b) Actuarial gains and losses arising from changes in the defined benefit obligation.
- Past service cost and curtailments.
- Contributions and payments to the plan.

Also the information on how the defined benefit plan may affect the amount, timing, and uncertainty of future cash flows:

1. Sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the reporting date.
2. Methods and assumptions used in preparing the sensitivity analyses required by point no. 1 and the limitations of those methods.
3. Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses and the reasons for such changes.
4. Description of any funding arrangements and funding policy that affect future contributions.
5. Expected contributions to the plan for the next annual reporting period.
6. Information about the maturity profile of the defined benefit obligation, including information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Financial Statements Presentation Illustration

Balance Sheet Presentation

	2021	Catatan / *Notes*	2020	
LIABILITAS LANCAR				***CURRENT LIABILITIES***
Utang usaha				*Account payables*
Pihak berelasi	-	2a, 2b, 2e,	-	*Related parties*
Pihak ketiga	30,000,000	11	20,000,000	*Third parties*
Beban yang masih harus dibayar	110,000,000	2a, 2g 13	110,000,000	*Accrued expenses*
Utang pajak	60,000,000	2a, 2k, 15b	50,000,000	*Taxes payable*
JUMLAH LIABILITAS LANCAR	**200,000,000**		**180,000,000**	***TOTAL CURRENT LIABILITIES***
LIABILITAS TIDAK LANCAR				***NON-CURRENT LIABILITIES***
Liabilitas imbalan pasti – neto aset program	200,000,000	2a, 2m, 16	100,000,000	*Defined benefit obligation – net of plan assets*
JUMLAH LIABILITAS TIDAK LANCAR	200,000,000		100,000,000	***TOTAL NON-CURRENT LIABILITIES***
JUMLAH LIABILITAS	**400,000,000**		**280,000,000**	***TOTAL LIABILITIES***

Other Comprehensive Income – Actuarial Gain or Loss (Remeasurement)

	2021	Catatan / *Notes*	2020	
RUGI BERSIH TAHUN BERJALAN	**(115,000,000)**		**(200,000,000)**	***NET LOSS FOR CURRENT YEAR***
PENGHASILAN KOMPREHENSIF LAIN:				***OTHER COMPREHENSIVE INCOME:***
Pos yang akan direklasifikasi ke laba rugi pada periode berikutnya	-		-	*Other comprehensive income to be reclassified to profit or loss in subsequent period*
Pos yang tidak akan direklasifikasi ke laba rugi pada periode berikutnya:				*Other comprehensive income not to be reclassified to profit or loss in subsequent period:*
Pengukuran kembali liabilitas imbalan kerja	(30,000,000)	2a, 2m, 16	(25,000,000)	*Remeasurement of defined benefit obligation*
Perubahan nilai wajar aset program	12,000,000		10,000,000	*Fair value changes of plan assets*
PENGHASILAN KOMPREHENSIF LAIN - BERSIH	(18,000,000)		(15,000,000)	*OTHER COMPREHENSIVE INCOME - NET*
RUGI BERSIH KOMPREHENSIF TAHUN BERJALAN	**(133,000,000)**		**(215,000,000)**	***TOTAL CURRENT YEAR COMPREHENSIVE LOSS***

Current Year Liabilities (Assets) & Expenses Reconciliation Presentation:

16. LIABILITAS IMBALAN KERJA

Perusahaan menyelenggarakan program imbalan kerja berdasarkan Undang-Undang Cipta Kerja No. 11/2020 mengenai imbalan pasca kerja.

Pada tanggal 30 Juni 2021 dan 2020, Perusahaan menunjuk aktuaris untuk melakukan perhitungan imbalan kerja seperti diisyaratkan dalam PSAK No. 24 (revisi 2016) "Imbalan Kerja", Perusahaan mencatat liabilitas imbalan kerja menggunakan metode *"Projected Unit Credit"* dan asumsi-asumsi utama sebagai berikut:

16. EMPLOYEE BENEFIT LIABILITIES

The Company provides employee benefits program by the Job Creation Act No. 11/2020 regarding post-employement benefits.

As of June 30, 2021 and 2020, the Company appointed an actuary to calculate employee benefits as required in PSAK No. 24 (revised 2016) "Employee Benefits", The Company accured employee benefits liabilities using the Projected Unit Credit method and the following assumptions:

	2021	2020	
Umur pensiun normal (tahun)	55 tahun	55 of age	*Normal retirement age (year)*
Tingkat kematian	TMI-IV	TMI-IV	*Mortality rate*
Tingkat pengunduran diri	Menurun secara bertahap ke 1% pada usia ≥ 54/*10% at age ≤ 29 and gradually*	Menurun secara bertahap ke 1% pada usia ≥ 54/*10% at age ≤ 29 and gradually*	*Resignation rate*
Tingkat kenaikan gaji (per tahun)	5.00%	5.00%	*Salary increase rate (annual)*
Tingkat bunga diskonto (per tahun)	8%	8%	*Discount rate (annual)*
Tingkat pendapatan ekspektasian	10%	10%	*Expected return rate (annual)*

	2021			2020			
	Nilai kini kewajiban / Present value of obligation	Nilai wajar aset / Fair value of plan asset	Net	Nilai kini kewajiban / Present value of obligation	Nilai wajar aset / Fair value of plan asset	Net	
Saldo Awal	**180,000,000**	**(80,000,000)**	**100,000,000**	**150,000,000**	**(100,000,000)**	**50,000,000**	***Beginning Balance***
Diakui pada laba rugi:							*Recognized through profit and loss:*
Biaya jasa kini	65,000,000	-	65,000,000	65,000,000	-	65,000,000	*Current service cost*
Biaya jasa lalu	10,000,000	-	10,000,000	30,000,000	-	30,000,000	*Past service cost*
Biaya bunga	15,000,000	-	15,000,000	10,000,000	-	10,000,000	*Interest cost*
Imbal hasil ekspektasian aset program	-	(8,000,000)	(8,000,000)	-	(12,000,000)	(12,000,000)	*Expected return on plan assets*
Diakui pada penghasilan komprehensif lainnya:							*Recognized through other comprehensive income:*
Perubahan asumsi keuangan	15,000,000	-	15,000,000	12,500,000	-	12,500,000	*Changes in financial assumption*
Perubahan dalam asumsi demografi	15,000,000	-	15,000,000	12,500,000	-	12,500,000	*Changes in demographic assumption*
Penyesuaian pengalaman	-	-	-	-	-	-	*Experience adjustment*
Perubahan nilai wajar aset program	-	(12,000,000)	(12,000,000)	-	(10,000,000)	(10,000,000)	*Fair value changes of plan assets*
Pembayaran tahun berjalan:	-	-	-	(100,000,000)	42,000,000	(58,000,000)	*Current year payment:*
Saldo Akhir	**300,000,000**	**(100,000,000)**	**200,000,000**	**180,000,000**	**(80,000,000)**	**100,000,000**	***Ending Balance***

Sensitivity and Maturity Analysis:

Sensitivity Analysis

Analisis sensitivitas kuantitatif untuk asumsi yang signifikan pada tanggal 30 Juni 2021 dan 2020 sebagai berikut:

A quantitative sensitivity analysis for significant assumptions as of June 301, 2021 and 2020, are as follows:

	2021	2020	
Tingkat diskonto			*Initial discount rate*
Tingkat diskonto +1%	185,000,000	90,000,000	*Discount rate +1%*
Tingkat diskonto -1%	215,000,000	110,000,000	*Discount rate -1%*
Tingkat kenaikan gaji			*Future salary increment rate*
Tingkat kenaikan gaji +1%	220,000,000	115,000,000	*Salary increment rate +1%*
Tingkat kenaikan gaji -1%	180,000,000	85,000,000	*Salary increment rate -1%*

Maturity Analysis

Analisis jatuh tempo yang diharapkan dan imbalan pensiun adalah sebagai berikut:

Extended maturity analysis of pension benefits are as follows:

	2021	2020	
Dalam waktu 12 bulan berikutnya (laporan periode berikutnya)	20,000,000	10,000,000	*Within the next 12 months (the next annual reporting period)*
Antara 1 dan 2 tahun	100,000,000	50,000,000	*Between 1 and 2 years*
Antara 2 dan 5 tahun	80,000,000	40,000,000	*Between 2 and 5 years*
Jumlah	**200,000,000**	**100,000,000**	***Total***

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