A SURVEY ON RETIREMENTS BENEFITS OF COMMERCIAL COMPANIES IN MALAYSIA

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ABSTRACT

From the moment a person is employed, he is normally rewarded with some form of benefits. The employee benefit may take the form of immediate payment for examples salaries, bonuses, paid annual leave etc. It also may take the form of some future benefits for the employee, which might receive upon retirement. This survey was conducted as based on the information yield on the annual report or financial statement of selected commercial companies throughout Malaysia.

Keyword: Employee Benefit, Retirement, Annual Report

INTRODUCTION

Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefits scheme'. Other than the normal employee benefits and contribution to Employee Provident Funds (EPF), some companies establish a separate fund for employees. Contributions are made to these funds, and out of which benefits are paid. Independent parties or trustees may administer such funds.

The retirement benefits plans which defines in International Accounting Standards (IAS) 19 are as "arrangements, formal or informal, whereby an employer provides benefits for employees on or after termination of service (either in the form of annual income or lump sump) when such benefits can be determined or estimated in advance of retirement from the provisions of a document of from the employer's practices".

The main purpose of retirement benefits plan is to provide retirement income to employees. This goal can be accomplished in various ways such as:

i. By establishing a separately administered funds where contributions will be made periodically for the purchase of investments, whose income will hopefully provide wherewithal for the benefits;
ii. By purchase of annuity contracts

For an enterprises and companies, it may also assume full responsibility for the payment of retirement benefits with or without establishing a formal retirement benefit fund, or it may limit its obligation for the payment of benefits to the amount of its contribution to the fund.

STATUTORY REQUIREMENTS, ACCOUNTING STANDARDS AND ACCOUNTING PRINCIPLES

Companies Act 1965

For the retirement benefits, the only requirement as based on the Ninth Schedule is that, the balance sheet should disclose the provision for the pension or retirement benefits [Para 2(1)(q)], but the schedule does not specify the basis of recognition and the method of measurement and valuation. Also, retirement benefit expenses are not part on the disclosure of the profit and loss account.

Accounting Standards

IAS 19: Accounting for retirement benefits deals specifically with retirement benefits mainly with the timing of recognition and the method of measurement of costs of retirement benefits and it specify some disclosure requirements. With respect to the Malaysian standard on retirement benefits, Malaysian Accounting Standards Board (MASB) issued MASB 30 which takes effect from 1st January 2003 and supersedes MASB Approved Accounting Standard IAS 26: Accounting and Reporting by Retirement Benefit Plans.

MASB 30 governs the reporting of retirement benefit plans that include Defined Contribution Plans (DCP) and Defined Benefits Plans (DBP). The report of a DCP should contain a statement of net assets available for benefits of employees and description of the funding policy. The report of a DBP should present value of promised retirement benefits and the resulting excess or deficits. In addition, the report of retirement benefit plan should contain a summary of accounting policies, a description of the plan and the effect of any changes in the plan during the period.

Under the standard, retirement benefit plans are required to prepare periodic information about the plan and the performance of its investments. The main objective is to inform parties who contribute to the plan about activities undertaken by the plan for the period, its membership, terms and conditions of such plan. Companies also required to prepare a description of the investment policies adopted for the plan and statements reporting the transactions, investment performance during the period and the financial position of the plan at the end of the period.

Defined Contribution Plan (DCP)

Companies should disclose the amount recognized as an expense for DCP and as required by MASB 8: Related Party Disclosure, companies also should disclose information about contribution to DCP for key management personnel. Under DCP, companies should recognize the contribution payable in exchange for the services as a liability (accrued expense), after deducting any contribution already paid. Any excess payment should be recognized as an asset to the extent that the prepayment will lead, for example, a reduction in future payments or a cash refund. Companies also can recognize DCP as an expense, unless other MASB Standard requires or permits the inclusion of the contribution in the cost of an asset.

Defined Benefit Plan (DBP)

DBP may be unfounded or may be partly or wholly funded by contribution by an enterprise, and sometimes by employees. The payment of funded benefits when they fall due depends not only to the financial position and the investment performance of the fund but also the enterprise's ability to make good any shortfall in the fund's assets. Therefore, the enterprise is, in substance, underwriting the actuarial and investment risks associated with the plan. Companies when adopting DBP should disclose the company's policy for recognizing actuarial gains and losses, general description of the plan and a reconciliation of the assets and liabilities recognized in the balance sheet.

The total expenses recognized in the income statement should disclose the current service cost, interest cost, expected return on plan assets, actuarial gains and losses, past service cost, expected return on any reimbursement right and the effect of any curtailment or settlement.

Funded versus Unfunded Benefit Plans

In a funded plan, the employer makes periodic payments or contributions to a separate funding agency that will administer the funds. The process of making payments to the trustee or outside agency is known as funding. IAS 19 defines funding as the 'irrevocable transfer of assets to an entity separate from the employer's enterprise to meet future obligations for the payment of retirement benefits'.

In an unfunded plan, no separate funding agency is involved. The cost of retirement benefits and the related liability are accrued in the accounts, but no cash payment is made to an agency when the cost is recognized. On retirement or termination of an employee, the employer makes payment to the employee and the accrued liability attributable to the employee is reversed.

Contribution versus Non-contributory Benefit Plans

In a contributory plan, the participating employees bear part of the cost of the stated benefits or voluntarily make payments to increase their benefit. The employer's contributions are normally deducted directly from their salaries, and together with the employer's contribution, are paid periodically to the trustee who administers the fund assets. In non-contributory benefit plan, the employer bears the entire cost of retirement benefits.

METHODOLOGY

This survey was based on the data presented on the Annual Report and financial statement of selected companies throughout Malaysia. Random selections were used from the lists of companies listed on Kuala Lumpur Stock Exchange (KLSE). This data then presented in comparison on each application of MASB 30 as well as IAS 26.

FINDINGS

Findings were presented in comparison format on the timing of retirement, measurement of expenses or liability, valuation of fund and presentation of contribution to financial statement. Findings from 17 commercial companies were presented on table 1 as below.

Table 1: Application of Retirement Benefits over commercial companies

Company	**Timing**	**Measurement of expenses/liability**	**Valuation of Fund**	**Presentation of contribution to financial statement**
Affin Holdings Bhd	Completed at least 10 years of service	The benefits were accrued to the eligible employees based on their salary and length of services	The benefits which will earn return annually at rated predetermined by the Directors	The return accrued will be expensed off in the year in which it is accrued
Ajinomoto (M) Bhd	NA	Provided at 6% to 10% on aggregate basic salaries and the number of completed years of service. Interest is accrued at 6% p.a. on these benefits.	The company has performed its own computation to determine the provision needed with respect to the scheme and contribution been carried out.	The directors are in opinion that if an actuary is engaged, the effects of additional provision in financial statement is not material and as such does not justify the cost of engagement of an actuary.
Amway (M) Holdings Bhd	Non-contributory requirement plan for full-time permanent employees who had completed 6 months of service. Resign within 5 years from the date of eligibility would not be entitled to this	The amount contributed by Group was computed at a certain percentage of basic monthly salaries.	The retirement plan was funded by payments to a trust fund, whose assets were separately administered from those of the Group.	NA

Daily Mail And General Trust (DMGT)	NA	NA	Assessed on the advice of an independent qualified actuary following triennial valuations using the Projected Unit Method.	NA
Digi (M) communications Bhd	Minimum period of 10 years service upon retirement age of 55.	The benefits are calculated based on the length of service and the agreed percentages of eligible employees salaries over the period of their employment.	The Group using the Projected Unit Method determined by qualified independent actuary has provided the retirement benefits obligations.	The actuarial valuation will carried out on annual basis.
Edaran Otomobil Bhd (EON)	NA	NA	Calculated by reference to an actuarial valuation using Projected Benefit Valuation and the Attained Age Normal Method respectively.	NA
Gamuda Bhd	NA	The cost of retirement benefits under this scheme is determined based on accrued Benefit Valuation Method.	Past years, the Group done it's own computation to determine the provision needed in respect with the scheme and actuarial	Contributions to the scheme are charged to the income statement so as to spread the cost of the scheme over the employees working lives

		Benefit Valuation Method.	valuation has not been carried out. During the year, Group engaged an actuary to determine the cost of retirement benefits on triennial actuarial valuation using Projected Unit Method.	in the Group
Johor Tenggara Bhd	An actuarial valuation carried out once every three years.	Based on the length of service and last drawn monthly salary.	The liability of the fund in respect of the defined benefit scheme is calculated using Projected Unit Method.	NA
KFC Holdings (M) Bhd	NA	Benefits are determined based on the length of service at predetermined rates.	The liability in respect of the scheme is based on the amount identified for eligible employees and on the subsidiary company's contribution.	NA
Kumpulan Guthrie	Every Five Years	The benefits payable are determined based on the length of service at predeter mined contracual rates	Calculated using Projected Benefit Valuation method by an actuarial valuation	NA

Malayan Cement Bhd	Every three years.	Measured at the present value of the estimated future cash outflows using interest rates of government securities that have to mature approximating the terms of related liability.	Using Projected Unit Method – the cost of providing retirement benefit is charged to the income statement as to spread the regular cost over the service lives of the employees.	NA
Nestle (M) Bhd	NA	The benefits payable on retirement are based on the length of service and last drawn salary.	Qualified actuary on the basis of annual valuations using the Projected Unit Credit Method determines the contributions.	Contributions to the scheme are charged to the income statement so as to spread the cost of the scheme over the employees working lives in the Group.
Nippon Electric Glass Co. Ltd	NA	Entitled to a lump sump or annuity payments based on their basic salary and the length of service on retirement or termination.	The liability for severance and retirement benefit expenses recorded based on actuarial valuations.	NA
Public Bank Bhd	NA	Based on contracted obligations up to the date of transfer for former staff of HHB Holding Bhd.	Contributions to the fund may be adjusted based on the actuarial valuation conducted periodically. The last actuarial valuation was	Contributions were made semi-annually and charged to income statement.

			using Attained Age Method	
Shangri-La Hotels (M) Bhd	NA	Based on last drawn salary and length of service.	Made under accrued benefit valuation method.	Contributions made were charged to income statement.
Tenaga Nasional Bhd.	Full valuation carried every three years.	The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities and a risk premium for additional risk on investment in corporate debt.	Used Projected Unit Credit Method where current service cost is calculated as the present value of benefits that will accrue in the next 12 months following the valuation date.	Provision is made in the financial statement for the balance of the scheme that is not externally funded. All actuarial gains and losses are recognized in the income statement in the year subsequent to the full valuation of the plan.
Yeo Hiap Seng (M) Bhd (Yeo's)	Actuarially determined and the charge to operations include current service cost over a period of 5 years.	Length of service and basic salary earnings.	Actuary's valuations, past service costs were not yet recognized in the financial statement.	NA

* NA – Not Available

Most retirement benefit plan assets are investment in marketable securities and other income-yielding instruments. By looking at findings, most of commercial companies have their own retirement benefit plans and most of them using actuarial valuation of Projected Unit Method and Projected Unit Credit Method as urged by the standards. Generally, the length or service and last drawn salary as the basis of valuing employee retirement benefits. The time of recognizing retirement benefits expenses is carried out between 3 to 5 years.

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