New Covid-19 Death-in-Service Benefits
Accounting Implications

June 2021

Technical Update (India)

- *Organizations in India have announced generous Long-Term Benefits to dependents of employees who have passed away due to Covid-19.*
- *Death-in-Service Benefits to employees' dependents could trigger mandatory actuarial valuations and reporting under Accounting Standards*

Background

Since March 2021, India has witnessed a severe second wave of the Covid-19 pandemic leading to a significant loss of lives. The cumulative loss of lives on account of Covid-19 exceeded 350,000 as of June 2021.

Historically, organizations in India provided supplementary group insurance plans to employees in the form of term life insurance benefits. As these benefits are insured, they are classified as short-term benefits and do not require actuarial valuations for financial liability disclosures.
However, over the last few months several organizations have announced generous supplementary benefits to families of the deceased employees on a self-funded basis, in addition to the term life insurance benefits. Some examples of the supplementary benefits announced to date are:

- **Last earned Salary** of the deceased employee to be paid to the spouse or family for a specific period of time or until a notional retirement date of the deceased employee
- **Education support** in the form of reimbursements or scholarships to children of the deceased employees up to specific ages or on attaining graduation
- Participation of the family of the deceased employee in the organization's **medical insurance plans** or reimbursement of medical expenses up to specified limits
- **Lump sum** amount paid by the organization to the spouse of the deceased employee
- Set up of an **Employee Welfare Trust** to provide the above benefits

Long-Term Benefits: Accounting Standards Guidance

The Indian (Ind-AS 19) and International Accounting Standards prescribe actuarial valuations to provision for Balance Sheet liabilities for Defined Benefit (DB) and Long-Term Benefit plans on an accrual basis. The Death-in-Service (DIS) benefits highlighted in the previous section are long term in nature as these are not "*settled wholly before twelve months…in which the employees render the related service" (Para 8 of Ind-AS 19).*

Based on the design of the benefit plans, a decision would need to be taken on the need and timing of the actuarial assessment for Balance Sheet provisioning. Some possible scenarios are listed below.

Scenario	**Need and timing for actuarial valuations and Defined Benefit reporting***
On death of an employee, benefits paid to Spouse or Family for a specified future period on a self-funded basis	Actuarial valuations required from the event of death of employee *(Refer to Para 157 of Ind-AS 19 which provides related guidance for similar benefits)*
Benefits fully insured with an insurer for which regular annual premiums are being paid	Actuarial valuations may not be needed. These could be expensed at the time of premium payment as a short-term benefit in line with existing practices *(Para 49 of Ind-AS 19)*
Treatment of service-linked benefits under an existing DB plan while the employees are active (alive)	Actuarial valuations to be conducted for active employees to estimate the accrued liability post the event of death
Treatment of non-service linked benefits under a standalone plan while the employees are active (alive)	No specific guidance is available however *Para 157 of Ind-AS 19* as above would imply advance actuarial valuations may not be needed until the event of death has happened.

**The above guidance is indicative and directional in nature. As these are newly introduced Long-Term Benefits with a unique design, it is recommended the approach for each benefit is discussed with the Auditor and the Appointed Actuary.*

Assumptions and Methodology

As with any other Defined Benefit plan, the Actuarial Liability valuation for beneficiaries would be equal to the Present Value of these benefits and valued as a summation of the following function for all future years up to the expected time of payment:

Amount of Benefit
X
Probability of Availment of the Benefit
X
Discounting function

The Probability of Availment of the benefit would allow for the appropriate mortality and survival rates of the beneficiaries in the calculations.

The above valuation would require setting assumptions based on historic experience analysis and future expectations. In the absence of historic data, best estimate assumptions would need to be set. Some of the data and assumptions that would be required to be set to undertake the Benefits valuations are set out below

- Pension in payment increase assumption
- Mortality Rates
- Premium Rates for medical coverage
- Average cost of Medical expense reimbursement for domiciliary treatments
- Medical inflation rate
- Base Cost of Education
- Education expense inflation
- Discount Rate
- Probability of Availment of Benefits by family members where a choice is provided

Action for Employers

- Organizations that have implemented or are planning to implement any of the above described Death-in-Service Benefits would be required to disclose these as short-term or long-term benefits in their financial reporting in line with the Accounting Standards Guidance.

- Where certain benefits have been classified as long-term in nature, organizations need to discuss and agree the approach for actuarially valuing these benefits with their Auditors and Appointed Actuaries.

- Taking pro-active action on some of the above disclosures would ensure organizations do not face unexpected surprises in the form of sudden liability provisioning or non-compliance with Accounting Standards at the end of the financial year.

- While taking decisions on the design of the Death-in-Service Benefits, a detailed due diligence is recommended to assess the pros and cons of self- funding versus insuring these benefit promises.

Contact Information

We're here to empower results, if you would like further information or to discuss these or other retirement matters, please reach out to:

Vishal Grover
Actuary and Practice Leader, Retirement Solutions

Aon India

vishal.grover@aon.com

Alicia Brittain
Senior Consultant & Actuary (FIA)

International Retirement & Investment, Aon Singapore

alicia.brittain.2@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.