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Transfer Value

Best practices

2022

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What is transfer value

- When a member moves from one plan to another and there is continuity of past service, the transferee entity has to honour the commitments made to the member in respect of past service rendered as of date of transfer. The transferor has to transfer an amount called the “transfer value”
- It represents the expected cost of providing the member's benefits within the plan.
  - For Defined contribution schemes, the transfer value is simply the accumulated balance in the members account (e.g. PF)
  - For Defined Benefit schemes, the value should represent the cost of past service
  - No benefits are paid to employees at time of transfer.
- In Indian context, the benefits that are effected are
  - Defined Benefit Plans (Gratuity, Leave, Long service awards etc.)
  - Defined Contribution Plans (Provident Fund).

Why is Transfer value accounting important for Defined Benefit plans

- Long term employee benefit schemes like Gratuity, Leave may have significant accounting impact for organization on transfer of tenured or large no of employees (bulk transfer/corporate transactions).
- This is also significant in case of a conglomerate with movement of employees from one legal entity to another

Accounting in absence of transfer calculations*		**Accounting with transfer calculations**	
Transferor	Transferee	Transferor	Transferee
• Exiting employees accrued liability is an actuarial gain & flows through the OCI for post employment plans and through P&L for Other long term benefits • For a funded plan, this would lead to excess funding levels in terms of assets exceeding liabilities (Asset ceiling clause may be evoked)	• Incoming employees accrued liability leads to a spike in the liability and flows through the OCI for post employment plans and through P&L for Other long term benefits. • For a funded plan, this would lead to an adverse Balance-Sheet position in terms of liabilities exceeding the assets	Exiting employees accrued liability is adjusted as a balance sheet item. No impact on expense.	Incoming employees accrued liability is adjusted as a balance sheet item. No impact on expense. Company can use transfer calculations to transfer funds from one entity to other so that balance position remains

*: Other things remaining the same.
* Absence of transfer calculations may have an adverse impact on expense.

Mercer view on treatment of Transfer Values

- Mercer recommends an organization with multiple entities to account for inter-company transfers in individual company accounting for both assets and liabilities.
- At an aggregate level net transfers cancels out at group entity level and have zero balance sheet impact.
- This is a globally accepted best practice and recommended for organisations who adapt global accounting standards
- For Defined Benefit schemes, the Transfer Value is determined based on actuarial principles

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