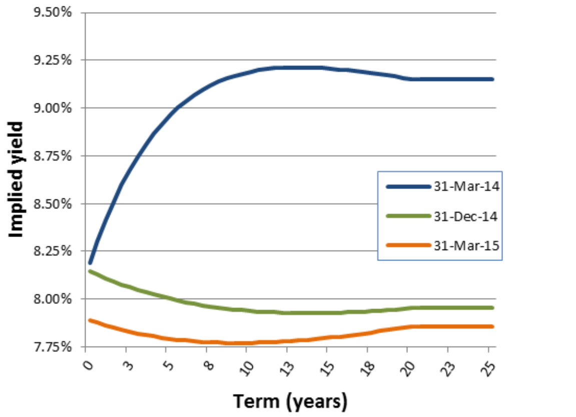
The evolution of the discount rate for measuring employee benefit obligations under AS15(R) – 31 March 2015

April 2015

This is our quarterly update on the evolution of the discount rate for measuring employee benefit obligations under AS15(R). We consider the change in discount rates between 31 December 2014 and 31 March 2015 and the impact of this change on the estimated cost of providing benefits to your employees.

As a recap, the discount rate for AS15(R) purposes is set with reference to the yield on Indian government bonds. We use this rate to calculate the current cost of providing the benefits we expect you to pay in the future. The particular rate taken is assessed based on the yield curve at the date of your valuation and the average duration of your liabilities. The chart below indicates how the yield curve has changed during the year ended 31 March 2015.

Evolution of zero-coupon yield curve for Indian government bonds



Source: National Stock Exchange of India Ltd.

As evident from the chart, implied yields at 31 March 2015 are lower at all durations than at 31 December 2014 or 31 March 2014.

The impact of this drop will depend on the weighted average expected future working lifetime (WAEFWL)[1] of your employees. It will also depend on the rounding methodology you employ in setting the discount rate. All else being equal, a lower yield will lead to a higher estimated liability.

For instance, if your practice is to take a discount rate rounded to the nearest 0.1%:

- For a WAEFWL of five years, the implied discount rate has fallen approximately 0.2% since 31 December 2014, and in isolation this may suggest a rise in defined benefit obligation in the order of 1%. Relative instead to 31 March 2014, the drop in discount rate would suggest a rise in obligation in the order of 6%.
- For a WAEFWL of 10 years, the implied discount rate has fallen approximately 0.1% since 31 December 2014, and in isolation this may suggest a rise in defined benefit obligation in the order of 1%. Relative instead to 31 March 2014, the drop in discount rate would suggest a rise in obligation in the order of 14%.
- For a WAEFWL of 15 years, the implied discount rate has fallen approximately 0.1% since 31 December 2014, and in isolation this may suggest a rise in defined benefit obligation in the order of 1%. Relative instead to 31 March 2014, the drop in discount rate would suggest a rise in obligation in the order of 21%.

CONTACT

We would be happy to talk with you in greater detail about the discount rate applicable to your plan, or indeed any other employee benefit issue.

Simon Herborn, FIA, FIAI, is a consulting actuary in Milliman's India and UAE offices. Contact him at: simon.herborn@milliman.com.

Danny Quant, FIA, is a principal and consulting actuary in Milliman's Singapore office. Contact him at: danny.quant@milliman.com.

[1] The WAEFWL represents the expected term of employment of the participants of your benefit plan, taking into account the assumptions made for resignation, retirement, disability and mortality.