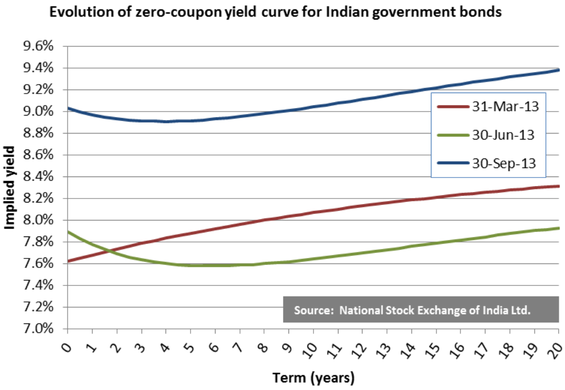
The evolution of the discount rate for measuring employee benefit obligations under AS15(R) – 30 September 2013

October 2013

This is our quarterly update on the evolution of the discount rate for measuring employee benefit obligations under AS15(R). We consider the possible change in discount rate if determining your obligations as of 30 September 2013 relative to 31 March 2013.

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. The chart below indicates how this yield curve has changed over the past quarter:



As evident from the chart, implied yields have risen since 31 March 2013. For those who measure their benefit obligations on a quarterly basis, there has been a noticeable rise since June 30 too.

The impact of this rise will depend on the weighted average expected future working lifetime (WAEFWL) of your employees. (The WAEFWL represents the expected term of employment of the participants of your benefit plan, taking into account the assumptions made for attrition, retirement, disability and mortality). It will also depend on the rounding methodology you employ in setting the discount rate. But generally speaking, a higher yield will lead to a lower disclosed 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 risen approximately 1.0% since 31 March 2013, and in isolation this may suggest a fall in defined benefit obligation of approximately 5%.
- For a WAEFWL of 10 years, the implied discount rate has risen approximately 0.9% since 31 March 2013, and in isolation this may suggest a fall in defined benefit obligation of approximately 8%.
- For a WAEFWL of 15 years, the implied discount rate has risen approximately 1.0% since 31 March 2013, and in isolation this may suggest a fall in defined benefit obligation of approximately 13%.

On this occasion, while we note similar changes in implied yields across all terms (except very short durations), the different magnitudes of impact suggested above are due to the increasing periods over which the same yield change is applied. Hence, a 1% increase in yield for 5 years gives a 5% reduction in liability, 0.9% for 10 years gives an 8% reduction and 1% for 15 years gives a reduction of 13%.

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.

CONTACT

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