

Employee Benefit Accruals

Background

One of our subsidiaries has a Union contract that provides for benefits to the employees upon departure from the company for any reason, if they have at least ten years of service. The subsidiary was recording a liability for these benefits only after the employee reached ten years of service and was fully vested. Since this benefit is earned over the employee's tenure, an accrual should be made during the service period for estimated future payments, net of an estimate of employees who will not reach the ten year vesting period. A cumulative adjustment was made to increase the accrual to include an estimate for employees who were not yet vested but expected to vest.

Another subsidiary had a Union contract that provided for a lump sum pay-out of accumulated sick days if certain criteria were met at the time of retirement. No accruals were made for this liability until the employee retired and it was determined the criteria had been met. This postretirement benefit was earned over the employee's service period and should have been accrued during that period based on estimates. An actuarially determined estimated liability was recorded to account for these benefits.

Finally, there have been examples of individuals with employment agreements that provided specific benefits to the employee upon departure or retirement that were not accrued until the employee's departure.

Lesson Learned

The lesson learned from these examples is that benefit arrangements can come in many forms and must be evaluated at the local level to ensure the proper accruals are taking place.

Brink's operates in many countries where the local laws provide certain severance or retirement benefits. The terms of all legally required benefits must be evaluated by the accounting department to determine whether an accrual is appropriate and the term over which the accrual should be made.

Union contracts and individual employment agreements may also provide benefits beyond those of the general employee population. These contracts should be reviewed by the accounting department for the appropriate treatment.



Learn Once, Globally: Case Study

Local accounting groups should communicate regularly with Human Resources to ensure that all new Union and employment contracts are provided to accounting for review.

Regional and Corporate accounting teams are available to help with the analysis of contracts or arrangements required by law to determine the appropriate timing and amount of any liability.