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**Kapadia**  
*Actuaries & Consultants*

# **Southern Power Distribution Company Of Telangana Limited**

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**Actuarial valuation report as per AS 15 (revised 2005)**

<b>Defined benefit scheme</b>	<b>: Pension &amp; Gratuity benefits</b>
<b>Valuation period</b>	<b>: 01-Apr-2018 to 31-Mar-2019</b>
<b>Report date</b>	<b>: 08-Aug-2019</b>

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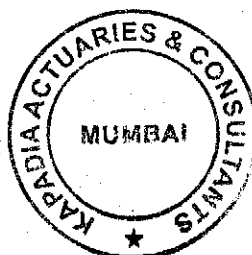
## **1. Introduction and Objective of Valuation**

I have been approached by the Company to value the Gratuity & Pension & Gratuity benefits as at 31-Mar-2019 based on Accounting Standard (AS) 15 (Revised 2005) issued by the Institute of Chartered Accountants of India.

The results set out in this Report and its annexures are based on requirements of AS 15 (Revised 2005) and its application to the Plan. They have been prepared for the specific requirements of AS 15 (Revised 2005) and should not be used for any other purpose. In particular this Report does not constitute a formal funding actuarial valuation of the Plan and does not present any recommendation of contributions or funding levels.

This report is provided solely for the Company's use and for the specific purposes indicated above. Except where I expressly agree in writing, it should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by me for any consequences arising from any third party relying on this Report or any advice relating to its contents. The Company may make a copy of this Report available to its auditors, but I make no representation as to the suitability of this Report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the Company's auditors in this regard. The Company should draw the provisions of this paragraph to the attention of its auditors when passing this Report to them.

This report alongwith the annexure will form the basis of the balance-sheet and disclosures to be made by the Company in respect of the Plan as at valuation date.





## 2. Background

The Government of Andhra Pradesh initiated reforms in power sector with the objective of ensuring efficient supply of electricity in terms of quality, cost and support economic and infrastructure development of the State. The road map of reforms also had set the direction to achieve financial discipline and become commercially viable. The implementation of Reform Process started with the enactment of Andhra Pradesh Electricity Reform Act, 1998, by the Government of Andhra Pradesh.

Under the power sector reform program, Andhra Pradesh State Electricity Board (APSEB) was corporatised and unbundled into the Power Generation Corporation of Andhra Pradesh Limited (APGENCO) and the Transmission Corporation of Andhra Pradesh Limited (APTRANCO) with effect from 1st February 1999. Further APTRANCO was unbundled into Transmission Company and four Distribution companies (DISCOMS) on 1st April 2000.

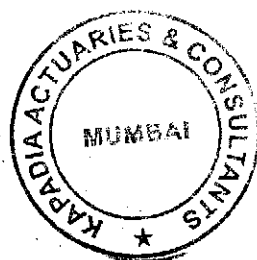
The erstwhile APSEB since its formation in April 1959 has been making ad hoc provisions towards employees terminal benefits; Pension and Gratuity. The provisions were grossly inadequate and were not cash funded. Payments of terminal payments as and when due was made from the current revenues.

APSEB ascertained the liabilities through an actuarial valuation as at 31st January 1999. This valuation was done with sample employee data.

Based on the said actuarial valuation the initial fund size for the then unfunded liabilities of pension and gratuity were estimated as under:

Rs. 1320.43 Crores for funding pension liability of pensioners. Pensioners are those employees who retired on or before 31st January 1999

Rs. 2811.98 Crores for funding towards pension and Rs.254.54 crores towards gratuity in respect of serving employees that is employees who were on rolls as on 31st January 1999.





In order to comply with legal, accounting and fiscal management requirements (Income Tax and Companies Act provisions) Trusts are set up to manage and administer Pension and Gratuity programs. Details of the Trusts are:

Master Trust	Managed administered by all the 6 Companies
Units/Companies Trusts	Managed Administered by the respective Units/Companies

Master Trust is created to meet the Pension and Gratuity liabilities of the following category of employees:

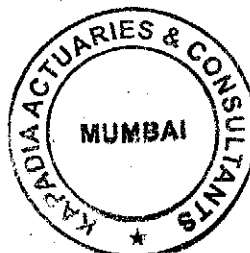
1. 100% Pension liability of employees who have retired on or before 31st January 1999. This is backed with an investment of Rs. 1320.43 crores guaranteed by Government of Andhra Pradesh.
2. 74% of Pension and Gratuity liability in respect of employees who have continued in service beyond 31st January 1999. The sharing of 74% of the liability is backed with an investment of Rs.3066.52 Crores, guaranteed by Government of Andhra Pradesh.

Each of the 6 Units have created separate Trust Fund to meet Pension and Gratuity liabilities of the following employees:

1. 26% of Pension and Gratuity liability in respect of employees who have continued in employment after 31st January 1999. This will also include the pension Liability of those who retired between 31st January 1999 and 31 March 2019.
2. 100% of Gratuity liability in respect of employees in the respective units who have joined services on or after 1st February 1999.
3. Each of the units has made contributions to the respective Trusts and the funds are kept invested.

As per the Reforms Act a statutory authority called 'The Andhra Pradesh Electricity Regulatory Commission' has been constituted by the Govt. of Andhra Pradesh to oversee the functions of licensees including APTRANSCO, four distribution companies and fix the Power Tariffs to various categories of power consumers in the State.

Power tariffs are decided on the basis of costs and employee post retirement benefit obligation also is a constituent cost in deciding the tariffs as per APERC orders dated 15th March 2004 (paragraph 99 to 100)





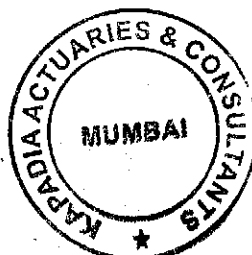
### 3. Plan Features (Characteristics & Risks)

#### Characteristics Of Plan:

The key points of benefits are highlighted hereunder:

**Table 1: Plan Features**

Gratuity		
Benefits offered	Retirement	$0.5 \times \text{Salary} \times \text{Duration of Service}$
	Death	
	Duration of Service	Rate
	Less than 1 year	$1.5 \times \text{Salary}$
	Less than 5 years	$4.5 \times \text{Salary}$
	20 years & Above	$9 \times \text{Salary}$ subject to maximum of 33 times Last drawn salaries
Salary definition	Basic Salary including Dearness Allowance (if any)	
Benefit ceiling	Benefit ceiling of Rs. 2,000,000 & 16.5 month's Last drawn salaries whichever is lower was applied	
Vesting conditions	5 years of continuous service (Not applicable in case of death/disability)	
Benefit eligibility	Upon Death or Retirement	
Retirement age	58 or 60 Years As Applicable	
<b>Pension for Existing Employees</b>		
Pension for Existing Employees: 50% of the the pay last drawn subject to completion of minimum pensionable service of 10 years. The pensionable salary used for calculations includes DA at current rate of 19.26%		
No Pension benefits accrue on exits before normal retirement age (except in case of approved Voluntary Retirement.)		





### **Family Pension on death during service**

Family Pension on death during service: Family Pension is payable to the spouse of the deceased employee / pensioner or other eligible family members at a uniform rate of 30% of pay last drawn.

Family Pension at the enhance rate of 50% of the pay last drawn is payable for a period of 7 years or till the employee/pensioner would have attended the age of 65 years whichever is earlier.

### **Commutation of Pension**

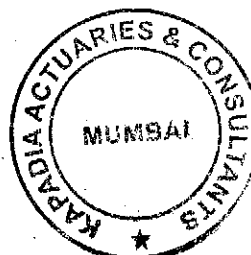
Commutation of Pension: A fraction of pension can be commuted for lump sum. The amount is determined according to the Table of Commutation Values prescribed by the Company.

Restoration of Commuted Portion of Pension is admissible on the expiry of 15 years from the date of Commutation. (Additional liability arising on account of restoration of commuted portion is provided on appropriate basis).

### **Changes in Inter-Valuation Period:**

There are no changes in the benefit scheme since the last valuation.

There are no special events such as benefit improvements or curtailments or settlements during the inter-valuation period.





## **Major risk to the plan**

I have outlined the following risks associated with the plan:

### **A. Actuarial Risk:**

It is the risk that benefits will cost more than expected. This can arise due to one of the following reasons:

Adverse Salary growth or Pension increase Experience: Salary or increase in pension hikes that are higher than the assumed salary or pension escalation will result into an increase in Obligation at a rate that is higher than expected.

Variability in mortality rates: If actual mortality rates are lower than assumed mortality rate assumption than the Pension & Gratuity benefits will be paid for longer period than expected. This will lead to an actuarial loss on obligations.

Variability in withdrawal rates: If actual withdrawal rates are higher than assumed withdrawal rate assumption than the Pension & Gratuity benefits will be paid earlier than expected. The impact of this will depend on whether the benefits are vested as at the resignation date.

### **B. Investment Risk:**

For funded plans that rely on insurers for managing the assets, the value of assets certified by the insurer may not be the fair value of instruments backing the liability. In such cases, the present value of the assets is independent of the future discount rate. This can result in wide fluctuations in the net liability or the funded status if there are significant changes in the discount rate during the inter-valuation period.





**C. Liquidity Risk:**

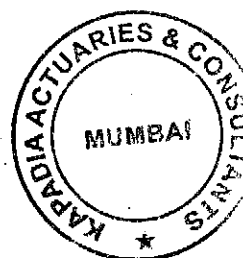
Employees with high salaries and long durations or those higher in hierarchy, accumulate significant level of benefits. If some of such employees resign/retire from the company there can be strain on the cashflows.

**D. Market Risk:**

Market risk is a collective term for risks that are related to the changes and fluctuations of the financial markets. One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money. An increase in discount rate leads to decrease in Defined Benefit Obligation of the plan benefits & vice versa. This assumption depends on the yields on the corporate/government bonds and hence the valuation of liability is exposed to fluctuations in the yields as at the valuation date.

**E. Legislative Risk:**

Legislative risk is the risk of increase in the plan liabilities or reduction in the plan assets due to change in the legislation/regulation. The government may amend the pension rules thus requiring the companies to pay higher benefits to the employees. This will directly affect the present value of the Defined Benefit Obligation and the same will have to be recognized immediately in the year when any such amendment is effective.





#### 4. Valuation Data

I have received the data for the valuation from the Company. In preparing this Report I have relied on the completeness and accuracy of the information provided to us orally and in writing by or on behalf of the Company and its advisers. I have not applied any detailed validation checks on the information provided. I have, however, carried out broad consistency checks.

The summary of the employee data used for valuation is as follows:

Table 2: Summary Data - Gratuity	
Particulars	
Number of Employees	2,974
Total Monthly Salary (Rs.)	42,76,68,154
Average Monthly Salary (Rs.)	1,43,802
Average Age (Years)	51.48
Average Duration (Years)	26.81

Table 2: Summary Data - Pension			
Particulars	Existing Employees	Pensioners	Family Pensioners
Number of Employees	2,974	3,328	2,156
Total Monthly Basic Salary (Rs.)	42,29,09,458	24,31,22,057	7,38,03,659
Average Monthly Basic Salary (Rs.)	1,42,202	73,054	34,232
Average Age (Years)	51.14	67.91	60.72
Average Duration (Years)	26.33	N.A.	N.A.





## **5. Basis of Valuation (Assumptions)**

I have outlined the key actuarial assumptions and the considerations in setting the same.

### **Discount Rate:**

As per para 78 of AS 15 (Revised 2005), the discount rate used to value the post-employment benefit obligation (both funded & non-funded) should be determined by reference to market yields at the balance sheet date on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated terms of the post-employment benefit obligation.

### **Salary Growth Rate:**

This is Management's estimate of the increases in the salaries of the employees over the long term. Estimated future salary increases should take account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

### **Expected Rate of Return:**

This assumption is required only in case of funded plans. The level of returns would depend on the nature of assets and the prevailing economic scenario.

### **Mortality:**

I have assumed the standard published mortality table without any adjustment. A snapshot of the same is given below.

### **Withdrawal Rates:**

This is Management's estimate of the level of attrition in the company over the long term. Estimated withdrawal rates should take into account the broad economic outlook, type of sector the company operates in and measures taken by the management to retain/ relieve the employees. Voluntary retirement rates are included in withdrawal rates.





The summary of the assumptions used in the valuations is given below:

**Financial Assumptions:**

Discount Rate	: For Gratuity 7.65% p.a
	: For Pension 7.75% p.a
Salary Growth Rate	: 9.00% p.a
Pension Increase Rate	: 4.00% p.a
Expected Rate of Return	: 7.60% p.a

**Demographic Assumptions:**

Withdrawal Rates (p.a.)

**Table 3: Withdrawal Rates per annum**

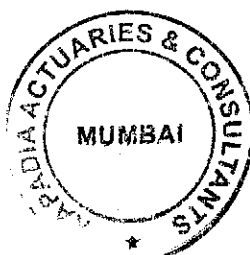
Age Band	Rate per annum
30 & Below	1.00%
31 to 48	0.50%
48 to 100	2.00%

Mortality Rates in Service : Indian Assured Lives Mortality (2006-08) Table

**Table 4: Sample Rates of Indian Assured Lives Mortality (2006-08)**

Age (in years)	Rate per annum
20	0.09%
30	0.11%
40	0.18%
50	0.49%
60	1.15%

Mortality Rates in : LIC Annuitants' Lives Mortality (1996-98) ultimate



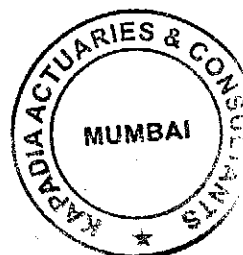


**Table 5: Sample Rates of LIC Annuitants' Lives Mortality (1996-98) ultimate**

Age (in years)	Rate per annum
60	1.09%
70	2.43%
80	7.08%
90	15.15%
100	26.65%

**Method of Valuation:**

I have used Projected Unit Credit (PUC) method to value the Defined benefit obligation.





## **6. Accounting Policy**

The Gratuity & Pension & Gratuity benefits are classified as Post-Retirement Benefits as per AS 15 (Revised 2005) and the accounting policy is outlined as follows.

Actuarial gains and losses arise due to difference in the actual experience and the assumed parameters and also due to changes in the assumptions used for valuation. The Company recognizes these actuarial gains and losses immediately in the statement of profit and loss as income or expense.

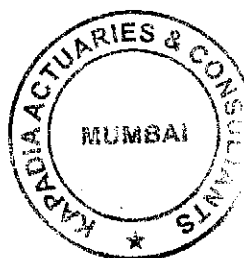
When the benefits of the plan are changed, or when a plan is curtailed or settlement occurs, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment or settlement, is recognized immediately in the profit or loss account when the plan amendment or when a curtailment or settlement occurs.

## **7. Details of Asset-Liability Matching Strategy**

It was informed by the company that Pension & Gratuity benefits liabilities of the company are Funded.

There are no minimum funding requirements for Gratuity & Pension & Gratuity benefits plan in India and there is no compulsion on the part of the Company to fully or partially pre-fund the liabilities under the Plan.

The trustees manages the funds of the plan as per the mandate provided to them by the trustees and the asset allocation which is within the permissible limits prescribed in the insurance regulations. Due to the restrictions in the type of investments that can be held by the fund, it may not be possible to explicitly follow an asset-liability matching strategy to manage risk actively in a conventional fund.





## 8. Valuation Results

The assumptions and methodology used in compiling this Report are consistent with the requirements of AS15 (Revised 2005) and Guidance Note 26 issued by the Institute of Actuaries of India.

The results are particularly sensitive to some assumptions, such as the discount rate, level of salary inflation, & level of assumed mortality.

The Actuarial Value of Defined Benefit Obligation calculated using the above stated assumptions is Rs. 23,38,46,97,709/-

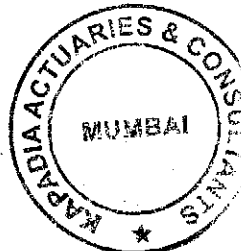
The Fair Value of plan assets is Rs. 10,86,24,32,395/-

DBO bifurcation	Unit trust 26% (Crore Rs.)	Master trust 74% (Crore Rs.)
Gratuity Active Emp.	91,20,37,537	2,59,57,99,142
Pensioners Active Emp.	9,63,76,14,422	27,43,01,33,355
Pensioners	9,72,69,22,496	27,68,43,17,872
Family Pensioners	3,10,81,23,255	8,84,61,96,957
<b>Total</b>	<b>23,38,46,97,709</b>	<b>63,96,06,48,184</b>

*Mr. Jenil Shah*

**Mr. Jenil Shah**

**Fellow of Institute of Actuaries of India (ID: 5568)**





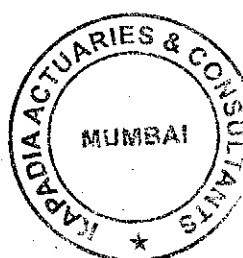
**Southern Power Distribution Company of Telangana Limited**

**Actuarial Valuation of Pension & Gratuity benefits as per AS 15 (Revised 2005)**

**Valuation period: 01-Apr-2018 to 31-Mar-2019**

**Annexure 1: Funded status of the plan**

<b>Particulars</b>	<b>31-Mar-2019</b>	<b>31-Mar-2018</b>
	Rs.	Rs.
Present value of unfunded obligations	-	-
Present value of funded obligations	23,38,46,97,709	17,71,45,05,823
Fair value of plan assets	10,86,24,32,395	7,26,29,53,145
<b>Net Liability (Asset)</b>	<b>12,52,22,65,314</b>	<b>10,45,15,52,678</b>





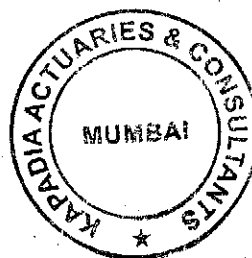
**Southern Power Distribution Company of Telangana Limited**

**Actuarial Valuation of Pension & Gratuity benefits as per AS 15 (Revised 2005)**

**Valuation period: 01-Apr-2018 to 31-Mar-2019**

**Annexure 2: Profit and loss account for current period**

Particulars	31-Mar-2019	31-Mar-2018
	Rs.	Rs.
Current service cost	18,67,29,869	22,51,77,284
Interest on obligation	1,34,63,02,443	1,16,49,32,315
Expected return on plan assets	(55,19,84,439)	(39,40,11,672)
Net actuarial loss/(gain)	3,93,95,89,302	32,20,66,578
Past service cost	-	-
Loss/(gain) on curtailments and settlement	-	-
Total included in 'Employee Benefit Expense'	4,92,06,37,175	1,31,81,64,505
Expenses deducted from the fund	-	-
Total Charge to P&L	4,92,06,37,175	1,31,81,64,505
Loss/(Gain) on obligation as per Annexure 3	5,35,70,84,113	1,09,80,23,646
Loss/(Gain) on assets as per Annexure 4	(1,41,74,94,811)	(77,59,57,068)
Net actuarial Loss/(Gain)	3,93,95,89,302	32,20,66,578



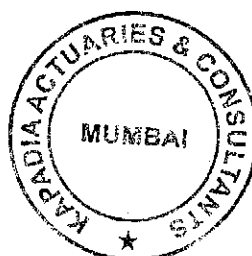


**Southern Power Distribution Company of Telangana Limited**  
**Actuarial Valuation of Pension & Gratuity benefits as per AS 15 (Revised 2005)**  
**Valuation period: 01-Apr-2018 to 31-Mar-2019**

**Annexure 3: Reconciliation of defined benefit obligation**

Particulars	31-Mar-2019	31-Mar-2018
	Rs.	Rs.
Opening Defined Benefit Obligation	17,71,45,05,823	16,06,80,31,931
Current service cost	18,67,29,869	22,51,77,284
Interest cost	1,34,63,02,443	1,16,49,32,315
Actuarial loss (gain)	5,35,70,84,113	1,09,80,23,646
Past service cost	-	-
Loss (gain) on curtailments	-	-
Liabilities extinguished on settlements	-	-
Liabilities assumed in an amalgamation in the nature of purchase	-	-
Exchange differences on foreign plans	-	-
Benefits paid	(1,21,99,24,539)	(84,16,59,353)
Benefits payable	-	-
Closing Defined Benefit Obligation	23,38,46,97,709	17,71,45,05,823

\* Actuarial Loss is on account of the wage revisions implemented during the inter-valuation period.



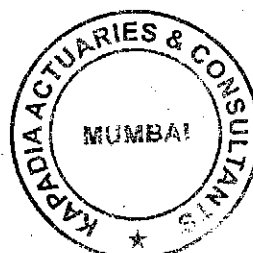


**Southern Power Distribution Company of Telangana Limited**  
**Actuarial Valuation of Pension & Gratuity benefits as per AS 15 (Revised 2005)**  
**Valuation period: 01-Apr-2018 to 31-Mar-2019**

**Annexure 4: Reconciliation of plan assets**

Particulars	31-Mar-2019	31-Mar-2018
	Rs.	Rs.
Opening value of plan assets	7,26,29,53,145	5,43,46,43,758
Transfer in/(out) plan assets	-	-
Expenses deducted from the fund	-	-
Expected return	55,19,84,439	39,40,11,672
Actuarial gain and (loss)	1,41,74,94,811	77,59,57,068
Assets distributed on settlements	-	-
Contributions by employer	1,63,00,00,000	1,50,00,00,000
Assets acquired in an amalgamation in the nature of purchase	-	-
Exchange differences on foreign plans	-	-
Benefits paid	-	(84,16,59,353)
Closing value of plan assets	10,86,24,32,395	7,26,29,53,145

*The actual return on the assets is Rs. 63,30,18,214. There was a difference in the Opening Value of Plan Assets as provided by the Company and the one given in the previous valuation report. The said difference of Rs. 2,55,80,20,096 has been included in the interest income.*

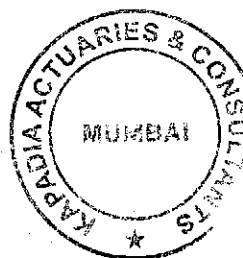




**Southern Power Distribution Company of Telangana Limited**  
**Actuarial Valuation of Pension & Gratuity benefits as per AS 15 (Revised 2005)**  
**Valuation period: 01-Apr-2018 to 31-Mar-2019**

**Annexure 5: Reconciliation of net defined benefit liability**

Particulars	31-Mar-2019	31-Mar-2018
	Rs.	Rs.
Net opening provision in books of accounts	10,45,15,52,678	10,63,33,88,173
Transfer in/(out) plan assets	-	-
Employee benefit expense as per Annexure 2	4,92,06,37,175	1,31,81,64,505
	15,37,21,89,853	11,95,15,52,678
Benefits paid by the Company	(1,21,99,24,539)	-
Amounts transferred to 'payable account'	-	-
Contributions to plan assets	(1,63,00,00,000)	(1,50,00,00,000)
Closing provision in books of accounts	12,52,22,65,314	10,45,15,52,678





**Southern Power Distribution Company of Telangana Limited**  
**Actuarial Valuation of Pension & Gratuity benefits as per AS 15 (Revised 2005)**  
**Valuation period: 01-Apr-2018 to 31-Mar-2019**

**Annexure 6: Composition of the plan assets**

Particulars	31-Mar-2019	31-Mar-2018
	%	%
Government of India Securities	0%	0%
State Government Securities	0%	0%
High quality corporate bonds	0%	0%
Equity shares of listed companies	0%	0%
Property	0%	0%
Special Deposit Scheme	0%	0%
Policy of insurance	100%	100%
Bank Balance	0%	0%
Other Investments	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Annexure 7: Bifurcation of liability as per schedule III**

Particulars	31-Mar-2019	31-Mar-2018
	Rs.	Rs.
Current Liability*	62,14,34,887	65,21,28,774
Non-Current Liability	11,90,08,30,427	9,79,94,23,904
Net Liability	12,52,22,65,314	10,45,15,52,678

\* The current liability is calculated as expected contributions for the next 12 months.





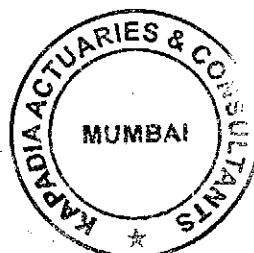
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**Valuation period: 01-Apr-2018 to 31-Mar-2019**

**Annexure 8: Table of experience adjustments**

Particulars	31-Mar-2019	31-Mar-2018
	Rs.	Rs.
Defined Benefit Obligation	23,38,46,97,709	17,71,45,05,823
Plan Assets	10,86,24,32,395	7,26,29,53,145
Surplus/(Deficit)	(12,52,22,65,314)	(10,45,15,52,678)
Experience adjustments on plan liabilities	40,16,30,402	1,81,27,61,822
Actuarial loss/ (gain) due to change in demographic assumption	40,47,213	40,47,213
Actuarial loss/(gain) due to change in financial assumptions	4,95,14,06,498	(71,87,85,389)
Experience adjustments on plan assets	(1,41,74,94,811)	(77,59,57,068)
Net actuarial loss/ (gain) for the year	3,93,95,89,302	32,20,66,578

**Annexure 9: Principle actuarial assumptions**

Particulars	31-Mar-2019	31-Mar-2018
	: For Gratuity 7.65%	
Discount Rate	p.a	7.60%
	: For Pension 7.75%	
Expected Return on Plan Assets	p.a	
	7.60% p.a	7.60%
Salary Growth Rate	9.00%	9.00%
Pension Growth Rate	4.00%	4.00%



## **Glossary of Terms**

Actuarial Gain/Loss :	Actuarial Gain/Loss occurs due to the differences between the previous actuarial assumptions and actual experience and also due to changes in actuarial assumptions at the current valuation date compared to the previous valuation.
Curtailment :	The effect of plan amendments that reduce benefits for future service
Defined Benefit Obligation :	Discounted present value of the defined benefit as at the valuation date
Expected Return on Plan Assets :	The expected return on plan assets over the accounting period, based on an assumed rate of return as at the start of the valuation period.
Interest on Obligation :	The increase the present value of a defined benefit obligation during the valuation period which arises because the benefits are one period closer to settlement.
Past Service Cost :	The change in the present value of the defined benefit obligation due to any change in the structure of benefits.
Current Service Cost :	The increase in the present value of the defined benefit obligation resulting from employee service in the current period.
Settlement :	A settlement occurs when an enterprise enters into a transaction that eliminates all further obligations for part or all of the benefits provided under a defined benefit plan.