insights

Salary Growth: The Assumption that links your EOSB Valuation to your Pay Policy



2026

Where EOSB is calculated on final or recent salary, the valuation must project salary from today to each employee's expected exit. The salary growth assumption therefore has a direct and compounding effect on the liability.

IAS 19 requires the obligation to allow for estimated future salary increases, taking account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market (paragraph 87). Paragraph 76 requires assumptions to be unbiased and mutually compatible, so salary growth cannot be set in isolation from inflation and the discount rate.

In practice, the assumption should reflect long-term pay policy rather than the latest increment round. A salary freeze, or an unusually large adjustment in one year, does not by itself change the long-term expectation.

What informs the assumption

01 Historical perspective

Average increments over several years, separating general increases from promotional ones.

02 Inflation

The expected long-term price environment in the country.

03 Policy

Documented intentions on increments, grading and promotion.

04 Market

What comparable employers are paying.



Why compounding matters

Take an employee earning a monthly salary of 10,000 today, with 15 years to expected exit.

Projected monthly salary	Year 0	Year 5	Year 10	Year 15
At 5% a year	10,000	12,763	16,289	20,789
At 6% a year	10,000	13,382	17,908	23,966
6% higher than 5% by	–	4.9%	9.9%	15.3%

Salary Groeth & EOSB Impact 15 Year Projection

At 5% Annual Salary Growth

= 2.1x
(about 2.1 times)

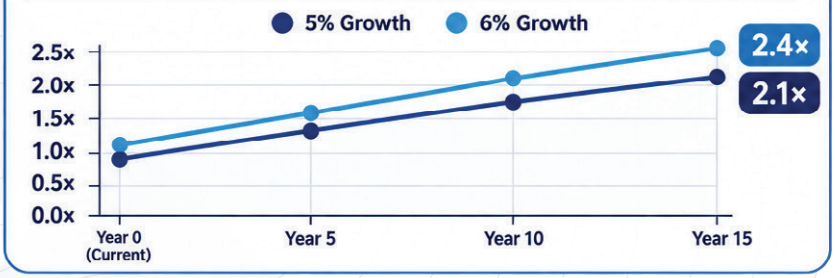
At 6% Annual Salary Growth

= 2.4x
(about 2.4 times)

A 15% increase in salary moves the employee's liability (EOSB) by about 15%.

15 Year

Salary Projection Over 15 Years



EOSB Liability Impact

Current EOSB (Reference)
100,000
(at 5% growth)

+15%

EOSB After 15% Increase
115,300
(at 6% growth)

A 15% increase in salary will result in about a 15% rise in EOSB value.

With 6% salary growth, the employee's salary can grow to about 2.4 times and the EOSB liability will increase by around 15% compared to 5% growth.

Why it matters in practice

In practice, the long-term salary growth rate is one of the strongest drivers of the year-end EOSB liability, and often decides whether the liability will be higher than last year's or not.

01 Size of the year-end liability

The obligation is driven largely by the gap between salary growth and the discount rate. A higher salary growth rate means a higher liability, and the longer employees are expected to stay, the larger the effect.

02 Movement from last year

If actual increments run above the assumption, the liability grows faster than expected and an experience loss arises; increments below the assumption, or a salary freeze, produce a gain.

03 Change in the assumption

Revising the long-term rate remeasures the whole obligation in one go, not just this year's cost. The effect is an actuarial gain or loss recognised in other comprehensive income.

04 Profit or loss and cash flow

The same assumption drives next year's service and interest cost, and the end-of-service payments you should budget for as employees leave.

05 Policy consistency

An assumption that does not match your actual pay policy and increment history invites audit queries.

06 Mutually compatible

Salary growth must fit with inflation and the discount rate, not stand alone.

Questions to every finance professional and our solutions to them

01 **Does your assumption match your actual pay policy?**
We compare actual increments with the assumption and document the basis.

02 **Is it consistent with your discount rate and inflation outlook?**
We set the financial assumptions together and explain how they fit.

03 **What if increments run higher than planned?**
Our sensitivity analysis quantifies the effect on the obligation.

04 **Have your grading or promotion rules changed?**
We update the projection and explain the effect on the liability.

Our actuarial team will recommend a well-supported, IAS 19 compliant assumption, show how it affects your year-end EOSB liability, and explain the movement from last year in a way your auditors can follow.



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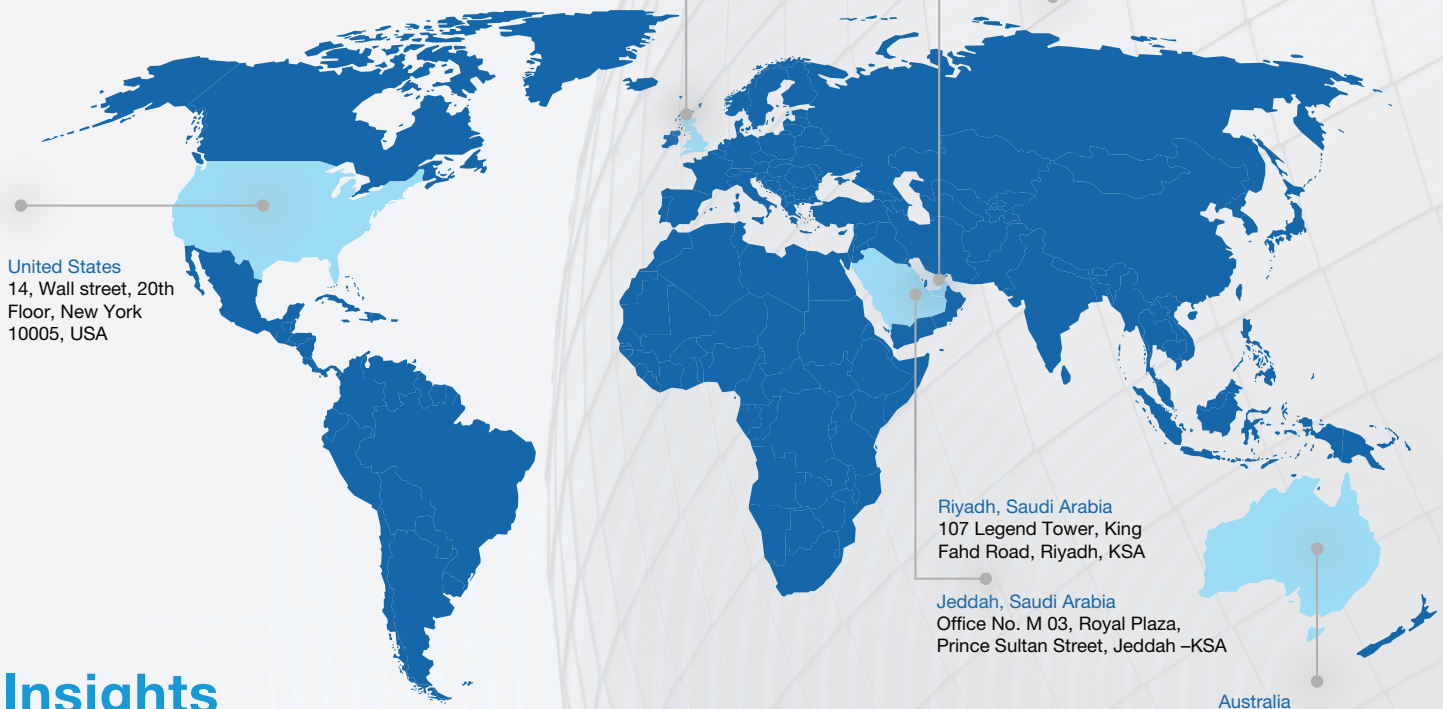
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Please contact us for a tailored consultation and let us partner with you to enhance your financial reporting and compliance.

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