

RECOGNITION OF GOVERNMENT PENSION OBLIGATIONS

By Brian Donaghue¹

Preface

This paper addresses the recognition of obligations arising from retirement pension schemes, other than those relating to employee compensation. This includes both pensions paid by social security schemes and unfunded government pension arrangements.

One of the difficulties in writing a paper of this sort is that there are in fact a wide range of arrangements that apply in different countries as regards non-employee pension arrangements. Nevertheless it is important to try to draw out the essential nature of the underlying obligations which are created by most, if not all, of these arrangements. Of course, the application of principles set out in this paper would have to be adapted to the specific characteristics of the arrangements applying in any one jurisdiction.

Introduction

Currently the pension obligations of most (possibly all) governments are not recognized at all (i.e., only the cash flows are recorded) or recognized only when pensions are due for payment. However, governments have built up, and continue to build up, substantial obligations to make pension payments in future. The failure to measure these accumulating obligations means that important information on the current liabilities of governments is not recognized in general purpose financial statements.

Of course, governments do carry out analyses of the implications of existing and possible future pension arrangements. However, these are typically done on the basis of projections of current (or possible alternative) arrangements. For example, a study may be done on the expected future pension payments compared with expected future tax revenues. Such studies are useful to assess whether future cash receipts will be sufficient to fund pension (and of course other) payments. However, this paper is not concerned with such projections. The issue considered here is whether there are present obligations due to past events, which should be recognized in government financial statements. If there are such obligations, they will set limits to the degree to which governments can control the future flow of resources.

This paper will consider such obligations on the basis of current international accounting standards, and also in the context of the economic principles that inform economic statistics.

¹ Brian Donaghue is a former senior economist at the Government Finance Division of the Statistics Department of the IMF.

In general, the approach taken by this paper is consistent with the treatment of economic stocks and flows set out in the International Monetary Fund's *Government Finance Statistics Manual 2001 (GFSM 2001)*. However, the recognition of obligations (and corresponding economic flows) arising from government pension schemes recommended in this paper goes beyond that set out in *GFSM 2001*.

Social Protection Schemes

Pension schemes are part of a broader range of social protection arrangements, which are defined in *GFSM 2001* as *systematic interventions intended to relieve households and individuals of the burden of a defined set of social risks. Social risks are events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their incomes*².

Social protection schemes are further classified as *social insurance schemes*, where there are actual or imputed contributions to obtain entitlement to the benefits, and *social assistance schemes*, where there are no such contributions, although other eligibility conditions may apply.

The distinction between social insurance and social assistance schemes is not clear-cut (especially since social insurance contributions can be imputed) but one possible distinction is in regard to the nature of the risks covered. As the name implies, social insurance can be regarded as providing protection against social risks, which has the same economic effect as insurance. The types of risks covered are typically those longer term or constant risks (old age, health) that affect all, or a large part, of the population, and against which individuals might otherwise need to obtain private insurance. Social insurance is frequently provided through separately constituted social security schemes, but is not necessarily limited to such schemes. On the other hand, social assistance is typically directed at specific, usually economically disadvantaged, groups and covers shorter-term risks for which people would not normally seek insurance cover. Of course in practice social protection involves a spectrum from schemes with a strong social insurance character (e.g., social security schemes) to those that are clearly social assistance in nature (e.g., single mother benefits). However, the two poles of this spectrum should be kept in mind in the following discussion.

Both of these social protection arrangements involve transfers from government to the household sector, but in the case of social insurance one could argue that the benefit occurs progressively, as "insurance" cover is obtained (the associated transactions are the actual or imputed social insurance contributions), whereas social assistance involves transfers as individuals satisfy eligibility conditions.

The Nature of Pension Obligations

While the conditions and benefits applying under non-employer related pension (or retirement benefit) schemes are generally set out in the relevant legislation, that legislation can be changed at any time by the government, and in any event does not usually confer legal rights on the recipients (i.e., does not give them the right to sue

² *Government Finance Statistics Manual 2001*, annex to chapter 2.

the government for their benefits). Therefore, any obligations resulting from the operation of non-employee pension schemes are generally not legal or contractual in nature, but are in the nature of constructive obligations. A constructive obligation is defined as *an obligation that derives from an entity's actions where:*

- (a) *by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and*
- (b) *as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.*³

In the case of pension obligations, while the government is generally not legally compelled to pay retirement benefits, it has explicitly or implicitly given undertakings on which persons can reasonably rely, and therefore clearly has created a constructive obligation of some kind. However, the nature of that obligation needs further discussion.

The obvious way to view this obligation is in terms of the benefit payments themselves. However, this leads to an immediate difficulty, that if we measure the government's obligation in terms of the present value of future benefit payments, the effect is to front load future payments to everyone still living, which does not seem to provide useful analytic information.

For this reason, the common practice is to view the retirement benefit obligations as coming into being as scheduled payments become due (pay-as-you-go basis). This approach is also unsatisfactory because such payments represent the result of policies in force over a considerable period, which possibly have changed several times over that period, and could be quite different from the policy applying at the time of retirement. One of the essential features of accrual recording is that the financial impact of government policies should be recognized when those policies are in effect.

An alternative approach which has been suggested is to recognize the obligation to provide retirement benefits when individuals have reached retirement age and become eligible to start receiving payments (or other benefits). This could be calculated as the net present value (calculated on an actuarial basis) of all future payments the government is obligated to make. There are two problems with this approach. The first is that it is essentially arbitrary. Suppose the retirement eligibility age is 65 years. Someone who is 64 years old⁴ therefore apparently has no entitlement (at least not one strong enough to give rise to a government obligation). But one year later he has a very substantial entitlement. Does this really describe the situation that actually exists? Most people would consider that at least those people who are close to retirement age have very much the same rights as those who actually reached retirement age, and there is really no point at which it is reasonable to say that those rights suddenly come into existence⁵ (aside from when all the eligibility criteria are

³ IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

⁴ If an entitlement is recognized at age 64, then the same question can be asked about age 63, and so on.

⁵ Although, as argued below, it is possible to identify the point at which entitlements begin to accrue.

satisfied in respect of each payment—which gives rise to the pay-as-you-go approach described above). The second problem is that while recognizing an obligation at retirement age may be better than not recognizing an obligation at all, it does not meet the accrual principle of recognizing the financial impact of government policies when those policies are in force.

To resolve this issue it is useful to consider the process by which pension obligations and entitlements are built up.

The Accrual of Retirement Benefit Entitlements

When we consider what gives rise to a retirement benefit entitlement, the passage of time is clearly a factor. Most people would agree that some sort of entitlement (and government obligation) has been created once a person reaches retirement age. But as argued above, there does not seem to be any particular point when those entitlements come into existence. The implication is that some sort of entitlement exists before retirement age is reached, and that entitlement comes into existence gradually.

From an individual's point of view, the existence of a government pension/social security scheme relieves him⁶ of (at least part of) the burden of providing for his retirement. If such a scheme did not exist, he would have to protect himself against the risk of future loss of income due to old age⁷. This could be done, for example, by investing in an annuity scheme with a financial institution, or by purchasing other assets that could be used to provide an income in old age⁸. This behavior is in fact observed in countries that do not have comprehensive pension or social security schemes.

In other words, by relieving an individual of the present need to make provision for future risk, the government is actually providing a current benefit (similar to insurance cover). The future cash flows in the form of retirement benefits are actually financing, rather than expense, transactions.

The government's benefit does not commence at birth, since one could not reasonably expect an individual to make provision for future risk until he is capable of doing so. Therefore, one could reasonably argue that the benefit begins at the time that an individual reaches maturity and becomes responsible for his own economic behavior (around 18 years of age⁹ in most societies). In many cases additional eligibility

⁶ Because English does not have neutral personal pronouns, the pronouns he/him/his are used for simplicity, and should be read as also referring to she/her/hers.

⁷ Assuming of course that he acts in an economically rational manner. It is because not everybody does act in such a manner that governments institute pension schemes.

⁸ In many societies such protection is also provided by family support arrangements.

⁹ Obviously the age at which a person begins to accrue pension entitlements, and any other qualifying conditions, will depend on the particular arrangements applying in each jurisdiction. The important point is that it is the reliance by a person on an explicit or implicit promise by the government to provide retirement benefits, during which that person could have made other arrangements, that creates the government obligation. Note that the determination of government pension obligations is not very sensitive to the particular age chosen at which such obligations begin to accrue.

requirements are imposed (e.g., residence within the country, participation in the work force, etc). Where such conditions apply they would further qualify the commencement and duration of the period during which the government is implicitly providing pension insurance.

Once that age has been reached, then the government is in effect is not only providing an insurance type benefit, but is also creating entitlements (for individual persons) and obligations (for itself) as the opportunity for persons to make alternative arrangements is gradually eroded. For example, it might be reasonable for the government to tell persons who are starting their economically productive lives that they will be responsible for providing for their own retirement (and this has been done in Chile¹⁰, and partially in several other countries). It is clearly not reasonable to say this to a person who has already used up a substantial part of his working life, since the cost of providing retirement insurance increases with each year passed. Therefore, a person could generally be considered to be entitled to pension coverage in respect to that period when he was reasonably relying on the government for his future pension, but could not claim the same entitlement for future periods when it is open to him to make his own arrangements. In other words, each person is entitled to the insurance cover for old age accumulated for the period during which the government has implicitly taken responsibility for providing that insurance cover¹¹.

From the government's point of view, it is possible to change pension arrangements with respect to the future, but the opportunities to make retrospective changes that remove or reduce benefits on which people have relied in the past are much more circumscribed, although not entirely absent. This can be seen in those countries that have undertaken pension reform (e.g., raising the pensionable age, reduction in benefit levels, tightening means testing, introducing private schemes to replace or supplement unfunded schemes, replacing defined benefit with defined contribution schemes). While the effect of these changes has usually been to replace existing pension schemes with less expensive arrangements, the benefits which people were expecting as a result of policies which were in force up to the time when reforms were introduced have usually been protected (or "grandfathered"). It is true that in some cases governments have reduced existing entitlements, but in such cases the reductions have usually been limited in effect (i.e., leaving the majority of existing entitlements intact). Also, when such changes are made they are seen by the public as the government taking away expected entitlements—which needs strong justification—rather than as a routine policy change¹². In other words, reductions in

¹⁰ In the case of Chile, when the government terminated the public pension system it acknowledged that persons who had been contributing to the public pension system, but had not yet retired, had a claim on the government. This claim has been recognized by providing people with government securities of appropriate value (termed "recognition bonds") when they reach retirement age. The government of Chile plans to recognize in future the total liability due to past inclusion in the public pension schemes, and not just the liability when recognition bonds are issued.

¹¹ This same point is made in the USA Federal Accounting Standards and Advisory Board SFFAS No. 17 *Accounting for Social Insurance* which notes that some argue that "*it is inherently misleading to fail to quantify the size of the promise that is being made and on which people are told they can rely*"

¹² It is instructive to contrast the attitude of the public to retrospective pension changes versus other social policy changes. In both cases one might find strong opposition to changes which reduce benefits or restrict eligibility. But in the case of pension entitlements one is also likely to find a widespread public attitude that "the government is taking something away from us."

previously accrued entitlements are generally only open to governments at the margin, and even then must be regarded as extraordinary events¹³.

Even if one argued that pension entitlements do not become fully “solid” until a person reaches entitlement age, because governments find it easier to vary benefits/conditions etc for those persons who are further from retirement age, such a process would surely be gradual, i.e., would occur progressively as a person approaches more closely to retirement age. There is no time in that process that one could single out as being the threshold between no entitlement and full entitlement¹⁴.

To summarize, a present obligation has been created simply by persons being in observance of the conditions required by the government’s pension policy up to the present period—that is, the passage of time has created reasonable expectations which leaves the government with no realistic alternative to meeting (at least in the main) those expectations.

Pension Liabilities

Therefore, the operation of government pension schemes gives rise to present (constructive) obligations of government, where the obligating event is simply the passage of time while the pension scheme is in operation. The corresponding entitlements of individual citizens begin to accumulate when they reach the age of economic independence, and increase until they reach pensionable age (providing they are in observance of the conditions applying to the scheme), after which they begin to decline as benefits are paid out.

These criteria fit the definition of a liability, i.e.,

*“ . . . present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.”*¹⁵

This present obligation is determined by the passage of time during which government pension policies are in existence, that

*“ . . . creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation”*¹⁶

While the entitlement is contingent in respect of individual people, the aggregate obligation is not contingent from the point of view of government, and can be valued with a reasonable degree of accuracy using actuarial methods.

¹³ Since governments are sovereign, it is very difficult to rule out any action required by circumstances. But if fiscal data are to be useful they should measure the economic stocks and flows under normal circumstances. Where extraordinary events occur, they should be measured too.

¹⁴ It is also worth noting that since pension entitlements become more difficult for the government to change as persons approach retirement age, the larger the entitlement the more “solid” the claim.

¹⁵ IPSAS 1

¹⁶ IPSAS 19

That is, pension obligations also satisfy the additional criteria for recognition as actual (as opposed to contingent) liabilities—

- 1) It is probable that the expected future outflow will occur, and
- 2) The value of the obligations can be measured reliably.

Therefore, pension liabilities should be recognized on the balance sheets of government, and the corresponding transactions (transfers to households) should be included in the measurement of the government's operating result in the periods during which the pension obligations accrue¹⁷.

As described above, governments can make, and in fact have made, adjustments to pension entitlements. However, this should not be used as an excuse to avoid valuing government pension obligations, which should be valued on the basis of currently understood policies in relation to accrued (not future) entitlements. When and if governments change the benefits or eligibility criteria affecting accrued entitlements, then the impact of those changes should be clearly recognized in both the stock and flow data¹⁸.

The recognition of pension liabilities as recommended above does not result in the front-loading of all pension payments. Only the obligations accrued to the present, and which result from policies that have been adopted during past periods, are included as liabilities.

The present value of pension liabilities will increase over time due to the (imputed) additional social insurance expense being provided to individuals while the scheme continues in operation¹⁹, and will decrease over time due to the payment of pension benefits (which are financing transactions, not expenses). The net effect of these offsetting transactions will be that, initially, the present value of pension liabilities will increase while the majority of the population are still accumulating pension entitlements and, eventually, decrease as the population ages and begins to draw against their entitlements. This pension cycle is a very long-term process that takes place over several generations.

It is important to note that the treatment proposed in this paper will present a very different view of the economic stocks and flows relating to government pension schemes from pay-as-you-go or similar treatments. At present most countries which provide government unfunded pensions will have already accumulated very substantial pension liabilities (which are not recognized), and since the increase in pension entitlements still exceeds pension benefits the expenses associated with the operation of those schemes are also currently under-reported.

¹⁷ As described below, there will also be additional economic flows associated with pension liabilities.

¹⁸ Since such changes are always extraordinary events, it is particularly important that they are clearly shown in the fiscal data.

¹⁹ And some additional economic flows associated with changes to the value of pension liabilities accrued in past periods, which are discussed below.

I have suggested above that the benefits provided by government pension schemes are similar in economic effect to insurance benefits. Accordingly, for economic analysis purposes, the liabilities should be classified as a sub-category of *Insurance Technical Reserves*.

Matching of Revenue and Expenses

The matching of revenues and expenses in an accrual system indicates whether the expenses incurred in gaining revenues result in an operating gain or loss. In the case of governments, most expenses are not related to gaining revenues, so this strict match does not apply. However, it is still useful to apply a somewhat weaker matching principle to determine whether government expenses in any period are being met out of current revenue, or whether government policies are resulting in the accumulation of assets or liabilities.

For this principle to be met it is important that expenses resulting from government policies be shown in the period in which those government policies are applied, not thirty or forty years later. However, in the current pay-as-you-go system one cannot see the impact of current government pension policies in fiscal data, with the result that very large accumulating liabilities are not brought clearly to the attention of policy makers and the public.

The New Zealand Financial Reporting Standard Board addresses the issue of the matching of government revenues and expenses using the analogy of “executory contracts”. An executory contract is “*a contract under which neither party has performed its obligations or both parties have partially performed their obligations to an equal extent*”²⁰. Although executory contracts give rise to rights and obligations, these are typically not recognized (except where they qualify as finance leases).

Executory contracts apply to exchange arrangements, and are not strictly applicable to most government activity. But the analogy drawn in the New Zealand Financial Reporting Standard Board FRS 15 “Provisions, Contingent Liabilities and Contingent Assets” is that:

“These obligations (i.e., social policy obligations) of the Crown have characteristics similar to executory contracts in that the community will, collectively, provide funds to the Crown in the future under tax legislation, and the Crown will, in return, provide goods, services or transfers to the community in the future. Such obligations of the Crown include those to make future social welfare payments (such as to pay unemployment, domestic purposes and national superannuation benefits) and to deliver future health and education services, to the extent that the substantial funding of those benefits will be met through future taxation and other revenues and the intended recipients have not already satisfied the criteria for entitlement to those benefits.”

Under this analogy, the government does not have a present obligation to provide social policy obligations until the benefit criteria have been met.

²⁰ IPSAS 19.

This analogy has considerable force in regard to the future provision of government services and social assistance benefits (e.g., education services, unemployment benefits) which are paid for out of current resources. In effect one could say that there is an implicit agreement between the community and the government in each period whereby the community agrees to provide resources and the government agrees to provide services and benefits in return. In any future period the government and community could decide (through the political process) to vary the services/benefits provided, and the resources required. But this analogy breaks down where the government is accepting obligations that will be paid for well into the future. In this case the current government is committing a future community to provide resources to fund promised benefits that cannot realistically be reduced substantially (at least short of severe fiscal crisis). This is particularly the case where such obligations span several generations, as for pension obligations.

The Link Between Pension Related Assets and Liabilities

In some countries pensions are provided as part of a social security scheme, while in others pension benefits are paid out of general taxation. However, there is no economic distinction per se between pension liabilities that are accrued due to the operation of a social security scheme, and those that are simply funded out of general taxation.

For example, suppose one government operates a social security scheme that has accumulated assets of 100 units and pension liabilities of 150 units, whereas another government simply has pension liabilities of 150 units. In both cases the government has the same pension liabilities. One might argue that the first government is in a better position to meet those liabilities, but this really depends on the wider asset/liability position of the government (i.e., its net worth, or perhaps net financial worth) where social security scheme assets are just part of the total picture. Normal commercial accounting practice would be to offset any assets held by pension funds or schemes against the liabilities, thus presenting a net view of pension liabilities. However, it would be preferable for pension liabilities to be shown gross of assets, at least for defined benefit schemes, because the existence of contributions, and their resulting financial assets, which fund (or partially fund) pension benefits has no effect on the pension liability itself²¹, except where the pension scheme is a defined contribution scheme.

²¹ In particular, the fact that no assets exist to fund pension liabilities, obviously does not mean that there are no liabilities.

Defined Contribution Schemes

In defined contribution schemes the present value of future flows of economic resources to which the beneficiaries (individually or in aggregate) are entitled depends on the value of the current total assets of the scheme. In other words, the total liabilities of a defined contribution scheme are (at least approximately) equal²² to its total assets. A virtual defined contribution scheme is a variant on this model, where pension benefits are determined as if they were based on a notional set of financial assets, although no segregated financial assets are in fact held.

Defined Benefit Schemes

Defined benefit schemes provide future benefits to persons based on factors such as length of residence, age, net wealth etc. The benefits do not depend on funds invested in the past.

For defined benefit schemes, the value of the liability will vary according to actuarial calculations of the net present value of expected future payments, taking account of such things as benefit levels and conditions, life expectancy and expected future interest rates.

For such schemes, it is not necessary, indeed it is unlikely, that the liability will equal assets held by the scheme. Therefore, the government will be left with a net liability or asset position. In other words, such schemes can be either over- or under-funded, and the extent to which a scheme is funded can change substantially as a result of actuarial re-assessment.

Therefore, the direct connection between the schemes' assets and liabilities that exists for defined contribution schemes does not hold for defined benefit schemes, and in fact the liability is not affected by whether any assets at all are held to offset the liability. The assets held by non-autonomous defined benefit schemes are simply an administrative category²³ of all government assets, and the property income derived from them is also an administrative category of all government property income.

Similarly, the payments by the government to a (non-autonomous) defined benefit scheme in any period do not necessarily correspond to the expense (accruing liability) due to future entitlements accrued during the period. These transactions are merely intersectoral transfers, and are eliminated on consolidation.

Traditionally, most pension schemes have been defined benefit schemes, but the trend is to replace these with defined contribution schemes, which are not open-ended, and which shift future risks from the government to the beneficiaries.

²² Defined contribution schemes often involve the provision of annuities to the beneficiaries, where the annuity payments are set at the amount that can be financed from available resources, calculated on an actuarial basis. In this case, the present value of the liability will approximate that of the assets, but they will not necessarily be exactly equal.

²³ i.e., it may be convenient for administrative or political reasons to link assets to liabilities in defined benefit schemes, but such a link has no economic significance.

Economic Stocks and Flows Associated with Pension Schemes

In accounting terms, all government non-exchange pension schemes give rise to liabilities (in economic terms *insurance technical reserves*), and expense and financing transactions. The liabilities are the net present value of obligations accrued to the current date. The payments of benefits are *financing transactions*, i.e., such payments are not expenses because they reduce the net present value of government liabilities. The nature of the expense transactions depends on whether the scheme is a defined contribution or defined benefit scheme.

For **defined contribution schemes** the expenses associated with the pension scheme are:

- 1) the increase in (actual or imputed) financial assets held by the beneficiaries of the scheme, which represent new entitlements in the current accounting period, and are classified as *social insurance transfers*; and
- 2) *property expenses* (actual or imputed) attributable to the financial assets held by the beneficiaries during the current accounting period. The most common forms of such income would be interest and dividends.²⁴

For **defined benefit schemes** it is necessary to impute an expense transaction—*imputed social insurance transfers*—which is equal to an actuarial estimate of the increase in the new pension entitlements, accrued in the current period, net of contributions (and property expense).

Note that the *imputed social insurance transfers* will not correspond to the total increase in the value of the pension liability, since changes in the value of the liability include both transactions and other economic flows²⁵ relating to liabilities accrued in previous periods.

Additional expense transactions also need to be imputed so that the net present value of the liability is maintained over time. This expense category is economically similar to interest expense—i.e., it is an expense accrued by the government for the use of the *insurance technical reserves* liability resulting from obligations accrued in the past.

Finally, the value of *insurance technical reserves* will change due to variations in the factors used in the actuarial calculations (e.g., projected future interest rates, expected survival rates at various ages, conditions impacting on eligibility for and value of benefits, etc.). In standard accounting presentations these would be treated as expenses or revenue—depending on whether the liability increased or decreased as a result of the changes—in the period in which the actuarial calculations are changed. In

²⁴ Such property expense would offset equivalent government revenue, with no net effect on the government's operating position.

²⁵ *Other economic flows* are distinguished from *transactions* in economic statistics. Transactions are those flows that result from agreements between parties (and also include some internal flows, such as depreciation, where one entity is acting in two different economic capacities). Other economic flows (such as revaluations) do not involve agreement between parties.

economic presentations such flows are not regarded as transactions and are classified to a separate (*other economic flows*) category.

Disclosure versus Recognition

It has been argued by some fiscal economists including at the International Monetary Fund (IMF) that the social pension arrangements do not adequately satisfy the constructive obligation criterion, due to the “relatively soft nature of the commitment”. Some fiscal analysts would therefore prefer that there be *disclosure* of the possible scope of government liabilities, rather than *full recognition* of the liability in the financial statements. It is not clear precisely how “disclosure” would differ from “recognition”, but many fiscal analysts would presumably at least prefer a presentation that indicates the degree of uncertainty involved.

The view of this paper is that the obligations incurred by governments are sufficiently strong, and capable of measurement, that they should be recognized. However, it would be appropriate to present these obligations in a way which would acknowledge the degree of uncertainty in measuring the net present value of pension entitlements, and the real, if limited, ability of governments to vary benefits. The accounting treatment of such liabilities as *provisions* indicates uncertainty in timing or amount, and further qualifying information could be provided in the notes to the accounts. A similar feature would also be useful in economic statistics.

Conclusion

Government non-employer related pension obligations, which are characterized by a gradual build-up of entitlement over a person’s working life, and gradual extinguishment of that entitlement during retirement, are poorly measured by current accounting and statistical treatments. The economic burden that the government imposes on future generations is to a large degree invisible to both policy makers and the public, and this can lead to inappropriate policies in the present and possibly very painful adjustments in the future.

The treatment of pension obligations as liabilities (with associated expense and financing transactions), as recommended in this paper, is consistent with current international accounting and economic statistical principles, and would substantially improve the analytic value of financial statements, and statistical presentations based on those statements.

This paper has focussed on pension obligations, both because of their importance, and because they are considered to be clearly at the insurance end of the social insurance—social assistance spectrum. However, the principles outlined would also apply to other social policy obligations with similar characteristics.

Brian Donaghue

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