

Pension Funds with Securities Issued by the Employer

John Pitzer

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1. There is an exception in the SNA treatment of pension funds when the fund is sponsored by a non-government employer and all of the assets in the fund are securities issued by that employer. This exception is sometimes characterized as meaning that such pension funds are treated as unfunded pension schemes. There may be some misunderstanding about this exception.
2. SNA paragraph 4.98 describes the institutional units comprising the insurance corporations and pension funds subsector of the financial corporations sector. It states: "The pension funds included here are those which are constituted in such a way that they are separate institutional units from the units which create them...They have their own assets and liabilities and they engage in financial transactions in the market on their own account. These funds are organized, and directed, by individual private or government employers, or jointly by individual employers and their employees; and the employees and/or employers make regular contributions. *They do not cover pension arrangements for the employees of private or government entities which do not include a separately organized fund nor an arrangement organized by a non-government employer in which the reserves of the fund are simply added to that employer's own reserves or invested in securities issued by that employer.*" (italics added)
3. The sentence in italics merely states that these pension funds are not to be treated as separate institutional units in the insurance corporations and pension funds subsector of the financial corporations sector. Anne Harrison indicated in her interview with the moderator of this electronic discussion group (April 3, 2003) that concerns about the strength of the claims of employees and other beneficiaries against the securities issued by the employer was behind the exception, which was also in the 1968 SNA. That is, if an employer goes bankrupt, the value of the securities in the pension fund would be worthless. Classifying the pension fund as a separate institutional unit implies independence from the employer and some degree of safety of the claims against the pension fund.
4. If a pension fund would seemingly be a separate institutional unit except for this provision, then it must be either a nonautonomous pension fund or an unfunded pension scheme. Because there are assets in the pension scheme, there are segregated accounts for the pension scheme, most likely there are actual employer social contributions, and a liability for the pension benefits is recognized, it would appear that it must be a nonautonomous pension fund. If so, however, the peculiar situation would exist in which the employer appears to own its own securities and records those securities as assets. Generally, when an enterprise acquires its own securities, the acquisitions are recorded in the financial account as reductions in the same liabilities (for example, buy-backs of bonds or shares). Because these securities are actually in the name of the pension fund rather than the employer and the members of the pension scheme have a direct claim against those securities, it seems best to record the securities as assets.