

**PENSION SCHEMES ELECTRONIC DISCUSSION GROUP  
INTERIM REPORT OF THE MODERATOR**

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### **List of Acronyms**

ABS	Australian Bureau of Statistics
COFOG	Classification of the Functions of Government
EDG	Electronic Discussion Group
<i>ESA 1995</i>	<i>European System of Accounts</i>
ESSPROS	European System of Social PROtection Statistics
FAS	Financial Accounting Standard (USA)
FASB	Financial Accounting Standard Board (USA)
FRS	Financial Reporting Standard (UK)
<i>GFSM 2001</i>	<i>Government Finance Statistics Manual 2001</i>
IAS	International Accounting Standard
IASB	International Accounting Standard Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standard
ISIC	International Standard Industrial Classification of all Economic Activities
ISWGNA	Intersecretariat Working Group on National Accounts
ITC	Invitation To Comment
PSC	Public Sector Committee
<i>1993 SNA</i>	<i>System of National Accounts 1993</i>
SPO	Social policy obligations (of government)

### **Conventions used in the report**

SNA 4.3 means the paragraph 4.3 (third paragraph of chapter 4) of the *1993 SNA*. Similarly, SNA IV.6 means to the 6<sup>th</sup> paragraph of the Annex IV of the *1993 SNA*.

Names in brackets refer to EDG contributors who discussed the point in question. This reference does not mean contributors promoted nearly the same, or exactly the same, point of view taken by the Moderator.

## I. EXECUTIVE SUMMARY

### Background

1. In Autumn 2001, the Intersecretariat Working Group on National Accounts (ISWGNA) requested the IMF Statistics Department establish an Electronic Discussion Group (EDG) on unfunded 'private' (employer) pension schemes. In Autumn 2002, the ISWGNA extended the mandate to all pension schemes – including social security schemes. The purpose of the EDG is to explore alternative treatments for, and to identify the most appropriate treatment of, pension schemes in macroeconomic statistical systems.
2. Pension obligations have the potential to exert pressure on government finance and have been the subject of increased focus in assessing medium-to-long-term fiscal sustainability. In the accounting area, the International Federation of Accountants (IFAC) has begun work on the accounting treatment of government social policy obligations (SPO). On-going work on how to properly account for post employment social benefits is also being carried out by national standards setters as well as the International Accounting Standard Board (IASB).
3. These developments have led to a renewed interest in the question of how the activities of pension schemes should be recorded in macroeconomic statistics. Under the current rules of *System of National Accounts 1993 (1993 SNA)*, pension obligations are recognized on balance sheet only for funded 'private' schemes. Hence, activities of many pension schemes, such as social security and unfunded employer schemes, do not lead to recognition of financial assets/liabilities.
4. The IMF's *Government Finance Statistics Manual 2001 (GFSM 2001)* recommends that contributions and benefits of government employer insurance pension schemes be recorded exclusively as financing transactions, and recognizes stocks of government liabilities for all employer schemes, both funded and unfunded, in the form of *insurance technical reserves*.
5. Conclusions of the EDG will be given to the ISWGNA for consideration in the ongoing process of the *1993 SNA* Review.
6. The EDG was established in October 2002, with debates accessible to the public at: <http://www.imf.org/external/np/sta/ueps/index.htm>. By September 23, 2003, the EDG has posted twenty-eight contributions from twenty-seven contributors. Measured traffic on the web site is nonetheless still disappointing. A preliminary EDG membership list has been established (annex).

### Structure of the Paper

7. Section II introduces some background with a short history and review of business accounting pension recording rules. Section III introduces the scope of the EDG, after summarizing the *1993 SNA* recordings and terminology. Section IV summarizes each EDG

contribution. Section V provides a summary of the Moderator of first trends and suggests recommendations to the ISWGNA and a timetable.

### **EDG discussion**

8. **The EDG is still at the beginning of its activities and the Moderator can draw no definitive conclusion at this stage. A Straw Poll Questionnaire was circulated on September 17, 2003 to collect more systematically views of contributors and other experts (see Appendix 3).**

9. **However, most, if not all, contributors favor recognizing – in a reviewed SNA – pension obligations of unfunded schemes as liabilities.** It is argued that the reality of obligations does not depend on the funding characteristic of the arrangement, particularly when the obligation is recognized in the own financial statement of the entity in question. This is in line with business accounting practices, and has already been implemented by national accountants in Australia, Canada and New Zealand. **The Moderator tentatively concludes that a likely consensus exists in the EDG on this issue.** At the same time, support for such recognition suggests – **for consistency reasons – that the way transactions are recorded in the case of funded schemes should be revisited.**

10. The *GFSM 2001* (para 7.124) and Anne Harrison among others advocate allocating defined benefit pension schemes “net assets” to the sponsor (the SNA net worth would then be zero also for defined benefit pension schemes). Another implication would be that social contributions would be valued on actuarial considerations and incorporate imputed additions (hence preventing the unhelpful consequence observed now where lump sums between the employer and the pension fund in relation to the underfunding or overfunding affect GDP or the net operating surplus of sectors). One question relates to the valuation of property income receivable by policyholders and to whether property income payable by pension funds/schemes should be set equal to property income receivable or allowed to differ, that is whether pension schemes should be in a position to generate saving or not. **More debate is needed.**

11. There is divergence of opinion on the keeping of the **dual recording** (see para 19, 53, 110) (with Australia and Canada practices following the *GFSM 2001* option not to use it), on the inclusion or exclusion of **defined contribution schemes** from social insurance (deemed by some not to spread risks) and more generally on what **social insurance** (or social protection) ought to cover. **More debate is needed.**

12. Some contributors suggest recognizing **social security/assistance pension obligations** and note the work on SPO by IFAC in that direction. **More debate is needed.**

13. The Moderator observes that terms such as reserves, provisions and “funded/unfunded” are used with different meaning among *1993 SNA* users. **Reserves**, in particular, is used to mean alternatively “asset” of the pension scheme or liability entry on the balance sheet of the latter (in its own “financial statement”).

## **Recommendations and timetable**

14. **The ISWGNA is invited to take note of the EDG work, agree with the scope (part III section B), and suggest priority or other areas of work.**

15. The envisaged timetable is as follows:

- The Interim Report will be presented and discussed at the **OECD National Accounts Experts** meeting on October 7, 2003 (incorporating any updates).
- The IMF plans to send an **EDG Questionnaire** by Autumn 2003 to its correspondents to collect their views on the current interpretation and their preferences for changes of SNA. An **Updated Interim Report** will be ready for posting on the EDG by **end 2003** and submitted to the ISWGNA and the Advisory Expert Group.
- A new report may be submitted in September 2004 (with an early version ready earlier in 2004, if necessary).

## **II. BACKGROUND**

### **A. Short History**

16. Employers and governments have long felt the need to organize retirement arrangements to provide employees adequate resources for post-employment. During the XIX century, some corporations started to distribute fringe benefits in the form of promises to pay retirement pensions. The Bismarck model was structured around a tripartite arrangement, where the employee, the employer and government equally contribute to finance pensions paid to retirees. The Beveridge model provided public pensions unrelated to contributions, and paid out of general taxation. The generalization of pension schemes and their maturing, with gradually increasing beneficiaries/contributors ratios in connection with ageing populations, have led to the appearance of growing imbalances of many pension schemes and to discussions on how transactions should be accounted for.

17. Business accountings standard setters have long pondered on rules how to best account for the net periodic pension cost borne by the employer as well as its remaining liability (see section B below).

18. From anecdotal evidence of experts directly involved in drafting the *1993 SNA*, it is known that the recording of pension obligations by government or by private employers was subject to substantial discussion in the interagency committee that guided the completion of the manual. Debates were largely dominated by concerns about the contingent character of pension liabilities (unfunded schemes) as well as the adequacy of source data to provide for reasonably solid estimates of current pension obligations to be used by statisticians. The introduction of the notion of social insurance and the change in the accounting of insurance output, in comparison to the 1968 version of SNA, had impacts in several places in the accounts. An Annex IV *The Treatment of Insurance, Social Insurance and Pensions* was

written, by Anne Harrison, to show the implications for six sorts of cases and the entries in the current and in the accumulation accounts.

19. The outcome of this discussion was that activities of many pension schemes, such as social security and unfunded employer schemes, do not lead to recognition of liabilities in the books of the sponsor and, simultaneously, of financial assets in the accounts of households. Consequently, those pension schemes were not conceived in the *1993 SNA* as contributing to households' saving and net worth, despite certainly influencing their consumption behavior. In addition, where liabilities were recognized for funded schemes, pension contributions and benefits are both recorded as financial transactions (incurrence and redemption of schemes liabilities, respectively) as well as income distribution (non-financial transactions: schemes resources and uses), with the need for an adjustment item (D.8). This *1993 SNA* approach is to be called in this report "dual recording".

20. More recently, the IMF's *GFSM 2001* recommends that contributions and benefits of government employer insurance pension schemes be recorded exclusively as financing transactions, hence not retaining the *1993 SNA* dual recording approach. The *GFSM 2001* recognizes stocks of government liabilities for all employer schemes, both funded and unfunded, in the form of *insurance technical reserves*. In addition, the property income distributable on those liabilities is estimated, for defined benefits schemes, using actuarial techniques (and property income receivable for defined contribution schemes<sup>1</sup>). Nevertheless, the *GFSM 2001* remained in line with the *1993 SNA* regarding the social security and assistance pension schemes.

21. Pension obligations have the potential to exert pressure on government finance and have been increasingly the subject of renewed focus when assessing medium-to-long-term fiscal sustainability. Many countries have engaged in pension reforms (for instance: a few Latin America countries, including Chile, Peru, Colombia, Argentina, Uruguay, Bolivia, Mexico, El Salvador, and more recently Poland and some other European countries), while discussion is ongoing in others countries, such as in the USA (President's Commission to Strengthen Social Security). In Europe, the Economic Policy Committee now regularly reports to the Ecofin Council (the European council of finance ministers), at its request, the work undertaken by a working group on ageing populations. In the accounting area, IFAC, whose Public Sector Committee (PSC) publishes accounting standards for the public sector, has begun work in 2002 on the accounting treatment of governments' social policy obligations.

22. Recent noticeable falls in global stock-market indices and the subsequent appearance of substantial underfunded positions of pension funds sponsored by large and well-known corporations, as well as the consequence for pension arrangements of some famous bankruptcies, have further shed light on the way employee pension entitlements are protected and employer pension schemes are accounted for. In the accounting area, the IASB has launched a Project with a view to revise International Accounting Standard (IAS) 19 on

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<sup>1</sup> The *1993 SNA* uses the term Money Purchase Scheme (SNA 13.79).

Employees Benefits, while other national accounting standard setters have already toughened accounting rules or are in a process to do so.

23. In Autumn 2001, the ISWGNA requested the IMF Statistics Department establish an EDG on the treatment of employer unfunded pension schemes. In Autumn 2002, the ISWGNA further recommended that the EDG scope be extended to all pension schemes<sup>2</sup>. The purpose of the EDG is to explore alternatives treatments for, and to identify the most appropriate treatment of, such pension schemes in macroeconomic statistical systems. The EDG was established in October 2002 and is accessible to the public at: <http://www.imf.org/external/np/sta/ueps/index.htm>

24. Other international statistical agencies have also been active recently. In January and April 2003, a Eurostat<sup>3</sup> Task Force on the classification of pension schemes discussed criteria for the delineation of social security schemes. In June 2003, another Eurostat Task Force met to discuss the appropriate treatment of lump sums paid by public corporations to government in return for the assumption of their pension obligations. Some discussions have taken place on the measurement of property income, notably at the OECD in the context of the EDG on non-life insurance.

25. All these developments have led to a renewed interest in the question of how the activities of pension schemes should be recorded in macroeconomic statistics, notably in the context of the review of the *1993 SNA*.

## **B. Accounting Standards**

### **Context**

26. Business accounting standard setters have long pondered on rules how to best account for the net periodic pension cost borne by the employer as well as its remaining liability – by reference to accrual accounting.

27. For example, the Financial Accounting Standard Board (FASB), the US standard setter, reaffirms in Financial Accounting Standard (FAS) 87 on Employers' Accounting for pensions, published in 1985, the usefulness of information based on accrual accounting, which goes beyond cash transactions to provide information about assets, liabilities, and earnings. The FASB stated that the net pension cost for a period is not necessarily determined by the amount the employer decides to contribute to the plan for that period, and that many factors (including tax considerations and availability of both cash and alternative investment opportunities) that affect funding decisions should not be allowed to dictate accounting results if the accounting is to provide the most useful information. It further indicated that "recognition of ... a liability is not a new idea: Accounting Research Bulletin No.47,

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<sup>2</sup> See minutes of the ISWGNA Autumn 2002 meeting in Paris.  
<http://unstats.un.org/unsd/nationalaccount/iswgna/iswgna10.pdf>

<sup>3</sup> Eurostat is the statistical agency of the European Commission.

*Accounting for Costs of Pension Plans*, published in 1956, stated that as a minimum, the accounts and financial statements should reflect accruals which reflect the net worth, actuarially calculated, of pension commitments to employees...”.

28. Various scandals, the opacity of pension accounting, the lack of comparability that this entails, the substantial fluctuations in called in contributions (including episodes of contribution holidays), the recent appearance of large underfunding positions in numerous employer pension funds, the general movement to mark-to-market rules have laid the ground for further substantial advances in the way pension obligations are accounted for across the board. The UK based Financial Reporting Standard (FRS) 17 represents one of the most advanced position developed by standard setters. It is also worth noting a trend out of defined benefit pension schemes in favor of defined contribution schemes, as employers try to shift risks off their balance sheet (including the “accounting risk”).

### **Employer pension accounting**

29. While each national standard setter enforces its own sets of rules, the IASB strives to promote global convergence across standards with the issuing of International Financial Reporting Standards (IFRS – previously known as IAS). IAS 19 on Employee Benefits illustrates the general thrust of the accounting profession (see the EDG contribution by Ahmad Hamidi-Ravari):

- The employer books a periodic cost of its pensions obligations, using actuarial estimates, which includes among other things: (a) the cost of additional entitlements against the service provided by employees during the period and (b) the carrying cost of the existing obligations net of “a return” provided on existing plan’s assets;
- The employer books a liability (or an asset) corresponding to the underfunded (overfunded) position of the pension fund, although many standards **allow delayed or smoothed recognition** (and possibly a maximum asset position); and
- Those standards are under scrutiny with a view to obtain **immediate** recognition of the liability.

30. In this context, accounting standards recognize liabilities whether they are funded or unfunded. As an example, the FASB professes in the FAS 87 that “an employer with an unfunded pension obligation has a liability and an employer with an overfunded pension obligation has an asset. The most relevant and reliable information about the liability or asset is based on the fair value of plan assets and a measure of the present value of the obligation using current, explicit assumptions.”

31. In the case of IAS 19, the cost of employment is decomposed in a *current service cost* which captures the actuarial value of new entitlement rights accrued by staff employed during the period, a *past service cost*, the *interest cost* (interest on pension obligations), the *expected return on (net) assets* minus/plus the *amortization of the cumulated unrecognized actuarial gains/losses*. The expected return on assets is currently reported in income and the difference between the expected return and the actual return is treated as an actuarial gain and loss, the recognition of which is currently allowed to be deferred. IAS 19 currently



allows enterprises to delay the recognition of *net plan assets* on their balance sheet and the impact on their operating statements, by way of imputing an *expected return on plan assets* (Para 105 - 107) and defining a *cumulated unrecognized actuarial gains/loss* to be amortized gradually over time (outside of a corridor of +/-10%).

32. The IASB has initiated a project on a review of IAS 19. It tentatively agreed that actuarial gains and losses should be recognized immediately, i.e. that the corridor and spreading options within IAS 19 should be removed (see the EDG contribution by Anne McGeachin). However, it was accepted that such a proposal could not be taken forward until the proposals for Performance Reporting were finalized. This separate IASB on-going project on Performance Reporting explores the promising possibility to present the usual income statement under a three column presentation: income before "*remeasurements*", "*remeasurements*" and total – which bears fruitful and encouraging resemblance with the essential transactions versus other economic flows delineation of the 1993 SNA. The Moderator draws the attention on the unique potential for improving source data provided to statisticians/national accountants that the adoption of such a new reporting format would entail.

33. The new UK standard FRS 17 makes two major changes in accounting for defined benefit schemes. It approaches the problem by concentrating on the measurement of the assets and liabilities of the scheme and on how the costs are reflected in the revenue statements. The assets of the scheme are to be valued at fair value, a major change from the old rules under the previous SSAP 24, which employed an “actuarial valuation approach for scheme assets”<sup>4</sup>. The liabilities are measured on an actuarial basis, and include both the contracted obligations promised by the scheme and any constructive obligations (see below), where statements or past practice have led to reasonable expectations by employees. The valuation of assets and liabilities gives rise to either a “surplus” or a “deficit” (the difference between the market value of the scheme's assets and the net present value of its liabilities). The “surplus/deficit” must be recognized in the balance sheet of the employer to the extent that a surplus may be recovered by reduced contributions, or a liability reflects its legal or constructive obligations. The profit and loss account recognizes the annual cost estimated by an actuary to provide the promised benefits within the operating costs. Actuarial gains and losses arising from new valuations are to be recognized in the Statement of Total Recognized Gains and Losses.<sup>5</sup>

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<sup>4</sup> Actuarial valuation should generally refer to valuation made by actuaries. They encompass the valuation of pension obligations as well as the flows that explain the change in stocks of obligations: interest on those obligations, contributions due etc... But they also refer to valuation of assets when actuaries compile expected returns.

<sup>5</sup> John Morley at: <http://www.accountancyage.com/Comment/1128102>

## **Liability boundary**

34. The liability boundary differs between accounting standards and statistical standards (1993 SNA) in two main respects:

- The 1993 SNA does not recognize provisions as liabilities (SNA 13.22) as they are internal events to institutional units and are not interaction between units;
- Accountants recognize obligations as liabilities even if they are not legally enforceable, but arise from “**constructive obligation**”. In contrast, the 1993 SNA, defines economic assets as entities (from which economic benefits may be derived and) whose ownership rights are enforceable at law.

35. **Constructive obligations** are defined in IAS as “obligations that derive from an enterprise’s actions where

- a) By an established pattern of past practice, published policies or a sufficient specific current statement, the enterprise has indicated to other parties that it will accept certain responsibilities; and
- b) As a result, the enterprise has created a valid expectation on the part of other parties that it will discharge those responsibilities.”

## **Government employer schemes and Social Policy Obligations**

36. Pension obligations of government related to its employees are to be recorded using the same rule of business accounting. The IFAC PSC, which sets international accounting standards for public entities (IPSAS), recognizes IAS 19 as applicable in the interim, where no applicable IPSAS exists (see the EDG contribution by Paul Sutcliffe and Ahmad Hamidi-Ravari).

37. Quite separately, IFAC PSC established in 2002 a SPO steering committee with a mandate to draft an Invitation to Comment on the recording of social policy obligations – including pensions. (see the EDG contribution by Paul Sutcliffe and Ahmad Hamidi-Ravari)

## **III. SCOPE**

*This part is written by the Moderator to set the context of 1993 SNA recordings and the terminology (section A) and to describe the main issues the EDG would need to address (section B). Nonetheless, references to EDG contributions and their authors are indicated where relevant.*

### **A. 1993 SNA recordings and terminology**

#### **Classification of schemes**

38. Most individuals arrange to provide enough resources to maintain a reasonable purchasing power during their old age when direct income derived from working activities will have stopped. While, this may take the form of personal savings accumulated during the

working life under one's own name, this often takes the form of entering into an insurance arrangement whereby the policy holder, the insured, makes regular payments to an entity, the insurer, which in return guarantees to pay an annuity starting at a retirement date, or a lump sum.

39. The *1993 SNA* classifies such arrangement as social insurance schemes whence the policyholder is obligated or encouraged to insure against contingencies by the intervention of a third party: the sponsor (SNA IV.5<sup>6</sup>). Otherwise, the arrangement is described as life insurance. The *1993 SNA* does not provide a definition of pension schemes.

40. Social insurance schemes are social security schemes when they cover a large part of the population and are imposed and controlled by government (SNA 4.111). Otherwise, they are so-called private schemes<sup>7</sup> (SNA 8.55, Figure A.IV.1 of SNA Annex IV) that mainly comprise employer schemes (SNA IV.10). Employer schemes can be managed by a separate institutional unit: an insurer or an autonomous pension fund, or can be assimilated to the institutional unit of the employer when the pension fund is non-autonomous (i.e. does not have the attribute of an institutional unit but "reserves are segregated") or when the pension scheme's "reserves are not segregated" (unfunded schemes). (SNA 8.63 or IV.11)

41. Pensions plans are defined benefits when the level of pension benefits promised is guaranteed: benefits are often related by some formula to participants' length of service and salary and are not totally dependent on the assets of the fund (SNA 13.78). Defined contribution plans (or money-purchase in *1993 SNA* parlance) are those where benefits exclusively depend on the assets of the fund. The net worth of the latter is always zero (SNA 13.79). In contrast, the former may be underfunded or overfunded according to funding policy, the market behavior and the actuarial hypotheses used (SNA 13.83).

42. Social assistance schemes are those that are similar to social security schemes except that there are no contributions (SNA 8.88). Social assistance is not particularly restricted to programs mainly designed for the poor (such as means-tested).

### ***1993 SNA terminology***

43. A basic terminology issue relates to the notion of "**reserve**" and of "**funded**" [Pitzer, Eurostat B.4, Moderator]. While there is no definition of the term "reserve", in the context of pension "reserve" is often interpreted, based on some paragraph of the *1993 SNA*, to mean "assets" held by the scheme. Others interpret this term, based on other paragraphs, to mean a liability entry on the own balance sheet of the scheme or unit (own accounting): this is based in particular on statements such as "The reserves are treated in the System as assets that

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<sup>6</sup> SNA IV.5 signifies: the paragraph 5 of the Annex IV of the *1993 SNA*. And SNA 4.111 signifies: paragraph 111 (numbered 4.111) of chapter 4 of the *1993 SNA*.

<sup>7</sup> Somewhat confusingly, "private schemes" can be organized for government or other public sector employees, or can even be run for private sector employees by insurers of the public sector (they are government owned corporations).

belong to the beneficiaries...” (SNA 8.63 among others), or on the title of the instrument AF.6 *Insurance technical reserves*, or even on the formula for insurance and pension funds output (SNA IV.15). Sometimes, reserves are even assimilated to provisions – see the European System of Accounts (*ESA 1995*) Para 5.101<sup>8</sup>, but also SNA IV.12 “schemes where the pension provisions are not even segregated...”

44. It is widely perceived that the casual meaning of funded pension schemes, in particular in accounting terminology, is that assets are accumulated by the scheme. However, in accounting terminology, reserves undisputedly refer to entries on the liability side of the balance sheet. Quite separately, the “squirrel accumulates reserves or provisions” in the form of nuts.

45. It is debatable whether schemes where assets are invested in liability instruments of the sponsor (shares or bonds) must be seen as unfunded (statistical term), at least when the sponsor is private (SNA 4.98) [Harrison], or as non-autonomous but funded [Pitzer]. In addition there is a need to interpret how new schemes structured around “notional funds” should be treated, in particular having in mind the definition of economic assets (SNA 10.2 or 13.12). Notional funds function as if the scheme held a claim against the sponsor, where the insured individual (policyholder) acquires an unconditional right for a definite amount expressed as a specific amount of currency and a return indexed on a specific indicator, although no formal matching asset is accumulated. [Lequiller, Moderator, Steurer, Pitzer, Eurostat B.4]

46. Another terminology issue relates to the **autonomous** versus **non-autonomous** delineation (SNA 6.141, Figure A.IV.1). Would it refer to the institutional unit character of the entity (SNA 4.2), an even more appealing proposition under *ESA 1995*, or to the fact that the pension fund is supposed to be a self-contained entity able to meet pension obligations, i.e. the assets are *designed* to match liabilities and the management of assets is the responsibility of parties independent from the sponsor?

47. A social security fund is a social security scheme organized by a special purpose entity that meets the criteria of an institutional unit (SNA 4.111). Somewhat in contrast, a pension fund is simply a pension schemes that is funded. Such an entity is not necessarily an institutional unit or classified in the sub sector *Insurance corporations and pension funds* (S.125). The *1993 SNA* does not envisage cases where schemes are partially funded, that is where the sponsor routinely transfers substantially less assets than would be actuarially required, *de facto* leaving it with an off-balance sheet obligation [Harper, Moderator, de Vries]. Should such schemes be considered as funded in the current *1993 SNA*, with

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<sup>8</sup> “Provisions or similar funds constituted by employers to provide with pensions (non-autonomous pension funds) are only included in category AF.6 if they are calculated according to actuarial criteria similar to those used by insurance corporations and autonomous pension funds. Otherwise, these provisions are covered by shares or other equity issued by the institutional unit that sets up the provisions”.

important implications from the point of view of the recording of liabilities and of transactions?

48. Social insurance involves many different actors in their different capacity [Pitzer, de Vries]:

- The **insured party** or policyholder: the household;
- The **sponsor** of the scheme, or third party, which makes the schemes compulsory or encouraged; it is often the employer or is government;
- The **insurer** (or organizer?): the entity where flows transit and are booked, and where assets and liabilities appear – often a pension fund; ; the entity may be part of the sponsor, as in the case of non-autonomous fund or unfunded schemes of employers; it may belong to all sectors of the economy and need not be classified in the *Insurance corporations and pension funds* sub sector (S.125);
- The **manager** of the assets (or of the insurer); this entity may be within the insurer or may be a separate institutional unit, as in the case of pension funds (in S.125), to be classified the *financial auxiliaries* sub sector (S.124);
- The **provider of services** for benefits in kind, where applicable; that fifth actor, which classification is important for the recording of many social insurance schemes, can be disregarded in this report, as retirement pensions are quasi-exclusively transactions in cash.

49. The three actors – other than households – involved in pension schemes may constitute a unique or two or even three distinct institutional unit(s).

## Recording

50. The 1993 SNA takes the view that contributions collected by social insurance schemes are all payable by the employee even for the employer part, the latter being therefore first routed via the household account, as part of *Compensation of employees* (D.1) in the form of *Employers' social contribution* (D.12) (SNA 8.67). Such an approach allows measuring appropriately the true cost of labor, and therefore better measuring GDP where the producer is non-market and the *net operating surplus* (B.2) where it is market.

51. Contributions are then returned to schemes in the form of *social contributions* (D.61) that are Resources of schemes (non-financial transaction) and Uses of households, in the secondary distribution of income account. Pensions payable are booked as *social benefits other than social transfers in kind* (D.62) that are Uses of schemes and Resources of households in the secondary distribution of income account (SNA 8.68 and 8.75).

52. In the 1993 SNA, social contributions are subcategorized by type of payer: Employer, Employee, Self-employed and non-employed, Imputed contribution (employer) (SNA 8.67-8.73). Social benefits are subcategorized by type of scheme: Social security, Private funded, Unfunded, Social assistance (SNA 8.77-8.82).

53. In the case of Private funded pension schemes, contributions are also perceived in the 1993 SNA as incurrence of liabilities of the schemes in the form of *Insurance technical reserves* (AF.6) (financial transactions) (SNA 11.94) and pensions as redemption of such liabilities (SNA 11.95). To reconcile the accounts, an *Adjustment for the change in net equity of households in pension funds* (D.8) is posted in the use of income account (SNA 9.14-9.16). This approach is labeled “**dual recording**” in this report. Hence, *saving* (B.8) and *net lending/net borrowing* (B.9) reflect a financial perspective, while, in contrast, *disposable income* (B.6) reflects the non-financial one. It follows that the famous equation saving = disposable income less consumption<sup>9</sup> does not exactly hold.<sup>10</sup>

54. In addition, *Insurance technical reserves* give rise to property income payable by the pension funds to households (SNA 7.127). For its measurement, the 1993 SNA takes a “transparency” view: property income collectable on the assets of schemes (pension funds) is deemed to be distributed for the same amount to households in the form of *Property income attributed to insurance policy holders* (D.44) and immediately reinvested by the policy holders into the pension fund in the form of a contribution supplement (part of both D.61 and F.6) (SNA 7.127, 8.69, IV.48 and .49(c)). In contrast, the GFSM 2001 recognizes property income on the basis of the actuarial discount rate used (times the stock of claims outstanding), which also exactly corresponds to the effect of the passage of time and the implication that each given set of future cash flows increases in value as they are being discounted with one less period (GFSM 6.79).

55. The 1993 SNA recommends to value the *insurance technical reserves* outstanding using actuarial estimates (SNA 12.53) but to value additions to existing rights using actual contributions (SNA 8.67), creating additional inconsistencies<sup>11</sup>, which have to be artificially captured in the other economic flows.

56. In the case of unfunded schemes, the 1993 SNA recommends imputing employer contributions by way of using actuarial estimates but allows, in the absence of reliable sources, using the amount of pension payable during the period as a proxy of the contribution (SNA 7.46). While ESA 1995 has a similar approach (ESA Para 4.99), it nonetheless prohibits such a method in case “as a result of political events or economic changes, the ratio between the number currently employed and the number receiving pensions changes appreciably and becomes abnormal” (the 1993 SNA only mentions “changing of composition and structure of the labor force” would make it a poor proxy). (SNA 7.46)

57. A crucial consideration is whether an entity that seems to look like an element of wealth, i.e. an asset, is recognized in the 1993 SNA as such, that is, meets the criteria of “economic asset”: being both a store of value from which economic benefits may be derived and whose

<sup>9</sup> *Final consumption expenditure* (P.3).

<sup>10</sup> Instead the exact equation is: saving = disposable income less consumption plus Adjustment for the change in net equity of households in pension funds; see as an example the 1993 SNA page 649 with the full sequence of accounts for households (bloc II.4.1).

<sup>11</sup> Additional to those introduced by the valuation rule of property income—see previous paragraph.

ownership rights are enforceable at law (SNA 13.12). Hence, one question is whether pension entitlements are economic (financial) assets. It is worth noting the accounting boundary of liability is somewhat different, in particular with the recognition of constructive obligations (see para 34 ad 35 above).

58. Finally, the 1993 SNA recognizes that the running of a pension scheme gives rise to a production process that involves an output of insurance and pension funding services (ISIC<sup>12</sup> code 66), but only when the pension fund is managed by an insurance corporation or is autonomous (SNA IV.19-20). The formula used is: actual contributions earned *plus* (imputed) contribution supplements *less* benefits due (pensions) *less* increases (*plus* decreases) in pension reserves. Importantly, each of these items is measured **excluding** holding gains and losses (SNA IV.18 and .19)<sup>13</sup>.

59. Transfers of pension entitlements or rights in between pension funds, carried out by employees, in particular when they move from one employer to another, are straightforward: those are financial transactions, in the form of exchange of cash against liabilities in *insurance technical reserves*. However, **the recording of transfers involving unfunded schemes, including social security schemes, needs to be clarified in the current 1993 SNA**. This has growing Balance of Payment implications, in a world where more and more employees or self-employed pursue multinational careers.

## B. EDG main issues

60. While pensions may uncover a wide diversity of benefits, the EDG discussion may focus on retirement pension or old age pension as defined in Class 7102 of the Classification of the Functions of Government (COFOG) published by the United Nation Statistical Division. Retirement pensions are mainly in the form of cash, either a string of regular payments – as commonly understood – but also in the form of lump sums.<sup>14</sup>

61. Based on the EDG contributions received so far, the original list of issues has been somewhat expanded, in particular to make room for a third area of work related to the delineation of social insurance and classification of schemes [Walton, Harrison, Pitzer, de Vries]. The three principal issues now under discussion by the EDG are:

- The recognition of a liability for unfunded private pension schemes similar to the funded schemes treatment, and the recording rules for private pension schemes in general [A];
- The recognition of pension obligations of social security and social assistance schemes [B]; and

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<sup>12</sup> International Standard Industrial Classification of all Economic Activities.

<sup>13</sup> A Typo appears in SNA Para 6.140, with interverted signs in the formula [Harrison].

<sup>14</sup> There is a need to discuss whether some post retirement benefits differ from others (such as post retirement health benefits) and what is the basis to recognize as liabilities some benefits and not others.

- The delineation of social insurance and classification of schemes [C].

62. Concerning **Private schemes**, various recording issues need to be discussed, particularly in case of a change of unfunded schemes treatment [A0]. Among the question to be addressed are:

- the allocation of net worth of defined-contribution schemes, as in *GFSM 2001*, and to whom [A1];
- the usefulness of the funded/unfunded delineation, its precise definition, the notion of reserves and provisions; [A2.1]; the treatment of schemes involving “notional funds” [A2.3]; the notion of overfunded/underfunded versus fully/partially funded [A2.2];
- the desirability of keeping the dual recording, and the possible need for an adjustment to disposable income [A3];
- the measurement of property income payable, including the use of actuarial discount rates (as in the *GFSM 2001*), and its delineation with holding gains and losses; the question whether pension funds should have zero net property income, or not [A4];
- the exact method for measuring household’s total claims, in principle assumed to be based on an actuarial method [A5];
- the measurement of contributions and their allocation between actual and imputed ones [A6.1]; some advice is required on the current *1993 SNA* implied rule for contribution valuation notably in the case of unfunded schemes (and its impact on GDP) [A6.2]; should contributions for funded schemes reflect actuarial amounts or actual contributions? [A6.3]
- the delineation between autonomous and non-autonomous pension funds [A7]; the delineation between the insurer (the institution) and the manager [A7.2];
- whether output of insurance services should be extended to non-autonomous funds and unfunded schemes and what should be the preferred formula [A8];
- whether pension entitlements are economic assets [A9];
- the exact economic flow (transaction, revaluation, other change in volume) to be considered for each event [A10];
- whether the statistical basis for pension recording stays in accord with the developments regarding business accounting (IASB, notably) [A11].

63. Concerning **social security and social assistance schemes**, the “economic asset” character of pension obligations would have to be assessed [B1], also by reference to the notion of “constructive obligation” developed in business accounting. The impact of pension reforms and the recording of “recognition bonds” [B2] needs to be clarified. Work by the SPO steering committee of IFAC needs to be closely monitored [B3].



64. Concerning the **delineation of social insurance**, the question would relate to:

- whether defined contribution pension plans<sup>15</sup> are social insurance schemes (as is widely interpreted to be the case in the *1993 SNA*) or saving schemes (and what is its nature?) as in the *GFSM 2001* (Para 21 of the Annex of Chapter 2) [C1]; The treatment of “notional funds” [C1.2];
- whether the many individual schemes, which tend to proliferate at the moment, should be included into the social insurance boundary; more generally, what is the boundary between pension funds and life-insurance; [C2]
- the boundary between social security schemes and other schemes [C3]; and
- whether SNA may usefully incorporate the notion of Social Protection. The *GFSM 2001* defines the latter as encompassing social insurance and social assistance. Similarly, the European System of Social PROtection Statistics (ESSPROS) focuses on social protection, which encompasses non-contributory schemes [C4].

65. However, a cross-topical issue is the recording in the *1993 SNA* of the transfer of pension entitlements or rights in between pension schemes carried out by employees, in particular when they move from one employer to another [D1]. Similarly, events related to changes in sector or in structure of pension schemes, including lump-sum payments exchanged in the process, give rise to recording difficulties [D2].

#### IV. EDG ACTIVITIES AND CONTRIBUTIONS

##### A. Activities of the EDG

66. After the initial discussion paper of October 2002, the EDG posted six contributions between January and May 2003 and a further twenty-two contributions or reactions by August 19, 2003. In total twenty-eight contributions, from twenty-seven authors or institutions, totaling about 360 pages, were posted (see annex 1). No contribution received by the Moderator was refused from posting on the EDG’s website. The summary in section B below reflects only a selection of the position taken in the contributions; for the full texts please see the website at: <http://www.imf.org/external/np/sta/ueps/index.htm>

67. Despite the publicity posted in the *SNA News and Notes* number 15 and number 16, the traffic globally reported to the Moderator by the EXR department of the IMF, in charge of web management and guardian of the strict confidentiality rules applicable<sup>16</sup>, suggests insufficient awareness across the board. Particularly disappointing is the total number to date of EDG posted contributions that were downloaded by external users (other than IMF). Although it is noticeable that web traffic statistics are notoriously unreliable, the general thrust of the message is unlikely to be erroneous.

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<sup>15</sup> Called Money Purchase Plans in the *1993 SNA*.

<sup>16</sup> The Moderator was only being provided the total number of (non-IMF staff) hits and downloads, by page or document, and by period, without breakdown by type of visitor.

68. In line with the suggestion of action by the ISWGNA to the United Nation Statistical Commission, made in Spring 2003, to establish official lists of EDG members, and owing to the existence of a sufficient mass of documents, the Moderator started assembling a wider list of EDG members (see annex 2), in hope to foster debating.

69. Simultaneously, a Straw Poll Questionnaire of the Moderator – with cross references to the draft Interim Report – was circulated on September 17, 2003 (see Appendix 3). It provides the opportunity to collect early views from those interested before a formal circulation of the EDG Questionnaire in Autumn 2003. The Straw Poll Questionnaire mostly comprises closed questions on (1) the interpretation of the current *1993 SNA* and (2) the preferred choices in a reviewed SNA.

## **B. Summary of each paper posted on the EDG**

### *Summary of papers posted up to September 1, 2003*

70. In an introductory discussion paper posted on November 2002, **John Pitzer** describes in detail the various arrangements and recordings foreseen in the *1993 SNA* – focusing on private schemes – summarized in the Table below. He notes that pension schemes are simply saving schemes with deferred compensation at source of savings – but can be organized in many ways. While pension rights begin to accumulate immediately, they vest (or become irrevocable) only after years. The legal nature of the obligation to provide in-kind post-retirement benefits is the same as for the more typical monetary payments. One question is who owns the reserves, which consist of the net assets designated to pay the benefits, and who has a liability to make payments. He observes that both the *GFSM 2001* and IAS 19 (and the associated IPSAS) recognize a liability for unfunded schemes and depart from the *1993 SNA* in many other ways: the dual accounting presentation is not used; the increase in liability for expected pension benefits arising from the fact that they are discounted over one fewer period is booked as property income. For the author, among the reasons to change the unfunded recording is that a basic premise of the *1993 SNA* is that similar events should be treated similarly. The legal nature of the obligation, its value and factors governing its evolution are independent from the means of funding, although he notes that insofar as assets of pension schemes are subject to a ‘direct claim’ by households, pension funds are inherently safer to policyholder. Faced with an aging of the Baby Boomer generation, employers with unfunded schemes will be confronted to unavoidable increasing cash outflows; hence, liability recognition should aid policy formulation. In contrast, while unlikely to be able to evade in full its social security obligations, government will more likely be able to change its structure and eligibility rules. He also remarks that discussion of unfunded schemes may result in implications for the treatment of funded schemes. For the latter: Should pension funds have an SNA net worth? Should contributions be measured using actuarial techniques? Should supplemental lump sums be booked as compensation of employee or as a transfer? Should the effect of the passing of time be recorded as property income or revaluations? [A1, A3, A4, A6, A9, A11]

Type of Stock or Flow	Autonomous Pension Funds and Insurance Enterprises	Nonautonomous Pension Funds	Unfunded Employer Scheme
Employer contributions to be included in compensation of employees	Actual contributions	Actual contributions	Imputed contributions
Output of financial services produced by pension funds	Estimated	Not estimated	Not estimated
Contributions to pension schemes	Actual contributions less the estimated output of autonomous pension funds and pension funds managed by insurance enterprises. Recorded both as a transfer payment and a transaction in financial assets.	Actual contributions. Recorded both as a transfer payment and a transaction in financial assets.	Actual plus imputed contributions. Recorded only as a transfer payment.
Property income attributable to insurance policyholders	Income actually earned	Income actually earned	None
Pension benefits	Actual amounts paid. Recorded as a transfer payment and a transaction in financial assets.	Actual amounts paid. Recorded as a transfer payment and a transaction in financial assets.	Actual amounts paid. Recorded only as a transfer payment.
Adjustment for the change in the net equity of households on pension funds	Added to the disposable income of households and deducted from the disposable income of pension funds.	Added to the disposable income of households and deducted from the disposable income of pension funds.	Not applicable
Insurance technical reserves (other than prepaid contributions and benefits due for payment)	Present value of expected future pension benefits already earned.	Present value of expected future pension benefits already earned.	None

71. In a contribution posted on January 10, 2003, in the form of an extract of the OECD *statistical newsletter*, **Francois Lequiller** (OECD) reports that the current SNA treatment of pension schemes is no longer perceived as fully appropriate. In recent years, as part of a general government accounting standards move, carried out by some countries, from cash to more elaborated accrual-based accounting, government pension obligations regarding their own employees are recognized using actuarial estimates. The move incited national accountants to include these liabilities in their core national accounts, creating a problem of international comparability in OECD statistical tables, which was met with a temporary solution. [A0, A11]

72. In a contribution posted on January 10, 2003, **Brian Donaghue** calls for liability recognition of social security and social assistance retirement obligations, arguing that,

although no exchange arrangement takes place, government promises to pay retirement pensions create a valid “constructive obligation”, which affects household’s behavior. They are present obligations due to past events – the obligating event is the passage of time –, which set limits to the degree to which governments can control the future flow of resources. Front-loading all future payments does not seem to provide analytic information, while pay-as-you-go recording is also unsatisfactory because payments result from policies in force over a considerable period. By relieving individuals of the present need to make provision for future risk, the government is in effect providing a current benefit (similar to insurance cover) – starting from the age of 18, the author argues (age of economic responsibility). Government creates entitlements for households and obligations for itself; when Chile terminated the public pension system, government recognized such obligations by providing securities of appropriate value (“recognition bonds”) for individuals who moved to the private systems. While pension arrangements may be altered, already accrued entitlements have often been protected (“grandfathered”) or reduced with limited effects. In addition, it is probable that pension outflows expected today will indeed occur: the entitlement is contingent in respect of each individual but is not contingent from the point of view of government and can be valued with reasonable accuracy. They meet the criteria of liability recognition. Citing the New Zealand Financial Reporting Standard 15’s arguments that SPO have characteristics similar to executory contracts in that the community will collectively provide funds to the Crown against in return the Crown providing goods and services, the author argues the analogy breaks down in case the government is committing a future community to provide resources spanning several generations (as for pensions). [B1, B2, B3]

73. On January 23, 2003, **Peter Harper** for the **Australian Bureau of Statistics (ABS)** posted a contribution describing the new practice of treating, in Australian National Accounts, general government unfunded or partly funded employer schemes (superannuation schemes) in a manner consistent with funded schemes, at least where there is a high degree of certainty regarding the eventual payment of pensions. In Australia, a number of schemes have one component funded (employee contribution) and another unfunded (employer contribution), such that at retirement the pensioner collects a lump sum on the former and a “pension” on the latter. Viewed as a whole – from the perspective of the employee –, the scheme could be seen as permanently underfunded. The impact on the 2001 government debt and *net lending/ net borrowing* is quite substantial: respectively +17% and -0.4% of GDP. The note calls for an “update of the 1993 SNA”. The 1993 SNA reasons for treating unfunded schemes differently (a higher degree of uncertainty, possibly giving them a contingent character) do not apply to Australian government schemes – for which no material difference exists between funded and unfunded schemes. First, benefit levels are explicitly defined and although government may change formula, accrued entitlements are generally grandfathered. Employees who resign have generally an option to preserve, transfer or liquidate their entitlements. Second, the 1993 SNA provision for a memorandum item indicates a tacit acceptance that a liability exists. Third, Australian governments recognize in their own audited financial statements such a liability – consistent with principles of accrual accounting and of the *GFSM 2001*. Fourth, changes in demographic characteristics and funding practices would otherwise create distortions. In practice, an actuarial approach is used to create a notional superannuation fund and an imputed property income is recorded. Australian

national accountants use a model, for back compilation notably, when information was unavailable in reported financial statements. Contributions and pensions are treated as financial transactions (for both funded and unfunded schemes) in the Australian national accounts, which obviates the need for the *1993 SNA* entry "adjustment for the change in the net equity of households in pension fund reserves". The effects of changes in discount rates and changes in benefit entitlements are treated as revaluations and changes in actuarial assumptions are (generally) treated as other changes in volume. The ABS also interpreted the *1993 SNA* as implying that lump sum payments associated with funded defined benefit pension schemes that are temporarily underfunded or overfunded pension fund are positive or negative current social contributions (instead of revising downwards past contributions). Where such corrections relate to non-market employers, GDP will be affected. [A0,A3,A6,A10, A11]

74. In his posting on February 13, 2003, **David Pritchett** stresses the analytical advantages of the way the *GFSM 2001* deals with employer pension obligations of government – where government has an employee contract with the workers. The *GFSM 2001* uses a comprehensive framework identical to the *1993 SNA* – with a complete balance sheet and the identification of all economic flows – and follows the accrual basis. The author runs a numerical example covering nine typical economic events concerning non-autonomous pension schemes, encompassing: contributions and pension payments [financial transactions]; cost-of-living adjustments [other economic flow]; changes in longevity expected by actuaries [revaluation]; changes in benefits structures [other change in volume]; imputation of interest on pension liabilities [expense]; and payments against the assumption of pension obligations [financial transactions]. The author judges that without a fully integrated framework it is difficult to transparently report or understand economic events, noting that the previous framework (1986 manual, on a cash basis) could capture only a minority of such events, the others staying unreported. Regarding prospective improvements, a case can be made that stocks and flows of other government social insurance schemes should be treated in a manner similar to those for government employees. [A0,A10,B1]

75. **Jean-Marc Salou** (OECD) posted on February 20, 2003 a paper on Taxonomy [by **Juan Yermo**] as well as a Glossary elaborated by a recently established OECD Task Force on Pension Statistics. This expanded classification system builds on the *1993 SNA* distinction between Autonomous vs. Non-autonomous pension funds, and elaborates further, both institutional and functional perspectives. To the question as to which financial institutions, those institutions entrusted with pension funds or the pension funds themselves, should be treated as financial institutions, the OECD Taxonomy brings an alternative approach to cover pension entities separately by type of pension plan, by type of pension fund and by type of pension entity. [A2.1,C]

76. In a detailed contribution posted on March 3, 2003, **François Lequiller** (OECD) argues that the need for international comparability and time consistency considerations strongly favor liability recognition of unfunded government employer pension obligations. He notes that the likely impact on the stock of government liabilities (adding an equivalent of 18% of GDP for Canada in 2001, 20% for Australia and 7.5% for New Zealand) and *net lending/ net*

*borrowing* is substantial. Following a complaint by Canada regarding international comparability of government liabilities statistics, OECD tables now systematically exclude any unfunded schemes liability – pending a more satisfactory treatment. Are the reasons to treat unfunded schemes differently convincing? Pension entitlements are not contingent assets: although they depend on individual survival patterns, they can be accurately estimated for a population as a whole. However, there is no matching asset, and putting a value on the obligation may be difficult – although the *1993 SNA* already admits a liability for defined benefit funded schemes (involving estimates). The author identifies a trend to move away from the *1993 SNA* (accounting standard setters and the *GFSM 2001*) and points out the contradiction of a situation in which the *1993 SNA* does not recognize a liability nonetheless officially recognized by the institutional unit itself – for him, the main argument favoring a change. Such reasoning would not extend to social security, as there is a weaker contract than for employer scheme where additional entitlements arise in exchange for a service. Another question is why recognizing future pension payments as liabilities but not future contributions as assets? This would be unwelcome. This issue does not occur in the case of employer schemes according to the author. He argues that when the unit that finances the reserve is also the payer of the liability, the criterion of existing reserve is purely formal. Hence, for the sake of international comparability, the mode of financing should not be the criteria for liability recognition. In contrast, for social security schemes, the choice not to accumulate assets (out of contributions) may be a signal that government does not intend to recognize the liability. Liability recognition for unfunded schemes necessarily supposes to abandon estimating contributions based on current benefits (pensions) as allowed in the *1993 SNA* and Para 8.73 should be reviewed.

77. In the same contribution, **Francois Lequiller** notes that in many countries public pensions are reformed sometimes creating mix systems that are difficult to analyze using present *1993 SNA* categories – for instance in Poland, whose case initiated a Eurostat Task Force. Accounting bodies increasingly recommend treatments that are seemingly not consistent with the *1993 SNA*, driving some OECD countries to depart with solid arguments from the current *1993 SNA* recommendations. The contribution calls for “the necessity to review the recommendations of the *1993 SNA* regarding the recording of public pension schemes, whether they concern the government as an employer or as an organizer of social security schemes”. The author recognizes the need to have a larger sample of concrete situations, before starting giving constructive recommendations. The author also discusses a more appropriate measure of households’ savings ratio to better take into account the “adjustment entry” (D.8) and calls for increasing users’ awareness and promoting consistency of treatment among international organizations. [A0,A3,A9,A10,B1,C3]

78. An interview of **Anne Harrison**, carried out by the **Moderator** and posted on April 3, 2003, discusses the social insurance delineation and why the *GFSM 2001* seems to exclude defined contribution schemes from the social insurance boundary. Anne Harrison stresses that social insurance – which in the case of pensions clearly entails a saving dimension – involves a third party obliging or encouraging a policyholder to insure. Anne Harrison points out that the contributory/noncontributory nature refers to a classification of source of financing while the defined contribution/benefit refers to a classification of ways benefits are

determined. Defined contribution schemes are ones where assets are placed and managed by a money managers and thus earn some kind of market return with substantial uncertainties and market risks. The interview addresses the various meaning of “unfunded scheme” and the notion of segregated “reserves” – which would refer to accumulated schemes’ inalienable assets (legally segregated, for Anne Harrison) that are of sufficient financial solidity. Cases of notional assets held by notional funds would need to be explored – in particular in respect of their meeting the criteria of “economic assets”. Para 4.98 of the *1993 SNA* indicates that schemes invested in the employer’s securities should be treated as unfunded – except in the case of government – not an unsound idea in view of various recent scandals. Noting that the *1993 SNA* has not recognized the conditional obligations towards social security beneficiaries, Anne Harrison wonders whether policy analysis would be better informed by allowing for the impact of ageing populations – by explicitly showing a liability in the accounts. Anne Harrison suggests EDG issues for discussion: a more inclusive notion of social protection and the extension of the concept of social insurance to cover for instance provisions made by self-employed persons; the ownership of the element of over and underfunding; and how to record an excess of imputed contribution over actual benefits as required by the current *1993 SNA* when a demographic imbalance exist.  
[A2.1,A6.2,B1,C1,C1.2,C2,C4]

79. **Patrick O’Hagan** for **Statistics Canada** describes in a contribution posted on June 2, 2003, the revisions to Canadian System of National Accounts in 2000 showing government sector unfunded employer-sponsored pension obligations as liabilities of government and assets of households, with corresponding changes made to sectors’ income, expenditure and financial flows. The author remarks that the initial focus with respect to the re-consideration of the treatment of unfunded pension liabilities was related to the appropriate measure of government debt. He notes analysts long argued that the unfunded pension liabilities, especially at the federal level, were “as good as” the funded pension liabilities in autonomous plans (ability to pay), and that omission of a full accounting for pensions, given their size, amounted to a misrepresentation of government debt in the national accounts. In Canada, the funded-unfunded distinction did not play a major role in the decision-making process as the convention was that governments officially accounted for plans as though they were funded - recognizing the unfunded pension liabilities (obligation to pay) and booking interest on these liabilities. It is explained that another objective in the revision was to harmonize government statistics, bringing national accounts measures closer to Public Accounts based data so as to enhance interpretability. It is argued that fully accounting for pension obligations (i) ensures that government liabilities do not spuriously increase when plans are converted from unfunded schemes to autonomous funded arrangements, (ii) eliminates undesirable breaks in economic time series, and (iii) can enhance international comparability of macroeconomic data. The author states that, in recent years, the debate on the treatment on unfunded plans shifted towards the appropriate measure of pension saving (and net worth) of individuals. Government employees’ economic behavior being not materially different whether covered by a funded or an unfunded plan, the distinction seemed somewhat artificial and unhelpful from an analytical point of view, especially at a time of renewed interest with respect to the outlook for personal saving in connection with the aging of the post-war generation. The paper also profiles the details of the revision, and notes some similarities

with social security plans. In the end, the decision to include unfunded employer-sponsored pension liabilities and assets in the Canadian case reflects principally the desire to have a complete, consistent and analytically meaningful set of macroeconomic statistics on (i) employer-sponsored pension plans and (ii) on personal sector and government sector financial positions. This revision is characterized as an extension of the *1993 SNA*. [A0,A3,A9,A11,B1]

80. **Anton Steurer** posted a contribution on June 9, 2003 focusing on the treatment of imputed employers' contribution for unfunded pension schemes. The author identifies four plausible compilation techniques: pure benefits-paid method, benefits-paid corrected for a demographic factor, wage-share method, full actuarial estimates. Imputed contributions of non-market producers have a noticeable impact on GDP in Europe: imputed government contributions account for up to 2% of GDP. He notes the *1993 SNA* recommends the use of actuarial techniques for measuring the contribution, but allows using the amounts of benefits "actually paid" as a proxy, and remarks that *ESA 1995* (Para 4.99) nonetheless prohibits such a method in case the ratio "currently employed/ pensioners" becomes abnormal. The author warns against automatic methods designed to produce imputations and identifies cases where imputations would not make sense. Separately, the author wonders whether the actuarial valuation of imputed contributions should include the implicit property income resulting from the use of the discount factor, having in mind that unfunded schemes do not recognize liabilities. He concludes affirmatively, because the *1993 SNA* implies that the actuarial and the benefits-paid method should lead to similar results, but seeks advice from the EDG. The author further wonders whether it would be warranted to allocate precious statistical resources to enforce an in-house use of actuarial techniques and sees potential in a "practical option including precisely defining what 'segregated reserves/funds' means", which would help better catering for "notional funds" recognized in the own accounts of governments, which he notes have tended to proliferate. [A2.1,A6.2]

81. In a paper posted on June 10, 2003, **Anne Harrison** discusses how to account in full for pension liabilities in national accounts. She describes in detail the various recordings related to Private funded defined contribution, Private funded defined benefit, Unfunded private, Social security schemes and to Life insurance, in the *1993 SNA* as well as in a revised SNA. Regarding unfunded schemes, she judges it counter-intuitive to the point of seeming poor accounting that in a period when a firm is incurring more future pension liabilities than it is presently incurring, saving increases. She calls for recognizing unfunded obligations as employers' liabilities, which would be an extension of a more general treatment she advocates of allocating the net worth of defined benefit schemes to their sponsors (the employer). She observes that underfunded or overfunded positions affect market valuation of firms and that FRS 17 in the UK already recommends that any pension fund short-term deficit be deducted immediately from profits and any surplus added. Following an accrual approach, actual contributions would be complemented by additional imputed contributions (positive or negative) to reach the value of new entitlement accruing during the period in question. Simultaneously, back flows from overfunded schemes would be treated as financial transactions with employers (it is an illusory income for employees when their remuneration package has not altered), allowing keeping an adequate compensation of



employees, even in case of “contribution holiday”. Changes in technical reserves owing to entitlement liquidations at a discount (employee early departure), to demographic changes or to changes in benefits structure would be captured as other changes in the volume of assets. She envisages the activity of managing non-autonomous funds to be a secondary activity rather than an ancillary activity, more consistent with autonomous funds treatment, and preventing any understatement of GDP. She calls for introducing the concept of social protection and analyzing when it would be useful to include personal saving plans into social insurance. Recognition of social security pension obligations would be less pressing, in part because government does not have a market capitalization and are not prone to takeovers. Nonetheless, she recommends recognizing the financial nature of contribution and pension payment, so to make them consistent with other pension schemes, but would advocate a zero social discount rate and sees no need for recording stocks of liabilities.  
[A0,A1,A6,A8,A10,B,C4]

82. In the same contribution, **Anne Harrison** discusses the income/holding gain delineation, pointing that the more dynamic investment behavior of pension funds and insurance corporations risks distorting recorded property income and output, if holding gains and losses are excluded. Contribution supplements were introduced to ensure that output of insurance companies was high enough to cover claims. If future pensioners ultimately perceive increases in value of policies as income, and insurance companies or pension funds admit they are claims, Anne Harrison suggests contribution supplements should cover them. She suggests measuring the contribution supplement of defined benefit schemes by reference to the change in the actuarial value of stocks, and extending this treatment it to life insurance. This is income (receivable by households) but not disposable yet, as it is transferred back to the pension fund. In order to keep the accounting restriction that property income payable and receivable equate, she recommends imputing a property income receivable from the employer (transaction). Remarking that, in contrast to defined benefits schemes, the contribution supplement of defined contribution schemes cannot be calculated by reference to increases in net present value of future streams of benefits, she suggests including holding gains in the boundary of property income on assets and liabilities, allowing she thinks comparability of treatment among funds with various investments strategies. While noting the *1993 SNA* appears quite firm on holding gains and losses (they are not to be included in measures of income), she suggests the need for an exemption in the case of pensions, similar to that she perceives the *1993 SNA* granted to wine ageing or resale of crops. [A4,A8]

83. Rebounding and commenting on Anne Harrison’s, **John Walton** and **Anne Harrison** carried out an exchange in a form of a dialogue, posted on June 11, 2003. The main theme of discussion is the measurement of assets of pension funds, with John Walton starting from the fact that to British actuaries, “fully funded” corresponds to a situation in which assets match liabilities, where assets are measured using their so-called “actuarial value” – which considers their long-term value and typically smoothes out market value changes (but see para 89). John Walton suggests that a desirable feature would be that under and overfunding would be defined by reference to the actuarial value of assets and that the balance sheet of pension funds identifies two components of net worth (1) differences between the actuarial value of assets and liabilities and (2) differences between the market value and the actuarial

value of assets. Finally, both agree that pension funds assets should be recorded at their market value, but Anne Harrison recommends that the net position against the employer be shown systematically on the asset side of the pension fund – entering as negative assets where necessary. [A1,A2.2]

84. In a contribution posted on June 20, 2003, **John Pitzer** expresses broad agreement with Brian Donaghue views on public pensions (social security and social assistance). The author notes the accounting notion of “constructive obligation” that derives from an entity’s actions where a pattern of practice has created valid expectations. Liabilities must be “present obligations” resulting from “past obligating” events, and leading to an expected outflow of economic resources. According to him, public pensions are constructive obligations. The author considers that arguments in favor of liability recognition outweigh arguments against, notably: government cannot realistically avoid payment, the present value can be estimated reliably (using no more tenuous estimates than those used for private schemes), fiscal policies will be more transparent and comparability enhanced – in particular with reference to countries which carried out innovative pension reforms including “privatizing” (parts of) social security. However, owing to the major change involved, a satellite account may be constructed for a test-period. In terms of recording, the positive difference between the actuarial value of additional public pension entitlements and the actual contribution would be booked as an expense of government: a current transfer to household – adequately measuring the intergenerational redistributive dimension observable in many social security schemes. For social assistance schemes, the total amount of new liability would show as expense, since no actual contribution occurs. Unilateral changes by government in the value of entitlements would be reflected as other changes in volume. Changes in actuarial assumptions would be reflected as revaluations. [A10,B1,B3]

85. **Anne McGeachin** posted on June 24, 2003, a contribution detailing the “limited convergence project” launched in 2002 by the IASB, which seeks improvement to IAS 19 on Employer benefits. IAS 19 currently allows enterprises to delay the recognition of *net plan assets* on their balance sheet and therefore the impact on their operating statements, by way of imputing an *expected return on plan assets* (Para 105 - 107) and defining a *cumulated unrecognized actuarial gains/loss* to be amortized gradually over time (outside of a corridor of +/-10%). The cost of employment is decomposed in a *current service cost* which comprises the actuarial value of new entitlement rights accrued by staff employed during the period, a *past service cost*, the *interest cost* (interest on pension obligations), the *expected return on net assets* minus/plus the *amortization of the cumulated unrecognized actuarial gains/losses*. The expected return is currently reported in income and the difference between the expected return and actual return is treated as an actuarial gain and loss, the recognition of which is currently allowed to be deferred. The IASB tentatively agreed that actuarial gains and losses should be recognized immediately, i.e. that the corridor and spreading options within IAS 19 should be removed. However, it was accepted that such a proposal could not be taken forward until the proposals for Performance Reporting<sup>17</sup> were finalized. IAS 19

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<sup>17</sup> See above paragraph 32.

requires the total change in value of plan assets to be split into an expected return and the difference between the expected return and the actual return. [A4,A6,A11]

86. On June 30, 2003, **John Pitzer** posted a document commenting and developing on the views expressed by Anne Harrison in the interview by the Moderator, aiming in essence at a complete definition of social insurance usable in all macroeconomic statistical manuals. Noting the potential five implicit definitions of social insurance existing in the *1993 SNA* text (and in its Annex IV), in *ESA 1995* (and its Annex III) and in the *GFSM 2001*, he concludes, after a detailed exegesis, that by and large they are all compatible. Social insurance involves “collectively organized insurance schemes in which employees and/or others are obliged or encouraged to spread risk by taking out insurance against certain social risks (listed in the SNA 8.56 and IV.6). Such schemes require contributions, actual or imputed, to secure entitlement to social benefits. A scheme is collective if participants either do not take out individual policies or one of the three conditions in the SNA 8.60 or IV.5(b) applies”. The author then considers that a pension scheme can be a social insurance scheme or a pure saving scheme. A common aspect of all schemes providing pensions is the need to accumulate assets during the participant’s working years to create the resources that will enable payment of the benefit. Such schemes are a form of life insurance as described in Annex IV of the SNA. The delineation between social insurance and other insurance relies on whether the scheme is collective, possibly with individual policies, and is compulsory or encouraged. The delineation between life insurance and saving schemes relies on the fact that the former involves spreading risks. John Pitzer then explains an assertion in the *GFSM 2001* according to which defined contribution schemes are not social insurance schemes – because they are not insurance as no spreading of risks takes place – but merely saving schemes. The author notes that defined contribution schemes could be “notionally funded”, with a claim existing against the sponsor, although not according to the *1993 SNA* (Para 13.88). [C1,C3]

87. **Anne Harrison** posted an answer on the same day pointing out that the *1993 SNA* made an innovation compared with the *1968 SNA* by creating the notion of social insurance schemes. She recalls, among the reasons she perceives still valid today, the need for social policy analysis to link micro data, typically from household surveys where pensions are regarded as income and not as a draw down of savings, with macro economic data. Income distribution would be distorted if pensioners were regarded as having zero income. She takes issue at the wording “...a group of people agrees or is forced...” as she feels that the true protagonist of social insurance are the employers (the employees only react to their actions) and schemes are *for* groups of workers and not *by* group of workers. According to her, John Pitzer definition suffers because it does not rule out schemes initiated without any employer involvement. She argues that one wants a concept that captures all promises of future pensions, regardless the mechanism by which they are delivered, and parenthetically wonders whether unfunded schemes can technically even be described as insurance schemes at all. She finally suggests a taxonomy of social protection, which would comprise public pensions, employment related schemes and schemes operated on a charitable basis. Social insurance schemes would hence be relabeled “contributory social protection schemes”. [A3,C2,C4]

88. A contribution enquiring about the different borderlines of social insurance in the *1993 SNA* and social protection in ESSPROS by **John Walton** was posted on July 2, 2003 along with two Eurostat background documents. John Walton notes that the increasing importance of individual insurance may be exacerbating such differences. An insurance policy will be within ESSPROS's definition of social protection if, as a matter of policy, premiums and contributions are not proportional to the individual exposure to risks ("social solidarity") and in any case if, by law or regulation, certain groups of the population are obliged to participate or employees are insured because of collective wage agreement. Hence, only those of the defined contributions schemes that are compulsory would be within social protection it seems. In contrast, in national accounts, the mere fact that an employer operates a voluntary defined contribution scheme for a group or makes a contribution is enough to include it in social insurance (despite not scoring as "social protection"). The note mentions borderline cases in the UK – where the terms (fiscal advantage) of contracting out of the State Second Pensions Schemes for employees (previously known as State Earnings Related Pension Schemes) into a personal scheme may amount to an implicit employer's contribution – the Czech Republic – where government tops-up private premium paid into what may otherwise be seen as life insurance – and Poland – where social security is replaced by a two leg scheme, the second leg comprising twenty one defined contribution pension funds being managed by private money managers. Both Czech and Polish case would be social protection, but maybe only the Polish case would be social insurance. The British case is unclear. Schemes that benefit from government guarantees would be social protection but may not be social insurance, unless SNA would read "...an employer or government makes a contribution..." In a more radical approach lodged in an addendum, the author wonders, relying on the 'lay' person's understanding, whether a criterion for social insurance may be the obligation to take the pension mostly in the form of annuities, instead of lump sums. This would create a large difference with social protection that may be accentuated further by dropping from the latter the compulsory criteria, which seem to have been originally designed specifically to limit differences with social insurance. [C2,C4]

89. The two background papers provided by **Eurostat** posted on July 10, 2003, were examined by the Eurostat Working Group on Social Protection Statistics on February 17-18, 2003. A first paper recalls the broad features of the famous three-pillar classification system of pensions schemes referred to in several documents of the European Commission, which has since gained currency in various debates: state plans (Pillar 1), occupational schemes (Pillar 2) and personal pension plans (Pillar 3). The note contrasts this classification with the other criteria used in ESSPROS and observes the Pillar 1 / Pillar 2 delineation cannot be assimilated with the basic / supplementary delineation of ESSPROS. A second document points out that the main criterion in ESSPROS is the principle of "social solidarity" and that social protection does not include insurance taken out by private individuals irrespective of their employers or government. The note poses the question of schemes where guarantees by employers or government or fiscal benefits are provided. [C1,C2,C3]

90. In a second contribution posted on July 2, 2003, **John Walton** looks at the activities of pension funds and life insurance, also drawing from his own personal experience. He notes that the delineation between insurance and pension funds, while not formally recognized in

the form of sub-sectors, is nonetheless essential for the measurement of social benefits. The author reports that, in the UK, amongst pension funds, employer sponsored defined benefits or defined contributions schemes are always social insurance but defined contribution types for personal pensions and retirement annuities for the self-employed often are not. In the UK, a principal criterion for distinguishing between pension funds and life insurance is the income tax relief on contributions (instead of on benefits). In other countries, the obligation to collect benefits in the form of annuities may be a dominant criterion. The author asks “who carries the risk?”, which helps distinguish between the pension fund activity proper and the insurance activity. He wishes to distinguish the investment risk, from the mortality risk (death before retirement) and the survivorship risk. Defined contribution schemes move the first risk from the employer to the employee. The two other risks may be reinsured with an insurance company. But, how to classify defined contribution funds carrying none of the three risks above (and how to define their activity)? If assets are collectively managed, it may still be a pension fund, it seems, while if assets are individually managed, it seems hardly insurance at all. Finally, he comes back to the notion of the degree of funding and the usefulness of the notion of “actuarial value of assets” discussed in his exchange with Anne Harrison (see above). Reliance on such values was to avoid excessive fluctuations in contributions, but in the 1970s and 80s the UK actuarial profession “still got it wrong” with years of heavy contributions followed by years of “contribution holiday” – to be explained, with the advantage of hindsight, by some noticeable cyclicalities of dividends. The author notes also the importance of appropriately capturing transfers of pension rights among pension funds and insurance corporations, and the associated lump sums.<sup>18</sup> [A2.2,C2,D1]

91. A paper by **John Pitzer** posted on July 2, 2003, comments on terminology trappings specific to pensions in the 1993 *SNA*. He remarks that the term “fund” can be used as a noun, a verb, as an adjective and mean many different things: fund may refer to an entity, a unit or an asset; funding often refers to an idea of financing etc... He concludes that while the 1993 *SNA* is very specific that the funded and unfunded schemes delineation is essential to the system, it is not clear what their characteristics (segregated reserves”) are. In this context, the author notes that reserves may mean assets (SNA 3.27 or 6.135) or may mean liability entries (SNA 11.98, 12.53 or 7.114). Similarly the term provision while generally understood as meaning liability entry (business accounting, SNA 10.140 or 13.22), nonetheless SNA IV.12 seems to use the term provision to mean asset. The author calls for an explicit definition of funded: “if there exists assets whose use has been restricted to the payment of social benefits or administrative costs in accordance with the regulation of the scheme”, for barring the undefined use of the term “reserve” and for limiting the use of the term “provision” – always to mean liability entry. The author points to the need to distinguish between sponsor, administrator and asset manager as well as between funds, units and entities. He calls for

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<sup>18</sup> In a footnote, he alludes to a new concept of “solvency” of a defined benefits fund, introduced by the British actuaries very recently, which would apply whether or not a continuing fund is regarded fully funded. If the current snapshot of the market value of assets falls short of the actuarial value, there is an additional liability represented by the cost of insuring the risk of discontinuance of the scheme at a time when it is not fully funded or when, if fully funded, market values fall short of actuarial values; and the British Government proposes to establish a “Pension Protection Fund” into which employers would pay premiums to cover both these risks.

avoiding the term “contributory” and for replacing “money purchase” pension schemes with “defined contribution” pension schemes. [A2.1]

92. In a paper posted on August 1, 2003, **Ahmad Hamidi-Ravari** summarizes IAS 19 on Employee Benefits. IAS 19 notably covers post-employment benefits including pensions, delivered in the form of defined contribution plans – where the employer has no legal or constructive obligation other than the contributions payable under the plan – or of defined contribution plans. The latter may be funded or unfunded. The author notes that while IAS 19 requires entities to recognize in their balance sheet a defined benefit liability arising from its obligations towards the pension fund, the standard takes the view that actuarial gains and losses<sup>19</sup> may offset each other in the long-run. It therefore applies a corridor of +10/-10% within which liability recognition is continually deferred and outside which the accumulated net actuarial gain and loss is to be amortized. The income statement shows the impact of the current service cost, the interest costs, the expected return on plan assets, the actuarial gains/losses when recognized, notably. The author notes that IAS 19 is being reviewed within an on-going IASB Project (see **Anne McGeachin** EDG contribution). [A0,A1,A11]

93. In a paper posted on August 8, 2003, **Paul Sutcliffe** and **Ahmad Hamidi-Ravari** present IFAC PSC and the work on SPO carried out by the SPO sub committee. IFAC PSC issues IPSAS. The suite of the twenty existing IPSAS does not currently prescribe requirements for financial reporting of government employees’ pensions. However, according to the hierarchy of guidance (see IPSAS 1), preparers of government accounts may consider IAS 19, itself under review (See EDG contribution by **Anne McGeachin**). The authors further note that IPSAS 19 deals with the recognition, measurement and disclosure of a wide range of provisions – based on IAS 37 – but does not cover social policy obligations. IPSAS 19 para 9 indicates this “exclusion.... reflects the Committee's view that both the determination of what constitutes the "obligating event" and the measurement of the liability require further consideration before proposed Standards are exposed. For example, the Committee is aware that there are differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit or at some earlier stage. Similarly, there are differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement or the present value of all expected future benefits determined on an actuarial basis." The authors indicate the PSC established a Steering Committee on Social Policy Obligations, which is developing an Invitation To Comment (ITC). The Steering Committee members hold differing views of when a liability should be recognized for aged pension obligations, with a number of Steering Committee members being of the view that a liability would arise at a point prior to a legal obligation arising and prior to amounts being due and payable, and should be recognized on an accruing basis. At the July 2003 PSC meeting, a number of PSC members noted that while they supported many of conclusions reached by the Steering Committee, they continued to have reservations about the

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<sup>19</sup> Changes in actuarial gains/losses arise on pension obligations from changes in hypothesis used by actuaries and on pension assets from the difference between the actual return on assets and the (actuarial) expected return.

recognition of pension liabilities and similar benefits on an accruing, rather than on a "due and payable" basis. [A9,A11,B1,B3]

94. On August 14, 2003, a **Eurostat (Unit B.4)** questionnaire on pension recording in national accounts – which was circulated to its working groups – was posted on the EDG. The intention is to collect information about the classification of schemes and institutional units in the different countries, to verify if the classification criteria in *ESA 1995* are interpreted in a homogeneous way across countries. The questionnaire recommends using a reasonably wide definition of pension, by reference to the ESSPROS, which also defines (pension) schemes as “a body of rules supported by one or more institutional units governing the [provision of pensions] and their financing. ...they should at all time meet the condition that it must be possible to draw up separate accounts of receipts and expenditure... and preferably...provide protection against a single risk...”. Social insurance differs from other insurance in that, in the former, participation is obliged or encouraged by employers or government (but what about nonprofit institutions?). It is noted that non-employee worker schemes (i.e. for self-employed and unemployed) can be either social security or of an autonomous type. Discussing the notion of funded/unfunded, reserves and provisions, the questionnaire notes they sometimes refer to scheme’s assets (ESA III.4 and 4.88) and other times to an item on the scheme’s own balance sheet, on the liability side (ESA 54.89 and 5.101). Sometimes the former and the latter are compared (ESA 7.59). Other times, a legal property right over the assets seems to be implicitly described (ESA 4.88(b)2). In other cases, all three aspects are mixed (ESA 4.165(i)). Referring to ESA 5.101 (see footnote 6) and 5.102, the questionnaire suggests that by convention, the funded/unfunded distinction should primarily rely on the recognition of a liability calculated on an actuarial basis and recorded as insurance technical reserves. Hence, unfunded schemes are those that do not have segregated liabilities and not those that do not have segregated assets. While under and overfunded refers to the value of scheme’s assets against that of liabilities, partially funded refers to cases where the value of liabilities is not actuarially calculated. Whence the adequacy of the assets compared to the present value of the promised benefits depends on the investment decisions of the scheme, and the risk is on the supporting unit, it is defined benefits. A scheme fixing only contributions but obliged to invest in one instrument such as government bonds would be nonetheless defined contributions, while a scheme not formally acquiring assets (but calculating benefits as if contributions were invested) would be defined benefits. However, the classification would be complicated if the latter scheme was a government scheme managing a “notional” fund. Extraordinary payments by employers or government in order to increase the (actuarial) reserves are treated as capital transfers (ESA 4.165(i) and III.20). [A2.1,C1,C2]

95. Then, the questionnaire of **Eurostat** tackles the question of social security schemes, which are imposed, controlled and financed by government (ESA 4.88). Considering ESA 4.88 and III.4, Eurostat lists the interpretation of “imposed”: (1) obliged or encouraged, (2) obliged, (3) obliged for some groups but voluntary for others, (4) encouraged to participate to designed schemes established by law (with reference to ESSPROS). Eurostat notes that control of institutional units – ability to determine the general corporate policy, ESA 3.28 – is not necessarily applicable to schemes and that ESSPROS defines control as implying the

ability to take all the principal decisions about the level of benefits, the terms on which they are paid and the way the scheme is financed. ESA 2.74b mentions for social security funds the government responsibility “for the management of the institution in respect of the settlement or approval of the contributions and benefits...”. The questionnaire observes that the term financed is missing in ESA 4.85a as well as 2.74b and argues that, where schemes are controlled by government, financed should be interpreted more broadly as the responsibility and the control of government over the way the scheme is financed, and not limited to the fact it actually receives transfers from government or not. The presence of government guarantees should not be per se a sole criterion for classification as social security schemes, but instead the likelihood of use of this guarantee would be a classification guide. The questionnaire enquires about cases where a scheme is supported by various units, including cases of security schemes attributed to other sub-sectors than social security funds, where autonomous private funded schemes are classified outside the insurance corporation and pension fund sub-sector, where schemes based on social solidarity would be outside general government, as well as about the nature of government involvement in pension schemes that are classified outside general government. Finally, the questionnaire enquires about the recognition of the principal party of a transaction carried out on behalf of another unit (ESA 1.41): transactions are to be booked in the accounts of the unit dealing directly with the household unless it has no authority over the terms of the benefits/contributions whatsoever (ESSPROS). [C3]

96. Two further contributions by **John Pitzer** were posted on August 19, 2003, commenting on specific issues raised in other contributions. Commenting on **Anton Steurer**, John Pitzer argues that imputed social contributions (D.122 and D.612) should be measured using discounted future benefits – when applying the preferred option of valuation foreseen in the *1993 SNA*: use of an actuarial method –, not an undiscounted flow of benefits, exactly in a same way that contributions to private funded schemes are discounted. It would be odd that the cost of employment of providing pension benefits should be higher if a scheme was unfunded. The method of financing should not affect cost. The valuation selected is important because it affects GDP in case the producer in question is non-market. In a second contribution commenting on the interview of **Anne Harrison** by the **Moderator**, John Pitzer suggests that SNA 4.98, which refers to cases of pension schemes only invested in securities (bonds, shares) issued by the sponsor, indicates that such schemes are treated as nonautonomous funds, and not as unfunded schemes as it is sometimes argued. Pension scheme acquisition of such assets would be recorded as acquisition of financial assets, instead of redemption of the unit’s liabilities. [A2.1,A6.2,A7]

97. In a contribution posted on August 19, 2003, **Gabe H. de Vries** describes the Dutch case in detail in the context of the SNA/ESA. The author identifies three core elements of pension provisions: (1) the old age scheme; (2) the pension institution; and (3) the managing entity. Schemes can be classified according to whether they are group or individual schemes, mandatory (by legislation or contract), with income related contributions, defined benefits or defined contributions, with solidarity, funded or unfunded. According to the author, a scheme would be fully funded when the expected present value of benefits equals the expected present value of contributions plus the value of investments. When the investments would



merely correspond to the present value of the future benefits of those entitled to a benefit at the moment, or lag behind, the scheme is “partly funded”. Several class of institutions offer old age pensions: state institutions, pension funds (with trade union and employee participation) or insurers. Managers may be the pension institution itself, but is quite often another unit: the employer, an auxiliary, a financial institution (a bank, an insurer,...). Insurances may be involved as managing a pension as a separate entity, as reinsuring a pension institution or as being a direct insurer. In the Netherlands, the state scheme (which provides, for a couple, a pension of 2% of minimum income per insured year between the age of 15 and 65) and the group schemes (branch schemes, employer schemes, schemes for professional) are without dispute social insurance, including when group schemes are directly insured with an insurer. The problem according to the author would be for “c-policies” that are individual contract with a life insurer sponsored by the employer (compulsory for the employee). However, one could question whether the ESA term “group scheme” refers to the employee’ policy or to the employer’s support facility. Individual policies of self-employed, the third layer of life insurance (which is fully free), as well as other savings, are not social insurance. The author notes that the legal status is not relevant for sector classification of pension institutions and wonders whether auxiliaries should not preferably be reclassified in the sub-sector “insurance corporations and pension funds”. The transfers of technical provisions from the old employer’s pension scheme to another, is possible and is recorded as a capital transfer (ESA 4.164). Finally, getting information from life insurers is essential as they intervene in pension’s provision in various ways: reinsurance of pension funds, direct pension contracts, “c-policies” and transfers of right with pension funds or other insurers. [A2.2,A7.2,C2,D1]

## **V. INTERIM CONCLUSIONS AND RECOMMENDATIONS**

98. The conclusions and recommendations are interim in nature owing to the relatively recent build-up of arguments. While in some areas the thrust of the arguments seems to indicate preliminary consensus, in other more difficult area, further documentation and debate appear necessary.

99. In section A below is an assessment by the Moderator of where the discussion stands. By its nature, this assessment bears subjective elements. The recommendations in section B suggest a way forward. A follow-up and timetable is proposed.

### **A. Interim conclusions of the Moderator**

100. Conclusions relate to both the *1993 SNA* as it is – where there is some debate on the correct interpretation, including of terminology –, and to tentative propositions for a review of SNA. In another perspective, and given the current balance of the contributions to the EDG, the conclusions can usefully be presented in terms of the three identified principal areas of the EDG. In brackets appears a selection of contributors who actively discuss the issue in question.

## Private unfunded employer pension schemes

[A0,A9]

101. In respect of **unfunded employer pension schemes**, the thrust of the arguments is pervasive. Not one contributor suggests keeping the unfunded treatment advocated in the *1993 SNA*, while most of contributors specifically recommend that unfunded obligation be recognized as liabilities. It is argued that the obligation does not depend on the funding characteristic of the arrangement [Pitzer], particularly when the obligation is recognized in the own financial statement of the entity in question [Lequiller, Harper, O'Hagan]. Most consider that while pension entitlements seem to be conditional assets from the point of view of the household, such is not the case from the point of view of the pension fund/employer whose outflow can be quite accurately estimated [Harper, O'Hagan, Lequiller, Pitzer...]. Both the accounting standards in the business area (IAS for instance) as well as in the public sector area (IPSAS) consider that contractual obligations related to retirement pensions arising from an employment contract need to be recognized on balance sheet of the sponsor when unfunded. The *GFSM 2001* already recommends such an approach. At least three countries, Australia [Harper], Canada [O'Hagan] and New Zealand [Lequiller] have already amended their national accounts to this effect. **At this stage, the Moderator tentatively concludes that a consensus exist among EDG members.**

102. While it seems the method of funding is hardly a criteria for asset recognition in national accounts, in a wider perspective, arguments would need to be refined as to **whether pension obligations are truly economic assets** as defined in the *1993 SNA*. Would there be a need to amend the definition of economic asset, or to enter an explicit additional exemption (SNA 11.16)? The question impinges on the issue of whether contingent assets cannot (as it is widely assumed) or can be recorded in the system. The *1993 SNA* already provides an exemption for financial derivatives such as options, which are contingent instruments *par excellence* – but they are traded. In the same vein, transfers of pension rights give rise to lump sum payments – which points to an economic asset character. More generally, one may wonder whether contracts or rights that, owing to market conditions, have substantial value and could be exchanged against cash over the counter (such as government guarantees widely expected to be called) ought to be recognized.

## Private employer pension schemes recording

[A1-8,A10-11]

103. **On the more detailed points, some authors have taken positions while most have not – or only implicit ones. However, the Moderator remarks that, for consistency reasons, recognition of unfunded schemes liabilities tends to favor changes in treatment of funded schemes – as indicated by some contributors. More debate is needed.**

104. In relation to the **allocation of pension funds' net worth to the employer**, the Moderator notes the strong favorable position taken by *GFSM 2001* (para 7.124) and some

contributors [O'Hagan, Harrison, Walton]. Such an allocation is an elegant solution. It would help further converge with business accounting, which already allocates the net value of the pension fund to the sponsor even though allowing delayed recognition [Hamidi-Ravari]: standards setters seem even to be currently moving towards immediate recognition of such net assets, with a lesser role played to the notion of "actuarial value of plans' assets" [MacGeachin]. It reinforces accrual accounting and solves the serious problem of the non-financial treatment of lump sums related to over or underfunding, eliminating the anomaly of their potential impact on GDP in the current *1993 SNA* [Harper]. **The Moderator feels that more views should be collected on the issue, but the balance of arguments would seem to favor an approach where pension funds net assets would be allocated to the sponsor, i.e. defined benefits pension schemes SNA net worth would be always zero.** One issue is what would be the category of the instrument in question; another is the type of economic flow by which the instrument would appear on the balance sheet. One would need to discuss whether there is such a compelling reason for allocating the said instrument always on the asset side of the pension fund, even with a negative value in case of overfunding. [Harrison, Walton]

105. In relation to the **property income** valuation, the Moderator notes those contributors who expressed views supported the actuarial approach for **defined benefits schemes** instead of the *1993 SNA* "transparency" option retained in the *1993 SNA* for pension funds, whereby property income receivable by the pension funds is currently passed on to the policy holders in the exact same amount. [Pritchett, Pitzer, Harrison, Harper, O'Hagan]. The actuarial method has also strong credentials: it is in line with business accounting and the *GFSM 2001*. **More views should be collected.** Such an actuarial approach seems not to violate the income/holding gains delineation of *1993 SNA* [Harrison] but **would impart the minor inconvenience of showing pension funds having non-zero net property income positions**, in contrast to the current *1993 SNA*, unless

- property income on invested assets would be adjusted – which seems implausible in the context of the national accounts need for cross-sector consistency, and is not in line with the debtor principle; or
- a balancing property income flow was recorded between the fund and the employer – as proposed by Anne Harrison.

The latter suggestion – while ingenious – poses the difficulty of determining the true origin of the change in value of the net position of the employer in the pension fund. In addition, the call by Anne Harrison to extend such treatment to life insurance would need to be considered.

106. On the question of the **property income payable by defined contribution schemes**, the proposal by Anne Harrison to establish an exception in the *1993 SNA* and include the holding gains in the scope of the property income payable but also receivable of the schemes – to maintain an unchanged *net lending/net borrowing* – needs further reflection. It may not be in line with the debtor principle.

107. While the Moderator believes the *1993 SNA* Review is well timed to examine again the appropriate delineation of property income versus revaluation on some instruments such as shares and other equity, **this task may best be carried out within another forum dedicated to the measurement of property income in general, in case the ISWGNA wishes to establish it.** The remark by Anne Harrison that many pension funds invest in equity instead of interest bearing instruments points at the risk of substantially underestimating pension funds' property income receivable in the SNA – owing to the fact that a large and systematic portion of overall gains derive from holding gains. There would therefore be a risk of:

- Artificially reducing, in a updated SNA, pension funds' net property income (receivable minus payable); or
- Artificially inflating, in the current *1993 SNA*, the revaluation entries related to insurance technical reserves (and therefore underestimating household disposable income and saving).

The Moderator however notes that the underestimation in property income receivable by pension funds and life insurance does not affect their output or gross operating surplus as such – as long as the item “net increase in insurance/pension reserves” is appropriately calculated (i.e. excluding holding gains/losses, as required). [Harrison]

108. At that stage, it is relevant to remember the substantial anomalous revaluation flows in the *1993 SNA*, originating from an income recognition rule based on distributed dividends instead of profits earned: holding loss at time of distribution of dividends (instead of a more logical recording of a financial transaction), holding gains accruing over the period from generated profits (instead of a more logical recording of a continuous flow of financial transactions matched by imputed property income). The *1993 SNA* foresees the more logical recording for direct foreign investments (*Reinvested earning on direct foreign investments* – D.43) but not for other institutional units or instruments. The generalization in the USA, and more recently in Europe, of a trend of substitution of dividends by “buy-back” programs, for fiscal reasons notably, has created a substantial risk of distortion of households' income and saving rates. Similarly, the proper representation of the relationship between government units and public corporations in both directions (capital injections and super dividends) is made more difficult under the present *1993 SNA* rule.<sup>20</sup>

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<sup>20</sup> See notably the Eurostat's Manual on Government Deficit and Debt (II.1.2 and II.3.1). In a laborious way designed to mimic what a D.43 treatment generalized to public corporations would have automatically generated, the Eurostat manual foresees a series of rules that might otherwise appear somehow arbitrary. Super dividends are to be treated as capital withdrawal (financial transactions), while “capital injections” are to be treated as capital transfers instead of “equity injections” (transactions in equity) when to cover past losses (*SNA* 10.141-b) or when there is no expectation of satisfactory return on capital.

109. In relation to the measurement of **production**, it seems reasonable that all activities of pension schemes, including non-autonomous funds [Harrison] and unfunded schemes should be measured. **More views should be collected.**

110. On the **dual recording issue**, some authors took strong position in favor of keeping this feature of the *1993 SNA* [Harrison, Lequiller?]. Canada and Australia [Harper, O'Hagan] have abandoned it, following a *GFSM 2001* approach. This creates a substantial cross-country comparison difficulty – when comparing for instance social benefits as a % of GDP or taxes and social contributions as a % of GDP. While this dual recording can be perceived as purely artificial, there is a need for social policy analysis to link micro data, where pensions are regarded as income and not as a draw down of savings, with macro economic data. Income distribution would be distorted if pensioners were regarded as having zero income. However, as recommended by François Lequiller, users should be in a position to derive adequate and comparable savings ratios. A relocation of the adjustment item from the use of income account into the secondary distribution of income account may be considered. **More debate is required.**

111. On the **measurement of social contributions**, it seems readily acceptable by all or nearly all contributors that the amount to record in an updated SNA should be an actuarial estimate in case of unfunded scheme. The extension of such view to all private schemes – with the difference between the actual and the imputed contribution entering as a transaction in *other accounts receivable/payable* (AF.7)<sup>21</sup> – seems logical in particular in case of allocation of their net assets to the employer. Indeed such an allocation amounts to recognizing a claim against the employer for the difference that is unfunded. All actual payments, including occasional lump sum payments between the employer and the pension fund, are financial settlements of claims, which originated from transactions (imputed contributions and property income) or from revaluations (other performance of assets), an approach that seems to deepen further accrual accounting implementation.

### **Social security and social assistance**

[B]

112. **In relation to the recognition of social security obligations as liabilities, the Moderator notes that insufficient debate has taken place so far.** Four contributors support recognition to various degrees [Donaghue, Pitzer, Pritchett, Harrison?], and a few other signal openness to the debate [Lequiller, O'Hagan].

113. Two contributors [Donaghue, Pitzer] considered that social security/assistance pension entitlements are “constructive obligations” which may influence economic behavior of households and that liability recognition would enhance fiscal transparency. **More**

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<sup>21</sup> Alternatively, the instrument to be created for supporting the allocation of the scheme's net assets to the sponsor.

**reflection and additional contributions are necessary** on a proposal that would be a substantial change of the *1993 SNA* and affects for considerable amounts national accounts' saving rates and financial net worth of households (and governments).

114. Separately, in the area of public accounting, the Moderator takes note of the seminal work on SPO that suggests some support for such recognition amongst some IFAC SPO steering committee members [Hamidi-Ravari and Sutcliffe]. The incorporation, by higher bodies, of this view into international standards for public accounting would be an event of considerable importance because it would lay down the basis for providing solid source data for statisticians – an important consideration in the debate.

115. In another perspective, the considerations **related to the recording of “recognition bonds” already drew the attention to an issue hitherto little discussed. They need to be amplified.** [Donaghue] The economic asset character of such bonds seems well founded. This may raise an issue of cross-country comparability and even of fairness.

#### **Delineation of social insurance and classification of schemes**

[C]

116. The Moderator observes that defined contribution schemes undisputedly are not insurance in the normal sense of spreading risk [John Pitzer, *GFSM 2001*] – unless additional payments would be foreseen in case of death for instance. However, is it cause enough to exclude such contracts from social insurance – at a time when a clear trend towards defined contribution schemes is observable? What is the purpose of gathering social insurance statistics? [Anne Harrison].

117. In the same vein, the proliferation of individual contracts, which can be within the realm of social insurance in the *1993 SNA* in case one criteria of the list of three *1993 SNA* criteria (SNA 8.60) is met, could make it necessary to reexamine such a list. [Harrison, Walton]

118. One element for consideration would be to emphasize that social insurance covers compulsory schemes designed to cater for old age (by convention a *1993 SNA* social risk) [Harrison?], while government top-ups would be enough for inclusion for social inclusion [Walton]. **More work is necessary.**

119. Another consideration would be whether SNA should include a notion of social protection [Harrison, Walton], which compared with social insurance would be (a) wider, including noncontributory schemes; but (b) potentially narrower as only involving a redistributive element. **More work is necessary.**

120. In the same vein, the exact delineation of defined contribution schemes would need to be clarified (see below) – although this question may be of marginal importance in case a reviewed SNA would allocate pension schemes net assets to the sponsor.

121. Finally, a question is the exact criteria for social security classification – and the meaning of “imposed and controlled”. Should the reference to “financed” (SNA 8.63(a)) be retained or dropped? In particular, can a defined contribution scheme be a social security scheme? It would seem not as government does not control benefits, which depend on the contributions and their return. [Moderator, John Walton, Eurostat B.4]

### **Terminology and other issues**

[A2.1,A2.2]

122. Regarding terminology, the Moderator concludes that **the term “reserve” should not be used** without defining it and for preferring instead the term asset. The term **“provision” should mean a liability entry** on a balance sheet (in the own financial statements of the unit) [Pitzer, Moderator, Steurer, Eurostat B.4]. The Moderator believes that while there may be a majority view on what the term **“unfunded schemes”** stands for, this interpretation is not universally agreed, and consequently the term should not be used in the debate without defining it. The Moderator feels the Review of SNA would be an occasion to clarify these terminology issues. The term contribution defined plans should replace the term money purchase plans. [Pitzer]

123. The Moderator has suggested retaining the notion of underfunded and overfunded by reference to the market value of assets and calling partially funded schemes where actual contributions are, by design and systematically, below the actuarial value of additional entitlements earned. No supporting comment has been received so far. [Walton, Moderator, de Vries, Eurostat B.4]

### **Clarification and interpretation of the current 1993 SNA**

[A0,A6.2,C1,D]

124. Recommendations for changes to pension recording in SNA will take place in the context of the SNA Review. In the meantime, the ISWGNA may consider issuing “clarifications beyond dispute” or “interpretations” on issues that could usefully be solved.

125. In the **definition of defined contribution schemes** the question would be: should the classification criteria be that the benefits formula exclusively depends on contributions and a return? Or, is there a need for additional criteria such as: (a) assets must be managed by money managers; (b) schemes must be allowed to invest in assets other than sponsors’ liabilities; (c) schemes must not be notional funds? [Harrison, Moderator, Eurostat B.4] SNA 4.98 may be interpreted to mean that b-types of schemes are nonautonomous rather than unfunded (as often interpreted) [Harrison, Pitzer]. In the same vein, the economic asset character of pension obligations of notional funds seems hard to dispute [Harper, O’Hagan, Lequiller]. **More debate is needed.**

126. In relation to the delineation between autonomous and non-autonomous, it seems desirable to allow pension funds to be classified in general government, when they benefit

from regular government payments to avoid imbalances and are therefore not in actuarial equilibrium. Such a feature may be reached either by interpreting that (1) partially funded schemes are not pension funds (despite having segregated reserves/assets) or (2) a pension fund is autonomous only if it is fully funded (and not merely when it has the attribute of an institutional unit) or (3) **some autonomous pension funds can be sectorized within government** when they are partially funded because they have the attributes of a government unit – they redistribute income and wealth. This would then raise the issue of the classification of the production of this institutional unit. Should it be insurance and pension fund output? If yes (as it seems), would this output be non-market or would it be only a secondary output of the said institutional unit? **It is plausible the third option may successfully be proposed as a “clarification beyond dispute” of the 1993 SNA, assuming a satisfactory answer on the question of the output. More work is needed.** If the updated SNA would allocate pension net assets to the sponsor and measure contributions for their actuarial amounts, the question solves itself, it seems: the national accountant would classify such units as financial corporations but would impute stocks and flows to obtain a “full funding” (otherwise, such an entity would be a government unit).

127. Concerning the liability recognition of unfunded employer pension schemes, it is widely expected that the route would necessarily involve a “change” in the *1993 SNA*, to be effected during its Review. However, it may be argued that a simple “interpretation” may allow recording liabilities where obligations are recognized as valid by the unit in question, even if no asset has been formally accumulated. Such an “interpretation” would rely on the fact that the term “reserves” is confusingly used in the *1993 SNA* to mean alternatively the assets of the schemes or a liability entry on the balance sheet in the own accounting of the unit (obligation/liability) and on the fact that the non-material existence of an instrument is generally not cause enough, in national accounts, to prevent recording an economic asset. Suffice that the entity in question passes the economic asset test [Moderator, Steurer?, Eurostat B.4]. The existence of the reference to the SNA memorandum item (SNA 13.88) could then be taken as the need to have information on a certain sub-category of recognized assets/liabilities, or alternatively on those schemes which would still be considered “unfunded”. More problematic would seem the reference to the fact that property income distributable to policyholders ought to be the property income receivable by the fund. However, this equality could be respected in case the causality would be simply reversed: the actuarial valuation of interest payable by the scheme (receivable by the policyholder) would be the measure of the interest receivable by the scheme, i.e. billed on the notional asset held by the scheme/fund against the sponsor. **The ISWGNA may wish to indicate whether this interim route is deemed fruitful.**

128. In relation to the measurement of social contributions (in D.1), the ISWGNA may wish to clarify the ways the *1993 SNA* should be interpreted – having in mind the need for an adequate measure of GDP:

- For measuring imputed contributions, where the option of an actuarial measure is chosen [Steurer, Pitzer]. In order to prevent misreporting of GDP, the flow in



question would perhaps best capture the actuarial value of benefits and exclude the impact of the implicit property income flow; and

- For measuring actual contributions, where lump sums are paid, between the sponsor and the pension fund, in relation to liquidations of overfunded or underfunded positions [Harper]. Those may preferably be excluded from social contribution and instead recorded, although artificially, as current transfers.

Such rulings may be a clarification beyond dispute, at least for the first one.

129. So far, little or no debate has taken place on the EDG on the recording of transfers of pension entitlements as well as restructuring of pension schemes, except rapid mentions [Pritchett, Walton, de Vries]. Eurostat is nevertheless doing work on this issue.

## **B. Recommendations and follow-up**

### **Recommendations**

130. The Moderator invites the ISWGNA:

- a) **To confirm the scope of the EDG as spelt out in Part III section B – in particular:**
  - regarding the delineation of social insurance and the clarifications and interpretations of the current *1993 SNA*;
  - amplifying work on options for pension fund net assets allocation to the sponsor;
  - suggesting priorities or other areas of work; and
  - indicating which forum should mainly discuss the questions related to property income associated with insurance technical reserves (of social insurance and, if requested, life insurance).
- b) **To indicate views related to the findings on terminology issues (particularly the meaning of reserves – para 122).**
- c) **To agree on the follow-up and timetable below; to take note of the Straw Poll Questionnaire (Appendix 3), and provide comments where appropriate.**
- d) **To invite statistical agencies to further contribute to the debate.**
- e) **To recommend close contacts be kept with accounting standard setters, including the IFAC PSC sub committee on SPO and the IASB project on IAS 19; to take note of the promising work by the IASB project on Performance Reporting and on the concept of “remeasurement” (see para 32 of this report).**

### **Follow-up**

131. The Interim Report will be presented and discussed at the **OECD National Accounts Experts** meeting on October 7, 2003, possibly in an updated version.

132. The IMF will circulate an **EDG questionnaire** on pension (on interpretations of the current *1993 SNA* and preferences for changes) in Autumn 2003.

133. **An Updated Interim Report will be submitted by end 2003** to the ISWGNA and the Advisory Expert Group.

134. **A new report may be drafted by September 2004** suggesting findings of the EDG and more definitive recommendations for private schemes, schemes delineation and terminology. A preliminary version may be posted on the EDG by March 2004 (or earlier) for possible submission to ISWGNA.

**APPENDIX 1 – CHRONOLOGICAL LIST OF PAPERS POSTED ON THE EDG TO DATE  
(SEPT. 23, 2003)**

Pitzer, John, *The Treatment of Pension Schemes in Macroeconomic Statistics*. Discussion paper for the Statistics Department of the IMF, posted in November 2002.

Lequiller, François, *Government implicit Liabilities in Respect of their Employee's Unfunded Pension Plans*. Extract of the December 2002 OECD *Statistics Newsletter*. Posted on January 10, 2003.

Donaghue, Brian, *Recognition of Government Pension Obligations*. Posted on January 10, 2003.

Harper Peter (ABS), *The Treatment of Government Employee Pension Funds in the Australian National Accounts*. Posted on January 23, 2003.

Pritchett, David, *Properly Treating Activities of Nonautonomous Pension Schemes for Government Employees*. Posted on February 13, 2003.

Salou, Jean-Marc and Yermo, Juan (OECD), *Revised Taxonomy for Pension Plans, Pension Funds and Pension Entities and Pension Glossary (OECD)*. Posted on February 20, 2003.

Lequiller, François, *International Differences in the Recording of General Government Pension Schemes in the National Accounts*. Posted on March 3, 2003.

de Rougemont, Philippe, *Interview of Anne Harrison on Social Insurance in the 1993 SNA*. Posted on April 3, 2003.

O'Hagan, Patrick, *Government Employer-Sponsored Unfunded Pension Plans – Revised Treatment in the Canadian System of National Accounts*. Posted on June 2, 2003.

Steurer, Anton, *Employer's Unfunded Insurance Schemes and GDP – Practical and Conceptual Issues in Estimating Employers' Imputed Social Contributions, Imputed Assets, Liabilities and Property Income*. Posted on June 6, 2003.

Harrison, Anne, *Accounting in Full for Pension Liabilities*. Posted on June 11, 2003.

Walton, John and Harrison, Anne, *Exchange on the Recording of Under and Over Funding of Pension Schemes*. Posted on June 11, 2003.

Pitzer, John, *Recognition of Government Pension Obligations: a Comment*. Posted on June 20, 2003.

McGeachin, Anne, *IASB Post-employment benefits convergence project summary*. Posted on June 24, 2003.

Pitzer, John, *The Definition of a Social Insurance Scheme and its Classification as Defined Benefit or Defined Contribution*. Posted on June 30, 2003.

Harrison, Anne, *Comments on John Pitzer's Paper on the Definition and Classification of a Social Insurance Scheme*. Posted on June 30, 2003.

Walton, John, *Pension Schemes: Social Insurance and Social Protection*. Posted on July 2, 2003.

Eurostat, Unit E.4 *Pension Schemes and "Pillars" and Supplementary Protection: "personal provisions"* (extract of the document: *Coverage and Border Problems*), presented during the Working Group "Social Protection" on 18 February 2003. Posted on July 2, 2003

Walton, John, *Pension Funds and Life Insurance Companies*. Posted on July 2, 2003.

Pitzer, John, *Pension Terms*. Posted on June 20, 2003.

Hamidi-Ravari, Ahmad, *IAS 19: Employee benefits – A Summary*. Posted on August 1, 2003.

Sutcliffe, Paul and Hamidi-Ravari, Ahmad, *Background on PSC Standard Program and Note on Pension Accounting Developments*. Posted on August 8, 2003.

Eurostat Unit B.4, *Questionnaire on Recording of Flows and Stocks Relating to Pension Schemes in National Accounts*. Posted on August 12, 2003.

Pitzer, John, *The Valuation of Imputed Contributions to Unfunded Pension Schemes*. Posted on August 19, 2003.

Pitzer, John, *Pension Funds with Securities Issued by the Employer*. Posted on August 19, 2003.

de Vries, Gabe H., *Old Age Provisions and Old Age Institutions*. Posted on August 19, 2003.

Yermo, Juan, *Recent developments in Occupational Pension Plan Accounting*. Posted on September 10, 2003.

Aaron, Henry; Barr, Nicholas; Bosworth, Barry; Disney, Richard; Gramlich, Edwards; Holzmann, Robert; Palacios Robert and Petrie, Murray, *Comments on "Recognition of government pension obligations" by external fiscal experts of the panel of the Fiscal Affairs Department (IMF)*. Posted on September 23, 2003.

## APPENDIX 2 – LIST OF EDG ON PENSIONS MEMBERS (SEPTEMBER 23, 2003)

### **EDG contributors (27)**

<b>Aaron</b> , Henry (FAD Panel of Experts)	EDG Contributor
<b>Barr</b> , Nicholas(FAD Panel of Experts)	EDG Contributor
<b>Bosworth</b> , Barry (FAD Panel of Experts)	EDG Contributor
<b>Disney</b> , Richard (FAD Panel of Experts)	EDG Contributor
<b>Donaghue</b> , Brian (Consultant)	EDG Contributor
<b>Eurostat, Unit E.4</b>	EDG Contributor
<b>Eurostat, Unit B.4</b>	EDG Contributor
<b>Gramlich</b> , Edwards (FAD Panel of Experts)	EDG Contributor
<b>Lequiller</b> , François (OECD)	EDG Contributor
<b>Hamidi-Ravari</b> , Ahmad, (IFAC Project manager)	EDG Contributor
<b>Harper</b> , Peter – ABS	EDG Contributor
<b>Harrison</b> , Anne (OECD)	EDG Contributor
<b>Holzmann</b> , Robert (FAD Panel of Experts)	EDG Contributor
<b>McGeachin</b> , Anne, (IASB project manager)	EDG Contributor
<b>O’Hagan</b> , Patrick – Statistics Canada	EDG Contributor
<b>Palacios</b> , Robert (FAD Panel of Experts)	EDG Contributor
<b>Petrie</b> , Murray (FAD Panel of Experts)	EDG Contributor
<b>Pitzer</b> , John (Consultant)	EDG Contributor
<b>Pritchett</b> , David (IMF)	EDG Contributor
<b>de Rougemont</b> , Philippe, Moderator (IMF)	EDG Contributor
<b>Salou</b> , Jean-Marc (OECD)	EDG Contributor
<b>Yermo</b> , Juan (OECD)	EDG Contributor
<b>Steurer</b> , Anton (Eurostat)	EDG Contributor
<b>de Vries</b> , Gabe H. (Consultant)	EDG Contributor
<b>Walton</b> , John (Consultant)	EDG Contributor
<b>Sutcliffe</b> , Paul	EDG Contributor

### **Other Members**

**Ascoli**, Luca (Eurostat B.4)  
**Bergman**, Bo (Statistics Sweden)  
**Golland**, Jeff (Consultant—ECB)  
**Koistinen**, Paula (Statistics Finland)  
**Sullivan**, David (BEA)

### APPENDIX 3 – MODERATOR STRAW POLL QUESTIONNAIRE (SEPTEMBER 17, 2003)

#### *EDG on Pensions*

The on-going Review process of the 1993 SNA may require sooner than anticipated preliminary findings of the various established Electronic Discussion Group (EDG), with the view to send “recommendations” to the Advisory Expert Group (AEG) recently created to assist the ISWGNA during the process.

The EDG on pensions would benefit from a more comprehensive exchange of views between EDG members, commenting on each other. The width of the field makes it unlikely to achieve quick results. Therefore, the Moderator has decided to post on the EDG a Straw Poll Questionnaire to allow contributors and other interested parties to express their views in a quick and synthesized way, on this vast field.

To ensure rapidity, questions are closed questions. Questions are often cross-referenced to the draft Interim Report as posted on August 25, 2003 in case further explanations are needed. Further elaboration in writing by respondents, under the relevant box, is much welcome. This Straw Poll Questionnaire has been compiled quickly and would benefit from suggestions for future changes.

**Responses to the Straw Poll will be treated confidential**, unless respondents request their individual answers be posted on the EDG. The EDG Interim Report will only indicate aggregated results/trends, if enough participants have provided answers. It is envisaged that in autumn 2003 an official EDG Questionnaire be sent to a wider list of IMF correspondents. This (later) EDG Questionnaire would benefit from comments gathered during the Straw Poll Questionnaire.

*In the following:*

- *a selected square-box (by way of crossing, ticking, coloring ...) signifies “yes”;*
- *for a given question, more than one box can be selected—providing flexibility in answer;*
- *there may be more than one “main” reason;*
- *“no answer” is indicated when all box are left blank.*

***Respondent may elect to fill only part of the straw poll questionnaire***

*Questions relate both to your interpretation of the (current) 1993 SNA, and your preferences for a reviewed SNA. Cross-references to the Draft 1 of the Interim Report of the Moderator (as posted on the EDG on August 25, 2003) are indicated in parenthesis: as an example, (1.IR-101) indicates its 101<sup>th</sup> paragraph.*

## **Employer insurance**<sup>22</sup>(1.IR-101 to 111)

**Q.1 The Government Finance Statistics Manual (GFSM 2001) recognizes employer unfunded schemes' obligations as liabilities (as if funded), in contrast to SNA.**

**Q.1.1 In a reviewed SNA, do you support recognizing employer unfunded schemes' obligations as liabilities (as if funded)? (1.IR-101)**

☐ Strongly support

☐ Somewhat support

☐ Do not support

**Q.1.2 Select below the elements that are main, important, or unimportant considerations for your answer to Q.1.1 (for or against obligation recognition) ? (1.IR-101)<sup>23</sup>**

	Main	Important	Not Important
Q.1.2.1 Existence of accounting (or actuarial) information on the outstanding obligations.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.1.2.2 Financial solidity of the claim the household (would) have.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.1.2.3 The funded/unfunded delineation is artificial and promotes inequality of treatment.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.1.2.4 Recognition would improve statistical transparency of fiscal accounts.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.1.2.5 Recognition would improve the statistical recording of lump-sums paid and/or received by schemes, when employees transfer their entitlements from one scheme to another.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.1.2.6 Recognition would deteriorate the public deficit.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.1.2.7 Other considerations:			

**Q.2 Pension obligations are often not legal obligations. Business accounting nonetheless recognizes such obligations on-balance sheet, even when not legal obligations (constructive obligations). (1.IR-34-35)**

**Q.2.1 Do you think recognition of pension liabilities does/should suppose a legal obligation exists in current/reviewed SNA? (1.IR-102,57)**

	Current SNA	Reviewed <sup>24</sup> SNA
Legal obligation necessary	<input type="checkbox"/>	<input type="checkbox"/>
Legal obligation not necessary	<input type="checkbox"/>	<input type="checkbox"/>

**Q.2.2 Should the definition of "economic asset" be extended in a Reviewed SNA to cover the equivalent of "constructive obligation" (1.IR-102)**

☐ Strongly support

☐ Somewhat support

☐ Do not support

### **Comments:**

**Q.3 The 1993 SNA indicates that defined-benefits schemes exhibit a non-zero net worth. Furthermore, in SNA, stocks of pension liabilities are compiled using actuarial estimates while contributions are**

<sup>22</sup> See in particular EDG posting by ABS (1.IR-73), by Lequiller (1.IR-76), by O'Hagan (1.IR-79), Harrison (1.IR-81-82) and her interview (section 3) (1.IR-78).

<sup>23</sup> More than one "main" reason may be selected.

<sup>24</sup> "Reviewed SNA" means in the forthcoming SNA.

recorded using actual amounts and property income receivable by policyholders is recorded using property income receivable by the pension fund. This leads to anomalous entries in the Other economic flows. (1.IR-54,55)

**Q.3.0** Some advocate that recognizing unfunded pension obligations implies, for consistency reasons, to change the way transactions are recorded for pension funds. (1.IR-103)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

**Q.3.1** In a reviewed SNA, should the net worth of the scheme be allocated to the sponsor (i.e. the employer)? (1.IR-104,81,70)

☐ Strongly support allocation ☐ Somewhat support ☐ Do not support

**Q.3.2** In a reviewed SNA, should employers' contributions to pension funds be measured using actuarial<sup>25</sup> amounts as in GFSM 2001 and business accounting (at least imputing the difference from actual amounts)? (1.IR-111,81)

☐ Strongly support ☐ Somewhat support ☐ Do not support

**Q.3.3** In a reviewed SNA, should the property income receivable by policy holders reflect actuarial amounts as in GFSM 2001 and business accounting (= reflect the effect of the passing of time)? (1.IR-105,106,81)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

**Q.3.4** Assuming the property income receivable by policy holders will reflect actuarial amounts (see Q.3.3) in a reviewed SNA:

**Q.3.4.1** Should property income payable by the scheme be allowed to differ from property income receivable by the scheme? ☐ No ☐ Yes

**Q.3.4.2** If no in Q.3.4.1, who should be the counterpart of that difference in property income: the sponsor or the debtor of assets held by the fund/scheme? (1.IR-105,106,81)

☐ Impute on the sponsor ☐ Impute on the scheme assets ☐ Other option

**Q.3.5** Assuming the net worth of the scheme would be allocated to the sponsor in a reviewed SNA:

**Q.3.5.1** Should the created asset/liability be imputed a property income? ☐ No ☐ Yes

**Q.3.5.2** If yes in Q.3.5.1, what would be its basis: using the discount rate applicable, or as in Q.3.4?

☐ Using the discount rate ☐ As in Q.3.4.2 (first answer) ☐ Other method

### Comments:

**Q.3B** The 1993 SNA is not completely explicit about the treatment of changes of the present value of obligations due to various events. The treatment could be income/financial transactions (FIT) or revaluation (REV) or other changes in the volume of assets (OCV) or not considered (NOC). In your view, the following..... should be treated (in the accounts of the pension scheme) as.....:

**Q.3B.1** Granting of additional rights ☐ FIT ☐ REV ☐ OCV ☐ NOC

**Q.3B.2** Cost of living adjustment of pensions ☐ FIT ☐ REV ☐ OCV ☐ NOC

<sup>25</sup> Actuarial amounts are the values calculated by actuaries for the stocks of obligations as well as for the interest on those obligations and for the additional entitlements due to work done by employees during the period.



Q.3B.3 Changes in life expectancy assumptions ☐ FIT ☐ REV ☐ OCV ☐ NOC  
Q.3B.4 Changes in benefit structure ☐ FIT ☐ REV ☐ OCV ☐ NOC

**Comments:**

**Q.4 In SNA, pension schemes are being allocated an output if they are autonomous pension funds. The formula excludes holding gains and losses. In a Reviewed SNA:**

***Q.4.1 Is the measure of autonomous pension funds' output satisfactory as it is? (1.IR-58)***

☐ Fully satisfactory ☐ About satisfactory ☐ Not satisfactory

***Q.4.2 Do you support extending output recording to other pension schemes? (1.IR-109,58)***

***Q.4.2.1 To non-autonomous pension funds***

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

***Q.4.2.2 To unfunded schemes***

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

***Q.4.3 It has been suggested holding gains and losses on pension assets be treated as income (1.IR-106)***

☐ Agree ☐ Somewhat agree ☐ Somewhat disagree ☐ Disagree

**Comments:**

**Q.5 The 1993 SNA follows a dual recording for retirement funded schemes: it books flows both as non financial transactions, as well as financial transactions. An adjustment entry (D.8) keeps *net lending / net borrowing* (B.9) balanced.<sup>26</sup> (1.IR-110,53)**

***Q.5.1 In your opinion, should this dual recording kept in a reviewed SNA?***

☐ Strongly support ☐ Somewhat support ☐ Do not support

***Q.5.2 Where the dual recording is kept, additional information on the elements constituting D.8 should be provided so to allow a bridge with GFSM 2001 government revenue and expense (or in BPM):***

☐ Strongly support ☐ Somewhat support ☐ Do not support

**Comments:**

**Terminology**

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<sup>26</sup> See Lequiller contribution (1.IR-76), ABS paper (1.IR-74), Anne Harrison (1.IR-74)

**Q.6 The 1993 SNA defines funded schemes as those that keep “segregated reserves”. In your opinion:**<sup>27</sup>

*Q.6.1 The interpretation of “reserve” is: the existence of assets held by the scheme, or the existence of liabilities entry in the own accounts of the scheme, or both? (1.IR-43,44,78,91,94)*

	Current SNA	Reviewed SNA
Existence of assets	<input type="checkbox"/>	<input type="checkbox"/>
Existence of a liability entries	<input type="checkbox"/>	<input type="checkbox"/>
Both	<input type="checkbox"/>	<input type="checkbox"/>

If other criteria, please explain:

*Q.6.2 The interpretation of “segregated” refers to: a legal, an administrative, or an accounting delineation.*

	Current SNA	Reviewed SNA
Legal	<input type="checkbox"/>	<input type="checkbox"/>
Administrative	<input type="checkbox"/>	<input type="checkbox"/>
Accounting	<input type="checkbox"/>	<input type="checkbox"/>

If other criteria, please explain:

**Comments:**

**Q.6B SNA indicates that pension schemes can be funded or unfunded. It has also been argued that some schemes are “partially funded”. In addition, SNA indicates that whilst defined contribution schemes net worth is always zero, defined benefits schemes can be underfunded or overfunded. (1.IR-41,47,123)**

*Q.6B.1 The terms underfunded/overfunded does indicate or should indicate that the scheme’s assets measured at market value are below/above liabilities (actuarial estimates)*

*Q.6B.1.1 Does indicate* ☐ Agree ☐ Disagree

*Q.6B.1.2 Should indicate* ☐ Agree ☐ Disagree

*Q.6B.2 The term partially funded should have a different meaning than the term underfunded*

☐ Agree ☐ Disagree

*Q.6B.2 The term partially funded would mean schemes where contributions are calculated in a way that the scheme is structurally underfunded*

☐ Agree ☐ Disagree

**Comments:**

**Q.7 It is argued that the 1993 SNA emphasizes the financial solidity of the potential claim by households regarding pension entitlements<sup>28</sup>. (See SNA 4.98) (1.IR-45)**

*Q.7.0 Do you agree with this view?*

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

<sup>27</sup> See Anne Harrison interview (section 3.1) (1.IR-78), Pitzer (1.IR-91), Eurostat (1.IR-94)

<sup>28</sup> See Anne Harrison interview section 3.2 (1.IR-78)

***Q.7.1 On this basis, a 1993 SNA interpretation or change should clearly distinguish the case of government employer schemes from other private company employer because government obligations are more likely to be fulfilled.***

*Q.7.1.1 In the Current SNA*

☐ Strongly support                      ☐ Somewhat support                      ☐ Do not support

*Q.7.1.2 In a Reviewed SNA*

☐ Strongly support                      ☐ Somewhat support                      ☐ Do not support

***Q.7.2 Does SNA 4.98 imply that pension “funds” invested in the liabilities issued by the sponsor are unfunded or simply are not autonomous funds? (1.IR-78,96)***

☐ Unfunded                      ☐ Non-autonomous funds

**Comments:**

## **Defined-contribution versus defined-benefit schemes.<sup>29</sup>**

**Q.8 The 1993 SNA distinguishes between defined-contribution and defined-benefit schemes. (1.IR-41)**

***Q.8.1 This distinction is useful and the two categories constitute a partition of pension schemes***

☐ Strongly support                      ☐ Somewhat support                      ☐ Do not support

***Q.8.2 Schemes where benefits (will) derive from contributions invested and managed by a money manager are “defined-contribution”, whereas schemes that promise to pay benefits as a % of past (last) salaries and depend on the number of years of service or other indicators are “defined-benefits”.***

**However:**

*Q.8.2.1 Schemes where benefits will be paid only from contributions accumulated in individual accounts but invested in a fund managed by government and invested only in the liabilities of government would/should be viewed in the SNA as: (1.IR-125)*

	Current SNA	Reviewed SNA
Defined-contribution	<input type="checkbox"/>	<input type="checkbox"/>
Defined-benefit	<input type="checkbox"/>	<input type="checkbox"/>

If necessary, please indicate other considerations:

*Q.8.2.2 Schemes where benefits will be paid from individual “notional”<sup>30</sup> accounts and where contributions’ return is indexed on GDP, on a price index, or on a government bond yield, would be: (1.IR-125,120)*

	Current SNA	Reviewed SNA
Defined-contribution	<input type="checkbox"/>	<input type="checkbox"/>
Defined-benefit	<input type="checkbox"/>	<input type="checkbox"/>

If necessary, please indicate other considerations:

**Comments:**

<sup>29</sup> See Anne Harrison interview section 2 (1.IR-78)

<sup>30</sup> Case of Pay As You Go systems: notional refers to the fact that contributions are not transferred in a segregated fund, but give rise to well determined “contributions-based” entitlements.

**Q.9 The 1993 SNA indicates (para 13.88) that contribution-defined are always funded. By reference to question Q.6.1 and Q.8.2 above, do you agree? (1.IR-78)**

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

**Comments:**

### **Social security schemes.**<sup>31</sup>

**Q.10 The 1993 SNA does not recognize retirement obligations of social security schemes in its balance-sheets. Work is being done in the context of IFAC on the issue (Social Policy Obligation Steering Committee).<sup>32</sup> (1.IR-37)**

***Q.10.1 Do you support liability recognition for social security schemes in a Reviewed SNA (1.IR-112)?***

☐ Strongly support ☐ Somewhat support ☐ Do not support

***Q.10.2 Do you think recognition by the accounting community (work by IFAC PSC on SPO) of a social security/assistance liability would be for your answer to question Q.10.1 (1.IR-114):***

☐ Decisive ☐ Important but not decisive ☐ Not important

**Comments:**

**Q.11 Are the elements below main, important, or unimportant considerations for your position for or against liability recognition of social security retirement obligations in Q.10?**

	Main	Important	Not important
<i>Q.11.1 Existence of accounting (or actuarial) information on the outstanding obligations (1.IR-114).....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.2 Presence or absence of legal claims by household.....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.3 Government can in principle change benefits at will.....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.4 Government in practice hardly can change benefits, owing to political considerations.....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.5 Liability recognition of retirements obligation could be extended to other obligations (health, education).....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.6 Liability recognition of retirements obligations is tantamount to asset recognition of future taxes.....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.7 A change would improve statistical transparency of fiscal accounts.....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.8 A change would improve the statistical recording of lump-sums paid and/or received by schemes when employees transfer their entitlements from one scheme to another.....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.9 A change would deteriorate the public deficit .....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.11.10 Other considerations:</i>			

**Q.12 In the 1993 SNA, can arrangements where individuals invest their contributions via (independent) money-managers be nonetheless classified as social security schemes.**

☐ Cannot ☐ May be in rare circumstances ☐ Can

**Comments:**

<sup>31</sup> The 1993 SNA distinguishes social security schemes from social assistance schemes on the sole basis of the contributory nature of the former.

<sup>32</sup> See the document by Brian Donaghue (1.IR-72) and Sutcliffe/Hamidi-Ravari (1.IR-93).

**Q.13 In some arrangements that cover a large part of the population and are imposed and controlled by government, individuals hold notional accounts<sup>33</sup> from which benefits will be calculated.**

**Q.13.1 Those arrangements:**

	Current SNA	Reviewed SNA
Can/should be social security schemes	<input type="checkbox"/>	<input type="checkbox"/>
Cannot/should not be social security schemes	<input type="checkbox"/>	<input type="checkbox"/>

If necessary, please indicate other considerations:

**Q.13.2 In those arrangements that are considered social security schemes, retirement obligations:**

	Current SNA	Reviewed SNA
Are not to be recognized on balance sheet	<input type="checkbox"/>	<input type="checkbox"/>
Are to be recognized as securities or loans (liability of the scheme)	<input type="checkbox"/>	<input type="checkbox"/>
Are to be recognized as insurance technical reserves (liability of the scheme)	<input type="checkbox"/>	<input type="checkbox"/>

If necessary, please indicate other considerations:

**Comments:**

**Q.14 Social security schemes are collective arrangements designed to provide protection against social risks to large sections of the community, and which are imposed, controlled and financed by government. (1.IR-121,95)**

**Q.14.1 In this definition, which are the elements that are essential ?**

	Essential	Important	Not important
Collective arrangement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Large sections of the community	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Imposed by government	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Controlled by government	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financed by government	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Q.14.2 Does “imposed” necessarily mean that the scheme is compulsory, or could it more flexibility mean: created, set up, or arranged? (1.IR-95)**

☐ necessarily compulsory

☐ generally, but not necessarily, compulsory

**Q.14.3 “Control” means necessarily controlling (direct or indirect):**

	Necessary	Not necessary
Contributions	<input type="checkbox"/>	<input type="checkbox"/>
Benefits	<input type="checkbox"/>	<input type="checkbox"/>
Assets management	<input type="checkbox"/>	<input type="checkbox"/>

Please indicate other considerations:

<sup>33</sup> See Q.8.2.2 – Arrangements may encompass:

- “notional assets” systems where the scheme does not accumulate assets but where future payments are paid on the return of actual contribution, as if they had been invested on a fund;
- “notional contributions” systems where contributions (on which benefits will be calculated) are not paid but are booked as a % of wage.

*Q.14.3.1 Control of contribution and assets management is sufficient, as it give indirectly control over benefits:*

☐ Agree ☐ Disagree

*Q.14.4 Some argue that the criteria "Financed" is largely circular (1.IR-121)*

☐ Strongly support ☐ Somewhat support ☐ Do not support

**Comments:**

**Q.15 Some countries have embarked into social security reforms including involving "privatization". In some cases, government obligations to workers (former contributors) have been recognized in the form of "recognition bonds". (1.IR-115)**

*Q.15.1 Are such obligations economic assets in SNA, or should there be in a Reviewed SNA?*

*Q.15.1.1 Current SNA:* ☐ Economic assets ☐ Perhaps economic assets ☐ Not economic assets

*Q.15.1.2 Reviewed SNA:* ☐ Economic assets ☐ Perhaps economic assets ☐ Not economic assets

*Q.15.2 What would be a main criterion/consideration for economic asset recognition?*

	Main	Important	Not important
<i>Q.15.2.1 The obligation is recognized by government / accountants.....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.15.2.2 "Recognition bond" bears interest... ..</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Q.15.2.3 "Recognition bond" is tradable.....</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Other:*

**Comments:**

**Social insurance**

**Q.16 Some argue (such as GFSM 2001) that defined contribution schemes are not social insurance because it is not insurance. In contrast, others think that individual pension contracts, which tend to multiply, should be covered by social insurance. (1.IR-116 to 121)**

*Q.16.0 Should insurance be revisited?*

☐ Should be revisited ☐ May be revisited with marginal changes ☐ Should not be revisited

*Q.16.1 Should the notion of social insurance be dropped?* ☐ No ☐ Yes

*Q.16.2 Do you favor extending or reducing in SNA the scope of social insurance?*

☐ Extending ☐ Keep roughly unchanged ☐ Reducing

*Q.16.3 Should defined contribution schemes be within social insurance? (1.IR-125)* ☐ No ☐ Yes

**Q.16.3 Should a second notion be introduced in addition to social insurance to allow for differences in scope—as an example “social protection” ?** ☐ No ☐ Yes

**Q.16.3.1 Social protection would include social assistance<sup>34</sup>** ☐ No ☐ Yes

**Q.16.3.2 Social protection would include individual insurance** ☐ No ☐ Yes

Main  
Important  
Not important

**Q.16.4 What should be the main criteria for social insurance (old age pension)**

**Q.16.4.1 Scheme is collective (with specific exceptions)**..... ☐ ☐ ☐

**Q.16.4.2 Scheme targets a social risk (old age)**..... ☐ ☐ ☐

**Q.16.4.3 Scheme is compulsory** ..... ☐ ☐ ☐

**Q.16.4.4 Scheme is redistributive** ..... ☐ ☐ ☐

**Comments:**

**Q.17 Transfers of pension rights between pension schemes give rise to lump sum payments. In case of transfers in between employer funded schemes, the event is a financial transaction. How to record the event if one of the scheme is not a employer funded schemes? Nonetheless a financial transaction (with appearance and/or disappearance of an asset via the other change in volume account), an other change in volume, a transfer from one scheme to the other, a benefit (liquidation of rights) and a contribution? (1.IR-59,129)**

**Q.17.1 Between funded and unfunded employer pension schemes**

☐ Financial transaction ☐ Other change in volume ☐ transfer ☐ benefit+contribution ☐ Other method

**Q.17.2 Between a funded employer and social security/assistance pension schemes**

☐ Financial transaction ☐ Other change in volume ☐ transfer ☐ benefit+contribution ☐ Other method

**Q.17.3 Between an unfunded employer and social security/assistance pension schemes**

☐ Financial transaction ☐ Other change in volume ☐ transfer ☐ benefit+contribution ☐ Other method

**Q.17.4 Between social security/assistance schemes**

☐ Financial transaction ☐ Other change in volume ☐ transfer ☐ benefit+contribution ☐ Other method

**Comments:**

**Q.18 Pension schemes may merge with other pension schemes. This involves the liquidation of all obligations against the transfer of assets. Do you think such events would necessarily be treated similarly as individual transfers, or differently (likely to be an other change in volume):**

☐ Should be treated generally the same ☐ Should be treated generally differently

**Comments:**

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<sup>34</sup>Like GFSM 2001.

**Q.19 In the 1993 SNA as it is, it is recommended that imputed contributions be calculated using the same actuarial considerations as would be applicable for a funded scheme, but it is accepted that a contribution be set equal to benefits. In case imputed contributions would be measured using actuarial considerations, should one use a discounted flow or an undiscounted flow (the later solution is akin to recording a property income but classifying it as compensation of employee)? (1.IR-56,128)**

☐ Discounted flow

☐ Undiscounted flow

☐ Other method

**Comments:**