

**“NOTES” ON THE DISCUSSIONS CARRIED OUT DURING THE
OECD NATIONAL ACCOUNTS EXPERTS MEETING—OCTOBER 7, 2003: SESSION ON PENSIONS**

By the Moderator¹—November 24, 2003

On October 7, 2003, the Moderator of the Electronic Discussion Group on pensions (EDG) attended the *Joint OECD Working Group on Financial Statistics and OECD National Accounts Experts Meeting* in Paris. He presented the Moderator’s Interim Report² as well as preliminary results from the Moderator’s Straw Poll Questionnaire (SPQ) on pension recording (the SPQ was circulated on September 17, 2003).³ Here are his notes of the debates.

A. Presentation by the EDG Moderator (Interim Report and Straw Poll Questionnaire)

The chairman (François Lequiller) reminded the meeting that this issue is one of the most important in the list of issues for the revision of the *1993 SNA*, in a context where new challenges result from the aging of population and from the need for better international comparability of aggregates. Three main points to be discussed by the EDG are: unfunded employers’ pension schemes, social security obligations, and classification of pension schemes.

On advice from the Chair, the presentation focused on employer schemes: the recognition of the obligations of employer unfunded schemes as liabilities, and more generally on the recording of employer funded schemes. It also described the diversity of views regarding the meaning of “segregated reserves” and of “contribution defined” schemes (see SPQ results, posted on the EDG).

Participants strongly endorsed recognizing liabilities of unfunded employer schemes (Australia, the Netherlands, Denmark, the UK, the USA) while no member expressed opposition, as the Chair asked for a *tour de table*. **The Chair concluded that the OECD National Accounts Experts supported this change.**

¹ Those notes are written by the Moderator of the EDG on pensions for the benefit of the EDG participants. While the Chair of the *OECD National Accounts Experts Group* permitted the principle of the posting of such notes, they remain the sole responsibility of the Moderator and do not substitute for the minutes of the meeting. The minutes of the meeting are being processed by the OECD and will be available in due course, after approval by the *OECD National Accounts Experts Group*.

² The Interim Report was posted on the web site on September 24, 2003 (and in a draft form on August 25, 2003). See: <http://www.imf.org/external/np/sta/ueps/index.htm>

³ The SPQ was circulated to EDG contributors, Eurostat Task Force on pension schemes’ members, STA topical division chiefs, and other experts. The SPQ encompassed 95 elementary questions grouped into 21 main questions further grouped into 6 topics. By October 1, 2003, 32 answers had been received, giving already clear trends.

- Australia supported the inclusion on balance sheet of those unfunded obligations. It indicated this was in practice straightforward, in contrast to other proposed changes to the treatment of funded schemes, which would require more elaborated treatments.
- The Netherlands indicated that this recognition, which it supported, should not extend to social security and called for establishing clear criteria. Recording of transactions should be simple and imputations limited. A numerical example would be useful.
- Denmark supported inclusion on balance sheet, noting that transactions did take place. It noted that transfers of rights between schemes occurred and that the *1993 SNA* was unsatisfactory in this respect, particularly when transfers occur between funded and unfunded schemes: to obviate the problem, there was a need to “create some Fund”. There was also a balance to find between the need to appropriately reflect the true cost of labor, which supposed some imputations—as the *1993 SNA* already prescribes— and a need to stay simple.
- The UK indicated that liabilities should be recognized and called for consistency.
- The USA indicated an agreement in principle for recognizing unfunded obligations.

There was also support for changing funded schemes recordings⁴.

- Australia supported the allocation of net schemes’ assets to the sponsor as well as the use of actuarial values for the measurement of contributions. It suggested that the use of transfers may allow keeping a zero net saving of pension schemes, and would elaborate further via another EDG contribution. In relation to holding gains, it noted that holding gains were a source of funds for subsequent transactions.
- The Netherlands wondered whether the allocation of the net assets to the sponsor would not be in contradiction with the definition of institutional unit. It noted that recognizing a liability supposed the existence of an obligation and called for defining an adequate set of criteria. It noted that the term underfunded/overfunded in the *1993 SNA* did not mean the same thing than for accountants. Regarding actuarial valuations, there would be a need for a numerical example. The recording of output and the treatment of holding gains/losses were not that clear in the *1993 SNA*.
- The USA mentioned the issue of appropriately measuring the cost of underfunded plans, as business accounting’s rules were sometimes too flexible for the needs of national accounts.
- The Moderator noted that (open-end) mutual funds and defined contributions plans were examples of units with zero net worth.

There was hardly any support for the current SNA position on the **dual recording of pensions** (both non-financial and financial transactions).

- Australia noted that users did not understand it.
- The Netherlands indicated that while this information was needed, it may be shown as a memo item.

⁴ Mainly: imputing pension funds’ net assets to the sponsors, using actuarial values instead of actual values for both employer social contributions and property income payable by the scheme.

Follow up. The Moderator indicated that the intention was to circulate a formal EDG Questionnaire this autumn and to provide an updated EDG Report with a focus on employer schemes. The area of social security and of delineation of schemes would be dealt by the EDG in 2004, with recommendations laid down in further EDG Reports. The Chair proposed to circulate to the Group the formal EDG Questionnaire when available, and recommended National Accounts Experts read the Interim Moderator Report and participate to the debate.

B. Other presentations

Juan Yermo (OECD)

Juan Yermo presented his paper *Recent developments in Occupational Pension Plans Accounting* (posted on the EDG)⁵. He noted that business accounting (such as IAS 19) recognizes as liabilities legal but also constructive obligations. Employers can recognize an asset resulting from overfunded positions of pension plans when certain conditions are met, in particular in the following cases: (a) refunds are possible; (b) future increases in benefits can be met with such overfunding positions; (c) future contributions can be reduced; or (d) future actuarial losses may be set against such overfunding positions.

Juan Yermo also mentioned the preferred Projected Unit Credit Method (in IAS 19), which bases calculations on future salaries, and the use of discount rates based on high quality bonds yields (of maturities comparable to those of pension obligations). He indicated that accounting (as well as the OECD Working Party on Private Pensions) looks at the defined contribution / defined benefit delineation from the employer point of view: defined contributions are those plans where no risk lays any more on the employer.

Juan Yermo noted the expected adoption in 2005 of IASs in Europe, the new UK rule for pensions embodied in FRS 17 (immediate recognition of pension schemes net assets in the books of the sponsor)⁶ and the German “book reserve” system as being “nonautonomous pension funds” according to *ESA 1995*. He noted the actuality in the USA:

- The case of “cash-balance” plans, which look like defined contribution plans but are treated as defined benefit plans;
- The question of the discount rate applicable: Treasury yields or corporate bonds? and
- The treatment of multiemployer schemes, where defined contributions accounting is allowed by the US accounting standard setter, FASB.

Denis Besnard (Eurostat) and Poland

Eurostat presented the work done by two Task Forces on pensions: (1) cases of lump sums paid to government by public corporations in return for the assumption of their pension unfunded obligations (so called “France Telecom” case) and (2) delineation of social security

⁵ At: <http://www.imf.org/forum/Message2.asp?forumid=10&messageid=364&threadid=364>

⁶ See the EDG posting showing the text of FRS 17, graciously provided by the UK Accounting Standards Board staff, at: <http://www.imf.org/forum/Message2.asp?forumid=10&messageid=368&threadid=368>

schemes and the boundary with saving schemes (the precise meaning of “imposed, controlled and financed”).

In the latter task force, the *ESA 1995* criteria for classification of a pension scheme as Social Security are discussed, in particular the terms “imposed, controlled and financed by government units”. The following issues will be discussed in the next task force meeting (before requiring the opinion of the CMFB⁷):

- Defined benefits funded schemes: what are the conditions for being classified in Social Security funds?
- Defined contributions funded schemes: should they not be classified in Social Security (in relation with the market performance on investment/asset)?
- Guarantee provided by the general government: to what extent is it a criterion for classification in Social Security?
- Cases of combination of funded and unfunded legs: should the funded leg be separated? What are the conditions to keep one single arrangement?

Poland made a presentation on the far-reaching social security pension reform carried out at the end of the 1990s. Poland substituted its social security pension scheme for an arrangement organized with two legs and where wage earners contribute:

- one part (12.2% of wages) to a leg that is in essence Pay As You Go (PAYG) as it does not accumulate assets, but where contributors accumulate rights corresponding to their actual contributions plus a return indexed on GDP growth; and
- another part (7.3% of wages) to a leg that is funded (it accumulates assets) and where contributors select private money managers who are expected to invest the funds, although the latter must pledge to ensure some minimum performance. Contributors cannot cash out but can change managers, and will receive at retirement age an annuity based on accumulated rights.

[In addition, government provides an overall guarantee of a minimum pension.]

The question is the sector classification of the second leg. The Polish delegate suggested the two legs were de facto one scheme to be classified in the Social Security Fund sub-sector (S.1314). He also highlighted the risk that an adverse Eurostat decision could lead to severe statistical disincentives to undertake pension reform in Europe.

The Moderator indicated that a few Latin American countries have engaged into social security reforms. Unfortunately, so far there are not represented in the EDG debates. More generally the classification of schemes and the social insurance boundary was a difficult area which would be the focus of the EDG in 2004. He noted that for the social security boundary, the *GFSM 2001* aligns with the *1993 SNA* and sticks to the “imposed and controlled” criteria (while not using the “financed” criterion). He expressed some support to the idea that statisticians should make an endeavor to ensure that classifications do not discourage pension reforms.

⁷ Committee on Monetary, Financial and Balance of Payments Statistics at: <http://www.cmfb.org/index.htm>