Comments on EDG position paper on employer pension schemes in its 1 Dec. 2003 version

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December 11, 2003

Important points

General

Terminology. The text talks nearly exclusively about enterprises with a tendency to mean the same as private businesses\(^1\). Government hardly appears. In reality, unfunded and non-autonomous schemes of (private) corporations are disappearing in several countries due to pressures from markets and authorities. They will probably have disappeared completely in many OECD counties by the time the new SNA enters into force. This means that the unfunded case in fact equals government employer schemes. The relevance of the text for government employer schemes has to clarified.

The distinction funded/unfunded is often not made in the text although it is important for the treatment in several places. This applies e.g. to sections IV B to IV.D. For example, it is not made clear in the text that (or whether?) unfunded schemes by construction have no net worth so that several of the paragraphs, and the flows described there, do not apply to unfunded schemes (or the flows are zero by definition). The treatment of unfunded schemes has to be clarified and described in more detail.

Specific

#44 (incl. footnote 1). Disagree with the apparently general exclusion of sponsor’s own assets in the case where these are freely tradable instruments with markets. The sole fact that a money manager (if one did exist in this case) could not freely trade these instruments under the rules of the pension fund is not sufficient. This would most obviously be so where the assets are government bonds (as opposed to the case where an employer issues special “pension fund” instruments which is probably the case you had in mind here).

Recognition (# 6 sq. and 46-50): it is not made clear whether all kinds of contingent obligations would have to be recognised as liabilities under a future SNA also in the case where the employer does not recognise them. In addition, it is not made clear what would happen when the employer unit does in a later period recognise (some of) these obligations in its balance sheet.

Transfer (#51): As opposed to the case of obtaining liquidation, most schemes in Europe allow some transfer of rights to another scheme (e.g. when the employee changes country). It should be clarified that the possibility for a few members to transfer their rights to another scheme alone does not “…in all cases establish undisputable economic assets of (all?) households.”

Measurement of liability and contributions (#52 and #71). It is suggested to use the ratios taken from similar schemes when information is lacking. In practice this suggestion will often not by applicable. Comparable schemes are those with similar levels of benefits, similar employee gender and age structure etc. which are unlikely to exist in many countries (see also first paragraph above). Alternatives for these cases need to be suggested. (See also the comment on #120 below.)

It is important to clarify that there are two distinct reasons why measurement problems may arise (#71 provides a hint already). The first is that when an actuarial estimate exists, the sponsor who ultimately

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\(^1\) If the text uses the term ‘enterprise’ as a strict synonym for ‘institutional unit’ meant to include also all units in the government sector this should be made clear. The SNA uses the term ‘enterprise’ in this sense for describing production whereas in the financial accounts and in Annex IV the term is ‘institutional unit’ and a distinction by sector is made by referring e.g. to corporations. The text seems undecided and switches between ‘business’, ‘enterprise’ and ‘institutional unit’ giving the impression that ‘enterprise’ means units in the corporation sector.
decides on the actuarial assumptions (as is specified e.g. in FRS 17) may make biased choices. The second reason is that an actuarial estimate simply does not exist as is currently the case for government schemes in many OECD and other countries.

#67-68 This is a major innovation which may create significant measurement problems. Also, the new treatment in fact postulates that the observed contributions to funded schemes will usually be significantly biased. The new treatment should thus be justified clearly. Alternatively, if large biases are presumed to be rather rare, it would be sufficient to describe the biased cases and suggest the new treatment only for these (e.g. case of contribution holidays). At the end of #68 it must be made clear that “(this) applies to all employer pension schemes.”.

Output (#93-95): this is a complication for a presumably small amount and could be difficult to implement. In the examples in annex this recommendation is not implemented. It should be explained what the impact is of this externalisation of a financial intermediation output on the other flows described in the paper, e.g. on the property income.

Section IV.G: It should be made clearer that this whole decomposition requires detailed actuarial reports/detailed disclosure in business accounts or on questionnaires. (#101 might be the place to do this.)

#120: The sequence of the calculation is no doubt important for the relative size of the different items. However, the text so far suggests that the different items are directly extracted from actuarial reports and/or business accounts, or are derived via ratios which in turn originate in business accounts. This does not involve a choice of calculation sequence by national accountants. The relevance of the paragraph is therefore unclear. Is this supposed to be a suggestion to the international standard setters or to the actuarial profession or is this the nucleus of what might become instructions for national accountants on how to do their own actuarial calculations?

(Similar comments could be made on other paragraphs, e.g. #57)

**Details**

#9: funded obligations are set equal to amounts borrowed. This is not quite clear. Please explain “funded” and “obligations” in this context.

Table 1 would be easier to read if words would be used in addition to numbers in the row and column headers. (e.g.“View 2 – liability only” or similar)

#66: the last sentence is perhaps wrong or is unclear: “non allocation to employer makes the employer’s net worth much more volatile…”???

#72: Is it in fact so that D.1211 means contributions to defined contribution schemes and D.1221 contributions to defined benefits schemes?

#79 Could the text explain why this is seen as unwelcome?

#84 A sudden change of terminology. What was called the pension liability so far is now called the insurance technical reserve. Apparently the focus switched back on the liability side of an autonomous pension fund but this is not made clear (see also #62). Please harmonise terminology or explain the change.

#112 Which SNA flow is meant by the ‘employer’s expenses’?

#144 The paper does not explain fair value assuming the reader is a technical expert. This para could be linked to #133.
The government scheme described in #184-187 is extreme. With contributions and property income much larger than benefits this must be a recently opened scheme, or a scheme with a very special age structure whereas in practice the common case is a reasonably stable or – increasingly – a closing scheme.

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December 12, 2003

An afterthought on the comment #120 and 57: In fact the paper sets out in various places what a 'good quality actuarial estimate' should be (using unit credit method etc) - this could perhaps be linked to the issue of 'how to find out whether an actuarial estimate is an acceptable source' - see comment around #71.