

**Draft Position Paper on Employer Retirement Pension Schemes (December 1, 2003)**  
**Comments from Paul Cotterell — December 11, 2003**

Overall, I think the structure and content of the draft paper is very good. It addresses a very complex issue comprehensively and well. Nonetheless, I do have some substantive comments that I hope will improve the report. They are presented seriatim.

**Executive Summary**

In the *background* section it would be useful to clarify for the reader the scope of “employer pension schemes”. The *1993 SNA* refers to private social insurance schemes and applies the funded/unfunded classification to them. Presumably, employer schemes are a subset of the private schemes – i.e., those that are “managed by an employer on his own behalf” (SNA Annex IV, paragraph 11). As such, they encompass autonomous, non-autonomous, and unfunded schemes. [As an aside, I think this would be good opportunity to remove the term “private” from the SNA by extending the notion of employer schemes to those that are arranged with an insurance corporation. It has always been confusing to discuss private schemes in the public sector.]

*Para 4.* I would drop the footnote. It does not add anything here and will not be relevant if your proposals are accepted.

*Para 6.* Move the footnote on constructive obligations to the first sentence where the term is first mentioned.

*Para 9.* I would drop the parenthetical comments from the second sentence – I found them confusing and unhelpful. Also, drop the last phrase from the final sentence – it is the topic of a separate section – this also requires removal of the word “both”. The paragraph would then read “ It is unsound to differentiate recording amongst schemes according to the institutional character and the financing arrangement, as the SNA does now. The employer has a liability whether it has funded its obligation or it has not. Such obligations arise because of the service rendered by the employee.”

*Para 10.* I would move this paragraph, and its related heading, to occur after the current paragraph 12. I think it is better to talk about accrual recording before venturing into the proposed changes in the treatment of under or over-funded schemes.

**I. Background**

Again, I would make clear what is meant by employer schemes. Perhaps the explanation could be given at the beginning of Section II though.

*Para 17.* It is not clear to me why a study of private schemes is needed. Do you have in mind that the treatment of social insurance arranged through an insurance corporation needs modification? If so, it would be useful for the reader to know what aspects are to be reconsidered.

## **II. Current 1993 SNA Prescription**

*Para 19.* I suggest a slight rewording of the latter part of this paragraph to read: "... while the net worth of the latter is always zero because the liability is not determined actuarially but is equal to the current market value of the segregated assets. As such, defined contributions schemes are always funded (SNA 13.79)" – not SNA 13.88 as shown.

*Para 20.* I do not understand why the new term "sponsor" has been introduced. It does not seem to add anything to the discussion and the sponsor's role is not clear. It seems to me that it would be sufficient to refer to the employer whenever the term sponsor now appears throughout the document – indeed in some places you refer indistinguishably to employer/sponsor. Also, I do not understand the phrase "the entity that supports the liabilities" – what is meant by supporting the liabilities? Further, the phrase "That the obligation to ensure may derive..." should be "obligation to insure..."

## **III. Terminology Issues**

*Para 21.* I would not refer to "enforcing" the SNA – it is after a sovereign decision by each country whether to adopt the 1993 SNA or not. Perhaps the word "implementing" would be better.

*Para 32.* It may be helpful to modify the last phrase slightly to read: "... as would be appropriate economically".

*Footnote 13.* I think it would be clearer to refer always to "segregated assets", whenever discussing the assets held by the scheme to meet its obligations.

*Para 36.* Perhaps I have misunderstood, but I would have thought that there is a rationale for distinguishing type 1b from type 2. The market performance of the employer's securities would determine the value of the liability in type 1b, but there is no such requirement in type 2. Hence, I think the general interpretation is correct and type 2 cannot be defined contribution schemes.

*Para 43/44.* I am not sure I agree with a blanket removal of obligatory investment in the employer's securities from assets for the purpose of determining funding. It seems to me that if the employer's securities are marketable then the market value of the security should still be included – they are after all assets of the scheme for which the value is independently determined and they have real value for the scheme.

*Para 45.* I would modify the paragraph to incorporate the text of footnote 16 directly, as follows. "... a clarification of the 1993 SNA. Partially funded schemes will generally be underfunded although occasionally they could conceivably become overfunded when their assets considerably over perform expectations." As you can see, I would drop the last sentence altogether.

#### **IV. Recording Issues in the New SNA**

*Para 54.* The final phrasing needs to clarify to whom the employer has the liability or on whom it has a claim. I suggest replacing the section after “... **current SNA**” with “. If the pension obligations exceed the autonomous fund’s assets it has a claim on the employer, who would recognize a liability to the fund for the difference. Alternatively, if the fund’s assets exceed the pension obligations the fund would have a liability to the employer, who would recognize a claim on the fund (asset) for the difference. (**This is a change from the current SNA.**)”

*Para 57.* I would move this paragraph to appear after the current paragraph 59 and drop the intermediate heading “Actuarial valuation methods”. The terminology used in para 57 is explained in paras 58 and 59.

*Para 69.* I would drop the footnote 25, it is a separate issue and was discussed extensively earlier. Also, I do not think AF.619 is the correct counterpart. Isn’t it reserved for recording the difference between fund assets and pension obligations. The counterpart to D.1 is the pension obligation itself (AF.611?). Similarly, payment of pensions reduces the pension obligation (AF.2 against AF.611) not (F.2 against F.619).

*Para 79.* It is not clear to me why the new recording will create a situation where defined benefits plans generate savings – for the economy as a whole – but it will change the distribution of savings across the economy. In my mind, the new treatment will give a better measure of sectoral savings than the current SNA.

*Para 85.* I agree completely with the proposal to retain dual recording in the SNA.

*Para 94.* I think there are a few typos in this para, e.g., “polling assets” should be “pooling assets”.

*Paras 103-120.* The issues you raise here are very real concerns and could be raised with the ISWGNA for their views. My own reactions are to agree with your leaning on COLA, treat a change in life expectancy as a volume change, treat a change in benefit structure as a volume change, (each volume change would have an impact on the measure of employer contributions in subsequent periods), and I have no problem with your ordering of events.

#### **VI. Bridge between the proposed SNA and business accounting**

*Para 145.* I find it confusing to read “national accounting standards” as not meaning the standards used by national accounts statisticians. Perhaps you could drop the word “accounting” and still retain your meaning. i.e., “Governments keep their accounts following national practices that vary considerably across the world.”

*Para 148.* I would drop this paragraph completely, including footnote 37. The work on social policy obligations is not dealing with employer pensions but with non-exchange transactions in social benefits. Similarly, paragraph 9 of IPSAS 19 is trying to make clear that the treatment of non-exchange social benefits is unclear. It is not referring to employer pension schemes. Indeed, IPSAS 19 considers employer pension schemes to be exchange transactions and therefore within its scope and subject to its rules about legal and constructive obligations.

*Para 166.* The latter part of this para could be clearer. I suggest “... to book a liability of the scheme to the employer under ...”

## **VII. Numerical Example**

*Para 184-190.* I suggest revising the example to make the numbers different for each aspect. For example, at present the interest bill is 15 as well as the additional employer contributions; the property income is 6 as well as the pension paid. The use of the same values for different entries is confusing when working through the accounts.

*Para 185.* The phrase “Owing to its generosity” is not needed and could be deleted.

*Para 190.* Is it the net lending/borrowing of households that is improved or the “measurement of the government’s net lending/borrowing”? I suggest keeping the example focused on the government as employer.