

## **Comments on The Treatment of Employer Retirement Pension Schemes in Macroeconomic Statistics – December 2003 EDG Report (draft)**

1        These comments are provided in respect of the draft report dated 23 December 2003.

2        We have not had the opportunity to examine the draft in every detail. However, we think the report is excellent and we agree with the general thrust of the recommendations.

3        Our comments on the specific recommendations are as follows:

4        *Recommendation 1* – strongly support

5        *Recommendation 2* – we strongly support the thrust of this recommendation. We are, however, somewhat concerned about accepting constructing obligations as liabilities only in the particular instance of employer pension obligations. If the circumstances that give rise to constructive obligations are sufficient to recognise these as liabilities in this instance, then if similar circumstances arise in other instances then they too should be recognised as liabilities. While this is beyond the scope of the EDG, perhaps this point could be recognised as one that should be taken up more broadly in the review of the SNA.

6        *Recommendation 3* – we support this recommendation. However, it should be explicitly noted that the consequence of this recommendation means that the premise in the current SNA that the assets of pension funds belong to households (in the same way that the technical reserves of insurance enterprises are seen as belonging to policyholders) would no longer hold

7        *Recommendation 4* – we support this recommendation. On the issue of a defined benefit scheme exhibiting saving, a way of dealing with this could have been to show a transfer, equal to the net income of the scheme, back to the employer, which would be then “reinvested” by the employer in the scheme as a financial transaction. However, this would simply shift the saving from one corporation to another and, on balance, we support recommendation 4.3. In terms of recommendation 4.4 (which pertains only to autonomous funds), we believe that the employer’s property income should be calculated on the basis on the return of the fund’s assets, and not on the discount rate used by the scheme as described in paragraph 116.

8        *Recommendation 5* – we generally support this recommendation. We would view changes in demographic actuarial assumptions as a revaluation. We have not had a chance to fully appreciate the recommendation regarding COLA, but we are concerned that in practice measuring differences between the realized change in the CPI and the previous forecast would be difficult.

9        *Recommendation 6* -- the report notes that the majority of the EDG leant towards abandoning the dual recording of pension transactions in the SNA. As you know, the ABS does not support dual recording so obviously our preference would be firm recommendation to change the SNA in that respect. We feel that the weight of the "substantial arguments" made by the "vocal minority" does not come through in the paper. In our view the primacy of pension benefits as a drawdown of savings should not be mixed up with alternative notions of income in the core SNA. They

should be handled as memorandum items along with other alternative views of income, for example those adjusted for holding gains. Achieving consistency with GFS would also be a major factor in favour of recommending a change.

10 *Recommendation 7* – we support this recommendation, although we note that the treatment of holding gains and losses in the measurement of output in the broader context remains under consideration.

11 *Recommendation 8* – we support this recommendation

12 *Recommendation 9* – we support this recommendation. We note that a possible consequence of recommendation 9.4 that an autonomous defined contribution scheme could be over- or under-funded, if the specified rate of return differs from the rate of return on the schemes assets. This does not concern us.

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