

UNSD's present position on the statistical treatment of employer pension schemes

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Statistical treatment of employer retirement pension schemes

First, we would like to compliment the EDG on a thorough report on the treatment of employer retirement pension schemes in macroeconomic statistics. Improved coverage of the pension payments and claims will be valuable for the analysis of the sectors' saving and wealth. In many countries the government's and the corporate sector's unrecorded future pension obligations are significant compared to the recorded assets. The UNSD supports most of the recommendations of the report. We also find the recommendations of the EDG consistent with the main principles of the 1993 SNA. We agree to the proposal to limit changes in the revised SNA to employer retirement schemes, leaving out social security schemes. However, at the end of this letter we raise questions about how fast the changes should be included in the SNA.

We find the suggested classifications and recording of events reasonable. We share the concern that the recording of property income will lead to non zero saving for the defined benefit schemes. Since the employer is responsible for the net asset value of the fund, the balancing item of the non zero saving and net lending will be revaluation which seems difficult to justify. However, we agree that imputed transactions as compensation of employees or transfer may seem artificial.

The preferred classification of the COLA needs to be further developed. First, we cannot see that the classification of the COLA should depend on whether a real or a nominal discount rate is used by the actuaries. Second, COLA affects the nominal benefits for future as well as present benefit recipients, however, the last effect is not shown in the examples in the paper. It can be argued that since a part of the COLA is for present employees as future benefit recipients, that part should be recorded as compensation of employees, as with price adjustment clauses in wage contracts.

Furthermore, it is not clear from the paper who receives the "additional rights" and how the recording should be. Are the additional rights for a few retirees or some of the employees who are in the process of retiring?

Whether to impute the output of funded pension schemes is a question that needs to be answered. Our point of view is negative. The reason is that complex imputation for a minor item is required. The operating costs of unfunded schemes should be smaller than for comparable funded schemes since they have no assets to invest. To single them out for measuring output requires extra data collection and also requires additional imputations, for instance the output has to be imputed as final consumption of households and the imputation of income with which households use to pay for the unfunded pension services. To avoid extra data collection, one can use coefficients from funded schemes for unfunded ones, however doing that will exaggerate the true costs. As the imputation

of costs is not straightforward and the amounts involved probably minor, we would suggest not to impute output of unfunded schemes.

The UNSD suggests also that the following points are re-examined:

1. The households' pension claims are different from other financial assets owned by households since withdrawals from the pension asset will be subject to income taxes (i.e. taxes on incomes earned at the time of contribution but was delayed until withdrawal). Adding pension claims with other assets will exaggerate the value of households' wealth. Is there a need for a memorandum item showing the estimated tax liability?
2. Should essential terms used with respect to pension schemes/funds be more clearly defined? The following terms need clear definitions:
 - 2.1 "Defined contribution schemes" (AEG, para. 6): benefits are determined by contributions and yield.
 - 2.2 "Defined benefit fund": How is it different from "defined benefit scheme" referred to in AEG, page 12, recommendation 4.3? Does "defined benefit scheme" refers both to funds with actual contribution intended to cover defined benefits, and fund without or only symbolic actual contribution but with defined benefit? Should the latter refer only as "defined benefit scheme"?
 - 2.3 "Autonomous" (AEG, para. 15): "Autonomous" pension fund in the SNA (para. 6.141) refers to a separate institutional unit that can be private or public. The fund is segregated from the employers' fund. It operates on its own behalf but "organized and directed by...employers or jointly by the employers and their employees". It can be implicitly understood that the employers are liable to the fund liability.
 - 2.4 "Non-autonomous": In the SNA, it is a scheme with fund "segregated from the rest of the employer' own funds but are not autonomous" (SNA, para. 12, page 572), which means that the fund is a segregated account of the employer. The account is therefore not an institutional unit. Similarly to autonomous funds, it can be implicitly understood that the employers are liable to the fund liability.
 - 2.5 Is there a need to distinguish between autonomous and non-autonomous funds? The difference between autonomous and non-autonomous funds is not clearly spelt out by the SNA, but it seems that the difference is different degree of control by the employers over the funds, one is an institutional unit and the other is not. In terms of SNA treatment, there is no need to differentiate between autonomous and non-autonomous funds unless the non-autonomous fund is suggested to consolidate with the employers. Both may be under-funded or over-funded, the under-funding and over-funding amount affect the employers' liabilities.
 - 2.6 "Dual recording" (AEG, para. 20): This term is not defined in the 93 SNA with respect to pension schemes, but it refers to the recording of pension contributions and benefits in the secondary distribution of income accounts and the "the adjustment for the change in net equity of households" which directs the saving to households.

The detailed examples in the report are both explanatory and correct except for two minor omissions¹. The examples show clearly the large amount of details that is needed if one wants to follow the recommendations of the report.

We would expect that many countries will have difficulties collecting actuarial estimated pension liabilities from private unfunded and underfunded schemes. The EDG should therefore offer specific recommendations on how the statistical offices should verify reported pension liabilities of private funds and how they should estimate (actuarial) pension liabilities when the coverage is incomplete. One method could be to apply the ratio between wages and salaries to the pension liabilities for reporting schemes for the unreporting schemes as well.

The recommendations are also data demanding regarding the breakdown of the changes in the stock of the pension liabilities and the claims on the employer into transactions and revaluations. If transactions are to be estimated residually from revaluations the EDG should give specific recommendations on what interest rates should be applied for the discounting, how inflation expectations for this purpose can be estimated and if general data on life expectancy can be used as input.

Our concern is the countries' ability to implement the recommendations. Our stance is that recommendations to treat future pension obligations of unfunded pension schemes as liabilities should not be introduced in the SNA unless it is certain that developing countries can also implement them. If not already done, we would suggest the EDG to investigate the current practice and the feasibility of the recommendations for all countries. The UNSD could contribute in such an investigation.

The GFSM 2001 recognizes stocks of government liabilities for all government employer schemes, both funded and unfunded. Recognition of pension obligations as liabilities in private unfunded (and underfunded) defined benefit schemes is likely to be required by the international accounting standards. However, as the EDG recommendations are very data demanding for the companies it is difficult to imagine that they will comply with the international recommendations before new requirements have been fully introduced in the national accounting regulations.

Certain conditions must be fulfilled by next few years if the EDG recommendations are to be introduced in the new SNA. The main reason is that national accountants are dependent on the data prepared by government and private sector accountants. The recommendations should not be implemented unless

1. a large majority of countries follow the GFSM 2001 recommendation for treating government pension obligations as liabilities

¹ In paragraph 261 (example B) the purchase of shares by the fund (80) is included in the calculations but excluded from the text. In paragraph 258 the employer's opening cash balance of 100 is not mentioned.

2. new IASB accounting recommendations for the private sector in line with the EDG recommendations on the unfunded pension obligations are expected to be adopted soon.

The alternative would be to include the EDG recommendations in satellite accounts.

We look forward to a closer discussion on employer retirement pension schemes in the future.