RECORDING LIABILITIES OF PENSION SCHEMES: THE VERY INTERESTING CASE OF THE SWEDISH "INKOMSTPENSION"[1]

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Started in the beginning of the 90s', the reform of the pension system in Sweden is considered by many as an example of a success, not only regarding the new mechanism introduced to face the ageing problem, but also in the degree of consensus reached in the Swedish society to implement it. It is presented sometimes in other countries as a model to copy.[2]

It has for us, national accountants, another reason to be analyzed in detail. The system has new features in terms of accounting that have very interesting implications for the current discussion on the revision of the SNA regarding pension schemes. These discussions should lead to a new treatment of pension schemes in the *SNA 1993 Rev. 1*, which will replace the *SNA 1993*.

The paper shows that the Swedish system defies the categories used in the current 1993 SNA to qualify and thus record pension schemes. This strange (but well functioning) animal is at the same time a social security pay-as-you-go scheme *and* a defined contribution scheme, with a full balance sheet presented exactly as if it was a *pure saving scheme*.

This paper proposes that the new SNA's treatment of pension schemes is made so that to be able to incorporate such systems, which has already clones in other countries. This means, first, abandon the current criterion to record liabilities only for funded schemes; second, extend the recording of liabilities to collective schemes organized by the general government ("social security"); third, possibly, but to be discussed further, record matching "contribution assets" when government is involved.

1. A pension scheme showing pension liabilities…

The Swedish pension scheme reform of the 90's has resulted in the creation of two new public defined contributions systems out of the old public defined benefits pension scheme:

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[1] This paper uses a paper drafted by Ole Settergen and the English version of the 2003 Annual Report of the Swedish Pension System (see bibliography). Let me congratulate Ole Settergren for his excellent and lively support of the double-entry system to record pension schemes transactions, which is very helpful for national accountants. I thank him for having reviewed this text, along with Bo Bergman (Statistics Sweden) and Philippe de Rougemont (Eurostat, former moderator of IMF EDG). Of course, they do not take responsibility in the implicit proposals or errors of this paper.

[2] It has however serious critics, including in Sweden, who do not think other countries should introduce such a reform of the public pension: see paper by KG Scherman, in Bibliography.

(1) a new *funded* system, called “Premium Pension” financed through a contribution of 2.5 percent,

2) a new *unfunded* system called “Inkomstpension”, financed by a contribution of 16 percent.

We will focus in this paper on the second one, which poses a real problem as to its treatment in the national accounts under the current SNA. The first one, being funded, should pose fewer problems.[3]

The Inkomstpension is a “Notional Defined Contribution” system. This is an original system which is at the same time “Pay-As-You-Go” and “Defined Contributions”. It is perhaps useful at this stage to remind the readers of some definitions (see Box 1 for possible limitation to these definitions).

“Pay-As-You-Go” (PAYG) means that the current benefits of retirees are financed through the contributions (or general tax) of current participants. PAYG systems function without having a financial reserve (except, sometimes and indeed in Sweden, for a “buffer” reserve, equal in Sweden to 10 percent of the pension liabilities).

“Defined Contributions” (DC) means that the individual benefits are calculated based on the cumulated individual contributions, plus a property income. In a defined contribution scheme, the rate of the contribution does not, in principle, vary. On the contrary, the benefits may vary, owing to the rate of return on contributions. A defined contribution system is basically a saving scheme: you contribute; your cumulated contribution earns a property income; you get, as a retiree, corresponding benefits. In such a system, the financial risk is put on the insured persons and not on the sponsor. If individual income slows down, individual contributions will slow down, and, automatically future benefits will slow down.

On the contrary, in a “Defined Benefits” (DB) system, benefits are not calculated directly from contributions but on another basis (e.g., 70 percent of average last 10 years salary) and the financial risk is put on the sponsor. In a DB system, the rate of contribution may vary in order to meet the promises made on benefits. The old public Swedish system was a DB system (in fact a “hybrid” DB scheme, see Box 1 below). By replacing it by DC systems the Swedish government has shifted the financial risk to the insured.

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[3] However, it has raised difficult issues regarding its classification. Eurostat has recently recommended classifying this scheme outside the general government.

Box 1. Definitions and limits of these definitions

The official definitions "Defined Benefit (DB)" and "Defined Contribution (DC)" can be found either in the IAS 19 (revised 1998) or in the documents of the OECD project on pension plans. These definitions, while worded differently closely correspond. They do not seem to correspond exactly to the SNA definitions, but these are not, themselves, very clearly exposed.

DB: IAS 19: *under a DB plan the enterprise's obligation is to provide the agreed benefits to current and former employees; actuarial risk (that benefits will cost more than expected) and the investment risk fall, in substance, on the enterprise. If actuarial or investment experience are worse than expected, the enterprise's obligation may be increased.* OECD: *any other plan than DC, including all plans in which the financial or longevity risk are borne by the plan sponsor. Benefits are typically based on a formula linked to members' wages or salaries and length of employment.*

DC: IAS 19: *under a DC plan, the enterprise's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus the amount of post-employment benefits received by the employee is determined by the amount of contributions paid by an enterprise (and perhaps also by the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; in consequence, actuarial risk (that benefit will be less then expected) and the investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.* OECD: *a DC plan is a pension plan by which benefits to members are based solely on the amount contributed to the plan by the sponsor or member plus the investment return thereon. This does not include plans in which the employer that sponsors the plan guarantees a rate of return*.

These definitions were obviously made to characterize employer sponsored plans and not public plans. Generally (but not in Sweden) public plans are classified as DB, because the benefits formula is generally linked to wages and length of employment. But, in fact, some say that these definitions cannot apply to public plans because governments cannot legally be constrained in fulfilling the promises made under the public plan. Indeed, reforms of public plans take generally the form of change in contributions *and* change in benefits. The first is typical of a non DC plan. The second typical of a non DB plan. So one should conclude that they are in fact hybrid, neither DB nor DC.

The Inkomstpension, even public, is not however a hybrid plan. It is a true DC (even if it is notional) *because of the integrated mechanism of balancing* ("balance ratio", see section 4). This mechanism ensures that the sponsor (the government) does not take any risk any more (except for the guarantee: the Inkomstpension includes a specific guaranteed minimum pension). Of course, what a law has decided can be changed by another law, but this would be another story...

In practice, each contributor receives at the beginning of the year an (orange[4]) financial statement which contains the opening balance of his (her) pension account, plus the additional credit due to the contributions paid during the year (earnings[5] multiplied by 0.16, the flat contribution rate), plus the inheritance gain[6], plus an item called "indexation" which is the entry supposed to correspond to the return on the capital in a saving scheme (thus one

[4] The color has become the way to qualify this annual statement in Sweden.

[5] Precisely: earnings up to the social security income ceiling of ap. 150 percent of the average income.

[6] The inheritance gain is the share of the contributor of the account balances of the persons in his (her) age groups who have died during the year.

could say a "property income type" entry[7]), less the charges for administrative costs, and, finally the closing balance on the 31 December. Here is the standard example of the statement for 2003, for an average economically active contributor.

Table 1. Account Statement from the Social Insurance Office: "your Inkomstpension"[8]

Changes in your Inkomstpension in 2003	Amount (SEK*)
Opening balance on 31 December 2002	443,109
Inkomstpension credit 2002	+21,266
Inheritance gain	+1,192
Indexation	+15,909
Charges for administrative costs	-231
Closing balance on 31 December 2003	476,703

*Swedish Crowns

As can be seen, the individual contributor has really the impression that there is somewhere a financial asset that he owns. Indeed, the presentation is very similar to a pure saving scheme[9]. However, there is no financial asset and this account is purely notional. The contributions received during the year by the system (line "Inkomstpension credit 2002") are used to finance the benefits paid during the year to others (retirees). However, it is important to note that everything is done to show contributors that they indeed have a "notional asset". In other words, the whole communication of the system is based on the guarantee given to the contributors that they *have* this asset. One particularity however is the "indexation" entry (see box).

[7] In practice, this indexation is equal to the growth of the revenues on which contributions are based (wages and salaries). It is not an interest rate.

[8] The numbers correspond to a "notional" average economically active contributor. In practice, the account of each contributor is different from this one, as the account is totally individualized. The example uses the numbers extracted from the Annual Report of the Swedish pension system for the economically active contributors. One should not infer that the liability to the retirees is non existent or more difficult to compile. This is just an example.

[9] In fact, the "orange form" has been recently reformatted to incorporate also the Premium Pension (i.e. the pure funded saving scheme). This new presentation goes even more in the direction of sending the message that the individual contributors have an asset. Indeed, in this new form, the Premium Pension liability is even added to the Inkomstpension liability, to obtain a total, thus going further in the direction of not distinguishing between the two. In fact, this reform was introduced to show contributors that the Premium Pension was only a small part of the system. During 2001-2002, the assets of the Premium Pension dwindled, making the Swedish population worried, with media focusing on this, that the reform had led them to a catastrophe. The inclusion of the Premium Pension in the orange form had the objective to show that the main pillar was Inkomstpension not Premium Pension.

Box 2. Indexation and property income

The Inkomstpension looks so much as a saving system, that it has this "property-income" type entry called "indexation" which seems to play the role of the market return on the financial assets. However, it is important to note that it is not a market return—it couldn't be, there are no financial assets!—but a pure system of indexation of past cumulated contributions, thus its name. This indexation is based on the application to the past cumulated "assets" of the insured of the increase of an "income index", which itself shows the observed increase/decrease of average income. The average income is obtained by dividing the sum of pension qualifying incomes (less individual pension contributions) of persons aged 16–64 by the number of persons who have earned them. In detail, the change in the index is calculated as the average change in real income for the latest three-year period, with a supplement for inflation in the latest 12 month period.

However, we will see in section 4 that there is an additional complication. The system has an in-built balancing mechanism which may reduce (or sometimes increase) the automatic indexation on earnings if the financial balance of the system is not ensured. Does that mean that, in fact, the "assets" shown to insurers are not really assets? This is discussed in Box 4.

In this context, it is perfectly logical that the Inkomstpension presents its own accounts with a *pension liability*. This liability is calculated very easily: it is simply the sum of the closing individual balances.[10]

This mechanism is illustrated in the official Annual Report of the Inkomstpension using the above individual account. As this account shows an average economically active contributor, the overall liability on 31 December 2003 is exactly equal to the individual closing balance of 476,703 multiplied by the number of economically active persons with Inkomstpension accounts, which was 6,388,105 on December 2003. The overall liability for economically active contributors of the Inkomstpension is therefore equal to 3,045,230 millions of SEK (124.8 percent of GDP).

This amount of liability towards contributors (i.e. households in national accounts) appears in the official balance sheet of the Inkomstpension presented below (see line in italics under the category "pension liability"). For the understanding of the reader, the total pension liability appearing in this account is larger than 124.8 percent of GDP, and reaches nearly 250 percent of GDP. This is essentially because the system includes also the liability of the old system (ATP). However we will focus here on the new system, and ask readers to forget this complication.[11]

[10] As can be seen, there is no need in such a system to calculate the net present value of future benefits. Ole Settergren adds that "the design features [of the DC system] implies that the present value of pension liabilities can be approximated to equal the nominal value of the pension liability".

[11] These accounts include a "contribution asset", an item which might surprise the readers as I said previously that the Inkomstpension had no reserve. This point will be developed in section 4.

Table 2. Official balance sheet of Inkomstpension, millions of SEK

Assets	**Dec 31, 2003**	**Dec 31, 2002**	**Change**
First-Four and Sixth National Pension funds	576,937	487,539	89,398
Contribution asset	5,465,074	5,292,764	172,310
Total asset	6,042,011	5,780,303	261,708
Liabilities and surplus	**Dec 31, 2003**	**Dec 31, 2002**	**Change**
Opening surplus/-deficit	51,645	218,397	-166,752
Net income/-loss for the year	6,167	-166,752	172,919
Total surplus/-deficit	57,812	51,645	6,167
Pension liability	5,984,199	5,728,658	255,541
Of which "of the economically active"	*3,045,230*	*2,836,074*	*209,156*
In percent of GDP	*124.8*	*120.8*	*8.6*
Total liabilities and surplus	6,042,011	5,780,303	261,708
In percent of GDP	*247.6*	*246.2*	*10.7*

2. …that are not recognised by the SNA…

However, despite all this effort made by the Swedish government and society to build this notional defined contribution system, with contributors having notional assets, shown in official balance sheet, it is discouraging to see that the SNA is going to annihilate this nice construction by a single stroke.

Indeed, in the current SNA, the only criterion to record a liability is the fact that the scheme has a segregated reserve (often interpreted to mean a "segregated asset"). As explained, the Inkomstpension has no reserve (except for the buffer fund, but which represents only 10 percent of the liability). Thus Swedish national accountants, in application of the current SNA, treat the Inkomstpension as a PAYG scheme, and not as a saving scheme. As a result, in the Swedish national accounts, the contributions to Inkomstpension are non financial transactions; benefits paid by Inkomstpension are non financial transactions. The cash difference between contributions and benefits impact the Inkomstpension savings and net lending borrowing. And, finally, despite the existence of the individual "orange" accounts, the Swedish national accounts do not record an asset of households for future Inkomstpension benefits[12].

This illustrates why the SNA should absolutely be changed. It is indeed difficult to admit that, as specially illustrated in this Swedish case, when economic agents themselves show liabilities in their own accounts, the SNA does not do the same. Thus the SNA criterion of the "existence of a reserve" should be changed to the criterion of the recognition of the

[12] The strange thing is not only that the liability of the Inkomstpension is not recognised in the national accounts but also that the buffer fund is recognised as an asset of the government! Thus, the net worth of the system is globally positive, of the amount of the buffer fund (around 50 billions of euros, 24 percent of GDP), while one could say that the buffer fund is only there to face the pension liability! It can be noted that the buffer fund was larger (35 percent of GDP) before the pension reform. Considerable amounts have been transferred from the social security sector to central government the latest years and have partly been used for amortization of government debt.

liability (based on the concept of "constructive obligation") as proposed by the moderators of the IMF EDG on pension schemes. In my view, the Inkomstpension liability has the characteristics of a constructive obligation, and should be recorded as a liability in the (new) SNA.

Are all DC schemes to be treated as funded in the current SNA?

While the SNA needs obviously serious clarifications, some argue that the current SNA does treat DC schemes as if they are funded. This issue has been covered by the excellent report of the moderator of the IMF EDG on pension schemes (see Bibliography). This report was based partially on a "straw poll questionnaire" in which questions were posed to SNA experts regarding all elements of the debate including the treatment of NDC systems. Question Q9 (see page 87 of the report) asked respondents: "The 1993 SNA indicates (par 13.88) that DC schemes are always funded. […] Do you agree?" In fact, paragraph 13.88 of the SNA does not mention DC schemes, not less NDC, but says: "*Unfunded occupational pension schemes, which include some classified as social security funds, are by definition defined benefits schemes.*" However, using strict mathematical logic (where if "statement A" => "statement B", then "the contrary of statement B" => "the contrary of statement A"), one could interpret this sentence as "defined contributions are by definition funded", because "defined contribution" is the contrary of "defined benefits" and "funded" the contrary of "unfunded". Indeed, a majority of respondents to the EDG questionnaire supported this indirect interpretation. However, a majority of respondents also indicated (question 13 of the same questionnaire) that, in their view, the current SNA should not be interpreted as recommending recognising liabilities of public schemes, even NDC. They however recommended that this should be changed in the new SNA.

3.…and is also a Social Security Scheme.

However, things are more complicated than expected.

As explained above, it is necessary to change the SNA and to abandon this criterion of the existence of a reserve, in favor of a criterion of the recognition of the constructive obligation in order to incorporate the Inkomstpension in the national accounts. This is at the core of the proposal of the IMF EDG moderators.

One could therefore think that, if this proposal is accepted by the Advisory Expert Group (AEG, the international committee which decides on the changes of the SNA), the Swedish Inkomstpension will be treated in the new system of national accounts in the same way it is treated in its official accounts, this is with a liability appearing in its balance sheet. But in fact this is not even true under the current proposal of the moderators of the IMF EDG, because, for the moment, their proposal is limited to "employer schemes", and does not cover what the SNA calls "social security".

In this context, the problem is that the Inkomstpension scheme is not an employer scheme. On the contrary it has the characteristics of a "social security scheme" as defined by the SNA!

Paragraph 4.111 of the SNA defines social security schemes as "*social insurance schemes covering the community as a whole or large sections of the community that are imposed and controlled by government units*". Well, the Inkomstpension scheme is a social insurance scheme. It covers the Swedish community as a whole. It is imposed: participation in the

Inkomstpension is compulsory for all economically active resident in Sweden. Last, the Inkomstpension is a government unit. It is therefore not a surprise that the Swedish National Accounts record the Inkomstpension as a Social Security unit, part of the General Government institutional sector.[13]

This undisputable classification creates a problem. The ruling of the current SNA is clear as regards units classified as social security. Paragraph 11 of the Annex IV of the SNA states: "*Social security schemes may be either funded or unfunded. Even when separate funds are identified, they remain the property of the government and not of the beneficiaries of the schemes*." This clearly indicates that social security schemes cannot be treated as saving schemes. Therefore, even if the liability is recognised in the official accounts of the Inkomstpension, even if the proposal of the EDG regarding the use of the criterion of the constructive obligation is accepted, the new SNA will not recognize the pension assets of the contributors to the Inkomstpension, because it is a social security scheme and not an employer scheme!

The conclusion is obvious: the current limitation of the recognition of the constructive obligation to employer schemes in the IMF EDG proposals is insufficient. The recommendation should be extended to all social insurance systems for which there is a constructive obligation, <u>even those classified as social security</u>. Indeed, why should schemes organized by the government be excluded mechanically from this recognition? If there is a constructive obligation then there should be a liability, whether or not it is organized by government. If this extension was accepted, then the national accounts recording of the Inkomstpension would correspond to the presentation of its accounts by the system: a liability (of 124.8 percent of GDP) would be recorded in pension obligation (F6) in the accounts of the social security (and thus may be part of the public debt[14]).

It is important to note here that this paper does not advocate extending the frontier of the recognition of liability only to public NDC schemes, such as the Inkomstpension, but to all public pension schemes where there is a constructive obligation.

4. Last but not least: the surprising "contribution asset".

The most interesting feature of the Swedish system is still to come.

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[13] The Premium Pension was also classified as a social security unit in the Swedish national accounts. However, due to a recent decision of Eurostat, it will be reclassified as part of private insurance schemes (in 2007). The Eurostat decision does not apply to the Inkomstpension. Why this difference between the two? Eurostat based its decision on Premium Pension on the fact that the government did not really "control" any more this system as, by construction, the system is funded and benefits are determined by these assets and returns on these assets. In this sense, Eurostat decided that the government did not "control the benefits". While Eurostat did not discuss the case of the Inkomstpension, one could consider that the same line of reasoning could apply to it: benefits are no more controlled by the government because they are determined by contributions + returns + the automatical balancing system (see section 4).

[14] But not of the Maastricht debt, which does not include F6.

As illustrated by Table 2 above, the official accounts are presented in a classical balance sheet presentation where total liabilities are equal to total assets. This is surprising when I said that the Inkomstpension has no reserve except for a buffer fund contributing for a limited part of the assets[15] (which appears under the name "First-Four and Sixth National Pension Funds" in Table 2). The bulk of the classical equality between total liabilities and total assets is obtained, in this accounting system, by an entry called "contribution asset", which is also, like many things in this system, "notional".

This is surprising as accountants do not generally recognize an asset in this situation. In the case of employer scheme, accountants recognize a liability because there has been a commitment by the employer to the employees to pay future benefits. Accountants analyze the commitment as a deferred compensation, thus a liability. However, they do not recognize a corresponding asset.

So, where does this notional asset come from? The annual report of the Swedish Pension System presents this entry as: "*the value of the contributions to the Inkomstpension". This value is calculated by multiplying "contribution revenues" by "turnover duration"*". The "*contribution revenue*" is equal to the contribution of the current period (smoothed). The "*turnover duration*" is the expected duration from when pension credit has been earned until the pension is paid out, measured as an average duration weighted for pension credit and pension amounts. It is expressed in terms of years.

While it is not presented very clearly, my interpretation is that this notional asset represents in some way the present value of the future contributions. However, this value is not calculated by discounting forecasted contributions but by multiplying current contributions by the average duration of the contributions of the insured (based on demographics, and weighted by pension credits of each cohort).[16]

This contribution asset has a specific role in the Swedish system. Each year, a "balance ratio" (Assets/Liabilities) is calculated. If this ratio is inferior to 1 (i.e., assets are smaller than liabilities), there is an automatic adjustment of the indexation part of the pension credit in order to lower the change in liabilities. This ensures that the contribution asset matches exactly the value which finances the liability, thus determining the automatic financial balance of the system, in particular by allowing a decrease of promised benefits if economic trends show that the system could not sustain them. This does not happen each year, far from that, but can happen. It is in this sense that the system's risk is now fully put on contributors, and thus that the system really owns its classification as a DC scheme. Box 4 discusses

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[15] The buffer fund remains quite significant compared to the situation of buffer funds in other countries' social security systems.

[16] Ole Settergren explains: "the main reason why it has been reasonable to value assets and liabilities solely according to what can be observed [and not using present value of future flows] is that the financial position of the system is not dependent on the amount of assets and liabilities *taken separately*. The financial position of the system is determined exclusively by the *relationship* between assets and liabilities, in other words, by the so-called balance ratio."

whether this changes the nature of the asset/liability. As can be seen, the contribution asset is not a pure accounting device introduced in order to have assets and liabilities equal, in order to look like normal balance sheets, it has a very practical use, which is to drive a real mechanism for ensuring the financial stability of the system.[17]

Box 4. Does the balancing mechanism change the nature of the asset/liability?

Some may consider that the automatic balancing system changes the nature of the asset (for insurers) liability (for the Inkomstpension). As explained in Box 2, the indexation is based on the change of average earnings. The automatic mechanism generally results in a moderation of this indexation (i.e. the balancing mechanism reduces the increase of average earnings). However, in theory, one could imagine that the indexation is itself negative (not really realistic) or that the impact of the automatic mechanism leads to an overall negative impact. Thus, in theory, benefits could be reduced. This illustrates the fact that the system fundamentally remains a pay-as-you-go system where financial balance has to be verified. But, unlike other social security systems, this one ensures that benefits are automatically adjusted to ensure this balancing. In other systems, governments tend to adjust not only benefits but also contributions.

Does this mean that these promised benefits are not to be considered as assets? My view is that it is not the case: the value of any financial asset can be reduced. In particular, pension assets of funded schemes have seriously declined in 2001/2002 following the end of the bubble. They are still pension assets. The fact that the value of an asset decreases does not change its nature.

What is to be done in the national accounts with this “contribution asset”?

I do not have here a definitive conclusion, and it is possible that this is a side issue. However, I know that many economists would buy the idea of recording an asset when government is involved. They say that they do not understand national accountants when they propose that, for unfunded public PAYG schemes, a liability is registered but not an asset. In the view of these economists, there should be symmetry: if one records a debt for future pensions, one should record an asset for future contributions. Another way of saying this is explained by Ole Settergren. If one records only liabilities for PAYG schemes, then what is to be said of a PAYG scheme where contributions continuously perfectly match pension payments? Reasonably, it can be considered as being in financial balance, i.e. having a net present value of zero. If a system with a liability of a defined and measurable size has a net present value of zero, it must have assets equal to that liability.

Accountants do not have the same line of reasoning. They make a difference between the debt which, in their view, is based on a *past event* (deferred compensation) and contributions, which is a *future event*, and as such should not be recorded as an asset. It is probable that accountants are moved here by the principle of prudence: you should not record assets that depend on future events, while you have, by prudence, to record future possible charges. However, the specificity of the government is that it can impose its rules by laws. Thus it is

[17] Ole Settergren even says: « admittedly, the double-entry bookkeeping procedure was an unintentional spin-off from the research undertaken to achieve these policy aims.” These policy aims are “to minimize the volatility of the value of the average pension relative to the average income for people of working age, while strictly adhering to a fixed contribution rate, or payroll tax.”

possible that this asymmetrical rule of prudence should not apply when government is involved.

At this stage, I restrict myself to draw a definite conclusion regarding this contribution asset. However, I can definitely say that, if, as implicitly proposed in this paper, we do include in the national accounts all liabilities including the ones of the pension schemes that are organized by the government for the public at large, but not recognize corresponding assets, we should at least record the former in a special category, so as to distinguish them clearly from other pension liabilities.

5. Conclusion

The quality of the new SNA regarding its treatment of pension schemes could typically be measured by its capacity to incorporate new schemes like the Inkomstpension. As shown in the paper, this scheme defies the categories that govern the current recording of pension schemes in the SNA. The current recording of the Inkomstpension in the Swedish national accounts may be fully consistent with the present SNA, but it is the present SNA which is not adapted to these new schemes and, in my view, needs to be changed.

It is important to note that the Swedish experience is not unique and has been and will be replicated in other countries, even if not exactly.[18] National accountants of other countries should not therefore think that they will not be confronted with such cases. On the other hand, one has still to prove that more traditional social security defined benefits systems can be easily recorded with the same type of double-bookkeeping systems than the Inkomstpension. Ole Settergren rightly says that it is the particular design of the Swedish NDC system (and its automatic balancing mechanism) which made it so natural to present the accounts under classical double-entry bookkeeping. However, it would not serve international comparability if it was decided to record only liabilities for systems such as the Inkomstpension. Other PAYG pension schemes may have not chosen to present their accounts in the same way as Inkomstpension but can be considered to have as solid constructive obligations.

There are three conditions for the new SNA to be able to incorporate these new systems: (1) abandon the criterion of “funded” to record or not liabilities of pension schemes, and replace this criterion by the existence of a constructive obligation; (2) extend this notion to schemes that are organized collectively by the general government, even if they are classified as “social security”; (3) distinguish however these schemes’ obligations from other liabilities in the accounts considering the specificity of schemes organized by the general government.

These conditions would allow for a correct recording of the Swedish Inkomstpension in the new national accounts, reflecting the way this scheme presents itself its accounts. This would also be a good step in the direction of better international comparability of the data on household pension assets in the national accounts.

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[18] In particular, the automatic balancing mechanism has not been implemented in Latvia, Poland and Italy. See Scherman, in bibliography.

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