STATISTICS

GFSM 2014 update

Discussion Note:

2.22 Government Assumption of Pension Obligations

Summary Details

Task Team Responsible	GFS Compilation Task Team (TT1)
Authors of Discussion Note[1]	Roderick O'Mahony, Katherine Mills, Phil Stokoe, Emmanuel Ramathuba

Summary of Issues and Draft Recommendations:

This Discussion Note (DN) discusses the different types of pension schemes, and how to account for government assuming pension entitlement liabilities from other units, including liabilities from corporate pension funds, from "second pillar" defined contribution schemes, and as a result of court decisions.

The DN looks at whether pension obligations assumed by government should always remain as pension entitlement liabilities (the current guidance in the *GFSM 2014*[2]) or whether in some scenarios the pension liabilities should be extinguished and the transferred assets treated as an other accounts payable against future benefit payments (the current guidance used in the European Union). The DN also explores options to refine and/or broaden the guidance for the recording of transactions after the transfer of pension obligations, as well as the recording in GFS presented on a cash basis.

Recommendations:

- In relation to Issue A (Government assumption of pension obligations of other institutional units), the task team recommends extending the existing guidance in *GFSM 2014* to include additional guidance on transactions after the transfer and guidance on additional scenarios (Option A3).
- In relation to Issue B (Recording of pension assumption on a cash basis), the task team recommends additional guidance on how to record these transactions for countries that report on a cash basis and recommends recording these transactions below-the-line (Option B3).

These recommended options do not result in any conceptual changes to the concepts described in the *GFSM 2014* but provide additional clarification and explanations where the current guidance is incomplete or silent.

[1] The views expressed in this Discussion Note are those of the authors and/or Task Team and do not necessarily represent the views of the IMF

[2] *Government Finance Statistics Manual 2014 (GFSM 2014)*

Introduction

1. The recording of pensions is a complex issue in macroeconomic statistics in general, and government finance statistics in particular. Pensions can be provided under a variety of different arrangements and classified in different ways. These are described in detail in *GFSM 2014* Appendix 2 on social protection.

2. Common arrangements include social security pension schemes organized by the government and managed either by government units, or by dedicated social security funds. These schemes are funded by compulsory social security contributions from employers and employees with some schemes run on a pay-as-you-go basis, while others attempt to accumulate assets to meet future obligations. Under these schemes, no household pension assets or government pension liabilities are recognized in GFS, other than as a memorandum item. Instead, social security contributions are recorded as revenue for the social security scheme, and when pensions are paid these are recorded as social security benefits in expense.

3. Some governments choose to provide pensions in the form of social assistance, with qualification for the scheme based on defined criteria (often income and age related), and these are funded out of general government revenues. Again, no household pension assets or government pension liabilities are recognized in GFS. When pensions are paid, these are recorded as social assistance benefits in expense.

4. These two types of government-run schemes, whether through a social security scheme or provision of social assistance pension benefits, are often referred to as **first pillar** schemes.

5. In some countries, governments have established compulsory defined contribution pension schemes, covering the entire population or large groups thereof. These are sometimes run through a single government-controlled entity (often called a Provident Fund – see *GFSM 2014* paragraphs 2.148-2.151). Provident Funds are generally classified as public financial corporations and give rise to household assets matched by liabilities of the financial corporation – though *GFSM 2014* does not indicate what type of financial corporation a Provident Fund is, nor indicate what type of financial asset / liability is created by a Provident Fund. That said, it is often assumed that these are pension entitlements and *2025 SNA*[3] paragraph 13.70 indicates that defined contribution pensions give rise to pension entitlements, however the *GFSM Update Discussion Note 2.21 on social security schemes*[4] recommends in general that liabilities of Provident Funds be classified as part of currency and deposits.

6. In some countries, governments decree that eligible individuals must save for their retirement in a defined contribution scheme, but do not mandate which scheme citizens have to use or establish a Provident Fund. Therefore participants are free to choose from among several schemes operated by private financial corporations. These give rise to household assets and liabilities of the financial corporations sector.

7. Finally, in some countries, employers make pensions available to their employees as part of the terms of their employment (this can include the government as an employer). These schemes can be defined contribution schemes or defined benefit schemes. Defined benefit schemes are typically required to be funded, with assets set aside to meet the future obligations (though government employee schemes can be unfunded). In macroeconomic statistics the resulting obligations are treated as pension entitlement

[3] *2025 System of National Accounts (pre-edit version) (2025 SNA)*
[4] *GFSM Update Discussion Note - 2.23 Social Security Schemes*

liabilities for either the employer or a pension fund created by the employer classified as part of the financial corporations sector. The *2025 SNA* provides some flexibility as to whether unfunded pensions for government employees need to be included as a liability for the government. The *GFSM 2014* clearly states that all defined benefit pensions provided to government employees, whether in funded or unfunded schemes, should be recorded as pension entitlement assets / liabilities. Under the European Union's European System of Accounts (ESA), no pension liability is recorded for unfunded pensions for government employees.

8. Compulsory savings schemes, whether arranged through provident funds or through private providers, and employment-related schemes, are often referred to as part of the **second pillar**.

9. Savings for retirement undertaken by individuals, on their own initiative, without any compulsion from the government or encouragement by employers, are often referred to as the **third pillar**. The size and importance of the three pillars varies across countries and over time.

10. Pension reforms have accelerated significantly in many countries, driven by a combination of fiscal, demographic, and structural pressures. Key drivers include: (i) population ageing, which increases the ratio of pensioners to active contributors and places sustained pressure on pay-as-you-go social security schemes; (ii) fiscal consolidation efforts, which have led governments to seek to reduce the long term cost and overall sustainability of pensions and reform defined benefit schemes; (iii) privatization programs, where the need to make public corporations commercially attractive to private investors has motivated governments to assume and extinguish accumulated pension obligations prior to sale; and (iv) financial sector reform and regulatory changes, which have altered the viability of employer-managed pension funds and prompted transfers of obligations to public schemes.

11. These reforms have given rise to a variety of scenarios in which the government takes over or assumes pension obligations previously held by corporations, pension funds, or second-pillar private providers. These reforms carry distinct implications for GFS, particularly for the classification of pension liabilities on the government balance sheet and the recognition of associated flows.

12. As an example, in 1997 the French government took over pension obligations from France Telecom, in exchange for which the government received a €5.7 billion lump sum of the pension fund's assets. Similarly, ahead of the privatization of the UK's Royal Mail the UK government assumed responsibility for the liabilities of the Royal Mail Pension Fund, taking on approximately £37.5 billion in pension liabilities and receiving pension fund nonfinancial and financial assets of approximately £28 billion. These examples raise questions on how to record the lump sum assets received during pension assumptions in the government's balance sheet and the subsequent transactions as pensions are paid out.

13. In other circumstances governments have absorbed assets and liabilities of a second pillar defined contribution scheme into the first pillar social security system. In Uruguay, the pension system is a mixed system.[5] Most contributions are made to the first pillar, managed by the Banco de Previsión Social (BPS) under a pay-as-you-go framework. A portion of contributions goes to private pension savings funds (AFAP) under the second pillar, established in 1996. In 2018, a law was enacted to address the situation of individuals who, because of the 1996 reform, faced lower projected pensions under the mixed system than

[5] See *Banco de Previsión Social*

they would have under the purely public BPS system. This law enabled certain people to opt out of the mixed system (i.e., dis-enroll from the AFAP component), transfer all pension rights and receive their pension entirely through the BPS. By doing so, they irrevocably forfeited their individual capitalization rights held in the AFAP, in exchange for fully integrating into the BPS regime.

14. An additional scenario involves governments being compelled to take responsibility for pension entitlements after a legal dispute. In the Irish “Waterford Wedgwood” pensions case, former employees successfully sued the Irish state for its failure to adequately protect their occupational pensions when the company became insolvent in 2009. The European Court of Justice (ECJ) ruled that Ireland was in "serious breach" of EU law, leading to a significant compensation settlement for the workers.[6]

15. In this instance, a private company, Waterford Wedgwood, went into receivership in 2009. The company's defined benefit pension schemes were wound up with a deficit of approximately €110 million. The affected workers discovered that the Irish state did not have an adequate pension protection system in place to cover their losses in cases of "double insolvency" (where both the employer and the pension scheme are insolvent).

16. The case was referred to the ECJ, which ruled that the Irish State's existing measures and arguments, including its economic situation, were insufficient to justify a lower level of protection and constituted a serious breach of its EU obligations. The Irish government was forced to assume the pension entitlement obligations in its accounts, in exchange for no financial assets at all. This led the Irish government to record a capital transfer expense of around €249m equal to the then (expected) size of the liability. In the government balance sheet this was recorded as an other accounts payable liability, rather than as a pension entitlement liability by the Irish Statistical Office and is currently drawn down. If this amount is exhausted, the Irish Government will continue to make payments as required.

17. This paper discusses two main issues – firstly the limited guidance in *GFSM 2014* at present, and its inconsistency with the approach taken in the *European System of Accounts (ESA) Manual on Government Deficit and Debt 2022 (MGDD 2022)*[7]. This is explored in greater detail in Issue A below.

18. Secondly, the existing *GFSM 2014* provides no guidance on how to record pension assumptions to countries that still compile their GFS on a cash basis, although this remains a very common basis of reporting and elsewhere in *GFSM 2014* there is some explicit guidance on cash recording for some government operations. This is discussed in Issue B.

Issue A: Government Assumption of Pension Obligations of Other Institutional Units

Background and Issues

19. The *GFSM 2014* includes several paragraphs on government assuming employment-related pension obligations of other institution units (paragraphs A2.60 to A2.63) and discusses government assumption of pension obligations of other institutional units, often a public corporation, linked to pension reforms or to privatization of the public corporation.

[6] See *ECJ Judgement of the Court*

[7] Eurostat’s *Manual on Government Deficit and Debt 2022 (MGDD 2022)*

20. Under the *GFSM 2014* guidance, when government receives assets in exchange for assuming the pension obligations, a capital transfer (revenue or expense) is recorded if the value of the assets received is higher or lower than the value of the pension liability assumed. If the assets received by government are less than the value of the liability assumed, the government records a capital transfer expense to the originator (i.e. to the corporation), but if the assets are more than the value of liability assumed, the government records a capital transfer revenue for the difference.

21. This requirement to record a capital transfer for the assets received in exchange for liabilities assumed is broadly consistent with the guidance in *SNA 2025* paragraphs 24.189 and 30.133, and the approach taken in the *ESA/MGDD 2022*.

22. The *GFSM 2014* (paragraphs A2.62 to A2.63) also guides that when government assumes the pension entitlement liability that this should be maintained as a pension entitlement liability of the government, even if the liabilities are administered as part of a social security fund. In practice, this implies that, following the transfer, the government would continue to record actual payments of the assumed pensions below the line as a reduction in pension entitlement liabilities, but would also have to record above the line transactions in *Property expense for investment income disbursements (GFSM code 2813)* as the discount rate used to value the transferred pension entitlements continues to unwind. Currently this requirement is not clearly stated in the existing guidance.

23. However, this approach is ***not*** entirely consistent with the approach taken in Chapter 3.7. of the *MGDD 2022* or in the draft *European System of Accounts (ESA) 2030*. Under the *ESA/MGDD 2022* approach, when employees of an assumed scheme are moved to an unfunded scheme, the pension entitlement assets and liabilities disappear. (As noted earlier, ESA does not record unfunded pension liabilities as pension entitlements). Instead of recording the assumed pensions as a liability for the government, the MGDD / ESA guidance directs that the government records the transfer of a lump sum from the pension fund as a prepayment of future transfers to the government (i.e. an other accounts payable liability). After the transfer has taken place, the other accounts payable liability is reduced, according to a planned or estimated schedule of repayments with revenue in the form of a current transfer (not a social contribution) recorded at the same time as the assumed pension payments (established at the time of the operation), which are recorded as a social benefit expense.

24. Cases where governments have absorbed assets and liabilities of a second pillar defined contribution scheme back into the first pillar social security system are not currently addressed in either the *GFSM 2014* or in the *2025 SNA*. This scenario is mentioned briefly in part 1.3.4. of *MGDD 2022*, but only limited guidance is provided, with the starting assumption that liabilities transferred are equal to the assets received (this usually involves transfers from a defined contribution scheme) with no impact on the government net lending / net borrowing.

25. In cases where government is compelled to assume pension obligations by a court decision, there is no existing guidance in *GFSM 2014* or the other manuals.

26. Under the *GFSM 2014* integrated framework, once pension entitlement liabilities are transferred to the government's balance sheet, two distinct types of subsequent transactions arise. First, the government must record an above-the-line property income disbursement — specifically, investment income disbursements on pension entitlement liabilities (*GFSM 2014* paragraph 9.53), reflecting the unwinding of the discount on the liability stock each period. This is an above-the-line expense that

increases expenditure and worsens the net lending / net borrowing in every period until the obligations are fully extinguished. Second, the actual pension benefit payments made to pensioners are recorded below the line as a reduction of the liability stock in the financial accounts — they are not recorded as a social benefit expense above-the-line.

Options Identified to Address Issue

27. This section presents five alternative options for strengthening and / or revising the guidance on how to record the transfer of pension obligations to the government. None of the options adjust the current guidance on what to do when assets and liabilities transferred to the government are different values, and so the existing guidance to record a capital transfer for the difference remains.

28. Option A1 leaves the current guidance in *GFSM 2014* as is. Options A2 and A3 involve no conceptual changes to the current guidance but extend the guidance to explain more about flows after the transfer or to further extend the guidance to also cover the transfer of second pillar schemes and court ordered transfers of pension obligations.

29. Options A4 and A5 propose a conceptual shift compared to *GFSM 2014*, aligning the transfer of pension obligations with the approach taken in *MGDD 2022*. Option A4 only makes this conceptual adjustment, while Option A5 both makes this conceptual adjustment and expands the guidance to also apply to the transfer of second pillar schemes and court-ordered transfers of pension obligations.

Option A1. Maintain the current *GFSM 2014* Guidance.

30. Under this approach, the existing *GFSM 2014* guidance would remain (paragraphs A2.60-A2.63).

31. This preserves full internal consistency of the *GFSM 2014* integrated framework (pension entitlement liabilities remain on the government balance sheet, with pension payments recorded as below-the-line reductions of that liability) and does not result in any revisions of the historical series where applied.

32. This option perpetuates divergence from the *ESA/MGDD 2022* treatment, risking inconsistencies between GFS and national accounts submissions from dual-reporting countries; and provides no guidance on additional cases such as the assumption of obligations of second pillar defined contribution schemes or government assumption of pension obligations as a result of court decisions.

Option A2. Extend the existing guidance on transactions after the transfer.

33. Under this approach, guidance in the *GFSM 2014* would be broadened to clarify that, once pension entitlements have been transferred to the government and recorded on the government balance sheet that in subsequent periods compilers should record *Property expense for investment income disbursements* as an expense for the government, with actual pension payments being recorded below-the-line as repayments of the pension entitlement liability.

34. This directly closes the most critical gap within the existing *GFSM 2014* framework by explicitly requiring the recording of property income disbursements above-the-line, ensuring that the integrated framework is applied consistently after the transfer date.

35. However, this option still does not address court-ordered assumptions and the treatment of obligations absorbed into unfunded social security schemes. Lastly, while consistent with GFSM principles,

it may be practically challenging for compilers who lack actuarial capacity to estimate the discount rate and liability profile at transfer date.

Option A3. Extend the existing guidance to discuss the recording of transactions after the transfer and additional scenarios.

36. The *GFSM 2014* would be further revised to include guidance on the transactions after the transfer and additional guidance on recording scenarios where governments absorb obligations and assets from defined contribution schemes, and court-ordered assumption of pension entitlement obligations.

37. In line with existing guidance in the *GFSM 2014*, scenarios like the Irish Waterford Wedgewood case would see the pension entitlement liability assumed by the government appear on the government balance sheet, matched by a capital transfer to the household beneficiaries.

38. Assumption of defined contribution assets and obligations, such as in the Uruguay case, would also see these pension entitlements transferred to the government balance sheet, alongside the assets, with resulting below-the-line payments to ultimately reduce the entitlement.

39. While Option A3 addresses the identified gaps within the current GFSM conceptual framework without requiring new transaction categories or liability instruments, it has three notable limitations.

a. First, it adds complexity to *GFSM 2014* Appendix 2, which may reduce accessibility for compilers in countries with limited statistical capacity — particularly given that correctly applying the post-transfer treatment requires GFS compilers to have adequate source data to correctly estimate and record the post transfer stocks and flows. However, such capacity can be built.

b. Second, it remains different from *ESA/MGDD 2022* guidance on the absorption of obligations into unfunded schemes, meaning that EU member countries with assumed pension liabilities may need to reconcile GFSM and ESA-based outputs.

c. Third, recording pension entitlement liabilities for defined contribution scheme transfers absorbed into a first-pillar pay-as-you-go arrangement has implications beyond the government sector — as illustrated by the Uruguay case, where once an individual's AFAP entitlement is transferred to the BPS pay-as-you-go system, that entitlement effectively disappears from the households' perspective. Option A3 would still require a liability on the government balance sheet, which needs to be matched (using the same approach) in the household balance sheet with a corresponding asset.

Option A4. Revise the existing guidance to align with *ESA/MGDD 2022* guidance on assumption of pension obligations for unfunded schemes.

40. Under this approach, the existing approach in the *GFSM 2014* for the most common types of pension assumptions, where the pension entitlements would be incorporated into a unfunded scheme, would be brought into alignment with the EU guidance, meaning that the pension entitlement asset / liability will disappear, with the lump sum received by the government treated as an advance payment of future payments towards the cost of paying the subsequent pension benefits. This account payable would be wound down over time by recording revenue in the form of a *current transfer not elsewhere classified* (GFS code 1441), with the amounts matching the schedule of future pension payments at the time of the transfer. Future pension payments would be recorded as social assistance benefits.

41. No additional guidance on the transfer of second pillar schemes and court-ordered transfers of pension obligations would be added under this option.

42. This option closes the gap between the guidance for EU member countries (where some large pension assumptions have taken place) and the rest of the world. It also may be operationally easier compilers, particularly those lacking actuarial capacity to estimate the discount rate and liability profile at transfer date.

43. However, this option introduces a significant conceptual change to the GFSM. Also, the EU approach arguably understates pension liabilities of the government sector and household assets (which may not be addressed in the supplementary table on pensions) and could inflate the stock of accounts payables in ways that could hamper analysis in cases of large assumptions. In addition, this option does not provide any guidance on other similar scenarios, like the transfer of second pillar schemes and court-ordered transfers of pension obligations.

44. This treatment would bring the GFSM into closer alignment with ESA/MGDD guidance for pension obligations absorbed into unfunded schemes. However, it would reduce alignment with the SNA/BPM approach, under which assumed pension entitlement liabilities would generally continue to be recognized on the government balance sheet where the conditions for recognition are met.

Option A5. Revise the existing guidance to align with *ESA/MGDD 2022* guidance on assumption of pension obligations for unfunded schemes and include guidance on additional scenarios.

45. Under this final option, the existing approach for the most common types of pension assumptions would be brought into alignment with the EU guidance as in Option A4, and the guidance will extended to also take a similar approach with respect to court ordered assumptions of pension entitlements, and assumption of obligations from second pillar defined contribution schemes.

46. This has similar pros and cons to the previous option.

Draft Recommendations

47. **The task team recommends adopting Option A3.** The task team recommends Option A3. This option would preserve the existing GFSM conceptual approach to government assumptions of pension obligations, while strengthening the guidance in areas where the current manual is incomplete or silent. It would clarify the recording of transactions after the assumption of pension obligations and extend the guidance to cover additional scenarios, including the absorption of defined contribution schemes into government schemes and court-ordered assumptions of pension obligations.

Issue B: Recording of Pension Assumptions on a Cash Basis

Background and Issues

48. While there is some existing guidance in the *GFSM 2014*, the current approach to the recording of transfers of pension liabilities to the government in the *GFSM 2014* focusses on the accrual recording of these operations. Unlike other areas of the manual, no guidance is explicitly provided on what to record in the event of this kind of operation when GFS are recorded on a cash basis.

49. On a cash basis the only transactions involved are the transfer of the original lump sum of assets to the government and the subsequent payments of pensions over ensuing decades. This suggests that on a cash basis this kind of operation could result in a large cash surplus at the time of the transfer of the pension obligations, with a subsequent higher deficit in future periods as the pension is paid, if the transactions are recorded above-the-line. Alternative approaches could be to record the lump sum as borrowing, and future pension payments as a repayment, avoiding a potentially misleading above-the-line impact for countries that report on a cash basis.

Options Identified to Address Issue

Option B1. Maintain the current *GFSM 2014* guidance.

50. Under this option, no new guidance would be added for what to record on a cash basis. This would likely lead to heterogenous recording of these operations when they occur in countries that still report their GFS on a cash basis and may result in some countries deliberately timing these large transactions to have a specific impact on headline fiscal measures.

Option B2. Revise the existing guidance to include advice on recording on a cash basis with operations recorded above-the-line.

51. Under this option, the cash transactions involved in the transfer of pension obligations to government would be recorded above-the-line, with the receipt of assets recorded as an *other capital transfer* (GFS code 1442) in other revenues, and the subsequent payments of pensions recorded as social assistance benefits. However, these operations would distort the cash surplus / deficit in the current and future periods, which is arguably what the current accrual basis recording is seeking to avoid in both the *GFSM 2014* and *ESA/MGDD 2022*.

Option B3. Revise the existing guidance to include advice on recording on a cash basis with operations recorded below-the-line.

52. Under this option, the cash transactions involved in the transfer of pension obligations to government would be recorded below-the-line, with the receipt of assets matched by the incurrence of a liability (in either pension entitlements or other accounts payable), and the subsequent payments of pensions recorded as reductions in this liability. This approach has no impact on the cash surplus/deficit from this operation. However, appropriate data is required to track the future pension payments, which may be difficult to obtain if these are incorporated into a broader pension scheme.

53. Both Options B2 and B3 address the lack of guidance on recording these operations in GFS on a cash basis. Option B2 would have a more significant impact on the government cash surplus/deficit, and Option B3 would include significant data requirements for GFS compilers.

Draft Recommendations

54. **The task team recommends updating GFSM guidance by adopting Option B3.** Although this option may be more demanding for GFS compilers, particularly where detailed information is needed to track subsequent pension payments, it is preferred because it avoids potentially misleading impacts on the cash surplus/deficit. This is particularly important where pension reforms transfer assets from funded schemes to government, since recording the cash receipt above-the-line could artificially improve the headline balance without reflecting the associated future pension obligations.

Questions for Global Consultation

Issue A: Government Assumption of Pension Obligations of Other Institutional Units

1. Which option do you prefer (Option A1; Option A2; Option A3; Option A4; Option A5)? Please explain the reason for the option selected and provide any other additional comments, including any alternative options you would like to propose.
2. Are you aware of other scenarios involving government assumption of pension obligations (other than absorption of defined contribution schemes into first pillar state pension scheme and assumptions arising from court orders) where additional guidance would be beneficial?

Issue B: Recording of Pension Assumptions on a Cash Basis

3. Which option do you prefer (Option B1; Option B2; Option B3)? Please explain the reason for the option selected and provide any other additional comments, including any alternative options you would like to propose.