



Discussion Note:

2.21 Social Security Schemes

Summary Details

Task Team Responsible	GFS compilation Task Team (TT1)
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Summary of Issues and Draft Recommendations:

This Discussion Note (DN) examines five conceptual and practical issues relating to the delineation of social security and other social insurance schemes and provides draft recommendations for the updated version of the Government Finance Statistics Manual (GFSM). The DN recommends an updated version of the decision tree in *GFSM 2014*² Figure A2.2, as well as the following recommendations.

- Concerning the first issue on ambiguities in distinguishing between social security and employment-related schemes, the draft recommendation is to provide more granular explanations on the nature of employer-employee relationship.
- In terms of the *2025 SNA*³ concept of constructive liabilities, the DN proposes to introduce the concept of constructive liabilities and clarify that they are not included in the liabilities reported in the GFS.
- To address challenges in delineating social insurance and employer-independent schemes, the DN recommends to specify employer-independent schemes for self-employed workers in line with *2025 SNA* and consistently use the term “other social insurance” for schemes other than social security.
- The DN also recommends to expand the *GFSM 2014* guidance on the sector classification of provident funds and on the instrument classification of their liabilities.
- Finally, the DN provides recommendations on distinguishing between pension and non-pension defined benefits schemes.

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 \(GFSM 2014\)](#)

³ [2025 System of National Accounts \(pre-edit version\) \(2025 SNA\)](#)

Introduction

1. **Recent developments within the update of the System of National Accounts (SNA) have highlighted conceptual and practical issues in the treatment of social security and other social insurance.** As part of the SNA update, the issue note on [Action Point 13 on Social Security and Employment-related Schemes](#)⁴ underscored several ambiguities and inconsistencies in the classification of these schemes that affected the recording of pension entitlements. Other related issues concern the treatment of constructive liabilities and provident funds. In addition, clarification is needed to support the practical distinction between pension and non-pension defined benefits schemes. In the context of updating *GFSM*, it is essential to examine these issues to ensure that the guidance on fiscal statistics remains both harmonized with the 2025 SNA and analytically robust, ultimately supporting more informed fiscal policy decisions.
2. **Each of the following five sections contains background and issues, options to address the issues, and draft recommendations, relating to the following issues:** (A) distinguishing between social security and employment-related schemes, (B) defining and recognizing constructive liabilities, (C) delineating social insurance and employer-independent schemes, (D) classifying provident funds, and (E) distinguishing between pension and non-pension defined benefit schemes. The final section of the DN proposes questions for Global Consultation.

Issue A: Distinguishing between Social Security and Employment-related Schemes

Background to Issue

3. **SNA distinguishes social security from employment-related schemes.**⁵ Social security schemes cover the entire community, or large sections of the community and are imposed, controlled and financed by government units. Employment-related schemes or (hereafter) other social insurance schemes derive from a specific employer-employee relationship, and the social protection arrangement is part of the conditions of a particular employment, for example, within the government. Pension and other entitlements related to social security schemes are not recognized in the sequence of economic accounts and only recorded in supplementary tables. The main reason for the non-recognition is the possibility for government to change the basis on which these entitlements are determined in order to keep them within the bounds of what is budgetarily feasible. In contrast, other social insurance pension entitlements are seen to be contractual obligations and are expected to be enforceable. Therefore, they are recognized as liabilities towards households. However, in practice some employer-managed schemes include mechanisms that allow adjustments to benefits depending on the financial position of the scheme,⁶ while some publicly run social security schemes involve legally binding obligations.
4. **However, there was a lack of clarity in delineating pension schemes in 2008 SNA, leading to potential confusion and misinterpretation, especially where schemes overlap.** For example, some

⁴ The issue note on Action Point 13 on Social Security and Employment-related Schemes is also referred to as “the Note on Action Point 13.”

⁵ The Note on Action Point 13 use the term “employment-related schemes”, which is replaced for the term “other social insurance schemes” in the SNA 2025 and in this DN (see Issue C of this DN for more detail).

⁶ For example, recent pension reforms in accordance with *Future of Pensions Act (Wet toekomst pensioenen)* in the Netherlands have converted many defined-benefit-type arrangements into collective defined-contribution schemes.

governments provide pension schemes for their employees through a unified social security fund where the government employees pensions are not distinct from the social security pensions for the entire community or a large section of the community. Pension schemes that apply the same terms and conditions to all participants covered by such unified social security funds do not raise classification issues and are appropriately treated as social security schemes. Difficulties arise when government employees or specific categories of government employees are covered under more generous terms than the wider population, such as earlier retirement ages or faster benefit accrual. In such cases, the scheme should be split between a social security component and other social insurance scheme, though in practice data limitations often prevent such a split. Additional distinctions between private and public schemes and between funded and unfunded pension schemes, together with different wording, and inconsistent criteria used across various paragraphs of *2008 SNA*, added uncertainty in the recognition of social security and other social insurance schemes. The *Note on Action Point 13* emphasizes the need for more clarity in defining and recording different types of pension schemes in the updated version of *SNA* to ensure consistency in the treatment of relevant liabilities and improve international comparability.

5. **Some countries also interpret parts of the current guidance inconsistently, in particular the guidance that says that social security schemes cover large sections of the community.** Some countries have large schemes that cover very large numbers of public sector employees, across a range of different institutions, and because of this, and perhaps because the institutions themselves use the term social security to describe their own operations, they may be classified inside the social security funds subsector by the authorities.⁷

6. **To address these shortcomings, 2025 SNA includes extended guidance on delineating social security schemes and other social insurance schemes.**⁸ *2025 SNA* provides more granular explanations of the reasons for different treatment of pension entitlements under other social insurance versus social security schemes. Entitlements derived from other social insurance are usually not subject to retrospective adjustments of the amounts payable. The legal nature of the underlying employment contract significantly limits the possibility of the pension sponsor, be it a private employer or a public employer, changing the basis on which entitlements are determined. The proposed approach assumes that the conditions of employment are the same or sufficiently similar for private and public employees. However, defining similarity between public and private employment contracts may not be that straightforward and should focus on the terms and conditions of compensation, both current compensation and future compensation after retirement (*2025 SNA*, paragraphs 24.127 and 24.196, summarized in the Table 1).

7. ***GFSM 2014* generally follows the *SNA* approach in the treatment of social insurance except in the case of government employment-related schemes for the recording of employment-related pensions accumulation and entitlements.**⁹ Chapter 2 and Appendix 2 of *GFSM 2014* provide some

⁷ One such example is the Government Social Insurance System in the Philippines. This large defined benefit scheme insures almost three million people, but covers only de jure government employees. However, it is classified as a social security fund.

⁸ The term “other social insurance schemes” in *SNA 2025* replaced the term “employment-related schemes” used in *SNA 2008* and incorporates collective arrangements for self-employed persons.

⁹ In the *GFSM* presentation, pension benefits paid to retired government employees and their survivors are considered liquidations of pension liabilities rather than a current expense. They are therefore not included in social benefits. Similarly, social contributions, including employers’ actual and imputed social contributions, payable by participant to autonomous and non-autonomous pension funds, are recorded as an incurrence of liabilities for future pensions and

innovations not included in the SNA regarding more detailed guidance on the typology and recording of social protection arrangements and the decision tree in Figure A2.2. One of the criteria for distinguishing between social security and other social insurance schemes in both SNA and GFSM is the coverage. Whereas other social insurance schemes only cover defined and eligible groups of employees, social security covers the community as a whole or large sections of the community. Legal nature and control of the scheme provide for additional delineation criteria. Social security schemes are imposed and controlled by government units. This need not always be the case for other social insurance schemes, where both government and public corporations can establish and manage schemes or contract with private sector parties to administer the schemes as part of an employer-employee relationship, specified in the employment contract.

Table 1: Summary of 2025 SNA criteria differentiating between social security schemes and other social insurance schemes

Feature	Social security scheme	Other social insurance schemes
Origin	Not derived from a particular or specific employer-employee relationship but from an imposition of law.	Derived from a particular or specific employer-employee relationship with similar terms and conditions of compensation.
Tailoring of benefits	Less tailored to the specific characteristics of the individual; more applicable to the population at large.	Benefits tied to the individual's terms and conditions of employment.
Ability to alter benefits	Government ability to alter the benefit formula present.	Legal nature of the employment contract significantly limits changing the basis on which entitlements are determined.
Retrospective adjustments	Not constrained by the "no retrospective adjustments" condition.	Entitlements usually not subject to retrospective adjustments of the amounts payable.
Employment contract	—	If conditions of employment for public employees are the same or sufficiently similar to private employees, entitlements qualify as assets; separation from social security strengthens this.

8. The shortcomings in the current GFSM guidance and its misalignment with SNA 2025 may lead to uncertainties, undermine the quality of fiscal statistics and complicate cross-country comparisons. Similar to the 2025 SNA, the GFSM could benefit from more granular explanations of the reasons for the different treatment of pension entitlements in both social security pension schemes and

other retirement benefits. As a consequence, the item for the adjustment in the change in pension (and non-pension) entitlements that the SNA sequence of economic accounts adds when calculating saving is not needed in the GFSM calculation of the net operating balance. However, employers' social contributions to pension schemes are also recorded as an expense (as part of remuneration of employees) in the GFSM presentation (2025 SNA, paragraph 30.72).

other social insurance schemes. Namely, entitlements under pension schemes provided by government or public corporations in their role as employers should be recognized as liabilities if they are similar in terms and conditions (especially regarding compensation and enforceability of entitlements) to those provided by private employers and are clearly separated from broader social security. Given that similarities between public and private employment contracts may not be that straightforward, *GFSM* could be more specific on defining these similarities in the context of government and public sector employers.

Options Identified to Address Issue

9. To address the issue of delineating social insurance schemes in the updated *GFSM* guidance, the Task Team considered the following options:

- **Option A1:** Keep the current *GFSM* guidance in the *GFSM* update without expanding recommendations on delineating social insurance schemes. The current *GFSM* guidance may be considered as broadly adequate since it contains a detailed description of the typology and recording of social protection arrangements, including the explanations of the differences between social security and other social insurance schemes.
- **Option A2:** Add more explanations and criteria for the different treatment of pension entitlements under social security pension schemes and other social insurance schemes in line with 2025 *SNA*, paragraphs 24.127 and 24.196. Specifically, it could introduce the following decision criteria:
 - Do the schemes cover only employees of government and/or public corporations (“yes” points towards other social insurance scheme);
 - Are the benefits tailored to (a) the population as a whole or (b) to individual employment conditions ((a) would indicate social security, (b) would point to other social insurance scheme);
 - Can the scheme sponsor unilaterally change the benefits? (“yes” points to a social security scheme);
 - Is the scheme similar to schemes offered by private employers for their employees? (“yes” points to other social insurance scheme).

These additional details can clarify the economic nature of a particular employer-employee relationship and the limitations that an employer has in changing the terms and conditions of the employment contract, in contrast to the terms and conditions of a social security scheme. Annex 1 presents possible changes and expanded decision tree in the *GFSM 2014* Figure A2.2.

- **Option A3:** In addition to more explanations on the reasons for different treatment of pension entitlements in both social security pension schemes and other social insurance schemes (Option A.2), provide clarifications on the coverage of the term “large sections of the community”. Specifically, two sub-options are considered here:
 - **Sub-option A3 (a):** in cases where government and public corporations’ employees constitute a large section of the community, the scheme could be considered as a social security scheme;

- **Sub-option A3 (b):** irrespective of how large a share of the population they are, schemes that only ensure government and / or public corporations' employees should be treated as other social insurance schemes (and therefore their liabilities treated as pension entitlements). To be considered a "large section of the community" for the purpose of social insurance, coverage must extend beyond government employees and employees of public corporations based on criteria other than employment.

Draft Recommendations

10. **The majority of the Task Team favors Option A2.** This option recognizes the usefulness for additional arguments in explaining the difference between employment-related and social security-based relationships of government employers with its employees and better aligns *GFSM* with the *2025 SNA*. An additional statement specifying the case, where government and public corporations' employees constitute a considerable part of working population, would be easy to implement and may help improve clarity in delineating social security from other social insurance schemes in the GFS-specific context. More guidance on the term "large section of the community" is of limited use. More weight for the decision should be put on the new criteria in option A2 instead of the size of the group.

11. **Following written review, the GFS Advisory Committee (GFSAC) supported the Task Team's recommendation of Option A2.**

Issue B: Defining and Recognizing Constructive Liabilities

Background to Issue

12. **The 2008 SNA defines constructive liabilities and include them in the SNA framework but it does not provide examples of such liabilities (paragraphs 3.34 and 3.40).** In general, a liability is established when one unit is obliged, under specific circumstances, to provide a payment or series of payments to another unit. The most common case is a legally binding contract or past event that requires the payment(s) to be made in the future period. By definition, constructive liabilities are established not by contract but by long-standing and well-recognized custom (consistent past behavior or expectations) that is not easily refuted. In these cases, the creditor has a valid expectation of payment, despite the lack of a legally binding contract. The *2008 SNA* assumes that some payments by government to individuals fall under the definition of constructive liabilities but does not provide any examples of these forms of liabilities.

13. **To address this gap, the 2025 SNA clarifies that constructive liabilities are not recognized in the sequence of economic accounts (paragraph 4.102).** The typical example that is presented relates to pensions provided by government under a social security scheme (paragraph 4.102). Similar to the *2008 SNA*, the *2025 SNA* differentiates between (legal) liabilities and constructive and contingent liabilities. However, the updated guidance states more clearly that the sequence of economic accounts includes (legal) liabilities but excludes constructive and contingent liabilities. An exception is made for standardized guarantees where, although each individual arrangement involves a contingent liability, the number of similar guarantees is such that an actual liability is established for the proportion of guarantees likely to be called (paragraph 4.108).

14. **The current *GFSM* guidance defines liabilities, and explicit and implicit contingent liabilities, but does not define the concept of “constructive liabilities”.** Contingent liabilities are obligations that do not arise unless a particular, discrete event(s) occurs in the future (*GFSM 2014*, paragraph 4.47). These are recorded as a memorandum item to the balance sheet. Notably, in GFS a distinction is made between explicit and implicit contingent liabilities. *Explicit contingent liabilities* are legal or contractual financial arrangements that give rise to conditional requirements to make payments of economic value. The requirements become effective if one or more stipulated conditions arise. By contrast, *implicit contingent liabilities* do not arise from a legal or contractual source but are recognized after a condition or event is realized (*GFSM 2014*, paragraph 7.252). In GFS, the net implicit obligations for future social security benefits (other than employment-related retirement benefits) are not recognized as liabilities (*GFSM 2014*, paragraph 4.48). Other examples of implicit contingent liabilities include ensuring the solvency of the banking sector, covering the obligations of subnational governments in the event of a default, and assuming non-guaranteed debt of public sector units. Although there may be some similarities between constructive liabilities and implicit contingent liabilities, there is no mention or definition of “constructive liabilities” in *GFSM 2014*.

Options Identified to Address Issue

15. **To address the issue of defining constructive liabilities in the updated *GFSM* guidance, the Task Team considered the following options:**

- **Option B1:** Keep the current guidance in the *GFSM* update without introducing the concept of constructive liabilities. Under this option, no underreporting of such liabilities is expected, given that they are not currently reported under existing frameworks. The absence of any reference to constructive liabilities in the *GFSM* should lead compilers not to recognize such liabilities in fiscal statistics. However, this option would ignore the SNA concept of constructive liabilities, and then not specifically clarify that constructive obligations are not included in *GFSM* concept of liabilities.
- **Option B2:** Introduce the concept of constructive liabilities and clarify that they are not included in the liabilities reported under the *GFSM*. This option would align the updated *GFSM* with the 2025 SNA guidance and alert compilers and data users that these established obligations by long-standing and well-recognized custom are not included in liabilities. The guidance could encourage disclosure as part of the memorandum item on implicit contingent liabilities.
- **Option B3:** Introduce the concept of constructive liabilities in the new *GFSM* and recognize them as liabilities in the sequence of accounts. This option would deviate from the 2025 SNA. It would result in a more comprehensive debt definition and consequently change main indicators.

Draft Recommendations

16. **The majority of the Task Team favors Option B2.** This option would preserve the current treatment of these liabilities, strengthen the guidance, and align the *GFSM* terminology with the 2025 SNA without introducing practical changes for GFS compilers.

17. **Following written review, GFSAC supported the Task Team’s recommendation of Option B2.**

Issue C: Delineating Social Insurance and Employer-independent Schemes

Background to Issue

18. **The 2008 SNA guidance on delineating social insurance schemes lacked explicit references to self-employed workers and related forms of collective insurance arrangements.** 2008 SNA defined social insurance schemes as schemes in which workers are obliged, or encouraged, by their employers or by general government to take out insurance against certain eventualities or circumstances (paragraph 8.74). Additional guidance indicated that all social insurance schemes are founded on an employment relationship even if the participants are self-employed or currently unemployed (paragraph 8.76). Furthermore, pension entitlements were described as claims against employers or funds designated by employers to pay pensions earned as part of a compensation agreement between the employer and employee (paragraph 11.107). The *Note on Action Point 13* provides several examples from the 2008 SNA guidance that may lead to misinterpretations in qualifying social insurance.

19. **In several countries, there are autonomous pension schemes for self-employed people designed to provide retirement income in a similar way to employer-related schemes.** Such employer-independent pension schemes may be obliged or encouraged by government for certain groups (e.g., employees of a group of enterprises, employees of a branch or industry, and persons in the same profession) for which participation may or may not be mandatory. Annex 1 provides examples and main characteristics of autonomous pension schemes for self-employed individuals, emphasizing their diversity and collective nature. These schemes are regulated in a similar manner to employer-related pension schemes to ensure that the accumulated funds are used for post-retirement income. In this connection, the Guidance Note F.12 on Covering Hybrid Insurance and Pension Products¹⁰ recommends to clarify that autonomous, employer-independent schemes or funds can also qualify as social insurance pensions, and specify the criterion as follows: accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds.

20. **Another issue in delineating social insurance schemes concerns the treatment of employer-independent schemes for benefits other than pensions.** Such schemes could cover, for example, insurance against income loss due to sickness or invalidity. When obligatory or encouraged and organized by government, such schemes are part of social insurance. However, no additional guidance is provided for classifying such schemes in case government is not directly involved. The *Note on Action Point 13* recommends not treating such non-pension schemes as part of social insurance, unless it concerns collective arrangements which provide policies, for certain industries or professions, with a strong resemblance to similar arrangements organized by the government. In addition, it is recommended that such schemes should generally be managed by separate institutional units, which are subject to regulation or supervision in line with or similar to employer-related schemes derived from an employer-employee relationship.

21. **To address these issues, the 2025 SNA provides more specific guidance on delineating social security schemes in relation to their participants and benefits provided.** Explicit references to self-employed persons have been included in the paragraphs laying out the conditions for qualifying as social insurance (2025 SNA, paragraphs 9.67 and 24.91). Furthermore, the new paragraphs 9.78 and 9.79

¹⁰ [SNA Guidance Note F.12 on Covering Hybrid Insurance and Pension Products](#)

(as well as 24.99 and 24.100) provide further guidance on the inclusion, or not, of schemes that are not derived from an employer-employee relationship. Also, instead of referring to “employment-related social insurance schemes other than social security”, the term “other social insurance” is consistently used for schemes other than social security.

22. **Although *GFSM 2014* contains detailed guidance on social protection, it still focuses on the employer-employee relationship in defining and classifying social insurance schemes.** When describing the typology of social protection, *GFSM 2014* divides social insurance schemes into two groups: social security and employment-related social insurance. This split is determined by the types of beneficiaries covered by the scheme. When the beneficiaries are the general population, or a large segment of it, the scheme is classified as a social security scheme. If individuals or households are eligible to receive social benefits as a group of employees, it is classified as an employment-related social insurance scheme (*GFSM 2014*, paragraph A2.22). The term “other employment-related social insurance schemes” is further used in Appendix 2 for schemes derived from an employer-employee relationship in the provision of pension entitlement and other social benefits to employees as part of the conditions of employment (paragraph A2.40). However, *GFSM 2014* considers self-employed workers only in the context of classifying the source of social contributions.

Options Identified to Address Issue

23. **To address the issue of delineating social insurance and employer-independent schemes in the updated *GFSM* guidance, the Task Team proposes the following options:**

- **Option C1:** Keep the current *GFSM* guidance in delineating social insurance schemes unchanged. This option would be easy to implement but it would ignore the new collective arrangements for social insurance, such as those for self-employed workers, which have recently been established in a number of countries. Inconsistent delineation between different insurance schemes complicates international comparisons and undermines the ability to accurately benchmark fiscal performance.
- **Option C2:** Expand the *GFSM* guidance with additional specifications for employer-independent schemes to align with the 2025 *SNA* guidance, including the definition of a social insurance scheme and delineation between different insurance schemes. In addition, this option proposes using the term “other social insurance” for schemes other than social security instead of the terms “employment-related social insurance schemes” and “other employment-related social insurance schemes” used in the current *GFSM* guidance.

Draft Recommendations

24. **The majority of the Task Team favors Option C2.** Implementing this option provides for better alignment of *GFSM* with 2025 *SNA* and improves the reliability and integrity of international comparisons in fiscal statistics.

25. **Following written review, GFSAC supported the Task Team’s recommendation of Option C2.**

Issue D: Classifying Provident Funds

Background to Issue

26. **In contrast to 2008 SNA and 2025 SNA, GFSM 2014 includes a definition of Provident Funds and recommendations on their institutional classification.** Provident Funds are compulsory saving schemes that maintain the integrity of the contributions for individual participants (*GFSM 2014*, paragraph 2.148). The compulsory contributions of each participant and of their employer on behalf of each participant are kept in a separate account and could be withdrawn under specified circumstances, such as retirement, unemployment, invalidity, and death. These contributions are managed and invested to obtain a return for each participant. In accordance with the *GFSM 2014* sectorization principles, a resident Provident Fund controlled by government and satisfying the definitions of an institutional unit and a market producer is classified as a public financial corporation. If a resident Provident Fund controlled by government does not satisfy the criteria to be an institutional unit, it is classified with the government unit that controls it. There is no guidance on Provident Funds in either the *Note on Action Point 13* or *2025 SNA*.

27. **According to GFSM 2014 (paragraph 2.151) it is possible that a Provident Fund may be established in such a way that it includes aspects of a social security scheme (social insurance) as well as aspects of a compulsory saving scheme.** However, the reference to social security schemes seems incompatible with the fact that, in these systems, according to *GFSM 2014* (paragraph A2.38), there is uncertainty about the eventual payment or level of payment of the social benefits. Consequently, in GFS no liabilities are associated with the potential future claims on social security schemes. In contrast, Provident Funds are compulsory in nature, accumulate savings of contributors that are held in individual accounts and can be withdrawn under specified conditions. Therefore, it would be more accurate to say that sometimes the Provident Funds can include aspects of other social insurance schemes and not of social security systems, as *GFSM 2014* currently states. In any case, the fund would be classified according to the scheme that predominates while still applying the sectorization principles (*GFSM 2014* paragraph 2.151). This creates uncertainty regarding the sector classification of Provident Funds and the recording of associated liabilities¹¹.

28. **GFSM 2014 provides no specific guidance on the subsector classification of Provident Funds within the financial corporations sector, nor how to classify the household sector's financial asset and the Provident Fund's associated liability.** The two best options for how to treat these assets / liabilities are either as deposits, or as pension entitlements. While the purpose of a Provident Fund is usually aimed at enabling households to save for retirement, it is not clear that these household assets and Provident Fund liabilities meet the definition of a *pension entitlement* in *2025 SNA* paragraph 12.117 (which talks about pension entitlements being claims against either an employer or a fund designated by their employer or a fund for the self-employed). On the other hand, assets in a Provident Fund do have some resemblance to *other deposits*, but the extent on the restrictions of the assets in a Provident Fund is unusually strict compared to most other types of restricted deposits (though some Provident Funds do allow households to access some parts of their accumulated funds before retirement for certain qualifying life events). However, the exact classification of the claims on a Provident Fund is important as presumably the subsector classification should be consistent with the classification of these claims. A Provident Fund

¹¹ In *Insurance, pension, and standardized guarantee schemes* (pension entitlements), or under *Currency and Deposits*, or as contingent social security obligations outside the main framework.

whose liabilities are recorded as *other deposits* would presumably be classified within the deposit-taking corporations subsector, while if the claims are treated as *pension entitlements* then a Provident Fund would presumably be classified in the pension funds subsector. The compilers of monetary and financial statistics will clearly have an important voice in this decision, and their views should be taken into account before any final decisions are reached.

29. **One further issue worth raising is whether Provident Funds are correctly classified as financial corporations at all, and whether they are really market producers.** This distinction is not always straightforward in the case they are controlled by a government unit or another public corporation. Given that it is compulsory to save with a Provident Fund it is reasonable to ask whether a Provident Fund is a market producer (households have no choice in whether or not to save money with them) and so it could be argued to instead treat Provident Funds as part of the general government sector. The main counter to this is that Provident Funds are not engaged in redistribution of income and/or wealth involved, a typical element of government's functions. However, a stronger argument for classifying Provident Funds as public financial corporations is their involvement in financial intermediation by pooling the contributions from many households and investing them on their behalf, similar to the case of investment funds and non-Provident Fund defined-contribution pension funds (*GFSM 2014*, paragraph 2.150). And of course, Provident Funds have long been classified outside the government sector in *GFSM* guidance. On the other hand, if the compulsory nature of the Provident Fund is considered an important factor, one could argue that a Provident Fund is more like a defined contribution, funded, social security scheme and thus should or could be classified as part of government. To address these challenges, the Research Agenda for Updating *GFSM 2014* includes a separate project 2.2 *Boundary between government and financial public corporations*.

Options Identified to Address Issue

30. **To address the uncertainties in the sector classification of Provident Funds and the recording of associated liabilities, the Task Team proposes the following options:**

- **Option D1:** Consider the current *GFSM* guidance as sufficient and keep it in the *GFSM* update. This option would preserve the existing treatment that compilers are familiar with. Furthermore, the biggest uncertainty is the subsector classification in the financial corporations sector. Thus, it is not a specific question for the general government sector that needs to be treated in *GFSM*.
- **Option D2:** Expand guidance on the institutional classification and clarify the classification of the Provident Funds liability to households.
 - **Sub-option D2 (a):** Specifically, in its purest form, Provident Funds should be classified as deposit-taking corporations and the liability should be other deposits. If there are elements of other social insurance, the Provident Funds should be classified as the way in which the social insurance scheme is organized (*GFSM 2014*, paragraph A2.43) and the liability accordingly as pension entitlements. This option would lead to classifications that take into account the different setups of Provident Funds. This guidance would also help with the classification of the liability of the scheme if it is classified within government.

- **Sub-option D2 (b):** Provident Funds should always be classified as deposit-taking corporations and the liability should be other deposits. This option ensures equal treatment of all Provident Funds and highlights the liability's deposit-like nature.
- **Sub-option D2 (c):** Provident Funds should be classified as the way in which the social insurance scheme is organized (*GFSM 2014*, paragraph A2.43) and the liability accordingly as pension entitlements. This option ensures equal treatment of all provident funds and emphasizes the pension nature of the liability.

Draft Recommendations

31. **The majority of the Task Team favors Option D2 (a).** Implementing this option would clarify *GFSM* guidance to ensure GFS accurately capture Provident Funds, while still leaving room for differences in how Provident Funds are structured. The approach should be coordinated with the results of the research on *GFSM Update Research Project 2.2 (Boundary between government and financial public corporations)*.
32. **Following written review, GFSAC supported the Task Team's recommendation of Option D2.**

Issue E: Distinction between pension and non-pension defined benefit schemes

Background to Issue

33. **Pension and non-pension defined benefits schemes often look similar legally or administratively.** Under a defined-benefit scheme, the ultimate benefit is calculated by means of a formula embodied in the terms of the social insurance scheme. These benefits are usually determined in terms of undertakings made by the employer or operator of the scheme (*GFSM 2014*, paragraph A2.17). In practice, many social insurance arrangements provide a bundle of benefits like old-age, survivors, disability, sickness, unemployment, etc. under a single legal framework and sometimes within a single institutional unit. Some of these benefits are "pension-type", involving long-term income replacement following permanent withdrawal from the labor force, or for survivors, while others are "non-pension" social benefits, typically short-term or event-contingent benefits such as sickness and unemployment.

34. **Even when both sets of benefits are specified in defined-benefit terms, they receive different statistical treatment.** A key conceptual distinction is whether the arrangement creates an accrued-to-date entitlement that is treated as a financial claim. Employment-related pension entitlements are treated as obligations that accrue over time, are usually closely linked to compensation and typically constrained by the "no retrospective adjustments" condition associated with employment contracts. By contrast, most non-pension social benefits remain contingent on a future event (e.g., sickness, unemployment) and generally do not create a stock of accrued rights in the same way. For non-pension defined-benefit schemes, liabilities are recognized when relevant reserves, provisions, or other recognized liabilities actually exist in the account of the scheme. They are typically recorded as transfers when the eligibility condition is met, with any unpaid amounts recorded as payables, rather than as an actuarially valued liability for future benefits.

35. **The updated *GFSM* guidance would benefit from practical criteria to help compilers separate pensions from non-pension defined benefit schemes within broader social insurance arrangements.** It would also explain the conceptual rationale for recognizing pension liabilities rather than other liabilities

from non-pension schemes. Additional guidance could also improve cross-country comparability, given that similar social insurance benefits may be delivered through institutional arrangements that differ widely across countries. Clearer delineation would help ensure that economically comparable obligations are recorded consistently in government accounts, reduce the risk of overstating or understating government liabilities, and enhance the analytical usefulness of fiscal indicators such as net worth and the net operating balance.

36. **To support consistent compilation, the updated *GFSM* guidance could include a simple set of operational criteria** to identify whether a defined benefit scheme should be treated as a pension-type benefit and therefore potentially generate pension entitlements or as a non-pension social benefit recorded as transfers when due:

Step 1 — Identify whether the benefit is “pension-type.” A defined benefit scheme is pension-type if it is predominantly characterized by all or most of the following:

- **Purpose and duration:** provides long-term income replacement after retirement/old age, permanent disability/invalidity, or to survivors (typically paid as a long-duration annuity or for an extended period).
- **Accrual logic:** eligibility and/or benefit level depends materially on past service/contributions (e.g., years of service, insured periods) and often past earnings, consistent with an accrued-to-date concept.
- **Benefit event:** entitlement does not require a recurring short-term contingency like temporary sickness or temporary unemployment and is not primarily a reimbursement of specific costs like healthcare.

If **yes**, treat the benefit as pension-type and proceed to Step 2. If **no**, treat it as **non-pension** without the recognition of a liability.

Step 2 — Determine whether pension entitlements are recognized in the core framework. Apply the scheme-delineation guidance (social security vs other social insurance/employment-related) developed in Issue A and Issue C. Where the benefit is pension-type and the scheme qualifies as other social insurance, the associated pension entitlements are recorded as liabilities. Where the pension-type benefit is provided under a social security scheme, the treatment follows the *GFSM/SNA* approach for social security pensions.

Step 3 — Address bundled/hybrid schemes. Where a single scheme or fund provides both pension-type and non-pension benefits:

- **Preferred approach:** split the scheme into pension and non-pension components for recording (positions and flows) where feasible;
- **If a split is not feasible:** define the primary purpose of the scheme and treat it accordingly.

Options Identified to Address Issue

37. **To address the issue of distinguishing pension and non-pension schemes, the Task Team proposes the following options:**

- **Option E1:** Keep *GFSM* guidance unchanged (no additional operational criteria). The current guidance defines the distinction in *GFSM 2014* (Figure A2.2) as “provides mainly pension benefits”. Hybrid schemes are likely to be treated as pension schemes. This is not very different to the suggested additional guidance.
- **Option E2:** Expand *GFSM* guidance with (i) practical pension vs non-pension criteria (as proposed in paragraph 36), (ii) explicit treatment rules for bundled schemes, and (iii) a concise conceptual explanation of why pension entitlements are recognized while other social benefits are not.

Draft Recommendations

38. **The majority of the Task Team favors Option E2** to improve cross-country consistency and to reduce misclassification risks in large, multi-benefit social insurance arrangements, while remaining aligned with the underlying SNA/GFSM rationale for liability recognition.

39. **Following written review, GFSAC supported the Task Team’s recommendation of Option E2.**

Preliminary Views of the GFSAC

40. **An earlier version of the discussion note was shared with GFSAC for written review in April 2026.** This version of the discussion note has addressed suggestions made by GFSAC members and the task team recommendations in the note are consistent with the preliminary views of most GFSAC members.

Questions for Global Consultations

Issue A: Distinguishing between Social Security and Employment-related Schemes

- Indicate your preferred choice: Option A1, Option A2, Option A3a, Option A3b. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).
- Do you consider the proposed updates to the GFSM decision tree (see Annex 1) sufficient to classify social insurance schemes in your country?

Issue B: Defining and Recognizing Constructive Liabilities

- Indicate your preferred choice: Option B1, Option B2, Option B3. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).

Issue C: Delineating Social Insurance and Employer-independent Schemes

- Indicate your preferred choice: Option C1, Option C2. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).

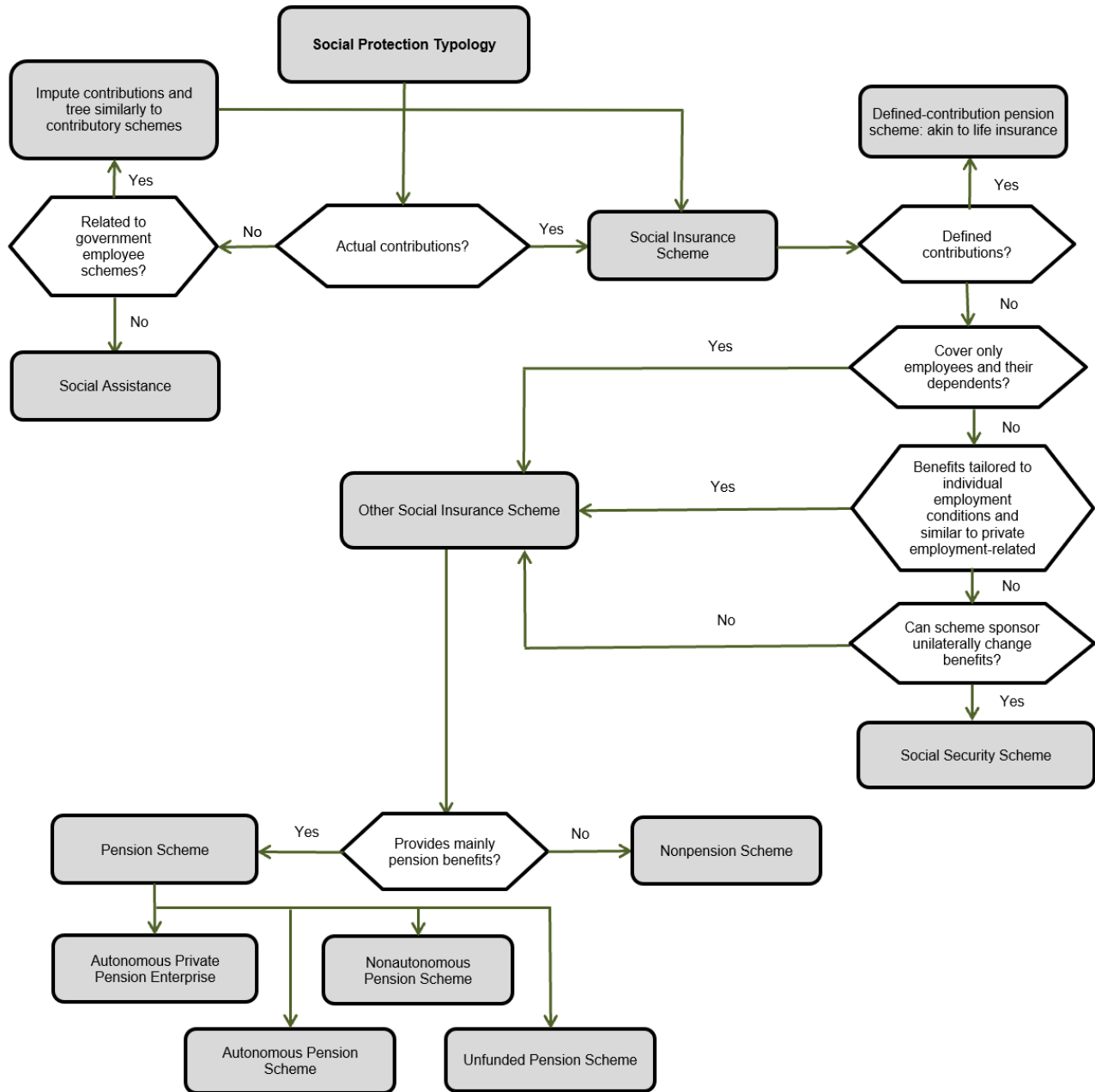
Issue D: Classifying Provident Funds

- Indicate your preferred choice: Option D1, Option D2a, Option D2b, Option D2c. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).

Issue E: Distinction between pension and non-pension defined benefit schemes

- Indicate your preferred choice: Option E1, Option E2. Please explain the reason for your choice and provide any other additional comments (including any alternative options you would like to propose).

Annex 1: Expanded Version of GFSM 2014 Figure A2.2



Annex 2: Examples and characteristics of autonomous pension schemes for self-employed

1. Employer-Independent Schemes:

- These schemes are organized for self-employed individuals or groups of people who are not tied to a specific employer. They may be established as autonomous pension funds where accumulated contributions are set aside for retirement income.
- Such schemes must operate as separate institutional units and be subject to regulation or supervision akin to employer-related pension schemes.

2. Multi-Employer Pension Schemes:

- These schemes may involve multiple employers or groups of self-employed individuals pooling resources to ensure adequate funding for retirement benefits. They are managed by specialized units that assume the risk of ensuring sufficient funding.

3. Collective Arrangements:

- Pension schemes organized for specific professions or industries, such as trade unions or professional associations, may qualify as autonomous pension schemes. These arrangements often provide policies with strong resemblance to employer-related schemes.

4. Individual Pension Trusts:

- In some cases, individual pension trusts may be treated as part of social insurance if they meet the conditions for social insurance, such as being collective arrangements and subject to regulation.

Key Criteria for Classification:

- **Autonomy:** The scheme must be managed as a separate institutional unit directly accountable for its decisions and actions.
- **Regulation and Supervision:** The scheme must adhere to regulations similar to those governing employer-related pension schemes.
- **Funding:** Contributions must be accumulated in a segregated fund to provide retirement income.

These examples highlight the diversity of autonomous pension schemes available for self-employed individuals, emphasizing their collective and regulated nature.