EDG Questionnaire on Employer Pensions

<u>Due date: December 29, 2003</u> (and February 3, 2004)

General Information for Respondents

I. This questionnaire is designed to obtain your views on the recording of employer pension schemes in macroeconomic statistics, for a reviewed *System of National Accounts (SNA)*. The questionnaire is addressed to participants of the Electronic Discussion Group on pensions (EDG) and other interested parties.

II. The questionnaire consists of three sections. The first section pertains to the identity of respondents. **Please check the box on confidentiality if you do not wish your response to be published.** The second section constitutes the core of the questionnaire. The third section, in the form of an annex, deals with terminology issues.

III. This questionnaire will be used as background information for the preparation of the "final" EDG Moderator Report that will be provided to the Intersecretariat Working Group on National Accounts (ISWGNA), by December 2003. The responses will be presented in summary form in the December Report for the ISWGNA.

IV. To fill the questionnaire you may refer to the draft Position Paper (DPP) that was posted on the EDG on December 1, 2003 and to the Interim Report of the Moderator (IR) that was posted on the EDG on September 24, 2003, which are cross-referenced across the questionnaire.

V. We would appreciate receiving your responses by **<u>December 29, 2003</u>** (to be referred to in the EDG December Report) and by <u>February 3, 2004</u> (to be referred to during the Advisory Expert Group meeting in February 2004).

VI. Specific instructions:

- *For a given question, more than one box can be selected—providing flexibility in answer; There may be more than one "main" reason;*
- *Some questions relate both to the interpretation of the <u>current</u> 1993 SNA and to the preferences for a <u>reviewed</u> SNA; and*
- *Cross-references to paragraphs of the draft Position Paper (DPP) or to the Interim Report of the Moderator (IR) are indicated in parenthesis. As an example: (DPP—46) indicates the 46th paragraph of the draft Position Paper posted on December 1, 2003.*

We very much value your opinion

Name (last) *(compulsory)*:

Name (first):

E-mail *(compulsory)*:

Position *(recommended)*:

Telephone number *(recommended)*:

Fax number *(voluntary)*:

Country:

Institution:

Division/Service/Administrative unit:

You currently are: ☐ a Compiler ☐ an Economist ☐ an Auditor ☐ another Data user

You have been: ☐ a Compiler ☐ an Economist ☐ an Auditor ☐ another Data user

Your statistical expertise/interest focuses on:

☐ National Account ☐ GFS (Government Finance Statistics) ☐ Other statistics

Do you respond:

☐ on behalf of your institution
☐ on behalf of your service/unit/division
☐ on a personal basis

It will be assumed that answers are provided on a personal basis when no contrary indication is provided.

Confidentiality:

No individual answer will be transmitted to other parties or discussed with other parties, unless a waiver is filed here.

May we publish and distribute your **name**?

☐ Yes ☐ No

May we publish and distribute your **response** to this survey?

☐ Yes ☐ No

Liability recognition[1] (DPP—48 to 53)

Q.1 The *Government Finance Statistics Manual (GFSM 2001)* recognizes employer unfunded schemes' obligations as liabilities (as if funded), in contrast to SNA.

Q.1.1 In a reviewed SNA[2], do you support recognizing employer unfunded pension schemes' obligations as liabilities (i.e. as if funded)? (DPP—6,9,48,49)

☐ Strongly support ☐ Somewhat support ☐ Do not support

Q.1.2 Select below the elements that are main, important, or unimportant considerations for your answer to Q.1.1 (for or against obligations' recognition)? (DPP—6 to 9,49)(IR—101)[3]

	Main	Important	Not Important
Q.1.2.1 Existence of accounting (or actuarial) information on the outstanding obligations……………	☐	☐	☐
Q.1.2.2 Financial solidity[4] of the claim the household (would) have………………………………………	☐	☐	☐
Q.1.2.3 The funded/unfunded delineation is artificial and promotes inequality of treatment..................	☐	☐	☐
Q.1.2.4 Recognition would improve international comparability………………………………………….	☐	☐	☐
Q.1.2.5 Recognition would improve statistical transparency of fiscal accounts………………………….	☐	☐	☐
Q.1.2.6 Recognition would deteriorate the public deficit...………………………	☐	☐	☐
Q.1.2.7 Recognition would improve the statistical recording of lump-sums paid and/or received by schemes, when employees transfer their entitlements from one scheme to another (DPP—51)(IR—102,129)………	☐	☐	☐
Q.1.2.8 Recognition follows business accounting standards (DPP—135)(IR—30).……………………	☐	☐	☐
Q.1.2.9 Other considerations:			

Q.2 Pension obligations are often not legal obligations. Business accounting nonetheless recognizes such obligations on-balance sheet, even when not legal obligations (they are called "constructive obligations"). (DPP—49,50,149,150)(IR—34,35)

Q.2.1 Do you think recognition of pension liabilities does/should suppose a legal obligation exists in current/reviewed SNA? (DPP—49,50)(IR—102,57)

	Current SNA	Reviewed SNA
Legal obligation necessary	☐	☐
Legal obligation not necessary	☐	☐

Q.2.2 Do you think that the 1993 SNA already recognizes "constructive obligations" for employer retirement pension scheme as meeting the definition of "economic asset"?

☐ Yes ☐ Perhaps ☐ No

Q.2.3 Should the definition of "economic asset", in a reviewed SNA, (be extended to) cover the equivalent of "constructive obligations" in the case of employer retirement pension schemes. (DPP—49,50,149,150)(IR-102)

☐ Strongly support ☐ Somewhat support ☐ Do not support

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[1] See in particular EDG posting by ABS (IR—73), by Lequiller (IR—76), by O'Hagan (IR—79), Harrison (IR—81,82) and her interview (section 3) (IR—78).
[2] "Reviewed SNA" means in the forthcoming SNA.
[3] More than one "main" reason may be selected.
[4] Financial solidity refers to the associated total credit risk of the claim.

Q.2.4 The extension of the "economic asset" boundary for employer retirement pension schemes can be limited <u>by convention</u> to employer schemes and to retirement pensions only. Such a convention aligns with the current SNA convention of distinguishing "employer schemes" [in fact: "private schemes]*[5] *from "social security schemes" and life insurance from non-life insurance. Do you agree that such conventions have merit? (DPP—53,7)

Q.2.4.1 Employer schemes/social security: ☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.2.4.2 Life/nonlife insurance: ☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

<u>Comments:</u>

<u>Allocation of Pension funds' net assets to the employer</u>

Autonomous defined benefits funds only

Q.3 The *1993 SNA* indicates that defined-benefits schemes exhibit a non-zero net worth.

Q.3.1 Some advocate that recognizing unfunded pension obligations implies, for consistency reasons, to change the way transactions are recorded for pension funds. (DPP—11)(IR—103)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.3.2 In a reviewed SNA, should the net assets of the scheme be allocated to the sponsor (i.e. the employer) as does the UK business accounting standard FRS 17? (DPP—10,60,122.a,153.3) (IR—104,81,70)

☐ Strongly support allocation ☐ Somewhat support ☐ Do not support

Q.3.3 Scheme's net assets allocation to the sponsor (i.e. the employer) would ensure consistency of treatment between schemes. (DPP—10,63) (IR—104,81,70)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.3.4 Scheme's net assets allocation to the sponsor (i.e. the employer) is best compatible with the SNA <u>accrual</u> principle. (DPP—64,65,66)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.3.5 Scheme's net assets allocation to the sponsor (i.e. the employer) is best compatible with the SNA <u>market valuation</u> rules. (DPP—64,66)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

[5] The *1993 SNA* distinguishes amongst social insurance between: social security schemes and private schemes. Private schemes encompass mainly employer schemes (including those for civil servants), but not necessarily only those. The examination of the population of private scheme other than employer schemes will be an item for discussion for the EDG in 2004.

Actuarial valuation

Q.4 In the *1993 SNA*, stocks of defined benefits pension liabilities are compiled using actuarial estimates while (a) contributions are recorded using actual amounts and (b) property income receivable by policyholders is set equal to the property income receivable by the pension fund. This latter convention leads to anomalous entries in the Other economic flows (DPP—78)*(IR—54,55)*. The EDG proposition is to use actuarial[6] estimates for flows (transactions).

Q.4.0 Actuaries and accountants use a variety of methods to establish the amount outstanding of pension obligations at any point in time. Some are accrued benefits methods, where only past service work is counted; some are projected benefits methods, where future service work is also taken into account. Where an accrued benefits method is used, some method project the likely nominal increase in wage, that is the basis of the benefits, reflecting both wage inflation and promotions (those are called projected unit methods), others not. (DPP—57 to 59)

Q.4.0.1 The reviewed SNA should used an accrued benefits method, not a projected benefits method. (DPP—57)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.4.0.2 The reviewed SNA should take into account likely increases in wages. (DPP—57)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

(a) Expected increases in wages/benefits. ☐ Agree ☐ Disagree ☐ Uncertain

(b) Expected promotions. ☐ Agree ☐ Disagree ☐ Uncertain

Q.4.0.3 The reviewed SNA should prescribe that the discount rate and the expected inflation taken into account by actuaries should be consistent, i.e. that the implied real interest rate be compatible to what is observable on the market.

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.4.0.4 The discount rate used can take as reference a zero risk yield (government bond or interbank swap rate) or the yield applicable to the employer or to a private bond of good quality (AAA) or to an average of the private employer market yields. In a reviewed SNA, the discount rate used should preferably reflect:

☐ Zero risk ☐ Good private bond ☐ Market averages ☐ The employer's risk

Q.4.1 In a reviewed SNA, should employers' contributions to pension funds be measured using actuarial amounts as in GFSM 2001 and business accounting (at least imputing the difference from actual amounts)? (DPP—67,68)(IR—111,81)

☐ Strongly support ☐ Somewhat support ☐ Do not support

Q.4.1.1 Actuarial measurement of employer social contributions would permit a better measurement of compensation of employees. (DPP—11a,70)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.4.1.2 Actuarial measurement of employer social contributions would permit a better measurement of GDP and a reduction of its volatility. (DPP—11a,70)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

[6] **Actuarial amounts** are stocks, calculated by actuaries, and associated flows ("interest" on pension obligations and the additional entitlements due to work done by employees during the period), calculated by actuaries or by accountants, using mortality tables and all other necessary hypotheses provided by actuaries. These amounts in question should **not be confused with or assimilated to the amounts of funding called**, for the period, by the fund trustees, on advice from actuaries. See DDP footnotes 18 and 24.

Q.4.1.3 Should actuarial-based employer social contributions be classified as imputed social contributions for the full amount or for the amount net of actual contributions (possibly negative therefore—the remainder remaining under employer actual contributions)? (DPP—72,73)

☐ Full amount ☐ Net amount ☐ other option

Comments:

Q.4.2 In a reviewed SNA, should the property income receivable by policy holders reflect actuarial amounts as in GFSM 2001 and business accounting (i.e. reflecting the effect of the passing of time)? (DPP—11b, 75 to 78) (IR—105,106,81)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.4.3 Assuming the property income receivable by policy holders will reflect actuarial amounts (see Q.4.2) in a reviewed SNA:

Q.4.3.1 Should property income payable by the scheme be allowed to differ from property income receivable by the scheme? (DPP—79) ☐ No ☐ Yes

*Q.4.3.2 **If no in Q.4.3.1**, who should be the counterpart of that difference in property income: the sponsor or the debtor of assets held by the fund/scheme? (DPP—79)(IR—105,106,81)*

☐ Impute on the sponsor ☐ Impute on the scheme assets ☐ Other option

Q.4.4 Assuming the net worth of the scheme would be allocated to the sponsor in a reviewed SNA: (DPP—80,81)

Q.4.4.1 Should the created asset/liability be imputed a property income? ☐ No ☐ Yes

Q.4.4.2 If yes in Q.4.4.1, what would be its basis: using the discount rate applicable, or as in Q.3.4?

☐ Using the discount rate ☐ As in Q.3.4.2 (first answer) ☐ Other method

Comments:

Q.5 Under the EDG proposal, would you say that the accounts would be more volatile or less volatile? Would it be a good thing or a bad thing?

Q.5.1 The employer's net worth would be overall: (DPP—66,157,158)

☐ less volatile ☐ the same ☐ more volatile

Q.5.2 The employer's income would be overall: (DPP—11a)

☐ less volatile ☐ the same ☐ more volatile

Comments:

Output measurement

Q.6 In SNA, pension schemes are being allocated an output if they are autonomous pension funds. The formula excludes holding gains and losses. In a Reviewed SNA:

Q.6.1 Is the measure of autonomous pension funds' output satisfactory as it is? (DPP—97)(IR—58)

☐ Fully satisfactory ☐ About satisfactory ☐ Not satisfactory

Q.6.2 Do you support extending output recording to other pension schemes? (DPP—93 to 95)(IR—109,58)

Q.6.2.1 To non-autonomous pension funds.

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.6.2.2 To unfunded schemes.

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.6.3 It has been suggested holding gains and losses on pension assets be treated as income (DPP—97 to 98)(IR—106). Do you:

☐ Agree ☐ Somewhat agree ☐ Somewhat disagree ☐ Disagree

Comments:

Recording of events (DPP—12;100 to 119)

Q.7 The *1993 SNA* is not completely explicit about the treatment of changes of the present value of obligations due to various events. The treatment could be income/financial transactions (FIT) or revaluations (REV) or other changes in the volume of assets (OCV). In your view, the following...... should be treated (in the accounts of the pension scheme) as…:

Q.7.1 Changes in discount rates. (DPP—102) ☐ FIT ☐ REV ☐ OCV

Q.7.2 Cost of living adjustments. (DPP—103 to 105)

Q.7.2.1When a real discount rate is used. (DPP—105 first bullet) ☐ FIT ☐ REV ☐ OCV

Q.7.2.2 For realized inflation, when a nominal discount rate is used. ☐ FIT ☐ REV ☐ OCV

Q.7.2.3 For expected inflation, when a nominal discount rate is used. ☐ FIT ☐ REV ☐ OCV

Q.7.3 Changes in life expectancy assumptions. (DPP—106 to 111) ☐ FIT ☐ REV ☐ OCV

Q.7.4 Granting of additional rights/entitlements. (DPP—112,113) ☐ FIT ☐ REV ☐ OCV

Those grants of additional rights or entitlements are not part of the schemes rules (i.e. not part of actuaries assumptions). (DPP—113)

Q.7.4.1 If FIT, the transaction is: ☐ Current transfer ☐ Capital transfer ☐ Compensation of employees

Q.7.5 Changes in benefit structure. (DPP—114 to 116) ☐ FIT ☐ REV ☐ OCV

Q.7.6 Changes in granting of rights should be distinguished from the changes in benefit structure and possibly treated asymmetrically (DPP—117 to 119):

Q.7.6.0 In general do you agree with an asymmetric treatment? (DPP—118) ☐ Agree ☐ Disagree

Q.7.6.1 On the basis of the intention to convey a benefit or not. (DPP—117) ☐ Agree ☐ Disagree

Q.7.6.2 On the basis of the sign of the event. (DPP—118) ☐ Agree ☐ Disagree

Q.7.6.3 On the basis of the frequency of the event. (DPP—119.1) ☐ Agree ☐ Disagree

Q.7.6.4 On the basis of the size of the event. ☐ Agree ☐ Disagree

Q.7.6.5 On the basis of the coverage of beneficiaries of those grants.(DPP—119.1) ☐ Agree ☐ Disagree

Q.7.6.6 So to prevent distortions of income. (DPP—119.4) ☐ Agree ☐ Disagree

Q.7.6.7 Another method:

Comments:

Dual Recording

Q.8 The *1993 SNA* follows a dual recording for retirement funded schemes: it books flows both as non financial transactions, as well as financial transactions. An adjustment entry (D.8) keeps *net lending / net borrowing* (B.9) balanced.[7] *(DPP—85 to 91)(IR—110,53)*

Q.8.1 In your opinion, should this dual recording be kept in a reviewed SNA?

Q.8.1.1 In the main core tables.

☐ Strongly support ☐ Somewhat support ☐ Do not support

Q.8.1.2 As part of memo items / satellite accounts. (DPP—87)

☐ Strongly support ☐ Somewhat support ☐ Do not support

Q.8.1.3 With property income receivable being shown as social contribution. ("supplement")(DPP—92)

☐ Strongly support ☐ Somewhat support ☐ Do not support

Q.8.2 Where the dual recording is kept, additional information on the elements constituting D.8 should be provided in the SNA, so to allow a bridge with GFS based government revenue and expense or with Balance of payments manuals. (DPP—89)

☐ Strongly support ☐ Somewhat support ☐ Do not support

Comments:

[7] See Lequiller contribution (IR—76), ABS paper (IR—74), Anne Harrison (IR—74)

ANNEX

Terminology

Q.A The *1993 SNA* defines funded schemes as those that keep "segregated reserves". In your opinion:[8]

Q.A.1 The interpretation of "reserve" is: the existence of assets held by the scheme, or the existence of liability entries in the own accounts of the scheme, or both? (DPP—22 to 24,41)(IR—43,44,78,91,94)

	Current SNA	Reviewed SNA
Existence of assets	☐	☐
Existence of a liability entries	☐	☐
Both simultaneously	☐	☐
Either assets **or** liability entries	☐	☐

If other criteria, please explain:

Q.A.2 The interpretation of "segregated" refers to: a legal, an administrative, or an accounting delineation. (DPP—33,34) *(multiple answers welcome)*

	Current SNA	Reviewed SNA
Legal	☐	☐
Administrative	☐	☐
Accounting	☐	☐

If other criteria, please explain:

Comments:

Q.B It is argued that the *1993 SNA* emphasizes the financial solidity of the potential claim by households regarding pension entitlements[9]**. (See SNA 4.98) (IR—45)**

Q.B.1 In particular, does SNA 4.98 imply that pension "funds" invested in the liabilities issued by the sponsor are unfunded or simply are not autonomous funds? (DPP—25 to 30)(IR—78,96)

☐ Unfunded ☐ Non-autonomous funds

Q.B.2 Schemes "invested" in non tradable/sellable instruments issued by the sponsor should be viewed identically as schemes that are unfunded. (DPP—28,29,30,36)

☐ *Agree* ☐ *Disagree*

Q.B.2 Should schemes for government employees be treated preferably the same or preferably differently than schemes for non-government employees, in the reviewed SNA?

☐ *Preferably the same* ☐ *Preferably Differently*

Comments:

[8] See Anne Harrison interview (section 3.1) (IR—78), Pitzer (IR—91), Eurostat (IR—94)

[9] See Anne Harrison interview section 3.2 (IR—78)

Defined-contribution versus defined-benefit schemes[10]

Q.C The *1993 SNA* distinguishes between defined-contribution (in fact, called in the *1993 SNA:* "money purchase") and defined-benefit schemes. *(IR—41)*

Q.C.1 This distinction is useful and the two categories constitute a partition of pension schemes

☐ Strongly support ☐ Somewhat support ☐ Do not support

Q.C.1.1. Should the reviewed SNA base this delineation on the award formula, or not? (DDP—35,42)

☐ *On an award formula* ☐ *Not on an award formula*

Q.C.2 Schemes where benefits (will) derive exclusively from contributions invested and managed by a money manager are clearly "defined-contribution", whereas schemes that promise to pay benefits as a % of past (last) salaries and depend on the number of years of service or other indicators are clearly "defined-benefits". <u>However:</u>

Q.C.2.1 Schemes where benefits will be paid only from contributions accumulated in individual accounts but invested in a fund invested in nonsellable liabilities issued by the employer(sponsor) would/should be viewed in the SNA as: (DPP—35,36,26,28)(IR—125)

	Current SNA	Reviewed SNA
Defined-contribution	☐	☐
Defined-benefit	☐	☐

If necessary, please indicate other considerations:

Q.C.2.2 Schemes where benefits will be paid from individual "notional" accounts and where the contributions' return is fixed in advance or, when variable, is determined via a formula that is not under the control of the sponsor/employer (such as indexed on GDP, on a price index, or on a government bond yield), would be: (DPP—35,40)(IR—125,120)

	Current SNA	Reviewed SNA
Defined-contribution	☐	☐
Defined-benefit	☐	☐

If necessary, please indicate other considerations:

<u>Comments:</u>

Q.D The *1993 SNA* indicates (para. 13.88) that contribution-defined are always funded[11].

Q.D.1 By reference to question Q.A.1 and Q.C.2 above, do you agree? (DPP—27,31)(IR-78)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

Q.D.1 Taking into accounts "notional contribution schemes", should a reviewed SNA allow for some defined contribution schemes to be able to be unfunded? (DPP—40,42)

☐ Strongly agree ☐ Somewhat agree ☐ Do not agree

<u>Comments:</u>

[10] See Anne Harrison interview section 2 (IR—78)

[11] SNA 13.88 in fact simply writes: "unfunded occupational pension schemes...are by definition defined benefit schemes".