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SNA updating process: treatment of employers and social security pension schemes

One of the important subjects that are being discussed by the ISWGNA (Intersecretariat Working Group on National Accounts) and its AEG (Advisory Expert Group) through the current SNA updating process concerns the treatment of employers and social security pension schemes.

The current position in the 1993 SNA and the 1995 ESA is the following:

- a distinction is made between social security schemes and employers' pension schemes, and among the latter between funded and unfunded schemes;
- social security schemes and unfunded employers' pension schemes are treated as pay-as-you-go (PAYG) systems. In this case, no liability from the scheme is recognised;
- for funded employers' pension schemes, the receipt of contributions is considered to be an incurrence of a liability, and the payment of retirement benefits is considered to be a reduction of the same liability.

The proposal made by the moderators of the Electronic Discussion Group put in place by the ISWGNA on this subject and discussed by a taskforce in Washington last September is to replace the current criterion "funded/unfunded" that allows to recognise or not a liability by the criterion "employers' schemes/social security". Liabilities of employers' schemes would be recognised (ie treated as saving schemes), even if these schemes were unfunded. This new treatment would concern all employers' schemes, either private or public.

INSEE's position is as follows: the taskforce proposal ought to be adopted for private employers' pension schemes. However, as far as unfunded employers' pension schemes managed by government units are concerned, the subject is much more problematic from a conceptual point of view. Due to specific difficulties, any implicit liabilities related to such schemes, inasmuch as they could be properly valued, should be recorded in a separate set of accounts, so as to avoid any temptation of aggregation with "real" public financial debt. The argument is the following.

Public and private employers cannot be considered in the same way as regards
pension schemes, because a government balance sheet showing a pension liability
would be incorrectly balanced, contrary to an enterprise account.

An enterprise can go bankrupt if tomorrow the products it sells does not interest consumers any longer. Therefore, if a private employer scheme is unfunded, there is no asset that can be used by the firm to fulfil its commitments.

The situation is very different in the case of public pension schemes - i.e. schemes organised by government units as employers - for two reasons. Firstly: the probability of central government bankruptcy is practically nil. Secondly and more importantly: if an implicit liability of central government towards households - because of the future pensions that are to be paid to civil servants - was explicitly recorded in national accounts, then one should also explicitly record the implicit asset that the same government holds on households and enterprises - because of the future taxes it will be allowed to levy. Otherwise, the government balance sheet would clearly appear unbalanced.

2. <u>Public and private employers cannot be considered in the same way as regards pension schemes, because general government, by law, can generally reform public pension schemes without their employees' consent.</u>

In the case of a private firm, putting in place an employer pension scheme should imply the recognition of a liability from the firm for the benefit of its employees, whether this liability is funded or not. Indeed, by doing so, a private firm not only commits itself to pay future pensions to its employees, but also commits itself to pay these pensions according to rules that are established through a contract agreed upon by both parties (employer and employee). In particular, the employer cannot modify this contract without the employee's agreement: if he does so, he may be successfully sued by the employee.

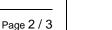
The situation is very different in the case of public pension schemes – at least for most of them. Indeed, a public employer, by law, can generally modify the rules according which pensions are determined without referring to its employees, and without this decision being likely sued with success. For example, this is what happened in Germany, when civil servants instituted a proceeding against the State, arguing the public pension reform that was put in place by Government could not change their pension rights: eventually, the German Constitutional Court had civil servants' suit dismissed. This is also what happened in France in August 2003, when the public employer scheme rules were substantially modified by the Parliament (loi Fillon), not only concerning future pension rights, but also, in retrospect, pension rights corresponding to past work of employees still at work.

Therefore, in such cases, the public employer's obligation to provide a pension to its employees should not be recorded as a liability in national accounts, for the value given to this liability would be meaningless.

3. The current Taskforce proposal, which would definitely separate social security schemes from public employers' pension schemes, does not take into account the reality of the economic situation in a large number of European countries.

Indeed, even if public pension schemes are employers' schemes, the spirit in which they were designed makes them far closer to social security schemes (ie PAYG systems) than to private pension schemes (ie capitalisation systems). Furthermore, they are considered as such by a very large majority of the population.

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This fact can easily be illustrated in the case of France:

- there are some mechanisms of financial compensation between the French social security schemes and public employers' schemes, that aim at compensating demographic imbalances between schemes;
- benefits paid by central government and benefits paid by social security to an employee who has a career both in public and private sectors are not actually independent from one another.

Those two elements clearly illustrate that social security and public employers' pension schemes are intrinsically linked in France and must therefore be considered in the same framework.

4. The public government pension liability that would be recorded if the taskforce proposal were to be adopted has nothing to do with knowing whether the pension system is balanced or not in the long term.

However, when it comes to analysing pension systems (whether they are social security schemes or public employer schemes), this question is far more sensitive and relevant both from an economic and from a political point of view. In this context, recording an implicit liability as it is currently considered could even be counter productive, for it could divert public debate from this relevant question.

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