10th Meeting of the Advisory Expert Group on National Accounts,
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Agenda item: 7.2

The accrual recording of property income in the case of liabilities between a pension manager and a defined benefit pension fund

<u>Introduction</u>

The 2008 SNA states that when a pension manager is responsible for meeting the liabilities of the fund in case of any shortfall, the shortfall should be recorded as a claim of the fund on the pension manager. As a consequence, the net worth of the pension fund should remain exactly zero at all times. Under the 2008 SNA, the unwinding of the discount factor on the pension entitlement is shown as property income flowing from the pension fund to households. If the pension fund is persistently underfunded the unwinding of the discount factor also applies to the claim of the fund on the pension manager, suggesting that a property income flow should be recorded from the pension manager to the pension fund reflecting the unwinding of the discount factor on any underfunding of the pension scheme. Whilst there is agreement on the recording of the accrued property income arising from the underfunding/overfunding between a pension manager and a defined benefit pension fund, there are two divergent views on the classification of the property income. These views will be presented under this agenda item.

At the recent Eurostat/ILO/IMF/OECD Workshop on Pensions participants raised a number of issues regarding the recording of flows related to claims of pension funds on pension managers. These issues include: (a) the treatment of the divergence between investment performance of the actual assets of the pension fund and the discount rate; (b) the treatment of holding gains and losses; (c) the treatment of asset value volatility; (d) the treatment of other economic flows affecting the value of the pension entitlements (e.g. demographic changes); and (e) why the claim of the pension fund on the pension manager should generate property income. Participants also proposed an alternative to the calculation of the accrual recording of the property income.

<u>Documentation</u>

Paper: The accrual recording of property income in the case of liabilities between a pension manager and a defined benefit pension fund

<u>Main issues to be discussed</u>

The AEG is requested to:

- Provide guidance on the issues presented in Section VI of the paper.

The accrual recording of property income in the case of liabilities between a pension manager and a defined benefit pension fund

I. Introduction

1. The 2008 SNA states that when a pension manager[1] is responsible for meeting the liabilities of a defined benefit pension fund in case of any shortfall, the shortfall should be recorded as a claim of the fund on the pension manager in the financial account. As a consequence, the net worth of the defined benefit pension fund should remain exactly zero at all times. Under the 2008 SNA, the unwinding of the discount factor on the pension entitlement is shown as property income flowing from the defined benefit pension fund to households. If the defined benefit pension fund is persistently under or over funded the investment income promised to pension beneficiaries would not be equal the actual property income earned by the defined benefit pension fund. To account for this difference an explicit accrued property income flow should be recorded between the pension manager to the pension fund reflecting the difference between the unwinding of the discount factor and the actual property income.

2. The shortfall of investment income that arises when the actual investment income of the pension fund is not equal to the imputed flow of investment income due to the unwinding of the discount factor is described in paragraph 17.169 of the 2008 SNA. However, the transactions related to the shortfall are not presented in the example shown in Table 17.8. The Handbook on Financial Production, Flows and Stocks in the System of National Accounts (Financial Handbook) explains the transactions between the pension manager and the pension fund in more detail[2].

3. The Financial Handbook (paragraph 3.392) states that the investment income payable on pension entitlements for defined benefit schemes is equal to the increase in benefits payable because the date when the entitlements become payable is closer.[3] This is actuarially determined, since the liability of a pension fund under a defined benefit scheme is actuarially calculated. The amount of the increase is not affected by whether the pension scheme has actually earned sufficient income from its assets to meet this obligation. Thus, the investment income payable on pension entitlements (i.e. contribution supplements) will need to include an imputed component in addition to an actual component.

4. The actual component represents the investment income receivable from the actual assets held by the pension funds. The imputed component represents the imputed property income payable by the pension fund manager on the difference between the pension fund's reserves and its actuarial liability. This imputed component is needed when the assets of the pension fund are less than its actuarial liability, resulting in an imputed claim of the pension fund on the pension fund manager. By including the imputed property income receivable from the pension fund manager, equality is maintained between the investment income payable by the pension fund on its pension entitlements and the investment income receivable by the pension fund. This will ensure that the net worth of the pension fund is zero.

5. The annex to this paper presents the full numerical example of the transactions associated with defined benefit pension schemes as described in the Financial Handbook in paragraphs 3.461 to 3.464.

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[1] The AEG, at its 9th meeting, concluded that the term "pension manager" should be reconsidered with the next update of the SNA for possible substitution with the term "pension sponsor".
[2] See: http://unstats.un.org/unsd/nationalaccount/docs/FinancialHB.pdf
[3] This is equivalent to the increase in pension entitlements due to past service increase as described in paragraph 3.440 of the Financial Handbook.

II. AEG discussion

6. The AEG, at its meeting of 8-10 September 2014, discussed and agreed with the explicit accrual recording of property income on the liabilities between a pension manager and a defined benefit pension fund. However, the AEG did not agree on the classification of the accrued property income flow between a pension manager and a defined benefit pension fund arising from the under or over funding of the pension fund.

7. On this issue there were two divergent views. Some AEG members considered the accrued property income to be classified as D41, Interest, while other members argued that this category of income was not explicitly mentioned in the SNA and that the coherence of the general framework points to classifying the accrued property income as D442, Investment income payable on pension entitlements.

III. The recording of flows related to claims between defined benefit pension funds and pension managers

8. The 2008 SNA, paragraph 17.165 explains how to calculate the size of the claim of the pension fund on the pension manager: "This claim is equal to the difference between the increase in pension entitlements and the sum of the contributions and contributions supplements in the period, plus the investment income earned on the entitlements, plus the holding gains made on them, less the pensions payable, less the fee charged by the pension administrator".

9. In the section on 'Other flows for a defined benefit pension scheme' the 2008 SNA states that holding gains usually contribute substantially to the funding of pension entitlements and many schemes are underfunded in the expectation that holding gains would make up this shortfall. The 2008 SNA concludes, in paragraph 17.179, that any contingency, which is the eventual claim of the pension fund on the pension manager, should be recorded as other change in volume. Only changes based on new price escalation factors should feed into revaluation account.

10. Setting aside costs for operating a defined benefit pension fund, during the first year of the pension fund the starting point for calculating the claims of the pension fund on the pension manager is the accrued pension entitlements earned during the period. These are themselves difficult to estimate and highly sensitive to assumptions such as the discount rate. The 2008 SNA (paragraph 17.153) states that accrued pension entitlements earned should be funded by a combination of actual and imputed social contributions paid by the employer (the pension manager) to the household (as part of compensation of employees) and then invested by the household into the pension fund. Actual social contributions are invested by the pension fund in a portfolio of assets (e.g. equities, debt securities, deposits, real estate). When the actual social contributions are not sufficient to meet the increase in the benefits accruing from the current year's employment an additional contribution from the employer is imputed to bring equality between the contributions and the increase in current service entitlements. These imputed contributions are usually positive, but it is possible for them to be negative if the sum of the contributions received exceeds the increase in current service entitlements. The imputed social contributions contribute also to the changes in the claims between the pension manager and the defined benefit pension fund.

11. In subsequent periods the changes in the claim on the pension manager are also subject to a number of factors including holding gains and losses, changes in assumptions, as well as insufficient employer actual contributions for current service. In any case where a pension fund is underfunded, i.e. the actual assets owned by the pension fund are less than the

pension entitlement liability, the components of the claim of the pension fund on the pension manager need to be explained.

12. At the recent Eurostat/ILO/IMF/OECD Workshop on Pensions participants raised a number of issues regarding the recording of flows related to claims of pension funds on pension managers. These issues include: (a) the treatment of the divergence between investment performance of the actual assets of the pension fund and the discount rate; (b) the treatment of holding gains and losses; (c) the treatment of asset value volatility; (d) the treatment of other economic flows affecting the value of the pension entitlements (e.g. demographic changes); and (e) why the claim of the pension fund on the pension manager should generate property income. Participants also proposed an alternative to the calculation of the accrual recording of the property income presented in the Financial Handbook.

13. Accounting standards on pension schemes typically record a number of items in revenue and expense that are not regarded as transactions but as other economic flows in national accounts (e.g., provisions, write offs). Moreover, benefit entitlements can change for many reasons other than current transactions (people live longer than projected, for example). Taking these into consideration it seems best to break down the changes in claims of pension funds on pension managers into its components to record the relevant current transactions, other changes and revaluations separately.

A. Divergences between investment performance of the actual assets of the pension fund and the discount rate

14. The divergence is related to the case where the pension fund is underfunded (i.e. there is a claim of the pension fund on the pension manager), but the investment income on the actual assets of the pension fund is more than the investment income derived from the unwinding of the discount factor. The converse can also hold in the case where the pension fund is overfunded, but the investment income on the actual assets of the pension fund is less than the investment income derived from the unwinding of the discount factor.

15. Taking into consideration that the net worth of the defined benefit pension fund should remain exactly zero and that eventual claims between the pension fund on the pension manager, should be recorded as other change in volume it is proposed to follow the same procedure as with calculating imputed pension contributions. To account for property income flows on the claims between the pension fund and the pension manager the actuarially determined investment income on pension entitlements is divided into two components: the actual investment income on pension entitlements; and an imputed investment income. Thus, when the actual investment income is more than the actuarially determined investment income the imputed investment income would be negative.

B. Holding gains and losses

16. As mentioned above many schemes are underfunded in the expectation that holding gains would make up any shortfall in pension entitlements. This raises the question of the treatment of holding gains and losses in the accrual recording of property income on the claim of the pension fund on the pension manager.

17. The 2008 SNA exclude holding gains and losses from the investment income of defined contribution pension schemes, but ignore them in the case of defined benefit schemes, as this investment income is actuarially determined. Following the SNA principle to exclude holding gains and losses in the measurement of income it seems logical to also exclude holding gains and losses from the actual property income earned by the defined benefit pension fund. All holding gains and losses are therefore recorded in the revaluation account.

C. Asset value volatility and other economic flows affecting the value of the pension entitlements

18. At first sight it would seem that there are no entries to be made in the other changes in assets accounts for a defined benefit pension scheme since the two components recorded as the pension contributions and investment income are matched exactly to the increase in entitlements. However, because the nature of a defined benefit pension scheme is that the amounts due are determined by a formula, there are other factors that may intervene to change the level of entitlements. These factors include a price escalation clause, changes in the formula used to determine benefits and demographic assumptions about life length. (2008 SNA paragraph 17.177).

19. For most pension funds, the value of assets owned by the fund could be volatile. This volatility is especially visible in periods of stock market turmoil. Stock market bubbles and the bursting of stock market or other asset value bubbles will feed through into potentially large changes in the size of the claim of the pension fund on the pension manager.

20. Changes to demographic assumptions will also change the value of pension entitlements via other economic flow which subsequently has an impact on the size of the claim of the pension fund on the pension manager. Once a scheme is underfunded, it is typical for firms to either make one off payments to the fund (as a form of recapitalization) or to raise contributions for existing employees – making good historic underfunding (whether deliberate or arising from poor asset performance, changed demographic assumptions etc).

21. The pension manager is by definition responsible for the shortfall between the pension entitlements and the actual assets of the defined benefit pension fund. This is also the case when there are large changes in the size of the claim. The investment income on pension entitlements is actuarially determined irrespective of the value of the actual assets. To be consistent with the accrual recording of the property income flow between the pension manager and the defined benefit pension fund it seems reasonable to expect that changes in the size of the imputed property income are related to the changes in the claim.

D. Should the claim of the pension fund on the pension manager generate property income?

22. The question: "should the claim of the pension fund on the pension manager generate property income?" arose from two aspects about the nature of property income. Firstly, not all financial assets generate property income (monetary gold, currency, some equity does not, though all other F.6 assets do generate property income). Pension funds often invest in nonfinancial assets that may also not generate property income. Given this, it would not be unusual for a pension fund to have another type of asset in its portfolio that does not generate a return through property income but instead could be revalued through other economic flows. Secondly, the terms governing the payment of investment income are usually specified in the financial instrument created when the funds are transferred from the creditor to the debtor. Such arrangements are typically made only for a limited period of time, after which the funds must be returned (2008 SNA paragraph 7.108).This is not the case for claims of pension funds on pension managers, which typically have no formal terms governing payment, and which exist over very long time horizons.

23. The 2008 SNA states in paragraph 7.144: "the source of the investment income payable may not be investment income itself, but for the SNA, the decisive criterion for recording this as investment income is that of the recipient who regards these payments as the rewards for putting financial assets at the disposal of the insurance corporation." Although this guidance relates to insurance, it would be reasonable to assume that it is also relevant to

pension schemes as paragraph 7148 states: "The investment income payable on defined contribution entitlements is equal to the investment income on the funds plus any net operating surplus earned by renting land or buildings owned by the fund". Therefore, the return on the claim between the pension fund and the pension manager could also be regarded as investment income. Until there is more clarity on the classification of the investment income the general concept of property income is used is used in this paper.

E. Alternative to the calculation of the accrual recording of the property income

24. The calculation of the return on the claim between the pension fund and the pension manager as a residual (i.e. the difference between the unwinding of the discount factor and the actual property income received on the accumulated assets as described in the annex to this paper) is slightly inconsistent with the definition of interest. Interest is typically a predefined, fixed or variable, percentage of the principal outstanding, and certainly not a residual amount based among others on the investment performance of the pension fund. Therefore, an alternative measurement of the return on the claim could be to assume that the return on the claim is simply equal to the discount rate. Such a measurement would be much more consistent with the definition of interest.

25. This approach to calculating the return on the claim between the pension fund and the pension manager was also proposed in the paper on this issue that was discussed at the previous AEG meeting[4]. As the investment income payable on pension entitlements for defined benefit schemes is actuarially determined it could be argued the residual estimate of the return on the claim between the pension fund and the pension manager is in principle also equal to the discount factor. However, the calculation of the return using the residual method has the advantage of being easier to calculate in cases where there is a divergence between investment performance of the actual assets of the pension fund and the discount rate.

IV. The classification of the accrued property income flows on the claims between a pension manager and a defined benefit pension fund

26. This section presents the views of the AEG on the classification of the accrued property income flow between a pension manager and a defined benefit pension fund arising from the under and over funding of the pension fund.

A. Investment income payable on pension entitlements

27. The members supporting the classification D442, Investment income payable on pension entitlements, noted that the SNA links assets with the type of income derived from that asset. Claims of the pension fund on the fund manager are related to asset type AF64, Claim of pension fund on pension managers, which is part of AF6, Insurance, pensions, and standardized guarantee schemes. The investment income categories related to asset type AF6 are shown in income category D44, Investment income disbursements, which has one subcategory for insurance (D441, Investment income attributable to insurance policy holders) and another for pension entitlements (D442, Investment income payable on pension entitlements). This type of income is excluded from the definition of interest, which is defined as the return on specified financial instruments that do not include AF6.

B. Interest

28. In the SNA asset type F63, Pension entitlements, are the claims of pension beneficiaries (households) accruing pensions. The related income, in the case of pensions, is defined as the investment income on the cumulated pension entitlements distributed to

[4] http://unstats.un.org/unsd/nationalaccount/aeg/2014/M9-24.pdf

households and classified as D442, Investment income payable on pension entitlements (SNA 17.130). These categories of asset and income have been created for the claims of households on pension funds and the flow from pension schemes to households because of the special characteristics of the position between the two parties.

29. The income on the liabilities between a pension manager and a defined benefit pension fund is, however, income on an accrued claim of a pension fund on a company or government entity. The claim could have arisen for a number of reasons. It does not arise as a result of a special relationship like that between households accruing pension entitlements and pension funds and does not have the characteristics of a claim by households accruing pension entitlements on a pension scheme.

30. The SNA does not define interest conceptually, but prescriptively in paragraph 7.113, as follows: “Interest is a form of income that is receivable by the owners of certain kinds of financial assets, namely: deposits, debt securities, loans and (possibly) other accounts receivable for putting the financial asset at the disposal of another institutional unit. Income on SDR holdings and allocations is also treated as interest. The financial assets giving rise to interest are all claims of creditors over debtors. Creditors lend funds to debtors that lead to the creation of one or other of the financial instruments listed above. The amount the debtor owes the creditor is known as the principal. Over time, the amount due to the creditor declines as the debt is repaid and increases as interest accrues. The balance at any time is referred to as the principal outstanding.”

31. The members supporting the classification interest noted that the claim under discussion is the claim of a creditor over a debtor that has accrued and the income accruing is compensation for the time value of money. Conceptually, property income on the liabilities between a pension manager and a defined benefit pension fund could therefore be regarded as interest.

V. Other issues

32. The discussion on the classification of the accrued property income flow between a pension manager and a defined benefit pension fund arising from the under and over funding of the pension fund identified some other related issues to be considered. These include:

- To separately identify the unwinding of the discount factor in defined benefit pension funds from investment income on defined contribution pension schemes because they are driven by quite different factors.
- To review the SNA definition of interest, taking into consideration a conceptual definition.
- To consider the need for a separate category of income related to the investment income on the cumulated pension entitlements distributed to households. For example, in the case of defined contribution pension schemes, the positions and flows related to the allocation of returns on technical reserves are similar to those of investment in a collective investment vehicle, so could be classified as dividends; while in the case of defined benefit schemes, the unwinding of the discount rate could be classified as interest.

VI. Issues for consideration

The AEG is requested to:

a) Express its views on the issues regarding the recording of flows related to claims of pension funds on pension manager and the proposed solutions to address them. These issues include:

(i) the treatment of the divergence between investment performance of the actual assets of the pension fund and the discount rate;
(ii) the treatment of holding gains and losses in the estimates if investment income;
(iii) the treatment of asset value volatility and the treatment of other economic flows affecting the value of the pension entitlements;
(iv) should the claim of the pension fund on the pension manager generate property income? ; and
(v) alternative proposal for calculating the accrual recording of the property income.

b) Decide on the classification of the accrued property income flow between a pension manager and a defined benefit pension fund arising from the difference between the unwinding of the discount factor and the actual property income.

c) Express its views on the issues listed under other issues for consideration, namely:

(i) Separately identify the unwinding of the discount factor in defined benefit funds from investment income on defined contribution pension funds
(ii) Consider a conceptual definition of interest
(iii) Reconsider the need for a separate category of income related to the investment income on the cumulated pension entitlements distributed to households

Annex: Numerical example of the transactions associated with defined benefit pension schemes

This annex presents the full numerical example of the transactions associated with defined benefit pension schemes as described in the Financial Handbook in paragraphs 3.461 to 3.464.

3.461. Table 3.111 shows the data on defined benefit pension funds. It is assumed that both employers and employees are contributing to the funds. The funds also report that actual property income earned on the funds they manage amounts to 2.2 units. For simplicity, it is assumed that this property income is payable by other resident sectors. In addition, actuarial calculations show that the increase in pension entitlements is 19.0 units, which comprise the current service increase (15.0 units) and investment income payable on pension entitlements (4.0 units). The investment income payable on pension entitlements represents the increase in pension entitlements coming from the past service increase due to the unwinding of the discount factor because retirement is one year nearer. Since the actual property income earned by the pension funds is less than the investment income payable on pension entitlements, there is a shortfall which will need to be covered by employers. The table also shows the operating costs associated with operating the defined benefit pension funds. It is assumed that the costs involved only include intermediate consumption of goods and services. It is also assumed that all the goods and services for intermediate consumption are purchased from other resident sectors.

Table 3.111

Data on defined benefit pension funds

Line	Item	Value	2008 SNA code
	From observed transactions		
(1)	Employers' actual pension contributions	10.0	D1211, D6111
(2)	Employees' actual pension contributions	1.5	D11, D6131
(3)	Property income	2.2	D4
(4)	Pension benefits	16.0	D62, D6221
(5)	Intermediate consumption of goods and services	0.6	P1, P2
	From actuarial estimates		
(6)	Increase in pension entitlements	19.0	
(6a)	Current service increase	15.0	
(6b)	Investment income payable on pension entitlements	4.0	D4, D442,

3.462. Table 3.112 shows how to derive the output of the pension funds, employers' imputed social contributions, imputed property income, and net social contributions. The output of the pension funds (0.6 units) is computed as the value of intermediate consumption of goods and services.

Employers' imputed social contributions (4.1 units) are computed as follows:

Increase in pension entitlements from current service (15.0 units)
minus employers' actual pension contributions (10.0 units)
minus households' (employees') actual pension contributions (1.5 units)
plus the service charge (output) of pension funds (0.6 units).

Imputed property income (1.8 units) is computed as follows:
Investment income payable on pension entitlements (4.0 units)
minus actual investment income (2.2 units).

Net social contributions payable to the pension funds (19.0 units) are obtained as follows:

Employers' actual pension contributions (10.0 units)
plus employers' imputed pension contributions (4.1 units)
plus households' (employees') actual pension contributions (1.5 units)
plus household pension contribution supplements (equivalent to investment income payable on pension supplements) (4.0 units)
less the service charge (output) of pension funds (0.6 units).

Table 3.112

Calculating output, employers' imputed social contributions, imputed property income, and net social contributions for defined benefit pension funds

Line	Item	Description	Value	2008 SNA code
(7)	Output of defined benefit pension funds	(5)	0.6	P1, P3
(8)	Employers' imputed pension contributions	(6a)–(1)–(2)+(7)	4.1	D1221, D6121
(9)	Imputed property income on employers	(6b)–(3)	1.8	D4
(10)	Net social contributions	(1)+(2)+(6b)+(8)–(7)	19.0	D61

3.463. Table 3.113 shows how to calculate the changes in financial assets arising from the transactions among the defined benefit pension funds and the other institutional units, as well as the means of payment for these transactions. In general, the changes in financial assets and liabilities are computed using the following principles: changes in currency and deposits are the result of the payments made by the institutional units and the receipts they receive. On the other hand, the defined benefit pension funds also incur an increase in liabilities of pension entitlements to beneficiaries. These changes in liabilities are recorded as the corresponding changes in the financial assets of households. Furthermore, since employers are responsible for any shortfall in the funds, the pension funds also have a claim on the employers (pension managers). As an example, the defined benefit pension funds have a net decrease in assets of currency and deposits of 2.9 units during the accounting period. This is the result of the following:

- An increase in assets of currency and deposits arising from employers' actual pension contributions (10.0 units) and employees' actual pension contributions (1.5 units) receivable; and actual investment income receivable from other resident sectors (2.2 units).
- A decrease in assets of currency and deposits arising from pension benefits payable (16.0 units); and purchases of goods and services for intermediate consumption from other sectors (0.6 units).

These funds also have a net increase in liabilities of pension entitlements of 3.0 units. Furthermore, they have a claim on employers (pension managers) of 5.9 units, which comprise the claim from the current service increase (4.1 units) and the claim from past service increase (1.8 units).

Table 3.113

Calculation of changes in financial assets and liabilities related to transactions among defined benefit pension funds and other institutional units

Line	Item	Description	Value	2008 SNA
Changes in financial assets (currency and deposits)				
(11)	Employers	-(1)–(2)	-11.5	F2
(12)	Defined benefit pension funds	(1)+(2)+(3)–(4)–(5)	-2.9	F2
(13)	Households	(4)	16.0	F2
(14)	Other sectors	(5)–(3)	-1.6	F2
Changes in financial assets (pension entitlements)				
(15)	Households	(6)–(4)	3.0	D8, F63
	Changes in liabilities (pension entitlements)			
(16)	Defined benefit pension funds	(6)–(4)	3.0	D8, F63
Changes in financial assets (claim of the pension fund on pension managers)				
(17)	Defined benefit pension funds	(8)+(9)	5.9	F64
(17a)	From current service	(8)	4.1	
(17b)	From past service increase	(9)	1.8	
Changes in liabilities (claim of the pension fund on pension managers)				
(18)	Employers	(8)+(9)	5.9	F64
(18a)	From current service	(8)	4.1	
(18b)	From past service increase	(9)	1.8	

3.464. Table 3.114 uses the information in the tables above to record the various transactions. To simplify the presentation and analysis, transactions which are not related to the worked example are ignored. To ensure clarity, the transactions of employers and the defined contribution pension funds are shown separately rather than combined with those of the institutional sectors to which they belong. Figures which are imputed are in bold, while those which result from re-routing are in italics. The transactions are described as follows:

(a) The output of the defined benefit pension funds is 0.6 units. This output is recorded in the production account of the funds. The intermediate consumption of goods and services of the funds (0.6 units) is also recorded in their production account. The same amount is also recorded in the output of the other sectors, since it is assumed that these goods and services are purchased from resident producers;

(b) Employers' actual (10.0 units) and imputed pension contributions (4.1 units) are treated as part of the compensation of employees and are recorded as payable by employers in the generation of income account. Employees' actual pension contributions (1.5 units) are treated as part of wages and salaries (and, by extension, compensation of employees) and are recorded as payable by employers in the same account;

(c) The entries in the generation of income account are recorded as receivable by households in the allocation of primary income account. The actuarial investment income earned on the cumulated pension entitlements (4.0 units) is also recorded as payable by the funds and receivable by households in the allocation of primary income account. The actual investment income earned by the funds (2.2 units) is also recorded as property income receivable by the funds and payable by other sectors in the allocation of primary income account. The shortfall of 1.8 units (i.e. the difference between actuarial investment income on pension entitlements and actual property income) is recorded as imputed property income payable by employers and receivable by the funds in the same account;

(d) Net social contributions (19.0 units) are recorded in the secondary distribution of income account as payable by households and receivable by the pension funds. Net social contributions payable by households include employers' actual pension contributions (10.0 units) and employers' imputed social contributions (4.1 units), since all social insurance contributions are to be recorded as being paid by households to social insurance schemes. The pension benefits paid by the pension funds (16.0 units) are recorded as other social pension benefits payable by the pension funds and receivable by households in this account;

(e) The output of the defined benefit pension funds (0.6 units) is recorded as the final consumption expenditure of households in the use of disposable income account. This account also records an adjustment for the change in pension entitlements (3.0 units) in order to ensure that gross saving is invariant to the dual treatment of pensions as current transfers and pension entitlements as financial assets;

(f) Since there are no capital account transactions, net lending/net borrowing in the capital account is the same as gross saving in the use of disposable income account;

(g) The financial account records the changes in currency and deposits and the changes in pension entitlements of the various sectors. As employers undertake to be responsible for any underfunding of the pension funds, the financial account also records the amount of underfunding of the pension funds (5.9 units) as a claim by the pension funds on the employers. This claim comprises the claim from the current service increase (4.1 units) and the claim from the past service increase (1.8 units). Since the entries in the financial account are the counterparts to entries in the other accounts or only reflect the exchange of financial assets and liabilities, net lending/net borrowing is identical to net lending/net borrowing in the capital account, although, in practice, differences in data sources and the timing of the recording of transactions may result in a discrepancy between the estimates of net lending/net borrowing in these two accounts.

Table 3.114: Recording transactions related to definedbenefit pension funds

Uses | **Resources**

Employers	Defined benefit pension funds	Households	Other sectors	Total economy	Goods and services	Total	2008 SNA code	Transactions and balancing items	Employers	Defined benefit pension funds	Households	Other sectors	Total economy	Goods and services	Total
Production account															
					1.2	1.2	P1	Output		0.6		0.6	1.2		1.2
	0.6			0.6		0.6	P2	Intermediate consumption							
	0.0		0.6	0.6		0.6	B1g	Value added, gross/Gross domestic product							
Generation of income account															
15.6				15.6		15.6	D1	Compensation of employees							
1.5				1.5		1.5	D11	Wages and salaries							
10.0				10.0		10.0	D1211	Employers' actual pension contributions							
4.1				4.1		4.1	D1221	Employers' imputed pension contributions							
-15.6	0.0		0.6	-15.0		-15.0	B2g	Operating surplus, gross							
Allocation of primary income account															
							D1	Compensation of employees			15.6		15.6		15.6
							D11	Wages and salaries			1.5		1.5		1.5
							D1211	Employers' actual pension contributions			10.0		10.0		10.0
							D1221	Employers' imputed pension contributions			4.1		4.1		4.1
1.8			2.2	4.0		4.0	D4	Property income		4.0			4.0		4.0
	4.0			4.0		4.0	D442	Investment income payable on pension entitlements			4.0		4.0		4.0
-17.4	0.0	19.6	-1.6	0.6		0.6	B5g	Balance of primary income, gross/National income,							
Secondary distribution of income account															
		19.0		19.0		19.0	D61	Net social contributions		19.0			19.0		19.0
		10.0		10.0		10.0	D6111	Employers' actual pension contributions		10.0			10.0		10.0
		4.1		4.1		4.1	D6121	Employers' imputed pension contributions		4.1			4.1		4.1
		1.5		1.5		1.5	D6131	Households' actual pension contributions		1.5			1.5		1.5
		4.0		4.0		4.0	D6141	Household pension contribution supplements		4.0			4.0		4.0
		-0.6		-0.6		-0.6		Pension scheme service charges(-)		-0.6			-0.6		-0.6
	16.0			16.0		16.0	D62	Social benefits other than social transfers in kind			16.0		16.0		16.0
	16.0			16.0		16.0	D6221	Other social insurance pension benefits			16.0		16.0		16.0
-17.4	3.0	16.6	-1.6	0.6		0.6	B6g	Disposable income, gross							
Use of disposable income account															
		0.6		0.6		0.6	P3	Final consumption (service charge)						0.6	0.6
	3.0			3.0		3.0	D8	Adjustment for change in pension entitlements			3.0		3.0		3.0
-17.4	0.0	19.0	-1.6	0.0		0.0	B8g	Saving, gross							

Changes in assets | **Changes in liabilities**

Employers	Defined benefit pension funds	Households	Other sectors	Total economy	Goods and services	Total	2008 SNA code	Transactions and balancing items	Employers	Defined benefit pension funds	Households	Other sectors	Total economy	Goods and services	Total
Capital account															
-17.4	0.0	19.0	-1.6	0.0		0.0	B9	Net lending (+)/net borrowing (-)							
Financial account															
							B9	Net lending (+)/net borrowing (-)	-17.4	0.0	19.0	-1.6	0.0		0.0
-11.5	-2.9	16.0	-1.6	0.0		0.0	F2	Currency and deposits							
		3.0		3.0		3.0	F63	Pension entitlements		3.0			3.0		3.0
	5.9			5.9		5.9	F64	Claim of the pension fund on pension managers	5.9				5.9		5.9
	4.1			*4.1*		*4.1*		*From current service*	*4.1*				*4.1*		*4.1*
	1.8			*1.8*		*1.8*		*From past service increase*	*1.8*				*1.8*		*1.8*