SNA/M1.07/11.3

Fifth Meeting of the Advisory Expert Group on National Accounts
19 – 23 March 2007, New York

Draft Chapters of the 1993 System of National Accounts Revision 1

Comments by OECD on Draft Chapter 17: Crosscutting and Special Issues

Prepared by OECD

March 2007 AEG

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These comments arrive in a special format because of the late dispatch of Chapter 17. Because of the novelty of the subject, the main substantive comments to put forward to the AEG are focused on **Part 3 on pension schemes**.

The author of this note commends the editor for this first draft on a difficult issue. A separate file contains other comments and will be available on the web site of the UNSD.

Question 1: type of pensions.

The current drafting of the first section 17.91 to 17.96, essentially describes two pension systems: the "universal pension" and "employment-related pensions". Later, in paragraph 17.96, mention is made of social assistance pensions. The term "universal pension", while interesting, may confuse readers, because they may understand that social assistance pension is included in this category. It would be therefore better that the text presents three (and not two) types of pension schemes: 1/ social security pension schemes 2/ other employment related pension schemes 3/ social assistance pension schemes.

This presentation is important because there will be, in the SNA, three different "treatments" of pension schemes with each of these three categories: (1) for the social security pension scheme no pension liability is shown in the core accounts[1], but one is shown in the supplementary table on pensions; (2) for the other employment related pension schemes, a liability is systematically shown in the core accounts (except, optionally, for government schemes) and, (3) for social assistance schemes no liability is shown neither in the core accounts nor in the supplementary table.

Question 1: Does the AEG agree that these three categories should be clearly presented in the chapter?

Question 2: incorporation of supplementary table.

This first version of Chapter 17 does not mention the existence of the supplementary table, which will be essential for future international comparability. The principles governing the recording of pension schemes should be described immediately after section A. These principles are (1) all non government sponsored social insurance pension schemes are recorded in the SNA as having pension liabilities, (2) government sponsored social insurance pension schemes may, optionally, not be recorded as having pension liabilities, based on criteria that should be explained, (3) however, the supplementary table on pension schemes will show all the liabilities of social insurance pension schemes including those not recorded in the core accounts. Social assistance pension schemes are never recorded as having pension liabilities. The supplementary table should of course be included in the Chapter in an appropriate location.

[1] Social security units should not be confused with social security schemes. Some social security units may organise, in addition to their principal social security scheme, other social security schemes which are in fact defined contribution schemes or funded defined benefit schemes, for which the SNA will record a liability. See question 4.

Question 2: Does the AEG agree that the principles governing the supplementary table should be introduced in a prominent position in the chapter?

Question 3: transfer of pension entitlements**.**

This refers to section C.4, paragraphs 17.145 and 17.146. These paragraphs describe transfers of pension entitlements between pension funds but do not deal with transfers between pension schemes when these schemes may be recorded as not having pension liabilities. A typical case would be the transfer of a pension entitlement between an employer pension fund and a government sponsored scheme for which the option has been taken to not record a liability.

The Frankfurt 2006 AEG agreed that, "*when the obligation to pay pensions passes from one unit to another, this should be recorded as a transaction in pension liabilities even if neither unit has previously recorded them*." This decision originates from the fact that when there is openly such a deal between two units, it is an implicit recognition of the strength of the pension obligation. This recommendation is also included in paragraphs 199 to 201 of the future Chapter 21 on the general government and public sector accounts (see annex 1).

Question 3: Does the AEG recommend that this principle is included in Chapter 17 or, a reference is made in Chapter 17 to relevant paragraphs of the future Chapter 21?

Question 4: sub-social security pension schemes.

The 2006 Frankfurt AEG meeting decided also that, while no pension liability is recorded in the core accounts for social security pension schemes, this did not apply to all pension arrangements of social security units. Indeed, a social security unit may have several pension schemes, of which some are defined contribution schemes or funded defined benefit schemes. In this case, the AEG confirmed that the correct treatment was to consider separately these schemes, and apply the principles scheme by scheme. The wording of the AEG decision was: "A liability should be recorded for schemes where the benefits are related to the contributions even though the schemes may be described as social security schemes." Paragraph 198 of the future Chapter 21 covers this principle (see annex 1).

Question 4: Does the AEG agree that the principle of recording pension liabilities for schemes where the benefits are related to contributions even though the schemes maybe described as social security schemes should be referenced in Chapter 17?

Question 5: the relationship between the sponsor and a DB (defined benefit) pension scheme

Paragraph 17.133 describes the possibility of a liability of the sponsor/employer towards an underfunded DB scheme. The paragraph does not describe the necessary imputed property income flow that should be recorded from the sponsor to the scheme. This imputed property income flow is equal to the "past service increase" *minus* any property income received by the pension scheme on its assets. The paragraph does not discuss the classification of this asset/liability. One suggested possibility is a sub category of F6 insurance technical reserves.

Question 5: Does the AEG agree to classify the imputed property income between the sponsor/employer and the DB scheme in case of underfunding as a sub-category of F6?

Annex 1

Chapter 21: General government and public sector accounts.

Extracts of section on pensions

198. Social security schemes are generally unfunded. Some, however, are funded. In general these amounts are “buffer funds”, allocated to the scheme to smooth its cash flow management. These financial assets are not considered in the System as the property of the beneficiaries, and the contributions to and payments of benefits by these schemes should be treated as current transfer schemes. However, there may be also mixed schemes, where part of what is labelled as a social security scheme functions in fact as a funded pension scheme. In this case, it is recommended to separate this part from the rest, and either classify it as a pension fund, outside the general government sector or classify it as a government unit but treating the scheme as a saving scheme.

199. On occasion, large one-off transactions may occur between a government and another unit, usually a public corporation, linked to pension reforms or to privatizations of public corporations. The goal sometimes can be to make a public corporation competitive, and financially more attractive, by eliminating existing pension obligations. This goal is achieved by the government assuming the liability in question in exchange for a cash payment with the same value, that are both financial transactions. In case the cash payment do not have the same value as the liability incurred, a capital transfer is recorded for the difference.

200. As an equal exchange of cash for the incurrence of a liability, the transaction should not affect the net worth or any other balancing item of the either unit. In some cases, however, the pension liability may not be on the balance sheet of one—or both—of the units. For example, when transferred to the government, the pension obligations may be merged with a social security scheme for which no liability is recognized.

201. In this case, a pension scheme controlled by the government should be created in the national accounts. The rationale is that the pension obligation becomes a full liability because its value has been determined by a transaction. This recognition is similar to recognising goodwill as an asset because a transaction occurs where by the goodwill that was known to exist can now be valued. Other accounting treatments than creating a pension scheme are possible as long as they have the same absence of impact on the net lending/net borrowing.