The treatment of employer pension schemes and other defined benefit pension schemes (issue 2)

We have the following comments, which we have classified according to the papers which were presented at the AEG session.

Paper SNA/M1.06/03.1

Four questions were put to the AEG:

Question a: Should liabilities/assets and associated economic flows of all pension schemes be recognised in the core accounts of 1993 SNA?

We **support** the outcomes of the discussions of the AEG with the following comments:

- We believe that it is necessary to record in separate categories of the core accounts the transactions and liabilities of unfunded employer pension schemes, in order to distinguish between actual cash flows and imputations.
- We strongly support the employer/employee relationship as a criterion to distinguish between social security schemes and unfunded employer pensions scheme managed by government.

Question b: Should accumulated benefits and related economic flows for all definited benet schemes be calculated using actuarial methods?

We **agree** with the conclusion of the AEG discussion. Nevertheless we believe that the level of funding is relevant when estimating the service charge of defined benefit schemes (see comments below related to the use of expected holding gains).

Question c: Should output be calculated on a cost basis for non-autonomous schemes, and cost attributed to the beneficiaries?

We **support** that the cost of managing pension schemes by the general government should be classified as an individual consumption (P.31) and therefore be recorded as a household actual final consumption (P.4).

We nevertheless have **reservations** regarding the proposed solution concerning the estimation of an output for non-autonomous pension funds managed by employers other than general government for three reasons:

1. What costs should be imputed to meet the non-autonomous pension scheme output adjustments, and what key should be used to share them between the main and the secondary production?
2. The costs generated for the management of such a scheme are probably covered by both property incomes and turnover of the employer. Therefore the non-autonomous pension scheme output is already implicitly financed by other institutional sectors. If this output has to be consumed by households, it is necessary to adjust partly the intermediate consumption of the others sectors or to suppose that those costs are exclusively covered by property incomes.
3. In order to offset the service charge of non-autonomous schemes imputed to the households it is foreseen to account an imputed property income attributed to policy holders (D.44). Such a solution implies to change the definition of D.44 in

the SNA. We believe that it would be better to use another flow, perhaps a new one.

Question d: Can expected holding gains and losses (HG/L) be used to explain the service charge of autonomous pension schemes

The AEG accepted this recommendation conditionally on the results of other discussion associated with holdings gains and losses. A pension funds can be under- or over-funded only if we consider the actuarial pension liabilities, which is the case of defined benefit pension schemes. The difference between actual and expected holding gains and losses is important for such schemes regardless of their funding status and for the national accounts it could lead to volatile output measures.

We believe that the problem of volatile output could be solved by focusing on the treatment of under/over-funding in the national accounts rather than on the use of expected HG/L. Deficit or excess of funding can be interpreted as the difference between actuarial calculations and actual cash flows. The use of expected flows is therefore no more necessary if the change in the funding status would be taken into account in the service charge algorithm, as follows:

Actual premiums earned	
Plus	Premium supplements
Minus	Benefits due
Minus	Change in insurance technical reserves due to transaction (actuarial change without holdings gains)
Plus	**Increase (*minus* decrease) of the deficit of funding**
Minus	**Increase (*plus* decrease) of the funding surplus**

The problem of holding gains and losses entering in the operating procedure of autonomous pension funds when setting their premiums was already solved by the current SNA. In fact, it clearly states that the output of pension funds must exclude them (SNA 93, Annex IV, §19) and that the item “increases/decrease in pension reserves” used in the service charge algorithm should be adjusted to exclude holding gains and losses (SNA 93 §6.138). The output of these schemes would therefore be smoothed by using adjusted change in technical provision in the service charge algorithm.

To sum up the service charge algorithm for defined benefit pension schemes should be the following:

Actual premiums earned	
Plus	Premium supplements
Minus	Benefits due
Minus	Change in actuarial insurance technical reserve
Plus	**Actual holding gains and losses**
Minus	**Increase (*plus* decrease) of the funding surplus**
Plus	**Increase (*minus* decrease) of the funding deficit**

Paper SNA/M1.06/03.2

We have the following comments regarding:

1. Exchanges of explicit pension obligations between schemes

We broadly agree with the AEG outcome to consider those exchanges as pure financial operations which leaves the net worth of all transactors unchanged.

2. Borderline between employer schemes and social security

Further investigations are definitely needed to identify criteria to distinguish between employer schemes and social security in the general government sector.

We believe that the employer/employee relationship should be the main criterion for identifying employer schemes. If a pension scheme covers only civil servants, it should be classified as an employer scheme, if it covers all the employees of a country, then it should be classified as a social security scheme, because there's no direct link between the government which manages the scheme and the covered employees. If the general government manages a scheme for all the employees but civil servants are treated in a different way, then this scheme should be spread into an employer scheme and a social security one.

The criterion funded/unfunded should be taken into account only for employer schemes together with the autonomous/non autonomous one, in order to classify them into the different institutional sectors, as already recommend by the actual SNA.