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11th Meeting of the Advisory Expert Group on National Accounts,
5-7 December 2017, New York, USA

Agenda item: 2.1

Outcome of AEG consultation on the treatment of the recording of flows between a defined pension benefit fund and its sponsor

2.1.1 Summary of outcome of AEG consultation on the treatment of the recording of flows between a defined pension benefit fund and its sponsor

Below is a summary of the response to the consultation among members of the Advisory Expert Group on National Accounts (AEG) on the issue of the Treatment of Recording of flows between pension fund and sponsor. The consultation paper was posted on 16 February 2017 and the deadline for comments was 17 April 2017. 9 AEG members provided comments (the summary is based on these comments) and 7 responded with no comments.
The consultation set out a series of options for a way forward and asked AEG members to express their preferences. The options and results are as follows:

1. Which of the two options is to be preferred to calculate the imputed property income flow between a pension fund and a sponsor?
   a) Equal to the shortfall (or excess) in property income
   b) On the basis of the existing claim between the fund and the sponsor

On this question there was a slight preference for option (a), although one member thought that neither option was satisfactory and instead proposed a hybrid option (set out in the AEG comments below).

2. How should the property income flow be classified?
   a) Investment income disbursement
   If so, what would be an appropriate term for this specific imputed flow?
   b) Interest
   If so, what would be an appropriate term for this specific imputed flow?

On this question there was a preference for option (a).

3. Which of the two options is to be preferred to classify the impact of other changes on the claim between a pension fund and a sponsor?
   a) In the revaluation account
   b) In the other changes in the volume of assets account

On this question there was a preference for option (b).

Below is a summary of the reasoning behind the preferences for each question:
Question 1
Which of the two options is to be preferred to calculate the imputed property income flow between a pension fund and a sponsor?

a) Equal to the shortfall (or excess) in property income
b) On the basis of the existing claim between the fund and the sponsor

In general option (a) was preferred. It was seen as:

- being comparable with the sponsor recording a non-autonomous pension scheme on its balance sheet, this increasing comparability between countries
- ensuring defined benefits pension funds (PFs) with sponsor have no net income and saving
- being in line with the nature of the relationship between sponsor and PF in that sponsor accounts for any shortfalls or surpluses of the fund
- resulting in the pension fund with zero net worth but also zero saving and zero balance of primary income
- being aligned with the overall residual approach for the claim/ liability on the sponsor.

However, there was some support for option (b), as savings other than zero were not seen as a great concern, and on the contrary it was seen as meaningful that savings may indicate possible discrepancies between imputed property income on pension entitlements and property income on assets accumulated in the fund. Also, it was thought that option (b) would be less volatile than option (a), given that pension fund and the sponsor are separate units and from an economic point of view it seems not necessary to allocate the difference between actual and imputed interest. One member thought that option (b) leads to analytically more meaningful results for primary income, savings and net lending/borrowing for both the employer and the pension fund.

One member felt that neither option was completely satisfactory and instead set out a hybrid option (the full details of which are available in the AEG comments below). The proposed hybrid option is equal to option 1 presented in the paper (i.e. calculating the imputed property income flow equal to the shortfall (or excess) in property income), but breaking down this imputed flow into a part that relates to the claim at the start of the reporting period (i.e. equal to the property income flow under option 2 in the paper) and the part that is 'added' in the current recording period (i.e. the residual). For that purpose three lines of detail are added to the allocation of primary income account to distinguish the three types of property income that flow through the pension fund: 1) actual property income, 2) imputed interest on claim on sponsors, and 3) imputed investment income.

Question 2

How should the property income flow be classified?

a) Investment income disbursement
   If so, what would be an appropriate term for this specific imputed flow?

b) Interest
   If so, what would be an appropriate term for this specific imputed flow?

Option (a) was preferred, as it was seen as being in line with option (a) for Question 1 and correctly indicates that this income depends on the return on investments. It also means that the accounts will indicate that this income flow is pension funding related. In addition, the term 'interest' should be reserved for income from the commonly known interest-bearing instruments.
Appropriate terms suggested were:

- 'Imputed investment income attributed to shortfall in defined benefit pension schemes'
- 'Imputed income between sponsor and pension fund for defined benefit scheme'
- 'Investment income payable on claim of pension funds on pension sponsors'
- 'Investment income payable on pension entitlements'.

However, one member proposed that three property income flows should be separately recorded and classified. Property income earned on actual assets held by the fund should be classified as interest, dividends, or rents. Property income earned on the claim of the pension fund on the sponsor should be classified as interest and could be called 'imputed interest on claim on sponsors'. Property income earned on the balance between benefits accrued on past service and actual property income and imputed interest on claim on sponsors should be classified as investment income disbursements and could be called 'imputed investment income'.

Question 3

Which of the two options is to be preferred to classify the impact of other changes on the claim between a pension fund and a sponsor?

a) In the revaluation account
b) In the other changes in the volume of assets account

Option (b) was preferred. Reasons for this preference included:

- the claim should be regarded as a residual item and as per the SNA should therefore be recorded in the 'other changes' account, with the effect of balancing the assets and liabilities via the other changes account
- classifying changes such as changes in life expectancy, differences between assumed and actual retirement dates, etc. affecting the claim of the pension funds towards the sponsor as other changes in the volume of assets is in line with members' understanding of the relationship between the sponsor and the fund
- it maintains symmetry with the recording of the other changes in pension entitlements.

There were some reservations. These included the concern that if the flow is measured as a residual, it may not be compatible with the general measurement of employer imputed social contributions as a balancing item as it would lead to two unknowns. For private schemes this could be addressed by attempting to measure imputed employer contributions by calculating the service cost/increase in entitlements for a year. One preferred applying the same principle to the claim on the sponsor and the underlying pension estimates, consequently matching revaluations of assets with the revaluation of liabilities (and therewith also challenging the validity of paragraph 17.179 of the 2008 SNA).