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Central Bank of Chile
Vittorio Corbo
President

No. 25717

Ref.: Your letter of November 14, 2006

Subject: System of National Accounts

Santiago, December 22, 2006

Mr. Robert W. Edwards
Director
Statistics Department
International Monetary Fund

Dear Sir:

As requested in your letter of November 14, 2006, please find attached our comments on the consultation process for the updating of the System of National Accounts 1993. They address the issue of statistical measurement of the assets and liabilities of the central government's pension plans.

These comments were also sent to Mr. Herman Smith of the United Nations Statistics Division.

Yours truly

/s/
VITTORIO CORBO
President

RVP/FRA

Distribute to:
Department of National Accounts

CENTRAL BANK OF CHILE
OFFICE OF THE GENERAL MANAGER
Data Management and Statistical Research
Department of National Accounts

Statistical Measurement of Assets and Liabilities in Central Government Pension Schemes Revision of the 1993 SNA

Comments on the proposal from the Eurostat-European Central Bank Task Force

Regarding the proposal to separate liabilities arising from pension entitlements that the government would have in its capacity of employer from those liabilities arising from its social insurance function, our situation in Chile is different from the one under discussion, in that under the prevailing system, whether for those affiliated with the pension fund systems or with the old pay-as-you-go system, there is no contribution from the employer. There are therefore no liabilities on the employer's side for the social security schemes and individually funded accounts schemes. This is so because in the pension fund system, the assets are those of the employees and the liability is borne by the Pension Fund, which is privately managed; also there is no accumulation of reserves in the pay-as-you-go system, because current pensions are financed in part by contributions for the period. Given that in the case of Chile the old system is unbalanced, because the number of assets is lower than that of liabilities, payments are financed from the fiscal budget.

Under the old system, the government is responsible for the paying out of pensions, for which there are no collateral reserves. Nevertheless, the obligation to beneficiaries is maintained. The flow generated by the pensions is treated as a current expenditure of the government in the government budget. In this case, estimating a liability would mean switching the character of the former social security system, which is considered a pay-as-you-go system, to that of an individually funded system that generates liabilities.

As an employer, the government does not have a private pension scheme arrangement with its employees and therefore no liabilities at stake.

The treatment of the liabilities of the government in its capacity of employer, separate and apart from those arising from its social security function, is in our view appropriate if it is conceptually linked to the prevailing social security scheme and if the amounts involved are significant; otherwise, we believe it is preferable to avoid recording liabilities that are difficult to calculate, as is the case with the pay-as-you-go schemes in which the treatment applicable pursuant to the SNA recommendations would be exchanged for treatment in keeping with an individually funded system with employer contributions.

Furthermore, there is a tacit agreement to finance the pensions in the old social security system, which represents a future capital expenditure for the government. For this reason, one option would be, for purposes of analysis, comparison, and projections, to ensure that social security measurements could give rise to satellite social security accounts, thus making it possible to arrive at estimates or imputations using all the elements that enable a comprehensive approach to the issue of social security, without any need to change the market valuation rules, and minimization of the imputations in the 1993 SNA.