

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

The most difficult discussion of the recent AEG meeting in Frankfurt centred around the question whether obligations of unfunded employer pension schemes should be recorded in the core accounts of the new SNA (as recommended by the IMF Task Force on pensions) or in supplementary tables (as proposed in the Eurostat/ECB paper on *Unfunded employer and social security pension schemes* presented to the CMFB last year and distributed to the AEG as a background paper).

There was strong support within the AEG for the IMF Task Force recommendation to recognise the obligations of all employer pension schemes independently of their funding. Nevertheless, the issues raised by many European countries were taken into consideration, especially the difficulties in drawing the line between unfunded pension schemes for government employees and social security schemes. Therefore, the AEG felt it necessary that the ISWGNA should develop criteria that would distinguish between the different types of schemes. Until such criteria are developed, countries will not include the obligations for pensions of government employees in the core accounts but include them together with the obligations for social security schemes in supplementary accounts as recommended in the CMFB paper.

The UN Statistical Commission Report on the thirty-seventh session (7-10 March 2006) refers also to this issue (<http://unstats.un.org/unsd/statcom/doc06/Report-English.pdf>). It states that the Statistical Commission "took note of the concerns on the treatment of unfunded government pension schemes and the need for continuing consultations on the recommendation of the Advisory Group on National Accounts on that issue, and expressed its positive outlook on a timely resolution within the existing governance structure of the Working Group."

The issue was also discussed at the third meeting of the OECD Statistics Committee in Paris (12-13 June 2006), where a distance emerged on this point between non-Europeans and Europeans. The Committee recommended seeking a solution which recognises the existence of institutional differences and uses supplementary accounts to deal with such differences. The Committee welcomed the forthcoming Task Force created by Eurostat and the ECB, with the participation of the OECD and other ISWGNA members, to address measurement and conceptual issues. The Committee recommended that the Task Force shall conclude its work by the end of the year. The OECD should inform the Committee about the conclusions of the Task Force via written procedure.

In the meantime, further discussions have been taken place on this subject with the aim to make progress and to formulate principles on how to conceptually treat employer pension schemes in the updated SNA. The following principles may guide the future work on this subject:

- (i) All employer pension-related flows and stocks, including pension entitlements, provided by private schemes are recorded in the *core accounts*, even if they are unfunded. In this context a private scheme is any for which the government is not directly responsible. (As noted in (vi), even schemes for which government is responsible are included if they are mainly funded.)
- (ii) The updated SNA will include a *supplementary table* on pensions which will become a *standard requirement in the updated SNA*. In this table, all flows and stocks of all pension schemes (autonomous pension funds, segregated non autonomous employer schemes, pension part of social security, etc.) will be shown. This table will thus include details of pension flows and stocks that are recorded in the core accounts *plus* those that are not included in the core accounts also giving a complete view of households' pension "assets".
- (iii) It is suggested that this *supplementary table* would be compulsory for European Union member states through ESA regulation.

Concerning government sponsored systems:

- (iv) Pension entitlements of unfunded, pay-as-you-go government sponsored systems which provide the basic social safety net type of provision, sometimes referred to as pillar one type provision will be recorded in the *supplementary table* (but not in the core account).
- (v) The recommendation of the new SNA regarding the recording of unfunded pension schemes sponsored by *government for all employees (whether private sector employees or government's own employees)* will be flexible. Given the different institutional arrangements in countries, the updated SNA will permit recording only some of these pension entitlements in the *core accounts*. However, it will be a requirement that a set of criteria be provided to explain the distinction between those schemes carried forward to the *core accounts*, possibly where the pension promise is of sufficient strength, and those recorded only in the *supplementary table*. Providing a single set of internationally recognized criteria for this distinction should be on the long-term SNA research agenda.
- (vi) Pension entitlements of funded systems sponsored by the government will be recorded in the *core accounts*.