

26/2004 - 25 February 2004

New decision of Eurostat on deficit and debt

Payments to government by corporations in the context of the transfer to government of their pension obligations

Eurostat, the Statistical Office of the European Communities, has taken a decision on the accounting treatment in national accounts of payments to government by corporations in the context of the transfer to government of pensions obligations **under funded pension schemes** that they operated for their own employees. This decision completes the decision published on 21 October 2003¹, that covered the case of unfunded pension schemes. This decision specifies the impact on government deficit/surplus and government debt, and is in line with the European System of Accounts (ESA95).

The decision is consistent with the opinion of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), as described in annex.

Eurostat has decided that the payments received by a government from a corporation in the context of a transfer of obligations under funded schemes that the corporation operates for its own employees should be recorded as government revenue and should therefore have a positive impact on government surplus or deficit (EDPB9).

As a consequence, the payments connected to the transfer to government of pension obligations have the same impact on government deficit in the cases of both funded and unfunded schemes organised by a corporation.

In both cases, funded and unfunded, the counterpart of the cash received by government is an unrequited transaction, classified as a capital transfer (codified D99 in ESA95) and the pension obligations taken over by government are not recorded in the form of an ESA95 liability.

According to the accrual principle, the capital transfer should be recorded at the time the pension obligations are effectively transferred and not at the time of the payment(s).

In the future, the improvement in government surplus or deficit due to this capital transfer will be offset by the payment of benefits that government has to pay and that will be recorded as government expenditure and thus will have a negative impact on government surplus or deficit in the coming years. Therefore, the Eurostat decision ensures that, in all cases, the transfer of pension obligations is neutral (or very close to neutrality) over time.

Background to the decision

Corporations, including public corporations, may set up specific pension schemes for their own staff which they manage directly. They are referred as to "non-autonomous employers' pension schemes" in ESA 95 and these corporate pension schemes are not treated in national accounts as social security schemes, i.e. that the flows of contributions (or injections of funds by employers) and pension benefits are not part of government revenue or expenditure.

These employers' schemes may be set up in the form of "funded schemes". This means that the employer builds up segregated reserves with the explicit and exclusive purpose of paying pensions to the beneficiaries, such that there exists strong protection of pension rights, notably in the case of bankruptcy or in the case of mergers. The reserve is invested in assets that are generally identifiable in the balance sheet of the corporation. By contrast, in an unfunded scheme, employers make only the commitment to ensure the payment of a defined level of pension benefits.

It may happen that an employer's pension scheme is cancelled and the pension obligations are transferred to the government, either into the general social security scheme or as part of the scheme that government organises for its own employees. Such transfers have been observed in several Member States in the case of public corporations where government, as owner of the public corporations, decided to take over the pension

obligations and relieve the corporations of these future obligations.

Different arrangements can be envisaged to that effect. But the common point is that government receives a "lump sum" that is assumed, on the basis of some hypothesis, to cover the future burden of the pensions for government.

In the case of an unfunded scheme, the corporation did not record any liability representing the future payment of benefits and the payment of the "lump sum" is the only financial transaction that can be recorded, with a counterpart transaction in the form of a capital transfer.

In the case of a funded scheme, there is no need to transfer as such the specific corporation's liability, as government merges the corporation's pension obligations into other pension obligations for which government, due to its special position in the economy, does not build up segregated reserves with the explicit purpose of matching the future payments. This is the reason why national accounts do not record any financial instrument representing government's pension obligations. As a consequence, in this case also, the payment of the "lump sum" is the only financial transaction that can be recorded, with a counterpart transaction in the form of a capital transfer.

1. See News Release 120/2003 of 21 October 2003.
2. The PDF version of the ESA 95 Manual on government deficit and debt is available for free download from the Eurostat Website. [ESA 95 Manual](#)

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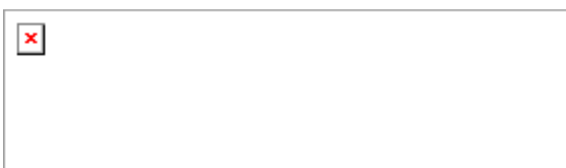
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CMFB Opinion

The treatment in national accounts (ESA95) of the transfer of an employer's pension obligations in the form of a non-autonomous funded pension scheme to the government to become an unfunded scheme

The CMFB Chairman, with the assistance of the Executive Body, invited the CMFB Members on 14 February 2004 to give an opinion on the above-mentioned subject, in the form of a questionnaire including three questions. Fifteen (15) national statistical institutes and fourteen (14) national central banks from the Member States returned the questionnaire. A total of twenty-nine (29) national institutions thus participated in the consultation. The European Central Bank also provided a reply.

The result of the consultation was the following:

On the question related to the definition of a non-autonomous funded pension scheme organised by an employer for its own staff, twenty-six (26) national institutions agreed with the definition provided by a Task Force co-chaired by Eurostat and the ECB. This definition was provided to make the rules in ESA95 more specific. The definition is based on the existence of "segregated reserves" which are set up in order to ensure the payment of future pension benefits. Three (3) national institutions considered that this definition was incomplete. Several national institutions recommended that the actual rights of the insured persons over the assets held as "segregated reserves" should be considered explicitly in the definition.

On the question related to the treatment of the transfer of an employer's non-autonomous funded pension scheme to government, with the effect that the pension obligations would no longer be organised in the form of a funded scheme, seventeen (17) national institutions considered that the employer transfers only financial assets and that the counterpart transaction must be recorded as government revenue with a positive impact on government surplus/deficit at the time the pension obligations are transferred. Twelve (12) national institutions considered that both financial assets and liabilities were concomitantly transferred to government without any increase in government revenue and therefore with no impact on government surplus/deficit.

An additional question asked for preferences regarding the classification of the liabilities that would have to be transferred in the case that it had been agreed that transfers of both financial assets and liabilities would have to be recorded at the time of the transfer: fourteen (14) national institutions preferred recording the liabilities as "net equity of households in pension funds reserves" (AF.612 according to the ESA95 codification) that would be cancelled immediately after the transfer; seven (7) national institutions preferred recording them as "other accounts payable" (AF.79) that would be kept in the balance sheet of government and extinguished progressively over time; eight (8) national institutions did not express a preference as regards this issue or did not provide an answer.

Accordingly, with reference to ESA95, the CMFB provides the opinion that in the case of a transfer to government of an employer's non-autonomous funded pension scheme, government revenue should be recorded as the counterpart transaction of the transfer of assets to government. Thus, this has a positive impact on government surplus/deficit.

The CMFB recommends also that the agreed definition of a non-autonomous funded pension scheme organised by an employer for its own staff should be incorporated into the ESA95 Manual on Government Deficit and Debt, with a more explicit consideration of the rights of the insured persons over the assets.

In addition to this opinion, a document summarising the replies and all the original answers from the CMFB Members have been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

Jean CORDIER
CMFB Chairman

(Signed)

Paris, 23 February 2004