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EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality

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Ms Elisabeth Hopkins  
Director of National Accounts Department  
Statistics Sweden  
Karlavägen 100  
S-115 81 Stockholm

**Subject: Recording of the accrued pension contributions of the local government pension scheme during the transitional management phase**

Dear Ms Hopkins,

Following our discussions during the EDP dialogue visit on 1-2 June 2017, Eurostat would like to provide you with its opinion regarding the appropriate recording of the accrued pension contributions of the local government pension scheme during the transitional management phase.

### *The accounting issue*

The issue for which an opinion is being sought relates to the appropriate recording of the accrued pension contributions of the local government pension scheme during the transitional management phase.

### *Documentation provided*

- Background note on the transitional accrued pension contributions of the local government pension scheme, including a detailed description of the case as well as different options for recording proposed by Statistics Sweden.

### *Description of the case*

The pension scheme agreement between the local government employers and employees has changed in Sweden several times over the last years. In its current form, the pension system for local government employees consists in Sweden of three parts: (1) a defined individual contribution pension plan, (2) a defined benefit pension plan for earnings from 1998 onwards and (3) a defined benefit pension plan for earnings until 1997. The defined contribution pension plan has become the main part of the local government pension obligations. The Swedish statistical authorities explained that, as regards the defined individual contributions to the pension plan of local government, there are currently two stages: the temporary funding phase classified inside the local government sector (S.1313) and the so-called investment phase which is classified in the financial sector (S.12). The

temporary phase covers the period between the time in which the individual contributions are collected and the time in which the accumulated funds are transferred to the individually chosen fund managers. During the temporary management phase which takes on average about thirteen months, the contributions gradually collected are not invested. In addition, during this period there are neither service charges paid nor investment income earned on the accumulated funds.

### ***Methodological analysis and clarification by Eurostat***

#### *Applicable accounting rules*

- ESA 2010, Chapter 1, Rerouting, § 1.73 and §1.75
- ESA 2010, Chapter 5, Financial transactions, §5.82 and § 5.136.
- ESA 2010, Chapter 17, Social insurance including pensions, in particular § 17.54
- MGDD, Chapter I.2.4.5.2 Rearranging of government transactions carried out by non-government units, § 61

#### *Availability of national accounting analysis*

In their note<sup>1</sup> provided on 18 December 2015, Statistics Sweden considered that there are several options to record the pension contributions accrued during the temporary funding phase. At the same time, Statistics Sweden also underlined that there are two important aspects which should be taken into account while deciding the appropriate recording. One aspect relates to the fact that the accrued contributions represent a liability for the local government. This fact is recognised also in the local government accounts by the mean of recording a provision (liability) for the accrued pension costs. One other aspect relates to the fact that the legal and economic owners of the funds are the participants (households). The gradually accumulated contributions are to be transferred to the pension investment funds in March t+1, while the exact amounts to be transferred are defined in advance. In this context, Statistics Sweden proposed that one option could be to record the accrued amounts related to the pension contributions during the temporary funding phase as a sort of zero-interest rate loans for government. In order to preserve the identities of each of the transactions related to this recording, Statistics Sweden proposed to create a notional pension fund unit classified outside local government sector and belonging to the financial sector (S.12). This alternative would allow following the different transactions on the pension assets/liabilities through the national account system from the date they accrue as social benefits until the date of final pension benefit payment.

Statistics Sweden also mentioned as a possible option to record the accrued contributions as other accounts receivable/payable (F.89) due to the timing difference as described in ESA 2010 (§5.241). The pension costs are recorded as part of the social contributions (D.12) paid by local governments to the household in the period in which these contributions accrued. Nevertheless, in this particular case there is no actual payment to the households. The amounts collected as contributions from households and accrued over the one year period are later transferred to the pension fund chosen by the households. During the discussion

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<sup>1</sup> Other notes on the local government pension scheme were also provided by Statistics Sweden on 8 May and 1 October 2015.

held during the EDP dialogue visit on 1-2 June 2017, it was finally agreed that these amounts don't have the nature of other accounts receivable/payable (F.89), mirroring the timing difference between accrued transactions and their corresponding payments but rather having the features of an imposed borrowing scheme. Therefore, it was agreed with Statistics Sweden that the first option of recording better reflects the economic reality, notably the fact that the amounts collected as pension contributions during the temporary funding phase can be used by government in order to finance its expenditure. As a consequence, government could avoid raising debt, in case these amounts would not be available.

### *Eurostat Analysis*

Taking into account the information provided by Statistics Sweden in their note as well as the extensive discussions held during the EDP dialogue visit on 1-2 June 2017, Eurostat considers that several aspects should be taken into account while deciding on the appropriate recording. One aspect relates to the fact that the pension contributions collected during the transitional period might in substance be considered having the features of deposits with zero interest rate, a kind of imposed savings scheme. Therefore, Eurostat considers that the amounts collected as pension contributions during the temporary funding phase should be recorded as debt, either deposits or zero-interest rate loans to government (MGDD, Chapter I.2.4.5.2, §61).

Eurostat agrees with Statistics Sweden and considers that in order to consistently trace the different transactions on pension assets/liabilities through the national account system, transactions should be recorded in the financial sector during the temporary funding phase. Eurostat considers that two options are possible in order to implement this recording. One option would require adjustments to the financial sector involving rearranging transactions (according to ESA 1.72), and more precisely recognizing the principal party (ESA 1.78). The rearrangement should be deemed to amend the accounts of the pension funds that are to receive the contributions after the transition phase. Another option would be, as proposed by Statistics Sweden, to create a notional pension fund in the financial sector (S.12). In any case, the conceptual difference between the two options mentioned above are to a large extent only nominal, as, in practical terms, both recordings in the financial sector (S.12) would be the same and imply the same impact on the debt figures.

As Statistics Sweden explained in their note, in the transition phase, the employer's social contributions for pension (D.12) are to be recorded each quarter on an accrual basis. Corresponding transactions net social contributions (D.61) and adjustments for the change in pension entitlements (D.8) should be also recorded. However, while the transactions in D.12 are to be recorded between the local government sector (S.1313) and the household sector (S.14), the transactions in D.61 and D.8 should be recorded between the household sector (S.14) and the financial sector (S.12). Consequently, the pension entitlements (F.63) should be recorded between the household sector and the financial sector in the same quarter in which the households earn the pension contributions. In addition to the above mentioned transactions, the accrued pension contributions which are gradually collected during the year should be recorded as government borrowing (F.2 or F.4) from the financial sector (S.12). As a consequence, the amounts which are borrowed by government from the financial sector should impact the calculation of the general government Maastricht debt.

## ***Conclusions***

In view of the analysis provided by Statistics Sweden, Eurostat concludes that the household's pension contributions accrued during the temporary funding phase should be recorded as government borrowing (F.2/F.4) from the financial sector (S.12), either by recognizing the principal party of the transactions during that transitional phase or by creating a notional pension scheme in the financial sector (S.12). Recording the household's pension contributions as government borrowing will better reflect the economic reality, notably the fact that the amounts collected during the temporary funding phase could be used by government in order to finance its expenditure. As a consequence, government could avoid raising debt, in case these amounts would not be available. In addition, recognising the principal party during the transition period or creating a notional pension scheme will in both cases allow recording the local governments' liability towards the financial sector (S.12) and not towards the household sector (S.14) as well as recording social contributions as revenue of financial sector (S.12). As a consequence, the amounts which are borrowed by government should impact the calculation of the general government Maastricht debt.

## ***Procedure***

Eurostat is prepared to give a preliminary view on the statistical classification of such operations provided that it is in possession of all of the necessary background information. The preliminary view is given in accordance with the guidelines for ex-ante advice published on the Eurostat web-site.

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

We would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat therefore publishes all official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site.

Yours sincerely,

*(e-Signed)*

Eduardo Barredo Capelot  
Director