ILO FACTS

Pension schemes treatment in a future revised SNA 93: Recognition of (implicit) liabilities
A COMMENT

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Recognition of implicit pension liabilities

- How to define them?
- Why only pensions?
- Why only some pensions?
- Can the actuarial estimates be treated on comparable terms with statistical estimates of current flows and stocks?
- How to make actuarial estimates more reliable?

How to define pension liabilities?

- Should it be only legal obligation or also "constructive" obligation? At what moment the obligation arises? When all or only part of eligibility criteria are met?
  - See discussion by: International Federation of Accountants (IFAC), Public Sector Committee (PSC): Accounting for Social Policies of Governments
- It should be net liabilities (net of future contribution/tax revenues foreseen by current legislation – « contribution assets »):
  - But how to calculate net liabilities in case of tax financed benefits (like: universal pension or demogrant). Aren't they always equal to zero?
- Is the unsustainable promise enforceable? If not, then maybe all such net liabilities are by definition equal to zero?

Why only pensions?

- There are other long term commitments of the government for which one can theoretically estimate value of liabilities
- Particularly, social protection forms a system of interlinked and interacting social protection schemes, of which pension schemes are only part (significant).
- ILO advocates social budgeting - that is accounting and projecting social protection finances in a comprehensive way

Why only some pensions?

- National Accounts are also used to analyse how much is transferred to households due to different contingencies (i.e. old-age).
- One has to be able to compare extremely differentiated pension systems internationally. Importance of functional classifications
- Current classifications used have to be revised (social insurance, social security) as they are misleading

Can the actuarial estimates be treated on comparable terms with statistical estimates of current flows and stocks?

- What do national accountants expect in terms of accuracy of imputed figures from actuaries? Can we trust projected and then discounted figures? Under what conditions?
- Can we assure comparability over time? What about revisions of the accounts if actuarial perspectives change (with i.e. better knowledge)? Backward revisions also?
- How to make sure that those actuarial estimates and thus national accounts are comparable internationally?

How to make actuarial estimates more reliable (1)?

- ILO experience: main obstacle is lack of data required for actuarial valuations and projections
- Large part of “heroic” assumptions made are to replace missing data (like age/sex distributions)
- There is no common statistical standards in social security/social insurance
- There is no common accounting standards as well
- ILO attempts to promote certain standards but a joint action would be needed

How to make actuarial estimates more reliable (2)?

- Do we need to standardise actuarial assumptions made in valuations and projections?
- Demographic assumptions and projections: national projections or UN projections?
- Economic assumptions: how to make non-controversial economic assumptions for the next 50 or 100 years?
- Is there a general theory for discounting over such long periods?
- Can we develop a manual on standard methods and practice?

What should be done?

- Data and accounting standards developed and widely implemented
- Methodological guidelines for actuarial estimates developed and internationally accepted
- Still: rather satellite accounts and/or memorandum items than the core system