

New decision of Eurostat on deficit and debt

## **Payments to government by public corporations in the context of the transfer to government of their unfunded pensions 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 public corporations in the context of the transfer to government of pensions obligations under schemes that they operate for their own employees. This decision specifies notably the impact on government deficit/surplus and government debt and is in line with the European System of Accounts (ESA95). This decision covers only the cases of unfunded pension schemes. Payments of lump sums in the case of transfer of funded schemes are not covered by this decision.

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

### **Eurostat decision: General case of transfer of unfunded pension obligations**

Eurostat has decided that the counterpart transaction to a payment received by a government from a public corporation in the context of a transfer of unfunded pension obligations that the corporation operates for its own employees is treated as an unrequited transaction, classified as capital transfer (codified D99 in ESA95).

Therefore, this payment is recorded as government revenue, at the time it occurs, and has a positive impact on government deficit/surplus. However, this improvement of government balancing item will be offset in the future by the payment of pension benefits to the previous beneficiaries of the unfunded pension scheme managed by the public corporation. This decision has no direct impact on government debt.

Eurostat has based its decision on the fact that ESA95, currently and similarly to the System of national accounts adopted in 1993 at international level, does not recognise a liability, in the sense of a financial instrument, for the obligations relating to pensions in the context of an unfunded scheme. Under these conditions, it is not possible to consider that government incurs a liability as counterpart of the amount paid by the public corporation, which should be recorded as a financial transaction without an impact on government deficit/surplus.

### **Background**

In several Member States, certain public corporations have set up company-specific unfunded pension schemes for their own staff, which they manage directly. These are supplementary to the state pension system. According to ESA 95 rules, these corporate pension schemes are classified outside general government<sup>1</sup>.

An unfunded pension scheme is an arrangement where there are no individual claims legally recognised for the participants (beneficiaries) and where the manager or sponsor of the scheme is not obliged to build up segregated reserves invested in identified dedicated assets.

For various reasons, Member State governments, as owners of the public corporations, may decide to take over these unfunded obligations and relieve corporation from these future obligations. Various arrangements can be envisaged to that effect, but the common point is that, as a counterpart to the future commitments assumed by government, impacting government expenditure, the corporation pays a "lump sum" to government, as a one-off flow.

The amount paid to government results generally from an estimation of the present value of the future disbursements for government, based on some hypothesis, such as the future burden of the pensions, future contributions, or any possible compensation. However, the hypothesis underlying the method of calculation for the amount paid to government may be questionable and the lump sum may be lower than the present value of future pensions to be paid. One should bear in mind that long-term projections of a number of variables (and their interaction) may not lead to a single and unquestionable figure.

From an economic point of view, such transactions between public corporations and general government are clearly exchanges of liabilities (in the sense of "future and certain obligations"), with, as counterpart, an exchange of cash. However, employers' obligations for future pensions may be recorded differently according to some characteristics of the pension scheme managed by the public corporations.

As a result, in a context where such transactions were under consideration in several EU Member States, Eurostat was of the opinion that the treatment in national accounts should be specified, notably as regards the impact on government deficit/surplus of the counterpart transaction to the payment to government, classified either as a non-financial transaction or as a financial transaction.

1. See ESA95 4.88 b (autonomous or non-autonomous pension funds) and c (unfunded schemes set up by employers for their employees).

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### **CMFB opinion**

#### **on the treatment in national accounts of payments to government by public corporations in the context of the transfer to Government of the unfunded pension schemes that they operate for their employees**

On Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, invited the CMFB Members on 6 October 2003 to give opinions on the above-mentioned subject. The deadline for returning the questionnaire was Wednesday 15 October 2003. 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, from all fifteen (15) Member States, thus participated in the consultation. The ECB also provided a reply.

The result of the consultation was as follows:

Fourteen (14) national institutions responded that the counterpart transaction to a payment to government by a public corporation, in the context of the transfer of its unfunded pension obligations, should be treated according to the current ESA95 as a non-financial transaction. Eleven (11) of them consider that the non-financial transaction should be classified as other capital transfer (D99) and three (3) as other current transfer (D75). Eleven (11) national institutions answered to the same question that this payment should be treated as a financial transaction. Five (5) of them consider that it should be classified as shares and other equity (F5) and recorded as a decrease in assets of government and in liabilities of public corporations, four (4) as accounts receivable and payable (F7) and recorded as an increase in liabilities of government and in assets of households and two (2) as F7 recorded as an increase in liabilities of government and in assets of public corporations.

One national institution considered that it should be treated as other changes in volume, one national institution had no opinion and two national institutions made comments but did not complete the questionnaire.

***Accordingly, a relative majority of CMFB Members consider that the counterpart transaction to a payment to government by a public corporation, in the context of the transfer of its unfunded pension obligations, should still be treated in national accounts, according to the current ESA95, as a non-financial transaction. The transfer has a positive impact on government surplus-deficit at the time the transaction takes place.***

In addition to this opinion, the following has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat: a document putting together the summary of the votes and all the original answers from the CMFB Members.

(Signed)  
Jean CORDIER  
CMFB Chairman

Paris, 20 October 2003