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The Technical Director
International Public Sector Accounting
Standard Board
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**Comments of the International Labour Office on the
Consultation Paper on Recognition and Measurement of Social Benefits of the
International Public Sector Accounting Standards Board**

Dear Sir/Madam,

I am pleased to hereby submit comments on the above-mentioned Consultation Paper on behalf of the International Labour Organisation (ILO).

I share some key background elements relevant to the ILO. As the oldest international organization of the United Nations system since 1919, the ILO is a tripartite organisation whose core mandate for social justice focuses on all policy aspects relevant to the world of work. More specifically, it has a Social Protection Department that acts as an international policy and technical reference in the area of social protection systems, including non-contributory and contributory social security for all risks across the life cycle. It is responsible for developing new international policy standards, submitted to all member states, and to support their technical implementation. More recently, all countries unanimously adopted the Recommendation No. 202 on Social Protection Floors (2012) which provides guidance to countries in gradually extending and reforming their systems. Other important normative instruments include Convention No. 102 on Minimum Standards of Social Security (1952) and other specific ones on the different risk areas of social protection throughout the life cycle. A detailed list is provided in Annex.

In the field of practice relevant to social security, the ILO has a long tradition of developing actuarial and statistical methodologies applied by governments and their social security institutions all around the world. The ILO has produced over time a series of references publicly

available. In the field of technical assistance, the ILO has delivered actuarial valuation and financial reviews to more than 120 countries. As part of its mandate, the ILO is committed to develop national capacities, namely in the field of social protection and social security policy-making and financial governance. In practice, the ILO actuarial models for social security valuations are applied and delivered to social security institutions as well as different line ministries. It has cumulated experience to operate in respect of the wide range of life contingencies (old-age, death, invalidity, work-related injury and death, sickness, unemployment, maternity, family benefits, etc.).

Our general comments on the IPSAS-B Consultation Paper on Recognition and Measurement of Social Benefits are as follows:

(1) **Objective and scope for the measurements of social benefits**

Under sections 2.31 to 2.50, it is understood that the main purpose for measurement of social benefits falling in the category of “non-exchange transactions” is to provide the general public with transparent and useful information on the size and the financial situation related to social benefits. As the paper indicates, these social benefits in general often refer to a sizable proportion of the public expenditure in many countries and their delivery is the primary objective of many governments. This is an objective which the ILO welcomes as each country adopts its own social objectives and it needs to ensure the regular and sustainable financing that will enable delivering the social benefits expected in the long-term through its decisions and laws.

It is noted that the selection of social benefits in the scope of the Consultation Paper is restricted to in cash and in kind social security benefits whereas your definition of “social security” is further explained as contributory social insurance that arise outside of an employer-employee relationships providing benefits to the community as a whole, or large sections of the community, and imposed and controlled by a government entity. ILO welcomes that further work at a later stage will embrace the accounting of the social benefits not covered here.

As highlighted in your historical perspective of previous similar projects submitted for public consultation, the ILO suggests carefully exploring the relevance of accounting for social benefits, namely when they fall under the general mandate of the state and are subject to regular revisions in line with political and conjuncture elements.

(2) **Non-recognition of non-contributory social benefits in public accounts**

The ILO appreciates that the project does not address what it considers as non-contributory social benefits that are usually financed from general revenues through annual budget laws and allocations which are in many ways similar to other public expenditure and budgetary items (such as education) and are the subject of potentially substantial adjustments in the future depending on

the decisions of successive governments. Their discounting beyond a short- to medium-term horizon could be of limited reliability. We therefore welcome that such social benefits should not be recognized in the framework of public sector accounting.

(3) **Selective recognition of social benefits in public accounts**

We take note of the detailed definitions and nuances when addressing contributory social benefits, namely social insurance benefits, and which are consistent with GFSM 2014 and SNA 2008. This will assist in bringing coherence across the different practices areas. From our experience, social security / social insurance benefits (other than for public sector and government employees) are paid in return of social insurance contributions, earmarked specifically for specific benefits to be paid in the future conditional to the occurrence of certain risks and contingencies. They are usually managed through separate public or semi-public administrations such that inclusion into government budgeting frameworks varies across countries.

The ILO notes how countries adopt at different points in time parametric or structural reforms when the financial sustainability as measured by actuarial estimates indicate a current or projected financial disequilibrium. This is especially relevant for long-term benefits such as old-age, invalidity and survivors' pensions whose assessment require a long-term horizon extending for decades and with complex time lags between the time periods during which contributions are paid and the period over which benefits are paid out. While the reflection of the financial position of such long-term benefit schemes is important for public finances, care must be exercised not to distort the picture of their true financial position by adopting coherent accounting approaches in line with actuarial techniques. One element of concern is the adoption of accounting methodologies that will reflect the effect of adopted reforms on the future financial position of the social security

The situation of short-term social benefits may be different and would not require to be reflected into public accounts.

(4) **Measurement of contributory social benefits in public accounts**

ILO feels it is important to raise to your attention that the accounting treatment of contributory social benefits should be based on an open group approach taking into account cumulated assets and future income.

More specifically, it is worth pointing how "accrued rights" in respect of people (usually workers) under contributory social security provide expectations towards future benefit entitlements that are clear. It is difficult to envisage such accrued rights to benefit entitlements and the provisions and rules governing them could be modified without breaking the rule of law. Therefore the assessment of their discounted value requires actuarial estimates that can be reasonably expected to materialize if assumptions match the observed developments in future.

These accrued rights in many countries have been defined to be financed over time through contributions with objectives for more or less “advance funding” (i.e. accumulation of assets) which reflect the socio-economic objectives of each country. It is important to reflect this income source as it is implied to be required towards meeting at least the accrued rights.

However, for future benefit entitlements that will stem from rights to be gained in the future only, it is clear that the legal provisions of social security governing their eligibility and calculation method for individual benefits as well as their level and framework for collecting contributions could be amended in the future. Such amendments normally are the result of thorough actuarial assessments based on projection frameworks which define the long-term “financial sustainability” of the social security scheme. These future amendments normally revolve around increasing the income (e.g. level of contribution rates collected from insured members/workers and their employers) and/or adjusting future benefits (e.g. their level and eligibility). This means that future rights to benefit accruals could reasonably be expected to be modified in line with the financial sustainability framework regularly reviewed with the advice of social security actuaries. The above points made indicate an open group methodology would be more adequately reflecting the financial position of the social security/social insurance scheme.

It is noted that some of the proposed methods for social benefits in the Consultation Paper follow the methods generally applied to private pension arrangements which are not consistent with social security pensions. The ILO discourages the option for the Obligating Event.

Social insurance schemes are usually compulsory and deemed as permanent entities. They allow future contributions, including not only those of current contributors but also those of future contributors, to finance accrued liabilities through inter-generational transfers, based on the nature of compulsoriness and solidarity principle. The method of accumulating or not accumulating assets is a policy decision taken by politicians and can change over time. There are social insurance schemes that are designed to have benefit outlays match contribution income on a pay-as-you-go basis, with small contingency reserves, or other schemes operated on a partially-funded system with reserves smaller than those required for full-funding system (ILO understands “full-funding” to mean that cumulated assets are always equal to cumulated rights at any point in time, a reality usually valid for defined-contribution schemes but not so valid for other forms of social security benefit design and funding strategies). This is a political choice reflecting the social and economic objectives of a country. For example, full funding objectives are considered economically undesirable by some countries and affecting domestic consumption while it is not for others. It is therefore inappropriate to measure liabilities of social insurance schemes on a termination basis (closed-group).

In order to assess the financial position as a reflection of financial sustainability of a social security schemes, an open-group approach is deemed appropriate, i.e. in line with the “insurance approach” of the Consultation Paper modified for the Open group approach such that all expected future income, mainly represented by future contributions and their income from investments, as

well as future expenditure, mainly represented by future benefits, should be taken into account, by properly discounting expected future financial cash flows.

An open-group insurance approach would allow reflecting the financial position of all future adopted reforms affecting social insurance schemes, for example retirement age increases, benefit amendments as well as contribution rate increases.

(5) **In summary,**

There are other methodological dimensions, namely with respect to projection methods, assumptions. The ILO has been informed of the comments prepared by the Social Security Committee of the International Actuarial Association (IAA) and we express our agreement with the comments separately submitted by the IAA. These reflect the views of some of the best social security actuaries in the world who direct the work of social security financial governance.

The ILO recommends further reflections and additional in-depth technical research and exchanges with the actuarial and social security pension financing professions based on concrete evidence-based and national examples. This additional work is necessary to ensure the best information is made available for the public and policy-makers. I would be pleased to propose that we organise a discussion to further share views and constructively collaborate with the IPSASB on this important endeavour in the future. Thank you for this opportunity to share views and wishing you good success in the continuation of this project.

Yours faithfully,

Anne Drouin
Chief
Public Finance, Actuarial and Statistics Services Branch
Social Protection Department

(signed original by post)

Annex

Up-to-date list of International Labour Standards relevant to Social Security

The complete system of International Labour Standards (ILS) is accessible at the following link:

<http://www.ilo.org/global/standards/lang--en/index.htm>

More specific to social protection and social security are the following ILS:

- *Income Security Recommendation, 1944 (No. 67);*
- *Medical Care Recommendation, 1944 (No. 69)*
- *Social Security (Minimum Standards) Convention, 1952 (No. 102);*
- *Equality of Treatment (Social Security) Convention, 1962 (No. 118);*
- *Employment Injury Benefits Convention, 1964 (No. 121) and Recommendation, 1964 (No. 121);*
- *Old-Age, Invalidity and Survivors' Benefits Convention, 1967 (No. 128) and Recommendation, 1967 (No. 131);*
- *Medical Care and Sickness Benefits Convention, 1969 (No. 130) and Recommendation, 1969 (No. 134);*
- *Maintenance of Social Security Rights Convention, 1982 (No. 157) and Recommendation, 1982 (No. 167);*
- *Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) and Recommendation, 1988 (No. 176);*
- *Maternity Protection Convention, 2000 (No. 183) and Recommendation, 2000 (No. 191).*
- *Social Protection Floors Recommendation, 2012 (No. 202)*