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How should pension benefit liabilities and social policy cash transfer liabilities be presented in the government financial statements: Current presentation mode or the mode of international IPSAS standards?

ABSTRACT

Employee pension benefits and social policy cash transfers to households and other recipients are financially a remarkable part of the central government budget and government expenditures. The principles how to present these items in accounting reports must be solved: Are the international standards based on accrual accounting giving better guidance than the present government model of accounting? This article describes and discusses the present government financial reporting and compares this to the international standards (IPSAS standards created by IFAC special board) especially regarding the liabilities. The conclusion of the article is that the way IPSAS standards handles liabilities is not as such optimal for government financial statement reporting but that the standards offer some basis for developing government reporting of long-term liabilities.

Key words: *Accrual accounting, government accounting, IPSAS standards, liabilities, employee pension benefits, social policy cash transfers, government financial statement reporting.*

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1. Introduction

Employee pension benefits and social cash transfers are financially a remarkable part of the central government budget and expenditures. This is so because of the labor-intensive public administration and because of the Nordic welfare state where central government delivers generous social policy cash transfers to citizens. In Nordic countries the population is aging and bringing pressures to mentioned expenditures. According to forecasts the share of old-age pensioners will grow in 30 years from 16 % to 27 % in Finland (Annual report of State Pension Institution 2006, 3).

Both central and local governments have an obligation according to the accounting rules to give a fair and true view of their financial performance and economic position. Alternative ways to present liabilities and expenses caused by employee benefits and social cash transfers may give radically different views of the economic performance and position of the public sector entity in question. If liabilities and expenses are presented inadequately the picture will be incomplete and give a misleading base for decision makers and users of financial statements.

Private sector capital markets take into consideration the liabilities of employee benefits and value them in the share prices (Beaver 2002, 462–463). The international IAS/IFRS accounting standards and US GAAP standards treat employee benefits based on accrual accounting principles and see employee pensions as benefits earned during the work. Compared to public sector social policy cash transfers are not a big issue in the private sector. Donations for charity are extraordinary expenses for most enterprises.

The principles that define how to present employee pension benefits and social policy cash transfers in accounting reports must be solved in the public sector. The aim of this article is to describe and analyze the ways they are presented currently in the Finnish central government and to compare this to the international standards (IPSAS standards) created by IFAC (International Federation of Accountants). The international standards for public sector financial statements can be seen against the international trend to import business accrual accounting in the public sector. In Finland business accounting in the form of commercial accounting was introduced to local governments in 1997 and to the central government in 1998. Both local governments and central government present annually general purpose financial statements with commercial accounting. Besides this they present budget-outturn reports with budget bookkeeping. It is important to notice that present government commercial bookkeeping differs from the accrual accounting model defined in international IAS/IFRS standards. This is explained in section 2.1.

Before the turn of the century governments did not have international accounting standards geared to uniform presentation of financial statements and budgetary outcomes. Governments have regulated from their own starting points their accounting and financial and budgetary reporting. This has led to diverse public sector reporting systems but common has been cash based or modified cash based bookkeeping. The main function in the cameral accounting culture has been the follow-up of the budget and the preparation of the budget outturn calculations for the needs of Parliaments, citizens and budget money users. Most governments have so far accounted for their employee pensions benefits and social policy cash transfers based on cash or modified cash based accounting rules.

In the beginning of 2000 century the situation changed. IFAC has released international public sector accounting standards for all public sector entities whether they are central governments or local governments. The objective of the Public Sector Accounting Standards Board (IPSASB) is to serve the public interest by developing high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. Until the end of year 2007 IPSASB had released 24 accrual based standards for governments. IPSASB has also given a standard for cash based financial statement but IPSASB has a policy that cash based accounting should be only a temporary solution for governments in their path to full accrual based accounting and presentation of financial statements.

IPSAS standards were mainly drawn from the IAS/IFRS-standards for listed companies. It was quite a contradictory solution because IPSAS standards were released without preparing a general framework for public sector entities that differ in many crucial aspects from for-profit organizations.[1] The first standard that handled public sector specific features were IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) and IPSAS 24 Presentation of Budget Information in Financial Statements. For this article important Invitation to Comment (ITC) Accounting for Social Policies of Governments was published in January 2004. Exposure Draft (ED) 34 Social Benefits, Disclosure of Cash Transfers to Individuals or Households, was published in March 2008. Exposure Draft (ED) 31 for Employee benefits was published in October 2006 and the final standard 25 in February 2008. The ED 34 and the standard 25 would change the present mode of accounting and presentation of employee benefits and social policy cash transfers in Finland and also in many other governments as well.

The applicability of business accrual accounting for not-for-profit public sector entities have been researched proportionately well. These research articles and reports include often critical conclusions of the transferability of private sector accounting principles and standards directly to the public sector. (Falkman 1997, Näsi 1999, Broadbent 1999, Kohvakka 2000, Monsen 2002, Oulasvirta 2002, Christiaens ja Peteghem 2007). But the IPSAS standards are not so well so far researched in Finland (Luoma, Oulasvirta & Näsi 2007) or even internationally (Christiaens 2004, Barton 2005). This article aims to compare presentation of post-employment benefits and social policy cash transfers in current Finnish government accounting to IPSAS standards and to draw some conclusions of the applicability of the standards and of the need to develop current reporting of liabilities. This article is connected to a research project which published its main report in 2007 (Luoma, Oulasvirta & Näsi).

2. Basic accounting models and recording of employee pension benefits and social policy cash transfers in Finnish central government

Accounting models are often divided to accrual based models and cash based models. Cash based accounting means that transactions are recorded when they cause money payments. Cash accounting can be named as modified

1 IPSASB has later in 2006 initiated a project to develop a public sector conceptual framework.

cash accounting when cash payments due to realized transactions but not still paid are also recorded and presented in financial statements. Accrual basis means according to IPSASB (standard 1, definitions) accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded to the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

The accounting model can be chosen from above described main models with different modifications. The researcher can form normative and practical conclusions of the best model for a specific accounting environment. The public sector emphasizes accountability of the use of tax money and follow-up of budget compliance. Unfortunately accounting science is not such an empirical science were one could verify empirically one accounting theory better than another one as an description of an empirical state (Sterling 1981, 83–86). So we cannot empirically verify that one way of presenting employee pension benefits or social policy transfer commitments is theoretically better than another. This in mind we try to evaluate the useful presentation mode from the point of view of users of public sector financial reports.

The development of cameral accounting has not fasten anymore enough interest. The interest has been directed to commercial accrual bookkeeping. In New Public Management (NPM) movement the entrepreneurial way of management has been considered important in the public administration (Lapsley 2008). One part in this reform movement has consisted of substituting cameral and cash based accounting with commercial accrual accounting (Christiaens & Rommel 2008). This striving has been criticized to ignore the special characteristics of governments (Falkman 1997, Mack & Ryan 2006, Christiaens & Rommel 2008). However, no unanimity amongst the accounting researchers have been achieved regarding the extent to which accounting frameworks and models should be different for private sector for-profit organizations and public sector not-for-profit organizations (Broadbent & Guthrie 2008, 150).

2.1. The Finnish central government accounting system[2]

The Finnish government accounting reform of 1998 meant a shift from administrative double-entry bookkeeping to a dual accounting system consisting of two parts. The new part consisted of a commercial double-entry bookkeeping, which made it possible to present performance accounts in the form of an income statement and a comprehensive balance sheet. The other part in the government bookkeeping system consists of single-entry budgetary bookkeeping, prolonging the budgetary control function of the previous administrative double-entry bookkeeping. With the help of the single-entry budgetary bookkeeping method, a statement of budget accounts is prepared and compared to the budget appropriations and revenue estimates. The Finnish central government bookkeeping can thus since 1998 be described as a dual system that combines two different bookkeeping methods of single-entry bookkeeping (budgetary bookkeeping) and double-entry bookkeeping (commercial accrual accounting).

The State Treasury merges the ledgers of all the about 100 accounting entities to a con-

2 Based on Monsen & Oulasvirta 2007.

solidated central government financial statement. This contains the accounts of all government budget entities, but not government funds, government enterprises and state owned companies, all of which prepare their own separate financial statements.

The present book closure model of central government bookkeeping in Finland consists of three basic calculations:

1) A Statement of revenues earned and expenses incurred (performance accounts). Budget entities do not strive for profits and that is one reason why the reformers did not want to name the statement as profit and loss statement, but rather revenues earned-expenses incurred statement. Moreover, the pattern of this statement differs from the Finnish enterprise profit and loss statement.
2) A balance sheet that is now comprehensive, including all assets and all liabilities.
3 An annual statement of budget accomplishment (budget outturn).

According to the cameral accounting theory developed for public sector entities (Monsen 2002, 2007) accountability of budget money use is essential. This is still reflected clearly in the Finnish government accounting model were the annual statement of budget accomplishment (budget outturn) can be considered the most important calculation completed with the annexes and annual report explaining achievements in the budget implementation (result performance reporting). The use of commercial double-entry bookkeeping statements' (the Statement of revenues earned and expenses incurred and the balance sheet) information has been criticized to be in practice insignificant (Kohvakka 2000).

The Finnish government commercial bookkeeping differs from commercial enterprise accrual bookkeeping. Firstly, it is regulated differently. The government commercial bookkeeping as well the government budgetary bookkeeping are both stipulated in the budget law and statute (act 423/1988, statute 1243/1243) whereas the commercial enterprise bookkeeping is stipulated in the general bookkeeping law (1336/1997) and statute (1339/1997). Secondly, the recognizing principles differ. The government transactions are mainly non-exchange transactions. Finnish government has developed for non-exchange transactions budget allocating principles and corresponding recognizing principles for the bookkeeping. There are also some specialties in accounting of exchange transactions, for instance, such as accounting for value-added tax, heritage assets and equity in the balance sheet (Püllä & Etelälahti 2002, 149–157).

The central government commercial bookkeeping differs even more from the IAS/IFRS and IPSAS based accrual accounting which emphasizes the balance sheet and has adopted an asset/liability model instead of the revenue/expense approach. In Finland both government commercial bookkeeping as well as private sector enterprise commercial bookkeeping before the influence of the asset/liability model have emphasized the flow statement: the income statement must be done first and after that the balance sheet is a carry over calculation from one accounting flow period to the next period (balance sheet as an opening to the next accounting period).

2.2. Current accounting for government post-employment benefits and social policy cash transfers

The Finnish central government budgetary organization is divided to about 100 financial administration units taking care of government bookkeeping, financial statement reporting and payment transactions at the entity level. The recognition of exchange transactions in government commercial bookkeeping is made according to the realization principle: When service or goods are delivered or when factors of production are received. In non-exchange transactions, that constitute over the half of the expenditures in the budget and over 85 % of the incomes in the budget, mainly cash and short-term liability principles are followed in recognition. Tax incomes are recognized and recorded when the tax money from tax payers are paid to the tax administration bank account. State subsidies and other money transfers to enterprises, households, local governments and so on are recognized and recorded according to the short-term liability principle that means recording when the individualized legal obligation has arised for the government to pay a transfer to the recipient. This may mean either the point of time of the granting decision (for instance, discretionary subsidies to enterprises) or the point of time of the affirmation of the detailed amount of a statutory transfer payment. If these mentioned points of time are before the cash payments also the recognition happens before the cash payment.

Liabilities are interpreted in a narrow manner in the Finnish government commercial bookkeeping. Employee pension liabilities are not recorded as long term debts in the balance sheets of the whole of the central government, of its bookkeeping entities or of the Finnish State Pension Institute. Nor are national basic pension liabilities belonging to the Social Insurance Institution of Finland recorded as long term debts in the balance sheet. In the government bookkeeping either obligatory nor optional provisions are recorded contrary to Finnish enterprises, which record such items according to the bookkeeping law (act number1336/1997, section 5: 14 §).

The Finnish State Pension Institute that is funding money for future state pension payments is using the same commercial bookkeeping than central government with some deviations (for instance, it may record provisions in the balance sheet).

The government reporting entities as well as the whole central government that consolidates the accounting and reporting information from entity level do not recognize or record employee pension liabilities or social policy cash transfer liabilities to their balance sheets. Employee pension payments are recorded on cash basis: budget and accounting entities pay current pension contributions to the Finnish State Pension Institute and these contributions are recorded as expenses when payments are done. The State Treasury pays the pension benefits to the retired state pensioners and these payments are recorded again when payments take place. The State Treasury finances on a yearly basis a part of the paid pension benefits with a money transfer from the State Pension Institute. This transfer is recorded as State Treasury income when the transfer transaction takes place. The Finnish State Pension Institute remains partly a funding institute because these transfers must not drain the fund. According to the state pension law (1295/2006) the funding level must be 25 % of the whole state pension liability.

Liabilities of pension benefits and the unfunded part of the pension liabilities are included in the notes of the balance sheet of the whole of the central government, in the notes of the balance sheet of the State Treasury and in the notes of the State Pension Institute. The liability and the unfunded part of the liability are calculated by actuary experts in the State Pension Institute.

If post-employment benefits would be recorded according the principle of earnings-related pension then accrued liabilities should be recorded as long term debt in the balance sheet. But the Finnish solution has been to stick to simple cash basis and to give users of book closures the necessary information of accrued pension liabilities and of the unfunded part of the liabilities in the notes and in the annual reporting narratives.

The same holds to the national basic pensions (not based on employee earnings but on citizenship status) and to the social policy cash transfers to households and other recipients. Government social policy commitments for cash transfers to recipients are not recognized and recorded before the individualized legal obligations for the government to pay these transfers emerge. It means that liabilities do not accrue before this and that only transfer payments that the recipients are fully eligible but become due after the book closure day will be recorded as short term liabilities (debts) in the balance sheet.

Even if the accrued liabilities are not recorded in the balance sheet, the information as such is important. This is well understood if one looks the situation of Finnish central government pension liabilities. According to the calculations of the State Treasury the employee pension liability was in total 79,3 milliard euros in the end of 2006. The actuarial calculation of the accrued pension liability in its present value was done with a discount percentage of 2,7 % per year. According to the calculations the assets in the fund were 10 milliard €, which means that the unfunded share of the liability was 69 milliard €. (State Pension Institute, Annual Report 2006, p. 16).

The Social Insurance Institution of Finland (Kela) delivers most of the social cash transfers to households. It applies according to the law concerning the institution (act 17.8.2001/731) commercial enterprise bookkeeping stipulated in the general bookkeeping law (1336/1997). The Social Insurance Institution of Finland records in the balance sheet the pension liability of its own personnel but do not present any long-term liabilities of the cash transfers it delivers to citizens.

3. IPSAS standards and presentation of employee pension benefit liabilities and social policy cash transfer liabilities

3.1. Pension benefits

US GAAP, IAS/IFRS and IPSAS standards all have as a starting point that post-employment benefits should be recognized and recorded following the principle of pension benefits earned during the work. Based on this principle pensions should be recorded on the following grounds (Järvinen, Prepula, Riistama and Tuokko 1995, 365–366, White & Sondhi, 1997, 597–602).

– The paid salary and the unpaid part of the salary which is the pension benefit earned during the accounting period should be recorded on accrual basis
– as an expense incurred in the income statement (the profit and loss statement)
– and the earned but still unpaid part of the benefits at the book closure date as a liability (debt) in the balance sheet .
– The paying of the pension benefit to the

recipients are only installments of the debt (pension liability) recorded on a cash basis (no impact on income statement).

All this means that the whole accrued and unpaid pension debt must be shown in the balance sheet and not only in the notes of the balance sheet or in the annual report narrative.

If the central government has a funding arrangement for state employee pensions and there is a special separated entity (pension fund) that is responsible of the funding, the pension liability and debt recording belongs to this pension fund. When the pension fund belongs to the national government, the national government must also show the debt in the consolidated whole of the central government balance sheet.

IPSASB of International Federation of Accountants gave in 2006 an Exposure Draft 31 Employee Benefits and in 2008 the final standard (IPSAS 25). The standard is based on IAS 19 (Employee Benefits). The IPSAS standard 25 that follows with minor exceptions strictly the IAS 19 would mean big changes in the government bookkeeping and presentation of pension liabilities in the financial statement.

The standard deals with all employee benefits but in this article the interest is in post-employment benefits such as pensions. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Standard requires an entity to recognize contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions. For the about 100 budgetary and bookkeeping entities inside the whole of the government the pension plan can be defined as a defined contribution plan.

All other post-employment benefit plans are according to the standard defined benefit plans. Defined benefit plans may be unfunded, or they may be wholly or partly funded. The Finnish whole of the government and its State Pension Fund can be interpreted to be obligated to record according to a defined benefit plan arrangement if the Finnish government chose to follow IPSAS standards – which it has not done. The Government Accounting Board (Valtion kirjanpitolautakunta) gave a critical assessment of the suitability of IPSAS standards for the Finnish central government in 2006 (30.11.2006, Dnro 545/58/2006).

In the Annex 1 is a summary of the regulation in the IPSAS 25. It reveals well the probable difficulties in following globally and nationally this complicated standard. One must remember that IPSAS standards are meant for all central governments and local governments all over the world and that the standards should be followed without any exceptions.

3.2. Social policy cash transfers

Because transfers form over half of the Finnish central government budget expenditures standards regulating them are very important. IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets) defines the debts and provisions that must be recorded to the balance sheet and also the so called contingent liabilities that must be included only to the notes of the balance sheet. IPSAS 19 and IPSAS 1 (Presentation of Financial Statements) cover also provisions and contingent liabilities emerging of social policy cash transfers national basic pensions included.

Although the disclosure requirements of IPSAS 1 and IPSAS 19 are applicable to liabilities and contingent liabilities arising from social policy obligations IPSASB (Public Sector Committee before 2004) did not consider IPSAS 1 and IPSAS 19 enough for presentation of non-exchange transactions and liabilities of social policy transfers. It gave in January 2004 an Invitation to Comment (ITC) Accounting for Social Policies of Governments.

After the publication of ITC IPSASB gave the exposure draft (ED) 34 Social Benefits, Disclosure of Cash Transfers to Individuals or Households in 2008. It came to the conclusion that social policy cash transfers should be recorded when the recipient will satisfy the eligibility criteria. ED 34 is encouraging public sector entities to record already at the moment liabilities emerge de facto before the emergence of strictly legal obligations to pay. In the ED 34 threshold eligibility criteria refers to all the eligibility criteria that an individual or household must satisfy when applying for a social benefit for the first time, or when reapplying for a social benefit after a period of ineligibility, in order to be entitled to cash transfers. According to ED 34 an entity shall determine <u>its best estimate</u> of the present value of amounts to be transferred under cash transfer programs to participants who are eligible at the reporting date.

In determining the amounts to be transferred, the reporting entity makes estimates of the variables that will determine the ultimate cost of providing those benefits. These variables may vary dependent upon the nature of the cash transfer program. Such estimates are actuarially based and involve both demographic and financial assumptions. Actuarial assumptions include demographic factors such as life expectancy, morbidity, emigration and the extent of periods of unemployment. Financial factors include future benefit levels. Present values are calculated with a discount rate reflecting the time value of money. Where a cash transfer program requires the revalidation of eligibility criteria actuarial assumptions also include estimates of the proportion of those eligible at the reporting date who will revalidate their entitlement on a continuous basis and the period of time over which revalidation will continue.

According to ED 34 the best estimation of the present value doesn't have to be limited to the requirement that an individual or household must satisfy all eligibility criteria at the book closure date. This means in practice subjectivity and may complicate comparativeness of information between different national governments. Even small changes in certain parameters (for instance, the discount rate and life expectancy) may cause tremendous changes in the amounts of liabilities in the balance sheet.

IPSASB has noticed the limitations of general purpose financial statements and concludes in the ED 34 that the required information can be disclosed in other separate disclosures. It states that fiscal sustainability reporting may be a more versatile accountability tool than accrual-based financial statements.

4. Conclusions

When a regulator chooses the general accounting framework of for-profit organizations for tax financed government entities, troubles will be unavoidably met. According to Falkman less than half of the postulates and principles of mainstream commercial business accrual accounting is suitable for national government entities (Falkman 1997, 166–167). IPSAS-standards based on IAS/IFRS standards are not a good theoretical foundation for presentation of financial statements of public sector entities (Luoma, Oulasvirta ja Näsi 2007, 67). The IAS/IFRS standards are based on a balance sheet approach were market values of assets and liabilities are decisive. This leads to volatility in balance sheet items that do not serve in the best possible way the needs of information regarding performance of public sector entities. It would also complicate the work of auditors (Benston, Bromwich and Wagenhofer 2006, 185).

Traditionally expense and revenue items in Finnish public sector accounting have been based on historical costs and on a realization principle. McCullers and Schroeder states (1982, 72) that accountants used to take generally the position that the best indicator of the future is past performance and that reporting anticipated gains involves an element of subjectivity in the calculation that could impair the usefulness of financial statements. This thinking holds well in Finnish public sector accounting so far.

In the private sector financial statements are useful for such information users, who mainly have access only to published external financial statements for their investment decisions. Financial statement of low quality may keep investors uninformed of all liabilities and debts, which may cause suboptimal decisions (Schipper 2007). In the government sector decision usefulness is connected to the information needs of decision makers, politicians representing voters and government servants preparing decisions and implementing decisions. These groups are citizens excluded (but represented by politicians) inside the government organization and they have all the possible ways to get all kind of information produced and available inside the government – their position is far better than the position of external information users in the private sector. Falkman concludes based on this that the private sector commercial accounting theory of foremost users of financial statement information is not suitable to the national government (Falkman 1997, 102).

According to Sterling (1981, 89–90) the theory of decision usefulness should be based on how bookkeeping produces input to the decision making in question – the information needs are derived from the decision making theory. The decision making theory and information needs are different in the government sector than in the for-profit organizations operating in the markets. In the government sector control of budget implementation matters and accountability concerns not only financial performance but also operative and non-financial performance result (Christensen and Skærbæk 2007).

One important quality attribute of financial statement information is that the costs are not higher than the benefits of that information produced. IPSAS standards would mean added costs of producing information compared to present way of producing general purpose financial statements in the Finnish government sector.

Undoubtedly the Parliament has a need to get a fair and true view of government liabilities regarding employee pension benefits and social policy cash transfers and the impact of these liabilities on government financial position in the future. However, this needed information can be given in government annual reports to the Parliament, in the notes to the financial statements and in the government budget plans and budget outturn reports. It is not necessary to include this information in the balance sheet.

Even if the balance sheet would better follow accrual basis it would also contain more subjectivity and predictions than before, and this could impair the information usefulness of the official financial statement.

Changes in used parameters in actuarial calculations may cause tremendous changes in the amounts of liabilities in the balance sheet. A good example of this is that the Finnish State Treasury calculated in the notes of the financial statement of year 2005 that the employee pension liability is 57,6 milliard €. One year later State Treasury calculated that the state employee pension liability was in the end of year 2006 79,3 milliard € (State Pension Fund, Annual Report 2006, p. 16). The amount of pension liability rose with 20 milliard €! This astonishingly huge appreciation was due to changed and better statistical information than one year earlier.

A major part of social policy transfers belong to the Social Insurance Institution (Kela). The institute could inform of the basic pension liability and of the unfunded part of it in the annual report and in the notes to the financial statement. At the moment it reports only of the pension benefit liability of its own personnel.

The different ways in which the government gives information is summarized in the table.

As the table shows liabilities are not reported at the present situation enough systematically in Finland. But this doesn't mean that including the information to the balance sheet is the best solution. The possibilities for releas-

TABLE 1. Liabilities of employee pension benefits and social policy cash transfers in current Finnish government reporting

Reporting instrument	Liabilities (debts) of employee pension benefits	Liabilities (long-term) of social policy cash transfers
General purpose financial statements (whole of the government and its entities)	No	No
Notes to general purpose financial statements	Yes	No
Whole of the government annual report	A narrative explanation	No
State Treasury annual report	A narrative explanation	No
Other annual reports of government bookkeeping entities	No	No
Government budget plan	Some narrative explanation	Some narrative explanation
State Pension Institute financial statement and annual report	Presented in the notes and in the annual report narrative	No
The Social Insurance Institution financial statement and annual report	Pension liability regarding the own personnel of the institution	No

ing useful information of employee pension benefits and social policy liabilities are wider than just the balance sheet. The Finnish government budget plan contains already now a section of government financial policy and budget policy, government finances and sustainability in longer time period. It gives some information of predicted aging of population, retirement statistics and needs to fund money for future pension expenditures. This section could be developed further to contain also information of social policy transfer liabilities and their financial consequences. There could even be a separate new annex in the budget *predicting and describing the post-employment benefit liabilities and social policy liabilities*. At the same time the notes to general purpose financial statements could be developed and made more informative. The actuarial calculations should be explained in a transparent manner for information users. This would also contribute to the work of external auditors auditing not only the balance sheet but also the notes to the balance sheet.

Employee pension benefits and social policy commitments and liabilities have a tremendously important share in the government finances and in the lives of people living in the nation sate. The policy of presenting these kind of long-term liabilities should be systematic. This requires that public sector economic plans and balancing calculations should not only contain long-term liabilities but also predictions and forecasts of taxes and other government long-term receivables (assets) of the same planned or analyzed period. A financial statement including broadly defined long-term liabilities of pension benefits and social policy transfers but at the same time narrow tax income assessments based on already happened tax events will not give a balanced picture of development of the financial position of the government.

National governments have a well-grounded interest to do well their long-term fiscal sustainability reporting. Multi-year budget plans and international comparative frameworks developed for analysis of sustainability of public finances are important instruments (for instance, European Commission regular assessments of member state public finances). National statistical accounting and generational accounting are methods producing information for sustainability reporting (Ter Rele 1999).

The work of IFAC and IPSASB in creating international standards have highlighted the need for better reporting of long-term liabilities. IPSASB has wisely formed a view that the financial statements of an entity cannot satisfy all the needs of users in assessing the future viability of programs providing social benefits and that information presented in the financial statements may need to be complemented by the presentation of other information about the long-term sustainability of those programs, including their financing (IPSASB Project Brief, p. 3). The expression "may need to be complemented by the presentation of other information" proves that IPSASB is very cautious – for a public sector researcher acquainted with the wide variety of government reporting and conscious of the limitations of external financial statements developed in the business accounting this need of other reporting is self-evident. Even if it may go beyond the role of a standard setter for accrual based general purpose financial statements, IPSASB has launched a project regarding long-term fiscal sustainability reporting (look IPSASB Project Brief). This project may produce useful recommendations or standards for national governments.

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ANNEX 1. Defined benefit plans according to IPSAS 25

IN7. All other post-employment benefit plans are defined benefit plans. Defined benefit plans may be unfunded, or they may be wholly or partly funded. The Standard requires an entity to:

(a) Account not only for its legal obligation, but also for any constructive obligation that arises from the entity's practices;

(b) Determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date;

(c) Use the Projected Unit Credit Method to measure its obligations and costs;

(d) Attribute benefit to periods of service under the plan's benefit formula, unless an employee's service in later years will lead to a materially higher level of benefit than in earlier years;

(e) Use unbiased and mutually compatible actuarial assumptions about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries, changes in medical costs and relevant changes in state benefits). Financial assumptions should be based on market expectations, at the reporting date, for the period over which the obligations are to be settled;

(f) Determine a rate to discount post-employment benefit obligations (both funded and unfunded) that reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations.

(g) Deduct the fair value of any plan assets from the carrying amount of the obligation. Certain reimbursement rights that do not qualify as plan assets are treated in the same way as plan assets, except that they are presented as a separate asset, rather than as a deduction from the obligation;

(h) Limit the carrying amount of an asset so that it does not exceed the net total of:

(i) any unrecognized past service cost and actuarial losses; plus

(ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan;

(i) Recognize past service cost on a straight-line basis over the average period until the amended benefits become vested;

(j) Recognize gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss should comprise any resulting change in the present value of the defined benefit obligation and of the fair value of the plan assets and the unrecognized part of any related actuarial gains and losses and past service cost; and

(k) Recognize a specified portion of the net cumulative actuarial gains and losses that exceed the greater of:

(i) 10% of the present value of the defined benefit obligation (before deducting plan assets); and

(ii) 10% of the fair value of any plan assets.

The portion of actuarial gains and losses to be recognized for each defined benefit plan is the excess that fell outside the 10% ‘corridor’ at the previous reporting date, divided by the expected average remaining working lives of the employees participating in that plan.

The Standard also permits systematic methods of faster recognition, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. Such permitted methods include immediate recognition of all actuarial gains and losses in surplus or deficit. In addition, the Standard permits an entity to recognize all actuarial gains and losses in the period in which they occur outside surplus or deficit in the statement of changes in net assets/equity for the year in accordance with paragraph 118(b) of IPSAS 1.