



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality

Luxembourg,
ESTAT/D-2/LA/LFO/PDR/RJ/pb (2018)

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**Subject: Classification of entities guidance request
United Organization of Supplementary Pension and Health Care
Insurance of Journalists (EDOEAP)**

**Reference: Your letter Γ1-1011 of 18/12/2017
Our emails of 21/12/2017 and 14/03/2018; Your emails of 16/02/2018 and
of 21/03/2018**

Dear Ms Stavropoulou,

Thank you for your letter requesting Eurostat's opinion on the United Organization of Supplementary Pension and Health Care Insurance of Journalists (EDOEAP). In accordance with Council Regulation (EC) No 479/2009 article 10, paragraph 1, after examining your request, please find below Eurostat's view on the sectorization of the above-mentioned unit in the light of ESA 2010.

1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED

The issue to be analysed is the sector classification of the United Organization of Supplementary Pension and Health Care Insurance of Journalists (EDOEAP), an entity responsible for providing supplementary pensions, lump sum pensions and health insurance to journalists and media employees, owners and shareholders.

Together with the request for advice, ELSTAT has provided a note with its analysis on this case, concluding that the entity should remain classified outside the government sector in the framework of ESA 2010. EDOEAP's financial statements, the statute and the relevant Laws were also provided to Eurostat.

2. METHODOLOGICAL ANALYSIS

2.1. Accounting provisions

Institutional units and groupings of units are defined in ESA 2010 chapter 2.

Social insurance including pensions are defined in ESA 2010 chapters 17 and 20 (20.38-20.39; 20.67).

The ESA 2010 Manual on Government Deficit and Debt, notably Part I.3 on Pension institutions is also applicable.

2.2. Description of the case

The United Organization of Supplementary Pension and Health Care Insurance of Journalists (EDOEAP) is a legal entity of private law, established in 1968. The main objectives of the entity are the provision of supplementary monthly pension, lump sum pension and health insurance for the insured. EDOEAP insured members are the journalists and the personnel as well as owners/shareholders of the Greek media enterprises.

According to the legal provisions (Article 24, 2017 Law), the sources of EDOEAP revenue are employees and employers monthly contributions, interest revenue from assets, as well as a 2% of media companies' turnover tax and a 2% levy on advertisement revenue.

The Greek statistical authorities consider EDOEAP as an institutional unit. It is able to draw up a complete set of accounts, to own assets and to incur liabilities on its own behalf and take economic decisions for which it is responsible and accountable at law.

The Greek statistical authorities consider that, for EDOEAP, there are no elements of public control according to ESA2010. Of the 11 board members, one member is appointed by the employers and the remaining ten members are appointed by the unit's General Assembly, which consists of all the insured members. According to current legislation, there is no provision for government to step in as a payer of last resort in case of unit's inability to cover the supplementary pensions, the health care insurance cost or the one-off pension payments.

The Greek statistical authorities consider EDOEAP as an 'other employment-related' defined benefit pension scheme, and classify it in S.129.

2.3. Eurostat's analysis

Eurostat considers that the nature of the scheme is important as regards its sectorization. In addition, it is also important to determine what the genuine role of government is, in relation to the scheme.

EDOEAP as a 'social insurance scheme'

EDOEAP is a an entity running an insurance scheme that covers social risks – pension and health – where participants are obliged or encouraged by a third party to participate. Therefore, the scheme in question is a social insurance scheme according to ESA 17.01.

As defined in ESA 17.02, social insurance schemes can be of two types: employment related schemes, or social security schemes. The issue is thus to determine in which of these two types EDOEAP falls into.

Unfunded nature of the scheme

From the information provided by the Greek statistical authorities, it could seem plausible that EDOEAP may be considered as a multi-employer pension scheme, as foreseen in ESA 17.76, with EDOEAP acting as both pension administrator and pension manager (ESA 17.74 and 17.75).¹

However, a key aspect to consider is whether, or to what extent, the EDOEAP pension scheme is funded. That is, whether either the outstanding pension entitlements or at least the earmarked investments for the future pensions are fully recognised and shown in the entity's balance sheet.

Unfunded schemes are financed on a pay-as-you-go (PAYG) basis, with contributions collected in a period used to finance benefits in the same period. In such schemes, no substantial assets/liabilities are shown on the balance sheet.

In ESA 2010, for a social insurance scheme and its associated fund to be classified in the S.128 or S.129 sector (that is: to be considered as an employment related scheme), the entity has to be engaged in financial intermediation. This implies acquiring assets by way of issuing liabilities, and conducting a some sort of transformation activity, which manifests itself by some pooling of risks.

As such, mono-employer pension schemes that are seen as similar to insurers do recognise liabilities in their accounts in the form of pension entitlements (AF.63), calculated following actuarial valuation, and do accumulate significant assets. Any difference between the recognised liabilities and the accumulated assets is shown as a claim on the 'pension managers' (AF.64 – see ESA 17.120). Entities that do not recognise pension related liabilities or have no accumulated assets to any significant extent cannot be seen as engaged in financial intermediation.

This seems to be the case here, as EDOEAP's financial statements neither recognise outstanding pension liabilities nor show corresponding assets either.

EDOEAP as an unfunded defined benefit scheme

The EDOEAP pension scheme is a 'defined benefit scheme' (as defined in ESA 17.57) and not a 'defined contribution scheme': the benefits are calculated according to scheme based formulas.

The MGDD Part I.3 Pension institutions, para 18 reads: *"One could fancy, a defined benefit scheme being unfunded. Present accounting regulations, however, make the existence of unfunded defined benefit schemes fairly unlikely in the corporations' sector; most applicable accounting directives prescribe all obligations of the corporation to be included in its balance sheet. Accordingly, unfunded defined benefit schemes would mainly be seen with government."*

¹ Under the specific terminology used in chapter 17 of ESA 2010, the 'pension manager' is in fact the entity that is exposed to the risks and rewards, while the 'pension administrator' is the pension fund itself. In the case of a defined benefit mono-employer scheme, the pension manager is thus the employer and the pension administrator is the fund itself. The latter has a claim on the manager (in the case the fund is under-funded) or possibly a liability (when the fund is over-funded, unless overfunding would not return to the manager in case of liquidation). See ESA 17.78 and 17.120.

Given that the EDOEAP scheme appears to be both unfunded and a defined benefits pension scheme, as indicated above, according to the MGDD, it should be classified inside the general government sector.

Tax revenue as main resources of EDOEAP

Aside from this, from the financial statements, it is also evident that the majority of revenue of EDOEAP is not coming from social contributions – as would be expected from an employment related social insurance scheme –, but from the so called *aggeliosimo* (αγγελιοσημου) tax. For example, in 2016, the social contributions constituted around 17.8% of total revenue, interest revenue 4% and the *aggeliosimo* tax 77.6%. As such, given its ability to levy taxes, according to national accounts rules, the entity should be classified as a government unit.

Alternatively, the tax collected would be rerouted through general government. However, still in this case, it is government who is *de facto* financing the scheme. Financing is an element of control when judging the scope of social security.

Last resort

The Greek statistical authorities emphasize in their analysis that government has no legal obligation to step in, as a last resort, in case EDOEAP would not be able to cover its obligations. According to them, this would be an obstacle to envisage the scheme as a social security scheme. Nevertheless it is important to clarify who will bear the risk that the funds may be insufficient, that is who has an effective obligation to supplement deficits, in practice as much as by statute.

From the information provided by the Greek statistical authorities, it seems that the EDOEAP board indeed defines the budget for the health care insurance according to the unit's financial potential and evaluates the financial data of the health care insurance section on an annual basis. The statute also foresees that the EDOEAP board has the right to reduce the supplementary pensions in case the entity does not have financial means to pay.

However, Eurostat notes that the approval of the Minister of Labor and social security is required in this latter case. In addition, in 2017, EDOEAP has received a 10 million EUR loan from the Single Social Security Institution (EFKA), so to cover its cash requirement. As a result, Eurostat is not convinced concerning who supports the risks of EDOEAP scheme.

In a number of countries, the social security sub-sector is composed by a fragmented number of entities that provide basic or supplementary social security cover to specific parts of the population, often as a result of the history of the emergence of social protection in each country. Such a fragmentation does not imply that they should not be considered as social security funds. One element for classification is the extent of the financial solidarity existing between those schemes.

Given that EDOEAP is largely financed from resources outside social contributions, significant financial solidarity *de facto* exists in this case, which suggests recognising it as a social security fund. In addition, as explained above, EDOEAP cannot be seen as meeting the financial intermediation criteria.

Social security filling the role of multi-employer scheme

Finally, ESA 17.44 as well as ESA 17.77 remarks that the social security function is in effect filling the role of multi-employer scheme. The ESA 2010 thus explicitly envisages a borderline between social security and multiemployer schemes. In addition, ESA 17.102 indeed explains

that both multi-employer schemes and social security schemes are two alternatives to relieve the employer(s) from further obligations past the contributions payable (obligations that otherwise exists in the case of a mono-employer defined benefit pension schemes).²

What distinguishes a scheme that may *a priori* appear a multi-employer pension scheme to be either a 'social security pension scheme' or a 'other employment-related pension scheme', is the extent to which the scheme accumulates enough assets, so to shoulder itself the full burden of the pension obligations incurred – that is: fully funded. That is, to what extent the multi-employer pension scheme can be said to generally be a pension manager (ESA 17.16) or not.

For this, it is essential that the scheme maintains a sufficiently large portfolio of assets, so to be deemed to have relieved the employers from their obligations while at the same time not depending from government funding. This is not the case of EDOEAP which not only has not accumulated assets to any significant extent but also is mostly dependant from government funding.

3. CONCLUSION

In conclusion, EDOEAP is a non-funded defined benefit pension scheme, which would generally prevent it to be seen as a financial intermediary. As a result, it cannot be seen as a multi-employer scheme in the meaning of ESA 2010. In addition, EDOEAP is predominantly financed by taxes, as such it should be classified to the institutional sector S.13. In the view of Eurostat, EDOEAP can be considered a social security scheme, given the ESA 2010 recognition that "*the social security function fills the role of a multi-employer scheme*" (ESA 17.44 and 17.77).

4. PROCEDURE

This view of Eurostat is based on the information provided by the Greek authorities and on the understanding of Eurostat of certain legal documents available to Eurostat only in Greek. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, or there may be inaccuracies in the assessment due to the translation risk, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt 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. Eurostat therefore publishes all official methodological advice (ex-ante and ex-post) given to Member States on its website.

² It should be noted that a scheme that would cover employees of a number of employers, but would segregate the assets and liabilities, while holding each employer liable for any observed imbalance would not be a multi-employer scheme in the meaning of ESA 2010 as defined by paragraph 17.76. By the same token, such a scheme would not be multi-employer either even if it would pool the assets invested, as long as it would hold each employer liable for observed imbalances in their employees' net position within the scheme.

Yours sincerely,

(e-Signed)

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Acting Director