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Actuaries Institute Australia

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Public Pensions and Implicit Debt: An Investigation for EU Member States Using Ageing Working Group Projections

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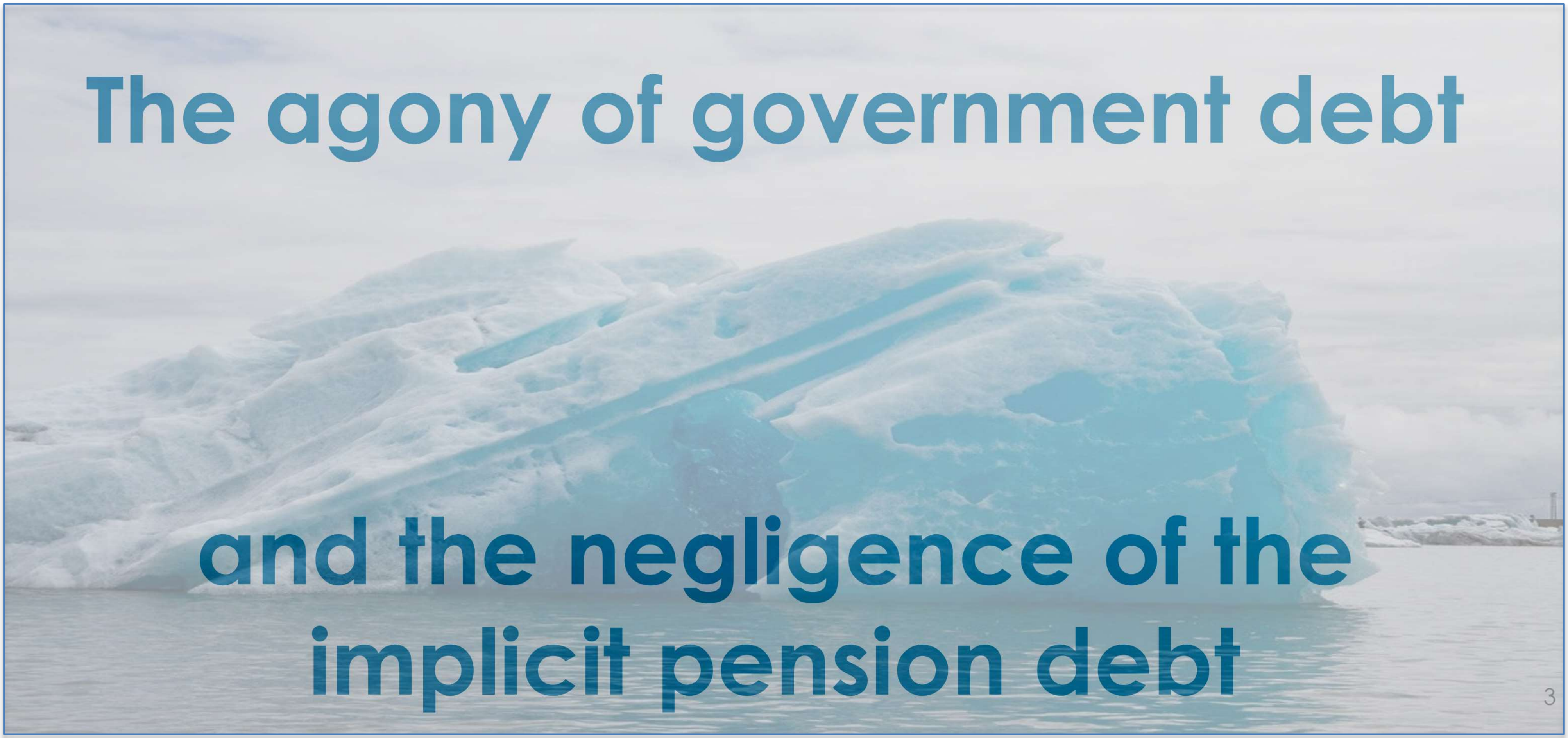
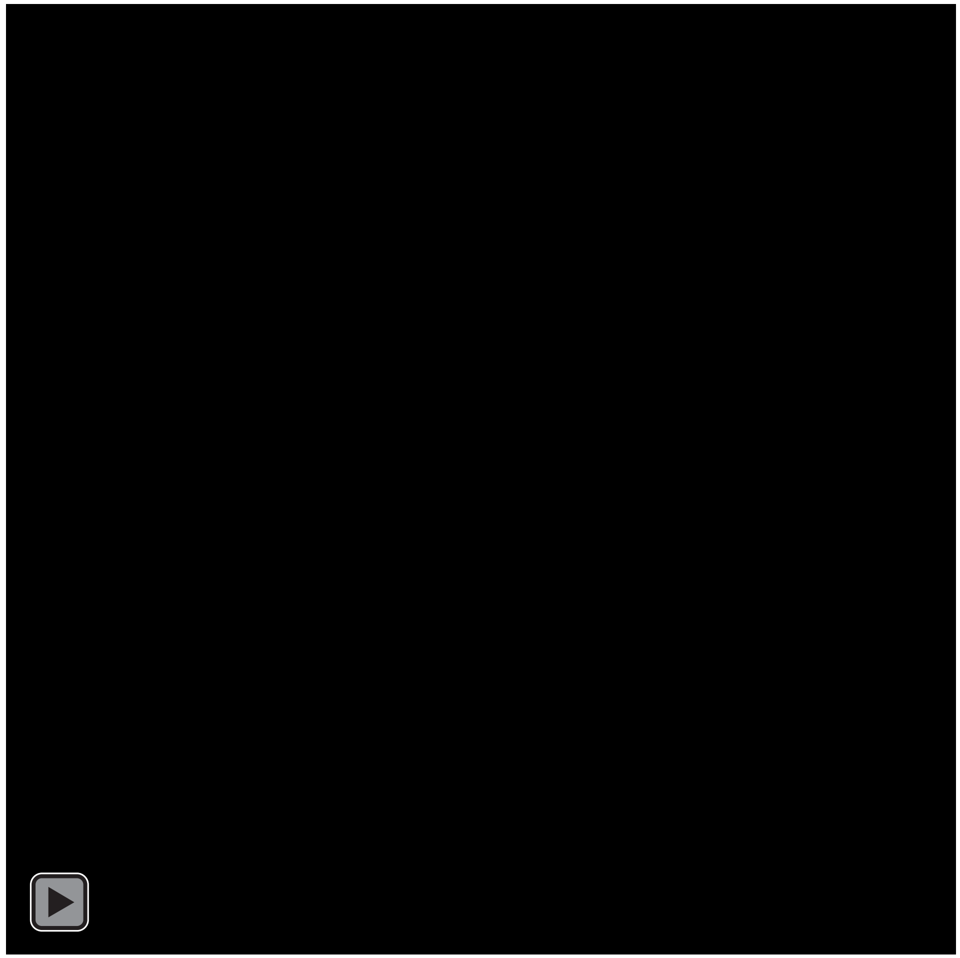

The agony of government debt
and the negligence of the
implicit pension debt

What do we mean by

IMPLICIT PENSION DEBT

The implicit pension debt is an assessment of the future obligations of the government on account of its contractual obligation to provide pension benefits. Since pension liability cash-flows resemble typical bond with uncertain coupon, the term 'debt' is used.



Explaining the differences

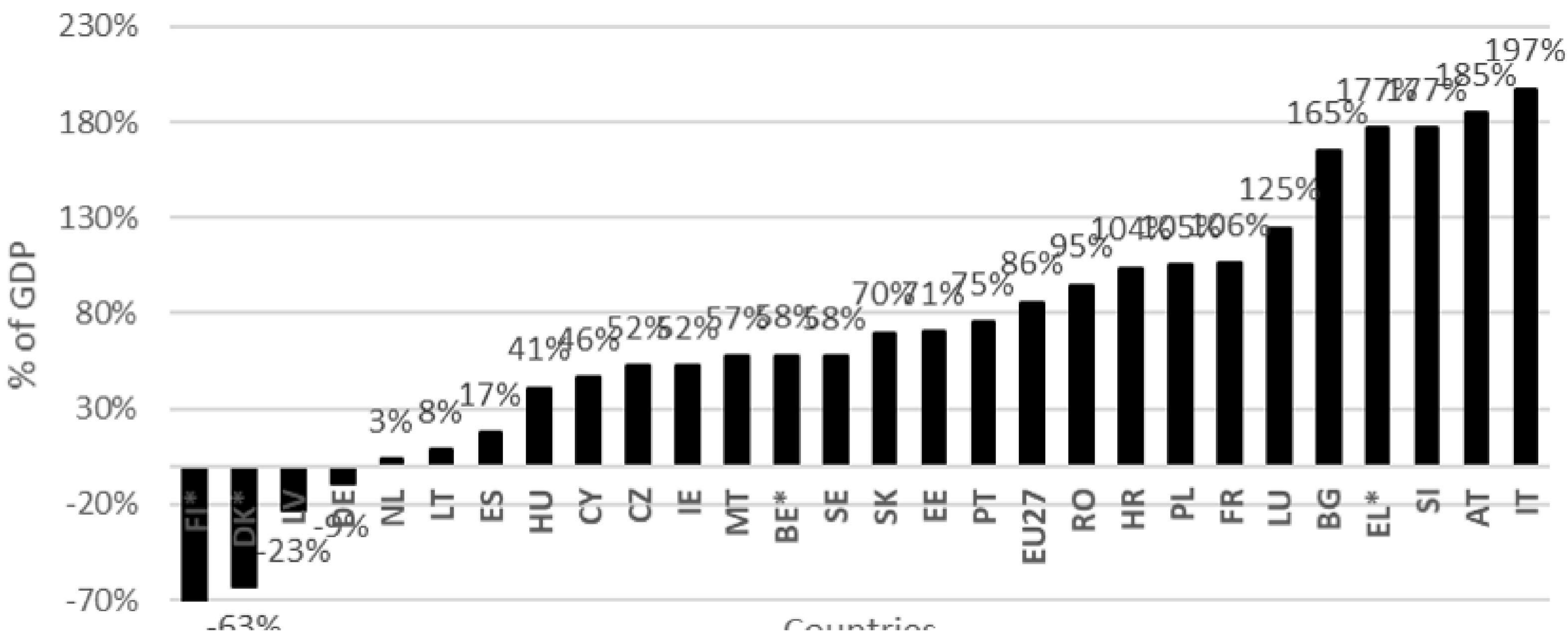
- Explicit
  - Refers to general government debt
  - Obligatory to report
  - Plays an important role in a country's borrowing capacity
- Implicit
  - Almost no one cares
  - Scarcely reported
  - Does not legally affect fiscal decisions
  - Markets do not evaluate it

A case study of the EU

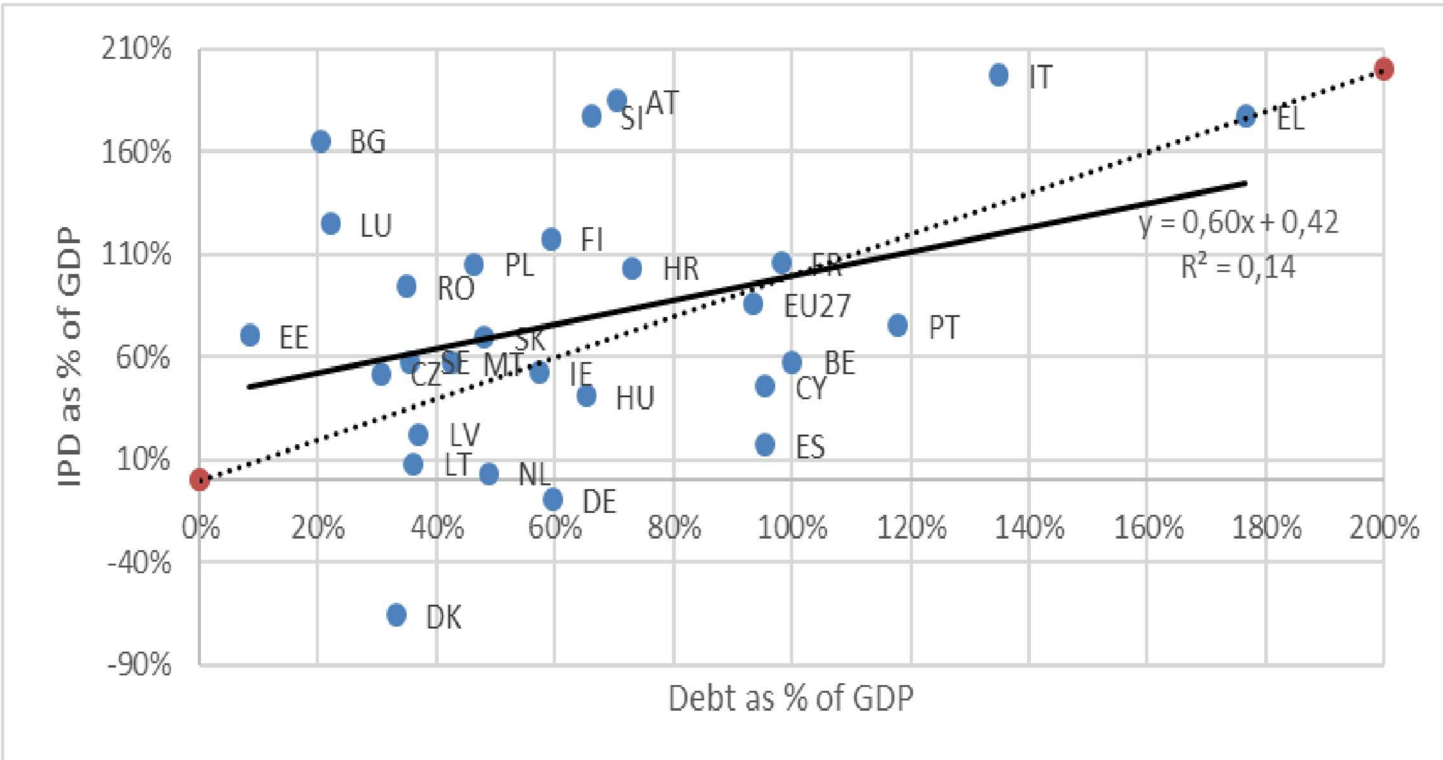
Methodology

- Make use of pension projection results of the EU countries published by the commission every three years
- Correct inconsistencies (Greece/Denmark/Finland/Belgium)
- Discount using a variety of rates (2% baseline)

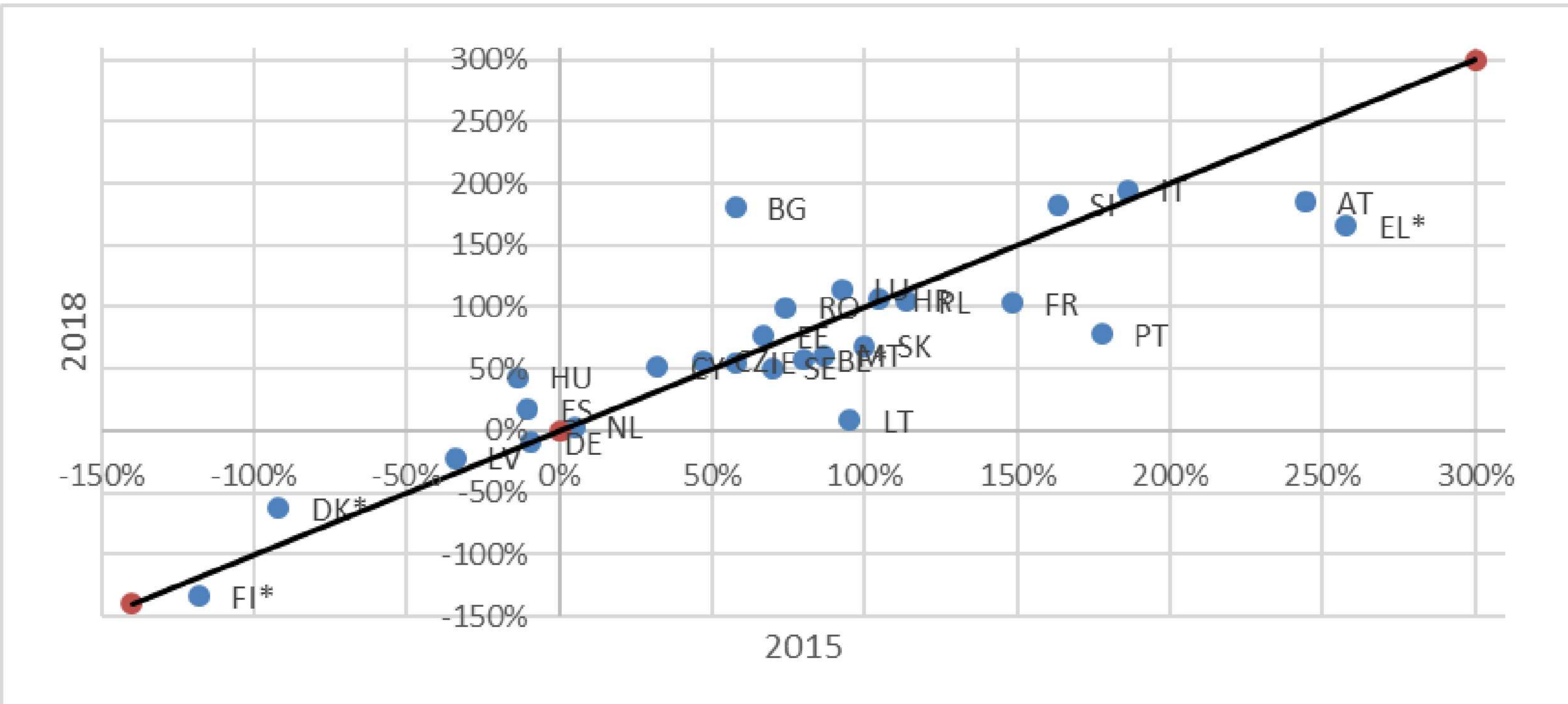
Results (1) – Implicit Pension Debt over GDP

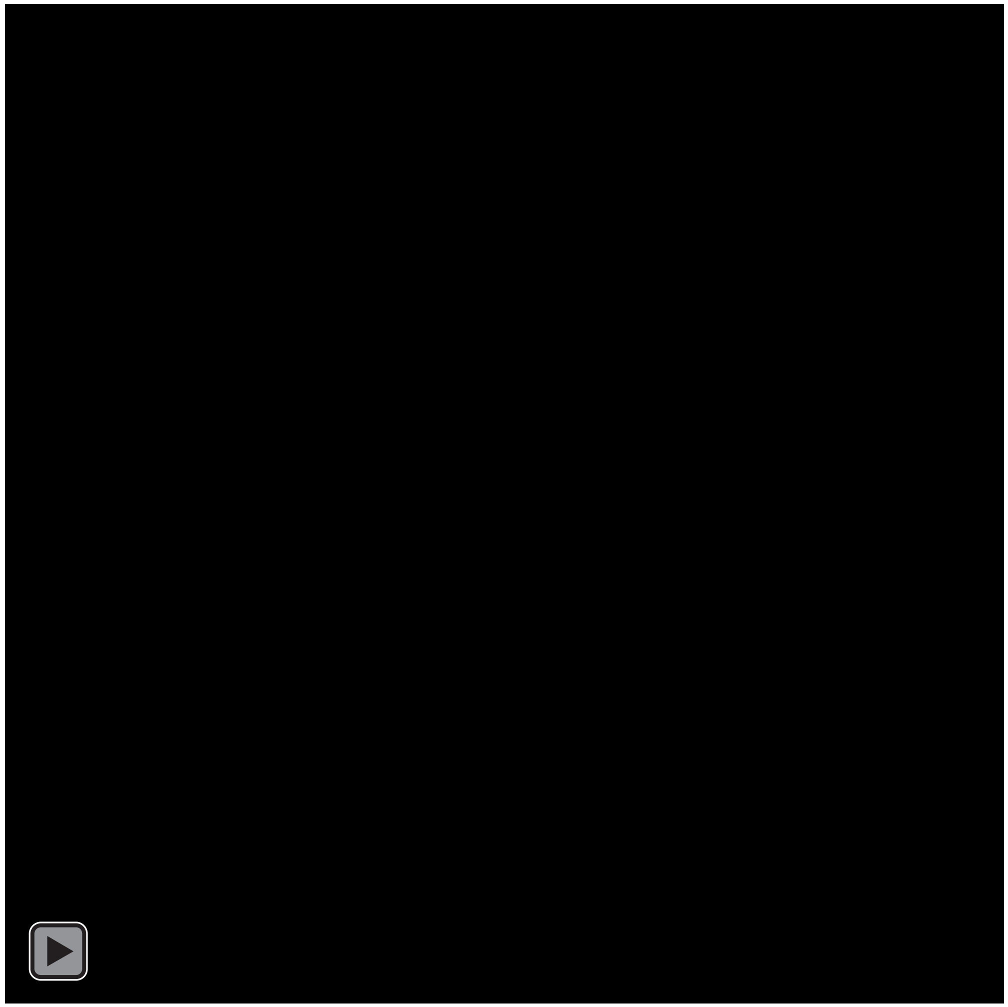


Results (2) – Comparison between Government Debt and Implicit Pension Debt (over GDP)



Results (3) – Comparison between Ageing Report Rounds 2018 and 2021





Is there more to IPD?

- Why do we not know more about the IPD?
- The role of International Public Sector Accounting Standards
- The brief interest expressed by the EC

- Paper link:
- https://www.mdpi.com/2227-9091/9/11/190
- LinkedIn Profile:
- https://www.linkedin.com/in/georgiossymeonidis/

Thank you!

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