Treatment of Retirement Benefits and Stock Options in National Accounting

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In national accounting, there is a framework consisting of three accounts, flow, stock, and reconciliation. In this framework, income gains in the flow transactions are distinguished from holding gains. However, it is hard to make a clear distinction in some aspects. This paper focuses on retirement benefits and stock options whose treatments have been frequently discussed in business accounting and examines how they should be treated in national accounting.

Recently, in business accounting, liabilities related to compensation, such as actuarial liabilities of retirement benefits and stock options, has been principally evaluated at fair value and some of gains/losses arising from revaluation of these liabilities has been already included in compensation cost. As for retirement benefits, the change in value of actuarial liabilities of defined-benefit pension plans are recorded as compensation cost in Japan's Accounting Standards and Financial Accounting Standards (FAS).[1] As for stock options, the Joint Working Group of Standard Setters in International Accounting Standard Committee (IASC) drafted a paper suggesting that the change in value of stock options during vesting period should be included in compensation cost, though this idea is not yet a majority opinion even in business accounting.

In Japan, the liability amount of defined-benefit pension plans cannot be ignored against the background of rapid aging. It is strongly required that such liabilities should be recorded at fair value in national accounting. However, the way of recording these liabilities is not precisely defined in 93SNA. If national accounting records gains/losses arising from revaluation as compensation of employees as business accounting does, this treatment will be inconsistent with that of gains/losses arising from changes in the benefits structure. In addition, from the practical point of view, this will probably make compensation extremely volatile. Once interest rates increase, actuarial liabilities may decrease rapidly and corporations may get windfall earnings. Considering these factors, it seems better to treat gains/losses arising from revaluation as holding gains.

As for stock options, it is inferred from the statement of 93SNA that the option premium at

[1] The business accounting standards in the United States.

the grant date should be regarded as compensation of employees. However, 93SNA does not refer to the treatment of gains/losses arising from revaluation either. In the US national accounts, gains arising from revaluation of stock options are widely recognized as compensation of employees.

From the viewpoint of consistency, it is obvious that national accounting should not include gains/losses in compensation costs. This is because the gains/losses of stock options reflect changes in stock prices directly. Our analysis suggests that the total amount of compensation of employees in US will change substantially if stock options granted after the mid-nineties are exercised one after another.

In summary, it is conceptually desirable, for the sake of consistency under the current SNA, to treat gains/losses arising from revaluation of retirement benefits and stock options as holding gains. Nevertheless, this conclusion is based on consistency and may not focus on the real essence of these liabilities. In a sense, they spotlight the recent actual economy where the distinction between income gains/losses and holding gains/losses are ambiguous. Thus, statisticians and compilers of national accounting should reexamine the concept of national accounting, and at the same time, should disclose detailed data. This will enable users to recompose the data and understand the impact of an alternative approach on the economy even under the present system of national accounts.

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