

**9th Meeting of the Advisory Expert Group on National Accounts,  
8-10 September 2014, Washington DC**

**Agenda item: 2.2**

**Table on household retirement resources<sup>1</sup>**

Introduction

Funding retirement incomes with an aging population, increasing debt concerns and the sustainability of consumption patterns are common issues to be addressed. Though the strategy of encouraging increased savings for retirement, via pension schemes and other initiatives is common to most countries, there are substantial differences in how these strategies have been implemented across countries. To facilitate the collection and dissemination of internationally comparable data the compilation on an additional table containing an overview of the household resources for retirement is proposed.

The proposal to develop an additional table on household retirement resources, called “table 17.xx”, was initially proposed at a workshop organised by the OECD and the Australian Bureau of Statistics (ABS) (Canberra, 22-24 April 2013). This table would not only include social insurance type of schemes, in line with table 17.10 of the 2008 SNA covering both entitlements recorded in the core system of national accounts and entitlements not recognised in the core, but also other resources households typically have available to save and prepare for retirement. A first prototype of table 17.xx was put forward to the Advisory Expert Group (AEG) on National Accounts, at its meeting of May 29 – 31, 2013 in Luxembourg. The AEG “supported the further development of a table on the assets of households specifically related to retirement, but also recognised that further work needs to be done to determine the scope of the assets to be included; and expressed reservations concerning the inclusion of social assistance schemes in the table”.

This short note contains a further elaboration of table 17.xx. It will subsequently deal with the scope of household retirement resources to be included, and the treatment of crossborder transactions and positions. A slightly revised table will be presented at the end of the note.

Guidance on documentation provided

Not applicable.

Main issues to be discussed

The AEG is requested to discuss, agree and/or provide further guidance on the following topics:

- The scope of assets to be included, in particular the delineation of individual type of schemes not related to social insurance, the inclusion of social assistance type of

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<sup>1</sup> The author of this paper would like to acknowledge the author(s) of the paper on pension entitlements, discussed at the AEG-meeting of May 29 – 31, 2013 in Luxembourg (paper SNA/M1.13/05). Substantial parts of this paper have been copied from the paper mentioned.

schemes, and the exclusion of social assistance benefits directly related to certain expenditures.

- The preferred treatment of entitlements held by resident households in the rest of the world, and of entitlements held by non-resident households in the domestic economy.
- The format of the proposed table.

## **Table on household retirement resources**

### **1. Introduction**

1. Funding retirement incomes with an aging population, understanding the obligations on government, increasing debt concerns and the sustainability of consumption patterns are common issues to all developed countries. Though the strategy of encouraging increased savings for retirement, via pension schemes and other initiatives, is common to most countries, there are substantial differences in how these strategies have been implemented across countries. The differences in the operation of pension schemes (and other arrangements to finance retirement) across countries result in difficulties in collecting and disseminating internationally comparable data.
2. Similarly the prioritisation of policy questions, and hence the information data set required to answer these questions, is different across countries. There seem to be two broad priorities that are related but distinct:
  - the ability of general government to meet its obligations leading to a focus on the liabilities of the general government sector; currently captured in the supplementary table 17.10 of the 2008 SNA ( ESA 2010, Table 29); and
  - the ability of households to fund their lifestyles in retirement leading to a focus on the assets of the household sector; currently not adequately captured in table 17.10 (ESA 2010, Table 29).
3. The second issue mentioned above has led to the development of a proposal for an additional table, called “table 17.xx”, which may provide more extensive and detailed information on the various household resources for retirement. A first prototype of a table 17.xx was put forward to the Advisory Expert Group (AEG) on National Accounts, at the meeting held on May 29 – 31, 2013 in Luxembourg. The AEG “supported the further development of a table on the assets of households specifically related to retirement, but also recognised that further work needs to be done to determine the scope of the assets to be included; and expressed reservations concerning the inclusion of social assistance schemes in the table”.
4. This short note contains a further elaboration of table 17.xx. Section 2 briefly discusses the proposed scope of assets to be included in the table on household retirement resources, while section 3 dwells upon the treatment of holdings across the borders of a country. Finally, section 4 provides a more detailed description of the various elements in the proposed table.

### **2. The scope of asset to be included in table 17.xx**

5. The main purpose of table 17.10 is to provide comprehensive information on all pension schemes of which the entitlements may or may not be recognised and recorded in the core system of national accounts, to arrive at an internationally better comparable set of data on pension liabilities. However, table 17.10 does not allow for a number of schemes which are designed to encourage household savings for retirement which are not part of social insurance, and therefore does not present a complete picture of household

preparedness for retirement and consequently of households financial wealth after retirement. For example, private savings schemes taken out by households solely on their own initiative and not linked to employment but which provide tax incentives for retirement savings. In some countries, these schemes can represent a substantial part of households' assets related to pensions. The inability to report these schemes has revealed that a fundamental problem with table 17.10 is that it was designed for economies where pension or social security schemes have not been funded. Another area not covered by table 17.10 and highlighted at the OECD-ABS Workshop was the importance of the old age pension, organised via social assistance schemes, as a form of retirement benefit in some countries. For example, in New Zealand nearly three quarters of pension benefits received by current retirees comes from the old age pension (known as "New Zealand Superannuation").

6. The revised table 17.xx includes columns (A, B, C and D) for reporting retirement assets related to (individual) life insurance and assets held directly by the household sector which are not covered in Table 17.10. Columns A and B concern (individual) life insurance, as defined according to the 2008 SNA. The relevant assets and liabilities may not always be related to retirement as such, but most of the individual life insurance policies taken out serve the same goals as social insurance type of pension schemes, either allowing for income after retirement or income to survivors. The counterparty sector for these types of liabilities would usually be insurance corporations in- or outside the domestic economy. It is further proposed to make a distinction between annuities, yielding a lump sum at a given date (see SNA 2008, para. 17.66 and further), and other life insurance policies. In this respect, one can observe that, for example in Canada and the USA, money moves out of pension schemes (defined benefit or defined contribution) and into annuities. This can take place at retirement and the annuity represents a payment mechanism for the liquidation of assets which have accumulated during employment.
7. Column C represents private savings schemes taken out by households solely on their own initiative and not linked to employment but which provide tax incentives for retirement savings. Column C would be used for assets of the household sector such as the Individual Retirement Account (IRA) in the USA or the registered retirement savings plan (RRSP) in Canada. Governments encourage households to save for retirement by offering tax incentives which permit the deferral of current income tax. As companies in Canada have evolved away from defined benefit schemes, households have been encouraged to save in these types of schemes in preparation for retirement and these assets are earmarked and held in trusts for individuals.
8. Column D would represent country-specific individual (savings) schemes, not being part of the other arrangements included in columns A to C. It is requested to specify this latter type of schemes.
9. Columns F to L represent the social insurance type of schemes which are also included in table 17.10. For a more detailed description of the contents of these columns, reference is made to the 2008 SNA, chapter 17, part 2, more specifically section K. It is proposed to add a column M for social assistance type of schemes, which would consist of schemes providing a minimum level of income in the case of retirement. These type of schemes only differ from similar social security type of schemes, in that no dedicated social contributions are collected to finance (part of) the benefits. The financing is usually done

through the collection of more generic types of taxes. Apart from providing the same type of future benefits, the similarity with social security type of schemes can also be quite substantial in other aspects, considering, for example, that in some countries the eligibility for social security type of minimum pensions is based on the number of years one is resident in the country, and the collection of contributions is highly integrated with and almost indistinguishable from the collection of taxes, while any shortfall of contributions is covered with transfers out of generic taxes. On the other hand, it is proposed that social assistance benefits which are directly related to certain expenditures like health care are not included here.

*The AEG is requested to discuss, agree and/or provide further guidance on the following:*

- *Does the AEG agree with the scope of assets to be included, in particular the delineation of individual type of schemes not related to social insurance, the inclusion of minimum income social assistance type of schemes, and the exclusion of social assistance benefits directly related to certain dedicated expenditures?*

### **3. The treatment of holdings across the borders of a country**

10. The counterpart of some of the domestic liabilities related to retirement may be held by non-residents, while on the other hand resident households may have assets in the rest of the world. Given the nature of the relevant assets, in most countries this will only be a marginal issue. However, for smaller countries, the crossborder transactions and positions can be quite substantial. Taking into account the availability of data and what exactly one would like to show in table 17.xx, there are three ways to cope with this divergence between assets and liabilities:

- Simply limiting the contents of table 17.xx to the assets of resident households, either held domestically or held in the rest of the world.<sup>2</sup>
- Recording of the counterpart of domestic liabilities in columns A to O and rows 1 to 11, and add two columns to subtract non-resident holdings in the domestic economy, and to add resident holdings in the rest of the world; see columns P and Q (and R) in the attached table.
- Recording of the counterpart of the domestic liabilities in columns A to O and rows 1 to 11, and add two rows to subtract non-resident holdings in the domestic economy and to add resident holdings in the rest of the world; see rows 12 and 13 (and 14) in the attached table.

Please note that one could also combine option 1 with either option 2 or 3, by having the total assets of resident households for columns A to E, and combining this with the initial recording of the counterparty assets of the domestic liabilities for the other schemes. Furthermore, please note that the terminology of the various columns depends on the choice between option 1 versus options 2 and 3. The terminology in the attached table is according to the latter options.

11. The first option is the most clean and concise one. However, in this case, one may lose the direct connection with table 17.10 on liabilities, unless one adds the columns with crossborder transactions and positions. For larger countries, with marginal crossborder positions, this may be of minor importance and this first option may work out quite well, however it may be less informative for smaller economies. Furthermore, for countries,

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<sup>2</sup> Please note that one could extend this option with two columns showing the crossborder transactions and positions.

with more substantial cross-border positions, one would need to have the full details of the relevant crossborder transactions and positions to be able to compile the table.

12. In the second option, the connection with the liabilities is maintained. However, one would still need to compile the full details of the crossborder transactions and positions, that is to say for the total of all types of household retirement resources. The third option is less demanding in this respect, as one would only need information on the total crossborder positions, and not all the detailed information on transactions.

*The AEG is requested to discuss, agree and/or provide further guidance on the following:*

- *Which option for the recording of crossborder transactions and positions would the AEG prefer? What would be the main criteria for this choice?*

#### **4. Some more details on the contents of the table**

13. The contents of the columns has been discussed in section 2, while the columns/rows for crossborder transactions and positions have been the subject of section 3. In this section, the contents of some rows will be discussed. Doing so, only the differences with table 17.10 will be taken on board, for the other rows reference is made to the 2008 SNA, para. 17.201 to 17.206.
14. First of all, as was already included in the proposal presented at the 2013 meeting of the AEG, row 2.5 on the service charges has been added. As the contributions are recorded on a gross basis, i.e. without any deduction for the service charges, this item needs to be included. The same row should also be added to table 17.10 in the 2008 SNA. In addition, the row showing data on “output” at the bottom of table 17.10 has been excluded from the proposed table, as this would simply be a repetition of the data on service charges.
15. Furthermore, the row “Additions to less withdrawals from individual schemes not related to social insurance” (row 8) has been added, to show the financial transactions related to the schemes in columns A to D. One could also integrate this into the transactions recorded in rows 2 and 3. However, this has not been done for two reasons: (i) to have a closer alignment to the data recorded in the core system of national accounts; and (ii) to avoid having to change the wording of the transactions using a terminology which is not included in the 2008 SNA.
16. Finally, as in the previous proposal, a row on "Valuation method of entitlements" is included to indicate the basis of valuation for the pension entitlements. Accumulated benefit obligation as well as projected benefit obligation are methods for the evaluation of defined benefit plans. Other valuations should be noted such as market value in the case of defined contribution plans or household retirement resources recorded in columns A to D. This kind of meta information may need further consideration in the context of the broader discussion on the need for adequate metadata.

*The AEG is requested to discuss, agree and/or provide further guidance on the following:*

- *Does the AEG agree with the proposed format of table 17.xx on household retirement resources, taking into account the choice for recording crossborder transactions and positions as included in section 3?*

**Table 17.xx: Household Retirement Resources**

Row number	Position / transaction / other flows	Liabilities appear in the core national accounts											Liabilities do not appear in the core national accounts							
		Not related to social insurance					Related to social insurance								N = E to M	O = D+N	P	Q	R = O+P-Q	
		A	B	C	D	E = A to D	Non-general government		General government											
							F	G	General government employee defined benefit schemes		L	M	Total resident and non-resident household retirement resources related to social insurance (with liabilities in the domestic economy) and related to social assistance							
H	I	J	K	L	M	N = E to M	O = D+N	P	Q	R = O+P-Q										
	<b>Opening balance sheet</b>																			
1	Total household retirement resources																			
	<b>Transactions</b>																			
2 = 2.1 to 2.5	Social contributions relating to pension schemes																			
2.1	Employer actual social contributions																			
2.2	Employer imputed social contributions																			
2.3	Household actual social contributions																			
2.4	Household social contribution supplements																			
2.5	Less Service charges																			
3	Other (actuarial) accumulation of pension entitlements in social security funds																			
4	Pension benefits																			
5 = 2+3-4	Adjustment for the change in pension entitlements																			
6	Change in pension entitlements due to transfers of entitlements																			
7	Change in entitlements due to negotiated changes in scheme structure																			
8	Additions to less withdrawals from individual schemes not related to social insurance																			
	<b>Other economic flows</b>																			
9	Revaluations																			
10	Other changes in volume																			
	<b>Closing balance sheet</b>																			
11	Total household retirement resources																			
12	Household retirement resources owned by non-resident households in the domestic economy																			
13	Household retirement resources owned by resident households in the rest of the world																			
14 = 11-12+13	Total household retirement resources of resident households																			
	<b>Related indicators</b>																			
	Assets held by pension schemes at end-year																			
	Valuation Method for entitlements																			

Empty cells show where entries appear in the main ("core") accounts.  
 Black cells show where no entry is appropriate.  
 Grey cells show where information is provided in the supplementary table only.

