

**11th Meeting of the Advisory Expert Group on National Accounts,
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Agenda item: 2.2

The SNA Supplementary Pension Table

Introduction

The 2008 SNA introduced a supplementary table on pensions in social insurance, in recognition of complexity of pension arrangements in some countries and the potential overlap between employer pension schemes and social security. The SNA allows some flexibility regarding the recording of pension entitlements of unfunded pension schemes sponsored by government for employees. The table provides a complete overview of pensions in social insurance, and allows users to compare the data of countries which have, or have not, used the flexibility offered by the SNA. This document draws on experience in Europe in compiling the table, and explains a proposal by the OECD to collect the table from countries outside Europe.

Documentation

A paper on: **The SNA Supplementary Pension Table**

Main issues to be discussed

The AEG is requested to take note of the experiences and discuss:

- Given the practical experience so far in compiling the table, can we conclude that the overall table design is proving fit for purpose?
- Are there borderline (conceptual) issues which remain to be resolved?
- What should the main communication focus be when communicating the table to users?

1. INTRODUCTION

Among the improvements introduced by the 2008 SNA was enhanced reporting on pensions. The framework of a supplementary pension table on accrued-to-date pension entitlements in social insurance (afterwards "the supplementary table" or "the table") is particularly important in the context of an ageing society where comprehensive information on pensions is indispensable.

The SNA 2008 is implemented in Europe through the European System of Accounts 2010 (ESA 2010), which is a legal instrument applicable directly to European Union member countries, and followed by other European countries. The ESA 2010 establishes methodological rules and also the data which countries are obliged to transmit to Eurostat.

Reflecting the complexity of pension schemes in Europe, with a strong and often dominant role of social security-based schemes, and the need for comparability across European countries, the ESA 2010 implemented the flexibility provided for in SNA 2008 with respect to unfunded pension schemes sponsored by government. The ESA 2010 reports in its central framework all employment-related pension entitlements outside general government, irrespective of whether the schemes are funded or not, and funded pension schemes sponsored by government. In addition to the central framework data, the supplementary table on pensions presents all accrued-to-date pension entitlements in social insurance, including unfunded government pension schemes and social security pensions.

The supplementary table presents data from the accounting perspective for another angle of economic and policy analysis: accrued-to-date pension entitlements are entitlements earned by the current workforce and current pensioners by the end of the reporting period. They provide an estimate of the cost of a hypothetical termination of a pension scheme without reneging on accrued entitlements.

Pension entitlements reported in the supplementary table represent household pension assets, which are valuable statistical information for the analysis of household wealth, as well as consumption and saving decisions.

EU countries have a legal obligation to report the supplementary table to Eurostat (known as "Table 29" because it is the 29th table of the ESA 2010 transmission programme). Hence there has been a strong level of implementation activity over recent years, in the run up to the first compulsory transmission of the table to Eurostat by the end of 2017.

2. OUTLINE OF THE SUPPLEMENTARY TABLE

The supplementary table presents in its rows a full reconciliation of the change from an opening stock of pensions entitlements, to a closing stock of pension entitlements. These changes consist of transactions (both actual and imputed) such as social contributions and social benefits paid, and other flows, which are related to revaluation and modelling effects.

Supplementary table on accrued-to-date pension entitlements in social insurance

| Relations | Row No. | Recording | Core national accounts | | | | | | Not in the core national accounts | Total pension schemes | Counterparts: Pension entitlements of non-resident households ⁴⁾ | | |
|--------------------------------------|--|---|--|--|------------------------|------------------------------|--|--------------------|-----------------------------------|-----------------------|---|---------------------------------|--|
| | | | Pension manager | | Non-general government | | | General government | | | | | |
| | | | Defined contribution schemes | Defined benefit schemes and other ¹⁾ non-defined contribution schemes | Total | Defined contribution schemes | Defined benefit schemes for general government employees ²⁾ | | | | | Social security pension schemes | |
| Classified in financial corporations | Classified in general government ³⁾ | Classified in general government | | | | | | | | | | | |
| Column number | A | B | C | D | E | F | G | H | I | J | | | |
| | | | Opening balance sheet | | | | | | | | | | |
| | 1 | Pension entitlements | | | | | | | | | | | |
| | | | Changes in pension entitlements due to transactions | | | | | | | | | | |
| | Σ 2.1 to 2.5 | Increase in pension entitlements due to social contributions | | | | | | | | | | | |
| | 2.1 | Employer actual social contributions | | | | | | | | | | | |
| | 2.2 | Employer imputed social contributions | | | | | | | | | | | |
| | 2.3 | Household actual social contributions | | | | | | | | | | | |
| | 2.4 | Household social contribution supplements ⁵⁾ | | | | | | | | | | | |
| | 2.5 | Less: Pension scheme service charges | | | | | | | | | | | |
| | 3 | Other (actuarial) change of pension entitlements in social security pension schemes | | | | | | | | | | | |
| | 4 | Reduction in pension entitlements due to payment of pension benefits | | | | | | | | | | | |
| | 2 + 3 - 4 | Changes in pension entitlements due to social contributions and pension benefits | | | | | | | | | | | |
| | 6 | Transfers of pension entitlements between schemes | | | | | | | | | | | |
| | 7 | Change in entitlements due to negotiated changes in scheme structure | | | | | | | | | | | |
| | | | Changes in pension entitlements due to other flows | | | | | | | | | | |
| | 8 | Changes in entitlements due to revaluations ⁶⁾ | | | | | | | | | | | |
| | 9 | Changes in entitlements due to other changes in volume ⁶⁾ | | | | | | | | | | | |
| | | | Closing balance sheet | | | | | | | | | | |
| | 1 + Σ 5 to 9 | Pension entitlements | | | | | | | | | | | |

The columns of the table provide a breakdown by resident scheme, that is by pension manager (private/government) and by the nature of the scheme (defined contribution, defined benefit). The grey shaded columns (G and H) represent pension schemes for which pension entitlements are not recorded in the central framework ("core accounts"); columns A-F include pension schemes for which pension entitlements are recorded in the core

accounts. There is also a (voluntary) column for entitlements held cross-border, which are significant for some countries.

It is important to appreciate that some rows of the table represent 'balancing rows', which are effectively determined by the other rows of the table. For defined benefit schemes this is row 2.2 (employer imputed social contributions), whereas for social security schemes there is a special row (row 3 – other (actuarial) change of pension entitlements in social security pension schemes). It is therefore very important that all other rows of the table are correctly calculated so that these balancing rows do not include other (mismeasurement) effects.

3. IMPLEMENTATION OF THE TABLE IN EUROPE

As a broad background, it is important to understand that the European reporting system on age-related expenditure is multifaceted. While national accountants focus on already earned (accrued-to-date) pension entitlements¹, the European Commission, along with the Economic Policy Committee (EPC), analyses the impact of ageing on European societies from a wider perspective. The Ageing Report, produced by the Ageing Working Group (AWG), makes projections which include entitlements that will be accrued in the future², not only for pensions expenditure but also on health care and long-term care, with implications for the long-term sustainability of public finances. This has implications both for compilation (sharing of common assumptions) and the communication of pensions data in Europe.

As mentioned in the introduction, ESA 2010 requires EU countries to report supplementary table ("Table 29") data to Eurostat. The data must be reported every 3 years, starting at end-2017 for the year t-2 (i.e. data for the year 2015 to be reported by end-2017). There have been extensive preparations underway for some years.

Given the complexity of the recording of pension schemes, and the relatively high level rules provided for in the 2008 SNA and ESA 2010, a detailed methodological basis for compilation of Table 29 was developed - the Technical Compilation Guide for Pension Data in National Accounts. It was produced by Eurostat and the European Central Bank and released in 2011. To date it has proven very useful for compilers, notably with regard to the setting of assumptions and practical compilation issues.

In co-operation with other international institutions (ECB, OECD, ILO) Eurostat has run training courses and workshops to discuss technical and methodological aspects of pension entitlements compilation, to support NSIs and other data compilers to build the capacity for

¹ Also known as the "closed group" approach as it refers only to existing members of a pension scheme.

² This is known as the "open group" approach, as it includes both existing and future members of a pension scheme, and examines both future expenditure (pensions paid) and revenue (contributions).

Table 29 compilation and eventual mandatory data transmissions. Eurostat also carried out missions to a number of countries in order to collect further information on the experience of countries with respect compilation of pension entitlements, and provided bilateral advice when needed. Eurostat also provided grants to a number of interested countries in 2015, to assist in preparations to compile pension entitlements data.

The latest event took place on 26-27 April 2017 in Luxembourg: a workshop on methodological and other technical considerations of pension liabilities of social security schemes (in association with the ILO), jointly with a pensions expert meeting. The latter group discussed the initial proposals for a joint communication strategy on the first release of data on pension entitlements (see below).

Based on these preparatory steps, and from the many practical questions that arose across countries, one can draw out some key issues which had to be discussed and settled to ensure the highest possible comparability of data:

Scheme classification – many countries had initial difficulties to fully identify pension schemes and assign them to a column of the table. This was notably the case of hybrid schemes (with features of both defined contribution and defined benefit schemes), and those schemes with special post-retirement arrangements (e.g. where entitlements in compulsory defined contribution schemes have to be transferred to social security or to an annuity). The separation between government employee and social security schemes was also problematic in some countries, notably where civil servants participate in the social security scheme with the same or similar terms to other participants.

Delineation of "pensions" – the table is intended to be only for pension benefits. It became clear that many pension schemes include a variety of associated benefits, and which can be difficult or impossible to split out for compilation purposes. Some of these benefits are considered to be pensions (e.g. survivors' pensions), whereas others (e.g. disability benefits) may not be. There were also some difficulties to isolate the social contribution element for pensions from overall social contributions covering other social benefits.

Treatment of social assistance-like elements – some pension schemes, notably social security schemes, pay benefits which are not necessarily directly linked to social contributions (e.g. minimum pensions with no qualifying contribution period). It was necessary to determine when and how to incorporate these benefits in the table.

Discount rate – the level of the discount rate applied has major impacts on measured pension entitlements. During early discussions, there was a choice between using country or scheme-specific discount rates which could change rapidly over time, or using a single discount rate across all schemes and countries. It was agreed to use a common discount rate in Europe, set at the level used by the Ageing Working Group to ensure consistency (this is currently 3% real / 5% nominal), but with some sensitivity analysis to be presented to users (+/- 1%).

Nevertheless, in practice, many statistical offices have had to accept the discount rates applied in private pension source data, since they lack the detailed data and knowledge to correct the discount rates.

It has also been noticeable that some statistical offices have struggled to acquire the knowledge and expertise to compile the table, which has led them to draw on external (sometimes contracted) expertise. Close links established with Ageing Working Group members has proven helpful for the modelling of government schemes. Given the 3-yearly nature of the reporting obligation (which means most countries will not compile data annually at national level), there will be a challenge to retain accumulated knowledge and links for the following reporting exercise in 2020.

On a more positive note, one can also observe that the completion of the supplementary table has led to some countries re-assessing their compilation of data in the central framework, and therefore to improvements in the overall quality of pensions-related data in that framework.

Given that the supplementary table data set will be published in Europe for the first time in early-March 2018, and recognising the potential political sensitivity of the data, it has been important to pro-actively prepare a clear and coordinated communication approach and timetable well in advance, and to inform key users and stakeholders.

Some countries, such as the UK, the Netherlands and Estonia already have some experience in publishing Table 29 data, and a few other countries may do so in the coming months. Initial experience in these countries has been positive.

Communication efforts have already started. In 2016 Eurostat set up [webpages dedicated to pensions in national accounts](#) on its website. The pensions in national accounts website section gives an overview of pensions data collection, provides links to methodological materials, related Ageing Working Group publications as well as to national publications. The website also contains a data section presenting data of countries that have already produced and published Table 29 voluntary estimates³, in user-friendly Excel format.

Eurostat has seen considerable advantages in a common approach, for example as has already successfully been taken for the implementation of ESA 2010 and BPM6 in Europe in 2014:

- Publishing the data together at the same time allows a particular country's data to be put in the context of the other Member States;
- Common messages explaining the context and interpretation of the data will benefit users across Europe;
- Experience and ideas can be pooled together in a comprehensive "Questions and Answers" approach;

³ At this stage the United Kingdom and Lithuania; Estonian data will be added shortly.

- Key users and stakeholders can be made aware both in advance and during dissemination.

The Ageing Working Group's 2018 Ageing Report will be released in the first quarter of 2018, and will provide projections of age-related expenditure (including government expenditure on pensions) within an "open group" model aimed at assessing sustainability.

Users can be expected to connect this release with the release of the supplementary data, and ask how they are related. There is a danger that over-simplified interpretations will be drawn in some parts of the media, notably that the high levels of pension entitlements of government managed schemes raise doubts over their sustainability, and that these data will simply be added to traditional government debt measures.

Communication on these issues has been clear so far – the supplementary table does not provide a direct analysis of sustainability, and it is too simplistic to add entitlements to government debt - but will be further developed to inform users when broader data are available.

Notably the focus of communication will be on the "asset side" – the importance of data on household pension assets to inform analysis of household behaviour with respect to consumption, investment and saving.

It is also interesting to note that some European countries are also considering a linked presentation at national level of other (existing) pensions-related data, in addition to the supplementary table, for example on assets accumulated in individual pensions. This would provide a broader overview of provision for retirement, moving towards the ideas presented in another AEG paper on a household retirement resources table.

4. IMPLEMENTATION OF THE TABLE OUTSIDE EUROPE

As mentioned earlier, the supplementary table has an important role to play in helping users to compare data on pensions between countries. Furthermore, it provides an excellent overview of pensions in social insurance, and completes the picture of all such schemes whether funded or unfunded. For that purpose, in addition to the Eurostat data collection for European countries, the OECD intends to start collecting data for the supplementary table for non-European countries in 2018, also focusing on reference year 2015 (starting from 2012 on a voluntary basis), with a three-year frequency (or more frequent if nationally available).

The OECD presented their data collection proposal at the recent joint meeting of the working parties on financial accounts and national accounts (see Wistrom et al, 2017). The table that is proposed is broadly in line with the one used by Eurostat, but also includes three additional

columns to derive the total social insurance pension entitlements of resident households⁴, and two additional rows to obtain information on assets held by the various types of pension schemes at the end of the year (row 11) and on the discount rate used by countries in the calculation of the entitlements of the defined benefit schemes (row 12)⁵.

Another possible difference with the Eurostat data collection relates to the discount rate. Whereas European countries will use a harmonised rate in estimating pension entitlements of defined benefit schemes, the OECD proposal raised the question whether this would also be preferable for non-European countries. In this regard, it should be borne in mind that applying a fixed discount rate for EU-countries makes more sense than in the case of non-European OECD countries, where the economic differences between countries may be more pronounced⁶. Therefore, an alternative was presented to only provide guidance for the selection of the most appropriate rates per country, e.g. on the basis of the market yield on government bonds or high quality corporate bonds as recommended by IPSAS 25. It was decided to conduct a consultation amongst non-European OECD countries to hear their preference.

Furthermore, the OECD consultation will include questions to obtain more insight in the capability of countries to provide the data as requested in the table as well as on their ability to comply with some specific recommendations⁷. This consultation will be conducted in December 2017-January 2018 and will provide more insight on the data that will become available for the supplementary pension table for non-European countries in the course of 2018.

5. QUESTIONS FOR THE AEG

The AEG is requested to take note of the experiences by Eurostat and of the plans by the OECD to collect data for non-European countries, and to discuss:

- Given the practical experience so far in compiling the table, can we conclude that the overall table design is proving fit for purpose?
- Are there borderline (conceptual) issues which remain to be resolved?
- What should the main communication focus be when communicating the table to users?

⁴ It concerns: a column for the counterpart entitlements of resident households with regard to domestic social insurance liabilities (a new column J); a column for the social insurance pension entitlements of resident households in the rest of the world (a new column L); and a column for the total social insurance pension entitlements of resident households (new column M).

⁵ The supplementary table as proposed by the OECD for non-European countries is presented in the annex.

⁶ This is particularly the case with regard to nominal discount rates, bearing in mind the more substantial differences in inflation rates across non-European OECD countries.

⁷ E.g., to assess whether countries will be able to apply the PBO method for all defined benefit schemes.

Bibliography

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Wistrom, Bettina, Isabelle Ynesta and Jorrit Zwijnenburg (2017), "Proposal for the collection of supplementary data on social insurance pensions from non-European OECD members and of data on household retirement resources", paper presented at the joint meeting of the Working Parties on Financial Statistics and National Accounts, 7-8 November 2017.

Annex: Proposed OECD supplementary table on social insurance pension schemes for the collection of data for non-European OECD countries

| Row number | Position / transaction / other flows | Liabilities appear in the core national accounts | | | | | | | Liabilities do not appear in the core national accounts | Total social insurance pension liabilities of domestic pension schemes | Counterparts: Entitlements of | | Social insurance pension entitlements of resident households in the rest of the world | Total social insurance pension entitlements of resident households |
|------------------------------|--|--|-------------------------|-------|------------------------------|---|----------------------------------|----------------------------------|---|--|-------------------------------|-------------------------|---|--|
| | | Non-general government | | | General government | | | | Social security pension schemes | | Resident households | Non-resident households | | |
| | | Defined contribution schemes | Defined benefit schemes | Total | Defined contribution schemes | General government employee defined benefit schemes | | In the general government sector | | | | | | |
| | | | | | | In the financial corporation sector | In the general government sector | | | | | | | |
| A | B | C | D | E | F | G | H | I = C to H | J | K | L | M = J + L | | |
| Opening balance sheet | | | | | | | | | | | | | | |
| 1 | Pension entitlements | | | | | | | | | | | | | |
| Transactions | | | | | | | | | | | | | | |
| 2 = 2.1 to 2.5 | Net 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 (actuaial) 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 | | | | | | | | | | | | | |
| Other economic flows | | | | | | | | | | | | | | |
| 8 | Revaluations | | | | | | | | | | | | | |
| 9 | Other changes in volume | | | | | | | | | | | | | |
| Closing balance sheet | | | | | | | | | | | | | | |
| 10 | Pension entitlements | | | | | | | | | | | | | |
| Related information | | | | | | | | | | | | | | |
| 11 | Assets held by pension schemes at end-year | | | | | | | | | | | | | |
| 12 | Discount rate used for defined benefits | | | | | | | | | | | | | |

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.

Orange cells show where information slightly differs from the supplementary table as presented in the 2008 SNA.

Yellow cells show where information has been added in comparison with the original Table 17.10.