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Issues note on: Action item A.13 Address the current ambiguities and inconsistencies regarding the recording of social security and employment

ISSUES NOTE: Action point A.13: Addressing ambiguities and inconsistencies regarding the recording of social security and employment-related schemes, including the current guidance for constructive liabilities

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This issues note discusses a number of proposals for arriving at a better aligned guidance for delineating social insurance, by removing the current ambiguities and inconsistencies around the distinction between social security and employment-related schemes. It also tries to address the inconsistency between the current guidance on constructive liabilities in paragraphs 3.34 and 3.40 of the 2008 SNA, and the non-recognition of entitlements related to unfunded social security schemes. Furthermore, alternative wording is proposed in view of the recommendation, in Guidance Note F.12 on Covering hybrid insurance and pension products, to treat employer-independent autonomous pension funds as part of social insurance. Finally, the treatment of what in the Government Finance Statistics Manual (GFSM) 2014 is referred to as "provident funds" is discussed as well.

Section I: The issues

1 The treatment of (unfunded) employment-related pension schemes which are intertwined with social security schemes has given rise to considerable debate in the past decade, especially concerning the recognition, or not, in the sequence of economic accounts, of pension entitlements related to such schemes. At its 10th meeting held on 13 – 15 April 2016 in Paris, the AEG concluded the following, after discussing document SNA/M1.16/7.1 on the recording of pension entitlements:

- *"Agreed that the current guidelines are ambiguous on the distinction between pension entitlements that should (not) be recognised in the central framework of the SNA.*
- *…*
- *Agreed that more practical examples – from a broad range of countries – of completing the supplementary pensions table should be analysed to assess what criteria are being used to differentiate between employer-related pension funds and social security schemes.*
- *Agreed that – based on this practical experience – further guidance should be developed in the short term on the distinction between social security and employment-related schemes to determine which schemes should be recorded in the central framework.*
- *Recognized that there are valid arguments for using the asset boundary to determine when liabilities should be recognised and recorded in the core accounts, and agreed that guidance applying the principles governing the SNA asset boundary should be considered over the longer term".*

2 Unfortunately, since then no progress has been made in this area, which leaves us with the question what to do in relation to the update of the 2008 SNA. It is considered important to arrive at more clarity, as the current SNA guidance is ambiguous in some

respects, differs from the guidance provided in other standards for macro-economic statistics, and leads to problems of international comparability. As a minimum, it has been agreed to resolve, to the extent possible, the current ambiguities and inconsistencies related to the distinction between social security and employment-related schemes. The same holds for the current guidance on constructive liabilities in paragraphs 3.34 and 3.40 of the 2008 SNA, which is inconsistent with the non-recognition of entitlements related to unfunded social security schemes. This note will not address the issue of recognising, in the sequence of economic accounts, entitlements related to unfunded social security schemes. This issue will continue to feature on the post-2025 SNA Research Agenda.

3 Another issue, slightly different but related to the above, concerns the impact of the guidance recommended in Guidance Note F.12 on Covering hybrid insurance and pension products. One of the recommendations in this Guidance Note concerns the treatment of employer-independent autonomous pension funds as part of social insurance (see option 3 in paragraph 20 of the relevant Guidance Note). The latter issue has also raised questions about the delineation of autonomous pension funds, which are dealt with in the issues note on action point A.6 on the treatment of trusts and other types of funds as separate institutional units, and are thus not touched upon in this note.

4 Finally, during the process of drafting this issue note, the recording of "provident funds", as discussed in paragraphs 2.148 – 2.151 of the Government Finance Statistics Manual and Compilation Guide (GFSMCG) 2014, is touched upon, especially where it concerns the delineation of social insurance.

5 In dealing with the above issues, with the exception of "provident funds", this note applies a slightly different format. Instead of proposing various options for resolving the issues, the annex to this note presents a list of editorial changes to the most relevant paragraphs in the 2008 SNA, in the form of track changes.[1] The rationale for these changes are further explained in Section II (concerning the disentanglement of the main types of pension schemes, and its (implicit) impact on the recognition, or not, of related pension entitlements); Section III (concerning the recognition, or not, of constructive liabilities); and Section IV (concerning the extension of participants, at least more explicitly, in social insurance schemes). Section V subsequently deals with the treatment of provident funds, without including, at this stage, concrete drafting suggestions for the change of the guidance in the 2008 SNA. Section VI puts forward a number of questions, for consideration by the AEG on National Accounts.

[1] Other paragraphs of the 2008 SNA may also be affected, although to a (significant) lesser degree. These changes will also included at a later stage in the drafting process. They are not reflected in the annex of this issue note.

Section II: Distinguishing the main types of pension schemes[2]

6 The SNA currently uses three ways of categorising pension schemes. By using different wordings for the categorisation of pension schemes to determine which entitlements should (not) be recorded in the sequence of economic accounts, there is a clear risk that producers as well as users interpret the 2008 SNA differently, and arrive at internationally incomparable results when recording similar types of pension schemes. Therefore, it is considered necessary to review the current wording of the SNA and to come up with clear criteria for determining what should (not) be recorded in the sequence of economic accounts.

7 The first way of categorizing pension schemes in the 2008 SNA is the distinction between <u>employment-related pension schemes versus social security pension schemes</u>. Pension entitlements related to the first type of schemes are to be recognised in the sequence of economic accounts, while entitlements related to social security type of pension schemes are not recognised, and only recorded in a supplementary table. As explained in paragraph 17.192 of the 2008 SNA, the main conceptual reason for the latter non-recognition is "*that such estimates are of limited usefulness where government has the possibility of changing the basis on which entitlements are determined in order to keep the entitlements within the bounds of what is budgetary feasible*". Moreover, paragraph 9.20, while referring to social assistance, states that "*the amounts due do not necessarily accrue in a predictable fashion over time or for predictable reasons*".

8 When it comes to employment-related pension schemes, paragraph 11.107 defines the entitlements of such schemes as "*the extent of financial claims both existing and future pensioners hold against either their employer or a fund designated by the employer to pay pensions earned as part of a compensation agreement between the employer and employee*". Paragraph A3.127 basically leaves no room for misinterpretation by saying that "*the 2008 SNA recognizes that employment-related pension entitlements are contractual engagements that are expected or likely to be enforceable. They should be recognized as liabilities towards households, irrespectively of whether the necessary asset exist in segregated schemes or not*".

9 As a second way of categorising pension schemes, the 2008 SNA also uses the distinction between <u>private and public pension schemes</u>. Paragraph 17.121 refers to pension schemes that are run by private employers, the pension entitlements of which are "*usually not subject to retrospective adjustments of the amounts payable*", although "*there is a risk that the employer may be unable to pay, because it has gone out of business*". These considerations make them different from social security type of pension schemes. It is not clear, however, why only mention is made of "private" employers and not of all employers, including government and public corporations, as an employer. This reference to private employers becomes even more ambiguous when looking at paragraph 17.122, which states that "*employment-related pensions, other than the most basic form of social security, are seen as part of the compensation package and negotiations between employees and employers*

[2] This subsection heavily relies on the excellent paper [SNA/M1.16/7.1 on the recording of pension entitlements](), which was discussed at the 10th meeting of the AEG on National Accounts.

may focus on pension entitlements as much as on current conditions of service and pay scales", implying that reference is made to "private" as well as to "public" employers.

10 To add another layer for potential misinterpretation, paragraph 17.193 mentions that some flexibility is provided "*regarding the recognition of pension entitlements of unfunded pension schemes sponsored by government* <u>*for all employees*</u> *(whether private sector employees or government's own employees)*" (underlining by author of this note). One may wonder whether this is to be interpreted in such a way that this flexibility is not intended to be necessarily applied in the case of employment-related schemes provided and sponsored by government (and public corporations) in its role as an employer, even more so if these schemes are separated from, and not intertwined with, social security type of schemes. Another interpretation could be that this text allows for the possibility that some government-sponsored schemes primarily intended for its employees could also admit some employees of private entities (e.g., privatised state utilities).

11 The final distinction that is made in the 2008 SNA concerns the one between <u>funded and unfunded pension schemes</u>. For example, in paragraph 17.121, it is stated that "*while social security may be, and very often is, financed on a pay-as-you-go basis, without building up reserves for future liabilities, other employer schemes are increasingly likely to have reserves set aside*", followed by the statement that "*even if there are no reserves, accounting conventions may require them to recognize pension entitlements of present and past employees in their accounts*". Further, in paragraph 17.191, it is stated that "*in recognition of the fact that social security is normally financed on a pay-as-you-go basis, entitlements accruing under social security are not normally shown in the SNA*". Although one could argue that schemes operated on a pay-as-you-go basis are fully consistent with the idea that the terms of the schemes can be modified more easily, it is also clear that a scheme being unfunded is not a decisive criterion but is more to be interpreted as a supporting argument for non-recognition in the sequence of economic accounts.

12 From the above, it is quite obvious that a more consistent wording is needed, when it comes to distinguishing between social security type of pension schemes for which the entitlements are not recognized in the sequence of economic accounts, and other pension schemes for which the entitlements and related flows are recognized. The paper discussed at the 10th meeting of the AEG on National Accounts suggests two possible approaches. The first one is to start from the guidance in the 2008 SNA that employment-related schemes need to be recorded in the sequence of economic accounts and social security schemes only in the supplementary table, and derive criteria to distinguish between these two types of schemes. The second approach is to focus on the asset boundary of the SNA, avoiding the discussion on how to categorize a scheme into employment-related or social security. As the latter approach may lead to the recognition of constructive liabilities for social security schemes, this way forward is basically refuted by the decision of the AEG on National Accounts to not recognise these entitlements, at least in the context of the update of the 2008 SNA. As a consequence, it is needed to further clarify the extent of employment-related schemes for which the entitlements are recognised in the sequence of economic accounts, by adding more information on the distinction between employment-related schemes and social security type of schemes, and – as a minimum – arrive at a more consistent wording to avoid ambiguous guidance.

13 Looking at the 2008 SNA, the distinction between social security schemes and employment-related schemes is somewhat inconclusive. Paragraphs 4.124 and 8.7 state that social security schemes cover "*the entire community, or large sections of the community*" and that they are "*imposed and controlled and financed by government units*". Employment-related schemes on the other hand "*derive from an employer-employee relationship in the provision of pension entitlement that is part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions*" (paragraph 8.7). Paragraph 8.76 also provides guidance which may lead to a similar interpretation: "*Making this distinction* between social security and employment-related schemes (addition by the author of this note) *is difficult in some countries where the ultimate responsibility for administering the scheme and paying benefits is undertaken by government on behalf of many employers not working for general government. In countries where there is no such arrangement, social insurance schemes organized by government units for their own employees, as opposed to the working population at large, should, if possible, be included in the group of other employment-related schemes and not remain within social security schemes*".

14 Even though these definitions in 2008 SNA look straightforward, some paragraphs in chapter 17 seem to contradict them. For example, paragraph 17.118 states that "*the part provided by general government is called social security and the part by employers is called employment-related schemes other than social security*", not explicitly mentioning that the part of social insurance provided by the government in its role as employer should also be regarded as employment-related schemes. Furthermore, as was mentioned before, paragraph 17.121 states that "*pension schemes run by private employers are usually not subject to retrospective adjustments of the amounts payable*", to distinguish them from social security schemes. In that, it fails to mention similar schemes provided by public employers[3].

15 More generally, the decisive criteria to distinguish between employment-related and social security schemes could be framed as relating to the following:

- <u>The control and finance of the system</u>: Social security schemes are always controlled and financed by government units, whereas this needs not be the case for employment-related schemes. This is not a decisive criterion in itself, but provides a necessary condition to qualify as a social security system.
- <u>The coverage of the system</u>: Whereas employment-related schemes only cover certain groups of employees, social security schemes cover the entire community or large sections of the community. In some cases this distinction will be very clear, but sometimes it may still be too vague. Especially in case of intertwinement with social security, this criterion may not be sufficient.
- <u>The emergence of the scheme (legal nature)</u>: Employment-related schemes derive from an employer-employee relationship and are regarded as part of the conditions of

[3] One could argue that public employers may have more margin for making adjustments to the terms of a scheme than private employers. For example the Greek government made retroactive changes to its public employee scheme, which survived legal tests. On the other hand, one could say that this was first and foremost related to a situation of financial stress, similar to an private employer going bankrupt. Moreover, also the conditions for Greek government debt securities changed significantly, while no-one would question the validity of recognizing these claims as financial assets/liabilities.

employment, whereas social security schemes are generally imposed by government. This implies that if the scheme derives from an employment contract it should be regarded as an employment-related scheme, and if it derives from more generic government law it should be regarded as social security. This criterion also relates to the main reason for not recording entitlements under social security in the sequence of economic accounts, as explained in paragraph 17.192 of the SNA. The legal nature of the scheme determines whether a "*government has the possibility of changing the basis on which entitlements are determined*". If the scheme derives from an employment contract, the possibility of changing the conditions for entitlements may be more similar to that of other employers.

16 As noted in paragraph 27 of the paper discussed at the 10th meeting of the AEG on National Accounts, there may be other criteria for distinguishing between employment-related schemes and social security schemes, but these look more as supporting criteria, and not decisive criteria for the distinction. In the end, the paper argues in favour of using the above criteria, and, if on the basis of these criteria it is still not possible to make a clearcut distinction, to further tune the definitions in order to get an improved set of criteria and to create a decision tree on the basis of these criteria.

17 However, as noted before, no further research has been undertaken since then. Notwithstanding this lack of further elaborations, it seems to be possible to at least provide more clarity for a certain category of pension schemes: employment-related schemes provided by public employers (government units and public corporations). If such schemes are similar to employment-related schemes provided by private employers, the related entitlements would qualify as assets (and liabilities) in the sequence of economic accounts, most certainly if the schemes are clearly separated from the social security type of pension schemes. It is clear, however, that defining "similarity" may not be that straightforward. A public employment contract may not follow the same terms as a private employment contract. The former type of contracts may be more generous in some aspects (e.g., tenure) but more restrictive in other aspects (e.g., ability to join political groups). Moreover, in some countries, public employees are governed by a general law, not by individual employment contracts. Here, one could argue that the similarity should first and foremost relate to the terms and conditions of compensation, both current compensation and future compensation after retirement. A further elaboration in practice could be helpful in further specifying the main criteria.

18 One additional thought concerns the recognition of unfunded, or marginally funded, employment-related pension schemes. Such a recognition requires an unconditional and unequivocal responsibility for the payment of future benefits by a pension manager/sponsor. Such responsibility may be less clearcut in the case of multi-employer pension schemes, whether these concern pension schemes managed by insurance corporations or autonomous pension schemes taking care of the pension schemes for a group of employers. It seems highly implausible, however, that in these cases the pension schemes are not (largely) funded.

19 All in all, it is proposed to further align the current guidance in the SNA, by consistently referring to employment-related schemes versus social security schemes along the lines presented in the above, thereby avoiding unnecessary references to private versus public and

funded versus unfunded. The delineation between the two types of schemes will be elaborated according to paragraph 15 of this issues note. The relevant clarifications are mainly reflected in the new paragraph 17.xx3, and the changes to paragraph 17.194; see the annex, where the impact on the current guidance is highlighted in the form of track changes.

Section III: Defining and recognising of constructive liabilities

20 The second issue concerns the recognition, or not, of constructive liabilities. In this respect, paragraph 3.40 of the 2008 SNA states the following: "*In addition, a liability may be established not by contract but by long and well-recognized custom that is not easily refuted. In these cases, the creditor has a valid expectation of payment, despite the lack of a legally binding contract. Such liabilities are called constructive liabilities*". Paragraph 3.40 further confirms this guidance, by stating that "*in general, the SNA includes (legal) liabilities and constructive liabilities but not contingent liabilities*". The same holds for paragraph 11.6: "*In addition, a liability may be established not by contract but by long and well-recognized custom that is not easily refuted. Some payments by government to individuals fall under this category. In these cases, the creditor has a valid expectation of payment, despite the lack of a legally binding contract. Such liabilities are called constructive liabilities*".

21 In the context of the discussions on the treatment of pension entitlements, and also other types of social security and/or social assistance schemes, the recognition of constructive liabilities in the 2008 SNA is a rather remarkable piece of guidance, as it clearly provides conflicting messages. Where the 2008 SNA includes more detailed guidance on constructive liabilities, it is typically recommended not to recognize them as liabilities in the sequence of economic accounts. Moreover, concrete examples of constructive liabilities are non-existent in the 2008 SNA.

22 For the above reasons, it is recommended to add some clear qualifications to the current guidance on constructive liabilities. The proposed changes to paragraphs 3.34, 3.35, 3.40, 3.41 and 11.6 are presented in the annex, highlighted in the form of track changes. Paragraph A3.49 also discusses constructive liabilities, but changes are not needed here, as this annex will anyhow be completely redrafted, by reflecting the changes from the 2008 SNA (instead of changes from the 1993 SNA).

Section IV: Delineation of social insurance schemes

23 The third issue concerns the delineation of social insurance. This issue has popped up in the context of Guidance Note F.12 on Covering hybrid insurance and pension products. The Guidance Note includes a discussion on the treatment of employer-independent pension schemes, which may be obliged, or encouraged, by government for certain groups (e.g., employees of a group of enterprises, employees of a branch or industry, and persons having the same profession) for which participation may or may not be mandatory. Important examples relate to autonomous pension schemes covering self-employed persons that are designed to provide retirement income in a similar fashion as employer-related pension schemes derived from an employer-employee relationship.

24 In respect of such pension schemes, the Guidance Note recommends to "*clarify that autonomous, employer-independent schemes or funds can also qualify as social insurance pensions, and specify the criterion as follows: accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds*" (option 3). In its 17th meeting, combined with the meeting of the Balance of Payments Committee, the AEG on National Accounts confirmed option 3, thereby also taking into account the outcomes of a global consultation. It was noted, however, that "*clarification should be provided on the coverage of these products with clear identification of exclusions and inclusions. For example, individual personal pensions provided by insurance corporations (non-autonomous pensions) should not be included as they are not social insurance pensions*"[4].

25 The above guidance raises the question whether the clarifications regarding the treatment of employer-independent schemes are adequately covered in the current guidance of the SNA. In this respect, more general concerns have also been expressed about the consistency of the wording on the delineation of social insurance in the 2008 SNA, first and foremost relating to the description of designated beneficiaries. Finally, the question has to be answered on how the clarification regarding the treatment of employer-independent pension schemes may affect the classification and treatment of employer-independent schemes other than those covering pensions. These three, more or less interrelated, issues are discussed below.

26 When it comes to the delineation of social insurance, leaving out the qualification that the related benefits must qualify as social benefits, and the requirement of having paid social contributions to become eligible for the relevant social insurance benefits, the 2008 SNA states, in paragraph 8.65, that at least one of three following conditions is met:

- *"Participation in the scheme is obligatory either by law or under the terms and conditions of employment of an employee, or group of employees;*
- *The scheme is a collective one operated for the benefit of a designated group of workers, whether employed or non-employed, participation being restricted to members of that group;*
- *An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution".*

This list of conditions is repeated in paragraphs 8.73 and 17.88. However, in the former paragraph, a slightly different wording is used for the first condition, as follows: "*Participation in the scheme is obligatory either by law <u>for a specified category of worker, whether employer or non-employed</u>, or under the terms and conditions of employment of an employee, or group of employees*". The reference to "employer" is probably a typo, and should read as "employed".

27 The first issue, which was also part of the discussion on the employer-independent pension scheme, concerns the "obligatory" nature of social insurance schemes. Although the above may result in an interpretation that participation to the schemes needs to be obligatory, this does not hold. For example, in paragraph 8.72 of the 2008 SNA, the following

[4] See the minutes of the relevant meeting.

is stated: "*Participation in such schemes may be voluntary for the workers concerned, but it is more common for it to be obligatory*". Paragraph 8.74 also provides a lead for such an interpretation, by using the word "encouraged": "*Some insurance schemes are essentially schemes in which workers are obliged, or encouraged, by employers or by general government to take out insurance against certain eventualities or circumstances that may adversely affect their welfare or that of their dependants*". Similar phrasing can be found in paragraph 17.87.

28 As noted in paragraph 8.73 of the 2008 SNA, the collective nature of a scheme is to be considered as a decisive criterion for classifying the scheme as part of social insurance. In this respect, social insurance schemes are clearly different from individual insurance policies, as clarified in paragraph 8.74: "*When individuals take out insurance policies in their own names, on their own initiative and independently of their employers or government, the premiums payable and claims receivable are not treated as social contributions and social insurance benefits, even though the policies may be taken out against the same kinds of eventualities or situations as are covered by social insurance schemes such as accident, ill health, retirement, etc.*"[5].

29 All in all, the guidance of the 2008 SNA regarding the extent of social insurance schemes beyond those which are obligatory is quite clear.

30 Another issue relates to the group of designated beneficiaries. The current guidance, for example on the conditions for qualifying as social insurance in paragraph 26 above, may again lead to misinterpretations, in the sense that social insurance is restricted to employees (and non-employed). On the other hand, paragraph 8.71 is quite clear in stating the following: "*Social insurance schemes are intended to cover beneficiaries and their dependants during their working lives and usually also into retirement, whether they are employees, employers, own-account workers, or persons temporarily without employment*". Paragraph 8.76 also starts with a relatively broad grouping, although phrased slightly different, in saying that "all social insurance schemes are founded on an *employment relationship even if the participants are self-employed or currently unemployed*". However, later on in this paragraph, it looks like employment-related schemes other than social security are restricted to schemes derived from an employer-employee relationship: "*other employment-related schemes … derive from an employer-employee relationship in the provision of pension and possibly other entitlements that are part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions*". A similar conclusion may be derived from paragraph 17.94. In providing guidance on the treatment of individual insurance policies which permit, of even require, participants to take out policies in their own names, this latter paragraph restricts the determinants for qualifying as social insurance to employer-employee relationships. In addition to the generic condition that "*the benefits must be of the social benefit type*", it only mentions that "*an employer makes an actual or imputed contribution to the scheme on behalf of the employee*".

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[5] There may instances where certain groups of employed people join together, for example to get a discount on the premiums, or to arrive at better conditions of insurance. The existence of such arrangements does not necessarily qualify as sufficient criteria for classifying them as part of social insurance.

31 All in all, one could make the point that the current guidance is somewhat ambiguous, and puts too much emphasis on the employer-employee relationship. This is quite understandable, as this form of employment was simply predominant at the time of drafting the 2008 SNA, while employers would typically take care of their own individual insurance. Since then, in quite a number countries, the phenomenon of self-employed workers has grown significantly, which has also driven new forms of collective arrangements for insurance against eventualities which typically qualify as social benefits. To conclude, the guidance could be improved by including a more transparent and consistent wording, including explicit references to self-employed persons, and also by providing further clarifications on other types of schemes which also qualify as social insurance. At the minimum, the guidance on employer-independent pension schemes, as recommended in Guidance Note F.12 on Covering hybrid insurance and pension products, needs to be reflected in the 2025 SNA.

32 The final issue regarding the delineation of social insurance concerns the treatment of employer-independent schemes other than pensions. Such schemes could cover, for example, insurance against drops in income due to sickness or invalidity. When obligatory, or encouraged, and organized by government, it looks rather straightforward that such schemes are part of social insurance. The conditions to qualify as social insurance do not restrict these social security schemes to certain groups. As stated in paragraph 8.76 of the 2008 SNA, such schemes also cover "*the entire community, or large sections of the community*", although in the same sentence it is also stated that such schemes are "imposed, controlled and financed by government units", apparently not leaving room for voluntary participation. However, in line with the guidance in other paragraphs of the 2008 SNA, the schemes being "encouraged" is also considered sufficient to qualify as social insurance.

33 It becomes more problematic, if government is not directly involved. Paragraph 17.96 of the 2008 SNA clearly opens the door to qualify such schemes as part of social insurance: "*Most individual policies that qualify as social insurance schemes are likely to be for pension provision but it is possible that they may cover other eventualities, for example to provide income if the policyholder is unable to work for a prolonged period because of ill-health*". Unfortunately, however, no additional guidance, in the form of criteria or otherwise, is provided for classifying such schemes as social insurance.

34 In filling this gap, it is recommended, as a default option, to not treat such non-pension type of schemes as part of social insurance, unless it concerns collective arrangements which provide policies, for certain industries or professions, with a strong resemblance to similar arrangements organised by government. They may, or may not, be encouraged by government; in the former case, this would most certainly strengthen the case for a classification as social insurance. In addition, it is recommended that such schemes should generally be managed by separate institutional units, which are subject to regulation or supervision in line with or similar to employer-related schemes derived from an employer-employee relationship. Adding the condition of a separate institutional unit is driven by the argument that, different to employer-related schemes where employers typically make contributions as well, collective schemes for self-employed persons may be very hard to distinguish from individual type of arrangements. This is in line with Guidance Note F.12 on Covering hybrid insurance and pension products, where the whole discussion is restricted to autonomous pension funds for self-employed persons.

35 The relevant guidance and clarifications on the participation to the schemes, including the delineation of social insurance schemes in relation to non-pension type of schemes, affect a significant number of paragraphs in the 2008 SNA. Importantly, explicit references to self-employed persons have been included in the paragraphs laying out the conditions for qualifying as social insurance (paragraphs 8.65 and 17.88). Furthermore, the new paragraphs 8.xx1 and 8.xx2 (as well as 17.xx1 and 17.xx) provide further guidance on the inclusion, or not, of schemes where are not derived from an employer-employee relationship. See the annex, where the impact on the current guidance is again highlighted in the form of track changes. Also note that, instead of referring to "employment-related social insurance schemes other than social security", the term "other social insurance" is consistently used for schemes other than social security.

Section V: Treatment of "provident funds"

36 Paragraph 2.148 of GFSMCG 2014 defines "provident funds" as follows: "*compulsory saving schemes that maintain the integrity of the contributions for individual participants. Some governments create provident funds rather than providing social insurance benefits. Under provident fund arrangements, the compulsory contributions of each participant and of their employer on behalf of each participant are kept in a separate account and could be withdrawn under specified circumstances, such as retirement, unemployment, invalidity, and death. These contributions are then managed and invested to obtain a return for each participant*".

37 Paragraph 2.149 then argues that these arrangements should be excluded from social security schemes, because they are *"… different from social security schemes insofar as for each contributor segregated assets exist and it is not foreseen for government to be able to alter the benefits*". Furthermore, paragraph 2.150 notes the following:

- *"A resident provident fund controlled by government that satisfies the definition of an institutional unit is classified as a public financial corporation. Individual contributions determine individual benefits, and the entity is involved in financial intermediation by pooling the contributions from many households and investing them on their behalf similar to the case of investment funds and defined-contribution pension funds (see paragraphs 2.53–2.54). Therefore, these units are classified in the public financial corporations subsector as market producers.*
- *A resident provident fund controlled by government that does not satisfy the criteria to be an institutional unit is classified with the government unit that controls it"*

38 The above guidance provided in GFSM 2014 is somewhat inconclusive when it comes to the question of whether or not these schemes would qualify as social insurance. This is not that surprising, as the GFSM is primarily concerned with providing guidance on government finance statistics, less so about broader issues around the delineation of social insurance, and the sectorization of financial corporations.

39 However, there seems to be broad consensus that these types of schemes can be considered as part of social insurance, mainly because they provide "insurance" against social risks, they have a clearly collective nature, and last but certainly not least because of their

compulsory nature. As such they would definitely align to the criteria for social insurance, as laid out in paragraphs 8.65 and 17.88 of the 2008 SNA, as schemes providing social benefits, for which “*participation … is obligatory … by law*”.

40 When it comes to the question of how to classify them, and assuming that these funds constitute separate institutional units and that they are controlled by government, in line with the definition of “government control of corporations” in paragraphs 4.77 – 4.80 of the 2008 SNA, these units would be classified within government, if they produce non-market services; otherwise they would be classified as public financial corporations. Unfortunately, however, the distinction between market and non-market is not always that straightforward in the case of financial services. One would be inclined to treat these schemes as public corporations, mainly because there is not an element of redistribution of income and/or wealth involved, a typical element of government’s functions.

41 Whatever the case, the arguments used in paragraph 2.149 of GFSM for treating these schemes as public financial corporations (i.e., segregated assets and government not being able to alter the benefits), cannot be considered as the most appropriate criteria. Instead, paragraph 2.150 of GFSM may implicitly provide a stronger argument for looking upon them as public financial corporations: “*the entity is involved in financial intermediation by pooling the contributions from many households and investing them on their behalf similar to the case of investment funds and defined-contribution pension funds*”. These latter services could indeed qualify as a type of market services.

42 On the other hand, however, the classification as public financial corporations may be challenged, if government also contributes an amount to the funds of the individuals, something that apparently is the case in some countries. Here, one may be more inclined to treat the schemes as social security schemes, and thus as part of government, because the function of distributing income and/or wealth is directly involved.

43 Given time constraints, it showed not to be possible to put forward concrete recommendations for including additional guidance on this type of schemes in the 2025 SNA. Further discussion with the GFS-community is also needed. This will be part of further research in the coming months.

Section VI: Issue for consideration by the AEG on National Accounts

44 The AEG on National Accounts is requested to express their opinion on the following issues addressed in this note:

- The further clarifications on, and improved consistency in the phrasing of, the delineation between pension schemes for which the entitlements are recognised, versus pension schemes for the entitlements are not recognised, in the sequence of economic accounts.
- The revised guidance on defining and recognising constructive liabilities.
- The further clarifications on the delineation of social insurance, particularly the guidance on dealing with social insurance schemes for self-employed.

45 In addition, the AEG on National Accounts is requested to provide advice on the treatment of "provident funds", especially regarding the criteria for classifying these schemes.

Annex: Drafting proposals for the update of the 2008 SNA concerning the delineation of social insurance and other related issues

3.33 A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide a payment or series of payments to another unit (the creditor). The most common circumstance in which a liability is established is a legally binding contract that specifies the terms and conditions of the payment(s) to be made and payment according to the contract is unconditional.

3.34 In addition, a liability may be established not by contract but by long and well-recognized custom that is not easily refuted. In these cases, the creditor ~~has~~may have a valid expectation of payment, despite the lack of a legally binding contract. Such liabilities ~~are called~~, usually referred to as constructive liabilities, are generally not recognized in the sequence of economic accounts.

3.35 Whenever ~~either of these types of liability~~a liability exists, there is a corresponding financial claim that the creditor has against the debtor. A financial claim is the payment or series of payments due to the creditor by the debtor under the terms of a liability. Like the liabilities, the claims are unconditional. In addition, a financial claim may exist that entitles the creditor to demand payment from the debtor but whereas the payment by the debtor is unconditional if demanded, the demand itself is discretionary on the part of the creditor.

3.40 A liability, as defined in paragraph 3.33 above, is unconditional once the contract establishing the liability is agreed by both parties. ~~If the liability is established not by a legal contract but by long and well-established custom, it is referred to as a constructive liability.~~ Some liabilities may involve a legal contract but specify that one party is obliged to provide a payment or series of payments to another unit only if certain specified conditions prevail. Such liabilities are called contingent liabilities. In general, the SNA includes (legal) liabilities ~~and constructive liabilities~~ but not contingent liabilities. An exception is made for standardized guarantees where, although each individual arrangement involves a contingent liability, the number of similar guarantees is such that an actual liability is established for the proportion of guarantees likely to be called.

3.41 A corporation may set aside funds to cover unexpected events or to cover default by their customers. Such monies may be described as provisions. These are not treated as liabilities in the SNA because they are not the subject of the sort of legal contract~~, legal or constructive~~, associated with a liability. Though financial institutions may regularly write off bad debts, for example, it would not be appropriate to regard the provisions set aside for this as assets of the borrowers. Even though they may be earmarked for specific purposes, the amounts designated as provisions remain part of the net worth of the corporation. Provisions are thus a designation of the purpose for which funds may be used rather than a category of financial assets and liabilities in and of themselves.[6]

…

8.7 Two main types of social insurance schemes may be distinguished:

a. The first consists of social security schemes covering the entire community, or large sections of the community, that are imposed, controlled and financed by government units. Pensions payable

[6] Please note that this paragraph will be subject to further changes, in line with the recommendations in Guidance Note WS.9 on the recording of provisions.

under these schemes may or may not be related to levels of salary of the beneficiary or history of employment. Non-pension benefits are less frequently linked to salary levels.

b. The second type consists of other ~~employment-related~~ social insurance schemes. These schemes mainly derive from an employer-employee relationship in the provision of pension entitlement that is part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions. However, such schemes may also relate to employer-independent schemes, provided to, for example, certain groups of self-employed persons.

The organization of social insurance schemes

8.65 A social insurance scheme is an insurance scheme where the following two conditions are satisfied:

a. the benefits received are conditional on participation in the scheme and constitute social benefits as this term is used in the SNA; and
b. at least one of the three conditions following is met:
   - Participation in the scheme is obligatory either by law or under the terms and conditions of employment of an employee, or group of employees;
   - The scheme is a collective one operated for the benefit of a designated group of workers, whether employees~~d~~ or self-employed persons, which may also include~~or~~ persons temporarily without employment~~non-employed~~, participation being restricted to members of that group;
   - An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution.

Social insurance schemes may be organized privately or by government units. Social insurance benefits may be provided in cash or in kind. They become payable when certain events occur, or certain circumstances exist, that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or reducing their incomes. The contingencies covered are liable to vary from scheme to scheme. However, the identification of certain receivables as social insurance benefits depends not just on the contingencies covered but also the way in which coverage is provided.

8.71 Social insurance schemes are intended to cover beneficiaries and their dependants during their working lives and usually also into retirement~~, whether they are employees, employers, own-account workers, or persons temporarily without employment~~. Eligibility for social insurance benefits requires social contributions to have been paid by, or on behalf of, the beneficiaries or their dependants in the current or previous accounting periods. As already noted, the social contributions may be payable not only by the participants themselves but also by employers on behalf of their employees.

8.72 Social insurance schemes must be organized collectively for groups of workers or be available by law to all workers or designated categories of workers~~, possibly including non-employed persons as well as employees~~. They may range from private schemes arranged for selected groups of workers employed by a single employer, private schemes organized for selected groups of self-employed persons, to social security schemes covering the entire labour force of a country. Participation in such schemes may be voluntary for the workers concerned, but it is more common for it to be obligatory. For example, participation in schemes organized by individual employers may be required by the terms and conditions of employment collectively agreed between employers and their employees.

Participation in nationwide social security schemes organized by government units may be compulsory by law for the entire labour force, except perhaps for persons who are already covered by private schemes.

8.73 Many social insurance schemes are organized collectively for groups of workers so that those participating do not have to take out individual insurance policies in their own names. In such cases, there is no difficulty about distinguishing social insurance from insurance taken out on a personal basis. However, some social insurance schemes may permit, or even require, participants to take out policies in their own names. In order for an individual policy to be treated as part of a social insurance scheme the eventualities or circumstances against which the participants are insured must be of the kind listed in paragraphs ~~8.65~~8.67 and 8.68, and in addition, one or more of the ~~following~~ conditions listed in paragraph 8.65 must be satisfied.~~:~~

~~a. Participation in the scheme is obligatory either by law for a specified category of worker, whether employer or non-employed, or under the terms and conditions of employment of an employee, or group of employees;~~

~~b. The scheme is a collective one operated for the benefit of a designated group of workers, whether employees or non-employed, participation being restricted to members of that group;~~

~~c. An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution.~~

The premiums payable, and claims receivable, under individual policies taken out under a social insurance scheme are recorded as social contributions and social insurance benefits.

8.74 Social insurance schemes are essentially schemes in which workers are obliged, or encouraged, by their employers or by general government to take out insurance against certain eventualities or circumstances that may adversely affect their welfare or that of their dependants. When individuals take out insurance policies in their own names, on their own initiative and independently of their employers or government, the premiums payable and claims receivable are not treated as social contributions and social insurance benefits, even though the policies may be taken out against the same kinds of eventualities or situations as are covered by social insurance schemes such as accident, ill health, retirement, etc. The premiums payable and claims receivable under such individual insurance policies are recorded as current transfers in the secondary distribution of income account in the case of non-life insurance, while the premiums payable and claims receivable under individual life insurance policies are recorded as acquisitions and disposals of financial assets in the financial account.

8.xx1 In the case of employer-employee relationships, the determinants for the insurance to count as a social insurance policy, and not as an individual insurance policy, are that the benefits must be of the social benefit type (see paragraphs 8.67 and 8.68), and an employer makes an actual or imputed contribution to the scheme on behalf of an employee. If participation to a scheme is not obligatory, but only encouraged, it can become more difficult to differentiate between social insurance type of schemes and individual insurance policies. It is clear, however, that insurance policies solely taken out by individuals would not qualify as social insurance, even if, for example, a discount is arranged for a designated group of people.

8.xx2 Schemes providing social benefits may also be established for groups of self-employed persons. When organized by government, as part of a broader arrangement, such schemes would typically qualify as social insurance. If government is not directly involved, the default option is to not treat such types of schemes as part of social insurance, unless the schemes are collective arrangements which provide policies, for certain industries or professions, with a strong resemblance to similar arrangements organized by employers or government. These schemes may, or may not, be encouraged by government; in the former case, this would strengthen the case for a classification as social insurance. In addition, to qualify as social insurance, generally separate institutional units should be established, which are subject to regulation or supervision in line with or similar to other social insurance schemes. In the case of pension-related schemes, an additional criterion for the qualification as social insurance is that accumulated contributions are set aside for retirement income.

8.75 As can be seen from the consideration of individual insurance policies, the nature of the benefit is by no means sufficient to identify the social nature of the transactions. For example, the receipt of free medical services does not always constitute a social benefit. If the medical services received by one household are paid for by another, they are not social benefits but transfers between households. First aid rendered to employees at work is not a social benefit, the costs involved being recorded as intermediate consumption of the employer. In general, social benefits cannot be provided by one household to another except in the relatively rare case in which an unincorporated enterprise owned by a household operates a social insurance scheme for the benefit of its employees.

8.76 ~~All social insurance schemes are founded on an employment relationship even if the participants are self-employed or currently unemployed.~~ Two main types of social insurance schemes may be distinguished:

a. The first consists of social security schemes covering the entire community, or large sections of the community, that are imposed, controlled and financed by government units. Pensions payable under these schemes may or may not be related to levels of salary of the beneficiary or history of employment. Non-pension benefits are less frequently linked to salary levels.
b. The second type consists of other ~~employment-related~~ social insurance schemes. These schemes mainly derive from an employer-employee relationship in the provision of pension and possibly other entitlements that are part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions. They may also relate to collective arrangements organized for self-employed persons (see paragraph 8.xx2).

Making this distinction is difficult in some countries where the ultimate responsibility for administering the scheme and paying benefits is undertaken by government on behalf of many employers not working for general government. In countries where there is no such arrangement, social insurance schemes organized by government units for their own employees, as opposed to the working population at large, should, if possible, be included in the group of other ~~employment-related~~ social insurance schemes and not remain within social security schemes.

Social security schemes

8.77 In many countries, social security schemes are by far the most important category of social insurance schemes and it is worth summarizing their main characteristics. Social security schemes are schemes imposed, controlled and financed by government units for the purpose of providing social benefits to members of the community as a whole, or of particular sections of the community. When social security funds are established for this purpose and are organized and managed separately from other government funds, they are treated as separate institutional units. Their receipts consist mainly of contributions paid by individuals and/or by employers on behalf of their employees, but they may also include transfers from other government funds. The payment of social security contributions by, or on behalf of, certain specified individuals, such as employees and self-employed, including persons temporarily without employment, is generally compulsory by law, but some other individuals may choose to pay voluntarily in order to qualify for the receipt of social security benefits.

Other~~employment-related~~ social insurance schemes

8.78 The terms of other~~employment-related~~ social insurance schemes are typically determined by employers, possibly in conjunction with their employees and may be administered by the employers themselves. They may also be organized for selected groups of self-employed persons. In the case of schemes organized by employers for their employees~~Very often, though~~, the funds may form a separate institutional unit (e.g., an autonomous pension fund) or they may be managed by an insurance corporation on behalf of the employer. Collective arrangements for selected groups of self-employed persons are generally restricted to those managed by a separate institutional unit (see paragraph 8.xx2).

8.79 ~~Not all~~ Other~~employment-related~~ social insurance schemes ~~are~~may not be adequately funded, particularly in the case of pension schemes organized by employers for their employees. In the case of the employer being responsible for any shortfall, transactions are recorded, in the secondary distribution of income account, ~~transactions are recorded~~ as if the schemes are adequately funded and any discrepancies are recorded in the financial account under claims of pension funds on pension managers~~other accounts receivable or payable~~. A complete overview of the recording of pension schemes is given in ~~part 2 of~~ chapter 17.

…

9.20 As individuals accrue pension entitlements in a social insurance scheme throughout their working lives, the corresponding entitlements become their assets and the liabilities of the units ultimately responsible for paying the pensions. Pensions due under social assistance are excluded because the amounts due do not necessarily accrue in a predictable fashion over time or for predictable reasons. Similar arguments apply to benefits due under social security. In some countries, government assumes responsibility for paying pensions even for non-government employees and self-employed persons and these pensions are paid via social security funds. There is detailed discussion in ~~part 2 of~~ chapter 17 about when the liabilities for these schemes can be integrated into the sequence of economic accounts and when they only appear in a supplementary table. In this chapter, the expression "pension scheme" is used to cover those parts of social security schemes where liabilities can be integrated into the sequence of economic accounts, including the accumulation accounts and balance sheets, together with all other ~~employment-related~~ social insurance schemes.

…

11.6 In addition, a liability may be established not by contract but by long and well-recognized custom that is not easily refuted. Some payments by government to individuals fall under this category. In these cases, the creditor ~~has~~may have a valid expectation of payment, despite the lack of a legally binding contract. Such liabilities ~~are called~~, usually referred to as constructive liabilities, are generally not recognized in the sequence of economic accounts.

…

11.107 Pension entitlements typically concern~~show the extent of~~ financial claims both existing and future pensioners hold against either their employer or a fund designated by the employer to pay pensions earned as part of a compensation agreement between the employer and employee. However, they may also relate to collective arrangements established for selected groups of self-employed persons. The only transaction for pension entitlements recorded in the financial account is the difference between net contributions receivable and benefits payable. The increase in pension entitlements shown in the financial account is equal to the entry in the use of income accounts for the change in pension entitlements plus any transfer of entitlements from a previous pension manager.

Social benefits provided by other institutional units

17.86 Social benefits may also be provided by employers to the employees and their dependents or may be provided by other units such as a trades union. Collective arrangements may also be set up for selected groups of self-employed persons. All social benefits provided by units other than general government are made under a social insurance scheme.

Social insurance schemes

17.87 A social insurance scheme is a form of contractual insurance scheme where the policyholder is obliged, or encouraged, to insure against certain contingencies by the intervention of a third party. For example, government may oblige ~~all~~ employees or self-employed persons, which may include persons temporarily without employment, to participate in a social security scheme; employers may make it a condition of employment that employees participate in an insurance scheme specified by the employer; an employer may encourage employees to join a scheme by making contributions on behalf of the employee; ~~or~~ a trades union may arrange advantageous insurance cover available only to the members of the trades union; or a separate institutional unit may be established to manage a collective arrangement for selected groups of self-employed (see paragraph 8.xx2). Contributions to social insurance schemes are usually paid by, or on behalf of employees, though under certain conditions ~~non-employed~~persons temporarily without employment or self-employed persons may also be covered.

17.88 A social insurance scheme is an insurance scheme where the following two conditions are satisfied:

a. the benefits received are conditional on participation in the scheme and constitute social benefits as this term is used in the SNA; and
b. at least one of the three conditions following is met:
   - Participation in the scheme is obligatory either by law or under the terms and conditions of employment of an employee, or group of employees;
   - The scheme is a collective one operated for the benefit of a designated group of workers, whether employees or self-employed persons, which may include persons temporarily without employment~~employed or non-employed~~, participation being restricted to members of that group;
   - An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution.

17.89 Those participating in social insurance schemes make contributions to the schemes (or have contributions made on their behalf) and receive benefits. Contributions and benefits are defined in similar ways to insurance premiums and claims. A social insurance contribution is the amount payable to a social insurance scheme in order for a designated beneficiary to be entitled to receive the social benefits covered by the scheme. A social insurance benefit is a social benefit payable because the beneficiary participates in a social insurance scheme and the social risk insured against has occurred.

17.90 Social security is a form of social insurance scheme. The relative importance of social security relative to other social insurance scheme varies considerably from one country to another depending on institutional arrangements. In some countries, social security may be restricted to basic pension provision of the social safety net variety. In such cases even the pension provision of general government employees may be dealt with other than via social security. At the other extreme, almost all pension provision, including that accruing to employees in private enterprises and self-employed persons, which may include persons temporarily without employment, may be routed through social security.

17.91 The two classes of social insurance schemes are:

a. Social security,
b. Other~~Employment-related~~ social insurance schemes~~ other than social security~~.

The other social insurance schemes~~ other than social security~~ may be arranged with an insurance corporation as a group policy or series of policies or they may be managed by an insurance corporation in return for a fee. Alternatively, the schemes may be managed by an employer directly on his own behalf, or by a designated institutional unit specifically set up to provide a collective social insurance type of arrangement.

Multiemployer schemes

17.92 An insurance corporation may, for a fee, agree not only to administer~~manage~~ a pension scheme but to take on the risks associated with it. This ~~is~~can be done in the context of performing this service for a number of schemes collectively under what is called a multiemployer scheme. Under many such schemes, the insurance corporation takes over the responsibility of managing the funds at its disposal so as to make sufficient funds available to meet pension liabilities and to make a surplus it can retain. If it fails to make sufficient funds available for the pension entitlements, it is then the responsibility of this firm and not the original employers, to make good the difference from its own resources.

17.xx Moreover, special institutional units may be set up to administer a multiemployer pension scheme, for which the risks associated with the scheme are shared between those participating in the scheme, be it the employers, the employees and/or the persons in retirement. Such schemes may have at some stages positive, or occasionally even negative, own funds, depending on whether the accumulated asset are higher, or lower, than the pension entitlements. Similar arrangements may exist for groups of self-employed persons.[7]

17.93 When government takes over the responsibility for providing pensions to large sections of the community, the social security function is in effect filling the role of a multiemployer scheme. Like the insurance corporation, the government then takes on the responsibility for any shortfall in funds to meet the pension liabilities or may be entitled to retain any surplus generated. It is often the case, though, that social security is funded on a pay-as-you-go basis so there is no question of a surplus arising and, if there is a shortfall in resources, government may have powers to change the entitlements not just relating to future employment but for the past also.

Individual insurance policies qualifying as social insurance

17.94 Many social insurance schemes are organized collectively for groups of workers so that those participating do not have to take out individual insurance policies in their own names. In such cases,

[7] Please note that the main reason for adding this paragraph is not related to the issue note at hand. It can be derived from the recommendations made in the issue note on action point A.6 on the treatment of trusts and other funds as separate institutional units.

there is no difficulty distinguishing social insurance from insurance taken out on a personal basis. However, some social insurance schemes may permit, or even require, participants to take out policies in their own names. Most of these individual policies that may qualify as social insurance schemes are likely to be for pension provision but it is also possible that they may cover other eventualities, for example by providing income in the case the policyholder is unable to work for a prolonged period because of ill-health.

17.xx1 In the case of employer-employee relationships, ~~T~~the determinants for the insurance to count as a social insurance policy, and not as an individual insurance policy, are that the benefits must be of the social benefit type (see paragraph 17.79), and an employer makes an actual or imputed contribution to the scheme on behalf of an employee. If participation to a scheme is not obligatory, but only encouraged, it can become more difficult to differentiate between social insurance type of schemes and individual insurance policies. It is clear, however, that insurance policies solely taken out by individuals would not qualify as social insurance, even if, for example, a discount is arranged for a designated group of people.

17.xx2 Schemes providing social benefits may also be established for groups of self-employed persons. When organized by government, as part of a broader arrangement, such schemes would typically qualify as social insurance. If government is not directly involved, the default option is to not treat such types of schemes as part of social insurance, unless the schemes are collective arrangements which provide policies, for certain industries or professions, with a strong resemblance to similar arrangements organized by employers or government. These schemes may, or may not, be encouraged by government; in the former case, this would strengthen the case for a classification as social insurance. In addition, to qualify as social insurance, generally separate institutional units should be established, which are subject to regulation or supervision in line with or similar to other social insurance schemes. In the case of pension-related schemes, an additional criterion for the qualification as social insurance is that accumulated contributions are set aside for retirement income.

17.95 The premiums payable, and claims receivable, under individual policies taken out under a social insurance scheme are recorded as social contributions and social insurance benefits. Contributions to social insurance schemes are frequently paid on a monthly or even more frequent basis as they are often made directly when wages and salaries are payable.

~~17.96 Most individual policies that qualify as social insurance schemes are likely to be for pension provision but it is possible that they may cover other eventualities, for example to provide income if the policyholder is unable to work for a prolonged period because of ill-health.~~

17.97 Individual insurance policies that do not qualify as social insurance are described as individual insurance not qualifying as social insurance, or in short as other insurance. They are recorded in the accounts of the SNA as described in section xx~~part 1~~ of this chapter.

…

Accounting for non-pension contributions and benefits

17.100 Non-pension benefits may be payable under social security and under other~~employment-related~~ social insurance schemes~~ other than social security~~. Although in many countries there may in fact be no non-pension benefits, a description is given of how these should be recorded if they exist. For other, non-pension related, social insurance schemes, the way of recording varies depending on whether reserves for provision of future benefits are set aside or not. Although in many cases there may be no such reserves and the benefits are paid on a pay-as-you-go basis, a description of the appropriate recording in each case is given.

Non-pension benefits payable under social security

17.101 As is typical of social security schemes, there may be contributions payable by both the employer and the employee. It may also concern contributions payable by employers, self-employed persons, or persons temporarily without employment. The costs of operating social security schemes are treated as part of the normal expenditure of general government and so the accounting for social security operations does not include measures of output.

17.102 In the SNA flows are recorded as follows.

a. Employers' social security contributions are shown as payable by the sector in which the employer is located and receivable by households. The sector of the employer may be any of non-financial corporations, financial corporations, general government (as an employer), employer households, NPISHs or the rest of the world (when a resident works for a non-resident institutional unit). For resident employers the payables are shown in the generation of income account; payables by non-resident employers are shown in the primary distribution of income account for the rest of the world. Receivables by resident households are shown in the allocation of primary income account and by non-resident households in the primary distribution of income account for the rest of the world.

b. In the secondary distribution of income account, the sum of employers' social security contributions and social security contributions by households in their capacities as employees or any other capacity, is shown as payable by households and receivable by government. Further, social security benefits in cash payable to households are shown as payable by government (or the rest of the world if from a foreign government) and receivable by households.

…

Unfunded non-pension benefits other than from social security

17.104 In the SNA, an employer operating an unfunded scheme is regarded as making an imputed social contribution to the scheme on behalf of the employees. In practice, the value of the employers' and employees' contributions is usually set equal in value to the benefits payable in the period under consideration (plus the cost of operating the scheme as described in the following paragraph). The imputed contribution forms part of the compensation of employees and is also shown as being payable by the employees to the scheme together with any actual payments by the employees. Even though the scheme is unfunded, the employee may still make a contribution; however, it is not uncommon for unfunded schemes to be non-contributory for the employees.

17.105 Even if a scheme is unfunded, there are costs involved in administering it. In principle, output equal to the sum of these costs should be treated as being paid for by the beneficiaries from an imputed element of contributions. The imputed contribution to employees should include these costs as well as the value of the benefits received by employees. A value equal to the amount of the costs of operating the scheme is then recorded in the use of income account as a purchase of a service by the employees from the employer.

17.106 There are two transactions recorded for the production and consumption of the services provided by the employer. Because the scheme is unfunded, there are no investment income flows and no contribution supplements to be recorded. There are two sets of redistributive transactions recorded.

17.107 The production and consumption transactions are as follows.

a. Output of services is imputed in the production account of the employer and the value of the output forms part of the imputed employers' contributions to social insurance incorporated in compensation of employees.

b. Consumption of the service is recorded as household final consumption expenditure in the use of income account for resident households or as exports for non-resident households.

17.108 The redistributive transactions are as follows.

a. Employers' imputed contributions to unfunded social insurance schemes are shown as a payable by the sector in which the employer is located in the generation of income account and a receivable by households in the allocation of primary income account.

b. In the secondary distribution of income account, employers' imputed contributions and any actual contributions by employees are shown as payable by households and receivable by the employer. Further, benefits payable to households by the employer are shown as payable by the employer and receivable by households.

…

Funded social insurance other than pensions

17.110 As noted above, funded schemes for benefits other than pensions are not very common. They may, however, exist in two circumstances. The first is when an employer has a fund for such benefits and accumulates any underspend in one year to pay for possible overspends in future years. Alternatively, an employer may realize that the commitments to make payments in future are such that it is prudent to build reserves to be able to make such payments. An example of such a scheme might be one that provides health cover to present and past employees. Unlike in the case of pensions, estimates of possible future claims on social insurance benefits other than pensions are not necessarily included in the SNA. Liabilities are recorded only when and to the extent that they exist in the employer's accounts.

17.111 Funded social insurance covering benefits other than pensions for employees, including persons temporarily without employment, may be carried out by insurance corporations or by employers on behalf of their employees. Separate units may also be established for administering a scheme for self-employed persons. The output of this activity is measured in the same way as the output of non-life insurance but the matching consumption of the services is payable only by the households of the beneficiaries. These will be resident households except where a resident producer is liable to pay benefits to a present or former employee who is a non-resident or who has a non-resident family member entitled to the benefits. The investment income attributed to the beneficiaries of the social insurance schemes can only be receivable by the same households.

17.112 Employers' contributions relate only to employees. However, both current and former employees who are now, or may in future be, beneficiaries may make contributions to the scheme and receive investment income from it. This investment income is then treated as contribution supplements payable by those receiving it.

17.113 All contributions to the schemes are recorded as payable by households. These contributions include that part paid by the employer as part of compensation of employees in the generation of income account as well as contributions paid directly by the employee funded from wages and salaries or by others including former employees and self-employed persons. Further, households receive investment income attributable to policyholders in respect of these contributions and this is treated, in total, as contribution supplements. Two items of contributions appear in the secondary distribution of income account. The first, the employers' actual social contributions, is exactly equal in value to the amount receivable by households from the employer in the generation of income account. The second item, called households social contributions, includes the direct payment by households, including those paid by former employees and self-employed persons. plus the contribution supplements less the service charge payable to the social insurance schemes.

17.114 Eight transactions must be recorded, one ~~each~~ relating to production and consumption of the insurance service, three relating to contributions and benefits, one to the investment income attributable to policyholders and two relating to the difference between contributions and benefits:

a. The activity by resident units is undertaken by insurance corporations,~~ or~~ by an employer, or by a unit specifically established for administering a scheme; the output is recorded in the production account of the insurance corporations or in the sector of the employer as appropriate;

b. Employers' actual social contributions to employment-related social insurance schemes are shown as payable by the sector in which the employer is located in the generation of income account and receivable by households in the allocation of primary income account;

c. Investment income attributed to policyholders (beneficiaries) in respect of these schemes is payable by insurance corporations and employers, and receivable by households. Both payables and receivables are recorded in the allocation of primary income account;

d. Net social contributions are shown in the secondary distribution of income account as payable by households and receivable by insurance corporations or the sector of the employer as appropriate;

e. ~~Employment-related~~Other social insurance non-pension benefits~~ other than pensions~~ are also shown in the secondary distribution of income account as payable by insurance corporations or the sector of the employer and receivable by households;

f. The value of the service is payable by households as part of final consumption expenditure and is recorded in the use of income account, except for non-resident employee households where it is payable by the rest of the world;

g. The excess of net contributions over benefits represents an increase in the liability of the insurance scheme towards the beneficiaries. This item is shown as an adjustment in the use of income account. As an increase in a liability, it is also shown in the financial account. As noted, the item is likely to occur only rarely and, for pragmatic reasons, changes in such non-pension entitlements may be included with those for pensions.

…

Accounting for pension contributions and pensions

17.116 Pensions are provided to individuals in an economy under one of three mechanisms, via social security, via other~~employment-related~~ social insurance schemes ~~other than social security~~ or via social assistance. Together, social security and other~~employment-related~~ social insurance pension schemes ~~other than social security~~ constitute social insurance schemes. Although the benefits provided under social assistance and some social insurance schemes may be very similar, the key distinction is that social insurance benefits are only paid if the beneficiary participates in the social insurance scheme, participation being normally evidenced by the beneficiary or another on his behalf having made qualifying contributions. Social assistance is paid without qualifying contributions having been made though means-testing may be applied to applicants.

17.117 The means by which pensions are provided to persons in retirement varies considerable from one country to another. This ~~part of chapter 17~~section describes the most common forms of pension provision made under social insurance schemes though not all aspects may apply to all countries. Pensions provided under social assistance are not discussed in this chapter but in chapters 8 and 9.

17.118 Social insurance pensions in all countries are provided, if at all, in part by general government and in part by employers. They may also relate to collective arrangements for self-employed persons (see paragraph 17.xx2). The part provided by general government is called social security and the remainder~~part by employers~~ is called other~~employment-related~~ social insurance schemes ~~other than social security~~. The division between which pensions are provided by social security and which by other social insurance~~employment-related~~ schemes varies considerably from country to country with the consequence that the coverage and therefore national perceptions of what the term "social security" designates also vary considerably. In order to make clear the recommendations in the SNA, it is necessary to consider the types of coverage provided in different countries.

17.119 The narrowest form of social security pension is very basic. The level may be fixed independently of the size of contributions (though not of the fact that contributions have been made for a given period of time). In the case of employer-employee types of arrangements, ~~A~~an employee's right to a pension under social security is often transferable ("portable") from one employer to another, which is an advantage not always applying to other pension provisions, but for many people in low paid jobs, working temporarily or intermittently, it may be the only form of pension provision they can expect to receive.

17.120 ~~By contrast, i~~In some countries most or all pension provision may be made via social security. In this case, government acts as an intermediary relative to the employer, or self-employed person, so that once the government has received the contributions to the scheme paid by the employer and the households, the government then takes on the risk of making the eventual payment. Government relieves the employer, or the self-employed person, of the risk that the cost of pensions may be too great ~~for his enterprise~~ to meet and assures the population that pensions will be paid, though it may do so with the qualification that it may alter the amount of pensions payable, even retrospectively, if economic conditions so dictate.

17.121 Pension schemes derived from an employer-employee relationship, including those run by ~~private~~ public employers, are usually not subject to retrospective adjustments of the amounts payable, but there is a risk that the employer may be unable to pay because he has gone out of business. Increasingly, though, protection for the pension entitlements of individuals is becoming more common. Equally, the pension built up with one employer may not be transferable to a new employer though this too is undergoing change. While social security may be, and very often is, financed on a pay-as-you-go basis, without building up reserves for future liabilities, other ~~employer~~ social insurance schemes are increasingly likely to have reserves set aside. Even if there are no reserves, accounting conventions may require them to recognize pension entitlements of present and past employees in their accounts.

17.xx3 When it comes to the recognition of pension entitlements, entitlements related to social security type of schemes are typically not recognised as assets/liabilities in the sequence of economic accounts, while entitlements derived from an employer-employee relationship are recognized as such. The main reason for treating the latter entitlements as assets is that they are usually not subject to retrospective adjustments of the amounts payable. The entitlements can be regarded as part of the conditions of employment, whereas social security schemes are generally imposed by general government law. The legal nature of the employment contract underlying the scheme significantly limits the possibility of the manager, be it a private employer or a public employer, to change the basis on which entitlements are determined. Having said that, all of this assumes that the conditions of employment are the same, or at least sufficiently similar, for employees of private and public employers. If this holds for schemes for public employees, the related entitlements would qualify as assets (and liabilities) in the sequence of economic accounts, most certainly if the schemes are clearly separated from the social security type of pension schemes. In certain circumstances, defining similarity may not be that straightforward. A public employment contract may not follow the same terms as a private employment contract. The former type of contracts may be more generous in some aspects (e.g., tenure) but more restrictive in other aspects (e.g., ability to join political groups). Moreover, in some countries, public employees are governed by a general law, not by individual employment contracts. In such cases, where there are separate schemes for public employees, the concept of similarity should first and foremost focus on the terms and conditions of compensation, both current compensation and future compensation after retirement.

17.122 Employment-related pensions, other than the most basic form of social security, are seen as part of the compensation package and negotiations between employees and employers may focus on pension entitlements as much as on current conditions of service and pay scales. Often pensions are provided by ~~private~~ employers from funds that the employers control or contract to a third party such as an insurance corporation, or another unit specifically established to administer the scheme. These funds may also provide social benefits other than pensions, for example private medical coverage. It is sometimes possible for a specialized unit to agree to assume responsibility for providing pensions for a number of employers in return for assuming the risk of ensuring adequate funding is available to make the promised pensions. Such an arrangement is called a multiemployer pension scheme.

17.123 As with non-pension social benefits, both current employees and former employees, as well as self-employed persons, who are current or future beneficiaries may make contributions to the scheme and receive investment income from it. This investment income is then treated as contribution supplements by those receiving it.

Social security pensions

17.124 It is common but not essential for both employers and employees to make contributions towards a social security pension. It is also common for the contributions to be compulsory. Social security pensions are frequently funded on a pay-as-you-go basis. The normal assumption in the ~~main~~sequence of economic accounts of the SNA is that this is how social security pensions are funded. That is the contributions receivable in a period are used to fund the benefits payable in the same period. There is no saving element involved, either for the government operating the scheme or for the individuals participating in it. No liabilities for the scheme are recognized in the ~~main~~sequence of economic accounts of the SNA although concern is often expressed that benefits may exceed contributions and this situation is likely to worsen in an ageing population. For this reason, estimates of the liabilities of social security as well as any other pension schemes not included in the sequence of economic~~main~~ accounts are included in a supplementary table described below in section xx~~J~~.

17.125 The recording of the flows for social security pension schemes is simple. Any contribution made by the employer is treated as part of compensation of employees. It is recorded as payable by the employer in the generation of income account and receivable by the employee in the distribution of primary income account. The employee then pays an amount equal to what he receives from the employer together with any contribution he is liable to make on his own behalf to the social security fund. This amount is recorded as payable by households in the secondary distribution of income account and receivable by the government in the same account. Any contributions made by self-employed persons or persons temporarily without employment~~non-employed people~~ are also included with the contributions payable by households to government. Social security benefits are also recorded as payable by government and receivable by households in the secondary distribution of income account.

…

Other~~Employment-related~~ social insurance pension schemes~~ other than social security~~

17.127 There are two forms of other~~employment-related~~ social insurance pension schemes~~ other than social security~~. One is called a defined contribution scheme, sometimes referred to as a money purchase scheme. ~~(The expression “defined contribution pension scheme” is not intuitive but is widely used in the pension industry.)~~ The other is a defined benefit scheme, sometimes referred to as a final salary scheme, though this term does not accurately describe all defined benefit schemes. Typically both schemes are contributory, in the case of schemes derived from an employer-employee relationship, often by both the employer and the employee.

17.128 A defined contribution scheme is one where the benefits payable to an employee, or self-employed person, on retirement are defined exclusively in terms of the level of the fund built up from the contributions made over the ~~employee’s~~ working life and the increases in value that result from the investment of these funds by the manager of the scheme. The entire risk of the scheme to provide an adequate income in retirement is thus borne by the employee, or self-employed person.

17.129 A defined benefit scheme is one where the benefits payable to an employee, or a self-employed person, on retirement are determined by the use of a formula, either alone or as a minimum amount payable. In this case the risk of the scheme to provide an adequate income in retirement is borne either by the employer, or is shared between the employer(s), the~~ and~~ employees, or self-employed persons, and the retired persons. In certain cases, the ~~employer’s~~ risk may be borne by the multiemployer scheme that operates the defined benefit pension scheme~~ on behalf of the employer~~. A scheme ~~that~~ may ~~be~~also refer to a notional defined contribution scheme, in which the benefits are defined in terms similar to a defined contribution scheme but with a guaranteed minimum, say, or other such hybrid schemes are grouped with defined benefit pension schemes in the SNA.

17.130 For both types of schemes, pension entitlements of the participants are recorded as they build up. In both cases, there is investment income earned on existing entitlements and this is recorded as being distributed to the beneficiaries and reinvested by them in the pension scheme. There are, though, a number of different features of the two schemes, so the transactions relating to each are described in detail separately before turning to other changes in the levels of pension entitlements. The recording of transactions for a defined contribution scheme is less complicated than the defined benefit scheme and is described first.

17.131 For both types of schemes, a pension fund is assumed to exist. For a defined contribution pension scheme, a fund of accumulated assets must exist. For a defined benefit pension scheme a fund may exist in reality or it may be a notional fund. If it exists, it may be part of the same institutional unit as the employer, it may be a separate institutional unit (an autonomous pension scheme), or it may be part of another financial institution, either an insurance corporation or a multiemployer pension scheme. In describing the recording of transactions, transactions with the pension fund must be attributed to the sector where the fund is allocated.

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The special case of government providing pensions via social security

17.191 In recognition of the fact that social security is normally financed on a pay-as-you-go basis, entitlements accruing under social security (both pensions and other social benefits) are not normally shown in the SNA. If all countries had similar benefits provided under social security and under other social insurance pensions~~private~~ schemes, international comparisons would be relatively straightforward. However, as pointed out at the beginning of this section~~part~~, this is far from being the case and national perceptions of exactly what is covered by social security vary considerably.

17.192 There are two problems with simply suggesting that entitlements from social security should be shown in the SNA. The first is that reliable estimates of the entitlements may not be readily available whereas it is increasingly the case that such estimates exist for ~~private~~other social insurance pension schemes. Secondly, there is an argument that such estimates are of limited usefulness where government has the possibility of changing the basis on which entitlements are determined in order to keep the entitlements within the bounds of what is budgetarily feasible. However, the consequence of simply accepting that entitlements for other social insurance pension~~private~~ schemes are shown and for social security are not is that some countries would include the greater part of pension entitlements in the accounts and some would show almost none.

17.193 In recognition of this dilemma, some flexibility regarding the recording of pension entitlements of unfunded pension schemes sponsored by government for all employees (whether private sector employees or government's own employees) is provided. Given the different institutional arrangements in countries, only some of these pension entitlements may be recorded within the ~~main~~ sequence of economic accounts~~(here referred to as the "core accounts")~~. In addition, however, a further table is to be presented that provides information disclosing the proportion of pension provision covered in the sequence of economic~~core~~ accounts with some approximate estimates for the remaining schemes. It is a requirement, though, that a set of criteria be provided to explain the distinction between those schemes carried forward to the ~~core~~sequence of economic accounts and those recorded only in the supplementary table.

17.194 The sort of criteria that might be considered are the following: Where a pension scheme provided by government or a public corporation in its role as an employer is clearly separated from social security pension schemes, ~~T~~the closer that ~~a government employer~~ pension scheme is to the prevailing pension arrangements provided by private employers~~social security scheme~~, in the sense of being derived from an employer-employee relationship with common terms and conditions of compensation, both current compensation and future compensation after retirement, the more~~less~~ likely it is to appear in the sequence of economic~~core~~ accounts.~~;~~ Furthermore, the less the benefits are tailored to the specific characteristics of the individual and the more they are applicable to the population at large, the less likely it is to appear in the sequence of economic~~core~~ accounts. Also~~; the greater~~ the ability of government to alter the benefit formula would make it~~, the~~ less likely ~~it is~~that the entitlements would be recognised ~~to appear~~ in the ~~core~~sequence of economic accounts. However, none of these criteria alone is necessarily decisive in determining whether the scheme is treated in the core accounts or not.