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PREPARING FOR THE NEW SUPPLEMENTARY TABLE ON PENSION ENTITLEMENTS IN EUROPE

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PREPARING FOR THE NEW SUPPLEMENTARY TABLE ON PENSION ENTITLEMENTS IN EUROPE

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Abstract

Data on pension entitlements are a new and important part of the ESA 2010 Transmission Programme. The Member States of the EU will transmit the table “Accrued-to-date pension entitlements in social insurance” on a mandatory basis for the first time by the end of 2017. Eurostat visited some European countries in order to identify issues related to the implementation of the new pension table.

Background

Demographic projections for the EU, as for many other industrialised countries, are characterised by an ageing of the population. Therefore, there is an increasing need for data on pension schemes.

SNA 93 and ESA 95 didn't cover the full range of pension entitlements. Missing information with respect to pension entitlements of unfunded pension schemes is an important issue in this respect. The treatment of pension entitlements has been updated in the context of the 2008 SNA and ESA 2010. Both improve the current recording of pension schemes and provide for a new supplementary table on pensions: The European 'Table 29' on accrued-to-date pension entitlements in social insurance is included in the transmission programme attached to ESA 2010.

The compilation of pension entitlements is a complicated issue. A Contact Group on pensions has been set up after the Eurostat/ECB Task Force on pension schemes in general government had finished its work in 2009. Furthermore, in 2011 a methodological guidance manual, the Technical Compilation Guide for Pension Data in National Accounts, has been produced by Eurostat and the European Central Bank. The manual is available under the following link:


In summer 2014 Eurostat contacted some countries in order to collect further information on their experiences concerning pensions. A representative of Office for National Statistics (ONS) visited Eurostat; Poland invited Eurostat for discussions on pension and insurance issues; Germany, Ireland and Sweden agreed to pension information visits. All countries are already working on the implementation of the new table on accrued-to-date pension entitlements in social insurance. Eurostat is grateful for the willingness of these national statistical institutes to share their experience; in particular in busy period of ESA 2010 implementation. It was not possible to agree a date with Latvia. However, the Latvian colleagues filled in the Eurostat questionnaire on pensions and their responses are reflected in this paper.
Structure of the pension information visits

The discussions with the countries covered the following elements:

- Institutional arrangements
- Data sources and major assumptions
- Filling the supplementary table
- Sensitivity analysis for pension data
- Further Guidance
- Exchange of experience
- Communication on pension entitlements

Institutional arrangements

Various institutions are integrated in the work on pension data. Some national statistical institutes (NSIs) signed formal agreements with other institutions and/or established contacts to supervisory authorities and social insurance agencies, ministries and central banks. However, several countries stressed that finally the NSIs will transmit the pension data which is part of the official transmission programme. In this respect, the NSIs are responsible to provide independent and reliable estimates for all pension related stocks and flows and will secure consistent standards throughout the pension table. At the same time the NSIs are dependent on other institutions which provide or publish data. Therefore, it is very important to follow closely the development of the accounting standards relevant for the compilation of pension obligations.

Data sources and major assumptions

In the past, usually no data regarding pension entitlements of unfunded schemes of general government has been available. In the meantime many countries developed and implemented models and are in the position to provide information on this kind of pension entitlements. The models differ from to country to country. A short questionnaire on this issue revealed that custom made models (developed by NSIs, NCBs, and ministries); the World Bank model or models developed by research institutes/universities are already implemented or will be implemented in the future. Some countries used Eurostat grants for the development of calculation tools and the exploration of data sources.

The available data sources are usually covering the information needs. However, in some cases information on the complete career of employees is missing (long backward time series). Tools to fill these data gaps have been developed. In other cases, only pension data reflecting the full working is available and the transformation into accrued-to-date entitlements is outstanding.

This kind of entitlement data, taking into account future work is suitable for the concepts of the working group on ageing populations and sustainability (AWG). Most countries already established contacts to the national representatives of the AWG. Several countries indicated that the AWG assumptions for important actuarial parameters are incorporated in their models. Based on the long-term character of unfunded government pension schemes, there was substantial support to have stable assumptions, in particular with respect to the discount rate for these pension schemes. For the discount rate a unified (European) solution was proposed in order to arrive at internationally comparable results.

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1 The AWG was set up by the Economic Policy Committee of the EU. The main tasks of the group are to carry out age related budgetary projections and to contribute to the development of the assessment of long-term sustainability of public finances. The 2012 Ageing Report: Economic and budgetary projections for the 27 EU Member States (2010-2060) is available following this link: http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-2_en.pdf
Furthermore it was stressed that at the moment, the identification of a risk free rate, as requested by ESA 2010, seems to be extremely difficult.

Regarding mortality tables most countries apply the Eurostat population projections. However, for certain groups, like civil servants, a higher life expectancy is assumed. The discussions showed that transparency regarding the assumptions is essential. A pension fact sheet was proposed in order to provide explanations (and data) on these assumptions. A draft fact sheet is annexed to this document.

Regarding the comparability of calculations, the benchmarking against other comparable calculations was considered an important element.

**Filling the supplementary table**

Some countries were fine with the supplementary table. Other countries encountered some difficulties while filling the table. One difficulty relates to problems to distinguish properly between defined contribution and defined benefit schemes. Regarding the modelling of pension reforms it was stressed that the behaviour of economic agents is difficult to project. Furthermore, pension reforms tend to become more and more complex. Therefore, simplifications seem to be necessary when the impact of pension reforms should be included in the supplementary table in a manageable way.

The allocation of schemes to the different columns of the table was difficult for the countries in particular when social security was managing the funds and the assets were belonging to the households. In addition, the issue of coverage was raised. In this respect, more explicit guidance on the inclusion of survivor and disability pensions was requested. Finally, the allocation of defined benefit scheme providing supplementary pension benefits (going beyond social security schemes) was under discussion.

Other issues raised were the delineation to social assistance, differences in opening/closing balance sheets, the identification of cross border pension entitlements, the recording of the transfers of pension entitlements between schemes and the calculation of output of pension funds.

**Sensitivity analysis for pension data**

ESA 2010 foresees a number of changes to the ESA 95 recommendations in the case of defined benefit schemes. The most important change is that the level of the pension entitlements should be determined by actuarial methods.

The actuarial estimates ask for new ways to present national accounts data. It is a novelty that national accounts data will comprise a set of results, a sensitivity analysis, for certain variables. For table 29 of the ESA 2010 transmission programme European countries are asked to provide in total three scenarios:

“The data for columns G and H (unfunded db schemes of government and social security schemes) should comprise three datasets based on the actuarial calculations carried out for those pension schemes. The datasets should reflect the outcomes of a sensitivity analysis with respect to the most important parameters of the calculations, as agreed by statisticians on the one hand and experts in ageing populations working under the auspices of the Economic Policy Committee on the other. The parameters to be used shall be clarified in accordance with Article 2(3) of this Regulation.”

In course of the pension visits quite some discussion on the variables and their magnitude took place. Countries considered the preparation and dissemination of a sensitivity analysis to be very important. However, the additional cost for the scenarios was mentioned at the same time.

The discount rate was classified as single most important rate. Many countries were happy with the current level of three percent in real terms. However, some criticism was uttered and one scenario should
report results which reflect a discount rate of two percent. There was some support to have a second scenario for life expectancy. The Japanese life expectancy, the highest in the world was proposed as an interesting basis for an alternative scenario. Other suggestions were related to wage growth.

Regarding the criteria several aspects were discussed. In particular, the scenarios should be relevant and identifiable. Furthermore, the cost for the additional estimates should be taken into account. In this respect it was proposed just undertake (positive and negative) variations of the discount rate.

Further Guidance

Regarding the further development of the technical pension compilation guide some points were raised by Member States. In some parts the technical compilation guide was considered to be too technical. Therefore more basic information should be provided and the more technical elements should be moved to annexes. A glossary would add to the value of the compilation guide.

Additional concrete points are the following. The case of notional defined contribution schemes (NDC) should be addressed in more detail. The same request was made for defined contribution schemes; the compilation guide concentrates too much on defined benefit schemes. The guide should be more explicit whether the guidance is targeting only unfunded government schemes or addresses the whole table. Furthermore, additional examples should explain in more detail the issue of pension reforms and changes in entitlements due to other changes in volume.

Exchange of experience

Regarding the exchange of experience with others, some countries indicated that they are in the position to share their experience. However, this kind of support is of course limited to the resources available. At the same time, it was proposed to have regional exchange of experience; in particular when comparable pension scheme arrangements prevail. A first promising example, pointing in this direction, was the meeting of representatives of the statistical offices of Latvia, Estonia and Lithuania in spring 2014.

Communication on pension entitlements

It was indicated that most countries will transmit data for the first time at the end of 2017. However, some countries foresee 2014 or 2016 as possible first year for a national publication. In addition, some countries plan an annual cycle, instead of the three yearly releases according to the transmission programme.

The communication of the estimates on pension entitlements is an extremely important point for all countries. The idea to develop a joint communication strategy which integrates the work and the results of the AWG was supported.

Most important messages for the communication, mentioned by countries, are the following:

- Accrued to date entitlements/liabilities are not, as such, an indicator for financial sustainability
- Large entitlements are not an indicator for a poor operation of the pension scheme
- The level of pension entitlements is very sensitive to changes in assumptions
- The supplementary table is an important tool in the analysis of pension reforms
- The results need proper explanations; in particular differences between countries and the relative importance of private and public pensions should be explained
- A clear communication of standards and assumptions is essential; the relationship to internationally agreed standards should be demonstrated
Draft structure of a 'Pension fact sheet'

1. **General description of the scheme and the calculation model**
   a. Coverage of the scheme (% of the workforce), classification in the pension table (table 29 of the transmission programme)
   b. Major formulas: Benefit formula; Indexation of benefits
   c. Type and structure of the calculation model
   d. Institutional set up – Which institution is running/managing the calculations?

2. **Assumptions and methodologies applied**
   e. Discount rate
   f. Wage growth
   g. Valuation method: ABO/PBO

3. **Data used to run the model**
   h. Mortality tables
   i. Entitlement statistics; other relevant statistics

4. **Reforms incorporated in the model**

5. **Specific assumptions**
   j. How are careers modelled?
   k. How are survivor pensions calculated?
   l. How is the retirement age modelled over time?
   m. Other specific features of the model

*The pension fact sheet should provide clear information. Therefore one fact sheet per scheme should be provided. The information should be concise. Therefore the information should be limited to a maximum of 2 pages per scheme.*