Working Party on National Accounts

OECD WORK PROGRAMME ON THE MEASUREMENT OF PENSIONS

JOINT MEETING

To be held on 4-5 November 2014
OECD Conference Centre
Beginning at 11:00 am on the first day

This document has been prepared by Peter van de Ven - Head of National Accounts Division (OECD/STD) and will be presented under item 9 of the draft agenda

JT03364645

Complete document available on OLIS in its original format
This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.
OECD WORK PROGRAMME ON THE MEASUREMENT OF PENSIONS

Peter van de Ven, Head of National Accounts, OECD

1. Introduction

1. Funding retirement incomes with an aging population, understanding the obligations on government, increasing debt concerns and the sustainability of consumption patterns are common issues to all OECD countries. Though the strategy of encouraging increased savings for retirement, via pension schemes and other initiatives, is common to most countries, there are substantial differences in how these strategies have been implemented across countries. The differences in the operation of pension schemes (and other arrangements to finance retirement) across countries result in difficulties in collecting and disseminating internationally comparable data.

2. Similarly the prioritisation of policy questions, and hence the information data set required to answer these questions, is different across countries. There seem to be two broad priorities that are related but distinct:

- the ability of general government to meet its obligations leading to a focus on the liabilities of the general government sector; currently captured in the supplementary table 17.10 of the 2008 SNA (ESA 2010, Table 29); and
- the ability of households to fund their lifestyles in retirement leading to a focus on the assets of the household sector; currently not adequately captured in table 17.10 (ESA 2010, Table 29).

The second issue mentioned above has led to the development of a proposal for an additional table on household resources for retirement.

3. This short note has two objectives. First to provide, in section 2, some further details on the work programme of the OECD Statistics Directorate in relation to the measurement of pensions. Secondly, in section 3, to provide further details on the new table on household retirement resources, recently agreed upon in the meeting of the Advisory Expert Group (AEG) on National Accounts (Washington D.C., September 8 – 10, 2014). Delegates are invited to provide suggestions and comments on both issues. The OECD Secretariat would also very much appreciate countries’ suggestions on how to best move forward in the shorter term.

2. OECD Work Programme on the Measurement of Pensions

4. The primary medium-term objective of the OECD Secretariat in relation to the measurement of pensions is the completion of the two supplementary tables mentioned in the introduction:

- the supplementary table 17.10 of the 2008 SNA (ESA 2010, Table 29); and
- the supplementary table on household retirement resources; see also section 3 of this short.

Preferably, these tables should become available for as many OECD countries as possible. In relation to the timing of the delivery of both tables, we suggest to align to the time schedule of the EU Transmission

5. As the measurement of the additional items in the supplementary tables, certainly for those items that go beyond the core system of national accounts, may require some additional discussion and guidance to arrive at internationally comparable data, the organisation of another workshop, possibly in co-operation with the International Monetary Fund (IMF), is being considered in the course of 2015. This workshop would be a follow-up to the previous workshop organised by the OECD and the Australian Bureau of Statistics (ABS) (Canberra, 22 – 24 April 2013). Although a key item for discussion would be the extension of the platform to non-EU OECD countries, the participation of EU-countries, the ECB and Eurostat would be most appreciated, in order to arrive at a better alignment of the conceptual and measurement issues, and also to benefit from the experience gained at the EU-level. At the workshop, the extent of required metadata to support the appropriate use of the data for policy analysis and research could also be considered.

6. The OECD Directorate for Employment, Labour and Social Affairs (ELS) will publish its biannual publication “Pensions at a Glance” in the course of 2015. This publication might also include a chapter on what they refer to as “Implicit Pension Debt”, which coincides with the additional items included in supplementary table 17.10. In addition to the above longer-term objective, the OECD Secretariat therefore would like to conduct a small survey across OECD countries on the current availability of data in line with table 17.10. These data may not (yet) have the status of “official statistics” and should be considered as rough estimates, thus making it necessary to appropriately reflect the status of the relevant data when eventually considering to include them in the publication. Please note that, if data are not available, ELS is considering an approach to compile its own estimates using the Freiburg model. Obviously, the support of countries in either scenario would be very much appreciated as well.

7. Finally, the OECD Secretariat would like to pursue the writing of papers on the interpretation of data on pension liabilities/entitlements, including its impact on the interpretation of government debt and deficit data as commonly defined, and its relationship to questions on financial sustainability of government finance. Also a paper on the levels and developments of pension liabilities/entitlements, taking into account international comparability issues, is being considered. The latter of course will depend upon the availability of adequate data and metadata.

3. Table on Household Retirement Resources

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

9. Subsequently, the table was also put forward to the 2013 Joint Meeting of the Working Parties on Financial Statistics and National Accounts (Paris, October 1 – 2, 2013). At the meeting, the table was received favourably, but participants also “… confirmed that further work has still to be done on conceptual and measurement issues, and on the Table 17.xx (including metadata)”.

3
10. A revised version of the table, including some suggestions for change, was then submitted to the 2014 Meeting of the Advisory Expert Group (AEG) on National Accounts (Washington D.C., September 8 – 10, 2014). The note included proposals for the scope of assets to be included in the table, the treatment of cross-border transactions and positions, and some other, minor, amendments of the table. This will be further elaborated below. The AEG concluded the following, according to the provisional minutes:

- Agreed that the table — further developed since the 8th AEG meeting — on household retirement resources now provides more extensive and detailed information on the various household resources for retirement, including the scope of assets and cross border transactions.

- Agreed to refer to the table as “The table on household retirement resources” instead of Table 17.XX. Also agreed that the table should first and foremost record the assets of households, instead of trying to keep the link with domestic pension liabilities.

- Noted that the table should be seen as a starting point and encouraged further work regarding the delineation of social assistance benefits and the possible inclusion of assets such as owner occupied dwellings.

11. The remaining part of this note contains a further elaboration of the table on household retirement resources. Subsequently, as mentioned in the above, the following points will be briefly presented: (i) the scope of assets to be included in the table on household retirement resources; (ii) the treatment of cross-border transactions and positions; and (iii) a slightly more detailed description of the various elements in the proposed table. In discussing these points, the above conclusions of the AEG have been integrated.

Scope of entitlements

12. The main purpose of table 17.10 is to provide comprehensive information on all pension schemes of which the entitlements may or may not be recognised and recorded in the core system of national accounts, to arrive at a more internationally comparable set of data on pension liabilities. However, table 17.10 does not allow for a number of schemes which are designed to encourage household savings for retirement which are not part of social insurance, and therefore does not present a complete picture of household preparedness for retirement and consequently of households financial wealth after retirement. For example, this could relate to private savings schemes taken out by households solely on their own initiative and not linked to employment but which provide tax incentives for retirement savings. In some countries, these schemes can represent a substantial part of households’ assets related to pensions. The inability to report these schemes has revealed that a fundamental problem with table 17.10 is that it was designed for economies where pension or social security schemes have not been funded. Another area not covered by table 17.10 and highlighted at the OECD-ABS Workshop was the importance of the old age pension, organised via social assistance schemes, as a form of retirement benefit in some countries. For example, in New Zealand nearly three quarters of pension benefits received by current retirees comes from the old age pension (known as “New Zealand Superannuation”). Also in other countries, one can observe the (partial) “fiscalisation” of social security type of pension schemes.

13. The (revised) table on household retirement resources is presented in an annex to this note. It includes columns (A, B, C and D) for reporting retirement assets related to (individual) life insurance and assets held directly by the household sector which are not covered in Table 17.10. Columns A and B concern (individual) life insurance, as defined according to the 2008 SNA. The relevant assets and liabilities may not always be related to retirement as such, but most of the individual life insurance policies taken out serve the same goals as social insurance type of pension schemes, either allowing for income after retirement or income to survivors. The counterparty sector for these types of liabilities would usually be insurance corporations in- or outside the domestic economy. In the table, a distinction is made between annuities, yielding a lump sum at a given date (see SNA 2008, para. 17.66 and further), and other life insurance policies. In this respect, one can observe that, for example in Canada and the USA, money
moves out of pension schemes (defined benefit or defined contribution) and into annuities. This can take place at retirement and the annuity represents a payment mechanism for the liquidation of assets which have accumulated during employment.

14. Column C represents private savings schemes taken out by households solely on their own initiative and not linked to employment but which provide tax incentives for retirement savings. Column C would be used for assets of the household sector such as the Individual Retirement Account (IRA) in the USA or the registered retirement savings plan (RRSP) in Canada. Governments encourage households to save for retirement by offering tax incentives which permit the deferral of current income tax. As companies in Canada have evolved away from defined benefit schemes, households have been encouraged to save in these types of schemes in preparation for retirement and these assets are earmarked and held in trusts for individuals.

15. Column D would represent country-specific individual (savings) schemes, not being part of the other arrangements included in columns A to C. It could, for example, also include dwellings which are used to compensate for a lack of income, by providing additional dissavings. Clearly, for reasons of interpretation and international comparability, countries would need to be requested to specify this latter type of schemes.

16. Columns F to L represent the social insurance type of schemes which are also included in table 17.10. For a more detailed description of the contents of these columns, reference is made to the 2008 SNA, chapter 17, part 2, more specifically section K. It is proposed to add a column M for social assistance type of schemes, which would consist of schemes providing a minimum level of income in the case of retirement. These type of schemes only differ from similar social security type of schemes, in that no dedicated social contributions are collected to finance (part of) the benefits. The financing is usually done through the collection of more generic types of taxes. Apart from providing the same type of future benefits, the similarity with social security type of schemes can also be quite substantial in other aspects, considering, for example, that in some countries the eligibility for social security type of minimum pensions is based on the number of years one is resident in the country, and the collection of contributions is highly integrated with and almost indistinguishable from the collection of taxes, while any shortfall of contributions is covered with transfers out of generic taxes. On the other hand, it is proposed that social assistance benefits which are directly related to certain expenditures like health care are not included here.

The treatment of holdings across the borders of a country

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

- Simply limiting the contents of the table on household retirement resources to the assets of resident households, either held domestically or held in the rest of the world.
- Recording of the counterpart of domestic liabilities in columns A to O and rows 1 to 11, and add two columns to subtract non-resident holdings in the domestic economy, and to add resident holdings in the rest of the world.
- Recording of the counterpart of the domestic liabilities in columns A to O and rows 1 to 11, and add two rows to subtract non-resident holdings in the domestic economy and to add resident holdings in the rest of the world.
Of course, one could also combine option 1 with either option 2 or 3, by having the total assets of resident households for columns A to E, and combining this with the initial recording of the counterparty assets of the domestic liabilities for the other schemes. Furthermore, it should be noted that the terminology of the various columns depends on the choice between option 1 versus options 2 and 3.

18. The AEG, at its meeting in September 2014, agreed that the first option is the most clean and concise one. It goes without further saying that in this case one loses the direct relationship with the liabilities in table 17.10, unless one adds rows or columns for crossborder transactions and positions. For larger countries, with marginal crossborder positions, this may be of minor importance and no additional information is required. It may however be less informative for smaller economies. Therefore, in the annexed table, two options have been included to account for cross-border (transactions and) positions, depending on the available information; see yellow marked rows and columns. Regarding the available information, one would assume that countries with more substantial cross-border positions would have available the relevant details on crossborder (transactions and) positions, in order to compile these rows or columns.

Some more details on the contents of the table

19. The contents of the columns have been discussed above. Here, the contents of some of the rows will be discussed. Doing so, only the differences with table 17.10 will be examined, for the other rows reference is made to the 2008 SNA, para. 17.201 to 17.206.

20. First of all, as was already included in the proposal presented at the 2013 meeting of the AEG, row 2.5 on the service charges has been added. As the contributions are recorded on a gross basis, i.e. without any deduction for the service charges, this item needs to be included. The same row should also be added to table 17.10 in the 2008 SNA. In addition, the row showing data on “output” at the bottom of table 17.10 has been excluded from the proposed table, as this would simply be a repetition of the data on service charges.

21. Furthermore, the row “Additions to less withdrawals from individual schemes not related to social insurance” (row 8) has been added, to show the financial transactions related to the schemes in columns A to D. One could also integrate this into the transactions recorded in rows 2 and 3. However, this has not been done for two reasons: (i) to have a closer alignment to the data recorded in the core system of national accounts; and (ii) to avoid having to change the wording of the transactions using a terminology which is not included in the 2008 SNA.

22. Finally, as in the previous proposal, a row on "Valuation method of entitlements" is included to indicate the basis of valuation for the pension entitlements. Accumulated benefit obligation as well as projected benefit obligation are methods for the evaluation of defined benefit plans. Other valuations should be noted such as market value in the case of defined contribution plans or household retirement resources recorded in columns A to D. This kind of meta information may need further consideration in the context of the broader discussion on the need for adequate metadata.
### Table on Household Retirement Resources

<table>
<thead>
<tr>
<th>Position / transaction / other flows</th>
<th>Assets held by pension schemes at end-year</th>
<th>Valuation Method for entitlements</th>
<th>Related indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance sheet</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Total household retirement resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transactions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Social contributions relating to pension schemes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1.1 Employer actual social contributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1.2 Employer imputed social contributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1.3 Household actual social contributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1.4 Household social contribution supplements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1.5 Less Service charges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Other (actuarial) accumulation of pension entitlements in social security funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Pension benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5=2+3+4 Adjustment for the change in pension entitlements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Change in pension entitlements due to transfers of entitlements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Change in entitlements due to negotiated changes in scheme structure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Additions to less withdrawals from individual schemes not related to social insurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Other economic flows</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Other changes in volume</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance sheet</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Total household retirement resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Total household retirement resources of resident households in the rest of the world</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Total household retirement resources of non-resident households in the domestic economy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14=11+12+13 Total domestic liabilities related to household retirement resources</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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