

# **Comments on John Pitzer's paper on the definition and classification of a social insurance scheme**

By Anne Harrison

*June 30, 2003*

The paper by John Pitzer posted on the EDG on June 30, 2003 Suggests two far-reaching changes to the treatment of social insurance schemes in the SNA. The first of these concerns the definition of what constitutes such a scheme and the second would exclude defined contribution schemes from the coverage of the schemes. I believe the first is based on a mis-appreciation of the intent of the SNA and the second follows from this. This note is intended to further explain the rationalisation in the SNA and suggest an approach which would not lead to these two changes.

## **A. Why social insurance schemes?**

Social insurance schemes were introduced in the 1993 SNA; there were no such schemes in the 1968 SNA. Among the reasons for introducing them were the following:

There is considerable policy interest in knowing what provision is being made by government and employers to provide income and social benefits to their employees in the post-employment period because if this provision is inadequate, there will be greater demand made on any social safety net provided by government.

The needs for social policy analysis also make it desirable to be able to link micro data, typically from household surveys, with macro economic data on households. In household surveys, pensions are regarded as current income and not as a draw down of savings and contributions by employers towards future pensions are excluded from disposable income.

Government regards pensions as current income in terms of income tax liability and when assessing means-tested benefits.

Income distribution data would be distorted if pensioners were regarded as having zero income.

It is inconsistent to have pensions paid by social security treated as current income and pensions paid by employers as dis-saving.

In my view, none of these analytical needs has changed and it is thus desirable to ensure that proposed changes to the treatment of social insurance schemes do not obstruct these goals.

## **B. What does social mean?**

John Pitzer argues closely and at some length that a social scheme is a collective one where a “ a group of people agrees or is forced to act jointly to become policy holders of the same insurance policy” (para 9). I think this is mistaken. The protagonists of social insurance schemes are the employers; the employees<sup>1</sup> react to the actions taken by the employers, they do not initiate the actions. The SNA is clear that these schemes are organised collectively *for* groups of workers and not *by* groups of workers. (para 8.59, my emphasis). The defining characteristics of a social insurance scheme are those elaborated in SNA para 8.60 (quoted by John in his para 14). He does not, in my opinion, pay sufficient attention to SNA para 8.61 which reads in part;

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 same kinds of eventualities or situations are covered...

My reading of the conditions given in para 8.60 is that these specify the characteristics of all social insurance schemes and therefore these are the criteria by which a policy taken out in an individual's name is judged to see whether it is to be treated as a social insurance schemes despite the stricture in the following paragraph. My basis for this is reinforced by the fact that the text for annex IV was more closely scrutinised than that of chapter 8 and there was explicit agreement with the extension of these conditions to all schemes, as again noted by John on his para 17.

In my opinion, John's proposed definition suffers because it does not rule out schemes initiated without any employer involvement. It is true that he says in para 13 “ it is difficult to imagine a group of individuals being able to form a cohesive group and negotiate a collective insurance contact voluntarily” but some of us might find this less unimaginable than suggested and, in any case, the SNA must allow for the possibility, however unlikely we may think it.

## **C. What does insurance mean?**

John argues at length that a defined contribution schemes will not, except in some specific circumstances, involve the spreading of risk and thus is not an insurance scheme<sup>2</sup>. I wonder whether unfunded schemes can technically be described as

---

<sup>1</sup> For simplicity I talk in the main in terms of employers and employees, recognising that other units and non-employees may sometimes also be involved.

<sup>2</sup> However, all defined contribution schemes as well as life policies of a purely individual nature (which by the criterion of not spreading risk would presumably also be candidates for exclusion from insurance) are recorded in the SNA as the output of insurance companies or of pension funds operating in similar ways. Output is defined according to the formula used for the output of non-life insurance, property income is attributed to policy holders as income and then paid back to the insurance company/pension fund as premium supplements.

“insurance” schemes at all. The situation we have, for both defined benefit and defined contribution schemes, is a contract between an employer and an employee which covers the remuneration to be paid in the present period and in the future. These promises may be met by the employer taking out an insurance policy which covers the employee, may be a “qualifying” insurance policy the employee takes out in his own name at the behest of the employer or they may be met in some other way. For the analytical purposes for which the concept of “social insurance schemes” were introduced in the SNA, the exact mechanism by which future payments are ensured is not of primary concern. We want a concept which captures all promises of future pensions, regardless of whether they are funded or unfunded and whether they are described as defined contribution schemes or defined benefit schemes. These distinctions affect how we measure the value of the future commitment but not whether it exists or not.

#### **D. A simple solution?**

One possibility to be considered is that the problem arises from the existing SNA terminology. The problem to be addressed by the introduction of social insurance schemes, as described above, is actually one of social protection. This concept does not exist explicitly in the SNA but perhaps it should. If we introduced it, we could then have a taxonomy which included social assistance, social security and all the existing social insurance schemes as three separate categories. This last category could be designated “contributory social protections schemes other than social security” or “employment related social security schemes” for example.

In fact, this proposal would allow us to open up the concept. NPISHs in many countries provide services akin to social assistance, the establishment of orphanages, hospices and retirement communities, for example. Some of these NPISHs may be non-resident, for example schemes of the “adopt a child” type as well as international disaster relief and the actions of agencies such as *Médecins du monde*. There may be truly collective but voluntary schemes which it would be desirable to include, schemes which had many of the characteristics of an NPISH without being formally incorporated as such.

A further extension would also be possible to cover an existing lacunae in the SNA. Although employees can be covered by social insurance, the self-employed cannot. Accepting that schemes restricted to providing protection against specified social risks by means of periodic or regular payments (thus eliminating the saving schemes which result in a one time capital payment) constitute social protection could allow this extension also.

We might thus have a taxonomy as follows

### Social protection schemes

1. Provided by government to cover the whole population
  - 1.1 Social assistance
  - 1.2 Social security
2. Employment related social protection
  - 2.1 Contributory social protection schemes sponsored by employers
  - 2.2 Contributory social protection schemes sponsored by employment related NPISHs for their members
  - 2.3 Contributory social protections schemes for the self-employed
3. Social benefits provided on a charitable basis to designated groups of people
  - 3.1 Schemes organised by resident NPISHs
  - 3.2 Schemes organised by non-resident NPISHs
  - 3.3 Other charitable schemes

Clearly careful definitions for these items would be needed. The starting point could be the GFSM definition of a social protection scheme as “a scheme which provides social benefits in the event of the occurrence of specified social risks”. (GFSM annex 2 paras 1 and 8) I am not sure why “benefits” needs to be qualified by “social”; it seems to me it is the risks and not the benefits which are social in nature. It may be helpful to add that in almost all cases, there is active involvement of a unit other than the beneficiary in ensuring the provision of benefits.

Making a distinction between a social protection scheme and a specifically insurance based scheme, would allow the flows associated with a particular scheme to be measured in a manner consistent with an insurance scheme where appropriate but not exclude them when they were deemed not to be insurance schemes in terms of sharing risks. By happy coincidence, using the expressions “social contributions” in place of “premiums” and “social benefits” in place of “claims” would also fit easily with a move away from the expression “social insurance schemes” to “contributory social protection schemes”.