Eurostat Questionnaire on

Recording of flows and stocks relating to pension schemes in national accounts

August 12, 2003

Auxiliary list and instructions

Categories of pensions

1) disability pensions	(disability)
2) early retirement benefits due to reduced capacity to work	(disability)
3) old age pensions	(old age)
4) anticipated old age pensions	(old age)
5) partial pensions	(old age)
6) survivors' pensions	(survivors)
7) early retirement benefits for labour market reasons	(unemployment)

The ESSPROS function to which the specific category of benefits belongs is indicated in brackets.

Classification of pension schemes

A. social security schemes;
B. private funded schemes administered by insurance companies or autonomous pension funds;
C. private funded schemes operated by employers, which maintain special reserves (segregated from other reserves)
D. private unfunded schemes operated by employers (without special reserves).
E. social assistance;
F. other insurance.

Categories B and C together are defined as "private funded schemes".
Schemes of category C can also be defined as "non-autonomous pension funds" [ESA95 4.88(b)(2)].
Categories C and D together are usually referred to as "non-autonomous employers' schemes".

Instructions to fill in Table 1 –Pension Schemes vs Categories of Pensions

Please fill in the table using the following instructions:
- give the scheme name,
- the types of pensions provided by the scheme (column "pens": please use the codes from 1 to 7),
- the scheme category (column "sch": please use the codes from A to F),
- the information available about the amount of pensions annually paid (column: "pensions"), amount of contributions received annually (column "contrib"), accumulated assets (column "assets"), accumulated liabilities/obligations (column "liab").
- number of the participants in the scheme (column "np").
Please add additional rows, if necessary and ***use the additional box*** *below Table 1 to give a short description of the various schemes (population covered, method of financing, etc) and to add any other comments* *<u>(for instance, specifying the amounts included in the column of liabilities/obligations).</u>*

If you wish, you may refer to this table (following the schemes' numbering) when replying to other sections of the questionnaire.

Questions formulated as "please specify a+b+c+d+e"

a) what is your current interpretation of the ESA95 wording ?
b) is your interpretation fully consistent/broadly consistent/substantially different compared to the interpretation outlined before the question ?
c) please specify if you use other paragraphs of ESA95 than those mentioned before the question;
d) please give some explanations/clarifications if your current interpretation of ESA95 wording differs from the one outlined before the question;
e) please specify if there are any (potential) borderline cases, for which the criteria given in ESA95 seem not to be sufficiently clear or suitable for unequivocal interpretation (according to your own judgement and also in comparison with other points of view - for example the interpretation outlined before the question). In this case please describe the case, the ESA95 criteria to be used, and the problems faced in unequivocally interpreting the criteria. If borderline cases involve specific scheme(s), please make an explicit reference to the list of schemes given in Table 1.

ESA95 institutional sectors and sub-sectors

S.11	Non-financial corporations
S.121	Central bank
S.122	Other monetary financial institutions
S.123	Other financial intermediaries (excl. insurance corp. and pension funds)
S.124	Financial auxiliaries
S.125	Insurance corporations and pension funds
S.1311	Central government
S.1312	State government
S.1313	Local government
S.1314	Social security funds
S.14	Households
S.15	Non-profit institutions serving households
S.2	Rest of the world

Questionnaire [1]

Recording of flows and stocks relating to pension schemes in national accounts: present practises.

A. Defining pensions

B. Defining pension schemes

C. Classification of pension schemes

Distinction between social insurance and social assistance.
Distinction between social insurance and other insurance.

D. Classification of social insurance pension schemes

Participants. Population covered. Obligation/encouragement to participate.
Funded schemes vs. unfunded schemes. Ownership of the "reserves".
Defined benefits vs. defined-contribution schemes.
Treatment in the accounts: differences between types of schemes.

E. Definition of social security schemes.

Imposed
Controlled
Financed
Social insurance schemes of government other than social security schemes ?

F. Classification of institutional units supporting pension schemes. Borderline cases

Borderline cases

G. Re-arranging transactions

Recognising the principal party to a transaction

[1] This questionnaire has been drafted by Giuliano Amerini. The present version had into account the useful comments provided from the members of the Task Force Pension Schemes and, in particular, from Bo Bergman (Statistics Sweden), Bram de Boo (Statistics Netherlands), Soren Brodersen and Peter Eriksen (Statistics Denmark), Pater Krzysztof (Ministry of Labour, Poland), Paula Koistinen (Statistics Finland), Anton Steurer, Denis Besnard and John Verrinder (Eurostat), Philippe de Rougemont (IMF). Paula Borges (Eurostat) concluded the final version of this questionnaire.

A. Defining pensions

Social benefits are defined in ESA95 par. 4.83 - 4.84.
Pensions are usually understood in the field of social protection as a sub-set of social benefits. More precisely pensions are usually understood as including some periodic cash benefits of the disability, old age, survivors' and unemployment functions[2] of the ESSPROS. More specifically, the "pensions" aggregate is defined in a specific Eurostat publication[3] as the sum of the following social benefits[4] (the ESSPROS function to which the specific category of benefits belongs is indicated in brackets):

1) disability pensions	(disability)
2) early retirement benefits due to reduced capacity to work	(disability)
3) old age pensions	(old age)
4) anticipated old age pensions	(old age)
5) partial pensions	(old age)
6) survivors' pensions	(survivors)
7) early retirement benefits for labour market reasons	(unemployment)

The same risks or needs may be covered by insurance policies, taken out at the individual households' own initiative.
Pensions, as defined above, and, more generally, services intended to relieve households from the financial burden of the social risks or needs can be provided via:
1. social assistance,
2. social insurance,
3. other insurance.[5] [6]

It may be useful to recall that the same classification problems treated in this questionnaire can be applied to other social risks or needs (ex. health care). However the intention here is to limit and concentrate the analysis only to a limited range of social benefits/insurance products. This is why a tentative definition of "pensions" is given.

Question 1

Which categories of pensions (see as a first reference the categories 1 to 7 mentioned above) are included in the interpretation of the expression "pensions" usually given at national level ? In other words, to which extent does the national definition of pension system deviate from the definition given above (the seven categories) ? In particular could you clarify to what extent early retirement due to disability or unemployment is included ?

[2] The ESSPROS functions broadly correspond to the "social risks or needs" listed in paragraph 4.84 of ESA95, excluding education.
[3] "Social protection: expenditure on pensions", Statistics in focus, annual publication.
[4] The definition of the specific categories of social benefits can be found in the ESSPROS Manual.
[5] Mainly other life insurance. See for definitions for example ESA95, Annex III.
[6] We exclude other "means" intended to relieve households from the financial burden of the social risks or needs. For example saving and saving schemes are not based on the principle of social solidarity (ex: social assistance) nor on the pooling of risks (insurance).

The use of the definition of pensions given above (the seven categories) is recommended while filling in this questionnaire.
The list of the seven categories of pensions is also available in the annex, for your convenience.

B. Defining pension schemes

ESA95 defines social insurance schemes, social security schemes, private funded schemes, etc. However the concept of "scheme" as such is not defined.
It can certainly be said that in ESA95 a scheme is not considered as an institutional unit. Indeed it should be noted that schemes are referred to in chapter 4 ("distributive transactions") of ESA95 rather than in chapter 2 ("institutional units and grouping of units").

The concept of "social protection scheme" is defined in the ESSPROS Manual as follows:
"A social protection scheme is a distinct body of rules, supported by one or more institutional units, governing the provision of social protection benefits and their financing.
Social protection schemes should at all times meet the condition that it must be possible to draw up a separate account of receipts and expenditures.
Preferably, social protection schemes are chosen in such a way that they provide protection against a single risk or need and cover a single specific group of beneficiaries."

The same definition could be used for pension schemes (by substituting the expression "social protection" with "pensions").

The "body of rules" can be drawn from laws, regulations, collective wage agreements, employment conditions, etc.
The concept of "body of rules" could be extended to commercial insurance contractual provisions, to cover other insurance services.

The word "supported" in the definition of scheme can be interpreted as "run", "managed", administered", "operated", etc. The different interpretations of the word "supported" may have an impact when the transactions (and stocks) of the scheme have to be attributed to institutional units.
A section of this questionnaire is dedicated to the classification of institutional units supporting pension schemes, where this issue (the "attribution" of the transactions - and stocks - of the scheme to institutional units) is addressed.

For "pension scheme" we intend to mean in this questionnaire a scheme, as defined above, providing pensions, as defined above.

Question 2

Is it the definition of scheme given above suitable in the context of national accounts ?

C. Classification of pension schemes

ESA95 contains the definitions of the following (sub-)categories of social insurance schemes[7]:

A. social security schemes;
B. private funded schemes administered by insurance companies or autonomous pension funds;
C. private funded schemes operated by employers, which maintain special reserves (segregated from other reserves)
D. private unfunded schemes operated by employers (without special reserves).

Categories B and C together are defined as "private funded schemes".
Schemes of category C can also be defined as "non-autonomous pension funds"[8].
Categories C and D together are usually referred to as "non-autonomous employers' schemes".

For the sake of completeness the following two categories are added[9]:
E. social assistance;
F. other insurance.
The six types of schemes mentioned above (codes from A to F) will be used in this questionnaire as the classification of pension schemes.
The list of the six types of schemes is also available in the annex, for your convenience.

Question 3 ***(please consult the instructions to fill in the table in the auxiliary list).***

Could you please describe your national pension system (by mentioning either all the pension schemes or the main schemes plus homogeneous categories of the remaining schemes) in a cross-classification of the seven categories of pensions and the six types of schemes ?

Table 2 –Pension Schemes vs categories of pensions

#	Scheme name	pens	sch	pensions	contrib	assets	liab	np
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								

[7] ESA95 4.88.
[8] ESA95 4.88(b)(2).
[9] see ESA95 4.85(c) and Annex III.

Below you will find a series of questions relating to the interpretation of ESA95 rules. Reference to relevant ESA95 paragraphs is made before the questions. Tentative guidance notes on the interpretation of ESA95 wording are also provided with the intention to stimulate comments expanding/improving the guidance notes or opening a discussion for an alternative view in national accounts.

As a general rule we kindly invite you to reply to questions by explaining the following different aspects:

a) what is your current interpretation of the ESA95 wording ?

b) is your interpretation fully consistent/broadly consistent/substantially different compared to the interpretation outlined before the question ?

c) please specify if you use other paragraphs of ESA95 than those mentioned before the question;

d) please give some explanations/clarifications, if your current interpretation of ESA95 wording differs from the one outlined before the question;

e) please specify if there are any (potential) borderline cases, for which the criteria given in ESA95 seem not to be sufficiently clear or consistent to unequivocal interpretation (according to your own judgement and also in comparison with other points of view - for example the interpretation outlined before the question). In this case please describe the case, the ESA95 criteria to be used, and the problems faced in unequivocally interpreting the criteria. If borderline cases involve specific scheme(s), please make an explicit reference to the list of schemes above describing your national pension system.

Questions specifically referring to the above five aspects will be formulated as "please specify a+b+c+d+e".

The text of the five questions a, b, c, d, e is also available in the auxiliary list, for your convenience.

Distinction between social insurance and social assistance.

References in ESA95:
- 4.85 (c): "conditional on previous payment of contribution"
- Annex III, 2: "conditional on participation in a scheme"

Interpretation: social insurance schemes are contributory schemes. Contributory schemes are defined in ESSPROS Manual as schemes that require the payment of contributions, by the protected persons or by other parties on their behalf[10], in order to secure individual entitlement to benefits. Social assistance schemes are non-contributory schemes

[10] The ESSPROS Manual distinguishes three types of social contributions: those by employers (actual and imputed), those by protected persons and those that a social protection scheme makes to another scheme in order to maintain or accrue the rights of its protected people to social protection from the recipient scheme (the so-called "ESSPROS re-routed social contributions").

Question 4

Please specify a+b+c+d+e (social insurance vs. social assistance).

Distinction between social insurance and other insurance.

References in ESA95:
- 4.86: "own initiative of the insured, independently of his employer or government"; "sole purpose of obtaining a discount even if … collective"
- 4.87: "obligatory"; "collective"; "employer makes a contribution"
- 4.88: "obliged, or encouraged".

Interpretation: Other insurance schemes include policies taken out on the private initiative of the individuals or households solely in their own interest, independently of the employer or government. Participation in social insurance schemes is obliged or encouraged by the employers or by general government[11].

Question 5

Please specify a+b+c+d+e (social insurance vs. other insurance).

Question 6

Please specify in which categories (social insurance vs. other insurance) schemes "encouraged"[12] by non-profit institutions (ex. trade unions, mutual benefit societies) are included in your country (if any) ? Please specify the ESA95 rules used for this classification

D. Classification of social insurance pension schemes

This section concentrates on the distinction amongst the sub-categories of social insurance pension schemes, i.e. to the categories A to D mentioned above.

When interpreting the ESA95, it is important to underline that the categories of schemes that are analysed now are a sub-set of social insurance schemes. This means

[11] The concept of "encouragement" is further analysed with reference to social security schemes in a latter section of the questionnaire.
[12] According to ESA95, §4.88, social insurance schemes are "encouraged" by their employers or by general government.

for example that conditions that apply to one sub-category (for example "social security schemes") can not be "broader" than the conditions that apply to the whole category ("social insurance schemes"). For example a social security scheme has to be contributory (can not be non-contributory), since social security schemes are a subset of social insurance schemes
Please find herebelow an analysis of different aspects that help to distinguish amongst the sub-categories of social insurance schemes.

Participants. Population covered. Obligation/encouragement to participate.

A "participant" in a social insurance scheme is the person who pays contributions. The contributions are paid either directly by the participant or by others on his/her behalf (ex. by the employer on behalf of the employee, by the unemployment scheme on behalf of the unemployed).
"Population covered" or "protected persons" are those persons who would receive pensions if the risk or need materialised. A protected person is not necessarily a participant (see for example survivors' pensions).
"Beneficiaries" are those currently receiving pensions (a sub-set of the "protected persons").

According to ESA95 (4.88), participants to social insurance schemes are "workers". In paragraph 4.87 the concept of "workers" is defined as "employees, self- or non-employed". In general the concept of non-employed is larger than un-employed[13], However the expression "non-employed worker" seems to coincide with the concept of "un-employed". This interpretation may be debatable[14].

The participants are not further specified for the sub-categories A (social security schemes) and B (private funded schemes administered by insurance companies or autonomous pension funds) of social insurance schemes: as a consequence the concept of participants could in principle be as large as for social insurance schemes ("workers").
On the contrary, the participants of sub-categories C (private funded schemes operated by employers) and D (private unfunded schemes operated by employers) of social insurance schemes are by definition only the employees of that particular employer.

Question 7

Please specify a+b+c+d+e.

[13] Unemployed is usually understood as a person capable of working and available for work but unable to find suitable employment.
[14] In the more general context of social insurance schemes, some considerations could be given to cases where "pensioners" (who are not workers) pay social contributions to social insurance schemes (for example health schemes). These payments may be made either directly by the pensioners or by the pension scheme to the health scheme, on behalf of the pensioners. These cases would require the extension of the concept of participants to social insurance schemes to non-employed who are not "workers". However these cases go beyond the scope of this paper (here we are interested in participants of pension schemes and not in participants of health schemes).

Question 8

Is there any social insurance pension scheme in your country, whose participants (may) include non-employed who are not un-employed ? If the answer is "yes", please describe the case.

In principle for each social insurance scheme, the "population covered" should coincide with the participants plus, possibly, their dependants.
The "population covered" by the scheme is only defined (ESA95 4.88(a)) with reference to social security schemes: "the entire community or large sections of it."

Due to the vagueness of the expression "large sections of the community", an interpretation could be that social security schemes may be established for the participation of either all the workers or specific (but "large") categories of workers (ex. all the private sector employees, all the self-employed, all the farmers).

Question 9

Please specify a+b+c+d+e.

Question 10

Is there any social security pension scheme in your country, which covers the entire community ? If the answer is "yes", please describe the case.

Question 11

Is there any pension scheme in your country, established for the participation of civil servants, which is classified as a social security scheme ? If the answer is "yes", please describe the case.

Social insurance schemes are schemes in which workers are obliged, or encouraged, by their employers or by general government to participate.[15]
Social security schemes are imposed by government units.[16]

[15] ESA95 4.88.

A sensible interpretation could be that social security schemes can not include any "employers' schemes" (i.e. schemes organised by the employers for their employees)[17].
On the contrary, employers' schemes can be found in all the other three sub-categories.
Another consequence should be that "non-employee worker schemes" (i.e. schemes for self-employed or non-employed) can be found only under the first and the second sub-categories.

Question 12

Please specify a+b+c+d+e.

Question 13

Please specify which schemes (in connection with the following three aspects: participants, population covered and encouragement/obligation to participate by government or employer) are included under sub-category B.

Question 14

Please specify in which sub-categories schemes encouraged (or obliged) by non-profit institutions (ex. trade unions, mutual benefit societies) are included in your country (if any) ? Please specify the ESA95 rules used for the classification of those schemes.

Funded schemes vs. unfunded schemes. Ownership of the "reserves".

Social insurance schemes can be funded or unfunded. The expression seems to be unambiguous. However, the terms "funds", "funded", "provisions" and "reserves" seem to be used in ESA95 (or could be interpreted) to describe different situations. In certain cases these terms seem to refer to assets of the scheme[18]: see for example "fund/funded" in ESA95 Annex III, 4. In other cases (and this seems to be also the case in business accounting) these terms seem to refer to the recognition of an item, in the scheme's own balance sheet[19], on the liability side vis-à-vis the participants: see

[16] ESA95 4.88.
[17] This is somehow confirmed by ESA95 4.89, on the basis of which social insurance schemes organised by government units for their own employees have to be classified as "private (funded or unfunded as appropriate) schemes" and not as "social security schemes".
[18] More precisely assets of the scheme of the institutional units to which the scheme is attributed.
[19] More precisely the balance sheet of the institutional units to which the scheme is attributed.

for example "reserves" in ESA95 5.101. Sometimes the recognised liability is compared to the counterpart assets invested by the scheme: see for example ESA95 7.59. Sometimes the recognised liability seems to be implicitly described as the legal property right of the participants over the assets invested by the scheme: see for example "reserves" in ESA95 4.88(b)(2). In other cases the three aspects (liability of the scheme, and corresponding assets invested by the scheme, and corresponding right of the participants over these assets) seem to be addressed together: see for example ESA95 4.165(i).

Concerning the recognition of liability, according to ESA95[20], "insurance technical reserves are liabilities:

a) of life or non-life insurance corporations and autonomous pension funds included in the sub-sector insurance corporations and pension funds (S.125);
b) of non-autonomous pension funds included in the sectors of the institutional units that set them up.

Provision or similar funds constituted by employers to provide employees with pensions (non-autonomous pension funds) are only included in category AF.6 (insurance technical reserves) if they are calculated according to actuarial criteria similar to those used by insurance corporations and autonomous pension funds. Otherwise, these provisions are 'covered' by the shares or other equity issued by the institutional unit that sets up the provisions.[21]
Category AF.6 does not include provisions established by institutional units classified in the sub-sector social security funds (S.1314). In the system, these provisions are no liabilities of the social security funds sub-sector."

Therefore, it could be useful[22] in the context of this questionnaire to base, by convention, the distinction between funded and unfunded schemes primarily on the recognition of the liability, as follows:

a) "funded schemes" are those schemes where the liabilities are actuarially calculated vis-à-vis the participants as insurance technical reserves (= liability of the scheme = assets of participating households); as a consequence households have a property right over the assets invested by the scheme (the value of which corresponds, at least on long term average, to the value of the recognised liability);
b) "unfunded schemes" are those that do not recognise their liabilities vis-à-vis the participants, independently from the existence of any accumulated assets, which remain the property of the unit that sets them up (and over which participants have no legal right).

Reading ESA95 Annex III by using the above convention, social security schemes (sub-category A) and private unfunded schemes operated by employers (sub-category D) are always "unfunded", while private funded social insurance schemes (sub-categories B and C) are always "funded".

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[20] ESA95, 5.101 - 5.102.
[21] Since own funds of corporations are defined, in ESA95 7.05, as the sum of net worth (B.90) and shares and other equities (AF.5) issued, this seems to mean that the "non-actuarially calculated provisions" are considered as "owned by the employers" (part of own funds). "Own funds" (as opposed to technical provisions) of an insurance company are usually understood as any asset that is not a liability against the policy holders.
[22] also with reference to the treatment in the national accounts of different types of schemes (see section below).

Question 15

Please specify a+b+c+d+e (funded vs. unfunded schemes).

When separate funds (assets) can be identified they remain the property of the government in case of social security schemes (sub-category A), and the property of the employer in case of unfunded schemes operated by employers (sub-category D). The reserves (assets) of private funded social insurance schemes are regarded by ESA95 as owned by policy holders, who therefore receive the income generated by these reserves.

Question 16

Please specify a+b+c+d+e (property of funds).

When comparing the recognised actuarial liability (insurance technical reserve) with the counterpart assets of the scheme, we can distinguish:
a) "perfectly funded schemes" (when assets equal liabilities)
b) "over-funded schemes" (when assets are larger than liabilities)
c) "under-funded schemes" (when assets are smaller than liabilities).

The expression "partially funded schemes" here below is not a synonymous of "under-funded schemes" (please also note that we have conventionally defined above "unfunded schemes" as those schemes which do not recognise any liability vis-à-vis the participants and not as those schemes which do not have any segregated assets). In the context of this questionnaire, the expression "partially funded schemes" is used by convention as referring to schemes which are allowed to recognise a liability which is not actuarially calculated[23], and so - let's assume - smaller than the value an actuary would calculate.

Question 17

Could you please specify if in your country "partially funded schemes", as defined above, exist ?
If these types of schemes exist, how are they treated in the national accounts ?

[23] or which is actuarially calculated and recognised only for a part of the promised benefits (a "mixed scheme").

Defined benefits vs. defined-contribution schemes.

Defined contributions schemes are usually intended as schemes the pensions of which are solely based on the contributions paid plus the investment return thereon.
In ESA95 terminology, "money purchase pension schemes" are those for which benefits are directly dependent on the assets of the fund. The liability of a money purchase pension scheme is the current market value of the funds' assets. The funds' net worth is always zero.[24]
These schemes are by definition always "perfectly funded".

Defined benefit schemes are usually understood as schemes which promise participants a set portion of their working income in retirement.
More generally defined benefit schemes could be defined as all schemes other than defined contribution schemes.
Defined benefit schemes can be funded (i.e. they recognise their actuarial liabilities) or unfunded (they do not recognise any liability for the promised benefits). The existence of "partially funded schemes" and their treatment in national accounts have already been addressed in a previous question.

According to ESA95 7.59, funded[25] "defined benefit pension schemes" are those in which the level of pension benefits promised to participating employees is guaranteed. The liability of a defined benefit pension scheme is equal to the present value of the promised benefits. As the scheme may be temporarily over or underfunded (depending on the financial performance of the investment compared to the "expected" or "promised" one), a defined benefit pension scheme may have a positive or negative net worth.

To summarise, the feature to consider when distinguishing between defined contribution and defined benefit schemes is the risk of discrepancy between the liability of the scheme and the corresponding assets (if any). If the level of liability corresponds by definition to the level of assets, the risk for the scheme is zero (the investment risk is on the participants). The scheme is "defined contributions".
If the adequacy of the assets (if any) compared to the present value of the promised benefits depends on the investment decision of the scheme (provided that defined benefits of existing participants cannot be unilaterally changed), the risk is on the unit supporting the scheme and not on the participants. The scheme is "defined benefits".[26]

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[24] ESA95, 7.59.
[25] The word "funded" is added according to the convention used in this questionnaire. Paragraph 7.59 of ESA95 is inserted in the section describing the balance sheet item "insurance technical reserves (AF.6)".
[26] In slightly different words, in a defined contribution scheme only the level of contributions is fixed, whereas the level of benefits will depend on the rate of return of the investment of the scheme. In a defined benefits scheme not only is the level of contributions fixed, but also the level of benefits (or the rate of return of the investment, or other equivalent variables). A potential borderline case between defined contributions and defined benefit schemes, could be a scheme which is obliged to invest in one specific financial instrument: government bonds (expressed in the same currency as the benefits). Although the benefits are linked to an economic variable (like for a defined benefits scheme), the scheme is always perfectly funded, and so it should be considered as a defined contributions scheme. A similar potential borderline case would be a scheme which calculates the benefits as if the contributions had been invested (but they are not) in government bonds. In this case the risk of discrepancy between the liability of the scheme and the corresponding assets (if any) is on the scheme. So it should be

Question 18

Please specify a+b+c+d+e (defined contributions vs. defined benefits schemes).

Treatment in the accounts: differences between types of schemes.

Let's analyse first with some details the sub-category B "private funded schemes administered by insurance companies or autonomous pension funds".
These pension schemes are funded. Their provisions are calculated according to actuarial criteria and are shown in the liability side of the balance sheet as "insurance technical reserves" (AF.6).
The insurance technical reserves are shown as assets of policy holders and beneficiaries in the balance sheet of the household sector.[27]
Going backwards in the sequence of accounts, the entry F.612 "net equity of households in pension funds reserves" in the financial accounts shows the change in funds' liabilities and households' assets.[28] [29]
An entry of equal amount is recorded in the use of disposable income account: D.8 "adjustment for the change in the net equity of households in pension funds reserves". This adjustment is needed include in the saving of households the change in the actuarial reserves on which households have a definite claim. This adjustment corresponds to the difference between pension contributions payable (as shown in the secondary distribution of income account) and pensions receivable. An opposite adjustment is needed in the sector to which the pension fund belongs.
In the "secondary distribution of income account", social contributions (from households to the fund) and social benefits (from the fund to households) are recorded. More precisely the following entries are included:
D.6111 (employers' actual social contributions)
D.6112 (employees' social contributions)
D.6113 (social contributions by self-employed and non-employed persons)
D.622 (private funded social benefits).
It should be noticed that D.6112 and D.6113 consist of actual contributions payable plus (in case of private funded schemes) the contribution supplements payable out of property income attributed to insurance policy holders less the service charges.[30]

considered as a defined benefit scheme. The classification decision would be complicated if the scheme in the last example was a government scheme "managing" a "notional" fund.

[27] For the sake of simplicity the questionnaire only refers to economic relations between resident institutional units.

[28] According to ESA95 5.111, F.612 consists of all transactions (additions less reductions), which are to be distinguished from nominal holding gains or losses on the funds invested by pension funds. Additions consist of actual contributions plus contribution supplements corresponding to the income earned from the investment of the provisions of the pension funds, which are attributed to participating households less service charges. Reductions consist of social benefits (regular payments, other benefits, lump-sums).

[29] In the definition given in ESA95 5.110, the non-employed should be added to the self-employed, for overall consistency reasons.

Continuing backwards in the sequence of accounts, employers' actual social contributions are recorded again (as D.121) as part of compensation of employees, payable by the employer's sector in the generation of income account and receivable by employee households in the allocation of primary income account.[31] In the latter account also the item property income attributed to insurance policy holders (D.44), corresponding to the total primary incomes received from the investment of insurance technical reserves, is shown as payable by the fund's sector and receivable by the household sector.[32]

From the treatment described above, the following considerations can be drawn for the sub-category B "private funded schemes administered by insurance companies or autonomous pension funds":

- these funds are (in principle totally) financed by social contributions (employers, employees, self-employed, non-employed);
- they are in actuarial equilibrium (i.e. they are on average "perfectly funded");
- the insurance technical reserves are considered as owned by policy holders.

The above conclusions are confirmed by the treatment of employers and general government extraordinary payments (interpretation: i.e. under extraordinary circumstances) to social insurance funds[33], in order to increase the (actuarial) reserves. Such payments are recorded in the capital account as other capital transfers (D.99) payable by the employer's sector or the government sector and receivable by the fund's sector. However, as social insurance funds' reserves are treated as if owned by the household sector, an accompanying adjustment between the fund's sector and the household sector is required. This adjustment is recorded as other capital transfers (D.99) payable by the fund's sector and receivable by the household sector.[34]

Question 19

Please specify a+b+c+d+e.("private funded schemes administered by insurance companies or autonomous pension funds")

Categories B (just analysed) and C ("private funded schemes operated by employers") together are referred to as "private funded schemes" in ESA95[35]. According to ESA95 Annex III[36], the treatment in the accounts of sub-categories B and C is identical, apart from the item "service charge" (equal to zero by definition for category C).
In addition to that, since those schemes are all employers' schemes, any reference to participants other than employees not relevant (for ex. D.6113 is not relevant).

Question 20

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30 ESA95 4.92 and Annex III, 18.
31 ESA95 4.09 and Annex III, 17
32 ESA95 4.69 and Annex III, 17.
33 more precisely "private funded social insurance schemes", i.e. categories B and C (see Annex ESA95 III, 20).
34 ESA95 4.165(i) and Annex III, 20.
35 ESA95 4.88(b)
36 ESA95, Annex III, 15-16

Please specify a+b+c+d+e. ("private funded schemes operated by employers")

Let's analyse now the sub-category D "private unfunded schemes operated by employers".

These pension schemes are unfunded. They may be operated in a purely pay-as-you-go basis (i.e. without any accumulated assets). Even if during a specific accounting period contributions payable[37] may be higher than pensions receivable[38], the (eventually) accumulated assets do not give rise to "segregated reserves" (so there is no recognition of liability vis-à-vis participants), that is they are the property of the employer (participating households have no legal property rights over them). So no insurance technical reserves are shown in the balance sheets. By consequence no entry F.612 "net equity of households in pension funds reserves" is necessary in the financial accounts. No entry D.8 "adjustment for the change in the net equity of households in pension funds reserves" is necessary in the use of disposable income account. As a consequence any excess of contributions over pensions would (eventually) contribute to the employer saving (and not to the household saving), consistently with the fact that the (eventually) accumulated assets remain the property of the employer. Also the property income coming from the investment of the funds remains with the employer.

Going backwards in the sequence of accounts, in the "secondary distribution of income account", social contributions (from households to the scheme) and social benefits (from the scheme to households) are recorded. More precisely the following entries are included:

D.612 (employers' imputed contributions);

D.6112 (employees' social contributions), if any;

D.623 (unfunded employee social benefits).

It should be noticed that D.6112 consist of actual contributions payable (without any adjustment for contributions supplements, since there is not property income attributable to policy holders, and without any service charge, since the scheme is not autonomous).

Continuing backwards in the sequence of accounts, employers' imputed social contributions are recorded again (as D.122) as part of compensation of employees, payable by the employer's sector in the generation of income account and receivable by employee households in the allocation of primary income account.[39]

Question 21

Please specify a+b+c+d+e.("private unfunded schemes operated by employers")

[37] employers' imputed contributions plus employees' actual contributions.

[38] This could happen if the value of imputed social contributions was based on actuarial considerations.

[39] ESA95 Annex III, 23-25.

Let's analyse now the sub-category A "social security schemes".
Social security schemes are unfunded[40]. According to ESA95 Annex III, "social security schemes of government may be funded[41] or unfunded. When separate funds[42] can be identified, they remain the property of the government and not of the beneficiaries of the scheme."[43]
From the point of view of ownership of the funds, the social security schemes are identical to sub-category D private unfunded schemes operated by employers. They may be operated in a purely pay-as-you-go basis . Even if during a specific accounting period contributions payable may be higher than pensions receivable, the (eventually) accumulated assets do not give rise to "segregated reserves", that is they are the property of the scheme (and not of the participating households).
So they are all unfunded[44] (no technical reserves can be identified, etc …).
Going backwards in the sequence of the accounts, in the "secondary distribution of income account", social contributions (from households to the scheme) and social benefits (from the scheme to households) are recorded. More precisely the following entries are included:
D.6111 (employers' actual social contributions);
D.6112 (employees' social contributions);
D.6113 (social contributions by self-employed and non-employed persons);
D.621 (social security benefits in cash).
For reference: social security benefits in kind are also shown as items D.6311 and D.6312 in the redistribution of income account.[45] However, in principle "pensions" should not include any benefit in kind.
No service charge is calculated for social security schemes of government.[46]
Social security schemes' receipts consist mainly of contributions paid by individuals and by employers on behalf of employees, but they may also include transfers from other government units.[47]

Question 22

Please specify a+b+c+d+e.("social security schemes")

E. Definition of social security schemes.

[40] according to the conventional definition of funded and unfunded schemes used in this questionnaire.
[41] in the sense that there are specific identified assets.
[42] in the sense of assets.
[43] ESA95 Annex III, 4.
[44] according to the conventional definition of funded and unfunded schemes used in this questionnaire.
[45] ESA95, Annex III, 13.
[46] ESA95 Annex III, 13.
[47] ESA95, Annex III, 4.

Social security schemes (a sub-set of social insurance schemes) are defined in ESA95 paragraph 4.88 as schemes covering the entire community, or large sections of the community, that are
- imposed,
- controlled and
- financed by government units.[48] [49]

The three aspects of the definitions are (seem to be) necessary conditions for a scheme to be considered a social security scheme.

Imposed

The expression "imposed" could be interpreted to be a more precise (and stringent) version of the "obliged, or encouraged", that is used to distinguish between social insurance and other insurance. Since social security schemes are a sub-set of social insurance schemes, it is logical that the defining conditions are stricter.

For social insurance schemes the "obligation or encouragement" can come from the employer or the general government. For social security schemes the "imposition" comes from government units (so for example we exclude schemes for which the obligation or encouragement is included under the terms and conditions of employment). The "imposition" comes from government in its role of public authority and not in its role of employer [50].
A first (large) interpretation of "imposed by government units" could be "obliged or encouraged by government in its role of public authority".
This interpretation may be debatable (imposed = encouraged).
A second (strict) interpretation could be to exclude from the concept of "imposition" the idea of "encouragement", and so to limit the meaning of "imposed by government units" to "obliged by government in its role of public authority".
It is interesting to notice that the concept of "obligation" is also used in the ESSPROS Manual (as a sufficient but not necessary condition) to distinguish "social protection schemes" from other insurance: "where by law or by regulation certain groups of the population are obliged to participate in a designated insurance scheme (…), the insurance is included in the scope of ESSPROS".
However this (strict) interpretation of "imposed" (imposed = obliged) seems to be in contradiction with ESA95 Annex III, 4: "participation in social security schemes (of government) is usually, though not always, compulsory".

A first possibility to solve the apparent contradiction could be to interpret ESA95 as follows (third interpretation of "imposed"): certain groups of population are obliged to participate in the scheme (for ex. all private sector employees). However the same scheme is open for voluntary participation to other groups of the population (ex.

[48] The same definition is repeated in Annex III,4 for "social security schemes of government"
[49] According to paragraph 4.85 "social benefits include current and lump-sum transfers from schemes which receive contributions, cover the entire community or large sections of the community and are imposed and controlled by government units (social security schemes); …". NB: "financed" is missing compared to 4.88.
[50] "Social insurance schemes organised by government units for their own employees are classified as private funded schemes or unfunded schemes as appropriate and not as social security schemes" (ESA95, 4.89)

students, self-employed, monks in monastery, etc.). The scheme is still considered as "compulsory", since this is its main characteristic.

A second possibility could be to further enlarge the concept of "imposed" to include some (but not all) schemes for which the participation is "encouraged by government". The ESSPROS Manual may be useful in this respect.
In ESSPROS Manual "compulsory schemes" are defined as "schemes where membership is made compulsory by the government. [51]
Compulsory schemes may include both schemes established by law or regulation and those established by convention or collective agreement between employers and employees or members of the same profession and subsequently made obligatory by the government."
In ESSPROS Manual non-compulsory (or voluntary) schemes are defined as "all social protection schemes where membership is not made compulsory by government. One sub-group of non-compulsory schemes is distinguished separately. This sub-group is <u>schemes available by law</u>, which consist of schemes established by law or regulation and available for voluntary membership to specific groups such as low-income self-employed workers, or people who choose to remain protected after that a period of compulsory cover comes to a end."
The interpretation of "imposed" could be extended to those schemes as follows (fourth interpretation): "certain groups of the population are encouraged by government to participate in a designated insurance scheme established by law or regulation specifically for them."
The "imposition" of government is represented by the fact that the scheme is made available by law, and so the government encourages the participation. The encouragement may be also judged ex-post by the effective participation of the target population to the scheme. This second possibility to enlarge the concept of "imposed" may be debatable.

Question 23

Please specify a+b+c+d+e.

Question 24

Please specify if there are any pension schemes classified as "social security schemes" (category A above), in which the participation is voluntary. In this case, please briefly describe the scheme and the ESA95 criteria used for classification of the scheme.

[51] In ESSPROS Manual the concepts "compulsory" and "voluntary" are interpreted from the point of view of the people protected.

Controlled

"Control" over an institutional unit is defined[52] as the ability to determine the general (corporate) policy or programme of an institutional unit by appointing appropriate directors or managers, if necessary.
However schemes are not institutional units.
In the ESSPROS Manual, "public schemes consist of social protection schemes which are controlled by government in its role of public authority. (…) 'Controlled' implies that the government takes all the principal decisions about the level of benefits, the terms on which they are paid and the way the scheme is financed."
Since, according to ESA95 Annex III 14, units managing social security schemes of government have to be classified under the sub-sector social security funds, it is natural to use for social security schemes the concept of 'control' used by ESA95 in the definition of social security funds: "general government is responsible for the management of the institution in respect of the settlement or approval of the contributions and benefits independently from its role as supervisory body or employer."[53]
The concept of control over the level of contributions seems to be straightforward.
The concept of control over benefits may be clarified by the SNA93:[54] the benefits paid to individuals, or households, are not necessarily determined by the amounts previously paid in contributions, while the levels of benefits paid out to the community as a whole may be varied in accordance with the requirements of the government's overall economic policy.

Question 25.

Please specify a+b+c+d+e.

Financed

It is important to recall the fact that even "private funded schemes administered by insurance companies or autonomous pension funds" (sub-category B)[55] may receive extraordinary payments (recorded as capital transfers) in order to increase their reserves (an adjustment is required to show that insurance technical reserves are owned by participants households).
In the case of social security schemes the financing from government should be ordinary (on a regular basis). The word "financed" for a scheme which is also "controlled" by government units, should be interpreted more broadly as the responsibility and the control of government over the way in which the scheme is financed and not limited to the fact that the scheme is actually receiving transfers

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[52] ESA95 Manual on government deficit and debt I.1 (4) and ESA95 3.28
[53] ESA95, 2.74(b).
[54] SNA93, 8.64
[55] See previous section "treatment in the accounts: differences between types of schemes".

from government. In other words the interpretation of "controlled" given in the previous section could cover also the word "financed" (i.e. the paragraph 2.76(b) of ESA95 could be considered as the interpretation of "controlled and financed").
Consequences of this interpretation:
A social security scheme is not managed as an insurance company would do. The scheme is "unfunded" (there is no recognition of insurance technical reserves). The (eventually) accumulated assets are property of government. The management of "(foreseeable) deficit situations" is the responsibility of the government (which, for example, can finance the scheme with "ordinary" transfers, increase the level of contributions, decrease the level of benefits, change the retirement age, etc.).

The presence of a government guarantee (minimum level of pension; minimum rate of return from investment) should not be per se a sole criterion for classification of a private funded scheme as a social security scheme. However the likelihood of use of the guarantee should guide in distinguishing between unforeseeable ("extraordinary") and foreseeable ("ordinary") interventions (transfers) by government, and, as a consequence, between schemes managed as an insurance company would do (funded schemes) and not (unfunded schemes).

Question 26

Please specify a+b+c+d+e.

Question 27

Please specify if there are any social insurance pension schemes (i.e. excluding social assistance schemes - category E) which are not classified as "social security schemes" (category A above), which are regularly financed (current transfers) by government units. In this case, please briefly describe the schemes and the ESA95 criteria used for classification of the schemes. Please distinguish between schemes in which government acts as an employer from the others.

Social insurance schemes of government other than social security schemes ?

Question 28

Is there in your country any social insurance pension scheme (i.e. excluding social assistance schemes - category E), organised by government units in their role as public authority (excluding the case of schemes organised by government as an employer), which can not be classified as a social security scheme, because it does not fulfil one (or two) of the three conditions "imposed", controlled" and "financed" mentioned above ? For example, the scheme is not "imposed" (but only suggested) by government or it is managed (when determining contributions or benefits) as an insurance company would do (so it is not "controlled" by government) ?

If such schemes exist, in which category of social insurance schemes do you classify them and according to which ESA95 rules ?

F. Classification of institutional units supporting pension schemes. Borderline cases

In this paragraph we refer to the following thirteen sectors and sub-sectors as defined in ESA95 chapter 2:

S.11 Non-financial corporations
S.121 Central bank
S.122 Other monetary financial institutions
S.123 Other financial intermediaries (excl. insurance corp. and pension funds)
S.124 Financial auxiliaries
S.125 Insurance corporations and pension funds
S.1311 Central government
S.1312 State government
S.1313 Local government
S.1314 Social security funds
S.14 Households
S.15 Non-profit institutions serving households
S.2. Rest of the world

The first question concerns the cross-classification of pension schemes by type of scheme and by institutional (sub-)sector.
Pension schemes are not institutional units, so they can not be classified by themselves by institutional sectors. They belong to the institutional sector where the units supporting (managing, running, etc.) them are classified.

The ESSPROS Manual may be useful to clarify the ideas in this context.
"Social protection schemes are supported by institutional units and are not themselves institutional units. Some institutional units support social protection schemes as their main activity; for example, social security funds, pension funds, welfare funds or mutual benefit societies. Others run social protection schemes only as a subsidiary activity; for example, employers, insurance companies or trade unions. Institutional units can support more than one social protection schemes, when they administer and provide very diverse types of social benefits. On the other hand, a single social protection scheme can be supported by several institutional units, where each is responsible for, say a specific geographic region, group of enterprises or category of workers."

Question 29

Please specify which categories of pension schemes (the six categories) are "classified"(= are attributed to institutional units classified) in each of the different sectors/sub-sectors.
Since schemes are not institutional units, we refer here to situations where a scheme is supported (attributed to, run by) by one institutional unit (or by two or more institutional units belonging to the same sector/subsector).
The answer can be given by completely filling in the table below by using "yes" or "no" or "XX".

Table 3 – Institutional Units vs Categories of Pension Schemes

		Categories of pension schemes					
		A	B	C	D	E	F
Institutional sectors/ sub-sectors	S.11	XX					
	S.121	XX					
	S.122	XX					
	S.123	XX					
	S.124	XX					
	S.125	XX					
	S.1311		XX				
	S.1312		XX				
	S.1313		XX				
	S.1314		XX				
	S.14	XX					
	S.15	*XX*					
	S.2						

Yes = there are institutional units belonging to the sector/sub-sector which support (run) pension scheme of the specified category:
No = there is no institutional unit belonging to the sector/sub-sector which supports (runs) pension schemes of the specified category;
XX = the combination is **impossible**.

Unless the specific case is considered as having a particular illustrative interest for the country concerned, the following questions only refer to schemes attributed to resident units (i.e. sector S.2 is excluded)

Question 30

Please specify the list of pension schemes (if any), which are supported (run) by two or more institutional units belonging to different sectors/sub-sectors.
In this case could you please specify how the flows and stocks relating to the pension schemes are attributed to the different institutional units in national accounts ?

Borderline cases

ESA95 Annex III contains indications on the classification of institutional units managing different types of social insurance schemes.
Sub-category A "social security schemes": "the units managing social security schemes of government are classified in the sub-sector S.1314 'social security funds'".[56].
Sub-category B "private funded schemes administered by insurance companies or autonomous pension funds": "resident autonomous funds are located in the insurance enterprises and pension funds sub-sector (S.125)".[57]
Sub-category C "Private funded schemes operated by employers, which maintain special reserves": "non-autonomous funds obviously belong to the same sector as the employer in question."[58]
Sub-category D "private unfunded schemes operated by employers": "unfunded social insurance schemes obviously belong to the same institutional sector as the employer in question".[59]

Question 31

If there are in your country social security schemes which are attributed to institutional units classified in institutional sectors/sub-sectors <u>*other*</u> *than social security funds (S.1314), could you please describe the case and specify the ESA95 rules used to classify the scheme, the ESA95 rules used to classify the institutional unit and the reasons why the scheme is attributed to that unit ?*

Question 32

If there are in your country "private funded schemes administered by insurance companies or autonomous pension funds", which are attributed to institutional units classified in institutional sectors/sub-sectors <u>*other*</u> *than insurance corporations and pension funds (S.125), could you please describe the case and specify the ESA95 rules used to classify the scheme, the ESA95 rules used to classify the institutional unit and the reasons why the scheme is attributed to that unit ?*

Question 33

[56] ESA95 Annex III, 14
[57] ESA95 Annex III, 17.
[58] ESA95 Annex III, 17.
[59] ESA95 Annex III, 25.

Please provide a list of (types of) institutional units belonging to one of the general government sub-sectors (S.1311 to S.1314) and supporting at least one funded (recognition of insurance technical reserves, etc.) pension scheme.
Please make a distinction in answering between cases of general government as employers and other cases.

Question 34

Please provide a list of (types of) institutional units belonging to sectors/sub-sectors other than general government and supporting pension schemes, in which the general government is involved or responsible independently from its role as supervisory body. Please specify the type of responsibility or involvement and the reasons why the unit is classified outside the general government sector.
Involvement or responsibility may refer to different situations such as (the list is not exhaustive):
- the general government finances the scheme (on a regular basis or not);
- by law or regulation certain groups of population are obliged to participate in the scheme;
- by law or regulation certain groups of population are obliged to pay contributions to the scheme;
- the scheme is defined in law (this may cover two different situations: a designated scheme is created by law or regulation; or the scheme was originally established in the private sector, but the government has later assumed responsibility for it by law or regulation);
- general government is responsible for the management of the scheme in respect of the settlement or approval of the contributions and/or benefits;
- the payment of benefits is guaranteed by the general government.
- other (please specify).

According to ESA95 Annex III, 4 "the benefits paid (by social security schemes of government) to individuals are not necessarily determined by the amounts previously paid in contributions".[60]
It is also interesting to notice that, in the ESSPROS Manual a sufficient (but not necessary) condition for a scheme to be classified as a "social protection scheme" (as opposed to other insurance) is that the policy is based on the principle of social solidarity which means that, as a matter of policy, the contributions charged are not proportional to the individual exposure to risk of the people protected".

Question 35

[60] See also ESA95 Manual on government deficit and debt I.2 (1).

Could you please describe pension schemes existing in your country (if any) based on the principle of social solidarity (as a matter of policy, the contributions charged directly to the individual participants are not proportional to the individual exposure to risk of the people protected), supported by institutional units classified outside the general government sector ?

Question 36

Could you please describe (types of) pension schemes existing in your country (if any) which are not based on the principle of social solidarity, supported by institutional units classified within the general government sector ?

G. Re-arranging transactions

Recognising the principal party to a transaction

According to ESA95 paragraph 1.41 "when a unit carries out a transaction on behalf of another unit, the transaction is recorded exclusively in the account of the principal." According to SNA93 (3.31 - 3.32), in these cases, "some service output may be recognised with the intermediary. For example, purchases a commercial agent makes under the orders of, and at the expenses of, another party, are directly attributed to the latter. The accounts of the agent only show the fee charged to the principal for intermediation services rendered."

The ESSPROS Manual contains examples relating to social protection schemes. "In some cases it is not clear on whose behalf a transaction is carried out. For instance, in case the central government makes payments to a lower government in order to enable the provision of social benefits at a local level, who is running the social protection scheme, the central government or the local one ? (…)

The general rule in such circumstances is that the unit which is dealing directly with the households must be held to be running the scheme. In the example given above, this implies that local government is running the scheme, which is (partially) financed by contributions from central government. The only exception to this rule is when the unit dealing directly with the households has no authority whatsoever over the terms of the benefits (for example level of benefits or eligibility). In this case that unit is held to be acting on behalf of another unit. In the example above, the central government payment would then be recorded as a social benefit, and no transactions would then be recorded for the local government unit.

If the local government receives social contributions that it passes on to central government, the general rule is again that the unit directly dealing with contributors is held to receive social contributions on its own behalf, except when it has no authority whatsoever over the terms under which the contributions must be made."

Question 37

Could you please describe the cases (if any) where the principle contained in ESA95 1.41 is used to record transactions of pension schemes ? Examples would be particularly interesting if the two units involved (the principal and the agent) are a government unit and a no-government unit.

END OF QUESTIONNAIRE

THANK YOU VERY MUCH