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Long-term Liabilities for Social Security and Employment Related Pensions

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LONG-TERM LIABILITIES FOR SOCIAL SECURITY AND EMPLOYMENT RELATED PENSIONS

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Introduction

- Recent crises have highlighted the relevance of government debt statistics
- Important to also incorporate the best available data on pension liabilities
- Purpose of this presentation:
 - Outline the current challenges in obtaining comparable pension data
 - Provide recommendations on how to address these challenges
 - Summarise OECD activities currently underway



Challenges: Recording of Pension Liabilities/Entitlements

- Current guidance on recording of pension liabilities:
 - GFSM 2014:
 - For employment-related pension schemes, liabilities/entitlements should always be recognised
 - For social security type of schemes: obligations not to be recognised, and only obligations minus Net Present Value of contributions to be recorded as a memorandum item (different from GFSM 2001)
 - SNA 2008:
 - Defined contribution schemes: liabilities equal accumulated assets
 - Defined benefit schemes:
 - Liabilities of employment-related pension schemes to be included
 - However, sometimes these schemes are intertwined with generic social security type of pension schemes => SNA provides flexibility
 - ESA 2010: liabilities of unfunded government sponsored pension schemes are not to be recognised
 - Supplementary Table 17.10 including all obligations/entitlement
 - GFSM 2014 and SNA 2008 consistent, except for memorandum item



Challenges: Recording of Pension Liabilities/Entitlements

- In both standards (GFSM and SNA) still some lack of clarity regarding the recording of employment-related schemes which are intertwined with social security
- Need to arrive at clear criteria when pension liabilities should (not) be recognised and recorded
- Our opinion: in the end, the presence of a legal contract, e.g. an employment contract, is the only relevant criterion for recognising an explicit liability
- However, even having clear criteria may not provide internationally comparable data => Supplementary Table 17.10



Challenges: Recording of Pension Liabilities/Entitlements

- Supplementary Table 17.10
 - In addition to explicit liabilities recognised in the core system, it also provides information on implicit liabilities related to social security type of schemes
- New table on household retirement resources
 - Includes social insurance types of schemes (counterpart of table 17.10) as well as other resources of households in preparation for retirement:
 - Individual life insurance (e.g. annuities)
 - Specific saving schemes
 - Other individual resources
 - Social assistance schemes
 - Final design of the table: pending decision on how to account for cross-border holdings



Challenges: Developing Internationally Comparable Estimates

Methodologies for estimating pension liabilities may be quite different:

- Institutional arrangements for compiling data can vary
 - Sources of information
 - Regulations / laws for estimation
 - Level of expertise readily available
- Differences in assumptions
 - Discount rate; IPSAS recommends using yields from government debt securities with maturities similar to pension entitlements
 - Salary rates; Accrued Benefit Obligations (ABO) vs. Projected Benefit Obligations (PBO)
 - Time horizon and membership; Accrued-to-Date Liabilities vs. Closed Group vs. Open Group



Implications for the Interpretation of Data on Government Debt

- Comprehensive and comparable analysis of liabilities not possible due to:
 - Differences in interpretation of present international standards
 - Differences in institutional set-up of pensions lead to differences in recognition of explicit liabilities, while material differences may not be that large
 - Government debt does not take into account implicit liabilities
 - Lack of standardised rules for measuring pension liabilities
 - Lack of data more generally
- Analysis also requires consideration of accumulated assets
 - Capacity to pay down debt by liquidating assets
 - Capacity to generate income or offset future expenditures



Recommendations

- Presence of a legal contract as the sole criterion for determining whether a pension liability should be recognised and recorded in the core national accounts
- When estimating pension liabilities:
 - Projected Benefit Obligations and Accrued-to-Date Liabilities
 - Discount rates: yields of central government debt securities, or a fixed real discount rate as per Eurostat guidelines
 - Pension Factsheet, including metadata on assumptions and methods used
- More generally, do not focus too much on single headline indicators, and provide additional data on contingent liabilities and accumulated assets



Next Steps

- Questionnaire to collect data on assets and liabilities related to government sponsored pension schemes
- Policy brief (with a methodological background paper) on implicit public pension debt
- Pension workshop in the fall of 2015 covering:
 - International comparability of pension statistics
 - Extent of required metadata
 - Exchange best practices in the estimation/recording of pensions



Thank you for your attention!



Annex

Table on Household Retirement Resources

Row number	Position / transaction / other flows	Liabilities appear in the core national accounts										Liabilities do not appear in the core national accounts				
		Not related to social insurance					Related to social insurance							Total resident and non-resident household retirement resources related to social insurance (with liabilities in the domestic economy) and related to social assistance	Total household retirement resources	
		Annuities	Other (individual) life insurance policies	Specific schemes linked to tax incentives	Other (Please specify:)	Total household retirement resources not related to social insurance	Non-general government		General government							
							Defined contribution schemes	Defined benefit schemes	General government employee defined benefit schemes							
Column number	A	B	C	D	E = A to D	F	G	H	I	J	K	L	M	N = E to M	O = D+N	
	Opening balance sheet															
1	Total household retirement resources															
	Transactions															
2 = 2.1 to 2.5	Social contributions relating to pension schemes															
2.1	Employer actual social contributions															
2.2	Employer imputed social contributions															
2.3	Household actual social contributions															
2.4	Household social contribution supplements															
2.5	Less Service charges															
3	Other (actuarial) accumulation of pension entitlements in social security funds															
4	Pension benefits															
5 = 2+3-4	Adjustment for the change in pension entitlements															
6	Change in pension entitlements due to transfers of entitlements															
7	Change in entitlements due to negotiated changes in scheme structure															
8	Additions to less withdrawals from individual schemes not related to social insurance															
	Other economic flows															
9	Revaluations															
10	Other changes in volume															
	Closing balance sheet															
11	Total pension liabilities in domestic economy															
12	Total household retirement resources of resident households in the rest of the world															
13	Total household retirement resources of non-resident households in the domestic economy															
14 = 11+12-13	Total domestic and foreign household retirement resources held by resident households															
	Related indicators															
	Assets held by pension schemes at end-year															
	Valuation Method for entitlements															

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.