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# Questions and answers on the supplementary table on accrued-to-date pension entitlements in social insurance

## Why was the reporting on pensions extended with the introduction of ESA 2010?

One key improvement of ESA 2010 is the enhanced reporting on pensions. The newly developed framework of a supplementary pension table on accrued-to-date pension entitlements is in particular important in the context of an ageing society where comprehensive information on pensions is indispensable.

The old standard, ESA 95, recognised pension obligations only for funded schemes; unfunded employer schemes did not lead to the recognition of liabilities for the employer. Consequently, there was a considerable diversity across countries in reported liabilities, depending on the national structures of schemes. ESA 2010 reports in its core accounts all employment-related pension entitlements outside general government, irrespectively of whether the schemes are funded or not. In addition, a supplementary table presents all accrued-to-date pension entitlements; including unfunded government pension schemes and social security pensions. This supplementary table will provide a powerful tool for economic analysis of households' pension wealth across countries.

## What's new regarding the recording of pensions in ESA 2010?

As mentioned above, ESA 95 recognised pension obligations on the balance sheet only for funded “private” schemes. ESA 2010 widens the scope to include entitlements of unfunded schemes of private employers and funded pension obligations of government.

Under ESA 95 only the actual social contributions by employers and employees have been recorded as paid into a pension fund and the pension liabilities were limited to the funds available. For a defined contribution scheme, this is correct and complete since the future pension payment depends only on the amounts set aside in a pension fund. For a defined benefit scheme, however, there is no guarantee that the amounts set aside will exactly match the liability of the employer. ESA 2010 recommends that the total of pension contributions should be determined by applying actuarial calculations, so that the increase of the pension entitlement earned by the employee in the period in question is fully reflected in social contributions. If the actual contributions do not match the increase in entitlements an imputed contribution payable by the employer is recorded for the difference.

## Are accrued-to-date pension entitlements a measure of sustainability?

No, they are not a direct measure of sustainability. Accrued-to-date pension entitlements support the analysis of saving and household wealth. They represent the present value of pensions to be paid in the future on the basis of accrued rights. Accrued pension rights are due to already paid pension contributions by current workers and remaining pension entitlements of existing pensioners. No rights accrued after the reference year — neither by present nor by future workers — are considered. The time horizon of this concept is, therefore, relatively limited and accrued-to-date pension entitlements in social insurance are not as such a measure of the sustainability of public finances. Sustainability analyses require, in principle, a longer time horizon, and including the impact of future accumulation of pension entitlements by existing and new members (this is known as an "open system" concept). This concept is, for example, used by the working group on ageing populations (AWG) for its sustainability analysis. See http://europa.eu/epc/working_groups/ageing_en.htm.

## Actuarial assumptions matter. How should key economic and demographic assumptions be updated?

Assumptions impact substantially on the results of actuarial calculations. The already available sensitivity analyses on the most important parameter, the discount rate, show this very clearly. Moving from a 5% discount rate to a 4 % discount rate would increase accrued-to-date pension entitlements by roughly 15-20%. Therefore, a harmonised and coordinated approach is essential for ensuring comparable results and the key assumptions will be regularly reviewed by statisticians and experts working on ageing populations (AWG) in order to maintain consistency and cross-country comparability.

The technical compilation guide for pension data in national accounts recommends applying the latest set of economic assumptions of the AWG which includes the up-to-date Eurostat population projection. See http://europa.eu/epc/working_groups/ageing_en.htm.

## Social insurance comprises a large set of risks.  What is included under the heading of pensions in national accounts?

Pension benefits are not exhaustively described by old age pensions and the supplementary table includes those pensions paid before normal retirement age (ESA 2010, paragraph 17,122). ESA 2010, in paragraph 17.13 puts forward the additional criterion that the main income earner is no longer able to provide an income due to death or incapacity. This criterion is fulfilled in the cases of survivor and disability pensions. In theory, other risks, like unemployment benefits or separate sick leave and disablement insurance, are excluded from pensions. However, in practise it may be difficult to separate some non-pension elements and they may be included in some elements of the supplementary table on pensions.

## At present, pension data for only a few countries has been published by Eurostat. When will data on pension entitlements for all Member States become available?

According to the programme of national accounts data delivery within the framework of the new European System of National Accounts, an obligatory transmission of table 29 'Accrued-to-date pension entitlements in social insurance' is foreseen for reference years from 2015 onwards. Taking into account that data delivery for table 29 is due 24 months after the reference year, Eurostat will receive the first comprehensive pension data transmissions from all countries by 31 December 2017.

The transmission programme requires a 3-yearly transmission of table 29. However, some Member States already publish nationally on an annual basis, and these States transmit pension entitlement data to Eurostat.