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Specific Questions and Answers on Table 29

It is recommended to apply the key assumptions of the working group on ageing populations for the purpose of table 29. What about alternative assumptions for national publication purposes?

The assumptions of working group on ageing populations (AWG) have been discussed and approved by all Member States of the European Union. The update of assumptions is undertaken on a regular basis. This prepares the ground for meaningful and comparable long-term projections. The application of the key assumptions of the working group on ageing populations (AWG) for national accounts purposes - for schemes with government as pension manager - also enhances the international comparability of the calculations of pension entitlements.

At the same time, national analyses may require different assumptions in order to achieve a greater degree of comparability within the supplementary table, for example, when the entitlements of occupational pension schemes (column A and B) are compared with social security entitlements (column H). Such analyses and their national publication are a matter for individual countries. However, it is recommended to apply the internationally agreed assumptions for the data transmission to Eurostat, and publish suitable metadata for users.

Are premiums and claims for life insurance/term insurance recorded in the supplementary table on accrued-to-date pension entitlements in social insurance?

No, such premiums and claims are not recorded in the supplementary table on pensions. The supplementary table shows social contributions, social benefits and pension entitlements in social insurance. Purely private saving, for example a life insurance contract taken out on own initiative, is not covered by the supplementary table. In addition, term insurance contracts providing a benefit only in case of death are not recorded in social insurance but under 'other non-life insurance'.

Social insurance and private provision may de facto cover the same risks, like old age, sickness etc. In comparison to purely private saving, social insurance is nevertheless characterised by the involvement of a third party, notably government, employers or trade unions. In addition, the arrangements in social insurance have to demonstrate a social dimension. For example, arrangements that have been established just in order to receive a discount should not be classified in social insurance. ESA 2010 mentions this explicitly in paragraph 4.86b, even regarding benefits which are based on a collective agreement. Finally, ESA 2010 provides in paragraph 4.87 three criteria for social insurance schemes (obligatory participation, collective schemes, employer contributions). At least one of these criteria has to be met in order to qualify as social insurance scheme.

Why are notional defined contribution schemes classified under the heading 'defined benefit' schemes?

Several countries have introduced so called 'notional defined contribution schemes' (NDC). These schemes record contributions in an individual account and apply a rate of return on the balances. The accounts are "notional" in the sense that the balances exist only on the books of the managing institution and the scheme is only designed to mimic a DC scheme. At retirement, the accumulated notional capital is converted into a stream of pension payments using a formula based on life expectancy.

It should therefore be noted that the "assets" of a NDC are not actually available for funding pension payments. The revenues are immediately used to finance current pension expenditure. The pension benefits are calculated in two steps. In the first step an interest or growth rate is selected and applied to the notional capital, and in the second step this capital is divided by an estimate for life expectancy at retirement. This results in an annuity payment. The risk of funding the benefits is therefore not with the employee but is borne by the pension manager. In consequence, NDC schemes are classified as defined benefit schemes.

The notional capital which is reported by the national pension authority should not be confused with the pension entitlement which is recorded in the supplementary table on pensions. In the supplementary table the agreed set of demographic and economic assumptions, including the discount rate, come into effect when calculating the relevant entries. In addition, disability and survivor pensions maybe included.

How do pension reforms show up in the supplementary table?

Only pension reforms that have already come into effect are recorded in the supplementary table. Discussions in the Parliament or ongoing negotiations between employers and employees do not qualify for row 7 'Change in entitlements due to negotiated changes in scheme structure'. It should be noted that row 7 shows the reform impact which is related to past service. In addition, current service costs (social contributions) are affected by a pension reform. For example, a reform slowing down the indexation of pension benefits would lead to lower imputed employer contributions in row 2.2 (assuming everything else is unchanged).

Changes in pension entitlements that are imposed without negotiation, for example without involvement of the Parliament, are not transactions and are recorded as other changes in the volume of assets.

How should lump-sum payments and annuities be recorded in the supplementary table?

The supplementary table records defined contribution schemes (DC) and defined benefit schemes (DB) separately. This distinction shows how the risk regarding the level of pensions is shared between the employer and employees. DB scheme benefits are usually paid in the form of an annuity, while for a DC scheme a lump sum payment or the transformation into an annuity is possible at the moment of retirement, depending on the legal framework in the country.

The recording of DC schemes with lump sum benefits is straightforward. The contributions accumulate on the account, supplemented by property income and holding gains (or losses). At the

moment of retirement the full amount accumulated is transferred to the beneficiary. The payment of the lump sum is recorded in the period of retirement in column A row 4 of the supplementary table.

In many cases the beneficiaries do not have the option to receive the full retirement income in one single payment. Instead the accumulated benefits must be converted into an annuity which is paid until the death of the beneficiary. The 2008 SNA (see paragraphs 17.66 ff.) foresees the following three sets of transactions for an existing annuity:

a. A service charge associated with the annuity is payable every year. It is recorded as output of the insurance corporation and final consumption expenditure of the household to which the beneficiary belongs.
b. Investment income equal to the discount factor times the level of annuity reserves at the beginning of the period is recorded in the primary distribution of income account as payable by the insurance corporation and receivable by the household.
c. The change in the value of the reserves for annuities is recorded in the financial account as payable by the household to the insurance corporation.

Further entries are required for the initiation and termination of an annuity.

Initiation of the annuity: Regarding table 29 on pensions, the initiation of an annuity is simply a "rollover" from a lump sum payable by an (insurance) corporation from the maturing of a life insurance policy (classified in social insurance) immediately into an annuity. This "rollover" implies that the risk is taken by the insurance company; a defined benefit arrangement is established. Hence, the respective pension entitlements have to be transferred from column A to column B. Row 6 of table 29 would capture this transfer. In addition, the annuity payments have to be recorded in row 4 (Reduction in pension entitlements due to the payment of pension benefits).

As a consequence of the transfer of pension entitlements from column A to B, contribution supplements have to be recorded. The supplements show up in row 2.4. and are calculated as the discount rate times the entitlements. This implements point b of the list above.

Termination: Annuities are normally terminated at death, at which point any remaining reserves for the beneficiary are transferred to the insurance corporation. However, assuming the insurance corporation has predicted life expectancy accurately, for the group of beneficiaries as a whole the average funds remaining at death will be zero.

With respect to the service charge (point A) it can be assumed that all the costs are covered during the contribution phase and via the conversion of the capital stock into the annuity. This simplification implies that all costs are borne by current employees and none by retirees.

Is it possible to record an employer's imputed contribution based on experience effects in the supplementary table if there isn't any imputed contribution in the core accounts?

ESA 2010 allows the joint reporting of experience effects and imputed contributions, in particular for unfunded schemes managed by general government and social security schemes. For such schemes, imputed contributions are recorded as a residual and they include (in practice) experience effects as

well. For the sake of simplicity it is not required to identify and report the impact of experience effects separately.

An example of schemes where a different treatment is useful is multiemployer schemes. Multiemployer schemes are not only acting as pension administrators but also as pension managers. No imputed employer contributions should be recorded in the core accounts as the employer is not responsible for the pension obligation. In addition, no claim of the pension fund on the pension manager (F.64) should be reported.
In this case, row 2.2 should be empty; no experience effect should be reported under the label 'imputed employer contribution'. Experience effects, if any, should be reported under the heading other changes in volume.

How should the transfer of pension assets from a non-government manager to general government be accounted for in table 29?

In the core accounts such a transfer of assets (in the form of a lump sum) should be recorded a pre-payment of social contributions and recorded as a financial advance. The more complex case of an unbalanced transfer is well described by a Eurostat decision (see: http://ec.europa.eu/eurostat/documents/1015035/2041337/ESTAT-decision-Unbalanced-transfer-pension-oblig-to-gov-.pdf/59626494-9049-47eb-aa63-077989eb3e37).

In the supplementary table on pensions, this transfer of pension entitlements should be allocated to row 6. The transfers of pension entitlements between schemes will lead to a negative entry in column A and a matching positive entry in column H. The impact of the legal act organizing the transfer of entitlements should not go into row 7, negotiated change in the scheme structure, as long as the level of entitlements was not changed.

In addition, it is a requirement to describe such transfers in the pension fact sheet which should be provided with every transmission of table 29.

The discount rate (to be allocated to row 8) and mortality assumptions (to be allocated to row 9) may be changed at the same time and the change may be reported as one single figure. How to deal with this identification problem?

In cases where no detailed information is available, the total change should be allocated to other changes in volume. In addition, all changes in actuarial assumptions should be described in the pension fact sheet.

How should the pension fact sheets be structured?

The set-up of pension schemes and the compilation of pension entitlements are complex. Therefore, additional information on the schemes, in the format of a pension fact sheet, is crucial.

The pension fact sheets should in particular provide information on pension schemes which are new with respect to the calculation of pension entitlements in ESA. These are unfunded schemes with government as a pension manager and social security schemes. Cross-links to fact sheets produced for related purposes (AWG, EDP) may provide additional information. Finally, very brief information

(obligatory/voluntary participation; importance for old age provision) on the other schemes is encouraged.

A pension fact sheet should be concise and describe the main features and, in particular, recent changes to the scheme. This includes pension reforms and the update of actuarial parameters. References to other, more detailed (national) fact sheets should be added when available.

The structure of a pension fact sheet is shown in the Annex.

Annex: Structure of a 'Pension fact sheet'

1. General description of the scheme and the calculation model
    a. Coverage of the scheme (% of the workforce), classification in the pension table (table 29 of the transmission programme)
    b. Major formulas: Benefit formula; Indexation of benefits
    c. Type and structure of the calculation model
    d. Institutional set up – Which institution is running/managing the calculations?
2. Assumptions and methodologies applied
    a. Discount rate
    b. Wage growth
    c. Valuation method: ABO/PBO
3. Data used to run the model
    a. Mortality tables
    b. Entitlement statistics; other relevant statistics
4. Reforms incorporated in the model
5. Specific assumptions
    a. How are careers modelled?
    b. How are survivor pensions calculated?
    c. How is the retirement age modelled over time?
    d. Other specific features of the model

6. Links to (national) publications providing further information on the pension schemes

The pension fact sheet should provide clear information. Therefore one fact sheet per scheme should be provided. The information should be concise. Therefore the information should be limited to a maximum of two pages per scheme.