Some Comments on Mr Lequiller's Paper

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Four Types of Social Insurance Schemes in SNA93 (para.8.63)

- 1. Social Security Schemes
- 2. Private Funded Schemes
  - 2-a. Autonomous Pension Funds
  - 2-b. Non-autonomous Pension Funds
- 3. Unfunded Schemes

93SNA para.8.63 (1)

- 8.63 Three main types of social insurance schemes may be distinguished:
- (a) The first consists of social security schemes covering the entire community, or large sections of the community, that are imposed, controlled and financed by government units;

93SNA para.8.63 (2)

- (b) The second type consists of private funded schemes. There are two categories of private funded schemes. The first consists of schemes in which the social contributions are paid to insurance enterprises or autonomous pension funds that are separate institutional units from both the employers and the employees. The insurance enterprises and autonomous pension funds are responsible for managing the resulting funds and paying the social benefits.

93SNA para.8.63 (3)

- The second consists of schemes in which employers maintain special reserves which are segregated from their other reserves even though such funds do not constitute separate institutional units from the employers. These are referred to as non-autonomous pension funds. The reserves are treated in the System as assets that belong to the beneficiaries and not to the employers;

93SNA para.8.63 (4)

- (c) The third type consists of unfunded schemes in which employers pay social benefits to their employees, former employees or their dependants out of their own resources without creating special reserves for the purpose.
- Social insurance schemes organized by government units for their own employees, as opposed to the working population at large, are classified as private funded schemes or unfunded schemes as appropriate and are not classified as social security schemes.

Main Employers’ Schemes in Japan

- Koseinenkin Pension Funds (Koseinenkinkikin)…..
  2-a. Autonomous Pension Funds
- Qualified Pension Funds (Tekikakunenkin)…….
  2-b.Non-autonomous Pension Funds according to the original recommendation of 93SNA, but actually, they are treated as “2-a. Autonomous Pension Funds” in the implementation of the SNA in Japan
- Lump Sum Retirement Payments other than those included above ……
  3, Unfunded Schemes

The Distinctions that can be found in the SNA convention

- Funded/Unfunded
- Autonomous/Non-autonomous
- Social Security Schemes/Other Social Insurance Schemes
- Social Insurance Schemes/Social assistance Schemes

Original EDG's Proposal and Mr Lequiller's Proposal

- 1. Funded/Unfunded distinction should be abandoned (in the core accounts or satellite accounts for pension quasi liabilities).
- 2. Construct new satellite accounts for pension quasi liabilities where employer schemes and social security schemes are treated similarly.

Comments(1)

- Not so clear about the production side of the schemes in question. Is there any proposal to make a new imputation about unfunded schemes and non-autonomous funds in addition to current SNA’s insurance-enterprise-type imputation for autonomous pension funds?
- If the answer is “no,” why?

Comments(2)

- The current treatment of lump-sum retirement allowances might be improved much by the proposal.
- Cf. 93SNA para.13.88, 7.46.

93SNA para.13.88

- 13.88 Unfunded occupational pension schemes, which include some classified as social security funds, are by definition defined benefit schemes. There is no pool of assets accumulated from which to pay benefits, however. It is recommended that the present value to households of promises by these schemes to pay future pension benefits be shown as a memorandum item in the balance sheets as assets of households. Liabilities of equivalent amount may also be shown as memorandum items for the employer sectors liable to pay these benefits.

93SNA para.7.45

- 7.45 Some employers provide social benefits themselves directly to their employees, former employees or dependants out of their own resources without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose. In this situation, existing employees may be considered as being protected against various specified needs or circumstances, even though no payments are being made to cover them. Remuneration should therefore be imputed for such employees equal in value to the amount of social contributions that would be needed to secure the de facto entitlements to the social benefits they accumulate. These amounts depend not only on the levels of the benefits currently payable but also on the ways in which employers' liabilities under such schemes are likely to evolve in the future as a result of factors such as expected changes in the numbers, age distribution and life expectancies of their present and previous employees. Thus, the values that should be imputed for the contributions ought, in principle, to be based on the same kind of actuarial considerations that determine the levels of premiums charged by insurance enterprises.

93SNA para.7.46

- 7.46 In practice, however, it may be difficult to decide how large such imputed contributions should be. The enterprise may make estimates itself, perhaps on the basis of the contributions paid into similar funded schemes, in order to calculate its likely liabilities in the future, and such estimates may be used when available. Otherwise, the only practical alternative may be to use the unfunded social benefits payable by the enterprise during the same accounting period as an estimate of the imputed remuneration that would be needed to cover the imputed contributions. While there are obviously many reasons why the value of the imputed contributions that would be needed may diverge from the unfunded social benefits actually paid in the same period, such as the changing composition and age structure of the enterprise's labour force, the benefits actually paid in the current period may nevertheless provide the best available estimates of the contributions and associated imputed remuneration.

Comments(3)

- What about “adjustment for the change in net equity of households in pension funds”.
- This adjustment item is recorded to reconcile the typical perception of the consumers with the treatment of employers’ schemes in the SNA.
- Basic ideas behind the proposal seems to be opposite to the rationale of this adjustment item.

Adjustment for the change in the net equity of households in pension funds (D.8)

- 9.14 The reserves of private funded pension schemes are treated in the System as being collectively owned by the households with claims on the funds. The payments of pension contributions into the funds and the receipts of pensions by pensioners are, therefore, not transfers between different institutional units. They constitute the acquisition and disposal of financial assets. However, this may not accord with the perception of the households concerned, especially pensioners' households, who tend to regard the pensions they receive as income in the form of current transfers. Moreover, pensions received under social security schemes are in fact treated as current transfers in the System.

Adjustment for the change in the net equity of households in pension funds (D.8) continued

- 9.15 In order to present income information that may be more useful for analysing the behaviour of the households concerned, the payments of pension contributions under private funded and unfunded social insurance schemes and the receipts of pensions by pensioners' households under such schemes are recorded in the secondary distribution of income account as social contributions and social insurance benefits, respectively. They are therefore recorded as determinants of the disposable incomes of households

Adjustment for the change in the net equity of households in pension funds (D.8) continued

- 9.16 However, in order to reconcile this treatment with the fact that households are treated in the financial accounts and balance sheets of the System as owning the reserves of private funded pension schemes, both autonomous and non-autonomous, it is necessary to introduce an adjustment item to ensure that the balance of pension contributions over pension receipts (i.e., of "transfers" payable over "transfers" receivable) does not enter into household saving. In order to achieve this, it is necessary to add back pension contributions to, and subtract pension receipts from, the disposable income, or adjusted disposable income, of households recorded in the secondary distribution of income accounts in order to get back to a figure for the saving of households that is the same as what it would have been if pension contributions and pension receipts had not been recorded as current transfers in the secondary distribution of income account.

Adjustment for the change in the net equity of households in pension funds (D.8) : Measure

- The necessary adjustment item is therefore equal to:

  the total value of the actual social contributions payable into private funded pension schemes

  plus the total value of contribution supplements payable out of the property income attributed to insurance policy holders (i.e., holders of pension rights)

  minus the value of the associated service charges

  minus the total value of the pensions paid out as social insurance benefits by private funded pension schemes.

Comments(4)

- The case for more comprehensive satellite accounts for social insurance schemes, social assistance schemes, and other social cooperative efforts to cope with various risks encountered by people.
- Proposed accounting for quasi liabilities of social security schemes is important from the viewpoint of institutional design.
- Tax-based schemes as well as insurance-type schemes should be considered.
- Unpaid work within the households as an alternative to social commitments should be considered as well,