

Reporting pension obligations of social security pension schemes (SSPS) in the EU

**Meeting of the
Social Security Sub-committee
Task Force on Projections and Methodology**

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- Introduction
 - Key challenge
- Key aims of our Task-force project
- Launch of AAE survey questionnaire
 - EU social security pension system typology
 - Methodological aspects applied in Table 29 data exercise
- Development of framework for effective communication and interpretation of Table 29 figures
 - Use of actuarial balance sheet (net obligation concept), linked to scheme's financing method
 - Analysis of Table 29 figures, linked to the redistributive features of contributory SSPS
- Discussion

- **ESA 2010 framework**
 - Pension obligations/ entitlements of contributory SSPS are reported in the supplementary Table 29, based on ADL method
 - Non-contributory SSPS are excluded
- **AWG framework**
 - Analysis of the sustainability of public finances with respect to age-related expenditure, including pensions
 - EU commonly agreed methodology
 - Ageing Report and Fiscal Sustainability Report
- **ESA 2010 versus AWG pension exercise**
 - Subject to different objectives and methodological approaches
- **Key challenge**
 - Analyse the implications of using different methodological approaches of accounting and reporting
 - Address the potential issues associated with the communication and interpretation of the results

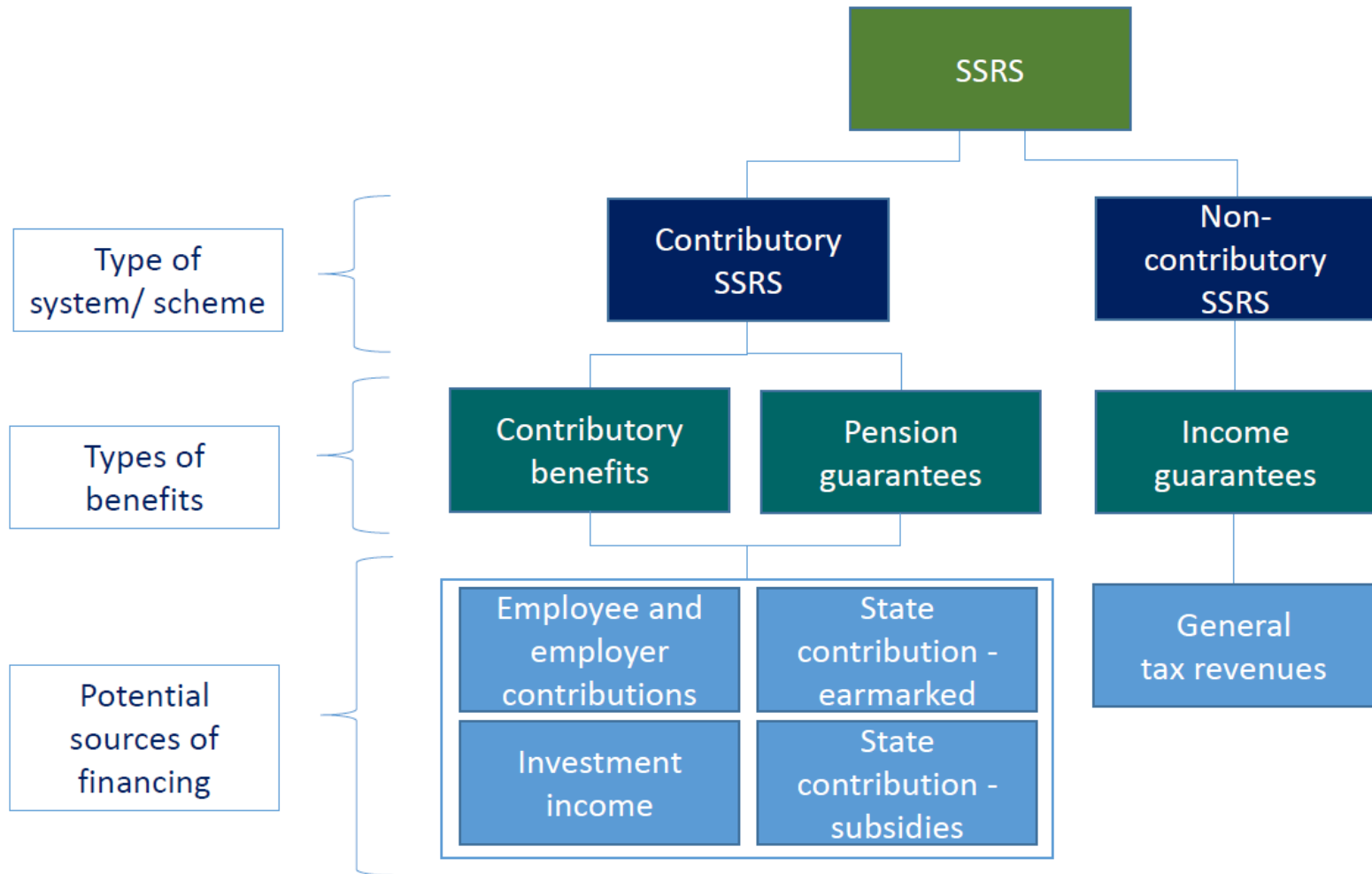
Key aims of our Task-force project



- Analyse the impact of different types of EU social security pension systems onto Table 29 requirements
 - Very diverse types of systems across EU
- Develop a robust framework for effective communication and interpretation of Table 29 figures
 - Minimise the risk of potential misuse of Table 29 figures
 - Provide appropriate information about financial status of contributory SSPS
 - Taking into account: (1) financing method; and (2) type of benefits offered
- Build on the IAA position paper on methodological approach and disclosure requirements
 - Through EU country-specific examples

AAE survey questionnaire

EU pension system typology



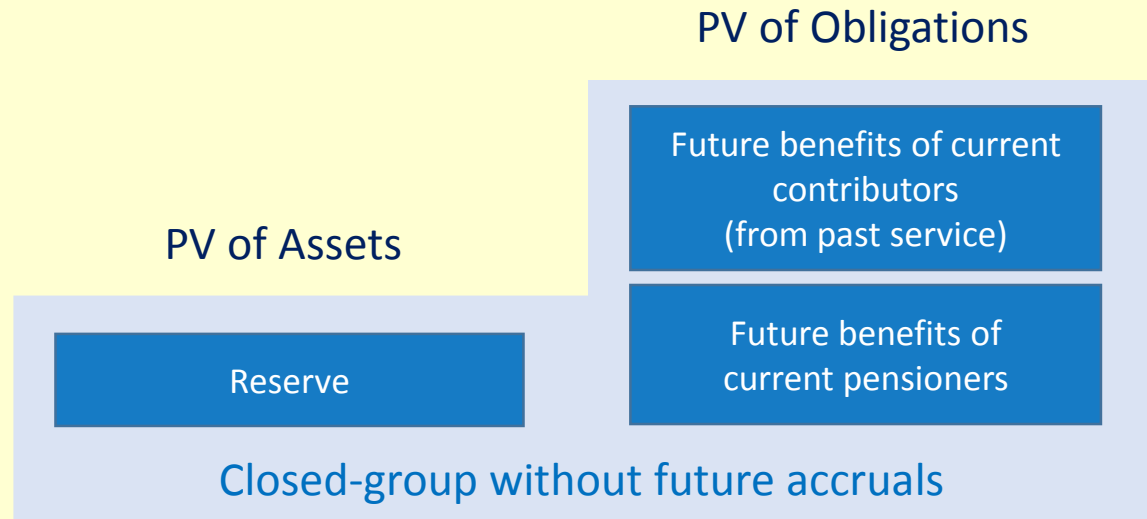
- National pension model used
 - Typical agent *versus* macrosimulation cohort model
 - Same with the model used in the AWG exercise?
- Assumptions used
 - Treatment of future wage increases: PBO *versus* ABO approach
 - Same with the assumptions used in the AWG exercise?
- Methodological aspects
 - Calculation of ADL with respect to current active participants:
Pro-rata basis factor applied or other approach?
 - Treatment of pension guarantees and non-contributory benefits

- Pension scheme's obligations *minus* assets
- Aims to measure the financial status of the pension scheme
- Three main approaches
 - *Closed group without future accruals*: Eurostat exercise (Table 29)
 - *Closed group with future accruals*
 - *Open group*: AWG exercise
- Comparison of the three approaches
 - Use of balance sheet: analysis of assets and obligations

Net pension obligation concept

Closed-group without future accruals approach

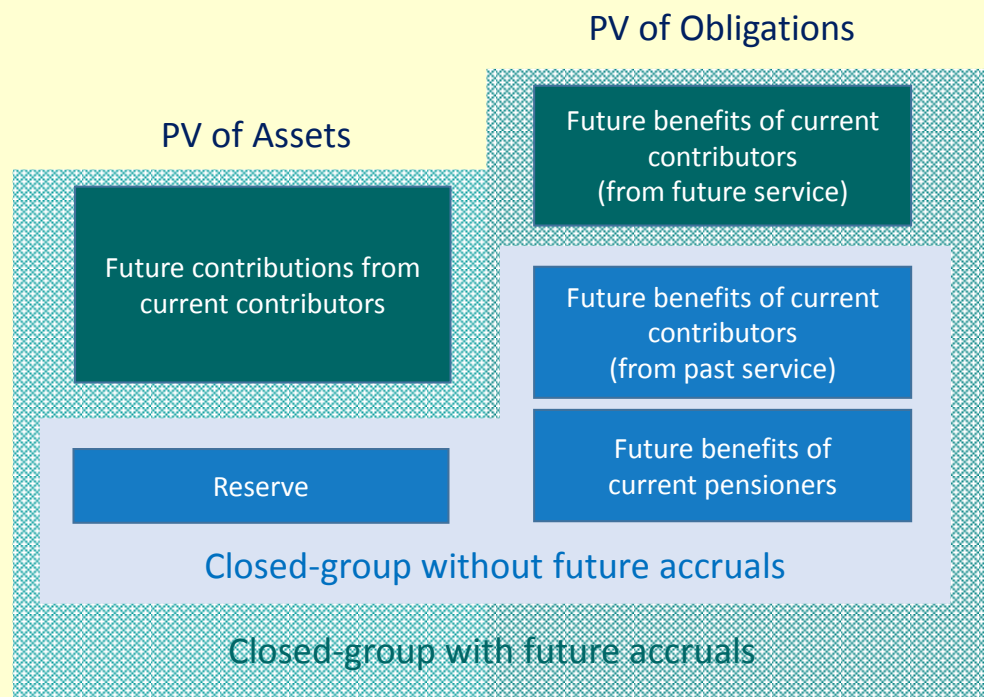
- It only includes current pensioners and current contributors
- No new entrants are permitted
- *Assets*: Only Reserve is taken into account (no future contributions)
- *Obligations*: Future benefits of current pensioners and current contributors resulting from past service (no future accrual)



Net pension obligation concept

Closed-group with future accruals approach

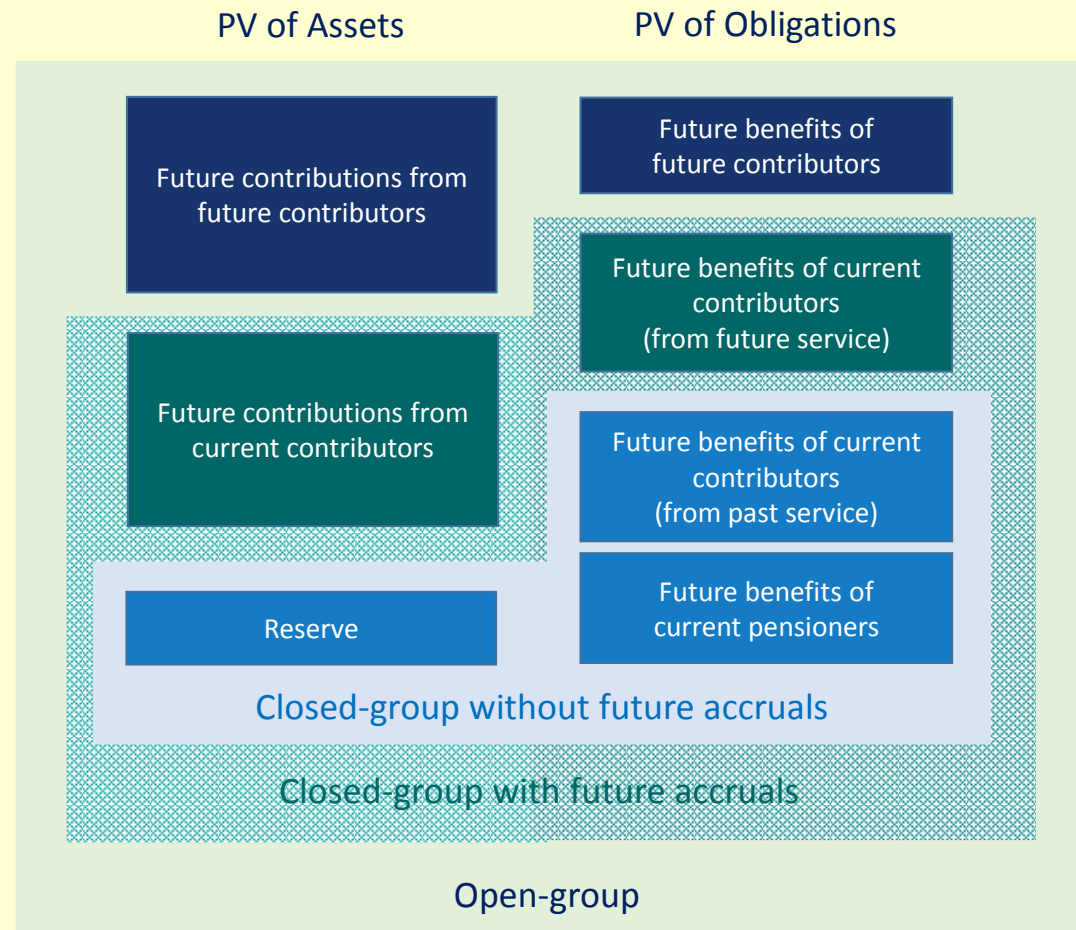
- It only includes current pensioners and current contributors
- No new entrants are permitted
- *Assets*: Reserve plus future contributions (current contributors)
- *Obligations*: Future benefits of current pensioners and current contributors resulting from past and future service



Net pension obligation concept

Open-group approach

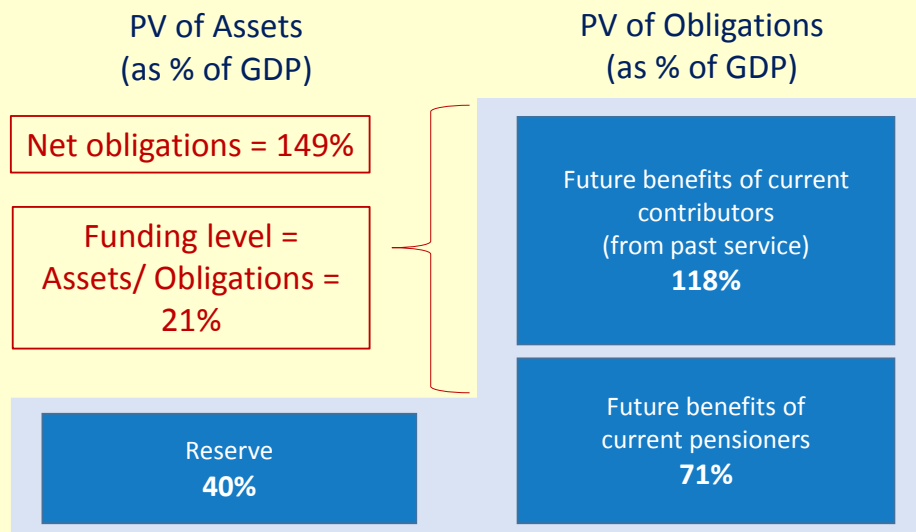
- It provides a complete picture of the financial status of a social security contributory pension scheme
- It includes current pensioners as well as current and future contributors
- *Assets*: Reserve *plus* all future contributions (current and future contributors)
- *Liabilities*: All future benefits of current pensioners, current contributors (past and future service) and future contributors



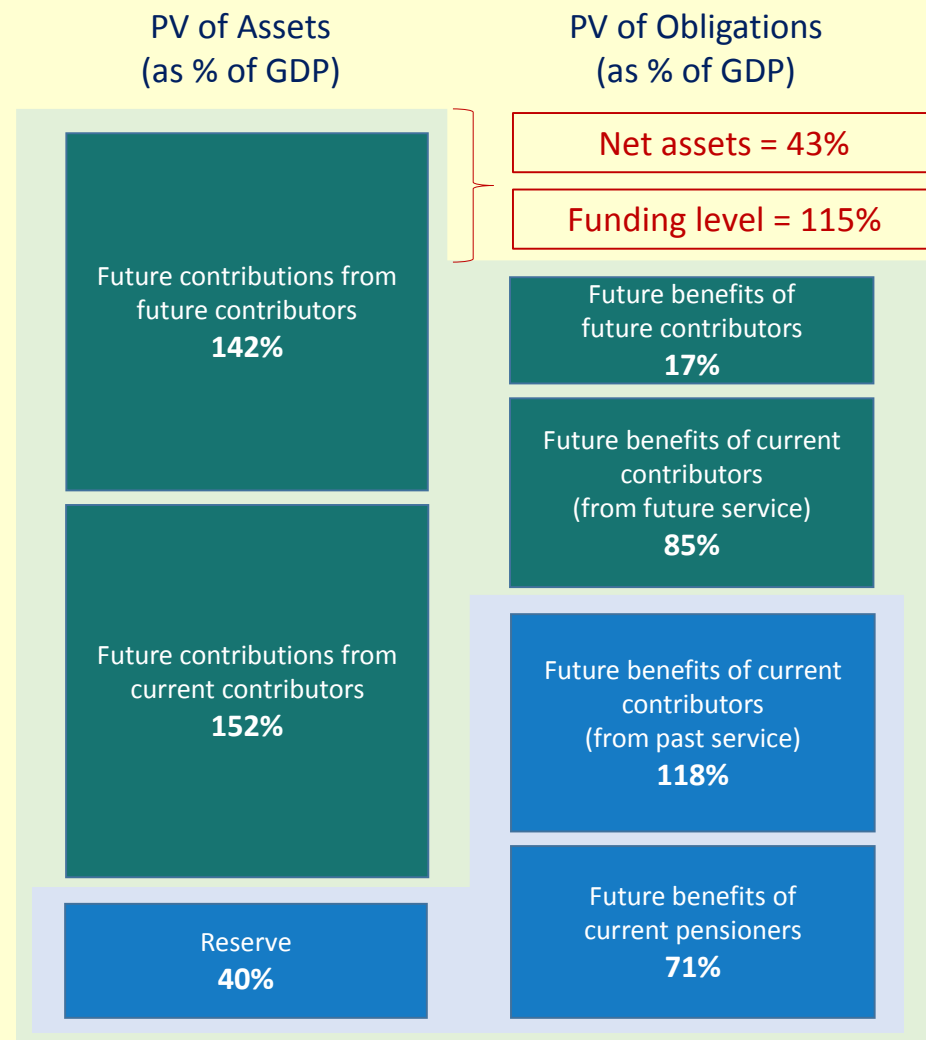
Net pension obligation concept

An illustration: Cyprus Social Insurance Scheme – Closed vs open-group approach

- Cyprus SIS funding level (under closed-group) is only at 21%, while it is financially sustainable (funding level of 115% under open-group)



Closed group

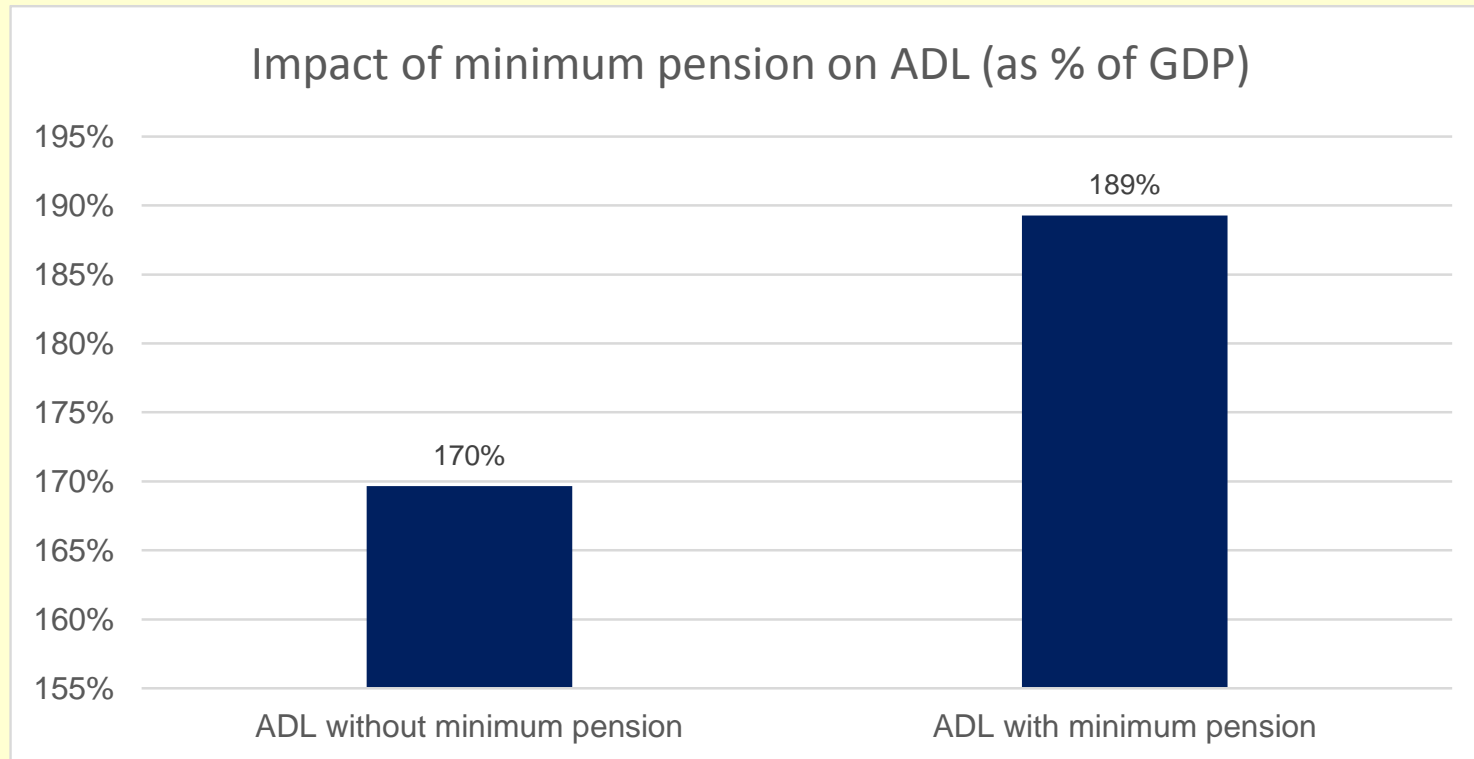


Open group

- Treatment of pension guarantees - examples

| Greece type | Cyprus/ Portugal type | Sweden/ Finland type |
|--|--|---|
| Means-tested universal Social Assistance scheme (those not covered by social insurance) | Means-tested universal Social Assistance scheme (those not covered by social insurance) | Universal Social Assistance scheme, income tested against social insurance pension income (for all residents) |
| Contributory social insurance pension scheme with flat pension (tier 1) | Contributory social insurance pension scheme with minimum pension | Contributory social insurance pension scheme without minimum pension |

- Treatment of pension guarantees – illustration for the Cyprus SIS (*preliminary assessment*)



■ Treatment of credits - examples

| 1 | 2 | 3 |
|--|--|-------------------------------------|
| Credits in case of Birth of a child | Credits in case of Birth of a child | Credits in case of Invalidity |
| 1. Immediate credit 2. Credit upon retirement and fulfilment of conditions | 1. For Pension scheme members only 2. For every citizen (outside the scheme provided through another authority) | 1. Prospective credits |

- Impact of PBO versus ABO approach
- Treatment of accrual rate
 - Linked to either age or years of service
- Typical agent versus macrosimulation cohort model?

- The disclosure of the value for pension obligations of a SSPS in national accounts (Table 29) needs to be supplemented by figures based on an open group approach
 - Multiple disclosure approach in the form of balance sheets
- The consistency of the methodology used to measure the assets and obligations of a social security program with its financing method is also clearly stated in the International Standard of Actuarial Practice 2 (ISAP 2) of the International Actuarial Association
- Pension guarantees and other non-contributory benefits (financed by earmarked tax revenues or state contributions) under contributory SSPS should be presented separately
 - Avoid bias against contributory social insurance schemes with non-contributory elements

- Maximising the response rate of the survey questionnaire
- Getting country-specific examples to illustrate the use of balance sheets and redistributive features of the SSPS
 - Voluntary basis
- Any other ideas/ input?