



# Reporting pension obligations of social security schemes in the EU

**Pensions Committee Meeting**

Costas Stavrakis

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# Structure of presentation

- EU reporting frameworks of pension obligations
  - ✓ Ageing Working Group of the Economic Policy Committee (AWG)
  - ✓ Eurostat ESA 2010
- Methodological approach: closed versus open-group
- Key challenge for the assessment of pension obligations
- Methodological considerations and impact on Eurostat 2017 results
- The contribution of social security actuaries
- The leading role of the AAE Social Security Sub-committee

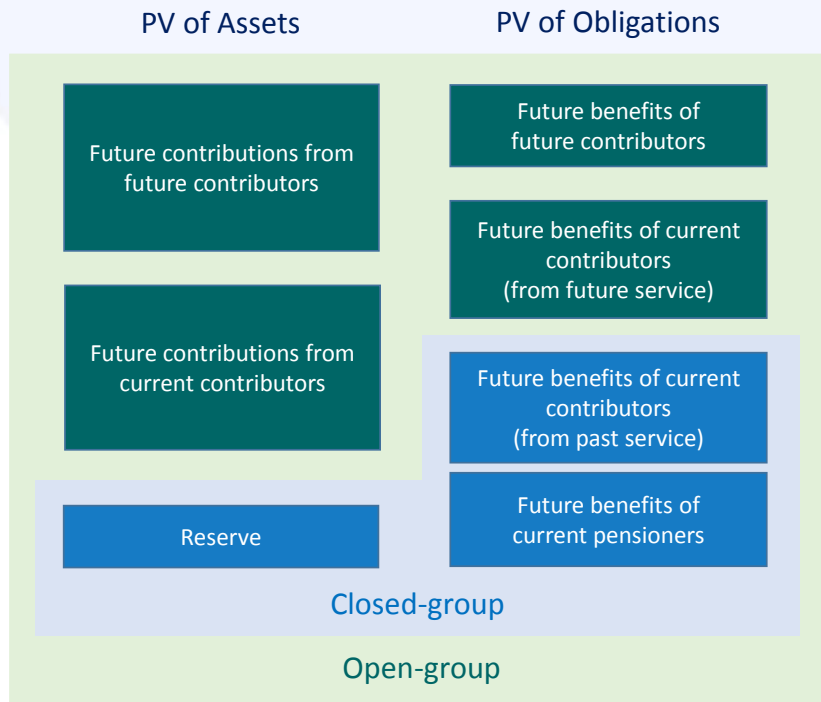
# EU reporting frameworks – AWG

- A well-established EU framework: since 2001
- Long-term public pension expenditure projections
  - ✓ Based on EU commonly agreed methodologies and assumptions
  - ✓ Calculations on an open-group basis
- Analysis of the sustainability of public finances with respect to age-related expenditure, including pensions
- Contributory and non-contributory Social Security Pension Schemes (SSPS) are included
- Reporting is undertaken every 3 years
- Results are presented in the Ageing Report and Fiscal Sustainability Report

# EU reporting frameworks – Eurostat ESA 2010

- A newly-established EU framework: first transmission of pension data by all MS in December 2017
- Pension obligations of SSPS are reported in the supplementary Table 29
  - ✓ Calculations on the Accrued-to-Date Liability (ADL) method
  - ✓ Broadly, based on the AWG assumptions
- ADL method does not allow the assessment of the financial sustainability of SSPS
- Table 29 provides a tool for economic analysis of households' pension wealth across MS
- Non-contributory SSPS are in principle excluded
- Reporting is undertaken every three years

# Methodological approach: Closed versus open-group



## Closed-group

- It provides incomplete financial picture of a SSPS
- It only reflects the performance of a SSPS in the past
- It only includes current pensioners and contributors
- No future entrants are taken into account
- It ignores future contributions (largest asset)
- No future accrual of new benefits

## Open-group

- It provides a complete and forward-looking financial picture of a SSPS
- It includes current pensioners and contributors as well as future contributors
- All future contributions are considered
- All future benefits of current pensioners and contributors (past and future service) and future contributors are considered

# Key challenges for the assessment of pension obligations

- Eurostat *versus* AWG pension exercise
  - ✓ Subject to different objectives and methodological approaches
- Analyse the implications of having different coverage and using different methodological approaches
- Address the potential issues associated with the communication and interpretation of the results

# Methodological considerations and impact on Eurostat results

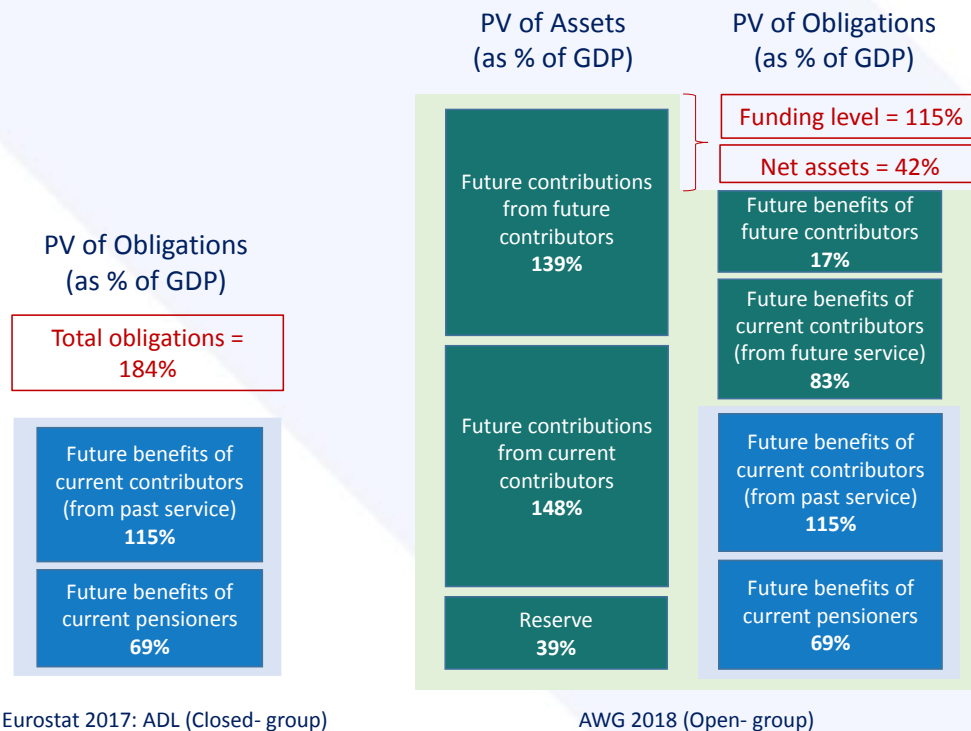
1. Closed versus open-group approach
2. Treatment of minimum income provision
3. Other considerations

# Methodological considerations and impact on Eurostat results – Closed versus open-group approach

- SSPS typically operate on a PAYG basis
  - ✓ Implicit social contracts: current pensioners' benefits are covered by contributions of current contributors
- Open-group approach
  - ✓ Explicitly accounts for the intergenerational societal commitments



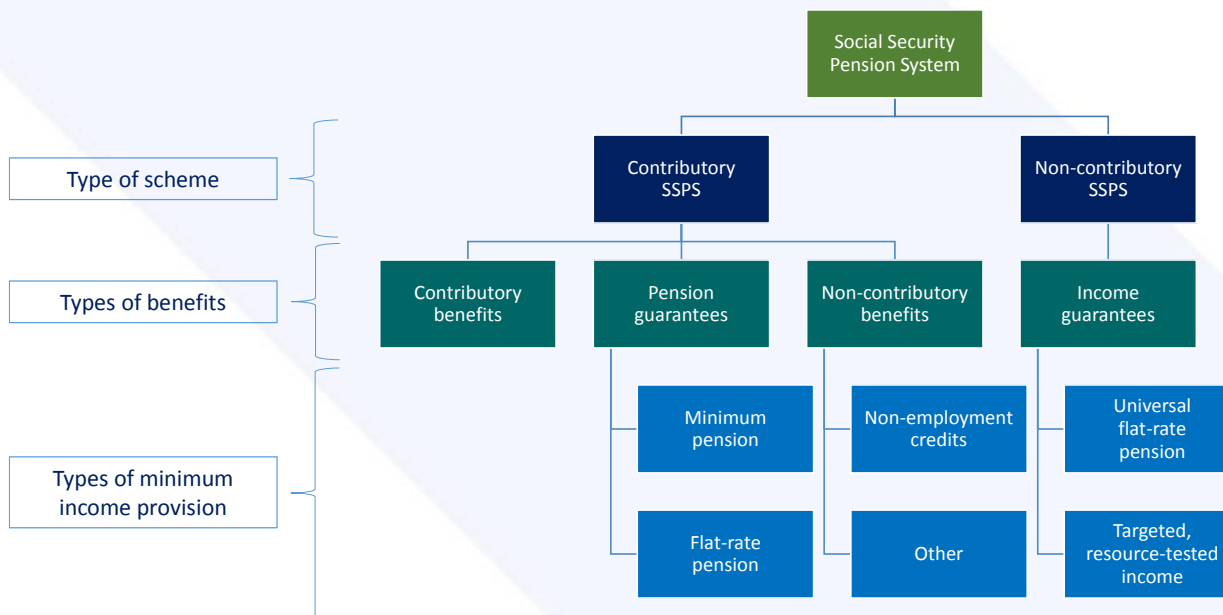
# Illustration: Cyprus Social Insurance Scheme (SIS) – Eurostat 2017: ADL versus AWG 2018 (open-group)



- ADL figure does not allow for assessing long-term financial sustainability of Cyprus SIS
- Cyprus SIS is financially sustainable with a funding level of 115% under open-group approach

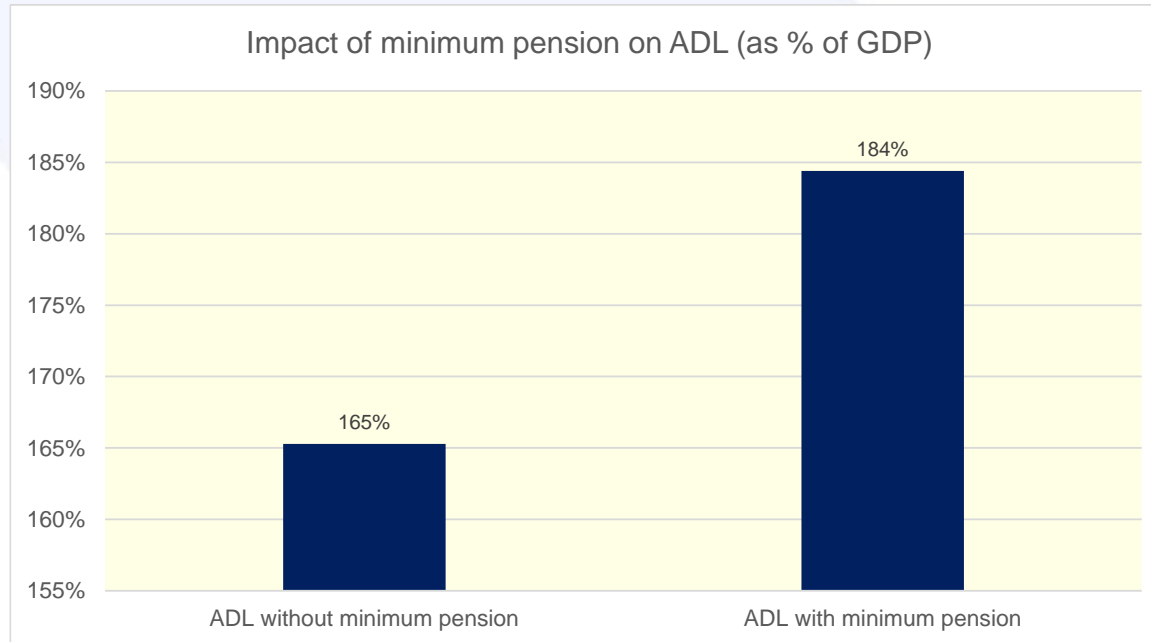
Source: Own calculations

# Methodological considerations and impact on Eurostat results – Treatment of minimum income provision



- Contributory SSPS are in principle covered, while non-contributory SSPS are not
- MS which provide significant levels of minimum income provision through non-contributory SSPS are treated more favourably
- Pension guarantees (contributory SSPS) and universal flat-rate pension (non-contributory SSPS) have the same objective but are treated differently

# Treatment of pension guarantees – An illustration: Cyprus SIS



- If Cyprus SIS minimum pension was not included in Table 29 calculations, the ADL figure would have been 10 per cent lower
  - ✓ Reduced 19 percentage points from 184 per cent to 165 per cent of GDP

Source: Own calculations

# Methodological considerations and impact on Eurostat results – Other methodological considerations

- Treatment of non-employment credits in ADL calculation, such as childcare and invalidity
  - ✓ Certain credits, for example prospective credits for invalidity, are not considered by a number of MS
  - ✓ Different approaches for accounting the credited years are adopted by MS, for example childcare credits: (i) are they recorded as they occur or (ii) are computed and recorded at the year of retirement?
- Deviation from AWG assumptions, such as wage increase
  - ✓ Choosing between Projected Benefit Obligations (PBO) and Accumulated Benefit Obligations (ABO)
  - ✓ ADL figure for current contributors under ABO could be 20%-30% lower than that of PBO

# The contribution of social security actuaries

1. Improvement of existing methodologies of calculating EU pension obligations
  - ✓ Key methodological issues associated with Table 29 ADL figures need to be addressed, such as treatment of redistributive features of SSPS
  - ✓ Use of appropriate measures based on sound actuarial standards and principles to properly assess the financial sustainability of contributory SSPS, taking into account financing method and types of benefits offered
2. Creation of a robust framework for effective communication and interpretation of EU pension obligation figures
  - ✓ Enabling informed decisions to be made by stakeholders
  - ✓ Minimising the risk of misinterpretation or misuse
  - ✓ Use of multiple disclosure approach in the form of balance sheets
  - ✓ Ensuring that no certain types of SSPS are promoted

# The leading role of the AAE Social Security Sub-committee

- Established and currently maintains strong, trusting relationships with key European institutions, such as Eurostat
  - ✓ Providing high-quality professional input towards the improvement of methodologies and enhancement of disclosures
  - ✓ Invitations to present in seminars/ workshops
- Promoting professional actuarial standards and principles
  - ✓ *International Standard of Actuarial Practice 2 (ISAP 2)* of the International Actuarial Association
- A project was undertaken by the Task Force on Projections and Methodology
  - ✓ Analyse the impact of different types of EU social security pension systems onto Table 29 requirements and contribute towards the enhancement of methodological and disclosure requirements



# ACTUARIAL ASSOCIATION OF EUROPE

Actuarial House  
1 Place du Samedi  
1000 Brussels  
Belgium

[www.actuary.eu](http://www.actuary.eu)

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