Enhancing the communication of Table 29 social security pension figures under Eurostat ESA 2010 framework – an actuarial perspective

Pension Expert Group Virtual Meeting

Costas Stavrakis

Social Security Sub-committee, AAE

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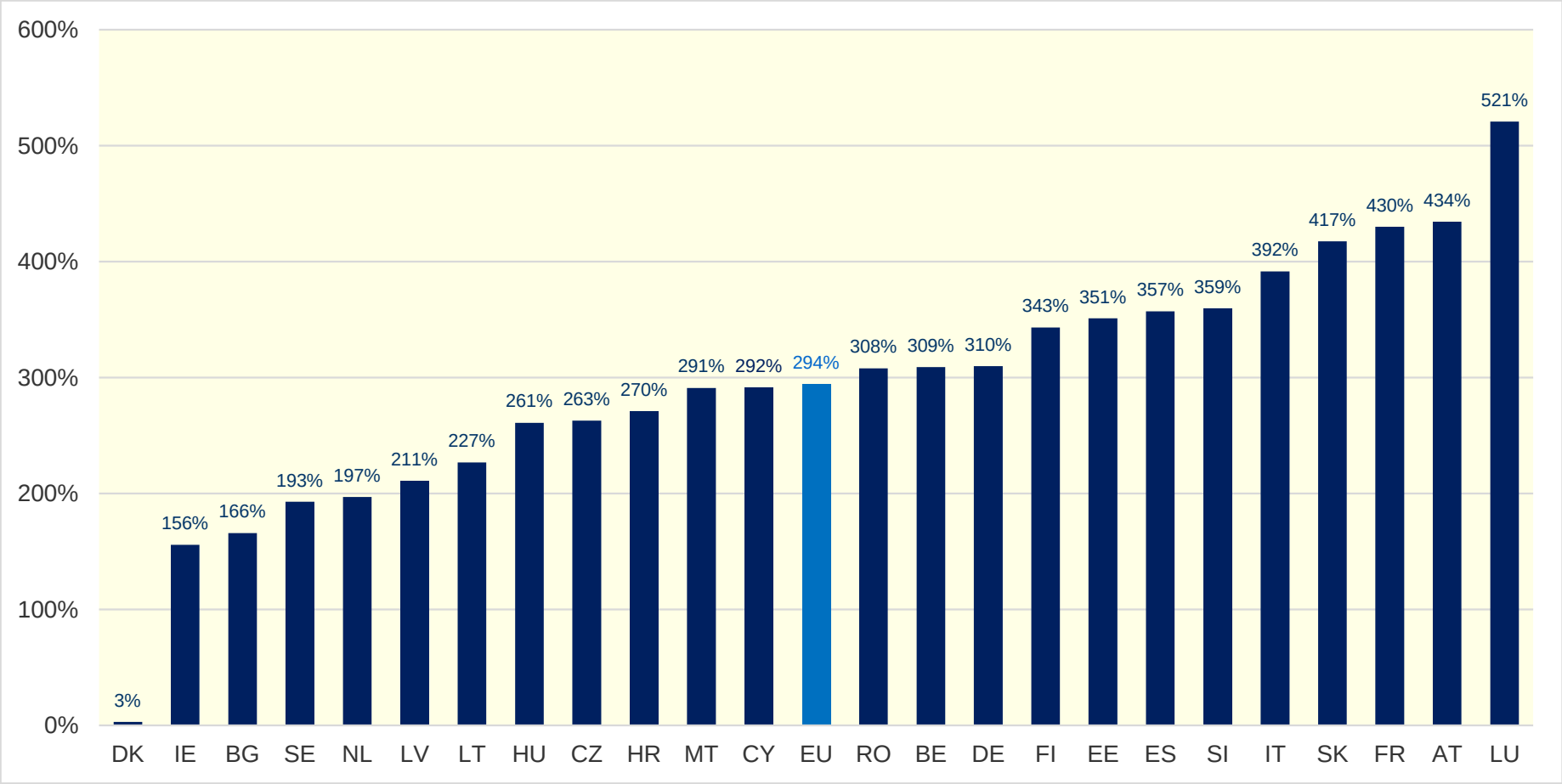
Structure of presentation

- EU reporting frameworks of pension obligations
  - ✓ Eurostat ESA2010 *versus* EPC-AWG
- Eurostat 2020 results - EU comparison of pension obligations of 1st pillar of pension system
- Key methodological considerations
  - ✓ Closed *versus* open-group approach
- Enhancing communication from an actuarial perspective
  - ✓ Multiple disclosure approach

EU pension reporting frameworks – Eurostat ESA2010 *versus* EPC-AWG

Feature	Eurostat ESA2010	EPC-AWG
Primary objective	Provides a tool for economic analysis of households' pension wealth, including pension entitlements	Assesses the financial sustainability of public finances with respect to pensions
Coverage	Only contributory SSPS are included	Contributory and non-contributory SSPS are included
Approach	Closed group: Accrued-to-Date Liability (ADL) method	Open group
Assumptions	EPC-AWG assumptions, but maybe subject to some deviations	EPC-AWG assumptions

Eurostat 2020 results – EU comparison of ADL as % of GDP in 2018 (1st pillar[1] of pension system)



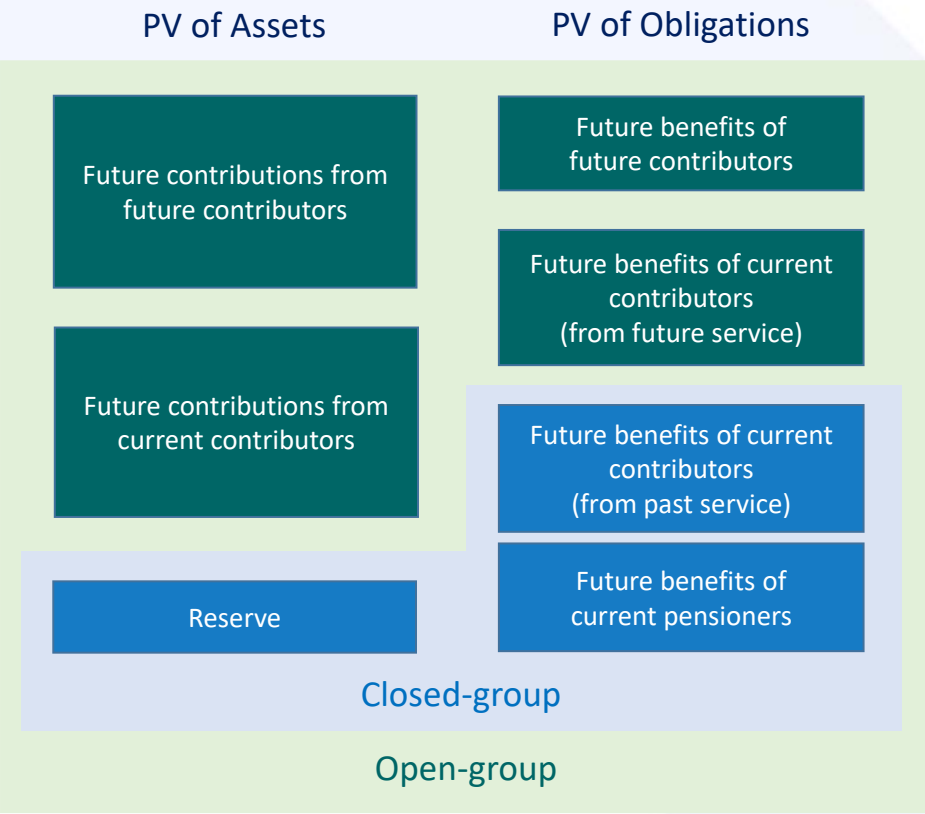
Source: Eurostat

[1] The 1st pillar of the national pension system refers to the contributory social security pension schemes (SSPS) which are recorded under column H of Table 29 ("Social Security Pension Schemes"), as well as under column G of Table 29 ("Classified in general government") in Member States where a separate SSPS exists for government employees

Eurostat 2020 results – EU comparison of ADL as % of GDP in 2018 (1st pillar[1] of pension system)

- ADL figures range from 156% (IE) to 521% (LU)
- EU average: 294%
- DK: virtually no ADL
- It appears that all MS used a fixed nominal discount rate of 4%
  - ✓ CY used a variable nominal discount rate – 1.22% in 2020 linearly increasing to 4% from 2050 onwards (AWG assumption)
  - ✓ HU used a fixed nominal discount rate of 5% - ultimate rate as from 2050 onwards (AWG assumption)
  - ✓ RO used a variable nominal discount rate – 4.69% in 2020 linearly increasing to 6.14% in 2030 and then linearly decreasing to 4.5% from 2050 onwards (AWG assumption)

Key methodological considerations:
Closed *versus* open-group approach



Closed-group

- 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
- It provides incomplete financial picture of a SSPS
- It only reflects the performance of a SSPS in the past

Open-group

- 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
- It provides a complete and forward-looking financial picture of a SSPS

Key methodological considerations:
Closed *versus* open-group approach

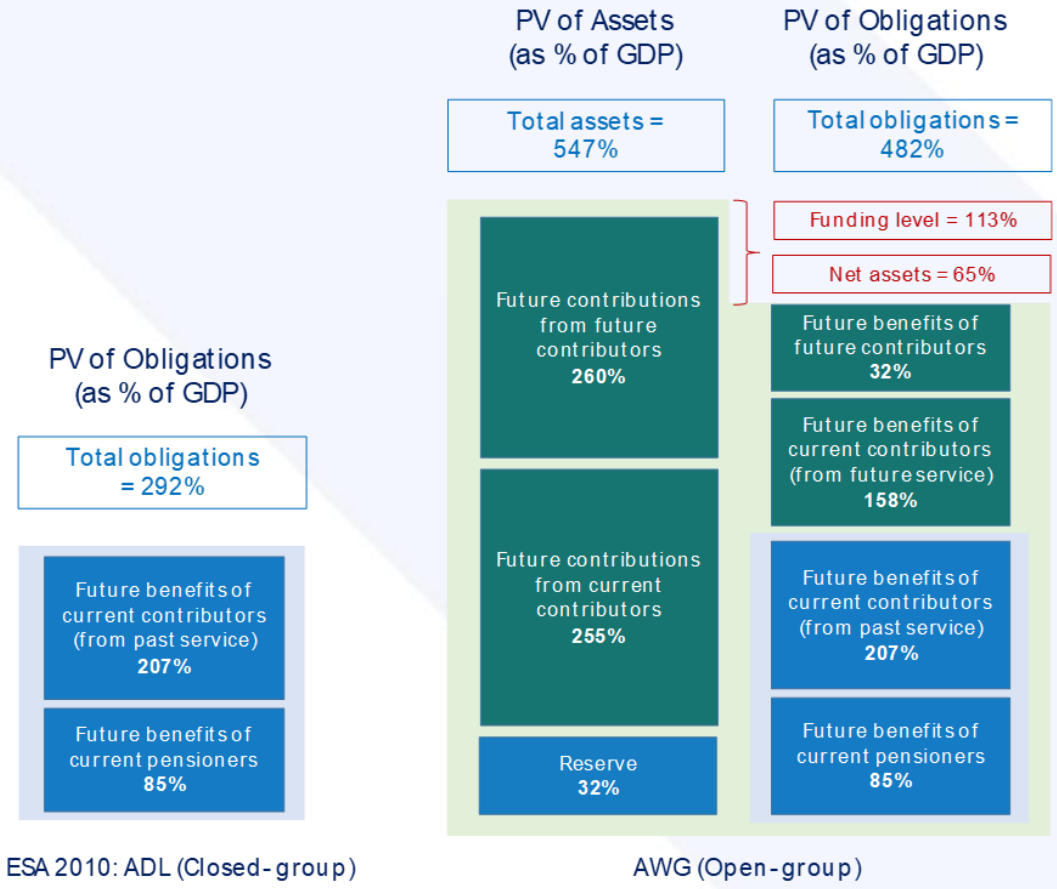
- SSPS typically operate on a PAYG basis
  - ✓ Implicit social contracts: current pensioners' benefits are covered by contributions of current contributors
- Open-group approach
  - ✓ Suitable for assessing the financial sustainability of SSPS
  - ✓ Explicitly accounts for the intergenerational societal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

Enhancing communication from an actuarial perspective

- T.29 ADL figures disclosure, presented in isolation, does not provide meaningful information about the financial position of an SSPS operated on a PAYG basis
- Creation of a robust framework for effective communication and interpretation of T.29 social security pension 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 could be considered
  - ✓ Consistency with its financing method, as per international actuarial standards and guidelines
  - ✓ Guideline 38 “Compliance with requirements of national and international statistical reporting”, ILO-ISSA guidelines on actuarial work for social security
  - ✓ Paragraph 2.4 “Consistency with the Financing Method”, International standard of actuarial practice 2 (ISAP2)

Illustration: Cyprus Social Insurance Scheme (SIS) –

Eurostat 2020: ADL versus EPC-AWG 2021 (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 113% under open-group approach

Source: The Cyprus Statistical Service

References

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   International Social Security Association, International Labour Office, 2016

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   Ottawa, International Actuarial Association, 2013

ACTUARIAL ASSOCIATION OF EUROPE

Actuarial House
1 Place du Samedi
1000 Brussels
Belgium
www.actuary.eu

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