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A PROGRESS REPORT ON COMPILING 2008 SNA TABLE 17.10 FOR AUSTRALIA

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Introduction

1. This paper identifies the issues faced by the ABS in populating the 2008 System of National Accounts (SNA) table 17.10, Supplementary table on pension schemes in social insurance.

Pension policy framework in Australia

2. Australia's policy approach for retirement incomes combines an affordable basis for generating retirement incomes with targeted support for those who most need assistance. The retirement incomes framework comprises three pillars:

- (1) The Age Pension provides a publicly funded minimum level of income in retirement, not based on past contributions or previous earnings, but based on current level of financial need. Retirees, who do not meet the means test requirements for the Age Pension, may be eligible for the Commonwealth Seniors Health Card. The Age Pension is means tested on income and assets, and currently men qualify for Age Pension at 65 years and Women qualify at 64. The Age Pension is the main form of income support for seniors and a significant proportion of seniors access the payment.
- (2) The Superannuation Guarantee is the compulsory employer superannuation contributions to pension funds of 9% of earnings of the employee and provides a framework for retirement savings. The Superannuation Guarantee has been operating since 1992, with the 9% minimum contribution in place since 2002.
- (3) The Australian pension framework allows for incentives to encourage voluntary superannuation saving to enhance retirement savings. Other forms of savings can also enhance retirement savings.

3. Pension funds have been established to provide retirement benefits for their members. Members make contributions during their employment and receive the benefits of this form of saving in retirement. There are two basic types of contribution, firstly employer contributions in the form of the superannuation guarantee and secondly voluntary member contributions. In order to receive concessional taxation treatment, a pension fund must elect to be regulated under the *Superannuation Industry (Supervision) Act 1993* (Cwlth) (SIS Act).

Types of Pension funds in Australia

4. Pension funds are supervised by either the Australian Prudential Regulation Authority (APRA.) or the Australian Taxation Office (ATO). Some public sector funds are exempt from direct APRA supervision, but are required to report to APRA under an agreement with the Commonwealth and state and local Governments.

5. Australian pension funds are classified by the Australian Prudential Regulation Authority (APRA) into regulatory and functional categories. Superannuation funds are classified into the following (functional) categories:

- Corporate Funds
- Industry funds
- Public Sector funds
- Retail funds
- Small funds (including Self-Managed Superannuation Funds (SMSFs))

Table 1: Number of entities and values of Australian pension funds

Pension Funds - 30 June 2010	Number of Entities			
<i>Type of Fund</i>	2006	2007	2008	Asset Levels('08)
Corporate	555	287	226	59.70
Industry	80	72	70	201.30
Public Sector	45	40	40	170.60
Retail	192	176	169	337.10
Small funds	232,200	363,112	393,611	332.70
Pooled Superannuation Trusts	123	101	90	78.60
Source: Australian Prudential Regulation Authority.				(\$ billions)

6. The functional class with the largest number of funds are the small funds which comprise funds with less than five members and comprise small APRA funds, single member approved deposit funds and predominantly small Self-Managed Superannuation Funds (SMSFs). Self-Managed Superannuation Funds are commonly called 'do-it-yourself (DIY) funds' where members are responsible for managing the fund and are its trustees. For this reason there is no need for prudential regulation. From November 1999 the Australian Taxation Office (ATO) assumed responsibility for regulating SMSFs. SMSFs are not regulated by APRA and are only regulated by ATO for taxation purposes and operate under different legislative requirements than those funds regulated by APRA.

7. Corporate funds are company superannuation funds sponsored by a single employer or group of usually related employers for the benefit of company employees. Superannuation funds that do not meet the definition of a small fund because they have more than four members are also classified as corporate funds. Corporate funds can be either non-public offer or public offer, however the large majority of corporate funds are non-public offer. Non-public offer standard employer sponsored funds are required to

have equal employer and member representation on the trustee board. Equal representation seeks to ensure that both members and employers are able to influence the management and operation of the fund via nominated representatives.

8. Industry funds draw members from a range of employers across a single industry (or group of related industries) and are usually established under an agreement between parties to an industrial award. Industry funds are similar to corporate funds as they have standard employer sponsors and are traditionally non-public offer. In recent years many industry funds have become public offer.

9. Public sector funds are superannuation entities where the sponsoring employer is a government agency or a business enterprise that is majority government owned. Public sector funds provide benefits for government employees and are typically non-public offer standard employer sponsored funds.

10. Retail funds are superannuation entities that offer superannuation products to the public on a commercial 'for profit' basis. Retail funds are usually run by large financial institutions which provide a range of wealth management products. Included in the retail category are large public offer superannuation trusts that comprise a number of smaller funds (sub-funds) that have been consolidated into the larger trust. These entities are commonly known as superannuation master trusts and have become increasingly popular over the last few years.

11. In addition to separately constituted funds, the SIS Act also provides for special accounts operated by financial institutions earmarked for superannuation contributions, known as Retirement Savings Accounts, which also qualify for concessional taxation and are under the supervision of APRA. The ABS treats these as deposit accounts rather than pension funds.

12. Within the above funds, the types of pension schemes in place are as follows:

- (1) Defined benefit funds provide members with a predetermined benefit generally based on the member's final salary and length of service with the employer sponsor of the fund. The employer sponsor is responsible for financing the predetermined benefit to the extent it is not funded by member contributions and therefore bears the residual risk associated with investing the fund's assets. Government employees are typically covered by defined benefit schemes, but schemes for new government employees are now providing greater options for nominating a defined contribution scheme.
- (2) Accumulation or defined contribution funds are funds where the benefit a member receives is the total of their contributions to the fund, plus earnings on those contributions, less expenses and taxes. In an accumulation fund members carry the investment risk. This type of scheme covers the majority of private sector employees.
- (3) Hybrid superannuation schemes contain elements of both accumulation and defined benefit funds. Some superannuation schemes include a component of defined benefit pension benefits as well as a defined contribution pension benefit.

13. Below is a breakdown of superannuation schemes in Australia:

Table 2: Asset and Member profiles of Australian superannuation schemes

	Members	Assets
Defined Contributions	60%	62%
Defined Benefits	2%	5%
Hybrid	38%	33%

It must be noted however that the above table's ratios for assets is only based on funded superannuation schemes.

Populating 2008 SNA table 17.10

14. We have attempted to compile table 17.10 from the following two sources of Pension fund data, the Financial Accounts: Australia publication (Cat. no 5232.0) published by the ABS and the Insight annual publication produced by APRA. The ABS publications are aligned with the SNA and all pension funds are classified in the financial corporations sector and some unfunded liability remains with the general government sector. APRA defines public sector funds as entities where the sponsoring employer is a government agency or business enterprise that is majority government owned.

15. Total pension entitlements for all pension schemes are currently published in the Financial Accounts: Australia publication. The totals consist of aggregation of all schemes and all fund types. APRA publishes entitlements split by fund type or scheme type for each type in its annual bulletin the Annual Superannuation Bulletin. There is no data distinguishing general government from non-general government schemes as defined by the OECD. Total entitlements are reported as opening and closing balances for the period and are located in rows 1 and 10 on table 17.10.

16. Total net transactions are also published at an aggregate level in Financial Accounts: Australia publication. Employer and employee contributions are not broken down into actual contributions and imputed contributions. Hence transactions can only be recorded at an aggregate level. Rows 2 to 7 in table 17.10 can only be reported in aggregated form for each period.

17. Although an aggregate value for "Changes in pension entitlements due to other economic flows" is not published in the financial accounts, it can be deduced from the financial accounts publication. The method to calculate the value for other economic flows is as follows:

$$\text{Other Economic Flows} = [\text{Pension entitlements (closing balance)} - \text{Pension entitlements (opening balance)}] - [\text{Net transactions during period}]$$

* Other economic flows consist of revaluations (row 8) and other changes in volume (row 9). The ABS is able to populate change in other economic flows as an aggregate.

18. The General government unfunded superannuation liability is recorded in the financial accounts, this data is used to complete the core, defined benefit scheme for general government employees, general government column F in table 17.10.

19. The result is that column I, which represents the total pension market (general and non-general government sponsored), can be populated at an aggregate level. Columns C and F (core, non-general

government, Total and core, defined benefit scheme for general government employees, general government columns respectively) can be populated at an aggregate level.

20. The table below shows those requirements of table 17.10 that can be furnished by the ABS. At present, Australia is not able to separate pension funds into defined benefit and accumulation, because the components of hybrid schemes cannot be disaggregated. Therefore, only the subtotals under Non-General government and the aggregate total can be populated. In terms of the rows of table 17.10, Australia can populate Opening and Closing balances, Transactions and Other economic flows.

Table 3: Australian Superannuation Entitlements, June 2010

	Non-General Government + General Government	Unfunded General Government Liabilities
Opening Balance	\$1,131.10	\$204.80
Transactions	\$26.00	\$2.80
Other Economic Flows	-\$66.60	\$8.50
Closing Balance	\$1,090.50	\$216.10
(billions)		

Questions encountered in populating table 17.10

A. Social Insurance and Social Assistance schemes in Australia

21. The 2008 SNA chapter 17 sections J describes retirement pension schemes as being social assistance or social insurance schemes. The distinction between the two is that social insurance benefits are only paid if the beneficiary participates through contributions in the social insurance scheme. Social assistance is paid without qualifying contributions having been made though means-testing may be applied to applicants.

22. Social Insurance schemes are classified further into Social security schemes and Employment related pension schemes other than Social security. Column H of table 17.10 is the designated space to account for social security schemes. Our interpretation of Social security in the SNA makes column H out of scope for Australia. The Australian Age Pension Scheme is available to the general public on a means tested basis and beneficiary contributions are not a criterion for eligibility of the aged pension.

23. Australia's aged pension system fits into the "Social Assistance" category outlined in the SNA. This would place Australia's aged pension scheme outside of the scope of the supplementary table 17.10. There appears to be no other scheme in Australia could satisfy the SNA 2008 definition of social security. It would be beneficial to include a column on Social assistance schemes as this form of post-retirement benefit is important in Australia.

B. Clarification on the definition of 'Sponsor' in table 17.10

24. Defined benefit schemes sponsored by the General government are currently recorded in the core accounts, hence column G, is also out of scope for Australia.

25. In Australian core accounts pension funds are classified on an employee perspective, where funds form part of the financial sector other than unfunded general government superannuation liabilities, which are included in the general government sector.

26. The approach taken and the ambiguity of the term sponsor in table 17.10, makes it difficult to classify funds according to sponsorship be it via a non-general government or general government sponsor. The ABS seeks clarification on the term sponsor. The OECD defines a sponsor as that party which designs, negotiates and normally helps to administer an occupational pension plan for its employees or members.

27. Of particular concern is public sector trading corporations, the determination of the sponsor being either general government or non-general government is uncertain. In Australia, pension schemes for employees of public corporations are administered by the trustees of the fund who may be appointed by various means. The issue then becomes whether to treat a fund for the benefit of employees of the public sector corporations as being sponsored by general government as owners of public sector corporations.

C. Separate reporting of Defined Benefit, Accumulation and Hybrid schemes

28. APRA reports aggregate asset values for defined benefit, accumulation and hybrid schemes. There is no reporting beyond annual opening and closing asset levels. There could be some under reporting due to some unfunded and under-funded defined benefit schemes. In any case, the ABS is not presently able to report on the specific levels of transactions and other economic flows for these three methods. In particular decomposing hybrid schemes into defined benefit and defined contribution components will require new data collection.

29. Expanding data collection and reporting mechanisms to distinguish between the three pension schemes would give invaluable insight into pension arrangements in Australia. In particular, it is important to gauge the extent of the amount of over- and under-funding for defined benefit methods.

30. The treatment of 'contribution holidays' which arise as a result of over-funding in defined benefit schemes, also needs clarification. Presently there is no imputation of contributions in the case of 'contribution holidays'.

Demand for a Pension Satellite Account

31. The proportion of the Australian population aged over 65 years is increasing. This demographic shift will present challenges to future governments on their ability to meet future pension obligations.

32. In June 2009 Australians recorded over \$1.1 trillion in pension savings. The compulsory nature of pension contributions means that by 2030, Australians are projected to more than triple their collective pension savings (Cooper Superannuation Systems Review). The table below depicts the scale and composition of the Superannuation sector in Australia.

Table 4: Australian Superannuation Sector

	1996	Jun-09
Overall Industry Scale	\$245b	\$1.1trillion
Ratio of accumulation to post-retirement assets	-	4:1
Biggest Fund	-	\$41.5b
Number of Large APRA Funds (excl. ERFs)	4734	447
Average large APRA fund size	\$40m	\$1.5b
Average accumulation member balance	\$15,000	\$70,000
Total super assets - proportion of GDP	47%	90%

Source: Cooper Superannuation Systems Review.

33. The retirement income product market has been underdeveloped, largely reflecting the relatively small balances that many retiring workers hold as a consequence of the immaturity of the Superannuation Guarantee system (being less than 20 years old). Balances will increase substantially in the period ahead and this combined with the ageing population, should help spur development of the superannuation sector.

34. Superannuation funds are economically significant, impacting on domestic and foreign financial markets as well as fiscal/monetary policy. An articulated method of reporting superannuation statistics to extend the paradigm of the National Accounts framework that is necessary to measure performance.

35. Competition in the global markets for listed securities, infrastructure projects, private equity and direct property will also increase, as a greater proportion of the developed world's wealth is stored in superannuation funds. This suggests a satellite account on superannuation could facilitate comparability and analysis, especially on an international footing.

36. A pension satellite account ideally, would allow a longitudinal perspective on the industry. It should allow analysts and policy makers to relate demographic trends and economic data in a holistic view of the superannuation sector. The satellite account provides additional information on pension funds in terms of gender and membership profiles. The risk preferences and profiles of funds could also be documented to provide greater insight into the pension sector. The satellite account would be compiled with user needs and access as a key driver of information.

37. A number of industries and entities work closely with the superannuation sector. Financial auxiliaries (such as fund managers) pool proceeds from superannuation funds to invest into the open market for a fee. Fund managers provide the benefit of accessing exclusive wholesale markets, diversifying risk while minimising operating and transactional costs. A pension satellite account would allow the role of services providers to superannuation funds, such as fund managers, to be demonstrated.

Questions for the Working Party on National Accounts

1. Table 17.10 does not cover social assistance, a significant part of retirement benefits in Australia. Do the WPNA think that an additional column to capture such arrangements should be included?
2. The ABS seeks clarification on the term 'Sponsor' with regards to public sector corporations.
3. Does the WPNA think there is a case for imputing contributions with regards to 'contribution holidays' (in the event of over-funding being present in defined benefit schemes)?

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APPENDIX

Table 17.10:A supplementary table showing the extent of pension schemes included and excluded from the SNA sequence of accounts

Row number	Position / transaction / other flow Column number	Liabilities appear in the core national accounts							Liabilities do not appear in the core national accounts		Total pension schemes	Pension entitlements of resident households
		Non-general government			General government							
		Defined contribution schemes	Defined benefit schemes	Total	Defined contribution schemes	General government employee defined benefit schemes			Social security pension schemes			
						In the financial corporations sector	In the general government sector	In the general government sector				
A	B	C	D	E	F	G	H	I	J			
	Opening balance sheet											
1	Pension entitlements											
	Transactions											
2	Social contributions relating to pension schemes											
2.1	Employer actual social contributions											
2.2	Employer imputed social contributions											
2.3	Household actual social contributions											
2.4	Household social contribution supplements											
3	Other (actuarial) accumulation of pension entitlements in social security funds											
4	Pension benefits											
5	Adjustment to the change in pension entitlements											
6	Change in pension entitlements due to transfers of entitlements											
7	Changes in entitlements due to negotiated changes in scheme structure											
	Other economic flows											
8	Revaluations											
9	Other changes in volume											
	Closing balance sheet											
10	Pension entitlements											
	Related indicators											
	Output											
	Assets held by pension schemes at end-year											