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Working Party on National Accounts

REPORT OF EU TASK FORCE AND IMPLEMENTATION OF SUPPLEMENTARY TABLE

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This document has been prepared by R. Mink, European Central Bank and will be presented under item 13 of the draft agenda

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**34th MEETING OF THE COMMITTEE
ON MONETARY, FINANCIAL AND
BALANCE OF PAYMENTS STATISTICS**

Luxembourg, 28-29 June 2007

PART A – ITEMS FOR DISCUSSION

Item A.5.1 of the agenda

PUBLIC FINANCE STATISTICS

**Task Force on the statistical measurement of the assets and liabilities of
pension schemes in general government**

Interim Report



Directorate C: National and European Accounts



Directorate General Statistics
S/SDC/2007/107

**Task Force on the statistical measurement of the assets and liabilities of pension schemes
in general government**

Interim Report for the CMFB

June 2007

This interim report informs the CMFB of the work of the Task Force since the last CMFB meeting on 1 and 2 February 2007. It outlines the important developments in the 1993 SNA update, the launch of a questionnaire on social insurance pension schemes in EU Member States and modelling aspects.

The CMFB is invited to

- *Take note of this interim report and to offer possible comments;*
- *Take note of the supplementary table on pensions which was designed by the Task Force and will be included into the new SNA (draft chapter 17);*
- *Take steps to complete and further enrich the information already received via the CMFB questionnaire (missing countries, incomplete answers);*
- *Discuss the involvement of all Member States in the ongoing work of the Task Force.*

1. Introduction

The mandate of the Task Force was agreed by the CMFB in its June 2006 meeting and the following countries and international organisations have participated: Czech Republic (Ms Stastna), Germany (Mr Grütz), Spain (Ms Prado, Mr Torregrosa), France (Ms Durant, Mr Magniez), Italy (Mr Semeraro), Netherlands (Mr Nieuwenhuijs, Mr Roymans), Hungary (Mr Huszar), Poland (Mr Jablonowski), Sweden (Mr Bergman), the United Kingdom (Mr Lynch, Mr Walton), the OECD (Mr Lequiller), the IMF (Mr Bloem), DG ECFIN (Mr Nogueira Martins, Mr Deruennes) and the SNA Editor (Ms Harrison). The Task Force is co-chaired by

Eurostat (Mr Barredo Capelot) and the ECB (Mr Mink) and equally the secretarial work is shared (Mr Verrinder and Ms Rodriguez-Vives).

2. Developments in the 1993 SNA Update

2.1 The worldwide compromise on the treatment of pension schemes

As reported to the last CMFB meeting, during summer 2006 a possible compromise prepared by some international organisations on the recording of pensions in the updated System of National Accounts (1993 SNA, Rev. 1) was extensively discussed by the Task Force and put forward to the ISWGNA. Afterwards, the compromise was widely supported in an Advisory Expert Group (AEG) world-wide consultation. In March 2007 this compromise was accepted at the UN Statistical Commission, and therefore the focus of the methodological work of the Task Force in this area has shifted to implementation.

CMFB members will recall the main elements of the compromise:

- All employer pension-related flows and stocks, including pension entitlements, provided by schemes where the government has no direct responsibility for paying future pensions are recorded in the core accounts, even if they are unfunded.
- The updated SNA will include a **new standard (supplementary) table on pensions** which will become a requirement. In this table, all flows and stocks of all pension schemes will be shown. This table will thus include details of pension flows and stocks that are recorded in the core accounts plus any that are not included in the core accounts, giving a complete view of households' pension entitlements.
- Pension entitlements of unfunded, pay-as-you-go government sponsored schemes which provide the basic social safety net type of provision, will be recorded only in the new standard (supplementary) table (but not in the core accounts).
- The recommendation of the updated SNA regarding the recording of unfunded pension schemes sponsored by government for all employees (whether private sector employees or government's own employees) will be flexible. Given the different institutional arrangements in countries on a world-wide level, the updated SNA will permit recording only some of these pension entitlements in the core accounts. However, it will be a requirement that the rationale and criteria be provided to explain the distinction between those schemes whose entitlements are carried forward to the core accounts and those for which they are recorded only in the new standard (supplementary) table. Providing a set of internationally recognized criteria for this distinction should be on the SNA research agenda and will also be considered during the update of the ESA.
- Pension entitlements of funded systems sponsored by the government will be recorded in the core accounts.

2.2 Drafting of related 1993 SNA, Rev. 1 chapters

The update process for the SNA envisages that the SNA Editor will draft updated chapters and then release them on the UN website for world-wide comment.¹ Around half of the chapters have already been released for comment.

¹ See <http://unstats.un.org/unsd/sna1993/draftingPhase/ChapterIssueMatrix.asp> for the draft chapters.

It is expected that the following chapters of the revised SNA93 will be materially affected by the agreed treatment of pension schemes (in addition to some others marginally affected): The redistribution of income accounts (chapter 8); the financial account (chapter 11); other changes in assets account (chapter 12); the balance sheet (chapter 13); cross-cutting and special issues (chapter 17); and households (chapter 23).

Chapter 17 will draw together all of the material on the treatment of pension schemes, including a presentation of the proposed **supplementary table**. The Task Force had an opportunity to discuss the draft text with the SNA Editor at its last meeting and provided substantial comments. Chapter 17 is shortly to be released for worldwide comment and the Task Force will follow up on any feedback received.

2.3 Design of the supplementary table

The compromise on pension schemes envisages a standard (supplementary) table to present data (including for pension entitlements) for all social insurance pension schemes.

The Task Force has devoted a large part of its time to the design of the supplementary table, and its ideas were presented to the AEG in March 2007. The AEG welcomed the table and made several proposals to improve it, many of which have been taken on by the Task Force. In addition, the availability of various draft SNA chapters has provided the opportunity to adopt changes in the terminology which will be introduced into the updated SNA.

To receive a broader view on the proposed structure of the table, corresponding questions were also included into a questionnaire prepared by the Task Force which was sent by the CMFB Chairman to all Member States. The answers received so far were helpful to gather comments from countries and individuals not part of the Task Force. In the event rather few comments were received (see below), and therefore the Task Force gauged the reaction as generally positive. A few comments received provided suggestions for significant structural changes, but the Task Force decided to retain the existing general structure of the table since it had already been circulated to the AEG.

The latest version of the supplementary table, and its associated background note, are shown in Annex 1. This version has been sent to the Inter-Secretariat Working Group on National Accounts (ISWGNA) and included in the draft SNA Chapter 17. There is now another opportunity for all national statistical institutes and central banks world-wide to comment on this draft and on the table.

2.4 Criteria to be used for recording government employer pension schemes' entitlements in the core national accounts or in the supplementary accounts

At its last meeting the CMFB expressed its view that the Task Force should discuss the criteria by which countries decide whether or not to record pension entitlements of pension schemes in the core national accounts.

The Task Force has had a preliminary discussion of criteria which might be applied. It recognised that one possible general approach is to find an operational way of defining government employer pension schemes which are "close to" social security (i.e. share certain important characteristics).

On the basis of a list of possible criteria, the CMFB questionnaire sought the views of all Member States. The views were extremely mixed (see Table 1 below with the responses received to date), and reflect the difficulty of finding individual criteria which apply in different national settings.

Table 1: Criteria to record pension schemes' entitlements in the core national accounts or in the supplementary accounts

Criterion	Very important	Important	Less important	Un-important
Degree of integration within the general government structure (autonomous versus non-autonomous)	PT, IT	MT, RO, PL, ES	AT, CZ, EE, SE, SK, IE, SI	FI, DE, NL, DK
Risk exposure / ability to change the benefit formula (general government does not have discretion to change unilaterally the benefit formula at any point in time and thereby partially default on its obligations)	FI, DE, IT, ES, DK	AT, CZ, NL, PL, SK, IE	PT, MT, RO, EE, SE, SI	
Nature of the contract (generally not forced by law to participate)	FI, RO, NL, PL	PT, SE, SK, ES, SI	AT, CZ, MT, EE, IT, IE	DE, DK
Legal framework not close to social security pension funds	CZ, FI, DE, RO, PL, SK, IE, ES	AT, PT, IT, SI	MT, EE, NL, SE	DK
Funding (funding versus no funding)	CZ, PT, RO, SK, IT	AT, EE, SI	MT, NL, IE, ES	FI, DE, SE, PL, DK
Other criteria listed by the EU members <ul style="list-style-type: none"> ▪ PT: additional criteria i) the possibility of an individual leaving the scheme being reimbursed of his contributions; ii) the government faculty of arbitrarily changing the rate of contribution. ▪ FI: <i>Is the scheme part of collective system covering the large part of community or not.</i> ▪ NL: <i>Is the whole population covered? Is it related to a collective labour contract? A collective labour contract is compulsory by law.</i> 				

On the basis of these responses the Task Force has tentatively identified **risk exposure** and **legal framework close to social security** as promising, and has also started to discuss approaches which involve a combination of criteria, within a flowchart framework. This work will continue in the further meetings of the Task Force.

3. Questionnaire to EU countries

The Task Force contains participants from ten Member States, and therefore it was felt important to give all Member States an opportunity to see the work of the Task Force and provide their comments. This is considered particularly important for gathering comments on the proposed supplementary table and also to gather pension modelling experience. At the same time, the Task Force is working with information on national pension systems that were reported to two previous Eurostat questionnaires in 2003 and 2005, and this information may need to be updated.

The questionnaire was circulated to all CMFB members by the CMFB Chairman on Monday 30 April 2007, with a deadline of response of 25 May 2007. As of 7 June 2007, 23 EU

countries and Norway had responded, with replies still to come from Bulgaria, Cyprus, Luxembourg and the United Kingdom.

In general countries appear to have found it difficult to gather all of the information requested in the questionnaire. This is to be expected, given that it requires close coordination between the national statistical offices, the national central banks and other national authorities. The Task Force noted that initial contacts made for completion of the questionnaire will prove very important in taking forward future work to complete the national accounts, and particularly the supplementary table, for pension schemes.

The Task Force has already benefited from some replies in the questionnaire (for the supplementary table and the criteria, sections 2.3 and 2.4 above) and will take close account of the data in the coming work, modelling issues (including criteria) and references to existing national work.

A more detailed summary of the questionnaire responses will be made available at the CMFB meeting, as a room document, to provide feedback and an overview of the current situation across countries.

4. Modelling aspects

The main work of the Task Force in the second half of 2007 will be to model and estimate pension scheme data for the countries represented in the Task Force, as pilot tests. These test estimates will be useful to investigate the practical issues which arise, thereby generating valuable guidance for countries not represented in the Task Force. Such work refers especially to those defined benefit schemes for government employees and of social security pension schemes whose entitlements will only be recorded in the supplementary table.

The statistical estimation of the corresponding government pension entitlements requires the modelling of the outstanding stocks and the related transactions, revaluations and other changes in the volume of assets. From a statistical perspective, only the *accrued-to-reference date liability concept* is appropriate². This concept relates to past events (observable past transactions and other flows, such as the duration of membership in the pension scheme, the social contributions paid and the pension benefits received). As for all national accounts data, accrued-to-date pension entitlements are, in concept, ex-post observations and not forecasts. However, the effective measurement of accrued-to-date pension entitlements relies on a number of model assumptions, and the Task Force has already conducted some initial discussions on these issues, which are reflected in Annex 2 of this document. For consistency purposes, the ex-post data and the model assumptions used for the European Policy Committee/European Commission forecasts on the impact of ageing on public expenditure are used to the maximum extent.³

For the calculation of the pension entitlements arising from already-paid pension contributions by current employees and the remaining pension entitlements of existing pensioners, actuarial estimates are to be applied, as used by insurance corporations and pension funds.

² These data are not to be considered as indicators of sustainability, as large levels of accrued-to-date pension entitlements need not imply unsustainable pension systems, and small levels of such entitlements need not imply sustainable pension systems.

³ European Commission (2006): The impact of ageing on public expenditure: projections for the EU25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004-2050).

While country-specific pension models may include specific details of the national pension schemes, they lack a common structure and often common assumptions that are needed for cross-country comparisons. On the other hand, to date cross-country estimates of the pension entitlements rely on stylised presentations of the pension scheme(s) under investigation, and do not always take account of specific country features.

As a consequence, a three-step procedure will be applied: (1) National models will be used to derive corresponding data on government employer pension schemes and social security pension schemes; (2) countries will be encouraged to develop their own benchmarking models in established international pensions modelling software (for example, the PROST software developed by the World Bank); and (3) the Task Force secretariat will model the corresponding pension entitlements of selected euro area countries, of the euro area and of some other EU countries represented in the Task Force based on harmonised model assumptions. The stylised models used for country comparisons will be flexible enough to incorporate most of each country's pension scheme features but with a common structure. It might require the collection of some supplementary harmonised data and the specification of consistent model assumptions.

5. Future work of the Task Force

The timetable of the Task Force is presented in Annex 3, which takes into account the decision by the CMFB at its last meeting to extend the Task Force's mandate until end-2007. The following major issues will need to be covered:

- i) Completion of the supplementary table based on national data sources (existing sources, models etc.).
- ii) Discussion of any practical modelling issues which arise.
- iii) Benchmarking of the results of pension models against results obtained from standardised models to investigate comparability of results.
- iv) Continuing work on the possible criteria to determine whether or not to record pension entitlements of pension schemes in the core national accounts.

The Task Force will co-operate closely with the SNA Editor to provide any necessary assistance in drafting and finalising the relevant 1993 SNA chapters.

The Task Force aims to prepare a final report for the CMFB's meeting of January 2008. This will include a document on practical modelling issues which may be used by all Member States in their further work. The report will also contain a first set of supplementary tables with model estimates for pension entitlements incurred by government employer pension schemes and social security pension schemes in various Member States and in the euro area.

Annex 1

Supplementary table: Social insurance pension schemes

Relations	SNA code	Row No.	Recording Sponsor	Core national accounts						Non-core national accounts		Total pension schemes	Counterparts: ⁴⁾ Of which: Non-resident households
				Non-general government			General government			Social security pension schemes			
				Defined contribution schemes	Defined benefit schemes and other ¹⁾ non-defined contribution schemes	Total	Defined contribution schemes	Defined benefit schemes for general government employees ²⁾					
								Classified in financial corporations	Classified in general government ³⁾				
Column number	A	B	C	D	E	F	G	H	I	J			
Opening balance sheet													
	SAF612	1	Pension entitlements										
Changes in pension entitlements due to transactions													
Σ 2.1 to 2.4	SD61	2	Increase in pension entitlements due to social contributions										
		2.1	Employer actual social contributions										
		2.2	Employer imputed social contributions										
		2.3	Household actual social contributions										
		2.4	Household social contribution supplements ⁵⁾										
		3	Other (actuarial) increase of pension entitlements in social security pension schemes										
	SD62	4	Reduction in pension entitlements due to payment of pension benefits										
2 + 3 - 4	SD8	5	Changes in pension entitlements due to social contributions and pension benefits										
		6	Transfers of entitlements between schemes										
		7	Changes in pension entitlements due to other transactions (e.g. arising from negotiated changes in scheme structure)										
Changes in pension entitlements due to other economic flows													
		8	Changes in entitlements due to revaluations ⁶⁾										
		9	Changes in entitlements due to other changes in volume ⁶⁾										
Closing balance sheet													
1+ Σ 5 to 9	SAF612	10	Pension entitlements										
Related indicators													
	SP1	11	Output										
		12	Assets held at the end of the period to meet pensions ⁷⁾										

1) Such other non-defined contribution schemes, often described as hybrid schemes, have both a defined benefit and a defined contribution element (see paragraph 17.XX).
2) Schemes organised by general government for its current and former employees.
3) These are non-autonomous defined benefit schemes whose pension entitlements are recorded in the core accounts.
4) Counterpart data for non-resident households will only be shown separately when pension relationships with the rest of the world are significant.
5) These supplements represent the return on members' claims on pension schemes, both through investment income on defined contribution schemes' assets and for defined benefit schemes through the unwinding of the discount factor applied.
6) A more detailed split of these positions should be provided for columns G and H based on the model calculations carried out for these schemes (see explanatory note).
7) This row includes financial and non-financial assets held for the sole purpose of paying future pensions, excluding claims by the pension scheme on its sponsor; an explanation should be provided of which assets have been included.
The cells shown as ■ are not applicable; the cells in ▒ will contain different data from the core accounts.

Explanatory note to the supplementary table on social insurance pension schemes

The attached supplementary table on pension schemes in social insurance is a standard table which is proposed, under the compromise agreed by the UN Statistical Commission of February 2007, to be included in the new System of National Accounts (1993 SNA, Rev. 1) and compiled by countries in addition to standard tables of the “core national accounts”. It has been prepared by the Eurostat/ECB Task Force on the statistical measurement of the assets and liabilities of pension schemes in general government (“the Task Force”) taking on certain suggestions made by the AEG during its 5th meeting from 19 to 23 March 2007.

One of the main functions of the supplementary table is to **provide users with comprehensive information on social insurance pension schemes world-wide** which allows the compilation of various alternative key macroeconomic variables for a country but also for comparison purposes. The Task Force believes that this will be possible for pension entitlements, household saving rates and general government deficit figures for all pension schemes or only pension schemes recorded in the core national accounts.

The overall logic of the table is to present the opening and closing positions of pension entitlements for all social insurance pension schemes (including social security pension schemes), and the corresponding transactions and other economic flows during the period which account for the difference between the opening and the closing positions, thus showing systematically *pension entitlements* for all these schemes. In the System, these pension entitlements correspond to the pension assets acquired by households within the economy and abroad.

In addition to the data on the pension entitlements and their accumulation, two other related indicators are shown which might be of benefit for the users of the table. These are the output produced and the assets held by pension schemes vis-à-vis households.

This presentation of a broad range of statistical information on all social insurance pension schemes in an economy will allow better international comparability. It is not intended to include social assistance schemes, though the Task Force remains concerned that the current definition of social assistance may not be adequate to deal satisfactorily with all observed cases.

The *columns* A to J of the table are, first, split by pension schemes classified either in the core national accounts or not in the core national accounts. Under the compromise, the pension entitlements of all pension schemes sponsored by the private sector are recorded in the core accounts and only schemes for government employees may or may not be recorded as such in the core accounts, and thus

appear as separate categories – together with social security pension schemes - in this supplementary table. Secondly, the pension schemes classified within the core national accounts are either “sponsored” by a non-general government unit or by a general government unit. Thirdly, the employer pension schemes are further split into defined benefit schemes and defined contribution schemes.

Column B is intended to include privately sponsored defined benefit schemes; however it may also contain hybrid pension schemes which have both a defined benefit and defined contribution element.

Columns G and H are intended for those pension schemes whose stocks, transactions and other flows in pension entitlements are not included in the core national accounts. These two columns are the focus of this supplementary table: by adding pension entitlements of these columns to those of the core accounts, it will be possible to better compare countries. Criteria to decide which defined benefit pension schemes for general government employees should be entered in column G in a European context are currently being discussed by the Task Force.

The Task Force believes that a "sponsor" can be defined, in line with usual terminology in the field, as an institution (*e.g.* corporation, industry/employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members. This may also involve the sponsor being eventually responsible for paying the pensions (in which case an asset/liability relationship is to be shown in national accounts), but this is not necessarily always the case.

In most cases of government-sponsored schemes, but not all, the institutional sector of the sponsor will be the same as the institutional sector where the pension scheme is classified in the core national accounts. The exceptions would be those autonomous general government pension schemes which are classified in the core national accounts in a non-general government sector as financial corporations. To allow a reconciliation between the classification by sector of sponsor and by sector of the institution managing the pension scheme, columns E and F are included to show all pension schemes recorded in (respectively) financial corporations and in general government.

Entitlements of resident pension schemes, as shown in Column I, are by definition the total assets of pension entitlements acquired by resident and non-resident households from these schemes. Column J shows the pension entitlements acquired or held by non-resident households. This column should be completed if pension entitlements of resident pension schemes acquired or held by non-resident households are significant for a country. The Task Force felt that this would only be the case for some countries in Europe and that the data sources for such columns may be weak.

Rows 1 to 12 of the table relate to positions, transactions and other economic flows associated with pension entitlements of the schemes included in the table. Where applicable, the SNA codes are preceded by an “S” to denote their supplementary status. Social contributions of both actual and

imputed nature are recorded, following the proposed titles in the updated 1993 SNA. Row 2.4 relates to the property income earned, or imputed, on the schemes which is routed via the household (or the rest of the world) sector.

Row 3 is solely associated with imputed transactions of social security pension schemes. This cell replaces, for social security, the cell for employer imputed social contributions. Indeed, as the relationship between social security and employers is usually loose, it was considered better to use an alternative name.

Row 5 is intended to present the changes in pension entitlements due to social contributions and pension benefits. It is equal to row 2 + row 3 – row 4. This balancing item measured from the non-financial side is conceptually equivalent to that measured from the financial side (however the row is coded here as SD8). The balancing item may be substituted for its equivalent in the core national accounts in order to derive more comparable international estimates of saving and net lending / net borrowing. Row 6 shows possible transfers of pension entitlements between pension schemes, and since resident pension schemes may be involved in transfers with non-resident pension schemes, row 6 need not sum to zero. Row 7 shows other transactions impacting on pension entitlements – for example arising from negotiated changes in the scheme structure.

Rows 8 and 9 account for the other economic flows (revaluations and other changes in volume) which lead to changes in pension entitlements associated with social insurance pension schemes. The Task Force felt that the detail in these rows may not be possible to compile for columns A to F, and therefore agreed the principle that the detail must only be shown for columns G and H (see Table 1).

Table 1: Other economic flows recorded for general government employee defined benefit schemes and social security pension funds

Row number	Other economic flow Column number	Recording Sponsor	Not in core national accounts	
			General government	
			General government employee defined benefit schemes	Social security pension funds
		G	H	
	Other economic flows			
7	Revaluations			
7.1	Changes in discount rate			
7.2	Changes in wage developments			
7.3	Changes in price developments			
8	Other changes in volume			
8.1	Changes in scheme design (benefit rule)			
8.1.1	of which: Statutory retirement age			
8.1.2	Of which: Compensation for indexation			
8.2	Changes in demographic assumptions			
8.3	Changes in promotions (ABO) or labour force restructures (PBO)			
8.4	Other changes			

It is nevertheless important to note that there is one element of revaluation in some other columns (A, B, D) which is important to include in total revaluations – the change in pension entitlements due related to the revaluation of assets held to meet pensions.

In Table 1, the rows 7.1 to 7.3 show the impact of revaluations due to changes in the model assumptions (changes in the discount rate, the wage developments and the price developments). The other changes in volume flows are broken down into changes in the scheme design (for instance, changes of the statutory retirement age or of the compensation for indexation), in the demographic assumptions, in promotions (if the estimates are based on Accumulated Benefit Obligation - ABO) in labour force restructures (if the estimates are based on Projected Benefit Obligation - PBO), and in other changes. It is nevertheless important to stress that the Task Force is still considering the precise impact of ABO or PBO recording on the supplementary table.

Annex 2

Major assumptions to be considered in the context of modelling

The Task Force has taken the opportunity to have a preliminary discussion of the major assumptions to be considered, with a view to initiating its modelling work on a broadly comparable basis. Following feedback from this modelling work, the Task Force will re-assess its preliminary views and, at the time of its final report, to seek the opinion of the CMFB on the appropriateness of the various assumptions. For that purpose the various assumptions and their impact on the model calculations will be thoroughly examined and illustrated in the report.

a) The discount rate for future pension disbursements

The estimates of pension entitlements are extremely sensitive to the discount rate applied, since future pension disbursements have to be derived over a long time horizon. There are several possible options – the use of a discount rate on high quality (government or corporate) bonds, the return on investment expected from the portfolio of pension scheme investments, or the potential growth rate of the economy. The Task Force has preliminarily considered, after careful analysis, that there are two potential discount rates which could be appropriately applied to general government sponsored schemes. These are (i) the yield on high quality corporate bonds, which is the discount rate applied to pension benefits in business accounting (IAS19) and which includes a risk premium; and (ii) the potential GDP growth rate, which is arguably a measure of the future ability of the government to raise taxes and social contributions (and therefore may be particularly relevant for social security pension schemes).

b) Future salary increases

Defined benefit pension schemes apply a formula to the member's salary (whether final salary or an average of a period of years) to determine the level of pension. It is therefore known that the final pensions paid will be affected by the growth of members' salaries (notably through career progression). This effect may be taken account of in pensions modelling (known as the Projected Benefit Obligation, or PBO, method) using suitable assumptions, or may not be (known as the Accumulated Benefit Obligation, or ABO, method). The ABO approach is equivalent to measuring pension entitlements as if the scheme were to stop today, and members' pensions determined on the basis of their current salary and conditions of employment.

The Task Force chairmen wrote to the co-chairmen of the IMF/BEA Task Force on pensions to investigate the reasons why the IMF/BEA Task Force had expressed a preference for the ABO method. It has become clear that there are advantages and disadvantages to each method, and both could be dealt with in the national accounts and in the supplementary table. The updated 1993 SNA will mention both methods, without choosing between them. International accounting standards apply a single, PBO-based, method. However, various companies choose to present, in addition to the data based on PBO, also the ABO-based figures in the notes to their accounts. Certain national jurisdictions in Europe require the use of the ABO-based method for those companies which are not subject to international accounting standards.

The Task Force has established that the choice between the ABO and the PBO might have some impact on the estimates of pension entitlements and therefore it is preferable that national accountants in Europe adopt one single method. For the time being, a majority of the Task Force considers, as a preliminary view, that the PBO method would deliver the most economically meaningful estimates of pension entitlements - taking into account that in that case additional model assumptions have to be made. However, the Task Force will also develop ABO-based methods for comparison purposes. This will enable the Task Force to consider further the impact of both methods on the accounts. There is a particular issue to be resolved on the partition between transactions and other economic flows when applying ABO and PBO methods, which the Task Force will investigate thoroughly.

c) Demographic trends

Future pension payments are subject to the demographic effects, in terms of the age/ gender balance of members and their longevity. Demographic tables are already well established for the modelling of pension and life insurance schemes. The Ageing Working Group has decided to base its work on the harmonised population projections prepared by Eurostat; therefore, the Task Force believes that a similar approach in national accounts could improve the cross-country comparability of the estimates. This would also mean the use of gender-specific longevity tables to ensure the best possible estimates. In general, the Task Force members expressed the preliminary opinion that these assumptions shall be based on the comparable demographic data compiled by Eurostat for each country.⁴

d) Coverage of the schemes modelled

It is important that model calculations are carried out for all government employer pension schemes and social security pension schemes, which are only included in the supplementary table but not in the core national accounts.

e) Pension indexation and old-age benefit accumulation rules

The Task Force considered that modelling should be undertaken on the basis of "no policy change" in the design and rules of the pension schemes. Thus, for example, provisions included in existing legislation (including those legislative provisions which will apply from a set future date) would be applied to modelling.

Pension indexation rules are country and scheme specific, and do vary substantially. The most common indexation rules refer to inflation or wage rates, but more complex rules are observed. Comparable long-term projections would therefore need to be applied, according to the scheme to be modelled, such as those of the Ageing Working Group.

⁴ See European Commission (2006), *op. cit.*

ANNEX 3

TIMETABLE FOR THE TASK FORCE

Date	Activity / Deadline	Issue
31 May – 1 Jun-07	Fourth meeting of the Task Force in Frankfurt am Main	Refinement of the Supplementary Table; Analysis of the questionnaires to the countries; Analysis of the assumptions for modelling (discount rate and other hypothesis); discussion on the criteria for core and non-core; Draft report for CMFB meeting on 28 – 29 June-07.
June-07	Finalising the CMFB report with timetable for follow-up Ongoing work on EU country stocktaking, model specification and estimates	
14-15 Jun-07	FAWG, Luxembourg	Progress report
28-29 Jun-07	CMFB meeting in Luxembourg	Presentation of report prepared by the Task Force; approval of the amended mandate and extended timetable
June – Dec-07	Modelling	Provision of the input files by the countries represented in the TF; modelling of pension scheme data (positions, transactions, other flows); estimation of EU and euro area data
23-24 October -07	Fifth meeting of the Task Force in Luxembourg	Completion of the empirical work on estimations of the supplementary table; finalisation of the criteria for core and non-core accounts; finalisation of the assumptions for modelling; follow-up work for the CMFB Report
End Oct – mid Jan-07	Preparation of CMFB Report	Contents: (1) Methodology; (2) SNA draft chapters and supplementary table; (3) estimations; 4) sensitivity analysis; (5) annexes
22-23 Nov-07	NAWG, Luxembourg	Progress report
4-5 December -07	Sixth meeting of the Task Force in Frankfurt am Main	Completion of the modelling work; preparation of the final report to the CMFB; follow-up work of the Task Force (involvement of the Member States not participating in the Task Force)
10-11 Dec-07	FAWG, Luxembourg	Progress report
From end 2007 onwards	Modelling	Estimation of stocks, transactions and other flows using national models and stylised models for Member States
End Jan-08	CMFB meeting in Luxembourg	Presentation of the outcome of the Task Force to the CMFB (methodology for SNA/ESA, standard and supplementary tables, estimation method, empirical results)
Afterwards	Regular annual update of the tables	