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Recording pension expenditure in National Accounts: are SNA 93 criteria adequate?

Abstract

Population ageing is putting pressures on public finances: the expected evolution of the demographic scenario – with the increase of the relative weight of the elderly people – raises doubts about the long term sustainability of demographically sensitive expenditures programs (such as pensions and welfare systems), calling for a reflection about the reforms to be implemented to cope with the issue.

Alongside this discussion, national accounts experts have started a debate about the adequacy of existing accounting rules to full represent the impact of population ageing on National Accounts.

One of the most controversial point has been the proposal of harmonizing the statistical treatment of social insurance schemes in National Accounts, through the removal of the discrepancies existing in the recognition of pension liabilities of different type of pension schemes: according to SNA93 rules, in fact, a liability is recognised – reflecting the commitment of the scheme's sponsor to pay pensions to future retirees – only for funded pension schemes but not for unfunded pension schemes and social security schemes.

This paper presents a detailed analysis of the differences in the treatment of pension schemes in SNA93 and in the new proposed framework, highlighting the main outcomes of the adoption of new approach. A special emphasis is put on the evaluation of the impact of the new proposal on the measurement of governments' debt and deficit figures and on the related expected improvements in the accountability and international comparability of public finance statistics.

The analysis deals also with several issues raised by the new method, mainly linked to the definition of the boundaries of pension liabilities' recognition and to the institutional design of pension systems, especially with reference to the interaction between social insurance and social assistance programs.