

Household pension entitlements under government schemes in the euro area

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Main messages

- **Approach to compile accrued-to-date household entitlements for pension schemes**
 1. has **its origins in research work** by international organisations
 2. has been **agreed worldwide** including the **ECB**
 3. follows **national accounts principles**
 4. provides **results in line with other studies**
 5. **does not provide a full-fledged sustainability measure** (which requires the use of projections on future entitlements)

I. Approach has its origins in research work by international organisations

Older estimates of contingent pension obligations are of **similar magnitude** as compiled by the Eurostat / ECB Task Force on Pensions

Source	OECD ¹⁾	IMF ¹⁾	DESTATIS ²⁾	INSEE ³⁾	Eurostat / ECB Task Force on Pensions	
Method	Implicit pension debt (ABO)	Implicit pension debt (PBO)	Accrued-to-date liabilities (PBO)	Accrued-to-date liabilities (PBO)	Accrued-to-date liabilities (PBO)	
Coverage	Pension liabilities in the public sector		Social security		Social security	Defined-benefit schemes
End-year, as % GDP	1990	1995	2005	2003	2007	2007
Germany	157 ⁴⁾	221 ⁴⁾	230	-	275	47
France	216	265	-	259	292	60
Italy	242	357	-	-	322 ⁵⁾	1 ⁵⁾
Euro area	-	-	-	-	278	52

Sources: 1) OECD and IMF studies, op. cit. by: R. Holzmann, P. Palacios and A. Zviniene (2001), World Bank, 'On the economics and scope of implicit pension debt: an international perspective', *Empirica*, 28, pp. 97-129. 2) A. Braakmann, J. Grütz and T. Haug, *Das Renten- und Pensionsvermögen in den Volkswirtschaftlichen Gesamtrechnungen*, Statistisches Bundesamt, *Wirtschaft und Statistik* 12/2007, pp. 1167-1179. 3) D. Blanchet and S. Le Minez, "Assessing implicit pension liabilities for the French pension system: a micro-founded approach", paper prepared for the 30th General Conference of the International Association for Research in Income and Wealth (IARIW), August 2008. 4) Data refer to West Germany. 5) End-2006.

2. Approach

has been agreed worldwide including the ECB

- **Adoption of the new world-wide System of National Accounts (2008 SNA) by the United Nations Statistical Commission in 2008**
- **Supplementary table on pension entitlements as a world-wide agreed and harmonised approach**
- **Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) established a Eurostat/ECB Task Force on Pensions in 2006**
- **Work on methodology and estimates**
 - **Methodology: new ESA chapter on pensions (co-drafted by the ECB)**
 - **Estimates: National models and benchmark models (Freiburg University)**

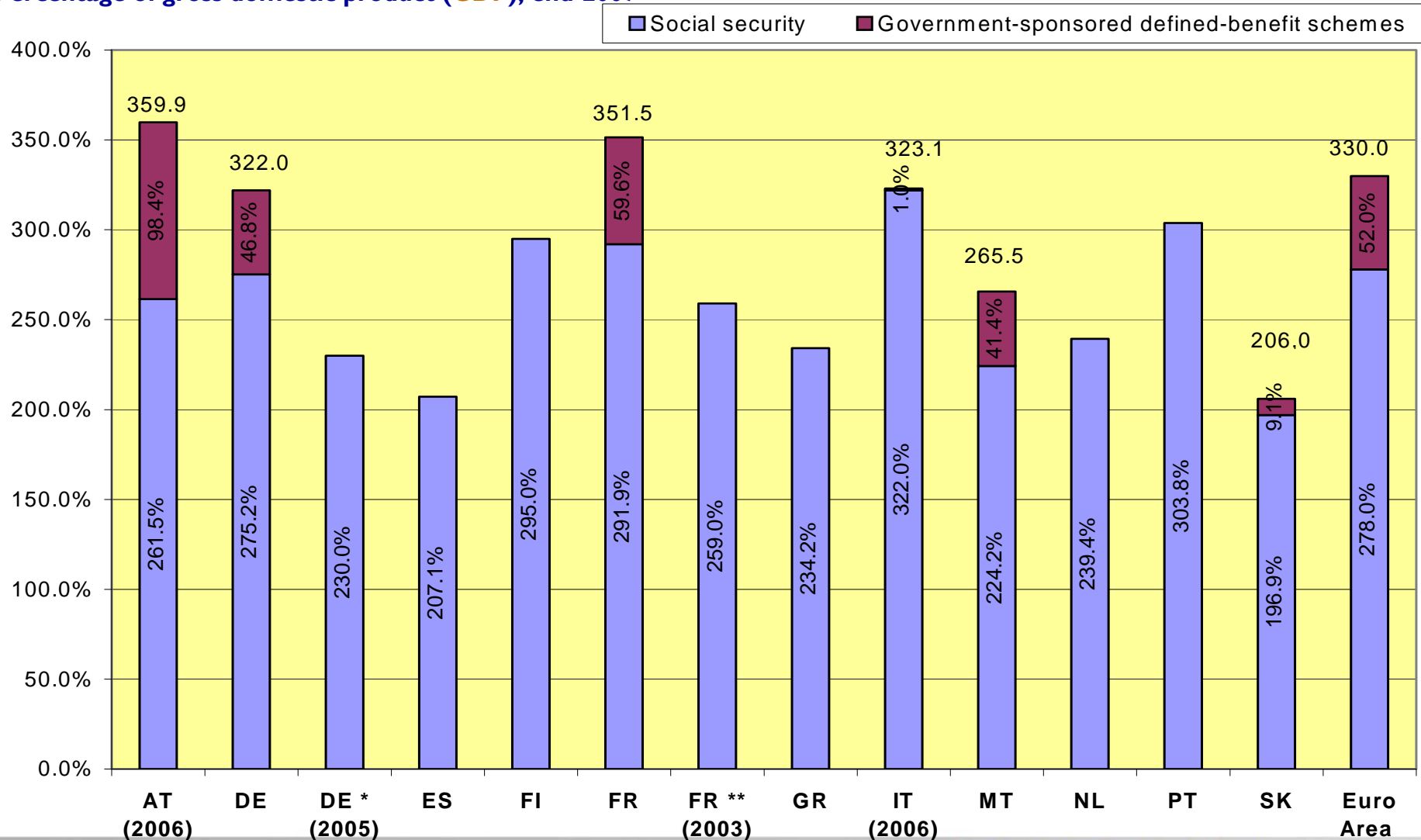
3. Approach follows national accounts principles

- **Concept of accrued-to-date household pension entitlements**
 - Entitlements which have accrued up to date at which the balance sheet is set up
 - Entitlements which reflect, at an aggregate level, the cost of terminating a pension scheme today
- **Use of the actuarial approach**
- **Key assumptions**
 - **Discount rate** (baseline 3% per year)
 - **Real wage changes** (baseline 1.5 %)
 - **Demographic data**
 - **Other assumptions in some pension schemes** (diversity across Europe)

4a. Approach provides results in line with other studies

Cross-country comparisons Freiburg University, DESTATIS(*) and INSEE(**)

Percentage of gross domestic product (GDP), end-2007



4b. Approach provides estimates of euro area general government pension obligations

General government debt and contingent pension obligations in the euro area and in the US

Multiples of annual gross domestic product (GDP), end-2007

Item	Euro area	United States
Maastricht debt	0.7	0.6¹⁾
Contingent pension obligations	3.3	1.1
<i>Government-sponsored defined-benefit schemes²⁾</i>	<i>0.5</i>	<i>0.0³⁾</i>
<i>Social security pension schemes</i>	<i>2.8</i>	<i>1.1⁴⁾</i>
Debt including contingent pension obligations	4.0	1.7

Sources: ECB, European Commission (Eurostat), Research Centre for Generational Contracts, Freiburg University, US Bureau of Economic Analysis and Federal Reserve Board. ¹⁾ Currency and deposits, loans and debt securities incurred by general government (consolidated). ²⁾ Government-sponsored defined-benefit schemes are predominantly unfunded in the euro area, but are predominantly funded in the United States. ³⁾ Government-sponsored unfunded defined-benefit schemes are practically non-existent in the US. ⁴⁾ US households have contingent social security pension entitlements.

5. Approach

does not provide a full-fledged sustainability measure

	Accrued-to-date pension entitlements	Implicit pension liabilities
Methodology	Actuarial estimate (ex-post)	Based on projections
Use	Eurostat/ECB Task Force on Pensions Supplementary table on pensions in social insurance (national accounts)	EPC Ageing Working Group Future pension expenditures including other ageing related expenditure
Main results (euro area)	Accrued-to-date household pension entitlements (outstanding amounts) under government schemes in the euro area are 490% of household GDI or 330% of GDP (end-2007)	Projected change in pension expenditure is about 2.7% of GDP (2008 to 2050)
Fiscal sustainability indicators	No. Large pension entitlements do not necessarily imply unsustainable systems and vice versa	Yes. Projections are used to derive sustainability indicators
Underlying pension models	National models and benchmark model (Freiburg University)	National models
Data input partly harmonised	Demographic data (Europop) Assumptions on discount rate and real wage growth	