ESA10: Developments to the Treatment of Pensions in the National Accounts

Robbie Jones, Office for National Statistics

Abstract

This article covers the changes to the treatment of pensions in the National Accounts that will be introduced by the adoption of the updated standard in Europe for compiling the National Accounts, the European System of National Accounts, or ESA10. The article provides a guide to the new concepts and transactions in the accounts, an overview of the key methodological developments, and detail on how the accounts will be impacted by these changes. Estimates on the new ESA10 basis will be published from September 2014 onwards.

The article is split into four sections:

- Section 1 provides an overview of the principles of recording pensions in the National Accounts, and an overview of how pensions were recorded in the previous European standard, ESA95.
- Section 2 looks at the developments that are being introduced in the National Accounts as a result of adopting the ESA10 standards. The section covers the new concepts and methodology in the accounts.
- Section 3 details the impacts of the changes on the National Accounts, with particular focus on how pensions will impact on Gross Domestic Product (GDP) and the Household Saving Ratio.
- Section 4 sets out the future development work that will take place up to September 2017 when ONS is required to transmit the Supplementary Table on Pensions. It provides a brief overview of the table itself and the work required to bring the table and the core National Accounts onto a consistent basis.
Introduction

The UK National Accounts are compiled according to international and European standards, namely the System of National Accounts (SNA) and the European System of Accounts (ESA). These standards are updated periodically to reflect economic developments and changes to user needs. From September 2014 onwards, the UK will be required, by European law, to compile the National Accounts on a consistent basis with the standards set out in the ESA10 regulations. ONS is currently undertaking a major programme of work to adopt these new standards.

One of the changes resulting from ESA2010 is the revised treatment of pensions. There are four key changes to the UK National Accounts:

- The classification of schemes as defined benefit and defined contribution, with the introduction of the actuarial valuation for funded defined benefit schemes.
- A revised transaction breakdown in the Accounts, with new transactions including the imputation of contributions to funded defined benefit schemes.
- An emphasis on the concept of the pension manager and pension administrator and the recording of the shortfall/surplus in funded defined benefit schemes.
- Compilation of the Supplementary Table on Pensions from September 2017 (although the table is currently compiled and transmitted on a voluntary basis).

These changes will ensure that the National Accounts are compiled according to European and international statistical standards. ESA10 is largely consistent with SNA08, although there are important distinctions between the two in terms of the treatment of pensions. SNA08 states that the liabilities of both funded and unfunded schemes should be included in the core National Accounts, while ESA10 specifically forbids European National Accounts from recording unfunded pension scheme liabilities in the core National Accounts.

This article provides an overview of the changes to pensions in the UK National Accounts for September 2014 as a result of the updated ESA10. It details how pensions were treated in ESA95, the new treatment required for ESA10, the methodological developments for September 2014, and provides an overview of the further developments required for September 2017.
1: The Treatment of Pensions in ESA95

This section of the article looks at the key concepts and principles that determine how pensions are recorded in the National Accounts in ESA95. It begins by providing an overview of the two key principles that underpin the way in which pensions are recorded throughout the sequence of accounts, followed by an outline of the classifications of pensions in the National Accounts. The section then concludes with a brief overview of how key pension transactions were recorded in the Accounts in ESA95.

1.1 Key Principles of Pensions in the National Accounts

The vast majority of people in the UK have some form of pension. Whether a state pension, workplace pension, or an individual pension, the majority of us will at some point rely on a pension as a means of income. In most cases, contributions are paid into a pension when the participant is working, while benefits are paid out during retirement. As such, pensions are often viewed as a form of deferred pay in that members forego some of their pay today in order to receive it at a later date. The act of paying into a pension is also a form of saving, as participants ‘put money away’ for the future in the form of contributions and ‘run down’ their savings through drawing their pension when they retire.

The National Accounts seek to record the economic reality of pensions as both a form of deferred pay and savings. To reflect this economic reality, there are two key principles underlying pensions. Firstly, Households own pension schemes as they are set up in order to provide Households with an income in retirement. They can be seen as a saving instrument belonging to Households. Secondly, all contributions to pension schemes are made by Households. In practice, employees will usually pay pension contributions out of their wages, while their employer (where applicable) will pay contributions directly into the pension scheme. However, as Figure 1 shows, the economic reality is that those contributions by the employer are part of the overall remuneration package of the employee. Households agree to forego some of their pay in the form of pension contributions. As this money belongs to Households, it is their responsibility to pay the contributions into the pension scheme.

Figure 1: Flow of Contributions in the National Accounts

<table>
<thead>
<tr>
<th>Employer</th>
<th>Households</th>
<th>Pension Scheme</th>
</tr>
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1.2 Classification of Pensions in the National Accounts

There are a range of different types of pension available in the UK, such as a state pension, stakeholder pensions, final salary schemes and individual pensions. As Figure 2 shows, there are a number of classifications relating to pensions used in the National Accounts. In ESA95, schemes are classified as either social or non-social insurance; with only social insurance schemes recognised as pensions while non-social schemes are treated as life insurance policies. The social insurance pensions are then further classified into social security schemes (the state pension) and private pension schemes (workplace pensions). Finally, private pension schemes are further divided into funded and unfunded schemes. These classifications are important as they determine where, when and what values are recorded for various pension schemes in the Accounts.

**Figure 2: Classification of Schemes under ESA95**

<table>
<thead>
<tr>
<th>Pensions</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security Schemes</td>
<td>Employment-Related Schemes</td>
</tr>
<tr>
<td>Funded</td>
<td>Unfunded</td>
</tr>
</tbody>
</table>

1.2.1 Social Insurance Schemes

Only those pension schemes classified as a form of social insurance are deemed to be pensions in the National Accounts. The ESA95 manual states:

‘Social insurance schemes are schemes in which social contributions are paid ... in order to secure entitlement to social insurance benefits for the employees or other contributors, their dependents or survivors. Social insurance schemes cover social risks or needs’.

ESA95, Annex III, Paragraph 3.

Pensions are a form of insurance as the members are insuring themselves against no longer being able to work (and earn an income) due primarily to old age (although incapacity, disability, and in the case of widows pensions, death can also be insured against). It is the distinction between whether a pension scheme is a form of social insurance or not that determines largely how schemes are recorded in the Accounts. For a scheme to qualify as social, ESA95 states that it must satisfy one or more of the following set of conditions:

‘(a) participation in the scheme is obligatory by law or by the terms and conditions of employment;
(b) the scheme is operated on behalf of a group and restricted to group members; or

(c) an employer makes a contribution to the scheme on behalf of an employee’.

ESA95, Annex III Paragraph 3

If a scheme meets at least one of the three criteria outlined they are classified as social insurance and are treated as pensions. Schemes not meeting any of the three criteria are treated as a form of life insurance. For example, the majority of individual pensions (that is, schemes where an individual contracts with an insurance corporation) do not meet any of the three criteria (there is no obligation to join, policies are on an individual basis, and there are usually no employer contributions) and are therefore treated as life insurance.

### 1.2.2 Social Security and Private Pension Schemes

Social insurance schemes are classified as either social security schemes or private pension schemes. Social security schemes (e.g. the state pension) are defined as schemes that are:

‘...imposed, controlled and financed by government units and cover the entire community, or large sections of the community’.


Private pension schemes (or workplace pensions) are those operated by or on behalf of employers for the benefit of their employees. This covers schemes operated for both government and non-government employees. Stocks (i.e. the liabilities) for social security schemes are not recorded in the National Accounts, while only flows such as contributions and benefits are recorded.

### 1.2.3 Funded and Unfunded Schemes

Private pension schemes are sub-categorised into funded or unfunded. Funded schemes are those where a specific fund has been created for that scheme, into which contributions are paid and from which benefits are paid out. The contributions are invested in order to generate a return, with the payments being made from the proceeds of the sale of those investments. These funds are either operated as stand-alone pension funds or by life insurance corporations. For unfunded schemes, there is no specific fund that exists, rather, the scheme is operated by a unit on a pay-as-you-go basis. That is, the actual contributions for that year fund the benefits (in some cases, unfunded schemes may operate a fund for liquidity reasons, although in this case they are still classified as unfunded). The UK state pension is an example of an unfunded scheme as it is paid for out of general taxation.

Only the stocks and flows associated with funded schemes are fully recorded in the National Accounts, whilst only the flow of contributions and benefits are recorded for unfunded schemes. The main implication is that the pension liabilities of unfunded schemes are not recorded in the core National Accounts.
1.3 Key Pension Transactions under ESA95

In ESA95, funded schemes only record D.121/D.6111 Employers' Actual Contributions in the Generation of Income Account and Allocation of Primary Income Account. Unfunded schemes record an additional D.122/D.612 Employers' Imputed Contributions, equal to the benefits paid. This reflects the fact that the benefits are paid out of the general expenditure of the employer. The employer, therefore, is making a contribution into the scheme equal to the value of the benefits paid out, which is recorded as part of D.1 Compensation of Employees.

The property income attributed to insurance policy-holders is recorded in the Allocation of Primary Income Account as equal to the interest, dividends and rent generated by pension funds and life insurance corporations on their pension business. This value is paid to households as the increase in the value of their pension is part of their income. The property income is then paid back into the pension fund in the Secondary Distribution of Income Account as part of D.6112 Employees' Actual Contribution.

In the 'Financial Account' and 'Balance Sheet', the flow and level of liabilities relating to funded pension schemes are recorded along with liabilities relating to life insurance policies (as AF/F.61 Net Equity of Households in Life Insurance and Pension Fund Reserves). The liabilities of unfunded schemes are not recorded in the National Accounts.

Further detail of the sequence of accounts for pensions in ESA95 can be found in Annex A.
2: The Treatment of Pensions in ESA10

This section looks at the new concepts and transaction changes that will be adopted in the National Accounts from September 2014 as a result of the updated ESA10. The section begins by looking at the classification of schemes as defined benefit and defined contribution in the Accounts. It then looks at the introduction of the actuarial valuation of defined benefit scheme entitlements, with an overview of the valuation methodology and assumptions. Following on from this is an overview of the concept of the pension manager and pension administrator, and the requirement to record the funding position (assets less liabilities) of funded defined benefit schemes. The section then considers the conceptual changes to a number of key transactions in the accounts, with an overview of new methodology and data sources used.

2.1 Treatment of Defined Benefit and Defined Contribution Schemes

As part of the ESA10 changes, the classification of employment-related schemes (private pension schemes in ESA95) as being either defined benefit or defined contribution has taken prominence in the National Accounts (see Figure 3). Despite this emphasis on distinguishing between defined benefit and defined contribution schemes, it is important to note that the classification of schemes in ESA95, in particular employment-related schemes as being either funded or unfunded, remains in ESA10:

‘...institutional units classified as unfunded government defined benefit employer pension schemes or as social security pension funds ... their transactions are not fully recorded and their other flows and stocks are not recorded in the core National Accounts’

ESA10, Paragraph 5.184

Figure 3: Classification of Schemes under ESA10

Pensions

Social

Social Security Schemes

Employment-Related Schemes

Funded

Unfunded

DB = Defined Benefit

DC = Defined Contribution
Therefore, only the stocks and flows associated with funded schemes are fully recorded in the core National Accounts in ESA10 (as was the case in ESA95). For unfunded schemes, only contributions and benefits are recorded (the stocks are not recorded).

In defined benefit schemes (or ‘salary related’), the benefits due to members is determined by the scheme rules. A formula is used to calculate the pension based on salary, the number of years of service, and an accrual rate. In the context of the National Accounts, both hybrid (schemes where the benefits are a mixture of defined benefit and defined contribution) and notionally defined contribution schemes (where the scheme is essentially defined contribution with a guaranteed minimum level of benefits) are classified as defined benefit.

In defined contribution schemes, there is no guarantee of the amount of benefit members will receive. Contributions are paid into the scheme, which are then invested to generate a return. When members come to retire, they receive a ‘pension pot’, which is generally used to purchase an annuity (an annual guaranteed income).

The classification of schemes as defined benefit or defined contribution is an important element of pensions in the National Accounts. In addition to the emphasis on treating defined benefit and defined contribution schemes separately is the requirement to record estimates for defined benefit schemes on an actuarial basis.

2.2 Actuarial Valuation of Defined Benefit Scheme Liabilities

The benefits due in defined benefit schemes are calculated using a formula based on salary (either in the final year(s) or a career average figure), pensionable service (the number of years’ that contributions have been paid into the scheme by participants or on their behalf), and the accrual rate (the rate at which pension benefits build up according to salary) (see Box 1).

There are two main types of defined benefit scheme, final salary and Career Average Revalued Earnings (CARE). In a final salary scheme, the benefits are set in relation to the salary in the final year (or an average of the final years) of service, whereas CARE schemes calculate benefits based on salary levels for each year of service. The formula for calculating the level of benefits in a final salary schemes is relatively straightforward. The accrual rate is multiplied by the number of years’ of pensionable service, which is then multiplied by the final salary to give an annual pension figure. In a CARE scheme, the formula is calculated annually as pensionable salary multiplied by the accrual rate. The annual figures for each year of service are then uprated (usually in line with prices or wages), with the sum of those annual figures giving the final level of benefits due.
Box 1: The Accrual Rate

The accrual rate is the rate at which benefits build up each year of pensionable service.

Example 1: Final Salary Scheme

A participant in a final salary scheme with an accrual rate of 1/60th and 30 years’ service will receive 30/60, or half of their final salary as a pension. If a participant earned £45,000 in their final year of service in such a scheme, they would receive an annual pension of £22,500 (30 x 1/60th x £45,000).

Example 2: CARE Scheme

In a CARE scheme, each year the participant would build up 1/60th of their salary for that year as a pension. For example, if in the first year a participant earned £21,000 in such a scheme, they would build up £350 towards their pension. This figure would then be revalued for each year of service (usually in line with inflation) to ensure that the figure keeps in track of prices. If in the final year a participant earned £45,000, they would build up £750 towards their pension in that year. The final pension payable is the sum of all the annual contributions.

Depending on the type of defined benefit scheme, the formulae can be used to calculate the benefits of each member of the scheme. However, in order for the scheme to calculate the full extent of its liabilities, it needs to know what the level of each members’ benefits are likely to be when they retire (which could be many years away), and how long they will likely be required to pay out those benefits.

To calculate the liabilities of defined benefit schemes accurately, an actuarial valuation must be used. The actuarial valuation uses a number of assumptions, such as wage increases, likelihood of promotion, and life expectancy to calculate the total liability of the pension scheme. This total liability figure is the sum of the total amount of benefits the scheme has calculated it will need to pay out in future. The total figure is then discounted (see Box 2) to a present value, which gives the pension scheme a figure for the value of those liabilities today. This discounted figure provides a funded scheme with an estimate of the assets it needs to hold to meet total future liabilities (known as the technical provisions). From this, the funding position of the scheme can be calculated as liabilities less assets.
Box 2: Discounting

Money has a time value as it can be put to work to generate income. Therefore, an individual owing £1,000 in a year's time would not need to hold £1,000 today to meet that. They would expect to be able to put a certain amount of money to work over the year in order to generate enough income to meet the £1,000. Discounting is used to calculate how much money would need to be held today in order to meet the £1,000 based on an assumption of the likely interest that would be generated.

The present value (PV) at time (t) of payment (P) at n years in the future (t+n) using the discount rate (r) is:

\[ PV_t = \frac{P_{t+n}}{1+r} \]

If we take the example of the £1,000 owed and assume that the interest paid on a savings account is 1 per cent (this is the discount rate), then:

\[ PV_t = \frac{1,000}{1+0.01} \]

That individual would need to place £990.10 in the savings account today in order to meet that £1,000 liability in a year's time.

For defined benefit schemes, discounting is used to calculate the present value of all future benefits. The discount rate is the interest rate that the scheme assumes will be achieved on its investments. This rate has important implications for the scheme as this present value figure gives an indication of the required market value of the fund at that time.

2.2.1 The Actuarial Valuation in the UK National Accounts

There are a range of different assumptions used to calculate the actuarial valuation of scheme liabilities, and within each assumption there are a range of possible figures to use. For example, one valuation may assume the scheme's assets will achieve an interest rate of 2 per cent, whereas another scheme may assume an interest rate of 2.5 per cent. Similarly, one valuation may expect salaries to grow more quickly or more slowly than other valuations. All these different assumptions and possibilities can have a significant impact on the scheme's liabilities.

In the National Accounts, ESA10 offers guidance on the assumptions that should be used for calculating the actuarial liabilities of defined benefit schemes. Salary assumptions (either the accumulated benefits obligation or the projected benefits obligation, see Box 3) should be based on those that are predominantly used by actuaries within individual member states. In the UK there are two main valuation methods; the Financial Reporting Standard 17 (FRS 17); and the International Accounting Standard 19 (IAS 19), both of which use the projected benefits obligation.
(PBO) approach. Therefore, the UK National Accounts will use the PBO approach as part of the actuarial valuation of funded defined benefit schemes liabilities from September 2014.

**Box 3: Salary Assumptions**

There are two approaches to salary assumptions used by scheme actuaries to calculate liabilities, the Accumulated Benefits Obligation (ABO) or ‘current unit method’ and the Projected Benefits Obligation (PBO) or ‘projected unit method’. These methods determine whether the actuarial valuation includes future salary increases. The ABO approach only includes ‘accrued-to-date’ liabilities, or the liabilities that have been built-up up to the day of the valuation. Therefore, no future wage increases are considered. The PBO approach fully takes into account future salary increases in order to give a better idea of how much the schemes’ liabilities are likely to be if the scheme were to actively continue into the future.

Additionally, ESA10 states that a risk-free discount rate should be used to discount total liabilities to a present value for non-government managed schemes:

*The discount rate on high quality government and corporate bonds e.g. of ‘AAA’ rating provides an appropriate reference. Yields for high quality corporate bonds are only used where the markets are broad ... the use of a discount rate is based on a long-term maturity, where long-term is taken to be 10 years or longer, is recommended*.  

ESA10, Paragraph 17.167

That is, the yield on long-term, high-quality (AAA rated) government or corporate bonds should be used as a discount rate. Therefore, the UK National Accounts will use the yield on long-term, high quality Gilts as a risk free discount rate. This is a market discount rate which varies over time, and can cause significant movements in the liabilities series from year to year. For those with a General Government pension manager, ESA10 states that a 3 per cent real or 5 per cent nominal discount rate must be used for such schemes. The choice of a discount rate is of significant importance in terms of calculating the present value of a schemes’ liabilities. As noted above, small movements in the discount rate can have significant impacts on the pension liabilities series from year to year.

It is important to note that the actuarial liabilities are only recorded for defined benefit schemes. For defined contribution schemes the liabilities are recorded as the market value of the fund at the end of the accounting period.
2.3 The Pension Manager and Pension Administrator

As a result of the actuarial valuation of funded defined benefit schemes, it is now possible to record the funding position (assets less liabilities) of such schemes (recorded as AF.64 Claims of Pension Funds on Pension Manager in the Financial Balance Sheet). As a result, ESA10 emphasises the role of the pension manager and pension administrator in relation to funded defined benefit schemes.

As Box 4 summarises, the pension administrator is the unit that carries out the day-to-day administration of the scheme, such as taking in contributions and paying out benefits, yet it has no financial responsibility for the scheme. The pension manager retains ultimate responsibility for the scheme liabilities, while also being responsible for setting the scheme terms and long-term investment strategy. As the unit with ultimate responsibility for the scheme liabilities, the pension manager is liable for any deficit in the scheme, but also benefits from any surplus of assets over liabilities:

‘The pension manager’s responsibility for any underfunding, or the benefit of any over-funding, of a pension scheme is recorded as a liability/asset relationship with the pension manager ... It is not the pension entitlements of the scheme that are recorded as the liabilities of the pension manager, but rather the difference between the pension entitlements and the assets held by the scheme’.

ESA10, Paragraph 17.78

<table>
<thead>
<tr>
<th>Pension Administrator</th>
<th>Pension Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carries out day-to-day administration</td>
<td>Responsible for terms and conditions of scheme</td>
</tr>
<tr>
<td>No financial responsibility</td>
<td>Significant degree of responsibility over long-term investment strategy</td>
</tr>
<tr>
<td></td>
<td>Ultimate responsibility for scheme’s liabilities</td>
</tr>
</tbody>
</table>

The relationship between the pension manager and pension administrator is reflected in three transactions:

- The funding position of the scheme (assets less liabilities) is recorded under the transaction ‘AF.64 Claims of Pension Funds on Pension Manager’ in the Balance Sheet, impacting on the pension managers’ B.90 Net Worth.

- In the Generation of Income Account, the pension manager records ‘D.122 Employers’ Imputed Social Contributions’ (part of D.12 Employers’ Social Contributions) as a use,
impacting on the pension managers’ B.2g Operating Surplus and ultimately the B.9 Net Lending/Borrowing position.

- In the Financial Account, ‘F.64 Claims of Pension Funds on Pension Manager’ is recorded as equal to the employers’ imputed contributions, which reflects the impact on the pension managers’ B.9 Net Lending/Borrowing position.

The pension administrator is liable for the AF.63 Pension Entitlements, and it has a fund of assets in order to meet that liability. However, if the value of the liability is higher than the assets (a shortfall), the pension manager is responsible for meeting that shortfall as it is their role to ensure the pension administrator has sufficient resource to meet the liability. In this case, the pension manager records an AF.64 liability equal to the difference between the scheme assets and liabilities. Similarly, if the scheme has more assets than liabilities (a surplus), then the pension manager can make a claim on the pension fund for that surplus recorded as AF.64.

In the UK, the delineation between units classified as the pension administrator and pension manager is not clear. In many cases, funded defined benefit schemes in the UK operate with a trust that has responsibility for the day-to-day administration of the scheme, the long-term investment strategy, and has some influence over scheme terms. The sponsoring employer of the scheme has a significant degree of responsibility for the scheme terms, and ultimately holds responsibility for the scheme liabilities. With this in mind, the ONS has decided that in the vast majority of cases, the schemes’ sponsoring employer will be classified as the pension manager. However, in the case of multi-employer pension schemes (where a single unit is responsible for a number of schemes and pools risk across those schemes to generate a profit – see ESA10 paragraph 17.76), the pension administrator and pension manager are the same unit, with the scheme itself classified as the pension manager.

### 2.3.1 Special Cases

There are two special cases relating to the concept of the pension administrator and pension manager in the UK National Accounts. Both the case of the Local Government Pension Scheme (LGPS) and ‘Crown Guarantee’ schemes required careful consideration when classifying which units operate as the pension administrator and pension manager.

**The Local Government Pension Scheme**

The LGPS is a group of 101 regional pension funds that primarily provide pensions to local government employees and former employees. The scheme itself is somewhat of an anomaly in both the UK and Europe, as it is a funded scheme for government employees classified within the Financial Corporations sector (S.12). However, the scheme is not simply for local government employees alone. There is a range of other employers, or ‘admitted bodies’, with employees as members of the scheme, such as probation boards, housing associations, non-teaching staff at schools, and private sector contractors to local government, to name but a few. This would suggest that it is a multi-employer scheme and, therefore, the scheme itself should be classified as the pension manager (see ESA10, paragraph 17.76).
Yet there is no evidence of a risk-pooling mechanism within the scheme. In reality, the majority of the membership is current or former local government employees, and any admitted bodies must accept the terms and conditions of the scheme and adhere to pre-determined benefit levels dictated by Parliament. As with other funded schemes in the UK, the scheme itself has responsibility for the investment strategy, yet this alone does not imply that the scheme is the pension manager. It is difficult to argue that, without risk-pooling and the majority of members being current or former local government employees, that the scheme is truly multi-employer in the sense outlined in ESA10. Indeed, ESA10 states:

’Some employer pension schemes have a mixed membership, for example including both government employees and employees of public corporations ... A scheme having a small proportion of non-government employees does not prevent the scheme being described as having a government pension manager’.

ESA10, Paragraph 17.130

In this circumstance, ONS will classify Local Government as the pension manager of the local government pension scheme as there is no clear evidence to suggest that the scheme is multi-employer, and there is no evidence to suggest that any other body apart from General Government would ultimately be responsible for liabilities. The impact of this decision is that the D.122 Employers’ Imputed Social Contributions recorded in the Generation of Income Account are included in Local Government B.9 Net Lending/Borrowing and the wider Public Sector Net Borrowing. There is no impact on measures of Government Deficit and Debt.

**Crown Guarantee Schemes**

A number of pension schemes in the UK operate with a ‘Crown guarantee’. In this circumstance, the pension scheme has been given a guarantee by either a public authority (a Minister of the Crown, a Government Department, or a statutory authority), the Scottish Ministers, the National Assembly for Wales, or a Local Authority, that any liabilities will be met by the Government if the scheme is no longer able to meet those liabilities. The majority of schemes with a Crown guarantee are those associated with the privatised industries (e.g. railways, mining and telecommunications).

This granting of a guarantee poses difficulties in terms of determining the pension manager of such schemes. Arguably, the guarantee implies that General Government is the pension manager as they are deemed to ‘bear ultimate responsibility for the scheme’s liabilities’ as the guarantee is that the Crown will meet the liabilities if the scheme is no longer able to. However, for many Crown guarantee schemes, a sponsoring employer continues to exist that sets terms and conditions and is ultimately responsible for the liabilities. Therefore, a decision has been taken by ONS that, at present, the sponsoring employer will be classified as the pension manager of such schemes. As part of the future developments to pension statistics in the National Accounts, a classification review will take place to determine where the responsibility for scheme funding should sit for the ‘Crown guarantee’ schemes.
2.4 Key Transaction Changes

A further development to pension statistics in the National Accounts encompasses the revised transaction breakdown in the accounts, and the introduction of new concepts and methods for calculating those transactions. This section details some of the key transaction changes in the accounts and offers an overview of the revised sequence of accounts for pensions. A full sequence of accounts for pensions under ESA10 can be found in Annex B.

2.4.1 AF.63 Pension Entitlements

As mentioned in Section 1.3, previously there was no separate transaction recording the entitlement households hold against pension schemes (or the pension schemes' pension liabilities) in the ‘Financial Balance Sheet’, rather the transaction covered both pension and life insurance (AF.61 Net Equity of Households in Life Insurance and Pension Funds Reserves). In ESA10, pension entitlements will now be separately recorded as AF.63 Pension Entitlements (although in practice, it will be published along with AF.64 Claims of Pension Funds on Pension Manager and AF.65 Entitlements to Non-Pension Benefits).

For defined benefit schemes, AF.63 will record households entitlement on an actuarial basis (as detailed in Section 2.2), while for defined contribution schemes entitlements will remain as equal to the market value of assets held by schemes.

AF.63 Pension Entitlements are recorded as a liability of the pension administrator (in most cases, the pension fund or life insurance corporation in the Insurance Corporations and Pension Funds (ICPF) subsector) and an asset of Households as the beneficiaries of the pension.

The flow, F.63 Pension Entitlements, is recorded in the ‘Financial Account’, and is equal to D.61 Net Contributions (minus the service charge – the fees charged by the scheme) less D.62 Social Benefits. This reflects the flow of the increase in pension entitlements before taking into account any transfers, scheme reforms, revaluations or other changes in volume. Both the flow and stock transactions are only recorded for funded schemes, the entitlements related to unfunded schemes and social security schemes are not recorded in the core National Accounts.

2.4.2 AF.64 Claims of Pension Funds on Pension Manager

As a result of the introduction of the actuarial valuation of funded defined benefit schemes’ entitlements, it is now possible to estimate the funding position of such schemes. That is, the difference between the market value of funds held by the scheme and their liabilities (households' entitlement). This figure will be recorded in the ‘Financial Balance Sheet’ as AF.64 Claims of Pension Funds on Pension Manager, and recorded as an asset/liability relationship between the pension manager and the pension administrator (see Section 2.3). The pension administrator is liable for the AF.63 Pension Entitlements, but has a fund of assets in order to meet those liabilities. If the assets are not enough to meet those liabilities (shortfall), then the pension manager is responsible for meeting that shortfall. In this case, the pension manager will record an AF.64
liability and the pension administrator will record an AF.64 asset for the value of that shortfall. If the value of the assets is higher than the liability (surplus), the pension manager can make a claim on the pension administrator for the surplus (the pension manager will record an AF.64 asset and the pension administrator an AF.64 liability). This reflects the fact that the pension administrator has no financial responsibility for the scheme; ultimately it is the pension manager that is responsible.

In the 'Financial Account' the flow of F.64 Claims of Pension Funds on Pension Manager is recorded as a figure equal to D.122 Employers' Imputed Social Contributions for funded defined benefit schemes. This represents the flow of the funding of the current service increase before taking into account revaluations or other changes in volume.

2.4.3 D.122/D.612 Employers' Imputed Contributions

The recording of D.122/D.612 Employers' Imputed Contributions (part of D.12 Employers' Social Contributions) for funded defined benefit schemes is a new transaction in the National Accounts. The purpose of the transaction is to record the shortfall or surplus in the funding of the current service increase in pension entitlements. As mentioned in Box 5, the current service increase is the increase in pension entitlements as a result of employees’ working an extra year and building up extra pension benefits in the future. The purpose of the employers’ and employees’ actual contributions is to cover that increase each year. Therefore, the employers' imputed contributions are the difference between the current service increase less the net actual contributions (actual contributions less the service charge). This is recorded as either a positive figure (indicating a shortfall that the employer is liable for) a negative figure (indicating a surplus that the employer is entitled to), or zero if actual contributions meet the increase.

The D.122/D.612 Employers' Imputed Contributions figure reflects the implied level of contributions that the employer must make (or the level of contributions employers are owed back) in order to ensure that the current service increase in entitlements is funded correctly. Although no actual money is paid, meeting any shortfall (or benefitting from any surplus) is the responsibility of the pension manager and is part of the total remuneration package of the employee. This transaction is recorded as part of D.1 Compensation of Employees, as a use of the pension managers sector in the Generation of Income Account, and a resource of households in the Allocation of Primary Income Account.
Box 5: Changes in Entitlements for Defined Benefit Schemes

With the introduction of the actuarial valuation of funded defined benefit schemes in the NA, the flows must now also be recorded on an actuarial basis to reflect the changes in actuarial entitlements.

<table>
<thead>
<tr>
<th>Opening Entitlements</th>
<th>Change in Entitlements</th>
<th>Closing Entitlements</th>
</tr>
</thead>
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<tr>
<td>Benefits Paid</td>
<td>Current Service</td>
<td>Past Service</td>
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<tr>
<td>-</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Other Changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+/-</td>
<td></td>
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</tr>
</tbody>
</table>

There are four key drivers of the change in defined benefit entitlements:

- The payment of benefits reduces entitlements as those participants are ultimately entitled to less benefit in future (reflected in the transaction D.62 Social Benefits).
- For each extra period of time an employee works, they build up further pension entitlement. This is known as the ‘current service increase’ (reflected in the actual and imputed contribution transactions).
- For each period that passes, all participants are closer to retirement and death, which means there is one less period to apply a discount factor. This causes entitlements to rise as the value of future payments has risen. This is known as the ‘past service increase’ (reflected in the D.442/D.614 Investment Income transaction).
- Changes to the assumptions used in the actuarial valuation cause entitlements to move. For example, if the discount rate falls, entitlements will increase as the scheme assumes it will generate less income from the assets it holds.

2.4.4 D.442/D.614 Investment Income Payable on Pension Entitlements

There is a conceptual change to what is recorded as D.442/D.614 Investment Income Payable on Pension Entitlements (part of D.44 Other Investment Income) for funded defined benefit schemes. The investment income will now be recorded as the past service increase in entitlements (see Box 5). Each year that passes, the members of a funded defined benefit scheme are all one year closer to retirement. As a result, the members are one year closer to receiving their pension and there is one year less to apply a discount factor. Therefore, the present value of their entitlement increases each year as they get closer to receiving their pension. This process is known as the unwinding of the discount rate, equal to opening entitlements multiplied by the discount rate.

This figure reflects the amount due to scheme participants as part of the terms of the scheme itself, regardless of whether the scheme generates sufficient ‘actual’ investment income to cover that...
increase in entitlement. It is important to remember in a funded defined benefit scheme that the value of assets held by the scheme, and any ‘actual’ investment income it generates, does not have an impact on the value of benefits and the ultimate entitlement members have to a pension. They simply reflect the funds the pension scheme has to meet those entitlements. Ultimately, if the ‘actual’ investment income does not cover the past service increase, this will result in a shortfall between scheme assets and liabilities, which will be recorded as a liability of the pension manager in the Balance Sheet. The transaction is recorded as a use of the pension administrator and a resource of Households’ in the Allocation of Primary Income Account.

2.4.5 D.61 Net Social Contributions and D.62 Social Benefits

In the ‘Secondary Distribution of Income Account’, there is a revised breakdown of transactions recording both social contributions and social benefits. The new hierarchy will separately record D.611 Employers’ Actual Contributions, D.612 Employers’ Imputed Contributions, D.613 Households’ Actual Contributions, D.614 Households’ Contribution Supplements (equal to the Investment Income or D.442) and the D.61SC Service Charge. Previously, the rerouted Investment Income and the Service Charge (equal to pension schemes’ output) were recorded with Households’ Actual Contributions under the transaction D.6112 Employees’ Actual Contributions. The separate recording of the service charge has also brought about a conceptual change to this transaction, and it should now be equal to the fees charged by the scheme.

For social benefits, there is a new breakdown in order to reflect the type of benefits paid to households. The accounts will show Social Security Benefits (D.621), Other Social Benefits (D.622) and Social Assistance Benefits (D.623). The Net Social Contributions (D.61) are recorded as a resource of the pension scheme sector and a use of Households, while the Benefits (D.62) are recorded as a resource of Households and a use of the pension scheme sector.

2.5: Methodological Developments

As a result of the conceptual changes to pensions in the National Accounts from September 2014, new methods and data sources are required in order for the Accounts to reflect these changes. A large part of the development of methods and data sources has been carried out as part of the work on the Supplementary Table on Pensions (for more detail, see Section 4.1). Therefore, much of the work for September 2014 has entailed adopting the same methods and data sources used to compile the Supplementary Table on Pensions in the National Accounts. This section of the paper will outline some of the key developments. Readers will find further detail in a series of papers by Levy (2012a; 2012b; 2011a; 2011b).

2.5.1 AF.63 Pension Entitlements

The entitlements associated with funded defined benefit schemes must be recorded on an actuarial basis, as set out in Section 2.2. ONS is able to source data for private sector schemes
from the Pension Protection Fund (PPF) ‘Full Buy-Out’ data series, as it uses the PBO approach and the yield on Index-linked Gilts as a risk-free discount rate. As the PPF figures do not include estimates for the LGPS or most Crown guarantee schemes, data for these latter schemes are sourced separately from the Government Actuary’s Department (GAD) and individual accounts respectively.

For defined contributions schemes, the entitlements are equal to the market value of funds held by the schemes. Data are sourced from the ONS Survey of Pension Funds and the Prudential Regulation Authority (PRA) returns.

### 2.5.2 D.122/D.612 Employers’ Imputed Contributions

Employers’ Imputed Contributions are recorded for both funded and unfunded defined benefit schemes. For unfunded schemes, the imputed contributions will continue to be recorded as equal to the benefits paid. For funded schemes, the imputed contributions should be equal to:

\[
\begin{align*}
\text{Current Service Increase} \\
less & \quad \text{Employers’ Actual Contributions} \\
less & \quad \text{Households’ Actual Contributions} \\
less & \quad \text{Service Charge (recorded as a negative figure in the accounts)}
\end{align*}
\]

The current service increase can be calculated as:

\[
\begin{align*}
\text{Change in Entitlements} \\
less & \quad \text{Benefits Paid} \\
less & \quad \text{Past Service Increase} \\
less & \quad \text{Other Changes in Entitlements}
\end{align*}
\]

However, further development work is required in order to calculate accurately other changes in entitlements (which includes the changes to the assumptions used in the actuarial valuation), and ensure that the imputed contributions series does not reflect market volatility. Therefore, as an interim measure, ONS has decided to calculate imputed contributions as a set proportion of employers’ actual contributions (D.121/D.611), in line with guidance set out in ESA2010. The proportion is calculated using the relationship between employers’ actual contributions (D.121/D.611) and employers’ imputed contributions (D.122/D.612) calculated in the 2010 Supplementary Table on Pensions. This will ensure that the volatility associated with changes to assumptions is not included in the figures and, therefore, does not have an impact on key economic aggregates in the National Accounts.

### 2.5.3 D.442/D.614 Investment Income Payable on Pension Entitlements

As noted in Section 2.4.3, the investment income recorded for funded defined benefit schemes must represent the past service increase. This is equal to the unwinding of the discount rate, calculated as opening pension entitlements multiplied by the discount rate. This calculation uses
the same discount rate as used in calculating AF.63 Pension Entitlements (a market rate for non-government managed schemes, and a 5% nominal rate for government managed schemes). For defined contribution schemes, the investment income will continue to be calculated as interest, dividends and rent (as was the case in ESA95).

2.5.4 D.61SC Social Insurance Scheme Service Charge

As a result of the requirement to record the service charge as equal to the fees charged by pension schemes, a new methodology has been developed. Research carried out by the Department for Work and Pensions (DWP) estimated that the average charge levied by pension schemes was approximately 1 per cent of the market value of scheme assets. As a result, the new method adopted by the National Accounts will be to set the service charge as equal to 1 per cent of the market value of scheme funds. This assumption will be kept under review according to developments in the pension industry. For the LGPS and Crown guarantee schemes, figures on fees charged are sourced directly from Financial Accounts.
3: Impact of Pension Changes on the National Accounts

This section of the article looks at the main impacts of the changes to the treatment of pensions on the National Accounts. The main economic indicators impacted are **Gross Domestic Product (GDP)**, the **Household Saving Ratio**, **Public Sector Net Borrowing (PSNB)** and the **Net Worth** and **Net Lending/Borrowing** position of Private Non-Financial Corporations (PNFCs), Financial Corporations (FCs), Local Government (LG) and Non-Profit Institutions Serving Households (NPISH). This section will look at why these indicators have been impacted by the changes to pensions. For an overview of the impacts as a result of the pension changes and other changes for September 2014, please see the article ‘Impacts of European System of Accounts 2010 and other Changes on Economic Statistics’ published on the ONS website alongside this article.

3.1 Gross Domestic Product (GDP)

There are two drivers of the impact on GDP of pensions:

- A revised methodology for calculating the **Service Charge (D.61SC)** which impacts on the **Output (P.1)** of Pension Funds.
- The introduction of **D.122/D.612 Employers’ Imputed Social Contributions** series for LG and NPISH sectors feeding in to the calculation of the respective **Output (P.1)** figures for both sectors.

The output of pension schemes is equal to the **Service Charge (D.61SC)** recorded in the Secondary Distribution of Income Account. The new treatment used here replaces the previous treatment, and results in an impact on the output of pension funds. Similarly, the new imputed contributions series for LG and NPISH impacts their respective output figures as the output of non-market producers is calculated as the sum of costs. The impacts on output cause an equal impact to the production measure of GDP (as there is no impact on the other transactions used to calculate the production measure of GDP).

The impact on the production measure is reflected equally in both the expenditure and income measures of GDP. In the expenditure measure, the output of pension funds is consumed by Households (P.3), while LG and NPISH consume their own output. Therefore, any impact on output will be reflected by an equal impact on **Final Consumption Expenditure (P.3)**. In the income measure, the impact on the output of pension funds, LG and NPISH has an equal impact on the three sectors’ respective **Operating Surplus (B.2g)**, as operating surplus is calculated as GVA (Output less Intermediate Consumption) less Compensation of Employees less Taxes plus Subsidies.

The overall impact on GDP is minimal, with no change to the GDP profile and minimal impact on growth rates. With regards to top level GDP, the GDP implied deflator (based on the deflators from the expenditure components) was used to map from real to nominal GDP.
3.2 Household Saving Ratio

Pensions impact on many areas of the household accounts, culminating in an impact on the saving ratio. Initially, D.12 Employers’ Social Contributions (both actual and imputed) are recorded as a resource of households in the Allocation of Primary Income Account. These contributions are part of employees’ remuneration, and should be recorded as such. It is the employees’ responsibility to pay those contributions into the scheme because, under the terms of their employment, they are foregoing some of their pay in return for the employer contributing into the pension scheme.

Households also receive the investment income generated by the pension scheme in the Allocation of Primary Income Account, reflecting the fact that any income generated (or income due to members under the rules of defined benefit schemes) belongs to households as owners of pension schemes. Both of these transactions impact on Households’ Balance of Primary Incomes (B.5g).

In the Secondary Distribution of Income Account Households pay employers’ contributions (actual (D.611) and imputed (D.612)), D.613 Households’ Actual Contributions, and D.614 Households’ Social Contribution Supplements less D.61SC Service Charge into the pension scheme. Households then receive the D.62 Social Benefits from the pension as a resource. The result is that the contributions paid into the scheme reduce Households’ Gross Disposable Income (B.6g), while the benefits add to disposable income.

Finally, in the Use of Income Account pensions appear under the transaction D.8 Adjustment for the Change in Pension Entitlements. This transaction acts to reverse what has happened in the Secondary Distribution of Income Account by adding all the contributions to Households’ resources and subtracting the benefits paid. The reason is that although only benefits should count towards disposable income, only contributions should count towards Gross Saving (B.8g). This is because the act of paying contributions into the pension scheme is a form of saving; participants are ‘putting money away’ today in order to save for the ‘rainy day’ when they can no longer work. The benefits paid are households ‘running down’ those savings. Thus, the transaction reflects that contributions (actual, imputed, and the investment income less the service charge) act to increase Households’ pension entitlement and saving, while the benefits paid act to reduce Households’ entitlement and saving.

The D.8 adjustment impacts on the total resources of Households in the Use of Income Account. With only a small impact to Household Final Consumption Expenditure (P.3) as a result of Households’ consuming pension funds output, households’ Gross Saving (B.8g) is impacted. The saving ratio is impacted as it is equal to Gross Saving (B.8g) divided by Total Resources (the sum of the resource transactions in the Use of Income Account).

The impact on the Gross Saving (B.8g) of Households is offset by equal and opposite impacts to the Gross Saving (B.8g) of PNFCs, FCs, LG and NPISH. Therefore the saving for the economy as a whole is unaffected by these changes. Rather, the increase in households’ savings is as a result of the National Accounts now recording the money that should be flowing into households as a result of their entitlement to defined benefit pensions, rather than the actual money being paid into those schemes. Therefore, the primary impact on the saving ratio is as a result of the move to an actuarial valuation of funded defined benefit schemes. More detail on the impact of pensions on
the Household saving ratio, please see Annex C. For a worked example of the impact please see Annex D.

3.3 Public Sector Net Borrowing (PSNB)

Due to the classification of LG as the pension manager of the LGPS, the D.122 Employers’ Imputed Social Contributions are recorded as a use of LG in the Generation of Income Account. This is a new transaction relating to the LGPS as a funded defined benefit scheme, and feeds into the calculation of PSNB.

3.4 Net Worth and Net Lending/Borrowing

There is an impact on the net worth of PNFCs, FCs, LG, NPISH and Households as a result of the changes to pensions. The Net Worth (BF.90) of a sector is calculated by subtracting the Net Financial Assets/Liabilities (BF.90) calculated in the Financial Balance Sheet (assets less liabilities) from Non-Financial Assets (AN). The impacts are twofold. Firstly, Pension Entitlements (AF.63) impacts on the liabilities of Financial Corporations, with an equal impact on the assets of Households. Secondly, Claims of Pension Funds on Pension Manager (AF.64) impacts on the liabilities of the pension managers’ sectors (PNFCs, FCs, LG and NPISH), while there is an equal impact on the assets of FCs.

There is also an impact on the Net Lending/Net Borrowing position of PNFCs, FCs, LG, NPISH and Households. Net Lending/Net Borrowing (B.9) is calculated in both the Capital Account and the Financial Account. In the Capital Accounts, the impact on all sectors’ is equal to the impact on their respective Gross Saving (B.8g) figure. In the Financial Account, there are two impacts. Firstly, Pension Entitlements (F.63) impacts on the liabilities of Financial Corporations and the assets of Households. Secondly, Claims of Pension Funds on Pension Manager (F.64) impacts on the liabilities of PNFCs, FCs, LG and NPISH and the assets of FCs.
Section 4: Future Developments

The developments described so far in this paper cover those introduced for September 2014. Further work is being carried out to develop pension statistics in the National Accounts over the coming years. As noted in the introduction, developments to pension statistics in the National Accounts culminates in September 2017 when the Supplementary Table on Pensions will be published alongside the National Accounts. In the period up to 2017, further development work will be carried out on both the Supplementary Table and the National Accounts in order to improve the quality of estimates and align the two publications. This section looks at some of the key developments over the coming years, and provides some concluding remarks.

4.1 The Supplementary Table on Pensions

From September 2017 onwards, ONS will be required to transmit the Supplementary Table on Pensions alongside the core National Accounts. The Supplementary Table includes estimates for households’ entitlement to both funded and unfunded social insurance pensions (the core National Accounts only includes estimates for funded schemes). The funded section of the Supplementary Table must be consistent with the core National Accounts.

The Supplementary Table is currently published on an experimental basis by ONS. The first table, for reference year 2010, was published in April 2012, and ONS will continue to publish tables periodically up to 2017. During this period, ONS will continue to develop the methodology and data sources used in both the Supplementary Table and the National Accounts in order to bring consistency between the two.

4.2 Developments in the National Accounts

There are a number of areas of development required in the National Accounts in order to improve pension estimates. The key developments are outlined below:

- ONS will review the use of an appropriate risk-free discount rate for non-government managed schemes in order to reduce the impact of market volatility on the Pension Entitlements (AF.63) series.
- Methodological developments are required to the calculation of revaluations (K.7), other changes in volume (K.5) and pension scheme reforms (D.82) in order to improve the quality of those estimates. This work will allow ONS to review the methodology used to calculate employers’ imputed contributions (D.122/D.612).
- ONS will review the classification of the pension manager in relation to Crown guarantee schemes (see Section 2.3.1).
- The use of 1% of assets as the value of the service charge will be kept under review given potential policy developments and changes to the pension industry.
- Further developments will take place to pension estimates in the National Accounts as part of the work to bring the Accounts and Supplementary Table onto a consistent basis.
4.3 Concluding Remarks

This article aims to provide readers with a full description of the developments to pension statistics in the National Accounts as a result of the adoption of ESA10 standards. It has detailed the fundamental principles of recording pensions in the Accounts and how pensions were recorded under ESA95, the conceptual and methodological developments taking place for September 2014 and their impact on the Accounts, and offered an overview of the developments ONS proposes to take forward up to September 2017.

New pension estimates will be published as part of the wider National Accounts in Blue Book 2014. Further articles detailing other changes to the National Accounts as a result of the introduction of ESA10 will be published in the coming months, along with an article outlining the impact on GDP.
References


Annex

Annex A: Pensions Sequence of Accounts ESA95

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## Annex B: Pensions Sequence of Accounts ESA10

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### Annex C: Household Sequence of Accounts for Pensions

#### Allocation of Primary Income Account

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<td>B.5g Balance of Primary Incomes</td>
<td></td>
</tr>
</tbody>
</table>

#### Secondary Distribution of Income Account

<table>
<thead>
<tr>
<th>Use</th>
<th>Resource</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.611 Employers' Actual Social Contributions</td>
<td>B.5g Balance of Primary Incomes</td>
</tr>
<tr>
<td>D.612 Employers' Imputed Social Contributions</td>
<td>D.62 Social Benefits Other Than Social Transfers in Kind</td>
</tr>
<tr>
<td>D.613 Households' Actual Social Contributions</td>
<td></td>
</tr>
<tr>
<td>D.614 Households' Social Contribution Supplements</td>
<td></td>
</tr>
<tr>
<td>-D.61SC Social Insurance Scheme Service Charge</td>
<td></td>
</tr>
<tr>
<td>B.6g Gross Disposable Income</td>
<td></td>
</tr>
</tbody>
</table>

#### Use of Income Account

<table>
<thead>
<tr>
<th>Use</th>
<th>Resource</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.3 Final Consumption Expenditure</td>
<td>B.6g Gross Disposable Income</td>
</tr>
<tr>
<td>B.8g Gross Saving</td>
<td>D.8 Adjustment for the Change in Pension Entitlements</td>
</tr>
</tbody>
</table>
Annex D: Worked Example of the Impact on the National Accounts

Impact on Savings

In this scenario, the revised treatment of pensions results in an increase of £1m in D.12 Employers’ Social Contributions (as a result of the introduction of D.122 Employers’ Imputed Social Contributions for funded defined benefit schemes). In addition, there is a £2m increase in D.442 Investment Income Payable on Pension Entitlements (Part of D.44 Other Investment Income).

These impacts would first appear in the Generation of Income Account as the D.12 use of the pension manager sector (in this scenario Private Non-Financial Corporations, or PNFCs) would increase by £1m. This would reduce PNFCs B.2g Gross Operating Surplus by £1m. No other changes would be seen to PNFCs Accounts, with the result being a £1m decrease in PNFCs B.8g Gross Saving.

The D.12 is then received by Households in the Allocation of Primary Income Account. In addition, Households also receive the D.442 Investment Income in this Account. The result of the increase in both transactions would be to increase Households’ B.5g Primary Income by £3m. The D.442 Investment Income is recorded as a use of the Insurance Corporations and Pension Funds (ICPF) sector (part of Financial Corporations, or FCs). The result would be that the B.5g Primary Income of the ICPF sector would decrease by £2m.

In the Secondary Distribution of Income Account, households pay D.61 Net Social Contributions (which includes D.12 and D.44) to the pension scheme. Therefore, households would record a £3m increase in their D.61 use and ICPFs would record a £3m increase in their D.61 resource. The result would be that households’ B.6g Disposable income would be unchanged, as the £3m increase in their Total Uses (as a result of the D.61 increase) equals the £3m increase in Total Resources (which increases as a result of B.5g Primary Income now recorded as a resource in the Secondary Distribution of Income Account). For ICPFs, the £3m increase in their D.61 resource is partially offset by the £2m decrease in their B.5g Primary income, which results in a £1m increase in their B.6g Disposable Income (the £1m decrease in PNFCs B.6g Disposable Income results in no impact on the total economy).

Finally, in the Use of Income Account, Households receive the D.8 Adjustment for the Change in Pension Entitlements as a resource, which is equal to D.61 less D.62. As D.61 has increased by £3m, D.8 also increases by £3m. The result is that Households’ resource in the Use of Income Account has increased by £3m, therefore, their B.8g Gross Saving must increase by £3m also. The increased D.8 is recorded as a use of the ICPF sector in the same Account, however, with the £1m increase in B.6g Disposable Income, the net impact on ICPF B.8g Gross Saving is a £2m decrease. As mentioned in the second paragraph, PNFCs B.8g Gross Saving has also decreased by £1m, with the net impact on the B.8g Gross Saving of the total economy being zero (£3m less £2m less £1m).
Sequence of Accounts for Worked Example of Impact on Savings

<table>
<thead>
<tr>
<th>USE</th>
<th>RESOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>HN FC PNFC TOTAL</td>
<td>TOTAL PNFC FC HN</td>
</tr>
<tr>
<td>Generation of Income Account</td>
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</tr>
<tr>
<td>B.2g Gross Value Added</td>
<td></td>
</tr>
<tr>
<td>Total Resources</td>
<td></td>
</tr>
<tr>
<td>D.12 Employers’ Social Contributions</td>
<td></td>
</tr>
<tr>
<td>0 0 -1 -1</td>
<td></td>
</tr>
<tr>
<td>B.2g Gross Operating Surplus</td>
<td></td>
</tr>
<tr>
<td>B.3g Mixed Income</td>
<td></td>
</tr>
<tr>
<td>Total Uses</td>
<td></td>
</tr>
<tr>
<td>0 0 0 0</td>
<td></td>
</tr>
</tbody>
</table>

Allocation of Primary Income Account

B.2g Gross Operating Surplus -1 -1 0 0
B.3g Mixed Income
D.12 Employers’ Social Contributions 1
D.44 Other Investment Income 2
Total Resources 2 -1 0 3
D.44 Other Investment Income 2 2
Total Uses
3 -2 -1 0
B.5g Balance of Primary Incomes
3 0 -1 2

Secondary Distribution of Income Account

B.5g Balance of Primary Incomes 0 -1 -2 3
D.61 Net Social Contributions 3 3
D.62 Social Benefits Other Than Social Transfers in Kind
Total Resources 3 -1 1 3
D.61 Net Social Contributions 3 3
D.62 Social Benefits Other Than Social Transfers in Kind
0 1 -1 0
B.6g Gross Disposable Income
3 1 -1 3
Total Uses

Use of Income Account

B.6g Gross Disposable Income 0 -1 1 0
D.8 Adjustment for the Net Equity of Households 3 -1 1 3
Total Resources 3 -1 1 3
D.8 Adjustment for the Net Equity of Households 3 3
P.31 Individual Consumption Expenditure
0 1 -1 0
B.8g Gross Saving
3 -2 -1 0
Total Uses
3 1 -1 3
Annex E: Glossary

For a comprehensive glossary of pension terminology, please see the ONS Pension Trends Glossary available on the ONS website: Pension Trends Glossary - Office for National Statistics