



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

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Statistics Department
International Monetary Fund
Washington, D.C. 20431
United States

System of National Accounts 2008

Dear Philip and Colleagues,

Thank you for the opportunity to comment on the System of National Accounts 2008.

This feedback has been prepared by the Social Security Committee of the International Actuarial Association (IAA). It has not been subject to the due process required for it to constitute a formal view of the IAA. Thus, these comments do not represent an official view of the IAA.

We hope you will find our comments useful and consider them in the future work. If you wish to discuss any of our feedback, please do not hesitate to contact me at the e-mail address below.

Yours sincerely,

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On behalf of the IAA Social Security Committee

Comments on the System of National Accounts 2008 (SNA08)

- Proper assessment of and reporting on the financial status of any social security scheme is a part of good governance and should be done on a regular basis. These processes are essential to the maintenance of the long-term sustainability of social security programs.
- The reporting of financial information for social security systems should be accurate, appropriate and, if multiple reports regarding their financial status or operation are prepared, internally consistent. The goal of such information should be to provide stakeholders (government, participants and public) with information that enables informed decisions to be made. The financial information should serve to educate and not to confuse or mislead.
- The IAA recognizes that statistical reporting for national accounts is based on a retrospective approach and does not represent the assessment of the long-term sustainability of the social security programs. The IAA also appreciates that liabilities of social security programs do not appear in core national accounts and are not considered to be part of government debt by national accounts. Nevertheless, the IAA has several concerns regarding how this information is presented as a memorandum item. In particular, it is concerned about the comparability of the published information on an international level.
- The IAA's first concern relates to the methodology used to determine "Net implicit obligations for future social security benefits". Table 4.6 of the Government Finance Statistics Analytic Framework (GFS14) states the following:

Net implicit obligations for future social security benefits is

Present value of implicit obligations for future social security benefits

Minus:

Present value of future contributions to social security schemes

As the IAA has discussed with the IMF, this definition is not sufficiently clearly defined; more details of what is intended should be provided. In doing so, several points should be taken into account:

- A prospective view is critical for social security system assessments, rather than the historical view taken by many private sector financial statements, since there is no requirement to take into account an immediate closure or winding-up.
- Private programs can be terminated for various causes; thus, as most regulatory frameworks provide, they must be fully funded.
- Social security systems are fundamentally different from traditional pension plans—they are long-term systems affected by a country's past and future economic, demographic and policy environments, and are established and managed to be enduring in nature and to cover multiple generations. In a social security system mandated by a sovereign government that can enforce the payment of contributions, the largest assets are the future contributions coming from both current and future participants.
- To provide a comprehensive and objective picture, the expected future evolution of the income and expenditure of the program should be taken into account in considering the obligations of a social security scheme since the real indicator of sustainability for a social program is how well these cash flows are matched.

According to the IAA International Standard of Actuarial Practice 2 (ISAP 2) Financial Analysis of Social Security Programs, the choice of the methodology used to measure the assets and obligations of a social security system should be consistent with the system's financing approach. Thus, for programs financed using a pay-as-you-go or partial funding approach, the methodology should be based on the open-group method, i.e., taking into account both current and future participants of the program consistent with the financing mechanism.

- The second IAA concern relates to the potential misuse by external users of the information presented in the national accounts with respect to social security systems.
 - Social security systems (similar to the education system of a country) usually represent intergenerational social contracts and are vital in protecting the general population from negative contingencies over a generation's life course. At the same time, by the nature of a social contract, these systems need not be, and in general cannot be, fully pre-funded. Showing social security liabilities based on the closed-group approach (i.e., future accruals and future participants being left out of consideration) ignores funds contributed by past, current and future generations that were and will be used to pay benefits. Thus, it is very likely that large net implicit obligations will appear as a part of national accounts memorandum items as a result of only looking at part of the picture. If these numbers are used without sufficient and proper explanation, they could serve to alarm readers, create an unwarranted negative perception of the social security system, and may even lead to decisions that will adversely affect the well-being of the society as a whole. In addition, if we take into account the sensitivity of such an indicator to certain key demographic and economic assumptions, such as the discount rate, the production of a single figure for social security liabilities would potentially increase even more the risk of misinterpretation.
 - Social security systems are not necessarily dependent on government subsidies and may possess self-adjustment mechanisms that automatically adjust some scheme's parameters if long-term sustainability is jeopardized, i.e., future financial commitments are not fully met by future financial resources. In this case, it is not clear what meaning can be ascribed to net implicit liabilities under the closed-group approach.
 - If it is decided that a methodology other than the open-group is to be used, it should at least be supplemented by numbers prepared on an open-group basis, with reconciliation between the two sets of numbers and an explanation of how to properly interpret the figures. In other words, a multiple disclosure approach (as, for example, in Canada) should be mandated.
- Finally, the IAA is concerned about the fact that the actuarial profession has not been consulted and involved in both conceptual and methodological discussions. We understand that the IMF usually works with national ministries of finance and statistical offices. However, with respect to the reporting of obligations of social security programs (as well as related issues such as reporting benefit liabilities of a government with respect to its own employees), it is important to involve actuaries responsible for assessing the long-term sustainability of social security programs, as well as the wider actuarial community, in any such discussions.