

ANNEX C

An explanation of social assistance, pension schemes, insurance schemes and similar concepts

There are overlaps and interrelationships between the terms social benefits, social assistance, social security, social insurance, pension schemes, annuities, life insurance, non-life insurance, accident insurance, term insurance and the like. The terms are not necessarily self-explanatory and are not always used consistently, especially when comparisons are made between countries with different institutional structures. The concepts underlying the terms are integral to some of the basic tools used by governments to assist those experiencing or likely to experience economic disadvantage, and by households to minimise their economic risks. It is essential to understand the concepts and employ a consistent terminology to describe them when undertaking micro analysis.

This Annex explains the terms as they are used in the ICW Framework. The terminology used is basically consistent with the SNA (2008), although there are differences in the way some elements are included in this framework compared to the way they are included in the SNA framework (see Annex B for a detailed comparison). In addition, the SNA does not explicitly acknowledge the existence of the private pension schemes described below, although by their characteristics they would be captured in the SNA definition of life insurance.

Social benefits: Social assistance, social security, social insurance, social transfers in kind

Social benefits are the payments made to households as part of social assistance, social security and other social insurance, or social transfers in kind. The payments are made “when certain events occur, or certain conditions exist, that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or reducing their incomes. Social benefits may be provided in cash or in kind” (SNA 17.79). The types of events or conditions leading to beneficiaries receiving social benefits include:

- responsibility for the support of dependants, such as children, spouses, elderly relatives or invalids;
- reduction in income as a result of not being able to work because of sickness, injury or birth of a child;
- non-employment due to involuntary unemployment or retirement (voluntary or compulsory);
- death of an income earner;

- need for medical or dental treatment;
- need for housing; and
- need for education.

Social benefits can be split into *pension social benefits* and *non-pension social benefits*. Pension benefits are primarily income support in retirement, but may also be provided to younger people with long-term disabilities that prevent them from working, to dependants of income earners who die, and to people in similar situations. Unemployment benefits are normally regarded as non-pension benefits. Pensions are discussed further in a later section.

Social benefits are not necessarily always provided when such events or conditions occur, and the eligibility for benefits varies according to the circumstances of the household concerned, the type of scheme under which the benefits are being provided, etc. For in-kind benefits, the benefit sometimes covers the full cost of a good or service being provided, but sometimes the household has to meet part of the costs. Sometimes an in-kind benefit is provided as a cash refund or partial refund of expenditure already undertaken by the household. However, such benefits are still regarded as in kind because they relate to the provision of specific goods or services.

The list of events and conditions leading to the provision of social benefits given above is not exhaustive, and benefits of the types listed are not available in all countries. The schemes providing social benefits also vary considerably between countries, both in title and in structure. In this Framework, the types of schemes providing social benefits are divided into: i) social assistance schemes; ii) social insurance schemes; and iii) social transfers in kind. Social insurance is further divided into social security schemes and employment-related social insurance.

Social assistance comprises social benefits provided in cash to the population at large, or segments of the population, under schemes funded by general government and without direct contributions to the scheme by, or on behalf of, potential beneficiaries. Benefits may be universally available, such as a pension paid to all the population over a certain age or to all people with a specific disability, such as blindness. More commonly, beneficiaries have to meet other conditions. In particular, benefits are often “means-tested”, i.e. available only to people with income and assets below specified thresholds. There are likely to be additional conditions relevant to particular benefits. For example, unemployed people may be eligible for unemployment benefits only if they can show that they are actively seeking employment.

Social insurance comprises social benefits provided to participants in insurance schemes that meet at least one of the following conditions.

- “Participation in the scheme is obligatory either by law or under the terms and conditions of employment of an employee, or group of employees.”
- “The scheme is a collective one operated for the benefit of a designated group of workers, whether employed or non-employed, participation being restricted to members of that group.”
- “An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution” (SNA 17.88).

In contrast to social assistance, premiums or payments in some social insurance schemes are contributed directly into the scheme on behalf of participants. The

contributions are known as *social contributions*. They may be made by the participants themselves or they may be made by employers on their behalf. If the social contributions are made by employers, they are considered income in kind. There are a number of ways in which employers can make social insurance contributions, depending on the legal and institutional structures of the country in which the employer is operating:

- Payments may be made to general government.
- Payments may be made to a designated external fund administered by government, or to an insurance company or similar financial institution.
- Money may be set aside in a designated fund that the employer operates to finance its social insurance obligations.
- The employer may meet its social insurance obligations out of general corporate funds. In this case, the value of the social contribution is assumed to be equal to the amount that the employer would have to pay an insurance corporation to provide cover to meet the obligations concerned. Such imputations are unlikely to be made for individual employees, and employees are not able to report their value in household surveys.

A participant in a social insurance scheme may be covered by the different schemes for different types of benefits, and those schemes may not all operate in the same way. For example, an employer may pay contributions to the general government to provide for the employee's future retirement pension and to an insurance company to cover the employee's medical expenses, and it will probably finance some income support payments out of its general corporate funds.

The payments likely to be financed internally by the employer include pay while on short-term sick leave as well as termination and redundancy payments. In the SNA, employer obligations to meet future payments for current employees are imputed when no actual contributions are made. However, such an approach is not included in the ICW Framework; there are no social contributions included to cover the funding of these social benefits, nor are the benefits included with other social insurance benefits. Instead, wages and salaries paid from general employer funds – while an employee is on sick leave, disability leave or maternity leave – are included with regular wages and salaries, and termination and redundancy payments are included as a separate element of employment from income.

Social security schemes are social insurance schemes operated by general government. They may be operated on behalf of the whole population or on behalf of specific segments of the population. Employers may make social contributions to social security schemes, but the full responsibility for paying benefits lies with general government.

Social insurance other than social security is always tied to employment, and is known as *employment-related social insurance*. Schemes set up by governments to provide pensions or other social benefits to their own employees, including defence personnel, are normally employment-related social insurance, and are not regarded as social security.

In some social insurance schemes, a participant can choose to pay social contributions above the minimum required by the scheme in order to be eligible for greater benefits, e.g. to receive a higher retirement pension.

If social benefits from general government are paid in kind, they are regarded as *social transfers in kind* (STIK) rather than social assistance or social security. Consequently, social assistance benefits and social security benefits comprise cash payments only. STIK

includes benefits provided free of charge, and benefits for which the beneficiary initially makes payment but then receives a refund. If only part of the initial cost is paid for or refunded by government, then only the amount funded by government is regarded as STIK, while the remainder is consumption expenditure of the household. STIK also includes in-kind social benefits provided by non-profit organisations.

STIK includes goods and services provided by general government and non-profit organisations that are individually consumed by households, such as education, health care and housing, but excludes services that are consumed collectively, such as roads, law and order, and general government administration.

Accident insurance

Accident insurance is a means by which policy holders share the risk of the occurrence of certain prescribed events. The premiums paid contribute to a pool of funds from which benefits are paid to those policy holders who suffer from the prescribed events.

Accident insurance may relate to events that in principle could be included in social benefits but in practice are not. For example, the social benefits available in a country may not cover the health expenses of all people, or they may not cover some medical treatments (e.g. physiotherapy) or they may pay only a certain proportion of health expenses incurred. Private health insurance may, wholly or partly, cover the difference between the health expense incurred and the amount available to the policy holder as a social benefit.¹

Term insurance

Term insurance provides a benefit if an insured person dies, or dies under certain specified conditions such as before reaching a given age, but provides few if any other benefits. It therefore is primarily a pooling of risk similar to accident insurance.

Insurance policies that provide a benefit if a person dies but are primarily vehicles for saving and investment are called life insurance policies, and are discussed in the next section.

Pensions, life insurance and annuities

Pension benefits may be received from social assistance pension schemes, social insurance pension schemes or private pension schemes. Pension schemes operate in a variety of ways.

Social assistance pension schemes are *non-contributory*. They are funded by general government, without direct contributions to the scheme by, or on behalf of, potential beneficiaries. The pension paid from a social assistance pension scheme is determined according to criteria set by government.

Social insurance pension schemes and private pension schemes are *contributory* schemes. They require contributions to be made by scheme participants and/or their employers. The required contributions may be a fixed amount or a percentage of wages and salaries received. In some schemes, participants may have the option to make higher contributions than the required minimum in order to receive additional pension benefits when they retire. They may make the additional contributions themselves, or they may negotiate with their employer to make higher contributions, perhaps in return for reduced cash income.

Contributory schemes can be defined-benefit schemes, defined-contribution schemes, or a hybrid of the two.

In a *defined-benefit scheme*, participants receive benefits determined primarily by criteria other than the value of the participant's contributions and accumulated investment earnings. The benefits are most likely to reflect the wage or salary level at retirement, and perhaps the length of time that the participant was in the scheme. There may be a minimum value. The benefit may be paid as a lump sum (e.g. defined as a multiple of final annual salary) or as regular pension payments. If there are regular pension payments, they would normally be paid at least until the death of the participant. After the death of the participant, payments may continue to be paid to a surviving spouse and any dependent children, perhaps at a reduced rate. Social security pension schemes are usually defined-benefit schemes, which provide ongoing regular pension payments.

In a *defined-contribution scheme*, the contributions are invested by the scheme manager. At retirement or some later date, the scheme participant receives a lump sum or lump sums that reflect the contributions made, plus the investments earnings made on the accumulated contributions plus other volume changes that the investments may experience, plus holding gains and losses, less the operating fees withdrawn by the scheme manager. Defined-contribution schemes are in essence saving and investment schemes, although they may also have some insurance elements added. For example, if a scheme participant becomes disabled or dies before reaching retirement age, there may be a benefit paid in addition to the return of the accumulated contributions and their investment earnings.

Private pension schemes are defined-contribution schemes that do not qualify as social insurance because they are not mandated by government and are not employment-related. Participants contribute to them entirely at their own discretion.

In this Framework (and in the SNA), *life insurance* refers to saving and investment schemes similar in many respects to defined-contribution pension schemes.² Contributions are usually paid into a life insurance policy on a regular basis, at least for a period of time after the policy is taken out. The policy matures when the person whose life is insured reaches a given age. The accumulated contributions and associated investment earnings, less operating fees, are returned as a benefit. There is also an insurance component that is paid if the insured person dies before the policy matures.

Private pension schemes and life insurance schemes can be attractive as vehicles for saving and investment because they often receive favourable tax treatment compared to other forms of investment. Favourable tax treatment is also likely to be an incentive for participants to contribute more than the required minimum to social insurance pension schemes. The favourable tax treatment given to such schemes reflects government objectives to increase the funds available to scheme participants and their dependants during retirement, thereby enhancing their economic well-being and lowering the likelihood that they will require support from, for example, social assistance pension schemes.

In line with these objectives, there may be restrictions on how lump sums available from pension schemes are utilised. The lump sums may not be available until the scheme participant reaches a certain age, even if they retire at a younger age. On the other hand, after a participant has reached a certain age, it may be mandatory to withdraw at least a minimum amount from the fund each year. Such withdrawals may be regarded as pension

payments. In some cases, it is mandatory to convert the lump sum, or a large part of it, into an annuity.

An *annuity* is a means of converting a lump sum into a guaranteed stream of payments over time. An annuity is normally purchased from a financial institution such as a life insurance company. In return for the receipt of the lump sum, the issuing institution makes regular payments to the purchaser for a specified period of time. Commonly, the payments end when the purchaser dies, or when the purchaser and the purchaser's spouse have both died. Thus the length of time over which payments will have to be made is unknown at the start of the annuity, with the issuing institution bearing the associated risk.

In this Framework, annuities are classified according to the source of funding used to purchase them: an annuity purchased using a lump sum rolled over from an employment-based social insurance pension is treated as a social insurance pension entitlement (and included in item I4.2); an annuity purchased using a lump sum rolled over from a private pension scheme is treated as a private pension entitlement (included in item I2.1.16); while other annuities are grouped with life insurance entitlements (included in item I2.1.5).

Treatment in the Framework

While there are close similarities between some elements of social insurance schemes and private insurance and pension schemes, there are significant differences in how they are treated within this Framework.

Employers' contributions to social insurance are regarded as part of income from employment. However, those contributions and any additional contributions made by employees are all included in current transfers paid by households. Therefore that income is not regarded as part of the disposable income of households. On the other hand, household payments for private accident insurance and term insurance are treated as consumption expenditure and are therefore current payments from disposable income. Household contributions to private pension schemes or life insurance are regarded as saving from disposable income and as an addition to wealth. The purchase of an annuity is the purchase of a financial asset, and is therefore the exchange of one form of wealth for another.

There are corresponding differences in how benefits received from the various schemes are treated. Unless they are large and irregular payments, benefits from social assistance and social insurance are included as current transfers received, and contribute to disposable income.³ Because of definitional and measurement difficulties, social transfers in kind (STIK) are not included in disposable income but are included in adjusted disposable income. Benefits in kind from employment-related social insurance are included in consumption expenditure, while STIK is included in actual final consumption. In contrast, benefits from accident insurance are treated as negative consumption expenditure that offsets the premiums paid for the insurance. Benefits from term insurance are capital transfers received. If received on a regular basis, payments from life insurance, annuities and private pension schemes are treated as property income, since they are usually regarded as income by the recipients.

Finally, wealth statistics in this Framework record the value of a household's claims on pension funds, annuities and life insurance. As explained in Chapter 3, these pensions, annuity and life insurance entitlements need a special adjustment to reconcile them with

the income and consumption measures of the Framework. Table C.1 summarises how payments to and receipts from social assistance, social insurance, private insurance and pension schemes are treated in the Framework.

Table C.1. Treatment of Payments in the Framework

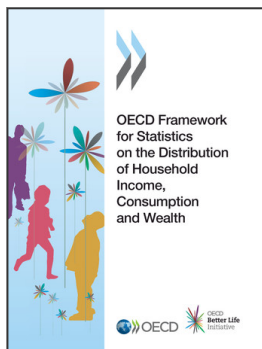
Scheme	Payments to scheme	Receipts from scheme
Social assistance	Social assistance is funded by general government without direct contribution by households; payments are therefore excluded from the micro framework	Social assistance benefits in cash from government (I4.3) are included in current transfers received, and therefore part of disposable income. Social transfers in kind from government (I5.1) not received from a social security scheme are part of adjusted disposable income.
Social security	The part of employee and employers' social insurance contributions (E2.3) that is paid to a social insurance scheme operated as part of general government is an element of current transfers paid, and is subtracted from total income when deriving disposable income.	Pensions and other cash benefits from social security (I4.1) are included in current transfers received, and are part of disposable income. Social transfers in kind from government (I5.1) received from a social security scheme are part of adjusted disposable income. Lump-sum benefits from social security (KR2) are included in capital transfers received.
Employment-based social insurance and annuities purchased with lump sums rolled over from employment-based social insurance	The part of employee and employers' social insurance contributions (E2.3) that is paid to a social insurance scheme not operated as part of general government is an element of current transfers paid, and is subtracted from total income when deriving disposable income.	Even though entitlements in employment-based social insurance pension schemes and annuities are conceptually treated as assets in the Framework, pensions and other cash benefits from them (I4.3) are included in current transfers received, and are part of disposable income. Lump-sum benefits from employment-based social insurance (KR3) are included in capital transfers received, unless rolled over into an annuity.
Private pension schemes and annuities purchased with lump sums rolled over from private pension schemes	Contributions to private pension schemes are treated as a form of saving. The payments are not directly recorded within this Framework.	Even though entitlements in private pension schemes and annuities are conceptually treated as assets in the Framework, regular receipts from them are treated as income from Regular payments from private pension funds (I2.1.6).
Accident insurance	Premiums paid are part of gross value of direct monetary purchases in the market (E1.1.1) in Consumption expenditure.	Benefits received are part of negative consumption expenditure items (E1.1.2), which are subtracted from Consumption expenditure.
Term insurance	Premiums paid are part of gross value of direct monetary purchases in the market (E1.1.1) in Consumption expenditure.	Benefits received are part of Other capital transfers received (KR8).
Life insurance schemes and annuities not included with pension schemes	Payments to life insurance schemes are treated as a form of saving, while the purchase of annuities is financed from existing wealth. The payments are not directly recorded within this Framework.	While entitlements in life insurance and annuities are conceptually treated as assets in the Framework, regular receipts from them are treated as income from financial assets (Annuity and other regular payments from life insurance funds, I2.1.5).

The differences in treatment outlined above may have a significant impact on comparisons made between countries, or over time. Consider, for example, two countries that have equal coverage of health costs through insurance schemes. Assume that in one country most health care is covered by social insurance, but in the other country an equivalent amount of health care is provided through private insurance. Assume also that the social contribution or insurance premium costs are the same in both countries and that

the benefits are also the same. In the first country, the social contributions to the insurance scheme will be included in current transfers paid and therefore deducted from total income when deriving disposable income. For the second country, private insurance premiums will be included in consumption expenditure paid out of disposable income. On the other hand, the benefits received will be included in current transfers received and will be part of disposable income in the first country, but netted off the premiums and treated as negative expenditure in the second country. Therefore, for a household receiving no benefits in a given period, disposable income and consumption expenditure will be higher in the second country than in the first country. The reverse will be true for a household receiving benefits that exceed the value of its social contribution or insurance premium in a given period.

Notes

1. Accident insurance also covers types of events that are not in the scope of social benefits. For example, travel insurance that provides compensation for lost luggage, delayed flights, etc., is a type of accident insurance. Vehicle insurance and home insurance are also types of accident insurance, but the purchase of vehicle insurance or home insurance is not regarded as consumption expenditure. Rather, these are costs to be deducted when deriving the net value of services from owning consumer durables and owner-occupied dwellings.
2. As noted earlier, term insurance is used in this Framework to describe schemes that primarily only provide a benefit if the insured person dies. Term insurance is similar to accident insurance, and is included in non-life insurance.
3. Large and irregular payments are capital transfers received. They include lump-sum retirement payments, and lump-sum payments received as compensation for work-related injuries.



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