Comments on draft SNA chapter:
Chapter 7: The primary distribution of income account

Deadline for comments:
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This three-part template allows you to record your comments on draft chapter 7 easily and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any one, any two, or all of the three parts of the template.
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Part I: General comments

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 7, you may wish to devote particular attention to the passages listed below. There is space after each issue for any comment you wish to make.

Comment:

7.5 first sentence after italics. The sentence of the old SNA was: "Taxes on production do not include any income tax payable...". The editor has added "*Neither compensation* of employees nor taxes on production include any income tax". The addition of "Neither compensation of employees" is wrong. On the contrary, Compensation of employees include the taxes on income (and particularly those collected at source).

7.13 the old paragraph 7.9 has been deleted while it gave an interesting information on the content of the net operating surplus for government units entirely non market (which is zero by construction). As it appears that no change will be introduced regarding the estimate of the output of the non market sector in the new SNA, this sentence should be reintroduced in the text.

7.16 (d) The editor has chosen, for drafting reasons, to create a category "investment income" which regroups Interest, dividends, and other property income. While we agree it is useful for explanatory purposes, we do not think it is a useful statistical aggregate. We note that there is no investment aggregate shown in table 7.8 and agree that there should be none and hence no change in the coding and classification of the transactions D41 (Interest), D42 (Distributed income of corporations), D43 (reinvested earnings), D44 (property income insurance).

7.18.b : second sentence: should be changed if UNSC decides not to include return to capital

7.37 (b) The editor has changed the classification of compensation of employees by including a subcategory "contributions to social security schemes". This is not useful, because, the SNA, employers have no relationship with the schemes. They are supposed to pay all social contributions to their employees (who themselves then pay back to the social insurance schemes). So it is not necessary to split between "social security schemes" and "other schemes". The current SNA distinguishes only actual social contributions (D121) and imputed social contributions (D122). This is sufficient. Changes to classifications should be limited to what is absolutely necessary. This new category is not necessary.

7.55 end of last sentence. This sentence says that employer social contributions are included in compensation of employees, which is fine, and then transferred by households to the social insurance schemes either as social contributions <u>or as payment of the pension service</u>. I disagree with this last part: <u>employer</u> social contributions should not be, by convention, modified when rerouted through the household account. The imputed payment of the service should be attributed to the imputed <u>employee</u> social contribution, as a deduction from premium supplements.

7.54 We do not like the name of this category “employment related social insurance schemes". It implies that social security is not employment related, while it is obvious that it is. This stems simply from the fact that it is precisely discussed in this section (which refers to the cost of employment!). We think therefore that a better name has to be found. We propose “*<u>other</u> employment-related social insurance schemes*”. This remark applies to paragraphs 7.54 to 7.61

7.54 social security *units, rather than* social security *funds* (i.e. social security is generally unfunded...)
This remark applies to paragraphs 7.54 to 7.61

7.58 last sentences: as mentioned earlier, the payment of the service of any pension scheme should not be associated with <u>employer</u> social contributions, but with <u>employee</u> social contributions. Thus this discussion has not to be included here.

7.56 As mentioned earlier, there is no necessity to create a new entry here for social security, under compensation of employees. The old SNA had two entries: actual (D121) and imputed (D122), and this is sufficient.

7.57 This should be replaced by a paragraph covering as well social security than other social insurance scheme. (see previous remark).

7.59 the last sentence has to be redrafted by: "It must be such that the sum of the employer's actual contribution plus the sum of any *<u>actual</u>* contribution by the employee plus the imputed contribution by the employer is equal to the increase in benefit due to current period employment". Note that I suppressed "the cost of operating the scheme". This has nothing to do with <u>employer</u> imputed social contributions.

7.58 It is inappropriate to seem to limit, as is done here, the category "imputed employer contributions" to pension schemes. There are other schemes than pension schemes (health, for example) for which there should be imputed contributions. This drafting seems also to exclude from the previous category (actual contributions) any pension contribution, while there are of course, actual pension contributions. Therefore the location of these paragraphs 7.58 to 7.51 should be changed to just after paragraph 7.55 and before paragraph 7.56.

7.58 In reference to my previous comment to relocate paragraphs, the new paragraph 7.58 should be simply inspired by the old SNA paragraphs 7.45 and 7.47, which remain entirely adequate. Old paragraph 7.46 should be deleted. Thus current 7.58 would be replaced by:

> 7.45 (old) Some employers provide social benefits themselves directly to their employees, former employees or dependants out of their own resources without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose. In this situation, existing employees may be considered as being protected against various specified needs or circumstances, even though no payments are being made to cover them. Remuneration should therefore be imputed for such employees equal in value to the amount of social contributions that would be needed to secure the de facto entitlements to the social benefits they accumulate. These amounts depend not only on the levels of the benefits currently payable but also on the ways in which employers' liabilities under such schemes are likely to evolve in the future as a result of factors such as expected changes in the numbers, age distribution and life expectancies of their present and previous employees. Thus, the values that should be imputed for the contributions ought, in principle, to be based on the same kind of actuarial considerations that determine the levels of premiums charged by insurance enterprises.
>
> 7.47 (old): The two steps involved may be summarized as follows: (a) Employers are recorded, in the generation of income account, as paying to their existing employees as a component of their compensation an amount, described as imputed social contributions, equal in value to the estimated social contributions that would be needed to provide for the unfunded social benefits to which they become entitled; (b) Employees are recorded, in the secondary distribution of income account, as paying back to their employers the same amount of imputed social contributions (as current transfers) as if they were paying them to a separate social insurance scheme.

7.58 third sentence: you allow for the existence of "non autonomous defined contribution schemes". Such a situation can hardly exist, as defined contributions schemes are funded by definition, and thus necessitate a status different from the sponsor. So I think that there cannot be *imputed* employer social contributions for defined contribution schemes.
7.71 last sentence: on taxes, refer also to Chapter 21, and not only to paragraph 8.54.

7.75 fourth sentence: this sentence on the limitation to tax assessments is old SNA and is correct. However, the AEG supported an additional condition proposed by the TFHPSA regarding assessed taxes (see paragraph 122 of future Chapter 21): *Only amounts that government realistically expect to collect should be recorded.* Some of tax based on assessments are not realistically to be collected (e.g. bankrupcy).

7.86 c: AEG decision. This paragraph should include a description of mobile-phone-type licences. For the moment it doesn't. So one should include at the end: "*Payments for licences for use of an underlying asset (fixed or natural resource) are treated as sales of assets and not tax (see 21.116).*"

7.101 I agree that the definition of "SNA interest" should be included here. However, I hope that you will keep in the next version all the many paragraphs on interest that you have deleted. An explanation of what is accrual interest in the system is essential and these old paragraphs 7.94 to 7.111 are to be reintroduced.

7.107 Add at the end: *For public enterprises, see 21. 205 to 21.208*

7.119 This section does not deal with the necessary imputed property income to be recorded between the sponsor of a pension scheme and the pension scheme when the scheme is underfunded.

7.121 The part of the sentence underlined is totally unclear to me: "*The formula may be expressed in many ways including, for example, a variation on a defined contribution schemes such as the growth of earnings of the funds,...*" This is really non typical to defined benefits schemes: formulae are generally based of growth of real average salary, or inflation, not on earnings from funds. If so, they become defined contribution schemes...

7.121 last sentence: this sentence merely repeats the first sentence of the paragraph.

7.122 This paragraph is imprecise. It presents the (imputed) property income D44 payable to policy holders by Defined Benefits schemes as equal to "the increase in pension entitlements due each year for people enrolled at the beginning of the year and who retire during the year or are one year nearer retirement at the end of the year." This property income should be presented simply as "*equal to the increase of the net present value of the stock of pension entitlements due to people enrolled in the scheme at the beginning of the period. This increase reflects that the value of these past entitlements increases mechanically as the delay for retirement decreases during the year. In practice, this can be estimated by applying the discount rate used in the calculation of the net present value of future pension benefits to the stock of pension entitlements at the beginning of the year*"

Part III. Other specific comments

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