The UK Enhanced Financial Accounts: changes to defined contribution pension fund estimates in the national accounts; part 2 - the data

Results of the national accounts methodology change for estimating household entitlements in DC pension funds described in Part 1.

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1 . Introduction

This article presents the results of work undertaken by the Pensions in the National Accounts team at the Office for National Statistics (ONS) to improve estimates of Defined Contribution (DC) pensions in the UK National Accounts, specifically in relation to DC pension funds. The methodology changes were discussed in an article published on 16 January 2017; this article presents the data.

In order to be treated as part of pensions for national accounts purposes, pensions have to meet the national accounts criteria for "pensions in social insurance". For private (non-state) pensions, this means that they must be workplace pensions providing retirement benefits for employees. Individual personal pensions are treated as savings, not as pensions, in the accounts. In the UK, the 2 main institutional sub-sectors providing pensions that meet the "pensions in social insurance" criteria are pension funds (S.129) and insurance corporations (S.128). Pension funds are associated with occupational or trust-based pension schemes, while insurers (and others) provide contract-based personal pensions including group personal pensions.

Although we are reviewing estimates for DC pensions provided by life insurers and other providers that meet the "pensions in social insurance" criteria, this article focuses on data for DC pension funds in S.129, where a review of current estimates has been completed. We are also working to improve estimates for Defined Benefit (DB) pensions in the public and private sectors. When this work is complete, we will be able to produce improved estimates for all pension entitlements in the UK National Accounts. We also hope to be able to show the DC and DB series separately and to break them down further, as we have been asked to do by users.

2 . The new estimates for entitlements

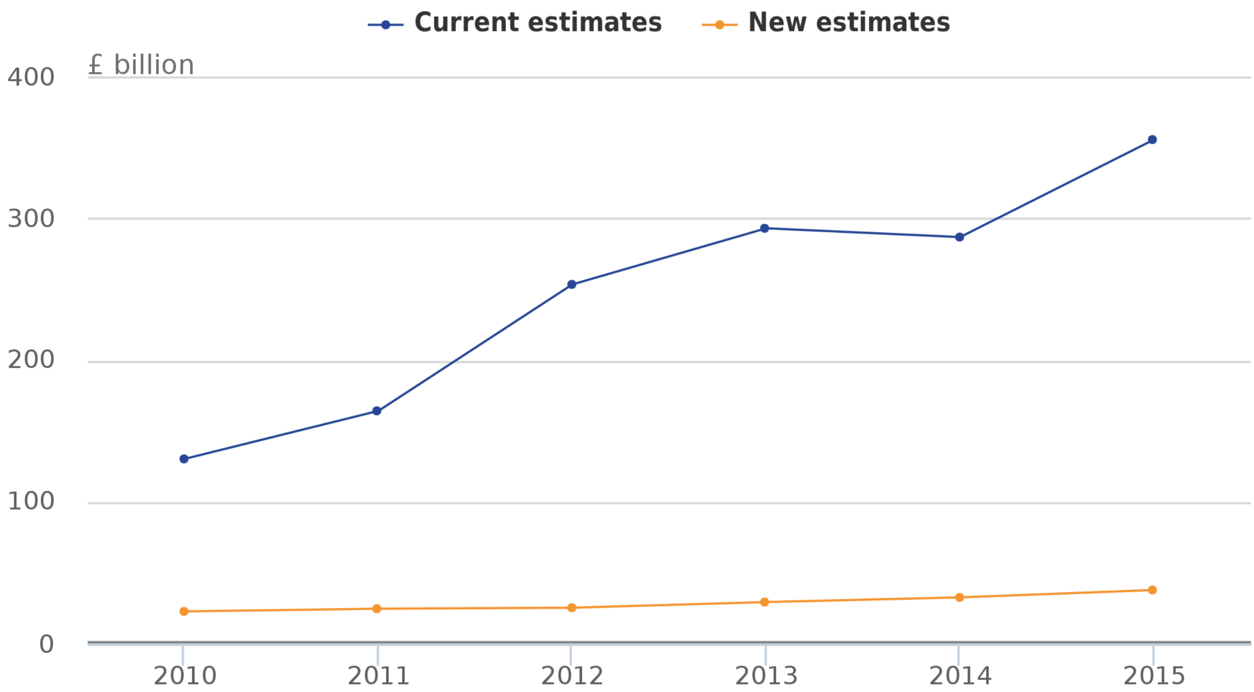
As explained in the methodology article published on 16 January 2017, we have decided to replace the current method for estimating DC pension entitlements in S.129 with a new method using regulatory data available from 2010 from The Pensions Regulator (TPR). We have produced figures based on TPR's published time series for the market value of assets of DC pension schemes [1] with 12 or more members [2]. These figures have been adjusted by us to include information about the market value of assets of schemes with fewer than 12 members which are not "relevant small schemes" [3] that has been provided to us by TPR for 2014 onwards. We have modelled the pre-2014 data to create a complete time series.

The new estimates for DC pension entitlements in the S.129 part of AF.63 [4] using this adjusted TPR DC assets data are shown in Figure 1. It should be noted that for national accounts purposes these are experimental results because they may be subject to further adjustment prior to the publication of Blue Book 2017.

Figure 1 also shows the estimates that feed into the UK National Accounts at the moment (the current estimates). As explained in the methodology article, the current estimates are calculated using a proxy based on information from ONS's Pension Funds Survey about regular contributions made to pension schemes by employers and employees. This proxy has been overestimating the results for DC pension entitlements in S.129, particularly since the growth of the DC "master trusts" [5] associated with auto-enrolment.

Figure 1: Defined Contribution pension entitlements in S.129 (pension funds)

UK, 2010 to 2015



Source: Office for National Statistics

Notes:

1. Pensions provided by pension funds (sub-sector S.129) are associated with occupational or trust-based pension schemes. Contract-based ‘workplace’ or ‘group’ personal pensions provided by insurers are not shown here, as they are in sub-sector S.128.

2. The new estimates comprise the market value of assets of DC pension schemes with 12 or more members published by The Pensions Regulator (TPR), adjusted for the market value of assets of schemes with fewer than 12 members which are not relevant small schemes.

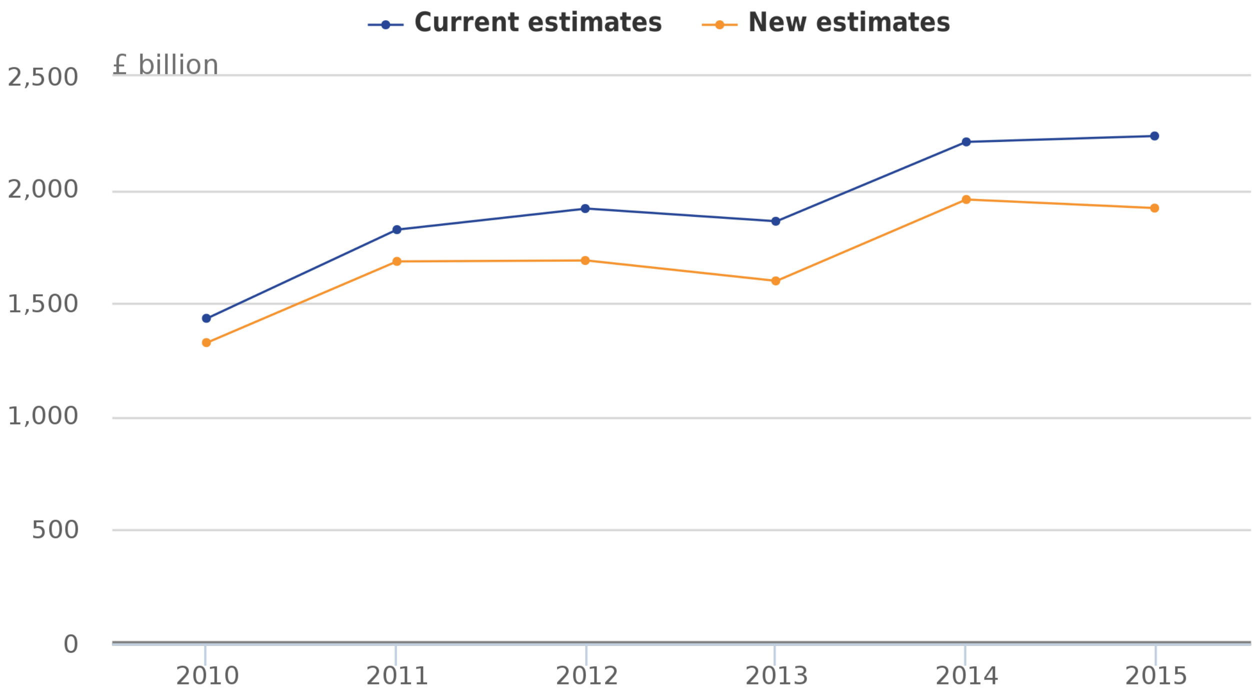
3. The current estimates are based on a 'contributions proxy' (see methodology article below).

4. For further information, see articles published on 16 January 2017 and 30 January 2017: the methodology article published on 16 January 2017 and the data article published on 30 January 2017

Figure 2 shows the impact of the change to DC pension entitlements on total private sector pension entitlements in the S.129 part of AF.63, including DB pension entitlements. While for DC pensions, entitlements are measured as the market value of assets, for DB pensions they are measured as the liabilities of pension schemes calculated on an actuarial basis, which may be more than or less than the value of the assets. The impact of the change is to reduce the estimate of total private sector pension entitlements in the S.129 part of AF.63 by 8% in 2010 and by 14% in 2015.

Figure 2: Total private sector pension entitlements in S.129 (pension funds)

UK, 2010 to 2015



Source: Office for National Statistics

Notes:

1. Total private sector pension entitlements in S.129 include DB/hybrid pension entitlements as well as DC pension entitlements. The method for estimating DB/hybrid pension entitlements has not changed.

2. Pensions provided by pension funds (sub-sector S.129) are associated with occupational or trust-based pension schemes. Contract-based 'workplace' or 'group' personal pensions provided by insurers are not shown here, as they are in sub-sector S.128.

3. For further information, see articles published on 16 January 2017 and 30 January 2017: [the methodology article published on 16 January 2017] and [the data article published on 30 January 2017]

Notes for: The new estimates for entitlements

1. You should note that TPR's DC assets figures do not include assets held by hybrid schemes in respect of DC members as the regulator does not require hybrid schemes to provide this information.

2. See TPR's DC Trust publication.

3. "Relevant small schemes" are a type of scheme generally set up to provide retirement benefits for company directors rather than for employees; such schemes do not meet the criteria for inclusion in "pensions in social insurance" (see methodology article).

4. AF.63, which is part of AF.6M in Blue Book Table 6.1.9 (4mb download), is the pension entitlements line in the national accounts (see Part 1 of this article).

5. A master trust is a multi-employer occupational, trust-based scheme with one legal trust and board of trustees covering the staff of many unconnected employers.

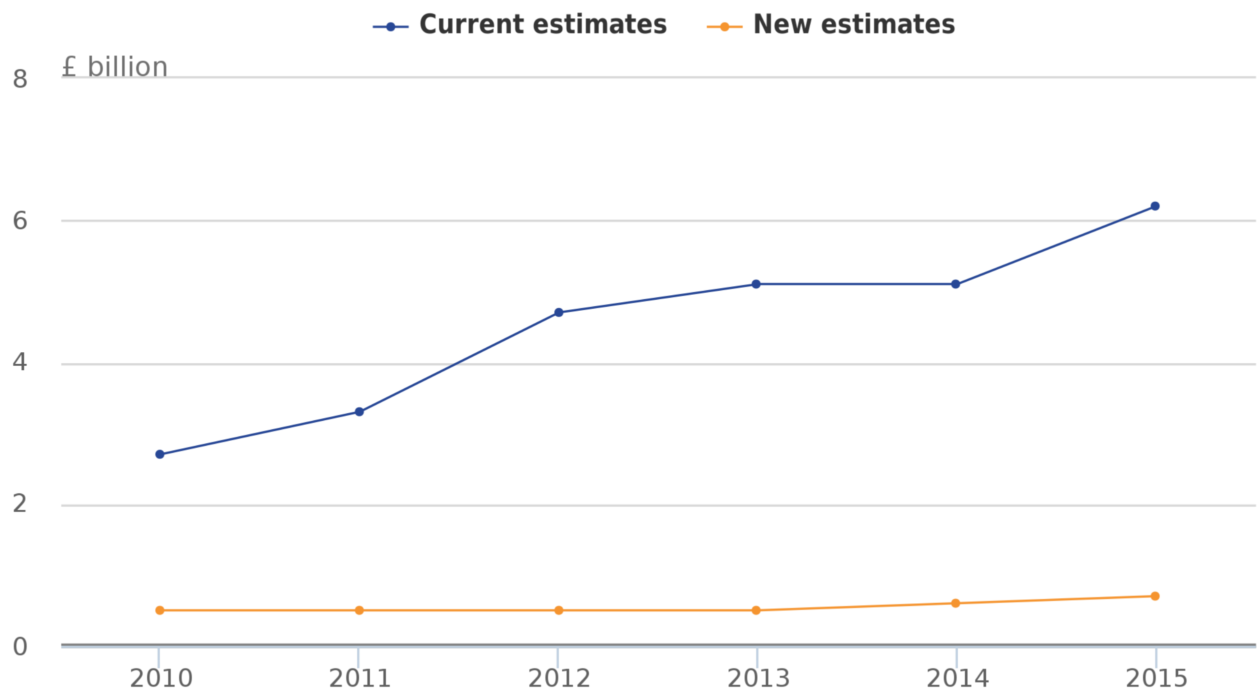
3 . The new estimates for investment income

The changes to the estimates for DC pension entitlements in S.129 will have an impact on the DC part of line D. 6141 in S.129, known as “social contribution supplements“ or “investment income“ [1]. This is because the DC part of investment income in S.129 is calculated by multiplying Pension Funds Survey data on investment income for all private sector pensions in S.129 by the DC proportion of private sector pension entitlements in S.129. As we do not have a time series for investment income of DC pension funds, we make the simplifying assumption that the relationship between investment income and assets is the same for DC pension funds as it is for all private sector pension funds.

Figure 3 shows the experimental results for the new D.6141 estimates compared with those based on the current method.

Figure 3: Defined Contribution pension investment income in S.129 (pension funds)

UK, 2010 to 2015



Source: Office for National Statistics

Notes:

1. Pensions provided by pension funds (sub-sector S.129) are associated with occupational or trust-based pension schemes. Contract-based ‘workplace’ or ‘group’ personal pensions provided by insurers are not shown here, as they are in sub-sector S.128.

2. For further information, see articles published on 16 January 2017 and 30 January 2017: [the methodology article published on 16 January 2017] and [the data article published on 30 January 2017]

Notes for: The new estimates for investment income

1. It should be noted that in the national accounts, investment income of DC pensions comprises interest and dividends; it does not include holding gains and losses, which are recorded separately as part of ” revaluations”.

4 . Further publications

The new estimates will lead to changes in Blue Book estimates. The changes to AF.63 will reduce the assets of the Household sector (S.14), while the changes to D.6141 will affect the D.8 “adjustment for the change in pension entitlements“, which, in turn, will lead to a change in household saving and therefore the household saving ratio[1]. These are expected to change in Blue Book 2017. However, because of adjustments that may be made to the results shown here as part of the Blue Book production process, we are not including the impact of the changes on the sequence of accounts in this article. This will be shown as part of the series of articles accompanying Blue Book 2017.

Notes for: Further publications

1. See Jones, R (2014): ESA10: Developments to the Treatment of Pensions in the National Accounts .