

5. The relationship between the Financial Statistics of Social Security and the System of National Accounts (SNA)¹

The "Basic plan concerning the development of official statistics" (Cabinet decision on March 13, 2009) requires that the "Cost of Social Security" has consistency with other statistics compiled based on international standards. Reflecting this requirement, when the "Financial Statistics of Social Security" was specified as fundamental statistics on the Statistics Act, it was decided to provide explanations on the relationships between the "Financial Statistics of Social Security" and the "System of National Accounts" (hereafter called SNA) in order to serve the convenience of the users of the statistics.

• Differences in the areas covered

The "Financial Statistics of Social Security" is the aggregated data on receipts and expenditure in the areas of social security. Therefore, it is required to cover all receipts and expenditure relevant to social security with no omissions. On the other hand, the SNA is the aggregated data on the economic activities of a nation including those relating to social security.

• Differences in the meaning and the usage of the term "social security"

In the "Annual Report on the System of National Accounts" published annually by the Cabinet Office, Government of Japan, the terms such as Social Benefits, Unfunded Employee Social Benefits, Social Assistance Benefits, and Social Security Contributions are used in Appendix Table 9 "Transfers from General Government to Households (Social Security Transfers)" and Appendix Table 10 "Social Security Contributions" which are compiled for the purpose of describing the transactions between households² and general government.³ However, it should be noted that the meaning and the usage of the term "social security" are not necessarily the same as those in the Financial Statistics of Social Security.

For example, taxes⁴ are included in social security revenue in the "Financial Statistics of Social Security" (see Table 12), while in the SNA, it is regarded as transfers toward social security funds that constitute the general government. Thus, in the SNA, taxes are included in the "Account classified by the Sub-sectors of General Government," (Appendix Table 6) which is compiled for the purpose of describing receipts and payments by sub-sectors of the general government, but not in the "Social Security Contributions" (Appendix Table 10) which is compiled in order to describe the direct contributions of employees and employers.

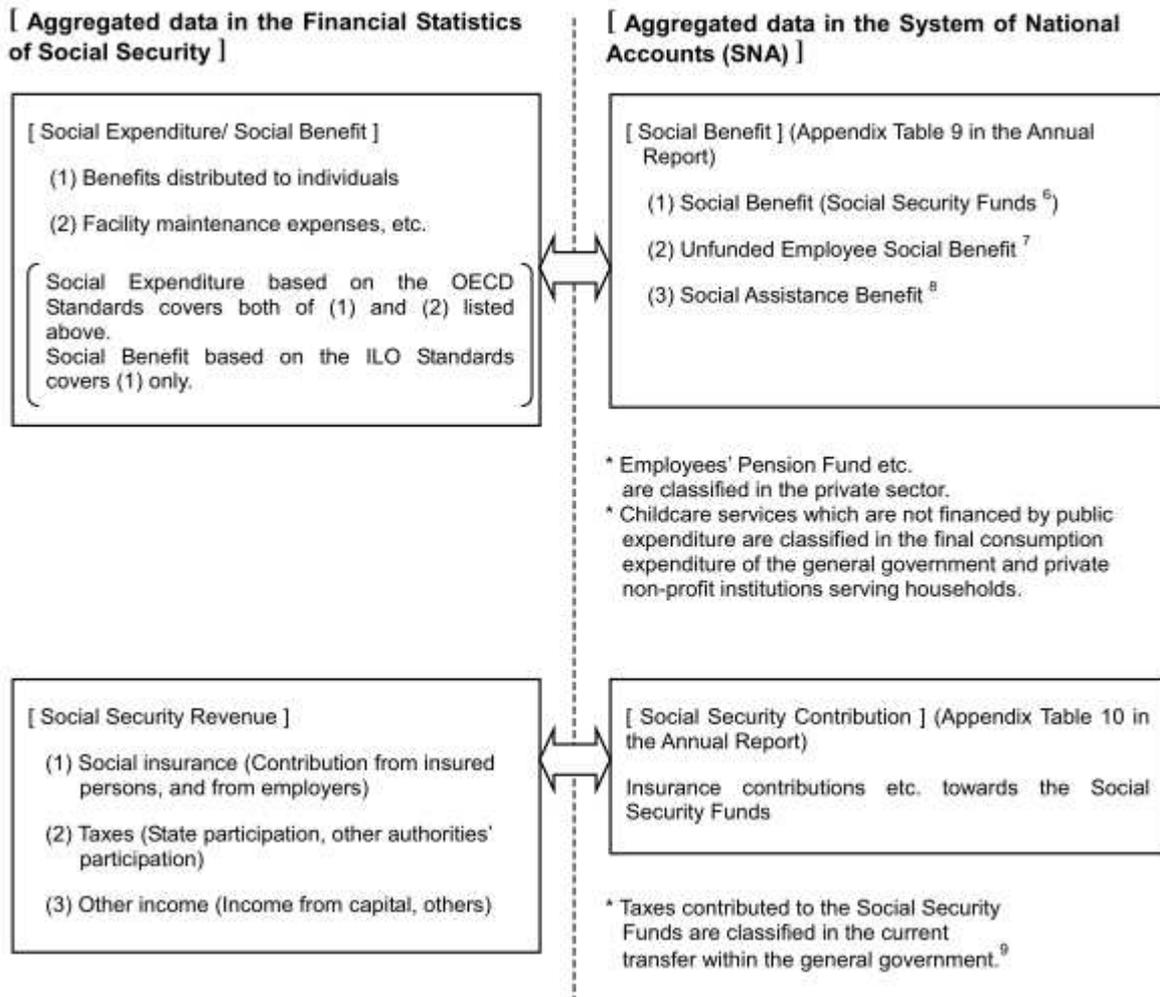
• Differences in the aggregation of data on expenditure

As shown in the upper half of Reference Figure 1, the total amount of expenditure in the "Financial Statistics of Social Security" is not the same as the sum of social security transfers from general government to households (Appendix Table 9) in the SNA. The main reason of this difference comes from the difference coverage between two statistics. For example, while schemes such as the Employees' Pension Fund and the Former Public Corporation Staff's Accident Compensation are included as a part of the social security system in the "Financial Statistics of Social Security," they are classified as a private sector activity in the SNA, and therefore, not included in Appendix Table 9 that describes the transactions between households and general government. In fact, the Employees' Pension Fund and the Former Public Corporation Staff's Accident Compensation are not included as an independent scheme in any of the statistical tables in the SNA⁵.

1. The System of National Accounts (SNA) is specified as fundamental statistics on the Statistics Act. It is compiled based on the standard and method of the SNA, while following the international standards defined by the United Nations, in order to systematically record the complete picture of the Japanese economy which allows international comparison. (<http://www.esri.cao.go.jp/jp/sna/menu.html>)

2. Households represent consumers excluding private companies.
3. General government constitutes of the following three organizations- the nation as the central government, autonomous bodies as local governments, and the social security funds.
4. Taxes represent the state contribution and other public contribution, namely local authorities' contribution.
5. The Coal Mining Pension Fund and the Japan Iron & Steel Corporation Yawata Mutual Association used to be classified into the private sector. However, since the SNA standard was revised in 2005 and one of the criteria "There is no link between benefits and contributions," which defined Social Security Funds, was eliminated, those schemes are classified as the Social Security Funds, nowadays.

Reference Figure 1 Comparison between the Financial Statistics of Social Security and the SNA



The items with asterisk (*) mark in Reference Figure 1 are included in the entire aggregation. Amounts that are broken down are not published, and hence, it is not possible to extract these amounts separately.

6. Social Security Funds are organizations that fulfill two requirements: (i) the purpose of the organizations is to provide social benefits to the entire or most part of the society and (ii) the affiliation to the organizations is required by law. Both the central government and local governments constitute the general government, to which the special account for social insurance (pension, employment insurance), mutual associations (mutual associations for national and local public service employees, etc.), and health insurance associations correspond.
7. Unfunded Employee Social Benefit is a welfare benefit that employers pay to their employees from their own sources without using external organizations such as the Social Security Funds and financial institutions (pension funds) or establishing their own fund. Employers take responsibility to pay the benefit even if there is no specific fund.
8. Social Assistance Benefits refer to the transfer from the general government and private non-profit institutions serving households to households that are not operated through the social security system. Transfers from the general government include the Public Livelihood Assistance, Atomic Bomb Sufferers' Medical Care expenses, Survivors Pension, and pensions for public servants, while transfers from private non-profit institutions serving households include free scholarships.
9. Current transfers within the general government consist of the current transfers among sub-sectors of the general government. Specifically, it refers to the current transfers between different governments such as the central government and local governments, the Social Security Funds and local governments, and the central government and the Social Security Funds. However, transferring funds for the Gross Fixed Capital Formation is counted as a capital transfer.
- (The notes above are quotations from the relevant parts of the "Description of terms" in the "Annual Report on the System of National Accounts" published by the Cabinet Office, Government of Japan).

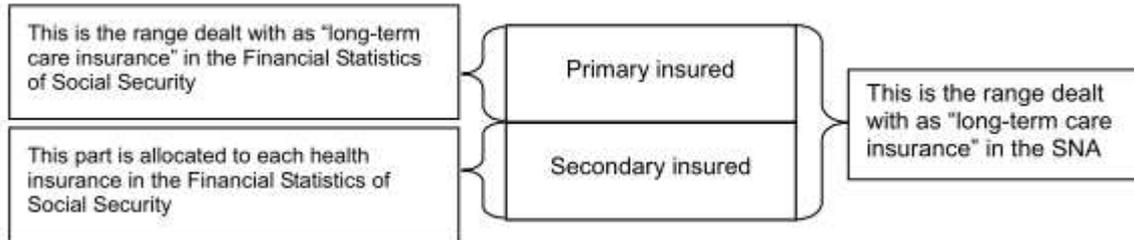
• Differences in the aggregation of data on income

As shown in the lower part of Reference Figure 1, the total amount of revenue in the Financial Statistics of Social Security is not the same with the sum of social security contributions (Appendix Table 10) in the SNA. This disparity mainly comes from the fact that social security contributions covered by Appendix Table 10 only includes insurance contributions. As in Appendix Table 9, Appendix Table 10 only covers the transactions between households and general government. Therefore, categories of social security revenue in the Financial Statistics of Social Security other than insurance contributions such as taxes, other income and receipts from the reserve fund are not included in the SNA. This indicates that taxes contributed to various schemes like the Basic Pension are not included in Reference Table 10, and hence, a large gap occurs between the total amount of revenue in the Financial Statistics of Social Security and the sum of social security contributions in Appendix Table 10 in the SNA. As described earlier, since the SNA aggregates data on the economic activities of a nation with no omissions, taxes are recorded not in Appendix Table 10 but in Appendix Table 6 as current transfers from the central and local governments to the Social Security Funds. In addition, there is a difference in the range covered by the two statistics: Since only the transactions between households and the general government are included in Appendix Table 10 as in Appendix Table 9, Appendix Table 10 does not include the Employees' Pension Fund and the Former Public Corporation Staff's Accident Compensation which are classified as the private sector's activity in the SNA.

The difference in the aggregation method used in the Financial Statistics of Social Security and the SNA is another cause of the discrepancy between the income data in the two statistics. Looking at long-term care insurance as an example, in the Financial Statistics of Social Security, only the contributions from the primary insured (aged over 65) are included in the "contribution from insured persons," whereas the contributions from the secondary insured (aged 40-65) are counted as contributions towards the health insurance system to which each insured person belongs. On the other hand, in the SNA, all the contributions of the people belonging to different health insurance systems allocated to long-term care insurance are included as "contribution from

insured persons" of the long-term care insurance. Hence, the difference arises in the amount of the apparently same item "contribution from insured persons in long-term care insurance". In order to avoid any overlapping, social contributions to each health insurance system in the SNA exclude any amount counted towards long-term care. The contributions by the Category II insured persons are shown in Table 16 of Appendix 4, respectively reported by insured persons and by the employers.

Reference Figure 2 Allocation of the Social Insurance Contribution for the long-term care insurance



• **Differences in the Financial Statistics of Social Security and the SNA's Social Security <Other reasons>**

There are other various differences in the two statistics. For example, a part of the SNA data contains estimates, and refunds are included in the SNA while not in Financial Statistics of Social Security.

The SNA is published in three stages: the prompt report, the definite report, and the final report. At the stage when the definite report is published, the SNA still contains figures estimated from the past data because the financial statements and annual reports of relevant projects necessary to finalize the figures are not yet published: the estimated figures will be replaced with the real data in the final report. Institutional data on the National Health Insurance, Elderly Health Insurance, and Long-Term Care Insurance are those estimated in the definite report, so there is a certain difference in the data recorded in the definite and final reports. In addition, refunds are not included in the Financial Statistics of Social Security because they are not used as the actual benefits or contributions; in addition, the data must be accounted retrospectively. On the other hand, these amounts are included in the SNA which is required to record the economic activities of a nation without omissions or overlapping. In the Financial Statistics of Social Security, data are aggregated by the cumulative method using the settled figures. On the other hand, in the SNA, estimates and corrections of the necessary figures are conducted based on the international criteria defined by the United Nations. Thus, the divergence in the figures in the two statistics is generated from the technical and practical differences in the aggregation method as well.

The revision of the SNA in 2005 increased subdivisions of the general government's expenditure by function. Specifically, each of the 10 categories (general public services, defense, public order/safety, economic affairs, environmental protection, housing/community amenities, health, recreation/culture/religion, education, social protection) in Appendix Table 7 "General Government total outlays by function (Classification of the Functions of Government: cofog)" was further divided into subcategories. In particular, the categories of health and social protection that are closely related to the Financial Statistics of Social Security are further classified as in the Appendix Table 7. Data on the national health expenditure are used for the subdivision of the category of health. The subdivision of the area of social protection share common features with the functional classification and the classification by social policy area in the Financial Statistics of Social Security. If the SNA criteria are revised in the future, necessary examinations will be conducted regarding the relationship between these areas. Reference Table - Annual Report on the System of National Accounts, Appendix Table 7. General government's

- 7. Health
 - 7.1 Medical products, appliances and equipment
 - 7.2 Outpatient services
 - 7.3 Hospital services
 - 7.4 Public health services
 - 7.5 R&D Health
 - 7.6 Health n.e.c.

- 10. Social protection
 - 10.1 Sickness and disability
 - 10.2 Old age
 - 10.3 Survivors
 - 10.4 Family and children
 - 10.5 Unemployment
 - 10.6 Housing
 - 10.7 Social exclusion n.e.c.
 - 10.8 R&D Social protection
 - 10.9 Social protection n.e.c.

Social Benefit and relevant statistics etc. are published as "Social security research materials" on the homepage of the National Institute of Population and Social Security Research as needed and its outcome has been accumulated.