

3. Relationship between the Financial Statistics of Social Security and the System of National Accounts¹

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

• Differences in the areas covered

The Financial Statistics of Social Security provides 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 provides 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, 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 usage of the term "social security" in this report are not necessarily the same as in the Financial Statistics of Social Security.

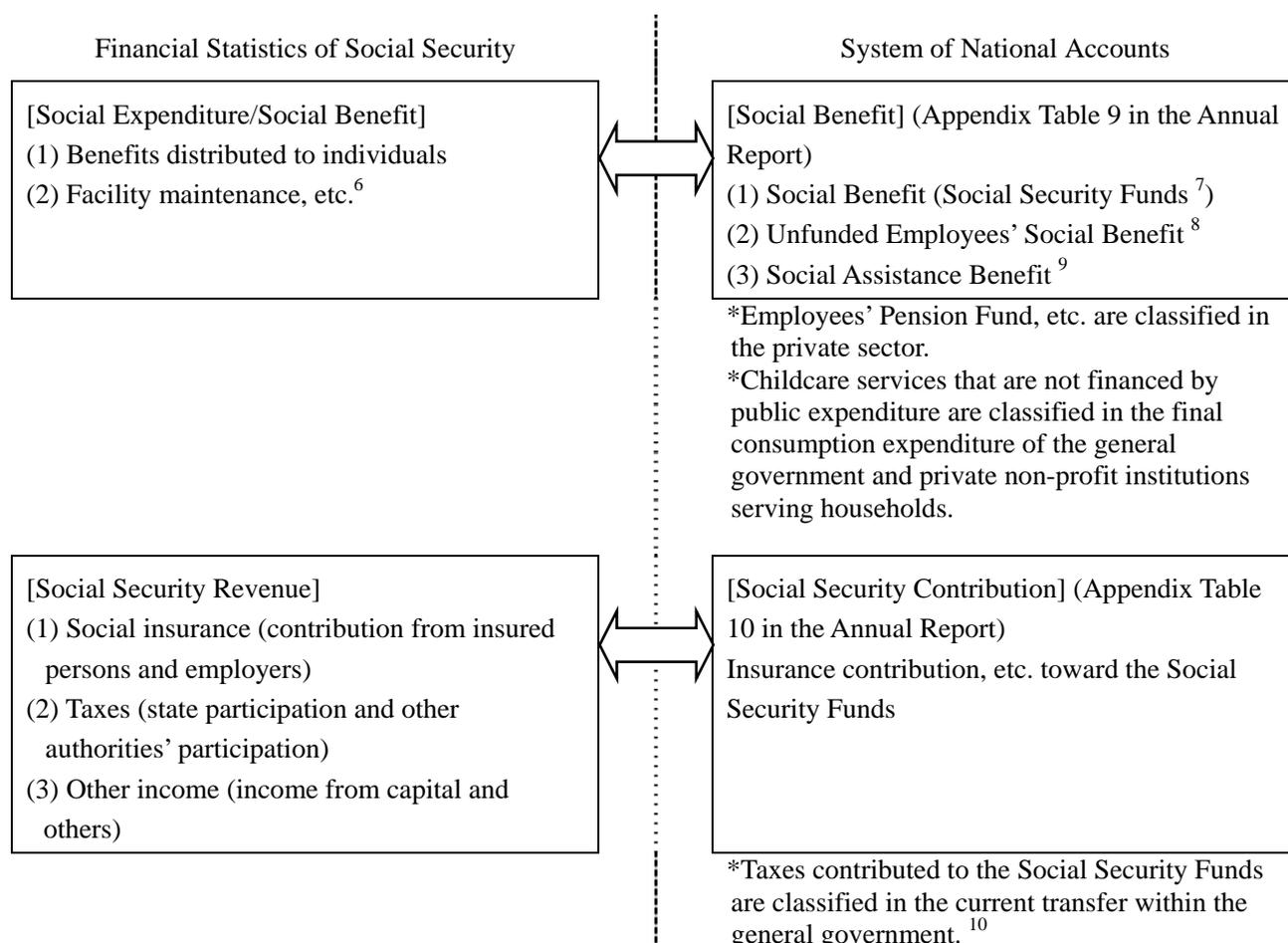
For example, taxes⁴ are included in social security revenue in the Financial Statistics of Social Security (see Table 12), while in the SNA, they are regarded as transfers toward social security funds that constitute the general government. Thus, in the SNA, taxes are included in the "Account classified by the Sub-sectors of General Government" in 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" in Appendix Table 10, which is compiled 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 the general government to households given in Appendix Table 9 in the SNA. The main reason for this is the difference of coverage between the two statistics. For example, while schemes such as the Employees' Pension Fund and the Former Public Corporation Staff's Accident Compensation are included as 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, they are included in Appendix Table 9 that describes the transactions between households and the general

government. In fact, the Employees' Pension Fund and the Former Public Corporation Staff's Accident Compensation are not included as independent schemes in any of the statistical tables in the SNA⁵.

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



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

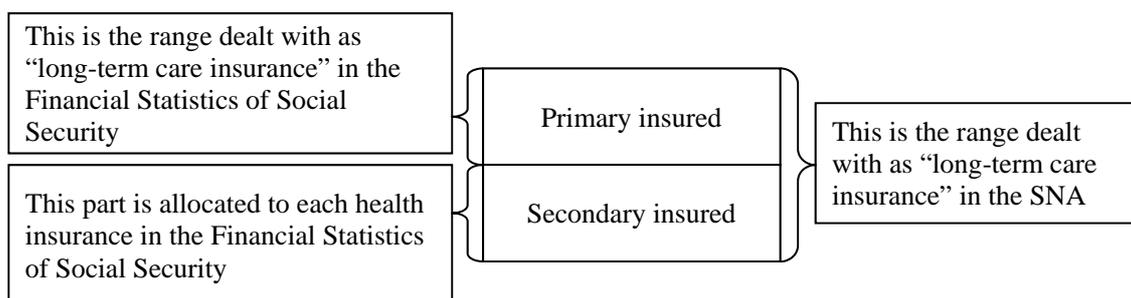
• Differences in the aggregation of data on income

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 as the sum of social security contributions (Appendix Table 10) in the SNA. This disparity is mainly because the social security contributions covered by Appendix Table 10 in the SNA only include insurance contributions. Similar to Appendix Table 9, Appendix Table 10 in the SNA only covers the transactions between households and the general government. Therefore, categories of social security revenue in the Financial Statistics of Social Security except for insurance contributions such as taxes, other income and receipts from the reserve fund, are not included in the SNA. This indicates that taxes that contributed to various schemes such as the Basic Pension are not included in Reference Table 10 in the SNA, and, thus,

there is a large gap 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: As only the transactions between households and the general government are included in Appendix Table 10 similar to 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 private sector 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 toward 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. Thus, the difference arises in the amount of the apparently the same item, namely, "contribution from insured persons in long-term care insurance." In order to avoid any overlaps, social contributions to each health insurance system in the SNA exclude any amount counted toward long-term care. The contributions by Category II insured persons are shown in Table 16 of Appendix 4, reported by insured persons and by employers.

Reference Figure 2 Allocation of the Social Insurance Contribution for Long-term Care Insurance



• **Differences in the Financial Statistics of Social Security and 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 but not in the Financial Statistics of Social Security.

The SNA is published in three stages: the prompt report, definite report, and final report. At the stage of publishing the definite report, the SNA still contains figures estimated from 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 real data in the final report. Institutional data on the National Health Insurance, Elderly Health Insurance, and Long-term Care Insurance are 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 actual benefits or contributions; in addition, the data must be accounted retrospectively. On the other hand, these amounts are included in the SNA, as it records the economic activities of a nation without omissions or overlaps. 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 caused by 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, and 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 in 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 shares common features with the functional classification and 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 total outlays by function

- 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.

Information Social Benefit, the relevant statistics, etc.. are published as "Social security research materials" on the homepage of the National Institute of Population and Social Security Research.

¹ SNA is specified as Fundamental Statistics based on the Statistics Act. The statistics are 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 in a way that allows international comparison. (<http://www.esri.cao.go.jp/jp/sna/menu.html>)

² Households represent consumers excluding private companies.

³ The general government constitutes the following three organizations: the nation as the central government, autonomous bodies as local governments, and social security funds.

⁴ Taxes represent state contribution and other public contribution, namely, local authorities' contributions.

⁵ The Coal Mining Pension Fund and the Japan Iron & Steel Corporation Yahata Mutual Association was once classified into the private sector. However, since the SNA standard was revised in 2005 and the criteria "There is no link between benefits and contributions" that defined Social Security Funds was eliminated, these schemes are now classified as Social Security Funds.

⁶ Social Expenditure based on the OECD Standards covers both (1) and (2) listed above. Social Benefit based on the ILO Standards covers only (1).

⁷ Social Security Funds are organizations that fulfill two requirements: (1) The purpose of the organizations is to provide social benefits to the entire or most part of the society, (2) The affiliation to the organizations is required by law. Both the central and local governments constitute the general government, to which the special account for social insurance (pension and employment insurance), mutual associations (mutual associations for national and local public service employees, etc.), and health insurance associations correspond.

⁸ 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 the responsibility of paying the benefit even if there is no specific fund.

⁹ 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.

¹⁰ Current transfers within the general government consist of the current transfers among the sub-sectors of the general government. Specifically, it refers to the current transfers between different governments, such as the central government and local governments, Social Security Funds and local governments, and central government and Social Security Funds. However, transferring funds for the Gross Fixed Capital Formation is counted as a capital transfer.

(The notes above are quotations from 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.)