

### 3. Relationship with the System of National Accounts<sup>1</sup>

The basic plan concerning the maintenance of public statistics (as decided by the cabinet on March 13, 2009) requires social security benefit expenditures to be consistent with various statistics compiled based on international standards. Upon the designation of the Financial Statistics of Social Security as basic statistics grounded in the Statistics Act, it was decided to explain their relationship with the System of National Accounts (hereinafter SNA) to better accommodate its users.

#### 3-1 Difference in Scope

The Financial Statistics of Social Security and SNA differ in scope when it comes to what they define as “social security.” The Financial Statistics of Social Security compiles data on social security revenue and expenditure based on the standards prescribed by the OECD and ILO. In contrast, the SNA, which compiles data on the economic activity of the entire country without duplication, does not list items that are categorized and aggregated under other economic activities as social security. Therefore, the figures differ between the two. In what follows, we will explain the situations in which the differences manifest.

##### (1) Difference in the Definition and Usage of the Term “Social Security”

First, we will clarify the difference between the two based on their differing definitions of “social security.” While the term “social security” is used in several tables in the SNA, it should be noted that the scope is not necessarily the same as the “social security” used in the Financial Statistics of Social Security. The Supporting Tables 9 “Transfers from General Government to Households (Social Security Transfers)” and 10 “Social Security Contributions” released annually by the Cabinet Office are prepared for the purpose of describing transactions between households<sup>2</sup> and general governments<sup>3</sup>. They use terms such as “social benefits<sup>4</sup>,” “social security funds<sup>5</sup>,” “unfunded employee social benefits<sup>6</sup>,” “social assistance benefits<sup>7</sup>,” and “social security contributions” and, as stated in the footnotes, they have a definition for each. Therefore, the SNA does not include items that do not match the definition of social security, even if they are included in the Financial Statistics of Social Security as social security.

Meanwhile, the public contributions<sup>8</sup> listed in the sources of social security funds (see Table 11 on page 14) as the funding sources of the Financial Statistics of Social Security are not listed in Supporting Table 10 “Social Security Contributions,” which is prepared for the purpose of describing direct contributions by employees and employers, because they are regarded by the SNA as transfers within general governments.

Furthermore, there are differences between the two in terms of handling refunds. In the Financial Statistics of Social Security, refunds are not used for actual benefit payments and contributions. They have not been accounted for, either, because to do so would require retroactively recording the data. Meanwhile, the SNA lists these amounts as social security in order to describe the state of a country’s economy in full and without duplication, as described above.

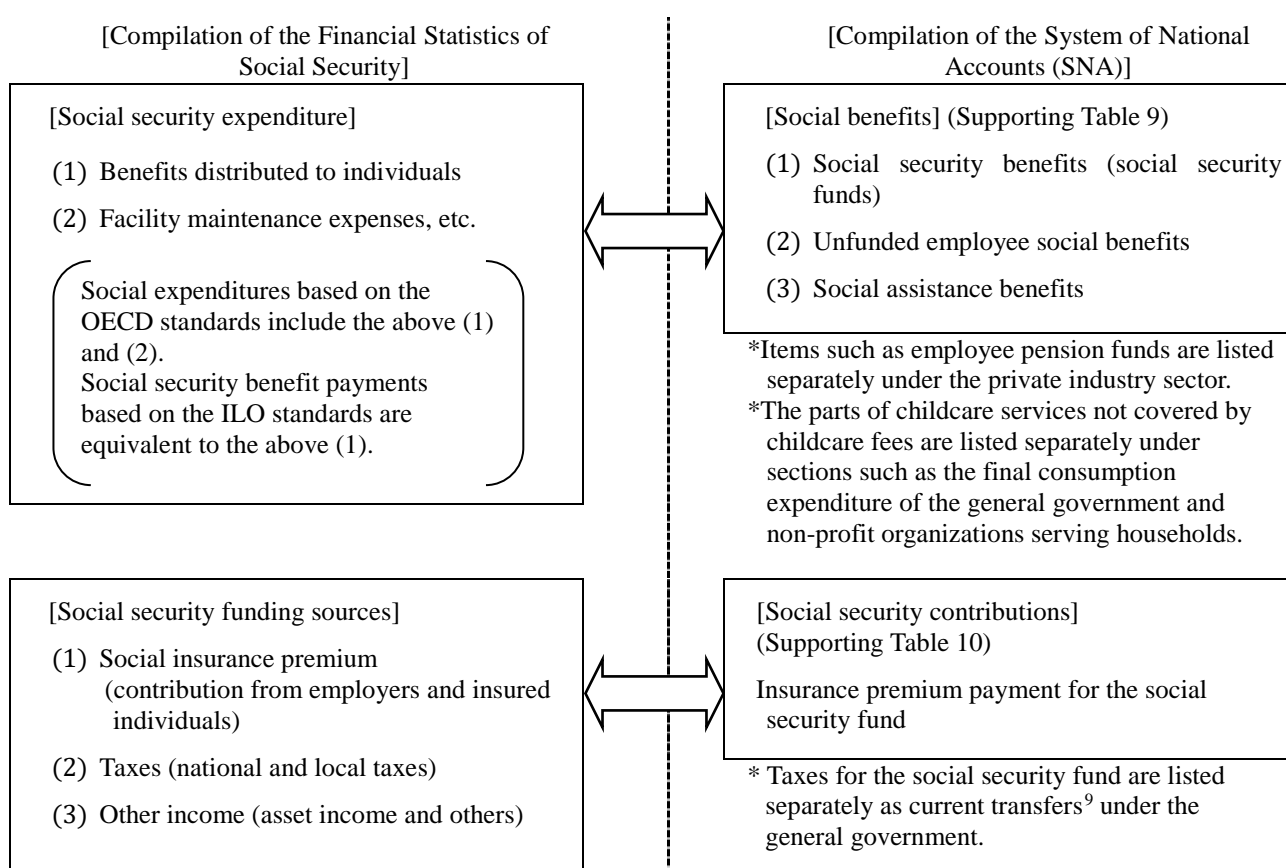
In what follows, we will explain these points in more detail.

##### (2) Difference in Expenditure Tabulation

Next, we will clarify the contrasting relationship in expenditure items and the difference in scope.

As shown in the upper half of Figure 1 in the Appendix, the total expenditure in the Financial Statistics of Social Security and the total in Supporting Table 9 “Transfers from General Government to Households (Social Security Transfers)” do not match in terms of expenditure. This is the difference in the scope of the expenditure summary. Specifically, it is due to the differences in how systems like the welfare pension fund and former public corporation staff’s accident compensation are treated. The welfare pension fund and former public corporation staff’s accident compensation can be regarded as parts of the social security system in the Financial Statistics of Social Security; however, they are categorized as private industry activity under the SNA. Therefore, these items are not included in Supporting Table 9, which was prepared for the purpose of describing transactions between households and the general government, which are not stated separately in other statistical tables in the SNA.

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



In addition, since the separately reported data marked with \* in Figure 1 in the Appendix are all included in the overall summary calculation and the breakdown has not been published, it is not possible to extract the social security expenditures related to our system.

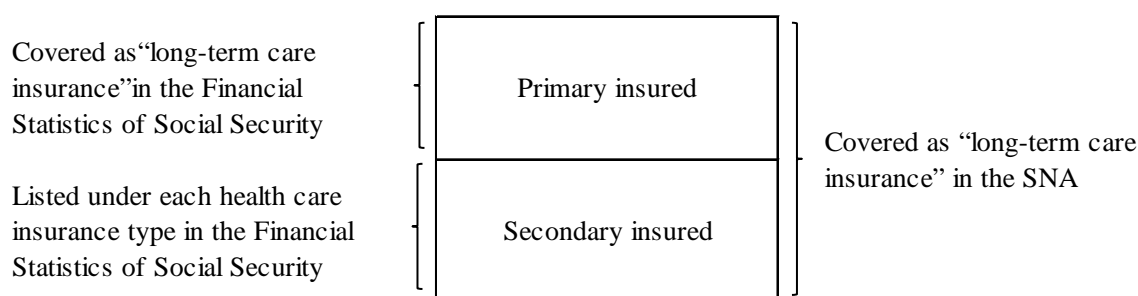
### (3) Differences in Revenue Tabulation

Next is the contrasting relationship regarding revenue items and the difference in scope, control, and scope in revenue items. As shown in the lower half of Figure 1 in the Appendix, the total amount from the funding sources in the Financial Statistics of Social Security and the total in

Supporting Table 10 “Social Security Contributions” also do not match in terms of revenue. This is mainly because the scope of Supporting Table 10 is limited to insurance premium payments. As in Supporting Table 9, Supporting Table 10 lists only transactions between households and the general government. Therefore, items such as public contributions, other revenues, and distributions from reserve funds, which are recorded together with insurance premium payments in the Financial Statistics of Social Security, are not included in Supporting Table 10. In other words, there is a large gap between the gross amount of funding sources in the Financial Statistics of Social Security and Supporting Table 10 because public contributions made to various systems, including the basic pension, are not listed in Supporting Table 10 under the SNA. As mentioned above, public contributions are recorded in Supporting Table 6 instead of Supporting Table 10 as current transfers from the central government and local governments to the social security funds, since the SNA accounts for all economic activities of Japan in full. To reiterate, since Supporting Table 10 only lists transactions between households and the general government, just as Supporting Table 9 does, there is also a difference in the institutional scope in the sense that the welfare pension fund and the former public corporation staff's accident compensation, which are categorized as private industry activities under the SNA, are not listed in Supporting Table 10.

Also, there are differences in the accounting methods used. For example, with regard to long-term care insurance, only the contributions made by the primary insured persons (aged 65 and over) are included in the contributions by the insured in the Financial Statistics of Social Security; contributions made by the secondary insured persons (aged 64 to 70) are treated as contributions to each individual’s applicable health insurance system. In contrast, the SNA includes all of the contributions made by individuals in each system applicable to long-term care insurance as contributions made by the insured persons under long-term care insurance. Therefore, the amount listed would differ even for “contributions by the insured under long-term care insurance,” which seems at a glance to be the same for both. Needless to say, the SNA excludes the long-term care portion of the social contribution to each health insurance system because it aggregates the data so as to avoid duplications. As for the results of the re-tabulation of contributions by secondary insured persons into contributions by the insured and contributions by the employers in the Financial Statistics of Social Security, please refer to Table 16 on the website.

Appendix Figure 2: Appropriation of the Social Insurance Contributions for Long-Term Care Insurance



### 3-2 Difference between the Financial Statistics of Social Security and the SNA's "Other Reasons"

There are various other differences than those related to scope, as mentioned above. For example, some parts of the SNA include estimated figures.

The SNA is published after the first, second, and third annual estimates are conducted. In other words, since some financial statements and annual reports are still unavailable at the publishing stage of the first annual estimate, they incorporate figures that are estimated based on past data and correct them at the revision stage to prepare for the second annual estimate. Institutional data such as national health insurance, old age health care, and long-term care insurance fall under this. Then, they adjust the figures in the second annual estimate, such as the estimates created via the commodity flow method, which estimates the flow of goods and services, and the estimates created via the value-added method, which estimates added values using economic activity, and publishes them as the third annual estimate. Therefore, differences arise due to reasons other than the scope of the aggregation of the most recent data.

In addition, whereas the Financial Statistics of Social Security is compiled basically by summing financial statement data, the SNA performs necessary estimations and corrections based on the international standards prescribed by the United Nations. In other words, it should be noted that the differences in figures between the two are also caused by technical and practical differences in calculation method.

### 3-3 Complying with the 2008 SNA

The 2008 SNA is the new System of National Accounts standards agreed to at the United Nations in 2009. In the past, Japan had used the 1993 SNA. However, since Article 6 of the Statistics Act stipulates that the system of national accounts comply with the international standards prescribed by the United Nations, they began estimating based on the 2008 SNA in the FY 2015 Annual Estimate of the SNA and also decided to retroactively revise the coefficients from 1994 and after. Other countries are also complying with the 2008 SNA; the United States and most of the EU countries did so by 2013 and 2014, respectively. Japan ended up following suit and had responded to the 2008 SNA at the time the FY 2011 standard revision was conducted.

The main revised contents of the 2008 SNA include the introduction of intellectual property products (R&D investment reporting), investment reporting for weapons systems, diversification of financial assets, and so on. We can say that these are intended to accommodate changes in the economic and financial environment since the 1990s.

When it comes to the Financial Statistics of Social Security, it is not so different from the 1993 SNA. However, since there were some changes, such as changes to names and categories, we will summarize them.

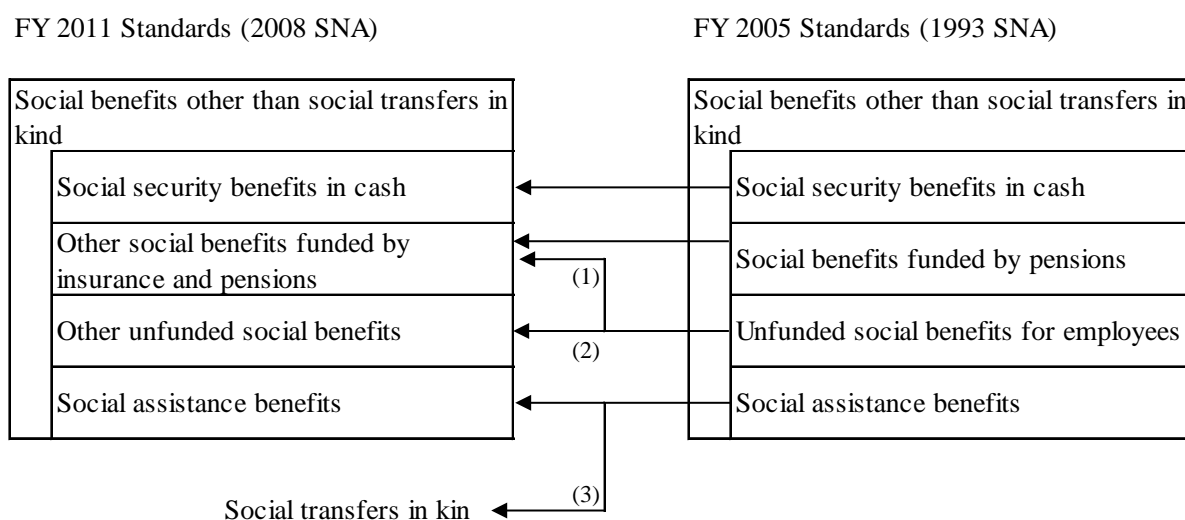
#### (1) Social Benefits Other than Social Transfers in Kind

Regarding social benefits other than social transfers in kind, the categories "social benefits funded by pensions" and "unfunded employee social benefits" were reclassified into "other social benefits funded by insurance and pensions" and "other unfunded social benefits," respectively, and some social assistance benefits are now treated as social transfers in kind.

“Other social benefits funded by insurance and pensions” refers to benefits paid in cash by post-retirement income security systems based on employment relationships, which come under social insurance systems other than the social security systems operated by general governments. As for “other unfunded social benefits,” it refers to welfare benefits paid to employees by employers with their sources without using external institutions such as social security funds (general governments) and pension funds (financial institutions) or establishing one’s own fund, and the employer is obligated to pay even if there is no specific fund. As a note, prior to the 1993 SNA, benefits from corporate pensions were recorded under “social benefits by pension funds,” and the entire amount of lump-sum retirement payments was recorded under “other unfunded employee social benefits.” However, starting with the 2008 SNA, the amount of benefits paid from pension funds and the vested part of the lump-sum retirement payment to be recorded on an accrual basis have been recorded under “other social benefits funded by social insurance and pensions.” In other words, retirement benefits included in “other social benefits funded by insurance and pensions” are now limited to the ones recorded on an accrual basis. Meanwhile, lump-sum retirement payments recorded on a cash basis and contributions to private insurance are recorded under “other unfunded social benefits.”

Furthermore, medical benefits paid via public contribution, which used to be included in “social assistance benefits” under “social benefits other than social transfers in kind,” have been classified as “social transfers in kind (purchased market production)” since the 2008 SNA. These are summarized in the figure below. In addition, some social assistance benefits—specifically medical benefits paid for through public contributions<sup>10</sup>—are now treated as “social transfers in kind.”

Appendix Figure 3: Changes in Social Benefits in Social Transfers in Kind



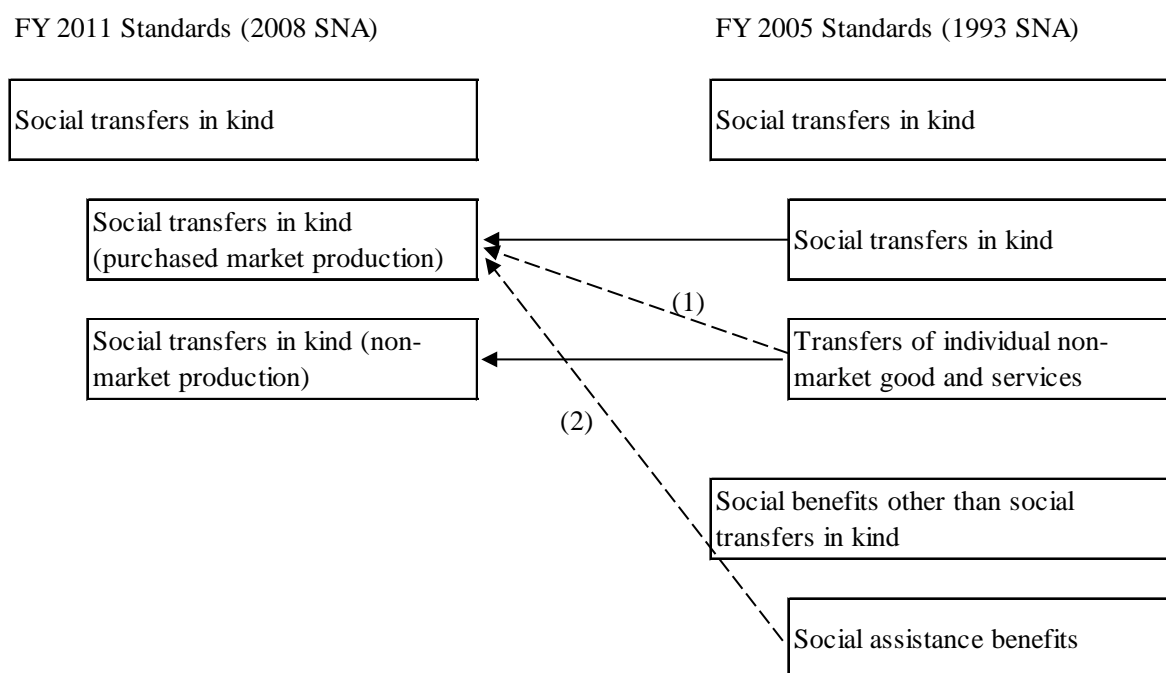
- (1) Lump-sum retirement payment (subject to accounting standards) recorded on an accrual basis
- (2) Lump-sum retirement payment (subject to accounting standards) not recorded on an accrual basis
- (3) Medical benefits covered by public expenditure

Source: Excerpt from Figure 14 of “2008 SNA ni taiō shita wagakuni kokumin keizai keisan ni tsuite (Heisei 23-nen kijunban) (The 2008 SNA-Complied National Accounts of Japan (FY 2011 standard edition))” by the National Accounts Division, Economic and Social Research Institute, Cabinet Office, Government of Japan (2016).

(2) Social Transfers in Kind (Purchased Market Production)

“Social transfers in kind (purchased market production)” refers to goods and services purchased by general governments to supply benefits in kind to households. They include (1) medical and long-term care expenses covered by medical and long-term care insurance under social security systems, (2) medical care benefits covered by public expenditure, and (3) government expenses such as purchasing textbooks for compulsory education and providing free public transportation for wounded soldiers. Under the 1993 SNA, these were included in (1) “social benefits in kind” under “social transfers in kind,” (2) “social assistance benefits” under “social benefits other than social transfers in kind,” and (3) “transfers of individual non-market goods and services” under “social transfers in kind.” These are summarized in Figure 4.

Appendix Figure 4: Changes in Social Transfers in Kind



(1) Expenses such as purchasing textbooks and providing free public transportation for wounded soldiers

(2) Medical care benefits covered by public expenditure

Source: Excerpt from Figure 17 of “2008 SNA ni taiō shita wagakuni kokumin keizai keisan ni tsuite (Heisei 23-nen kijunban) (The 2008 SNA-Complied National Accounts of Japan (FY 2011 standard edition))” by the National Accounts Division, Economic and Social Research Institute, Cabinet Office, Government of Japan (2016).

Other than these, the impact of the 2008 SNA revision on the social security field includes the facts that the idea of an accrual basis became effective in recoding vested corporate pensions; the classification of “accounting of mutual aids by the Promotion and Mutual Aid Corporation for Private Schools of Japan” was changed from “public non-financial corporation” to “social security fund”; “accounting of retirement pensions of the mutual aid association for national public officials, the federation of mutual aid association for national public officials, the mutual

aid association for local public officials, and the federation of mutual aid associations for local public officials” were classified as private financial institutions; and the items listed under “employers’ actual social contributions” and “(employers’) attributable social contributions” were changed.<sup>11</sup>

## References

National Accounts Division, Economic and Social Research Institute, Cabinet Office, Government of Japan (2016). “Kokumin keizai keisan no heisei 23-nen kijun kaitei ni mukete (In preparation for the FY 2011 revision to the SNA standards).”

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Nakao, Takahiro (2017). “Wagakuni SNA ni okeru kakutei kyūfu-gata kigyō nenkin no kiroku hōhō no henkō ni tsuite (Changes in the recording method of defined benefit-type of corporate pension under Japan’s SNA).” *National Economic Accounts Quarterly*. FY 2012 No. 2.

Social security expenditure and related statistics are made available as needed and the results are accumulated as social security research documents on the National Institute of Population and Social Security Research website.

[http://www.ipss.go.jp/site-ad/index\\_japanese/security.html](http://www.ipss.go.jp/site-ad/index_japanese/security.html)

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<sup>1</sup> As basic statistics grounded in the Statistics Act, the System of National Accounts (SNA) is prepared based on the preparation standards and methods of the SNA while complying with the international standards prescribed by the United Nations, aiming to systematically record the overall picture of Japan’s economy in an internationally comparable way. (<http://www.esri.cao.go.jp/jp/sna/menu.html>)

<sup>2</sup> “Households” includes all small groups of people sharing family finances who are residents of Japan.

<sup>3</sup> “General governments” includes the central government and local governments as well as the social security funds established and managed by them.

<sup>4</sup> “Social benefits” is defined as current transfers that are paid to households to be used for preparing for the needs that arise from certain events or situations such as sickness, unemployment, retirement, housing, education, and a family’s economic circumstances. They include (1) “social security benefits paid in cash” by social security systems such as the public pension, (2) “other social insurance and pension benefits” including corporate pensions and lump-sum payments recorded on an accrual basis, (3) “unfunded employee social benefits” such as lump-sum payments not recorded on an accrual basis, (4) “social assistance benefits” such as welfare, and (5) under “social transfers in kind,” medical insurance benefits and long-term care insurance benefits under social security systems.

<sup>5</sup> “Social security funds” is one of the sub-divisions under “general governments,” just like “central government” and “local governments” are, and they are defined as something that meets all criteria including (1) imposed and controlled by the government, (2) covers the whole or most of society, and (3) participation and contribution are mandatory. Specifically, they include medical care and long-term care businesses, a part of the mutual aid associations that operate the pension for

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public officials, and a part of the independent administrative agency (the Government Pension Investment Fund) of the public utility account under local public organization, in addition to the country's special accounts (special accounts for health insurance business), which operate the mutual aid pensions for public officials. As a note, due to the consolidation of pensions for employees, the welfare pension account and transitional long-term accounts under "long-term accounts" have been treated as social security funds, while accounts such as retirement pensions have been positioned as pension funds or private financial institutions since October 2015. "Long-term accounts" as a whole used to be treated as social security funds prior to October 2015.

<sup>6</sup> "Unfunded employee social benefits" refers to welfare benefits paid by employers from their sources to employees without using external institutions such as social security funds (general governments) and pension funds (financial institutions) or establishing their own funds. They are positioned as something that employers are obligated to pay even if there is no special fund.

<sup>7</sup> While "social assistance benefits" are intended to address the same needs as social insurance benefits, they are not paid under a social insurance system that requires one to make social contributions to participate; they refer to current transfers paid to households by general governments or non-profit organizations servicing households.

<sup>8</sup> "Public contributions" refers to state contributions and other public contributions.

<sup>9</sup> "Current transfers" under general governments refers to current transfers between internal divisions of a general government. As a note, transactions such as transfers of funds to be used for the recipient side of gross fixed capital formation are treated as capital transfer. (The above notes were all created by quoting the applicable parts of the term descriptions in the Annual Report on National Accounts published by the Cabinet Office.)

<sup>10</sup> This refers to medical expenses covered by the government based on laws such as the Public Assistance Act and the Services and Supports for Persons with Disabilities Act.

<sup>11</sup> Nakao (2017) explains in detail the changes in the vesting in corporate pensions, "employers' actual social contributions" and "(employers') attributable social contributions."