Worldwide Trends and Developments in Social Security, 1985-87

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This article highlights major trends and developments in social security programs featured in the publication **Social Security Programs Throughout the World, 1987**. Certain developments observable in industrialized countries, especially in Europe—continuing high unemployment levels, particularly among the young; growing numbers of long-term unemployed; and aging populations—tend to create financial instability in social security programs. Thus, as program costs continue to rise, the emphasis on cost-effective use of social security funds becomes more pronounced. In the period under review, this concern is reflected in the widening interest in mandated private pension supplementation of social security, as well as in measures to encourage employment. In developing countries, a strengthening of programs for families and, in some instances, a lowering of the retirement age are noted, in addition to a general expansion in the benefit structure of the work-injury program.

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In accordance with the by-now-established pattern of publishing an analysis of trends and developments to coincide with the publication of each updated volume of **Social Security Programs Throughout the World**, this article focuses on major social security changes in 1985-87.[1] A new feature is the analysis of broader trends that may have influenced current social security developments and that may also become factors in determining social security policies internationally in the years ahead.

The interest of the United States Government in social security programs and policies in foreign countries goes back nearly 100 years. A detailed study of the German social security program, introduced by Bismarck, was published by the U.S. Department of Labor in the 1890's, barely 10 years after the inauguration of the German program in 1883. This 19th-century report also briefly described compulsory insurance coverage in 11 other European countries. Subsequently, social security programs were introduced in other Western countries; and, in 1937, the U.S. Social Security Board—a forerunner to the Social Security Administration—recorded the principal old-age, survivor, and invalidity provisions in 27 countries. This work of recording and disseminating information on foreign social security programs has continued for more than half a century with the publication of **Social Security Programs Throughout the World.**

Overview

Labor-market and demographic patterns—prevailing as well as projected—and their potential impact on the financing of social security programs were a major focus of discussion in industrialized countries during the 1985-87 period. Countries in other parts of the world were facing problems of their own, to be sure, regardless of the political and economic context in which they operated. This overview, however, focuses primarily on Western industrialized countries where relevant social security data not only are more available but are more apropos of the U.S. experience in social security matters.

Situation in Industrialized Countries

These are difficult times for social security programs in many industrialized countries. In Western Europe, in particular, there is concern that present social programs cannot be maintained at their current levels but must be restructured. The reason is the convergence of several trends that have not been encountered before on a comparable scale: low birth rates (in the European Economic Community, one-half of the member countries are experiencing zero or negative population growth), low mortality rates, aging populations,[2] a tendency toward early retirement, and high unemployment rates (especially among the young).

In addition to these trends, a new type of worker is emerging—one who does not possess the sophisticated skills needed in today's and tomorrow's job markets.[3] These workers may be considered a burden to society insofar as they, in their productive years, may become net users of social security and related services rather than net contributors to the

[1]The current format of **Social Security Programs Throughout the World** was initiated with the 1961 edition. Since 1958, it had been published every 3 years (1958, 1961, and 1964 editions) and since 1967, it has been published biennially. Before 1958, no specific publication schedule was followed.

[2]See, for example, U.S. Department of Commerce, Bureau of the Census, **An Aging World** (International Population Reports, Series P-95, No. 78), and OECD, **Ageing Populations—The Social Policy Implications**, Paris, 1988.

[3]Stephen Brookes, "Europe's Job Crisis: Here To Stay?," in **Europe**, May 1988, pages 34-35. For a discussion of demographic and financing problems, as well as the phenomenon of "marginalization" in European countries, see Commission of the European Communities, "Problems of Social Security—Areas of Common Interest" (A communication from the Commission to the Council), Brussels, July 24, 1986.

system. They are the "new poor": Young individuals who have never experienced steady employment; those older than age 50 who have been laid off toward the end of their working careers; and persons—women in particular—caught up in the instability of fragile family situations (related to cohabitation, separation, or divorce) that may affect their future access to benefits such as pensions and/or health care.

Labor-Market Patterns

High, persistent unemployment in many industrialized countries is likely to continue as the production process is being modernized and output is adjusted on the basis of current employment patterns. Table 1 shows recent unemployment rates and projected rates for 1989. The introduction of modern production methods not only requires fewer workers to maintain a given level of output but a higher level of technical sophistication on the part of the employee.

Certain labor-market patterns, previously thought to be temporary, have taken on more permanent characteristics. For example, unemployment levels are still enormously high by post-World War II standards in many countries outside the United States. Nearly every European country has introduced some form of early pension program. The purpose is to readjust the labor force by giving laid-off workers the opportunity to retire at an earlier age than previously possible, thereby creating job opportunities for younger workers. The job replacement effect has turned out to be lower than originally envisaged, however, in part due to the lack of skills in a younger generation that did not have the benefit of steady employment. Under the circumstances, it is hardly surprising that the long-term unemployed make up an increasingly larger proportion of the total unemployed population in many countries (table 2).

Another deterrent to reducing unemployment is the lack of labor mobility found in many industrialized countries. In the United States, mobility (geographical as well as professional) is an outstanding feature of the labor force. In contrast, European labor historically has not been nearly as mobile (with the possible exception of the Nordic countries of Denmark, Iceland, Finland, Norway, and Sweden—which have a common labor market) for such reasons as national and local employment policies, regulations that restrict business operation (such as regulated business hours), and language barriers. Furthermore, a number of jobs open to workers in the United States, regardless of union affiliation, may be out of reach for nonunion workers in Europe. In 1985, the European Council issued a proclamation for completion of an internal market for all member countries by 1992.[4] Whether or not that proclamation will succeed in changing Europe's "overly rigid labor markets" remains to be seen.[5]

Table 1.—Unemployment rates in 13 OECD[1] countries in 1985, 1987, and 1989[2]

Country	1985	1987	1989
OECD unemployment levels (number in millions)	30.7	30.3	32.0
OECD unemployment rates (percent)	8.3	8.0	8.3
Belgium	12.1	11.3	11.3
Canada	10.5	9.0	9.0
Denmark	8.9	8.0	10.3
France	10.2	10.7	11.7
Germany, Federal Republic of	8.3	8.0	8.3
Italy	10.6	10.7	11.5
Japan	2.6	3.0	3.3
Netherlands	14.3	12.7	12.3
Spain	21.9	20.7	19.7
Sweden	2.8	2.0	2.3
Switzerland	1.0	.8	1.0
United Kingdom	11.8	10.7	10.5
United States	7.2	6.2	6.5

[1]Organization for Economic Co-operation and Development.

[2]Estimates for 1985 are from the January 1987 issue of the **OECD Observer**. Estimates for 1987 and projections for 1989 are from the February/March 1988 issue.

[4]Stephen Brookes, **ibid.**

[5]Some institutional changes already have been implemented in Europe to improve the functioning of the labor market and thereby reduce unemployment. Among these changes are measures to reduce the public sector role, for example, by no longer intervening in the wage-setting process. As a result, wages for youth in the United Kingdom now may be set freely to reflect the relative lack of experience of this group. In the Netherlands, a law permitting government intervention in setting wages was allowed to lapse. Finland, France, the Netherlands, Spain, and the United Kingdom introduced measures to improve the skills and qualifications of the unemployed; and France and Spain introduced more flexibility in working-time rules, making it less expensive for employers to resort to overtime. **OECD Observer**, No. 150, February/March 1988, page 41.

Demographic Patterns

Demographic patterns are also of serious concern to social security policy planners. In the next 50 years, the number of persons aged 65 or older will increase far faster than any other age group in proportion to total population (table 3). In most developed (and even in some developing) countries, life expectancy at birth now approaches or exceeds 75 years. Typically, labor-force participation declines as individuals approach retirement age. However, a further decline in the activity rate over time has been observed among older workers, particularly in developed countries. Thus, the median activity rate in 15 developed countries in the early 1970's was 74 percent for the group aged 60-64. Ten years later, the median rate for the same age group in these countries had decreased to 53 percent.[6] The primary reasons for this trend are a general lowering of the retirement age, technological innovations in a number of occupations that have left the older worker outmoded in terms of skills/training, changed educational standards that give younger employees a competitive advantage, and pension policies that have made it economically feasible to retire at an earlier age than previously was possible.

The short-term consequences of the demographic developments are that the need for certain benefits will be reduced, causing a decrease in expenditures for programs directed toward the young (for example, health care related to maternity and infancy) and for family-related benefits. In the long run, however, as the number of older persons (those aged 75 or older) increases, overall expenditures may be expected to be higher because per capita public spending for the elderly is two to four times higher than for the young.[7] Thus, in the area of health care, it has been estimated that, by the year 2015, as much as 50 percent of medical expenditures in Europe may be spent on the elderly.[8] If these trends continue, expenditures for pensions and health care are expected to increase even as the earnings (contribution) base grows relatively smaller (table 4).

[6]U.S. Department of Commerce, Bureau of the Census, **An Aging World**, op. cit., page 35.

Table 2.—Unemployment in six OECD[1] countries: Ratio of long-term unemployment to total unemployment within age and sex groups in 1979, 1982, and 1985

Country and year	Youth[2]	Prime-age adults[3]	Older workers[4]	Males	Females
Canada					
1979	2.4	4.4	4.6	4.1	2.7
1982	4.0	5.7	7.8	5.9	4.5
1985	5.2	11.3	18.2	12.1	8.0
France					
1979	21.1	31.7	49.8	26.4	33.2
1982	36.6	39.8	61.0	35.1	48.0
1985	37.5	48.8	67.2	42.7	50.5
Germany, Federal Republic of					
1979	6.8	16.6	34.9	22.2	18.1
1982	10.4	21.2	34.5	20.9	21.7
1985	15.9	33.8	47.4	34.2	31.0
Japan					
1979	5.9	20.0	20.0	18.4	13.5
1982	7.1	16.4	20.0	14.4	15.5
1985	5.9	14.9	20.3	18.0	10.8
United Kingdom					
1979	7.0	21.0	40.7	22.6	12.4
1982	21.5	37.3	47.8	37.8	23.5
1985	28.5	44.3	55.9	45.9	30.5
United States					
1979	2.4	4.7	8.6	5.0	3.4
1982	5.4	8.9	10.4	9.2	5.7
1985	5.1	11.0	15.3	11.7	6.8

[1]Organization for Economic Co-operation and Development.
[2]Persons aged 15-24.
[3]Persons aged 25-54.
[4]Persons aged 55 or older.
Source: **Ageing Populations—The Social Policy Implications**, OECD, Paris, 1988, table 28, page 60.

Situation in Other Countries

Developing countries are faced with problems of a different nature. In these countries, the primary emphasis has been on maintaining existing programs. In many instances, the cash economy is still very limited, and few countries have had the financial and/or managerial resources to broaden the scope of

[7]Maria Maguire, "Making Provisions for Ageing Populations," **OECD Observer**, No. 148, October/November 1987, pages 4-9.
[8]International Labor Organization, **Demographic Developments and Social Security (Report II)**, 4th European Regional Conference, Geneva, September 1987. See also, Commission of the European Communities, **op. cit.**

social security. The focus, therefore, has been on improving the administration of existing programs by emphasizing such things as organization and management techniques, data processing techniques, financing, and the investment of funds. The planned conversion from a provident fund to a social insurance approach occasionally has been curtailed or slowed by the lack of economic progress. Nevertheless, on balance, benefits in existing programs increased in 1985-87. The work-injury program, in particular—one of the most common social security programs in developing countries—experienced a general expansion.

In some of the socialist countries of Eastern Europe, the problem of inflation has led to changes in social security adjustments. The resulting increases in benefits have, in turn, caused financing problems, but they have not always stilled complaints that inflation is outpacing increases in the income of pensioners.

Table 3.—Number and percent of population in specified age group in seven OECD[1] countries in 1980, 2010, and 2040

[Numbers in millions]

Country and age group	1980		2010		2040	
	Number	Percent	Number	Percent	Number	Percent
Canada						
0-14	5.5	23.0	5.3	17.2	6.4	18.1
15-64	16.2	67.5	21.1	68.2	20.9	59.4
65 or older	2.3	9.5	4.5	14.6	7.9	22.5
France						
0-14	12.0	22.3	10.1	17.4	10.0	17.9
15-64	34.3	63.8	38.3	66.3	33.2	59.4
65 or older	7.5	14.0	9.4	16.3	12.7	22.7
Germany, Federal Republic of						
0-14	11.2	18.2	7.5	13.2	6.9	15.2
15-64	40.8	66.3	37.5	66.5	25.9	57.2
65 or older	9.6	15.5	11.5	20.3	12.5	27.6
Italy						
0-14	12.6	22.0	8.6	15.4	8.2	17.0
15-64	36.8	64.6	37.3	67.3	28.5	58.9
65 or older	7.7	13.4	9.6	17.3	11.7	24.2
Japan						
0-14	27.5	23.5	23.6	18.3	20.8	17.4
15-64	78.9	67.4	81.2	63.0	71.9	60.0
65 or older	10.7	9.1	24.0	18.6	27.2	22.7
United Kingdom						
0-14	11.8	21.1	11.5	19.9	10.3	17.9
15-64	35.9	64.0	37.7	65.5	35.6	61.7
65 or older	8.3	14.9	8.4	14.6	11.8	20.4
United States						
0-14	51.3	22.5	53.9	19.3	58.4	18.9
15-64	150.7	66.2	190.2	67.9	189.8	61.3
65 or older	25.7	11.3	35.8	12.8	61.3	19.8

[1]Organization for Economic Co-operation and Development.

Source: **Ageing Populations—The Social Policy Implications**, OECD, Paris, 1988, tables A.1. and A.2., pages 78-81.

Trends and Developments

The discussion now turns to social security developments during the period 1985-87. It moves from a broad outline and overview of the major social security program changes to a discussion of revisions within branches or programs of social security, providing specific examples.

Table 5 shows the growing number of countries with some form of social security program that were included in various editions of **Social Security Programs Throughout the World**. One country—Suriname—has been deleted since 1985 because its social security program has not yet been implemented. Although these figures demonstrate clearly the steady expansion of social security programs in the world, they should be interpreted with considerable caution. The principal difficulty in tabulating countries having specific social security programs is that the criteria used for including countries in the publication have changed and evolved over time. In addition, certain countries or territories may not have been included when their programs first began but were added later when sufficient program information became available.

In spite of these reservations, it is evident that the decade of the 1960's was one of the most expansive periods for social security: Many newly independent countries in Africa and Asia introduced social security programs while the industrialized countries continued to extend the range of social security benefits. The slowdown in social security growth since the late 1970's is primarily attributable to widespread recessionary conditions and to the fact that the majority of countries already had instituted some form of social security protection.

New Branches and Major Program Changes

A number of countries have made significant social security changes since 1985. The areas of change include the introduction of unemployment insurance programs (Brazil and the People's Republic of China), the transfer of social security programs from the public sector to the private sector (Belgium and the United Kingdom), the introduction of noninstitutional long-term care for the disabled (Australia and Israel), and the approach to social security. (Saint Vincent, for example, replaced a provident fund with a new social insurance system providing old-age, invalidity, and survivor benefits as well as a funeral grant. A similar transformation of a provident fund into a pension scheme has been proposed in Ghana.)

Iran and Venezuela report that studies are underway to determine the feasibility of introducing unemployment insurance programs. Argentina, on the other hand, ended its unemployment insurance program that was established on a temporary basis during the period October 1984-December 1985. In Brazil, the new unemployment insurance program, which covers all urban employees and workers in agro-industrial enterprises, achieves the long-sought goal of completing a "full" program (all 5 branches—old-age, invalidity, and survivor; sickness and maternity; work injury; unemployment; and family allowances) of social security. In the People's Republic of China, the newly introduced unemployment insurance program reflects a programmatic response to new government policies designed to modernize and accelerate the development of the Chinese economy, in part through the creation of a system of contract responsibility for both production and labor. Thus, the new Chinese unemployment program covers workers who have a contractual relationship with their employers, whether the employing enterprise be state-owned or private.

Belgium and the United Kingdom have taken steps to transfer their social security programs to the private sector. Legislation in the United Kingdom now permits workers to opt out of both the State Earnings Related Pensions Program (SERPS) and the privately run, "contracted-out" pension program and opt for portable personal pensions. Tax incentives and rebates are being used to promote and encourage the latter option. In Belgium, to reduce government expenditures, the work-injury and the occupational disease programs, both currently part of social security, were to be transferred to the private sector as of January 1, 1988, and sometime after 1989, respectively. Projected annual savings of 7 billion Belgian francs [9] will result primarily from the elimination of subsidies to the occupational disease program.

Israel and Australia have implemented new disability pension

Table 4.—Projected change in selected program expenditures in seven OECD[1] countries in 1980, 2000, 2020, and 2040

Country and program	1980	2000	2020	2040
Canada				
Education	100.0	75.0	55.3	55.3
Health	100.0	110.3	110.3	113.8
Pensions	100.0	120.8	158.3	158.3
France				
Education	100.0	91.0	60.9	60.9
Health	100.0	100.0	95.5	95.5
Pensions	100.0	111.9	128.6	133.3
Germany, Federal Republic of				
Education	100.0	65.0	50.0	55.0
Health	100.0	100.0	100.0	92.0
Pensions	100.0	117.0	127.7	129.8
Italy				
Education	100.0	73.9	55.5	55.5
Health	100.0	108.3	104.2	104.2
Pensions	100.0	112.8	123.4	125.5
Japan				
Education	100.0	64.5	58.1	54.8
Health	100.0	106.9	106.9	103.4
Pensions	100.0	142.9	153.6	164.3
United Kingdom				
Education	100.0	92.9	85.7	78.6
Health	100.0	107.7	103.8	111.5
Pensions	100.0	100.0	108.8	117.6
United States				
Education	100.0	84.4	65.6	62.5
Health	100.0	109.1	104.5	109.1
Pensions	100.0	105.0	127.5	130.0

[1]Organization for Economic Co-operation and Development.

Source: **Ageing Populations—The Social Policy Implications**, OECD, Paris, 1988. Figures derived from table B.2., page 90.

[9]As of December 31, 1986, $1 (U.S.) equaled 41.31 Belgian francs.

programs aimed at encouraging noninstitutional long-term care. In Israel, the intent of the program is to allow disabled or old-age pensioners who are unable to care for themselves, but who do not require hospitalization, to remain in private (not necessarily family) care, thereby eliminating the need for institutional arrangements. Similarly, in Australia, benefits equal to an old-age pension are paid to the spouse or relative caring for a disabled beneficiary. In both Australia and Israel, the caretaker receives the benefit. Funding in Israel is based on employee and employer contributions, paid in conjunction with other social security contributions; Australia has general revenue funding.

In the Federal Republic of Germany and New Zealand, responsibility for providing dependents' benefits has been transferred from the old-age and disability programs to the family allowance and family benefit programs, respectively. In the Federal Republic of Germany, this change shifted funding from social security to general revenues. In New Zealand, the program was already funded by general revenues.

A new program in Finland provides an early pension, which supplements the regular disability pension, to persons aged 55 or older. Particular attention is paid to personal factors and working conditions—long years of service in an occupation, work-related stress, and physical attrition, for example—rather than medical factors.

Coverage

When social security is at a relatively early stage of development, coverage may be extended in a number of ways to bring new population groups into the program. A relatively common method is to include, over a period of time, employers with progressively smaller employee populations or to raise the income ceiling for contribution purposes, when those earning above the ceiling are noncontributors. Alternatively, coverage may be extended by introducing new population groups (such as the self-employed) or by extending a program into new geographical areas.

In Indonesia, for example, participation in the provident fund was extended to employees of smaller enterprises (with at least 25 employees or with an annual gross income of 1 million Rupiahs,[10] instead of the previous 100 employees or 5 million Rupiahs). The Dominican Republic reported an increase of more than 80 percent in the population covered under the old-age, invalidity, and survivor program due to a substantial increase in the contribution ceiling. (The program excludes participation of those whose earnings exceed the ceiling.) El Salvador extended sickness and maternity coverage to the self-employed. Malaysia extended old-age, invalidity, and survivor insurance and work-injury coverage to additional geographical areas.

In several countries, it is now possible to make voluntary contributions to various social security programs. In Rwanda, nonsalaried workers may be voluntarily covered under old-age, invalidity, and survivor insurance; Jordan extended a similar social insurance program to expatriates; and in Iran, self-employed persons and Iranian citizens residing abroad may, by choice, receive full or partial coverage under the social security old-age, invalidity, and survivor program.

Other countries made social security coverage compulsory for additional categories of workers. In Kuwait, the self-employed were brought into the social security (old-age, invalidity, and survivor) program on a compulsory, rather than voluntary, basis. In Ecuador, agricultural workers are now covered on a compulsory basis under the old-age, invalidity, and survivor, and the sickness and maternity programs; previously, coverage for this group was elective. Japan liberalized its

Table 5.—Number of OECD[1] countries with some form of social security program, by type of program in selected years, 1940-87

Program	Number of countries					
	1940	1949	1958	1967	1977	1987
Any type	57	58	80	120	129	141
Old-age, invalidity, and survivor	33	44	58	92	114	130
Sickness and maternity	24	36	59	65	72	[2]84
Work-injury	57	57	77	117	129	136
Unemployment	21	22	26	34	38	40
Family allowances	7	27	38	62	65	63

[1]Organization for Economic Co-operation and Development.

[2]Includes countries with both cash sickness and cash maternity benefits, plus Australia, which has cash sickness and medical care programs only. Of the 84 countries that offer sickness and maternity benefits, 69 also offer medical care.

[10]As of December 31, 1986, $1 (U.S.) equaled 1,650 Rupiahs.

National Pension program by basing coverage on residency; earlier, eligibility was contingent on not being covered under the Employees Pension Insurance program. Venezuela, countering a worldwide trend of assimilating civil servants into the general social security scheme, removed civil servants from the national program and established a separate program for public employees.

A number of countries introduced major changes in the coverage of their work-injury insurance programs. In May 1986, Ecuador set up a social security program for agricultural workers that included, in addition to old-age, invalidity, and survivor insurance and medical benefits, a workers' compensation program with permanent benefits for total and partial disability. In Costa Rica, the workers' compensation program was expanded to include all employed persons, the result of a gradual phasing-in of certain categories of workers since 1982. El Salvador now covers the self-employed under the work-injury program. Burma, Indonesia, and Thailand extended workers' compensation coverage to additional geographical areas, and Ghana expanded this program by changing the regulations to include employers with a minimum of 5 employees, compared with the previous 10. In Belize, the qualifying age for compensation under the workers' compensation program was lowered from age 15 to age 14. Malta extended coverage to self-employed persons who sustain an injury while engaged in gainful activity for their business but who have no income due to the temporary suspension of that business.

The Federal Republic of Germany, in a major liberalization, added coverage for child-rearing years under the old-age, invalidity, and survivor pension program. For each child, the responsible nonemployed parent (the mother, unless otherwise requested, or primary guardian, if the parents are deceased) is credited with 1 year of program coverage (at a rate tied into national wages at the time) during the first year of the child's life.

Several nations changed the length of coverage needed to qualify for benefits under the old-age, invalidity, and survivor program. In the Central African Republic, 20 years of coverage are now needed rather than 15 years. Colombia and Ireland made similar changes in the eligibility requirements for disability benefits only. In Ireland, this change increased the required period of coverage from 26 weeks to 29 weeks. In Colombia, the number of weeks of coverage required also increased, but a "recency-of-employment" test was eliminated. Formerly in Colombia, 150 weeks of contributions in the last 6 years were required, including 75 weeks in the last 3 years; the new requirement is 300 weeks of contributions, without a specific time limit.

Financing

The cost of financing social security programs continued to increase during 1985-87. A variety of factors were involved in this increase, including inflation, aging populations, and high rates of unemployment—depending on the prevailing economic and demographic conditions of the country in question. A common solution was to adjust upward the contribution ceiling, thereby generating additional revenue. This solution was used to increase the old-age, invalidity, and survivor insurance programs in the Dominican Republic, Guatemala, the Philippines, and Zambia. In the United States, the income ceiling for contributions increased substantially, with further increases scheduled in future years. In Norway and the United Kingdom, the contribution ceiling was eliminated entirely—that is, social security contribution rates are now applied to total earnings—for employers and for employees in Norway, and for employers only in the United Kingdom. Furthermore, contribution rates in the United Kingdom are now determined by income bracket rather than by actual income level, with high earners contributing proportionally more of their income than low earners.

In addition to ceiling adjustments, a number of changes were made in contribution rates in the old-age, invalidity, and survivor insurance program. In most instances, the changes were applicable to both employers and employees. Among the countries that mandated contribution rate increases were Barbados, Bermuda, Colombia, France, Ivory Coast, Japan, United States, and Yugoslavia. In contrast, Guyana and Panama lowered their contribution rates. Indonesia eliminated the worker's contribution of 2 percent of earnings to the sickness and maternity program while raising the employer's rate by a commensurate amount.

In South Africa, where expenditures in the unemployment benefit program were exceeding available funds, employer and employee contribution rates were raised substantially. Cyprus and Yugoslavia also increased their contribution rates under the unemployment benefit program. Only in two countries, Barbados and the United States, were

unemployment contribution rates lowered.

Another method to ensure adequate financing was to increase use of direct or indirect subsidies by the national government. Pakistan therefore instituted a subsidy equal to 5 percent of the total social security cost. In Spain, where social security support has become one of the largest items in the national budget, the amount was increased, as it had been in the past. In the Federal Republic of Germany, too, the national subsidy was increased; and, in France, revenues resulting from a 1-percent increase in the income tax rate, as well as a 1-percent surcharge on income from capital and real estate, and other specified additional taxes were earmarked for social security. Switzerland, although not increasing the total amount of government support, reallocated the tax burden between the Cantons and the Federal Government, raising the Federal share by one-half of a percentage point to 15.5 percent of costs and lowering the Cantons' share an equal percentage to 4.5 percent. Chad eliminated a subsidy of 2.5 percent of taxable earnings.

Health care costs continued an upward climb, particularly in the industrialized countries. Many changes in health insurance programs were, accordingly, directed at improving the financing of the systems and often were part of long-range programs to curb costs in the health care sector of the economy. Increased contribution rates were typical of the changes enacted to bring in more revenue.

Thus, in the Federal Republic of Germany, the average combined employer-employee payroll contribution rate for health care rose from 11.8 percent in 1985 to 12.4 percent in 1987. France raised its contribution rate on a temporary basis for employees, from 5.5 percent to 5.9 percent of total earnings. At the same time, several restrictions were implemented concerning medical cost reimbursement for specific diseases, and all patients were required to contribute 60 percent toward the cost of drugs for nonserious diseases. Certain previously exempt categories of patients such as disability pensioners, work injury recipients, and women more than 5 months pregnant, were thereby eliminated. France also raised the daily contribution rate charged patients in hospitals from 22 francs to 25 francs.[11] Spain increased the ceiling on earnings subject to health insurance contributions, as did the Philippines and the Dominican Republic. South Korea eliminated the ceiling for contribution purposes and, on balance, increased the burden on employers by replacing the prevailing, varying rates with a single universal flat-rate levy. In Australia, the tax on incomes used to pay for the health care program was raised—from 1.00 percent to 1.25 percent.

In the United States, higher costs of the Medicare Hospital Insurance program for elderly and disabled persons necessitated raising the contribution rate of employers and employees from 1.35 percent of payroll earnings to 1.45 percent. Italy's cost-sharing fee for prescription drugs rose from 15 percent to 25 percent, and the maximum copayment was increased by 50 percent. Chile raised its contribution rate by 1 percent of earnings. However, lower paid workers will receive health care free of charge as a result of placing the reimbursement schedule under the public medical care insurance program on a means-tested basis.

The health insurance contribution rate introduced by the Federal Republic of Germany in 1983, to be paid by retirees at the rate of 1 percent of their pension, has been raised a number of times since then. In July 1986, it increased from 4.5 percent to 5.2 percent, and to 5.9 percent 1 year later. Peru also inaugurated a requirement that pensioners contribute toward their health insurance coverage. The introductory contribution rate is 4 percent of pensions. Panama, in contrast, reduced pensioners' health care contributions from 7.25 percent of pensions to 6.75 percent.

Adjustment Mechanism and Indexing

In several countries, the social security benefit adjustment process was accelerated in response to inflation. Ecuador, for example, changed from a 3-year adjustment cycle to an annual adjustment.

In some East European countries, changes in the adjustment mechanism were quite selective. In Hungary, for example, the annual social security benefit adjustment for old-age pensioners aged 70 or older, disability pensioners at any age, and the partially disabled aged 70 or older increased substantially (from 2 percent to 7 percent) to make up for inflation, while the annual adjustment for all other recipients remained at 2 percent. The Union of Soviet Socialist Republics (USSR) introduced a new adjustment procedure whereby pensions (old-age, invalidity, and survivor) in force for at least 10 years will be adjusted every 2 years, while all other pensions will remain subject to the current approach of ad hoc adjustments. Australia introduced a 6-week delay in the semiannual adjustment process—from May and November to June and December.

[11] As of December 31, 1986, $1 (U.S.) equaled 6.51 French francs.

Benefit Formula

Social security benefit formula changes were designed to reduce program costs in several countries. Spain, for example, modified the computation formula affecting benefits under the old-age, invalidity, and survivor insurance programs and the health and family allowance programs to reduce government subsidies. In Colombia, the number of weeks of contribution necessary to qualify for a disability pension was increased from 150 weeks to 300 weeks. Panama reduced benefits under the disability pension program from 65 percent of earnings to 60 percent. After a 5-year transition period that ended in 1986, the Central African Republic had increased the number of contribution years necessary to obtain a full pension under the old-age, invalidity, and survivor program from 15 years to 20 years. In November 1986, Argentina declared its social security system to be in a state of emergency. Therefore, for a 2-year period ending in December 1988, benefits under the old-age, invalidity, and survivor program were reduced, by decree, to a level substantially lower than that required by law.

In contrast to these cutbacks, benefit formulas in other countries were changed to increase the benefits payable. Bermuda increased the benefit rates under the old-age, invalidity, and survivor program by about 30 percent during the 2-year period, and Iceland doubled the cash sickness benefit for housewives while extending the payment period under the unemployment program by 50 percent. In Guatemala, old-age and invalidity benefits were raised from 40 percent to 50 percent of the earnings base. Costa Rica and Uruguay shortened the old-age, invalidity, and survivor benefit formula averaging period—Costa Rica, from 10 years to 5 years and Uruguay, from 4 years to 3 years. Uruguay also raised the maximum old-age, invalidity, and survivor benefit from 75 percent to 80 percent of earnings. Switzerland relaxed the eligibility requirement for a partial disability pension by reducing the minimum degree of earning incapacity from 50 percent to 40 percent, effective January 1988.

Retirement Age

In some developing and near-industrialized countries, the retirement age was raised due to increased longevity and advancing industrialization. Pakistan and Turkey raised the social security retirement age by 5 years—from age 55 for men and age 50 for women to ages 60 and 55, respectively. In Turkey, where social security old-age pensions have been paid to recipients as young as age 41, the new age limits are to be raised in increments for those retiring in 1990 and later. In Argentina, a proposal to increase the retirement age by 5 years is currently under consideration.

In contrast, El Salvador and Seychelles lowered the retirement age, the former from age 65 for men and age 60 for women to ages 60 and 55, respectively; and, in Seychelles, the retirement age for men went from age 65 to age 63 (for women, it will remain at age 60).

As in previous years, some industrialized countries took steps to permit a flexible or early retirement in special circumstances. The "partial-pension" program, which allows workers to receive a reduced social security pension while working part time at a reduced salary/wage, has a tendency to encourage early retirement. First introduced in Sweden in 1976, a partial-pension program was subsequently adopted in Denmark in 1986 and in Finland in 1987. A similar program was also introduced in France in 1987, applicable in instances where a company plans a reduction in its work force. Canada, too, implemented a flexible retirement system that permits early retirement at ages 60-64, at reduced rates. It became effective in January 1987.

Medical Care and Sickness Insurance

Although health care costs continued to rise, notably in the industrialized countries, not all changes were aimed at reducing expenditures. New Zealand increased the amount patients are reimbursed for private treatment costs. The USSR eliminated patient cost sharing for medicines required by children with disabilities. In Finland, the contribution rate paid by private employers was reduced by one-third. Peru now extends medical care coverage to dependent children up to age 14 rather than to age 1. In Burma, four more provinces were brought into the program. And, in Argentina, provisions were made for extending free medical care to uninsured persons aged 70 or older with at least 10 years of residence in the country.

A number of changes affected aspects of health care delivery that ordinarily do not appear in the charts or resulted in modifications that were too detailed to be addressed in **Social Security Programs Throughout the World, 1987**. France, for instance, revamped its list of "long and costly" illnesses that qualify a patient for full reimbursement of costs incurred. As a result, the number of designated illnesses increased from 25 to 30. However, the expectation was that eligibility

requirements would actually become tighter (due to the elimination of a 26th catch-all category) and reimbursement would be only for care directly related to a specified disease instead of for all medical costs. As a result, a net drop in the number of cases in the total reimbursement category is expected.

In Canada, the individual Provinces continued the process of introducing procedures that would prevent member doctors from charging patients more than the fee designated in the official fee-for-service schedule. The Health Care Act of 1984 provided that Provinces that did not make these changes would forego federal payments toward the support of their health care systems. Consequently, by 1987, the last of the Provinces had made the required changes.

Among the changes that occurred in cash sickness benefit programs, no particular pattern was evident. Sweden abolished the 1-day waiting period before payment of benefits. Similarly, a 3-day waiting period was eliminated in Cape Verde. The Netherlands reduced its cash sickness benefit from 75 percent of earnings to 70 percent. In France, the base used for calculating earnings replacement was changed from the month immediately preceding illness to the average for the preceding 3 months.

Parental-care leave programs continued to expand in the Nordic countries. In Finland, maternity/paternity leave was extended by 5 days—to 263 days for a mother and up to 163 days for a father. Norway increased the number of days allowed for maternity leave (from 18 weeks to 20 weeks, 5 days a week) and for parental leave to care for a sick child (from 10 days a year to 20 days a year for each parent, and from 20 days to 40 days annually for a single parent).

Other countries also modified their maternity benefit programs. For example, in Costa Rica, the maternity benefit was extended by 60 days to a total of 90 days after the birth of the child, but the milk allowance, formerly paid to mothers unable to nurse their infants, was eliminated. In Bulgaria, the basic maternity benefit was cut back and the extended benefit was improved to provide up to 2 years' coverage, compared with a maximum 8 months previously, in a move that, on balance, seems to be a liberalization of benefits.

Workers' Compensation

No discernible pattern in workers' compensation program changes on a global basis emerged during 1985-87. In Guyana, benefits were raised temporarily, from 60 percent to 70 percent of covered earnings. Dominica liberalized benefits for the temporarily disabled, from 50 percent of average earnings in the previous 12 months to 60 percent of average earnings in the last 13 weeks. In contrast, in Spain and Panama workers' compensation benefits were lowered. Spain reduced benefits by about 10 percent, and Panama lowered permanent disability benefits from 65 percent of covered earnings to 60 percent. In still another variation on adjustments to the workers' compensation program, Finland has reduced the employer's contribution rate by about 25 percent since 1985.

Unemployment Benefits

With unemployment rates continuing to be relatively high in many countries, cost containment was emphasized. In the Netherlands, for example, new restraints were introduced into the unemployment benefit program by tying the length of time during which benefits are paid to the beneficiary's age and length of coverage. In Denmark, authorities substituted ad hoc benefit adjustments for the previously automatically triggered adjustments that had been tied to wage changes. Ireland lengthened the qualifying period for unemployment benefits by requiring 39 weeks of contributions instead of 26 weeks.

In some countries, unemployment benefits were liberalized. Iceland increased by one-third the duration of benefit payments. Finland lengthened the period during which unemployment benefits may be paid, and Hungary more than doubled the amount of earnings replaced by unemployment benefits, raising the rate from 30 percent to 70 percent.

Family Allowances

Considerable activity was apparent in European family allowance programs. In France, changes to a parental leave program (introduced only 2 years previously) extended the duration of the program from 2 years to 3 years while increasing the monthly benefit payable to working mothers by one-third. The program is intended to encourage the birth of a third or subsequent child. Also, a new child care benefit is payable in France to families where both parents work—or to a single working parent regardless of income level—in cases where a person is employed at home to care for children under age 3. A similar program of child care benefits has been introduced in Luxembourg, directed at families with 2 or more children of school age (ages 6-18, or up to age 25 if still in school). As of July 1987, Denmark introduced a new program of family allowances that

approximately doubles the previous regular family allowance. Eligibility is based on full income-tax liability—that is, labor-force affiliation. Previously, all residents in Denmark were eligible to receive the family allowance regardless of their labor-force affiliation. Sweden reduced the timing of the first family allowance payment from the quarter after birth to the first month after birth and extended benefit payments from age 19 to age 23.

Spain, in an effort to reduce program spending, discontinued certain allowances for spouses, as well as grants in connection with marriage and childbirth, as part of an overall reform of the social security system. As a result, child benefit payments now are limited to low-income families in the Spanish family allowance program.

In East European countries, family allowances were increased to keep up with inflation. Adjustments made in the Bulgarian family allowance program (such as allowances payable to the mother for up to 2 years after the child's birth, equal to at least the minimum wage) strengthened the program; and, in Czechoslovakia, the minimum allowance payable to a disabled child was increased.

Among developing countries, Cameroon substantially increased the benefit payments for families with children; a birth grant in the Central African Republic was replaced by an allowance for the first 3 children of a family, with the amount nearly tripled; and, in Cape Verde, the restriction of paying family allowances only for the first 4 children in a family is no longer applied if the parent is a pensioner or if the insured is deceased and the mother is not employed.

Increased Interest in Private Pensions and Savings

Due to the mounting difficulty of maintaining existing social security programs, mandated private pension arrangements are attracting considerable attention as a social security supplement. Therefore, although private pension arrangements are not shown in the charts of **Social Security Programs Throughout the World, 1987**, a review of recent efforts to coordinate developments in these programs has been included.

As was indicated in the introduction to this article, the combination of changing retirement policies and, in particular, developing demographic patterns (the average ratio of elderly to working age persons is expected to double in the Organization for Economic Co-operation and Development (OECD) countries by the year 2040) has made it more and more difficult to maintain social security programs in their present form. As a consequence, interest increasingly has been on supplementing social security with some kind of organized private pension or private savings plan. Thus, the Swiss "three-pillar" system has attracted considerable attention. In addition to a regular social security program, the three-pillar approach includes private pensions (an occupational pension program mandated in 1985, but used extensively before this date) and private savings. Lately, in addition to the case of the United Kingdom (discussed in the section on "New Branches and Major Program Changes," page 19), several countries have adopted one or both of these options by supplementing social security with private pensions or private savings. In Belgium, for example, a program establishing individual retirement accounts was introduced in December 1986, offering the options of investing in (1) a common investment fund, (2) a financial institution, or (3) a savings plan with a Belgian insurance company. Similarly, in France, a law passed in mid-1987 introduced personal pension accounts, effective January 1, 1988. In each country, the minimum contribution period is 10 years. Invested funds are not taxable until withdrawn from the account, with the earliest possible withdrawal at age 60. Tax incentives are used to encourage participation in all private pension programs described above.

In Portugal, private pension funds may be voluntarily established. More recently, the regulation of these funds has become considerably stricter. Thus, a November 1986 law concerning private pension funds made funding obligatory for plans established after January 1, 1987. Typically, these plans, which are employer financed with rare exceptions, are coordinated with social security with respect to retirement age, but they have a shorter qualifying period.

In Italy, although no legislation per se provides for private plans, the practice of establishing such plans is quite extensive. Intended initially for supervisory personnel, recent plans have tended to include a company's entire work force. A proposal currently under consideration would make it possible for employees to establish private funds in addition to, and separate from, company plans.

The Argentine National Superintendency of Insurance (NSI), in October 1987, authorized some insurance companies to begin offering plans featuring retirement insurance. At almost the same time, and with the NSI's full support, legislation was introduced that would establish a private pension

law. Under the proposed law, each insurance company wishing to offer private pension programs must establish a new, separate insurance company for just this purpose. As of this writing, the legislation remains pending passage. Of the estimated 250 insurance companies in Argentina, approximately 10 to 15 will seek a share of the private pension field.

In Chile, a mandatory private insurance program replaced the previous social security system in 1981. The 5-year period to change from the old system to the new system expired in 1986. Participation in the new program is obligatory but employees may choose their own investment management company or change companies if they are dissatisfied with the investment performance of the company they selected.

Totalization Agreements With the United States

During the past 15 years, the United States has entered into bilateral social security totalization agreements with foreign countries.[12] For the first time, **Social Security Programs Throughout the World** includes a note to this effect on the charts of the countries involved.

Totalization agreements provide for limited coordination of the United States Social Security program with comparable programs of other countries. These agreements eliminate dual social security coverage and taxation, and they assure adequate continuity of social security protection for individuals who have acquired credits under the system of the United States and the system of another country. As of January 1, 1987, the United States had entered into agreements with Belgium, Canada, the Federal Republic of Germany, Italy, Norway, Sweden, Switzerland, and the United Kingdom.

[12]Paul Butcher and Joseph Erdos, "International Social Security Agreements: The U.S. Experience," **Social Security Bulletin**, September 1988, pages 4-12.