Notes and Brief Reports

New Temporary Disability Insurance Law in Hawaii *

On June 30, 1969, the State of Hawaii enacted a program of temporary disability insurance, to be administered by its Department of Labor and Industrial Relations. Hawaii becomes the sixth jurisdiction[1] to provide by law for cash benefits to a worker who becomes sick or disabled while off his job. There had been no legislation in this area in the 19 years between the passage of the New York law and the enactment of Puerto Rico's program in 1968.

Under the new law, protection will be available starting January 1, 1970, to almost 200,000 workers in firms with one or more employees at any time (coverage is the same as under the Hawaiian unemployment insurance program, except that the new program provides protection for agricultural workers on small as well as large farms).

In order to qualify for benefits a worker must have been employed 20 or more hours in each of at least 14 weeks. He must also have had wages of $400 during the 4 completed calendar quarters immediately preceding the first day of disability.

After a 7-day waiting period, a disabled worker will be entitled to a weekly benefit equal to 55 percent of his average weekly wage, with a minimum benefit of $14. A worker whose average wage is less than $25 will receive a benefit equal to his average weekly wage but not more than $14. The weekly benefit amount is also subject to a maximum, determined by the level of the State average weekly wage; weekly earnings above 120 percent of the State average wage are disregarded in computing the benefit. In addition, the weekly benefit may not exceed the maximum benefit payable under workmen's compensation. Benefits will be payable for as many as 26 weeks for each disability but no more than 26 weeks in a benefit year. A claimant who was unemployed immediately before becoming disabled and who was eligible for an unemployment insurance benefit receives the same weekly benefit for the balance of the weeks during which he would have been eligible for an unemployment insurance benefit.

The program will be financed by an employee tax of half the cost but not more than 0.5 percent of weekly wages up to the taxable wage base, and the balance will be paid by employers. Contributions will begin January 1, 1970, but in order to start payments in 1970, a monthly assessment of 0.2 percent of covered wages will be levied on employers from July 1, 1969, through December 31, 1969. The wage base is flexible, to be computed once a year as 120 percent of the State average annual wage in covered employment. A "special fund" is to be established, separate from other public moneys, for receiving all contributions and paying all benefits under the publicly operated program.

All benefits are to be paid from the special fund except that employers may substitute a private insurance plan (including self-insurance) if they furnish benefits at least as favorable as those under the publicly operated program. Adequacy of private plans is to be evaluated by the Director of the Department of Labor and Industrial Relations with respect to waiting-period requirements, duration of benefits, and percentage of wage loss replaced.

* Prepared in the Division of Economic and Long-Range Studies, Interprogram Studies Branch.

[1] The other jurisdictions are California, New Jersey, New York, Puerto Rico, and Rhode Island.

Funding Under Private Pension Plans *

A grant from the Social Security Administration to the Pension Research Council of the Wharton School of Finance and Commerce (University of Pennsylvania) has supported a study[1] that is part of an attempt to measure the capabilities and limitations of the private pension mechanism. The specific goal of this study is to

* Prepared in the Publications Staff, Office of Research and Statistics, by Nancy Crisman.

[1] Frank L. Griffin, Jr., and Charles L. Trowbridge, *Status of Funding under Private Pension Plans* (Richard D. Irwin, Inc., for the Pension Research Council, Wharton School of Finance and Commerce, University of Pennsylvania), 1969. Inquiries concerning the report should be addressed to the authors at Wharton School of Finance and Commerce, Philadelphia, Pa.

determine the degree to which funding of accrued benefits has been accomplished by a number of the private pension plans in the United States. It also contributes new information on the extent to which the values of accrued benefit are vested (extent to which ultimate payment is not contingent upon an employee's continuing in the service of the employer) as well as current vesting practices.

Thirty-three actuarial consulting firms and insurance companies supplied the data for the study. The qualifications for the plans included in the data were (1) that they be plans maintained for employees by private employers in the United States, (2) that they be advance-funded and in the process of funding for at least 10 years, (3) that they must be IRS qualified, and (4) that they each cover at least 25 participants. It is important to note that unfunded plans that provide the lowest degree of benefit security are not included. There is also underrepresentation of the collectively bargained multiemployer plan and smaller single-employer plans.

The methodology for determining the degree of funding is significant. The ratio of the value of assets accumulated under a pension plan to the value of all accrued pension benefits is the principal measuring device. (The term accrued pension benefits means the pension benefits attributable to service—and where applicable, compensation earned—before the date of the study.) The percentage that results from this method is the "Benefit Security Ratio" (BSR). A BSR of 100 percent or more means that in event of current plan termination the accrued benefits are fully paid for.

There are, however, many factors that affect the time expected for complete funding to take place. Benefits for periods of service rendered before the inception of the plan, the age distribution of the participants, the periodic improvement of benefits, and the existence of bargaining agreements relating to funding are just a few.

In order to provide a means of neutralizing some of the principal variables the authors have computed for each plan an *effective* period of past funding (a weighted average considering the number and magnitude of benefit liberalizations over the years). They have also selected funding benchmarks that one might expect a substantial number of plans to follow.

Using BSR's both with respect to accrued benefits in total and with respect to accrued benefits that are vested, the authors conclude that the study furnishes impressive evidence

> that during the past several decades, while the climate has been favorable to the independent development of private plans, these plans have responded with a remarkably healthy growth, both in the evolution of benefits and benefit forms and in the enhancement of employee security through sound financing.

Some basic conclusions may be drawn from the study, according to the authors.

> A high degree of benefit security had been achieved by the year 1966 by a vast majority of the plans included in the study. For example, assets were sufficient, on the average, to cover 94.4 percent of all accrued benefits under plans whose effective funding periods were 15 years or more.
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> Considered in relation to the effective period of funding, between 90 and 94 percent of the plans studied had developed benefit security ratios in excess of the two benchmarks of funding progress.
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> . . . While the recent period of rising interest rates has contributed to the favorable results one may nonetheless conclude that conservative assumptions and cost methods have been employed in the funding of most private pensions.
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> With regard to the extent of vesting found under private pension plans, approximately half of the participants and benefit values in the study were found to be under plans having vesting classified as "early" (essentially after approximately ten years of service. . . . Vesting therefore appears to be at a reasonably advanced stage in its evolution, with liberalizations continuing to occur as other benefit priorities are satisfied.

Social Security Abroad

HIGHER FAMILY ALLOWANCES IN FRANCE*

In May 1969, the French Government issued a number of decrees affecting family allowances. These measures were considered as part of a plan to halt a declining birth rate that had dropped from a level of 18.1 per 1,000 population in 1964 to 16.8 per 1,000 in 1967 and was expected to

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