SOCIAL SECURITY ABROAD

Growth of Pensions in Rumania*

Rumania's rapid rate of economic growth in postwar years has allowed for a significant increase in real wages of the working population, despite the diversion of a large portion of increasing national income into capital accumulation. Despite a similarly rapid rise in total expenditures for pension purposes, growth of benefits granted to the average pensioner has not kept pace with earnings of the active labor force.

As the first of a number of significant changes in the social security system the Government at the end of 1966 substantially raised pension benefits to improve the lot of the retired population. Subsequent inflationary developments and Government actions, however, brought about a retrenchment that left only part of the projected 1966 improvement intact.

These developments took place against the background of Rumania's move toward modest economic reform. The Government considered a revamping of the price structure to be a necessary precondition for more fundamental changes. The price changes introduced, however, had the incidental effect of bringing about a new increase in consumer prices that threatened to erode the real incomes of the workers. In compensating the worker by raising and restructuring wages the Government then found that, in the process, it had also raised the base for computation of pensioners' benefits. Faced with the prospect of higher outlays in this direction than it had envisaged, the Government announced that it was compelled to revise the pension formula downward. At a later stage it introduced a further reduction on the grounds that pension benefits were so high that the wages of needed skilled workers presented too small a differential to act as an incentive to remain in the active working force.

* Prepared by Joseph Simanis, International Staff, Office of Research and Statistics.

DEVELOPMENT OF PENSIONS AND WAGES

In recent years Rumania's rate of growth in national income has been among the most rapid in the world. A large part of each year's increased productive capacity has been ploughed back into industrial plant, but enough was left over in the decade from 1955 to 1965 to allow for an increase in real industrial wages of about 5 percent a year.

Total outlays for pensions have also been increasing at a rapid rate. In 1965 total disbursements in lei were about 3 times those of 1955, and by 1970 they are expected to double again. The increase, however, has been due more to the rise in the number of beneficiaries than to the increases in average pensions. From 691,000 in 1965 the number of annuitants is expected to rise to a total of more than 1,000,000 in 1970.

The increase in numbers of pensioners stems partly from the improving life span. In 1955 the average Rumanian lived to be aged 63; in 1967 his life expectancy had lengthened to age 68. Another important factor has been rapid industrialization, which has brought many workers from the agricultural economy into the industrial work force, thus making them eligible for pension coverage.[1]

The benefits received by the individual pensioner, however, have risen at a relatively slow rate. During the past 15 years they have been growing at only about half the rate of real wages.

In December of 1966 it seemed that this imbalance would be redressed and pensions would begin to move ahead more rapidly. The Government at that time announced that increasing production and economic growth had made it possible to introduce a comprehensive package of improvements that would raise pensions on the average of 26 percent.

[1] Members of agricultural cooperatives are insured under a different scheme that came into effect on January 1, 1967. Before that time, individual agricultural cooperatives provided some benefits to their members upon retirement; no organized system with clearly defined standards existed. The system is now financed by a contribution from the cooperative (3.5 percent of the value of its production) and by contributions from the individual members (5–10 lei per month). Normal retirement age is 65 for men and 60 for women. The usual requirement of 25 years' work for men and 20 years for women is waived for those reaching retirement age who handed over their private land holdings when they joined the cooperative.

ECONOMIC REFORM AND INFLATIONARY PRESSURES

At the end of 1967 Rumania's Communist Party approved directives for modest economic reform aimed at increasing economic efficiency along the lines adopted earlier by other East European countries. Guidelines were issued that have since been implemented at a slow but constant pace.

One major element in the East European attempts at rationalizing their economic structures has been an overhauling of prices to reflect productive costs more adequately. Rumania first increased rents at the end of 1967 to eliminate the effective subsidy of building and construction that had prevailed up to that point. Prices on other consumer items were raised subsequently. Meanwhile attempts were made to compensate workers for the rising cost of living by raising wages. Nominal wages, as a result, were allowed to rise by 1968 to 26 percent above the 1965 level and real wages by 9.5 percent; further sizable increases were slated for 1969.

Nonetheless, the inflationary thrust, although blunted for the worker, has had unfavorable effects in other sectors of the economy for which no provision had been made in government planning. Food shortages, for instance, seem to have arisen as peasants, finding that state purchase prices for their produce no longer had the same value in buying manufactured consumer items, have failed to deliver agricultural products in amounts required to meet the growing demands of the population. For pensioners too the price increases have tended to undermine the real increase in purchasing value of the higher benefits they had gained in 1966.

Yet, even with the two cutbacks the Government later introduced in the 1966 increases, average pensions did rise by about 35 percent in nominal terms from 1965 to 1969. Thus the residual increase is undoubtedly significant in real terms despite the inroads of inflation, although it has probably not reached the 26 percent predicted by the Government at the end of 1966.

CHANGES IN WAGE STRUCTURE

Along with a general increase in wages in the past few years there has been a trend toward changing the traditional structure of payment. As a result a relatively larger portion of total take-home pay goes into a base wage rather than into bonuses. In the past between 15 percent and 20 percent of workers' wages came from bonus payments. An example of the new pattern can be found in the building materials industry where wages were raised by about 11 percent in May of 1969. At the same time most of the variable bonuses and piece-work premiums were incorporated into the base wage so that the latter rose from 76 percent to 93 percent of the total.

Since pensions are calculated by a formula that involves base wages in the highest years preceding retirement rather than total wages during that period, the end result of these changes has been to give an upward impetus to benefit levels. It is for this reason that in April of 1968 the first downward adjustment in the pension formula was announced. The Government noted in its decree that, with a greater rise in net wages than originally envisaged, pensions would rise disproportionately. Up to that time a worker, low in the wage scale, was entitled to a retirement pension equal to 90 percent of the highest 5 consecutive years of base wages during the last decade of his employment experience. As a result of the new changes, he was to receive only 85 percent instead of 90 percent. Reductions were even greater for more highly paid workers going into retirement.

RETENTION OF SKILLED WORKERS ON WORK FORCE

The usual age of retirement for men has been 60 in Rumania, as in most East European countries. Although there has been no labor shortage in the country, the planners have been concerned over the loss of skilled workers from the work force by virtue of the relatively early retirement age.

Even with the 1966 law, which on balance brought a marked improvement in benefits, measures that were unfavorable to some beneficiaries were introduced to widen the differential between wages and pensions and thus stave off early retirement. One of these revisions, aimed at keeping men working beyond the age of 60, had the curious effect of eliminating some of the previous advantages of achieving longevity during the years before 60. In some cases, for example, a worker with a long work history beyond the minimum qualifying period could retire with a pension equivalent to the basic wage he was earning as an active participant in the labor force. Accordingly, in an effort to prevent similar situations from occurring in the future, there was a reduction from 1.5 percent to 1 percent in the increment awarded for each year worked beyond the period necessary to qualify for a pension (25 years for men and 20 for women).

Another change aimed at curbing early retirement was based on the assumption that many workers were being retired through the initiative of their employers when, in fact, their own preference would have been to remain in the job. The new law, therefore, stipulated that workers could still retire at the same age (60 for men and 55 for women) if they themselves applied for retirement. However, if the employing enterprise initiated the action, the worker could not be retired until age 62 (men) or 57 (women).

These measures, apparently, were not sufficient to keep a satisfactory number of skilled workers from retirement. At any rate, when the Government announced its second retraction of pension benefits in December of 1968, it said that the narrowing differential between pensions and wages was not adequate to keep skilled workers from retiring. As a remedy it further cut the increment granted pensioners for each year of work beyond the qualifying period from 1 percent to 0.5 percent of the base wage. As part of the same effort, it reversed itself and eliminated a pension supplement introduced in 1966 to discourage worker turnover. (Workers who remained with the same enterprise for a minimum of 10 years were being rewarded by this measure with an increase in their pension of from 4 percent to 10 percent according to longevity.) To combat work turnover the Government introduced a substitute incentive in the form of a wage supplement for continuous work with the same establishment.

ADMINISTRATIVE CHANGES

In December of 1967 a new Ministry of Labor was established to coordinate policies of labor and social welfare. In the process, jurisdiction over the social insurance program was taken away from the Central Council of the General Union of Trade Unions and handed over to the new Ministry. This move was in keeping with the long-term trend in East Europe toward separating trade union activities from social security.

One of the side effects of the change, however, has been an administrative problem in adjusting to the transition from one organization to another. There have been, as a result, cases of confusion in organizing records and delays in determining the proper level of benefits in individual cases. It is possible also that the pensioners would have fared better, as far as policy toward benefit levels is concerned, but for the problems of administrative transition.

INTRODUCTION OF SUPPLEMENTARY PENSION

Along with other changes introduced in late 1966 a supplementary pension was inaugurated. Significantly, the supplementary scheme involves a monthly contribution of 2 percent from the worker—a departure from the traditional East European practice of financing social insurance solely by contributions from the employing enterprises and from general revenue. The pension supplement ranges from 5 percent of the base wage for a contributory period of 1–2 years to 16 percent for a contributory period of 20 years or more. According to government estimates, a wage earner who contributes for a period of 35 years will recover his payments in the form of benefits in less than 4 years after retirement.

United Kingdom*

PROPOSALS FOR SHORT-TERM AND INVALIDITY BENEFITS

In July 1969 the Government submitted to Parliament a supplementary White Paper[1] on short-term and invalidity benefits, as an adjunct to its earlier White Paper on social security

---

* Prepared by Gisela Wang, International Staff, Office of Research and Statistics.

[1] Great Britain, Department of Health and Social Security. *Social Insurance Proposals for Earnings-Related Short-Term and Invalidity Benefits*, presented to Parliament by the Secretary of State for Social Services by Command of Her Majesty, July 1969 (Cmnd. 4124), H.M.S.O., London.

reform, which proposed a reorganization of long-term benefits.[2]

The new Paper (a) explains how the earnings-related benefits for the first 6 months of illness, unemployment, and widowhood, introduced in 1966, will fit into the proposed new scheme, (b) describes changes in miscellaneous benefits, and (c) outlines proposed new benefits for the long-term sick and disabled. The main points are summarized below.

Under the proposals published earlier, persons in covered employment would pay a wholly earnings-related social insurance contribution through the income tax system, and benefits would become fully earnings-related. As far as short-term benefits are concerned, however, it was decided after consultations with employers and the public to retain for the time being the present main structure—a flat-rate payment plus an earnings-related supplement.

Transferral of responsibility for payments during the early weeks of sickness from the social insurance scheme to employers was considered by the Government since it would avoid much excess administrative work that can occur when employers' sick pay schemes and the national sickness benefit overlap. Discussions with both sides of industry revealed that such a transfer could not be accomplished in time for the start of the new scheme, tentatively scheduled for April 1972. (Since the number of workers covered by voluntary sick pay schemes is likely to grow, the Government intends to explore the possibility of introducing statutory minimum sick pay for all employees at a later time.)

SICKNESS, DISABILITY, AND UNEMPLOYMENT BENEFITS

No major changes in short-term benefits are envisaged at the time the new national superannuation (pension) scheme becomes effective. They will continue to consist of flat-rate and earnings-related components. Certain minor changes would be necessary, however, because of the new earnings-related system of contributions. For example, at the present time the flat-rate sickness benefit can be drawn indefinitely after 156 contributions have been made. Under the new scheme, short-term sickness benefits would be paid for a maximum of 168 days (28 weeks), followed where indicated by a new long-term sickness benefit, to be known as "invalidity pension" and calculated the same way as the new earnings-related old-age pension.

It is expected, on the basis of past experience, that most recipients of this invalidity pension would be persons in their fifties and sixties. For the totally disabled, the invalidity pension would be paid until they reach retirement age and become eligible for the old-age pension. Both the invalidity pension and a new special flat-rate "attendance allowance" (payable in addition to the invalidity pension, retirement pension, or widow's benefit) are designed to aid, in particular, individuals severely handicapped from birth and working-age persons who suffer an injury or illness so severe that they are unable to return to work at any time or for an extended period.

The flat-rate unemployment benefit would continue to be paid for a maximum of 212 days (52 weeks) as at present. The earnings-related supplement—payable with the flat-rate sickness benefit, industrial injury benefit or maternity allowance—would be paid for as many as 156 days (26 weeks).

WORKMEN'S COMPENSATION

No substantial changes are contemplated in industrial disability benefits. Changes would have to be made, however, in the industrial injury and death benefits, for which broadly corresponding new provisions are proposed under the main national insurance scheme. The injury benefit, paid during the first 6 months of industrial incapacity, would be brought more closely into line with the earnings-related social insurance benefits of the main scheme, particularly for sickness benefits. It is intended, however, that the injury benefit will continue to be higher than the sickness benefit.

The earnings-related pension to which older widows or widowed mothers become entitled under the proposed new pension scheme, as the scheme matures, would in many cases exceed the flat-rate industrial widow's pension if this benefit were to continue in its present form. There is thus little need for a special pension for industrial widows, although some elements of preference under the present scheme would be retained.

[2] See the *Social Security Bulletin*, May 1969, pages 3–15.

Details of some of the changes will be settled when current discussions with both sides of industry have been completed. Legislative action in the 1960–70 session of Parliament in planned.

FINANCIAL ASPECTS

Under the new scheme, the existing single fund for all national insurance benefits will be replaced by two funds, the National Superannuation Fund and the Social Insurance Fund. The latter will receive the appropriate proportions of the total contributions paid by employers and insured persons, plus the general revenue contribution. The money in the Social Insurance Fund will bring in interest that will help as at present toward meeting expenditures. Substantial additional costs for social insurance benefits will first arise during 1973–74.

The National Social Insurance Fund, like the National Superannuation Fund, is to be run on a pay-as-you-go basis, in principle. Unlike the National Superannuation Fund, however, the National Social Insurance Fund will be particularly susceptible to short-term fluctuations resulting from such factors as sickness epidemics or changes in the level of unemployment. Thus, the rate of contribution needed to keep an adequate working balance in this Fund will be subject to more frequent variation than that required for the National Superannuation Fund—one reason why separation of the two funds has been proposed. To finance the additional benefits, the present rate of 2 percent of earnings from employers and employees may have to be increased perhaps by about 0.2 percent for each. The exact rate of increase is still to be determined and will be subject to review in the light of experience.

Recent Publications*

SOCIAL SECURITY ADMINISTRATION

OFFICE OF THE ACTUARY. *Present Value of DI Benefits in Current-Payment Status, 1968,* by Francisco Bayo and Orlo R. Nichols. (Actuarial Study No. 67). Aug. 1969. 15 pp.

SOCIAL AND REHABILITATION SERVICE

CHILDREN'S BUREAU. *Prelude to School,* by Ivor Kraft, Jean Fuschillo, and Elizabeth Herzog. (Research Report No. 3.) Washington: U.S. Govt. Print. Off., 1969. 92 pp. $1.

Short version of a study of the Howard University Preschool Project, a 2-year, full-day nursery school for disadvantaged 3-year-olds.

GRAY, SHIRLENE B. "OAA Recipients in 1965: Financial Circumstances." *Welfare in Review,* vol. 7, July–Aug. 1969, pp. 13–18. 35 cents.

GENERAL

ARONOFSKY, JULIUS S., ed. *Progress in Operations Research: Relationship Between Operations Research and the Computer,* vol. 3. New York: John Wiley & Sons, Inc., 1969. 561 pp. $17.50.

THE COUNCIL OF STATE GOVERNMENTS. *State Planning and Federal Grants.* Chicago: Public Administration Service, 1969. 75 pp. $3.

"An examination of state comprehensive planning in a period of increased state activity and increased Federal funding."

FRIEDMAN, MILTON, and HELLER, WALTER W. *Monetary vs. Fiscal Policy.* New York: W. W. Norton, Inc., 1969. 95 pp. $3.95.

A dialogue with far-reaching implications for government policy in the immediate future.

HINRICHS, HARLEY H., and TAYLOR, GRAEME M. *Program Budgeting and Benefit-Cost Analysis: Cases, Text, and Readings.* Pacific Palisades, Calif.: Goodyear Publishing Co., Inc., 1969. 420 pp. $7.95.

Designed for government policymakers, technicians, consultants, and persons interested in public administration, economics, and political science.

KIMBALL, SPENCER, and DENENBERG, HERBERT S., eds. *Insurance, Government, and Social Policy.* (S. S. Huebner Foundation for Insurance Education.) Homewood, Ill.: Richard D. Irwin, Inc., 1969. 487 pp.

Includes papers on insurance regulation by legal, regulatory, and academic authorities that discuss medical-care reimbursement, holding companies, credit insurance, rate regulation, and financial soundness of private pension plans.

Pension Fund Figures: 500 Funds. New York: Communication Channels, Inc., 1969. 512 pp. $100.

First volume of series includes financial statements for 500 companies with information on assets, cash receipts, etc.

PHELPS, EDMUND S., ed. *The Goal of Economic Growth.* rev. ed. New York: W. W. Norton, 1969. 244 pp. $5.95.

New edition with material on fixed investment and economic growth, results of technological change, pattern of economic growth, and picture of "post-industrial America in the year 2000."

(Continued on page 34)

* Prepared in the Library, Department of Health, Education, and Welfare. Orders for items listed should be directed to publishers and booksellers; Federal publications for which prices are listed should be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.