Adjustment of Old-Age Pensions in Foreign Programs

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INFLATION and rapid increases in real incomes in the period since World War II have led a growing number of countries—particularly the industrialized nations—to introduce provisions for the automatic adjustment of long-term benefits in relation to rising prices or wages. In all, 14 countries[1] now provide for such adjustment:

Argentina	France
Austria	Germany (Federal Republic)
Belgium	Italy
Canada	Netherlands
Chile	Norway
Denmark	Sweden
Finland	Uruguay

Of the 11 advanced European countries involved, 10 have introduced the automatic adjustment feature—half of them in the 1960's. Currently, among the countries reviewed here, only New Zealand, the United Kingdom, and the United States rely upon ad hoc adjustment of benefits. A revision of the British social security system—proposed in 1969, with a 1972 starting date—also calls for biennial review and adjustment.

The significant number of social security reforms of this kind in the 1950's and 1960's was related to widespread pressures to bring benefits into line with rising prices and earnings. Most often the adjustment process was made automatic, operating solely on the basis of index increases. Among the advantages of such a choice were the relative simplicity of operation and the fact that such changes kept the process out of the area of labor discontent.

Five countries adopted some form of automatic adjustment on the basis of a price index and four countries chose an earnings index. Two countries take more than one index into account.

In several of the countries the process adopted is not fully automatic, however, since the indexes are reviewed by advisory bodies. The review entails an evaluation of the effect of the increase on the economy—the actuarial balance of the funds, the employment pattern, inflation, and other factors. If, after review, the advisory bodies find that, in view of such factors, an adjustment based solely on the index would be either too high or too low, they may recommend a scaling down or raising of the scheduled percentage. The national legislatures are not required to follow such recommendations and often do not.

Price Index

In adjusting the pensions, the price index is the most frequently used base. Changes are related to the following percentage increases in the index: 3 percent, Denmark, Finland (for the universal and assistance pension only), and Sweden; 2.5 percent, Belgium; 2 percent, Italy; and 1 percent, Canada. Benefits are raised by the same percentages as the increase in the price index, except in Canada, where there is an annual statutory limit of 2 percent.

Some countries have more than one price-related index: cost of food, consumer price, cost of living, or retail price. The consumer price index itself may be a composite of several indexes, as in Italy and Germany. Most countries, however, use a form of consumer price index. Finland and Italy use a cost-of-living index constructed on the same principle as the consumer price index. The weighting of the indexes from country to country, even where the indexes have the same name, tends to differ substantially. In addition, the indexes are modified or revised from time to time.

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[1] Bolivia, Brazil, Ecuador, and Venezuela also have provisions calling for revaluation of pensions, but because they are not entirely automatic they are not included here.

Earnings Index

The countries that adjust benefits on the basis of changes in an earnings index are Austria, Finland (for its earnings-related pension), France, Germany, and the Netherlands. Norway employs a composite earnings-price index.

Changes in average covered earnings of insured wage and salary workers constitute the index for adjusting benefits in the "dynamic" systems of Austria and Germany. In France the adjustment is also linked with increases in average covered earnings but less directly. There the adjustment factor is based on the annual increase in the average daily cash payments made under the sickness insurance program. These payments are, in turn, computed on the basis of the covered earnings of insured wage and salary earners.

The Dutch index is based on the hourly wage rates of adult male manual workers in industry, transportation, and agriculture. The Finnish adjustment is based on the index for all wage and salary earners. Norway uses a composite of the consumer price index and an index defined as national per capita earnings of the economically active.

Time As a Factor

During periods of sustained inflation, the adjustment of benefits is subject to delays of varying duration, including a statutory time lag built into the procedure for the purpose of moderating benefit increases. It should be recalled that the decade covered in the accompanying table was marked by no significant recession.

Benefit adjustments may occur several times a year in Belgium, Denmark, Finland, and Sweden. In Canada, Italy, and Norway they are subject to annual changes. The Canadian adjustment goes into effect on January 1 whenever the average consumer price index for the 12 months that ended the preceding June 30 goes up 1 percent or more. The Italian adjustment shifts to a biennial basis if the cost-of-living increases by less than two points in a single year.

In most cases, the delay in benefit increases linked to an earnings index is planned to be greater than that involved in price index adjustments, because the former tend to have a more inflationary effect. In Austria, France, and Germany—all countries with earnings-related adjustments—the adjustment is annual, however. The lag between index change and benefit change ranges from 4 to 16 months for a French pensioner, from 1 to 2 years for an Austrian, and from 3½ to 4½ years for a German, depending on when the earnings index change occurred. The French and Austrian adjustment factors represent changes in average covered earnings of insured workers between two successive years. The German adjustment factor is a 3-year moving average of covered earnings.

In Norway, the base amount is adjusted every January. The consumer price index is determined by the average of consumer prices during the 12 months that ended the preceding September 30. The earnings index is determined by changes over a 3-year period in national per capita earnings from employment, including self-employment, expressed in constant crowns.

The Finnish index is based on national wages and salaries current in September of each year and the benefit adjustment takes place on January 1. The system of the Netherlands is an exception to the custom of delaying adjustments based on earnings indexes. In this country benefit adjustments are made semiannually for changes of 3 points in the index.

To compensate for greater-than-average delays in benefit adjustments and for deviations from the pattern of increase, two methods are used—the consultation process described above and ad hoc changes. The first involves the right of policy-making bodies to take more general factors into consideration and to provide an additional benefit increase, or to reduce the amount of the increase to a greater degree than the index would warrant. The second is the practice of providing benefit increases on an administrative or legislative basis in addition to those provided by an adjustment mechanism. Belgium, Denmark, and Finland offer examples of this additional ad hoc process.

Trends

The accompanying table shows indexes of increases in benefits, average hourly earnings in manufacturing, and consumer prices for the period 1958–68 in 7 of the industrialized countries with adjustments and, for comparison, in New Zealand, the United Kingdom, and the United States. The pension index represents the actual changes in average old-age benefits for all of the countries, with 1958 used as the base year wherever possible. The earnings index represents average hourly earnings for workers in manufacturing. The price index is an international consumer price index prepared by the U.S. Bureau of Labor Statistics. The data cover seven countries with automatic adjustment and three with an ad hoc approach. Austria, Canada, Italy, and Norway are not included because their adjustment systems are too recent to show significant trends.

By and large, the data indicate that pensioners in countries with automatic adjustment fared better both on a year-to-year basis and over the decade covered. Among the three countries with ad hoc adjustments, the benefit indexes moved more nearly in relation to the earnings indexes in New Zealand and the United Kingdom than those for countries with automatic adjustments. In the United Kingdom there were significant liberalizations of the flat pension during this

Movement of pensions, average hourly earnings, and consumer prices in selected countries, 1958–68

[1958=100]

Country and index	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
	Countries with automatic and semiautomatic pension adjustments										
Belgium:											
Pensions [1]	100	102	102	112	124	127	130	139	152	156	197
Earnings	100	102	106	111	119	130	146	158	174	184	194
Prices	100	101	102	102	104	106	111	115	120	123	127
Denmark:											
Pensions [2]	------	------	------	100	105	119	127	141	151	174	196
Earnings	------	------	------	100	110	119	130	145	162	177	202
Prices	100	102	103	107	114	121	125	135	142	153	165
Finland:											
Pensions [3]	100	114	125	135	155	180	202	224	239	253	267
Earnings	100	106	112	121	128	136	155	169	183	194	221
Prices	100	102	105	107	112	117	132	138	143	155	164
France:											
Pensions [4]	100	114	125	135	155	180	202	224	239	253	267
Earnings	100	106	115	124	135	146	155	164	174	186	[5] 208
Prices	100	106	110	114	119	125	129	132	136	140	146
Germany (Federal Republic):											
Pensions	100	106	112	118	124	133	143	157	170	183	198
Earnings	100	106	117	130	145	155	168	185	198	205	214
Prices	100	101	102	105	108	111	114	118	122	123	125
Netherlands:											
Pensions	100	100	117	117	140	162	182	270	298	323	347
Earnings	100	104	120	136	149	159	183	199	217	233	255
Prices	100	101	103	105	107	111	117	121	129	133	138
Sweden:											
Pensions [6]	100	102	105	108	112	118	120	130	138	142	145
Earnings	100	104	111	120	130	140	152	168	184	[5] 200	[5] 215
Prices	100	101	105	107	112	115	119	125	133	[5] 139	[5] 141
	Countries with ad hoc adjustments										
New Zealand:											
Pensions [7]	------	------	------	------	------	100	102	109	118	120	126
Earnings	------	------	------	------	------	100	105	111	117	123	128
Prices	------	------	------	------	------	100	104	107	110	117	122
United Kimgdom:											
Pensions [8]	100	100	100	115	115	135	135	160	160	180	180
Earnings [9]	100	105	114	121	126	132	142	156	165	172	184
Prices	100	101	102	105	110	112	115	121	126	129	135
United States:											
Pensions	100	107	107	107	107	107	107	114	114	114	129
Earnings	100	104	107	110	113	117	120	124	129	134	143
Prices	100	101	102	104	105	106	107	109	112	116	120

[1] Pension index for wage earners. Includes seven ad hoc increases in the adjustment base, as well as automatic adjustments for changes in the retail price index.
[2] Adjustments in minimum universal pension.
[3] Average pension, including ad hoc increases in base, as well as automatic adjustments.
[4] Based on official coefficients.
[5] Estimated.
[6] Official base with annual cost-of-living adjustment.
[7] Increases in superannuation benefit.
[8] Increases in flat-rate benefit.
[9] Men only.

Sources: Data on average hourly earnings and consumer price indexes from Office of Foreign Labor and Trade, Bureau of Labor Statistics. Ministére de la Prevoyance Sociale, *Annuaire Statistique de la Sécurité Sociale*, Bruxelles, 1968, p. 114. Federation Nationale des Organismes de Securite Sociale, *Guide du Correspondant de Caisse*, Paris, April 1969. *Nachrichten Dienst des Deutschen Vereins fur Offentliche und Private Fursorge*, Frankfurt/Main, April 1969, p. 91. The Swedish Institute, *Social Benefits in Sweden*, Stockholm, 1966 and 1968. *Report of the Social Security Department*, Wellington, New Zealand, selected issues, 1961–69. International Labor Office, *Bulletin of Labor Statistics*, Geneva, Second Quarter 1969. *Report of the Ministry of Pensions and National Insurance, 1964*, London, 1965; *Report of the Department of Health and Social Security, 1968*, London, 1969. Daniel H. Price, "OASDHI Benefits, Prices, and Wages: Effect of 1967 Benefit Increases," *Social Security Bulletin*, December 1968. *Staatsblad*, The Hague, selected issues, 1956–69.

period. In the United States benefit increases were closer to changes in the price rather than the wage index.

The closest relationship between the benefit index and the index upon which changes are based is shown by Sweden. The probable explanation for this responsiveness of the Swedish adjustment system is the fact that an assessment of increases in the price index is made monthly, and adjustments are permitted on a short-range basis. On the other hand, in Belgium, which also adjusts on the basis of prices, benefits had progressed at the same rate as earnings, with no apparent relationship to prices, at the end of the decade. This pattern reflected the seven ad hoc changes in addition to the automatic ones, some of them rather substantial (9 percent in 1961 and 8 percent in 1962).

The greatest separation between indexes occurs in the Netherlands, where pensions stood at 347 and the earnings index at 255 in 1968. In that country, benefits had increased, up to 1962, more slowly than earnings, which had been held back by a policy of voluntary wage restraint. For the rest of the decade, however, earnings grew relatively rapidly. Beginning in 1962, benefits increased even faster than earnings. This trend reflected the fact that increases in rent and other key items were considered a greater burden on pensioners than on active workers.

Notes and Brief Reports

Aged OASDHI Beneficiaries: Interstate Migration *

About 19 million persons in the United States were aged 65 or older at the end of 1968—about twice as many as at the end of 1940. The number in this age group will be growing by about 350,000 a year within the next two decades, according to estimates. Thus the figure should reach 25 million by 1985, with practically all of these older people eligible for and receiving social security benefits.

Currently, more than 9 out of 10 persons arriving at age 65 are eligible for monthly cash benefits under the social security program, and virtually all persons aged 65 or older are enrolled for Medicare's hospital and medical benefits. Identifying the areas of the country that have experienced the greatest increases in the aged population is therefore of particular interest. Such knowledge of the areas of growth could, for example, help in planning for hospitals, nursing homes, and other facilities for the aged.

State by State, the projected yearly increase in the aged population does not take into account changes resulting from migration. One aspect of this type of shift can be isolated: that caused by movement across State lines by aged persons receiving OASDHI benefits.

A study of the beneficiary rolls in the 12 months from July 1966 to June 1967 shows that more than 227,000 or about 1½ percent of all aged OASDHI beneficiaries (receiving payments at the end of June 1967) moved from one State to another (table 1).[1] About 42,000 of these beneficiaries were "circular migrants"—that is, they moved to another State but returned to their

TABLE 1.—Number of aged OASDHI beneficiary migrants in the 12 months ended June 30, 1967, by region of initial and final residence

Region of residence on July 1, 1966	Region of residence on June 30, 1967					
	Total	Northeast	North Central	South	West	Outlying areas [1]
Total	227,478	46,376	51,935	81,329	46,786	1,052
Northeast	62,634	31,874	3,388	21,326	5,287	759
North Central	66,363	2,980	31,113	19,690	12,529	51
South	59,399	8,651	10,512	33,979	6,202	55
West	38,441	2,511	6,886	6,277	22,731	36
Outlying areas	641	360	36	57	37	151

[1] American Samoa, Guam. Puerto Rico, Virgin Islands, and other smaller United States possessions.

[1] Because, from one year to the next, the net change through migration may often shift from a gain to a loss or from a loss to a gain, caution must be used in making generalizations based on information for brief periods. Before a trend can be established with any degree of accuracy, data for at least several more years must be studied.

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