Jersey, Puerto Rico, Rhode Island, and Washington—meet the insured unemployment conditions specified and therefore would be able to pay extended benefits under this amendment. If all the States affected by the amendment take full advantage of it, $115.7 million in additional benefits would be paid to 176,500 workers, at a cost of $60.5 million in Federal funds and $55.1 million in State funds. Of the six, Massachusetts, Rhode Island, and Washington have the necessary legislation and are now paying extended benefits.

Social Security Abroad

Switzerland: Compulsory Private Pensions *

In December 1972 a national referendum in Switzerland approved a constitutional amendment that requires employers to provide private employee-benefit plans that cover old-age, survivors, and disability insurance. Legislation to implement the amendment is anticipated late in 1974. The new compulsory private pension plan is scheduled to go into effect in 1975 and payment of benefits will start 5 years later. The Swiss social security system, inaugurated in 1948, is based on provisions in the Constitution and any major change, therefore, must be by constitutional amendment.

The purpose of modifying the existing social security program is to permit beneficiaries to receive pensions high enough to maintain their previous standards of living. This goal, it is felt, should be reached through the integration of social security and private plans, not by social security alone. Social security, from the start, was to provide only a basic minimum. The Swiss Government, in 1964, proposed a "three pillar" approach under which overall old-age, survivor, and disability protection was to be provided through compulsory social security (first pillar), employee-benefit plans (second pillar), and private savings and insurance (third pillar).

In practice, however, it was found that many people did not come under a company plan and had little or no income beyond an often minimal social security benefit. To help them, means-tested benefits were established, with Federal and Cantonal (State) financing. The fact that almost 20 percent of the social security beneficiaries required supplements led to a search for an alternate solution.

A new two-part approach is to: (a) raise social security benefits at a faster rate than the increase in wages and (b) mandate private pensions.[2] Within this framework, social security pensions will be doubled in the 3-year period 1972–75, with the intent that they provide a subsistence income for low wage earners. Under the constitutional amendment, private pensions as an adjunct to social security benefits will provide the additional amount needed to permit beneficiaries to retain their former economic levels. The Constitution directs the Federal Government to see that the requirements of the amendment are carried out.

ELIGIBILITY

The basic social security system covers all residents who meet the contribution requirements, but the new private system is to be mandatory for wage and salary workers who earn at least the amount of the maximum social security pension (scheduled to be 12,000 Swiss francs a year, beginning 1975). The self-employed may sign up voluntarily under conditions "similar" to those specified for the paid workers.

The maximum level will be adjusted on the basis of changes in the minimum old-age pension. The great majority of workers are expected to earn more than this amount. The cutoff, however, eliminates certain low wage earners, such as casual and part-time workers, from mandatory private pension coverage. This group, dependent solely upon social security benefits, could be eligible for the means-tested supplement. Planners estimate that two-thirds of the contributors

* Prepared by Max Horlick, Chief, Comparative Studies, International Staff, Office of Research and Statistics; information based chiefly on discussions with Mlle. Danielle Bridel, Adjointe à la direction de l'office fédéral des assurances sociales, and official publications provided by her.

[2] See Elizabeth Kreitler Kirkpatrick, "Switzerland Changes Social Insurance Philosophy," *Social Security Bulletin*, April 1972, pages 24–26.

to social security will qualify, the remainder being the self-employed and the low wage earners.

BENEFIT LEVELS

In the past, for the average worker the old-age benefit under social security was about 20 percent of the preretirement wage. The private pension system is aimed at achieving a benefit that, when added to the social security pension, will equal 60 percent (80 percent for couples) of the average of covered earnings of the final 3 years—the amount planners estimate is needed to approximate the preretirement standard of living. Forty percent is to come from private pensions and, as before, 20 percent from the social security program. Retirement age, as under the social security program, will be 65 for men and 62 for women.

Covered earnings under the private plans will be the amount between 12,000 francs and a ceiling of 36,000 francs in 1975. Maximum covered earnings from private benefit purposes will be 24,000 francs; for social security purposes, the full 36,000 francs will be counted. Workers who earn more than the ceiling and who have always had a high income will have a replacement rate of less than 60 percent.

At the other end of the scale, low-income social security beneficiaries who will receive little or no benefits from private plans will be getting a higher social security pension than before. For them, the increased public benefits alone may be higher than 60 or 80 percent, in some cases exceeding their former wages.

Coordination of benefit formulas under the combined system of public and private benefits has required considerable discussion. It was decided to have a common ceiling (36,000 francs) and the same process for adjusting this ceiling to wage changes. The base, however, remains different in amount, as indicated earlier. In addition, the social security old-age pension is based on a career average (revalued), but the private pension is based on the average of the last 3 years. Because old-age pensions will more than double by 1975, as mentioned above, private benefits under existing integrated plans may actually decline. Any lessened return on past contributions, however, is expected to be given special consideration.

A total disability pension equal to the old-age pension will be required of each private plan. Under the disability provisions to be fixed by law, benefits will become payable no later than age 18 and only total disability (that is, 66⅔ percent disabled as under the social security program) will be included. A widow's pension is to be 60 percent of the projected or actual old-age pension. In addition, private plans must provide for an orphan's benefit equal to 20 percent of the old-age pension.

After 5 years of operation, the mandatory private system will begin to pay a reduced benefit. A full benefit will eventually require 40 years of continuous contributions. Because persons past age 25 when the system starts will not have 40 years of employment under the program before reaching retirement age, the contribution period is reduced: persons with income under 20,000 francs per year will need only 10 years and persons with higher income (up to 36,000 francs) will need 20 years of contributions for full benefits. Workers in the latter category will have their private benefits reduced in proportion to the number of missing years of contributions.

Benefits are to be adjusted on the basis of changes in the cost-of-living index. The smaller private funds may have difficulty in financing this and they may be required to affiliate with a pooled central institution.

The compulsory pension will be subject to immediate vesting and portability. In the past, there was no portability across industry lines. A uniform mechanism to handle the interchange of credits between funds is to be worked out. If a worker leaves paid employment, he will have three options to choose from: retention of credits earned up to that point, conversion to an insurance policy, or in exceptional cases (such as foreign workers leaving the country permanently) receipt of a lump-sum payment.

FINANCING AND ADMINISTRATION

Employee-benefit plans (the second pillar) are to be financed entirely from contributions. No public funds will be used. The employer is required to pay at least 50 percent of the cost of the plan. To finance the desired level of benefits, con-

(*Continued on page 49*)

TABLE M-2.—Public income-maintenance programs: Hospital and medical care payments, 1940–73

[In millions]

Period	Total	OASDHI (health insurance for the aged)[1]			Other programs			
		Total	Hospital insurance [2]	Medical insurance	Veterans	Temporary disability [3]	Workmen's compensation[4]	Public assistance [5]
1940	$165				$70		$95	
1945	222				97		125	
1950	832				573	$7	200	$52
1955	1,265				688	20	325	232
1960	1,846				848	41	435	522
1961	2,093				899	46	460	688
1962	2,406				940	46	495	925
1963	2,611				971	50	525	1,065
1964	2,890				1,019	51	565	1,255
1965	3,204				1,072	52	600	1,480
1966	4,898	$1,019	$891	$128	1,137	54	680	2,008
1967	9,554	4,549	3,353	1,197	1,328	53	750	2,873
1968	12,107	5,697	4,179	1,518	1,429	55	830	4,096
1969	13,837	6,603	4,739	1,865	1,573	59	920	4,681
1970	15,574	7,099	5,124	1,975	1,793	66	1,040	5,576
1971	18,064	7,868	5,751	2,117	2,087	71	1,150	6,888
1972	20,779	8,643	6,319	2,325	2,409	75	1,280	8,372
1972								
June		829	613	216	206			690
July		496	372	124	200			683
August		605	440	166	214			751
September		889	646	243	200			711
October		817	597	220	211			733
November		742	538	204	211			719
December		708	509	199	204			707
1973								
January		781	579	203	229			706
February		717	526	191	201			710
March		852	639	213	219			773
April		780	573	207	208			761
May		827	613	214	229			860
June		825	618	208	224			([6])

[1] Benefit expenditures from the Federal hospital insurance and supplementary medical insurance trust funds as reported by the U S Treasury.

[2] Represents payments in behalf of all persons aged 65 and over, including those not insured for cash benefits under OASDHI and railroad retirement Excludes payments by Railroad Retirement Board for beneficiaries in Canadian hospitals

[3] Benefits in California and New York (from 1950), including payments under private plans Monthly data not available

[4] Benefits under Federal workmen's compensation laws and under State laws paid by private insurance carriers, State funds, and self-insurers Beginning 1959, includes data for Alaska and Hawaii Monthly data not available

[5] Federal matching for medical vendor payments under public assistance began October 1950

[6] Data not available

Source. U.S. Treasury and unpublished data from administrative agencies.

SWITZERLAND: COMPULSORY PRIVATE PENSIONS

(*Continued from page 47*)

tribution estimates range from 8 percent to 11 percent of payroll.

At present 17,000 private pension funds cover more than half of all wage and salary workers. About half the funds cover all three contingencies: old-age, disability, and survivorship. At present each fund operates under its own regulations. The constitutional amendment is intended to strengthen, not to do away with these funds. The Government's role is intended to be minimal. The funds are expected to be supervised by boards consisting primarily of employer and employee representatives. Government supervision would be principally by the Cantons. Each company may form a separate company fund, take part in an association of funds, participate in group insurance, or elect some combination of these plans.

A central coordinating institution is proposed in the form of a foundation or cooperative, to be operated by employers and trade unions. This central institution would be financed by the member funds and would provide a form of reinsurance to cover high risk situations, guarantee minimum benefits, cover cost-of-living increases, and protect against bankruptcy. The Constitution also calls for a law to fix minimum standards for private benefit institutions and provides for creation of a Federal office to aid employers in establishing contact with such institutions.