

# Supplemental Security Income for the Aged: Foreign Experience

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*One approach to the problems of aged persons with limited means who qualify for a very low pension or none at all has been the provision of regular payments to supplement their income—means-tested benefits. This article summarizes the experience of such an approach in five European countries. The comparative extent and costs of these programs are measured and the patterns and trends are examined.*

HOW TO MEET the needs of impoverished aged pensioners has been a matter of concern in the United States for many years. An overview of the search for solutions to this problem in several European nations may provide a background for any consideration of the efforts in this country.<sup>1</sup> These nations, with a longer tradition of social security, have tried and sometimes abandoned a variety of approaches. Their experience is examined here from this point of view.

In developing international data for a country-to-country comparison a somewhat unexpected picture has emerged. In economically advanced countries, the aged segment of the population has increased at a much more rapid rate than the general population while the proportion of pensioners to contributors has grown to such an extent as to cause serious concern. Yet the number with means-tested benefits has declined in both relative and absolute terms. Why is the

need for this type of assistance to the aged diminishing? Have certain countries developed successful policies that eliminate economic insecurity for their senior citizens? If they have, then what can be learned from this experience?

Since it would not be possible to research trends in this area for all of the advanced nations, five countries—Austria, Belgium, Finland, France, and Switzerland—were selected for study. The choices were dictated in part by the availability of data, the opportunity to confer with officials, and the kind of approaches used.

Four of these countries have pension plans that yield some of the highest earnings-replacement rates in the world, yet their elderly frequently need financial aid. How the aid is given through the social security systems, the level of income replacement provided, and the methods of distribution and financing depends largely on the social outlook of each society. In addition, a country's decision on social security needs reflects demographic, financial, and political considerations beyond the immediate scope of social security.

The countries studied are in the midst of a long-range trend that has seen the proportion of aged persons in the total population continue to rise. Because of employment declines in agriculture, mining, and small retail trade, the number of disadvantaged retirees from these sectors also continues to rise. There are, consequently, strong social pressures for the development of measures to help those unable to provide adequately for themselves. Such measures involve greater financial expenditures. At the same time, in some countries, the active workers—particularly young contributors—are beginning to feel that they may already be overburdened in terms of payroll and income taxes.

Each of the social security approaches developed by these countries is accompanied by its own problems. In a social insurance system with earnings-related benefits, those workers who could never consistently earn even a minimum

\* International Staff, Office of Research and Statistics. For a fuller comparison of these programs, see Max Horlick, *Supplemental Security for the Aged—A Comparison of Five Countries* (Staff Paper No. 15), Office of Research and Statistics, 1973.

<sup>1</sup> The Social Security Amendments of 1972 repealed the existing Federal-State programs of aid to the aged, blind, and disabled, effective January 1, 1974, and established a new Federal supplemental security income program for the needy aged, blind, and disabled, which will pay monthly benefits if monthly income as defined in the law is less than the monthly payment (January-June 1974, \$130 for an individual and \$195 for a couple; beginning July 1974, \$140 and \$210, respectively). A State may supplement the Federal benefits, and such State payments would be excluded as income for purposes of the Federal program.

wage or work regularly would receive a pension too small to live on. In response to this situation, some countries have statutory minimums for their old-age pensions. Such a system, however, covers only earners and their dependents and survivors. It omits many who have never established an earnings record, including casual and domestic workers, migrant workers, workers in family establishments, and, in some countries, agricultural workers.

Systems with universal flat-rate benefits, on the other hand, cover nonworkers as well as members of the labor force. Not only is this approach costly, but its benefits are lower than those the earnings-related system can finance.

In theory, the earnings-related approach achieves greater adequacy of benefits and the flat-rate approach more universality. In practice, however, the minimum social security benefit under either system is often not enough to sustain an aged retiree or couple since it may have been initially related to a minimum wage or subsistence level.<sup>2</sup> The original intent may have been to keep the amount low, and this philosophy has continued to guide planners. In more recent years, however, social pressures generated by such factors as inflation and economic growth have led some countries to supplement the minimum benefit amount. One way is the addition of an earnings-related layer to supplement the flat rate. This method has been used during the past decade in Canada, Norway, Sweden, the United Kingdom, and, among the countries studied here, Finland.

Some persons do not qualify for even the minimum benefit. A number of countries have therefore simply blanketed-in whole groups of such ineligible by granting benefits to those too old to qualify when a new system started, by reducing the required years of contributions under certain conditions or by exempting the indigent from any contributory flat-rate systems.

As an alternative to these methods or because benefits under such programs may still be inadequate, the five countries selected for study—and many others—also provide means-tested cash

supplements to bring income or assets up to some national standard. Basically, the study countries use three approaches: (1) A statutory minimum old-age pension restricted to those who qualify fully, plus one or more types of means-tested benefits for those who do not qualify or where the minimum is too low; (2) no minimum social insurance pension but a means-tested minimum payment; and (3) a means-tested benefit bringing resources up to a national "poverty" standard.

Choosing the appropriate term for these supplements is complicated by the fact that they appear to represent a hybrid of social insurance and welfare. Debate within the countries argues that they are one or the other and questions whether the two types should be mixed. The terminology in all the countries avoids the words "welfare," "assistance," and "aid," in a conscious effort to escape whatever stigma may be attached to them. To describe these cash monthly payments to the needy elderly, the term "means-tested" appears closest to neutral since it refers to an element common to all the systems.

Administration by the national social insurance system is another common element. Social insurance seems to have become involved in what might be called the welfare business mainly through the process of evolution. Originally, a prerequisite for the means-tested benefit was previous attachment to the labor force, and the recipients had to be former salaried workers. The prevailing postwar idea in countries creating such benefits was that these former workers had a right to means-tested help. Benefits of "right" were administered by national systems. Social insurance institutions therefore took over the administration of the means-tested benefits, with pragmatic rather than theoretical considerations dictating this course.

#### TYPES OF MEANS-TESTED BENEFITS

The main characteristics of the programs providing means-tested benefits in the five countries studied are summarized in table 1.

Austria makes what it calls supplemental equalization payments to old-age and survivor beneficiaries to raise their regular pensions to a national minimum. Since the pensions are earnings-related, the granting of the means-tested

<sup>2</sup> For a detailed analysis of adequacy, see Paul Fisher, "Minimum Old-Age Pensions: Their Adequacy in Terms of Average Earnings, Minimum Wages and National Income and Some Problems of Adjustment," *International Labour Review*, July and September 1970.

TABLE 1.—Minimum and means-tested benefit characteristics, five countries

Country	Statutory minimum under general program	Type of means-tested benefit	Work history required	Source of funds
Austria.....	No.....	For pensioners.....	Yes.....	General revenue
Belgium.....	Yes.....	For former self-employed.....	Yes.....	Voluntary contributions and general revenue subsidy. General revenue
		Guaranteed minimum.....	No.....	
Finland.....	No <sup>1</sup> .....	General assistance pensions.....	No.....	Payroll tax, income tax, and general revenue
France.....	No.....	For aged former workers.....	Yes.....	Worker and employer contributions. Worker and employer contributions Worker and employer contributions.
		Solidarity <sup>2</sup> .....	Yes.....	
		Special allocation <sup>3</sup> .....	No.....	
Switzerland.....	Yes.....	Transitional.....	No <sup>4</sup> .....	General and special taxes Canton and Federal share
		Complementary.....	Yes.....	

<sup>1</sup> The universal pension is in a sense a minimum  
<sup>2</sup> Payment to those receiving very low pensions  
<sup>3</sup> For those who do not qualify for any other means-tested benefit

<sup>4</sup> Originally for workers who had retired or were about to retire when system began

additions is premised on work history. They are financed from general revenues.

The Belgian system has undergone an evolution, with remnants of some past arrangements still in existence. It has (1) general-revenue-financed benefits for the retired self-employed, (2) a statutory minimum pension under regular earnings-related old-age insurance (with such a long qualifying period that many could not meet the requirements), and (3) a new guaranteed minimum for all of the elderly, financed by general revenues and requiring no work record. The third type of benefit is specifically intended to remove the elderly from the jurisdiction of locally administered welfare programs.

Finland has a universal pension. Retirees with little income and resources may also receive a variety of means-tested benefits that are financed from a combination of payroll tax, income tax, and general revenue.

The French system is now moving from the use of various benefits—most of them requiring past contributions to the social security system—toward a simpler form of guaranteed minimum for all the aged. Some of the benefits are financed by payroll tax, others are subsidized from general revenue.

Switzerland also has carried over several types of benefits from the past that are paid from general and earmarked taxes. One benefit introduced in 1948, when the social security system was inaugurated, was primarily to aid those who could not become eligible for a regular pension because of the time factor. In 1966 an additional means-tested benefit was created to bring up the benefit level, which was still considered inadequate.

The two means-tested benefits together constitute what amounts to a guaranteed income for retirees.

The scope of these means-tested programs is broad. The number of beneficiaries ranges from 25 percent to 40 percent of all pensioners in the country—except in Finland, where more than three-fourths of the pensioners are helped. The costs of these benefits range from 7 percent to 60 percent of the total cost of old-age pensions. The cost figures are particularly worth noting since they apply to countries regarded as having social security systems with old-age provisions that are among the best in the world.

It is surprising that a substantial proportion (if not most) of the aged who need means-tested benefits are not the low earners, early retirees, or even the disabled but rather members of the labor force and their survivors who have not been taken care of under social security reforms or those whose plans for old-age security were undermined by economic and technological change. These workers, caught in periods of transition, were too old to profit from social security improvements, had incomplete coverage for technical reasons, were in noncovered employment or were self-employed, or were victims of economic forces such as declines in certain industries or in agriculture.

## BENEFIT LEVELS

Examining the levels of benefits is hampered by the fact that there is no single rate at which the means-tested benefits are paid. Each country

either tailors the size of its payments to the means of the applicants or bases them on such collateral factors as geographic location and family status.

Two basic approaches are used in determining the size of benefits: (1) A specific monthly amount is established for those judged to be in need—but with variations according to family situation, geographic location, or other factor; (2) a national (or regional) subsistence level is established and the applicant's available income is brought up to this level by a means-tested benefit.

In an effort to make a meaningful international comparison of benefit levels possible, table 2 presents the amount of the means-tested benefit for single and married recipients and the amount of the regular old-age pension of an average worker in manufacturing and shows the means-tested benefit as a percentage of the old-age pension.

For a single beneficiary, the means-tested amount ranges from 45 percent of the average old-age pension in Austria to 84 percent in Switzerland. The benefit for couples goes from 53 percent of the average pension in Finland to more than 100 percent in Switzerland. These percentages seem considerably higher than might be expected, particularly when one considers that (a) the average pension figure used here is that for the worker in manufacturing and is thus larger than the average for workers in most other segments of the labor force and (b) many social security authorities in these countries tend to hold the view that "welfare" payments should not be at a level that could be a disincentive to work and personal savings.

To provide further perspective to these relationships between the means-tested benefits and the regular old-age pension, table 2 includes the replacement rate (average pension compared with the average wage in the last year worked) for a worker in manufacturing.<sup>3</sup>

For single recipients, Austria has the highest replacement rate and, relatively, the lowest means-tested benefit. The replacement rate for Austria for a single worker with 35 years of

service is 55 percent. The average old-age pension in Austria is relatively high (more than double the means-tested benefit). Planners fixed it at a high level so that retirees could maintain their previous standard of living.

At the other end of the scale, Switzerland has the lowest replacement rate and, relatively, the highest means-tested benefit. The Swiss old-age pension was never intended by the planners to be more than a basic floor of protection, as their replacement rates of 21 percent for a single person and 34 percent for a couple suggest. Since the pension is regarded only as minimal, the means-tested benefit is not very much less: For the single person it is more than four-fifths of the pension amount; for the couple it is larger than the pension. The closeness of the two also reflects the fact that the system is not fully mature and that the basic level has been raised more rapidly than the average over the past decade.

All of the countries studied provide supplements for dependent wives under their means-tested programs, but there is no uniformity in amount. The following tabulation shows the dependent wife's benefit expressed as a percentage of the primary amount paid to the husband, for both the means-tested and old-age benefits, where these provisions exist.

Country	Wife's supplement as a percent of husband's amount of—	
	Old-age pension	Means-tested benefit
Austria.....	None	38
Belgium.....	25	50
Finland (universal).....	100	60
France.....	50	100
Switzerland.....	60	60

Although the recipients of means-tested benefits rarely have dependent children still living at home, the programs do provide additional amounts for children. Finland provides a supplement of 7–17 percent for each child, depending on area of residence and family status. In Austria the benefit for a dependent child is about 11 percent of the primary means-tested benefit.

## MEANS TEST

The means test is often difficult to administer and usually less than popular. Frequent changes

<sup>3</sup> For an explanation of the methodology, see Max Horlick, "Earnings-Replacement Rates of Old-Age Benefits: An International Comparison," *Social Security Bulletin*, March 1970.

TABLE 2.—Means-tested benefit in relation to average old-age pension,<sup>1</sup> five countries, January 1, 1969

Country	Annual average old-age pension				Annual means-tested benefit			
	Amount		Earnings-replacement rate (percent) <sup>2</sup>		Amount		As percent of pension	
	Single person	Couple	Single person	Couple	Single person	Couple	Single person	Couple
Austria.....	<sup>1</sup> S 31,000	( <sup>4</sup> )	55	-----	S 14,038	S 23,660	45	76
Belgium.....	<sup>3</sup> BF 37,000	BF 46,250	33	41	BF 20,820	BF 31,224	56	67
Finland.....	<sup>5</sup> Fmk 2,614	Fmk 3,442	31	41	<sup>6</sup> Fmk 1,416	<sup>6</sup> Fmk 1,836	54	53
France, old workers.....	<sup>4</sup> F 3,994	F 5,991	43	68	F 2,600	F 5,200	65	86
Switzerland, transitional.....	<sup>7</sup> SwF 2,832	SwF 3,531	21	34	SwF 2,400	SwF 3,840	84	109

<sup>1</sup> Based on average earnings of a worker in manufacturing.

<sup>2</sup> Pension as proportion of earnings in last year of work

<sup>3</sup> After 35 years of work.

<sup>4</sup> No wife's supplement is paid for the regular old-age pension

<sup>5</sup> At age 65

<sup>6</sup> Medium cost-of-living zone, basic means-tested benefit

<sup>7</sup> The complementary means-tested benefit may be given in addition.

NOTE At the beginning of 1969, the following conversion rates were in effect: Austrian schilling, about 38 U.S. cents; Belgian franc, about 2 U.S. cents; Finnish mark, about 24 U.S. cents; French franc, about 20 U.S. cents; Swiss franc, about 23 U.S. cents.

in the amounts and limits of resources have created difficulties in recordkeeping and computation. As many as three changes have been made in a single year. In the past, of course, no change may have occurred for a number of years, with a consequent loss in the value of the payments for the recipients.

Some of the problems stem from flexibility, such as that produced by the multiple ceilings in Finland. Certain social elements of difficulty also occur in implementation. Several countries in assessing the value of resources, for example, investigate and consider the assets the elderly may have passed on to their children in order to meet the means-test requirements. Strictness in defining and applying such standards varies according to the intent of the program. The most rigorous standards are applied in Austria—the country that has the highest old-age pensions, relatively.

The Austrians seem to consider that their old-age pension is a good one and that the worker with a normal career in covered employment would therefore not be expected to need assistance. There is a traditional stress on the virtues of hard work, as reflected in the pension formula, which pays the highest amount to those who have worked the longest. Means-tested benefits through the social security system are consequently more controlled than in countries without this approach.

Switzerland represents the opposite approach. Since the old-age pension was not meant to be sustaining and since the system is young and the payments small, the controls are, so to speak, relaxed. It is felt that the persons who apply for

the means-tested benefit have very limited resources for their old age, and the means test is commensurately liberal.

In measuring the private means of an applicant for an old-age pension, remuneration for work, the partial value of property owned, and other income may be included. Social security and welfare payments are usually excluded. In the countries studied, however, remuneration for work has relatively little importance for the age groups under consideration, since the beneficiaries are retired and often very elderly. France has no retirement test and pensioners may thus continue to work after starting to draw benefits, but 65 is the prevailing age for leaving the labor force. Finland has no retirement test for the universal pension but has one for the earnings-related benefit. Switzerland does not require retirees to give up working. Belgium limits regular work after retirement but permits casual work. Austria has a retirement test.

Austria and France count all of the wage in calculating the means, but the matter is virtually academic in France since few recipients remain in the labor force. In Belgium, three-fourths of the gross wage is taken into account. Switzerland disregards a modest amount of income from work, annuities, and pensions—taken together; only two-thirds of the income after this exemption is taken into account.

Most of the countries do not count the full value of property or remuneration other than wages. Some programs distinguish between assets essential to maintain a standard of living and those that are not essential. Finland and France omit from consideration, for example, privately

owned dwellings and furnishings valued up to a specified amount, on the premise that these items are essential to the recipients.

The value of social security benefits is not counted under the means test in Finland but is counted to some degree in other countries. Finland disregards the national pensions, children's allowances, and the amount of the minimum pension paid by the earnings-related system. Switzerland and Belgium disregard a portion of the regular old-age pension. Austria and France include public and private old-age benefits. Only Switzerland includes family allowances within the maximum income allowed. All the countries disregard private and public assistance. Unusual health expenses may also be deducted from income, as under the Swiss complementary benefit program.

TABLE 3.—Total population and population aged 65 and over, five countries, selected years, 1952 and 1960-69

[Numbers in thousands]

Country	1952 <sup>1</sup>	1960	1965	1969
<b>Austria</b>				
Total population.....	6,949	7,048	7,255	7,373
Aged 65 and over.....				
Number.....	750	862	958	1,034
Percent.....	10.8	12.2	13.2	14.0
<b>Belgium</b>				
Total population.....	8,730	9,154	9,464	9,646
Aged 65 and over.....				
Number.....	983	1,095	1,196	1,280
Percent.....	11.3	12.0	12.6	13.3
<b>Finland</b>				
Total population.....	4,091	4,430	4,612	4,635
Aged 65 and over.....				
Number.....	275	324	366	406
Percent.....	6.7	7.3	7.9	8.8
<b>France</b>				
Total population.....	42,995	45,684	48,768	50,325
Aged 65 and over.....				
Number.....	4,991	5,318	5,906	6,479
Percent.....	11.6	11.6	12.1	12.8
<b>Switzerland</b>				
Total population.....	4,715	5,352	5,853	6,150
Aged 65 and over.....				
Number.....	453	549	625	704
Percent.....	9.6	10.3	10.7	11.4

<sup>1</sup> Data for France are for 1953, for Switzerland, 1950

Source: Organization for Economic Cooperation and Development, *Labor Force Statistics*, Paris, 1971 and 1972.

## SIZE AND SCOPE OF PROGRAMS

### Demographic Considerations

In the countries studied, as elsewhere in Western Europe, the proportion of the aged in the total population has been increasing. This trend is projected to continue into the 1980's. Planners question whether the proportion of the aged requiring means-tested assistance will rise at the same rate. If it does, then they must decide whether to improve pensions or to take or use other measures to make such assistance less necessary. Underlying any attempt at improvement, however, is concern about the increasingly unfavorable ratio between the number of active contributors to social security and the number of recipients of old-age benefits.

Official concern over future financing problems stems from the rise in the relative number of aged. The trend in both absolute and relative figures is shown in table 3, which covers the period from the early 1950's through 1969.

The proportion of the population that was aged 65 and over rose fairly steadily. In Austria the relative growth from 1952 to 1969 was greatest (3.2 percentage points), and in France it was least (1.2 percentage points). The rising trend is expected to continue.

A more accurate measure of the total old-age picture, needed to determine the percentage of

those requiring means-tested help, would be a comparison of the total number of pensioners with the population group aged 60 and over, since many persons under age 65 are old-age beneficiaries. Such a comparison is not feasible, however, because demographic data on individual years within the group aged 65 and over are lacking.

### IDENTIFICATION OF RECIPIENTS

A substantial percentage of the aged are considered to be in need of means-tested assistance in each of the countries. This dependency occurs despite economic conditions that seemingly limit the extent of poverty among the elderly. Most of the countries have highly developed economies; except for Switzerland, they have social security systems that are among the oldest; and the replacement rates for their benefits are very high. In addition, Western Europe has undergone a period of great prosperity, with little unemployment for some years. In the light of this situation, why are there so many needy aged and precisely who are they?

A very large percentage of pensioners in poorest financial circumstances are not disadvantaged because of their own career contributions record but rather because of technical social security reasons or because of the effect of economic

declines. Those who lost years of coverage because of war are covered by special provisions or special benefits in most of the countries.

### **Advanced Age**

To some extent the presence of elderly persons requiring assistance is a legacy from the past. In developed countries it is generally agreed that every person who has worked for many years in employment has earned entitlement to a retirement pension. Yet in many countries this principle may not apply to the oldest citizens—left behind, in effect, in the improvement of the social security system.

A surprising number of the social security systems have undergone revisions in the past 10 or 15 years, basically aimed at coping with inflation and productivity increases. The aim of these revisions has been to provide or improve a system for automatic adjustment of earnings records and pensions, to add an earnings-related layer to a universal or other form of old-age, survivors, and disability insurance, or to provide some other mechanism for raising payments. Nevertheless, the very old citizens have not been in a position to benefit, as they have found it impossible to meet the eligibility conditions for any pension.

Among the five countries being compared, only two made special provision right from the start to help these elderly—Switzerland in 1948, when its system began to function, and Belgium from the early 1900's for the self-employed whose only protection was voluntary insurance. Austria introduced its means-tested cash supplement under a 1955 law that revised the long-existing social security system; previously, those with low pensions were entitled only to a housing allowance.

In Finland, the first National Pensions Act of 1937 excluded persons who were older than age 55 at that time. Critics maintained that it was unfair to use public funds for the pensions if they were to benefit only a part of the population. As a result, special laws were subsequently passed entitling the aged of limited means—those too old to qualify for a regular pension—to receive allowances equal to the supplementary pensions then being paid from public funds. Under 1957 revisions of the National Pensions Act, a flat-rate basic pension was granted to all

residents, plus the assistance benefit based on the means test.

In France, also, the means-tested benefits were granted after the system was well underway and in response to need. The present system started in 1930, and the benefit for aged workers was introduced in 1941, when it became evident that many of the elderly could not earn a regular pension. In Switzerland, more than half the means-tested benefits are transitional.

### **Incomplete Careers**

A second phenomenon that has led to low pensions or none at all is the incomplete or "mixed" career of persons who may have worked all of their lives but have had only sporadic coverage. Social security coverage of the entire population, even in the advanced West European countries, is a relatively recent development. Such segments of the labor force as the self-employed and farmers may have been included only in recent years. Either special funds were established for such groups or they were newly incorporated into the regular social security system. They did not, of course, have a previous record of contributions. In either case, a full pension could not be earned for many years, and the result was that the older persons could not gain adequate security through the new arrangement.

Other workers who were middle-aged when a major revision of the social security system occurred may also have incomplete careers. Computable contributions for new groups usually start at the time of the revision. Full maturity and full benefits may be deferred for as long as 45 years. Even if these workers still had 10 or 15 working years left, they might be able to acquire eligibility for only a minimum benefit or none at all.

Others who might be classified as having incomplete careers are persons with long periods of unemployment, early retirees, the disabled, persons who felt they could not keep on working but did not meet the definition of disability in the law, housewives leaving the labor force before retirement age, and, possibly in one or two of the countries, workers who lost coverage because of war. The normal benefit formula does not take into account such curtailed work records.

Widows form another substantial group of pensioners who may not meet the technical requirements for a full pension. In France the husbands of an estimated 1.2 million widows had been covered under the general social security system, but less than one-third of these widows receive survivor benefits. In all of the countries, the benefit for the survivor is normally some fraction of the primary pension amount. Even if the worker had always received good earnings, the benefit that his widow receives may be small. The data available indicate that widows are among the main recipients of means-tested benefits.

For those with a "mixed" career—that is, with some coverage under more than one system—the carry-over of rights from one social security fund to another was not possible in the past. To some extent, this situation still exists.

### **Economic Factors**

General economic or industrial trends beyond an individual's control have been responsible for inflating the rolls of those who need supplementation of their income. The influence exerted on the retirement plans of the aged by a decline in the economic sector has been felt particularly in agriculture, mining, and self-employment. Social security provisions for the self-employed, for example, are of relatively recent origin in some countries. A full benefit may thus not be available to this group for many years. Those approaching retirement or already retired may be eligible for only a means-tested benefit, where such a benefit is available.

The small entrepreneur who is retired or about to retire under these programs has been at a particular disadvantage in many ways. Traditionally, he has been a small farmer, the owner of a little village store, or an artisan or craftsman on a small scale. His field of activity has been rapidly declining in recent years. If he gives up his business to work in a factory, he can qualify for a pension only on the basis of an incomplete or mixed career—unless he is very young—since he will probably not be able to make contributions under the program for the 30–45 years required. Such persons have gone from being among the most prosperous in their community to depend-

ence on means-tested benefits or, in their absence, on public assistance.<sup>4</sup>

Inflation is another economic factor that must be considered in identifying the groups dependent on means-tested benefits. Although the countries studied have advanced systems of adjustment of wages and pensions, these systems are relatively new. For the older members of society, they came too late. Earnings histories that go back beyond 20–25 years are virtually meaningless because of inflation and productivity rises over the years. In the countries where earnings and contribution records do count over a long period, some device for assessing them had to be developed.

### **FINANCING AND COST OF PROGRAMS**

The means-tested benefits are financed from general revenue in Austria and Belgium. The Finnish assistance pensions, Swiss transitional benefits, and the French solidarity benefits are financed from employer-employee contributions with some Government subsidy, primarily to make up any deficits. The Swiss complementary benefit is financed by the Cantons with Federal subsidy. The Finnish benefits are also financed in part by the administrative districts.

Earmarked taxes, in addition to general revenues, have been used by some of the countries. In France, for example, the National Solidarity Fund, when it was created in 1956, was financed from taxes on income, corporate profits, and motor vehicles; in 1958, the general social security system was assigned the financing of the benefits from its regular sources of income; after 1967, the Government began to make contributions covering 10–15 percent of the cost of certain special benefits. In Switzerland, the transitional benefits, like the regular social security benefits, are financed in part by a tax on tobacco and alcoholic beverages.

In Finland and Switzerland, "state" governments play an important role. The Finnish administrative districts contribute toward specific benefits. In 1970 they financed 19 percent of the

<sup>4</sup> Based on discussions with J. Mertens of the Secretariat General in the Belgian Ministère de la Prévoyance Sociale. See J. Mertens, "Les ressources des personnes âgées en Belgique," *Revue Belge de Sécurité Sociale*, April 1971, pages 749–800.

TABLE 4.—Total expenditures for old-age pensions and for means-tested benefits, five countries, 1964–69

[Amounts shown in basic national currency unit (see note, table 2)]

Country	1964	1965	1966	1967	1968	1969
<b>Austria</b>						
Old-age pensions, total amount (in billions).....	13.7	15.3	17.6	19.9	21.9	24.2
Means-tested benefits						
Amount (in billions).....	1.20	1.23	1.38	1.57	1.63	1.73
Percent of old-age pensions.....	8.8	8.0	7.8	7.9	7.4	7.1
<b>Belgium</b>						
Old-age pensions, total amount (in billions).....	14.5	15.5	19.7	21.3	25.5	28.6
Guaranteed income benefits						
Amount (in billions).....	.763	.804	.956	.934	1.600	1.375
Percent of old-age pensions.....	5.3	5.8	4.8	4.38	6.3	4.98
<b>Finland</b>						
Old-age pensions, <sup>1</sup> total amount (in millions).....	448.2	514.4	661.8	749.4	822.3	868.3
Means-tested benefits						
Amount (in millions).....	272.7	308.4	390.5	446.4	487.3	517.5
Percent of old-age pensions.....	61.5	60.0	59.0	59.6	59.3	59.6
<b>France</b>						
Pensions, total amount (in billions).....	5.3	6.2	7.2	8.1	9.1	10.3
Means-tested benefits						
Amount (in billions).....	1.34	1.45	1.60	1.65	1.60	1.62
Percent of pensions.....	25.0	23.0	22.0	20.0	17.0	16.0
<b>Switzerland</b>						
Old-age survivors' pensions, total amount (in billions).....	.718	1.588	1.657	1.871	1.968	2.746
Means-tested benefits						
Amount (in billions).....	.154	.190	.292	.398	.356	.396
Percent of old-age survivors' pensions.....	21.4	12.0	17.6	21.3	18.1	14.4

<sup>1</sup> General systems.

assistance pensions and 50 percent of the housing allowances. Each district's share is determined on the basis of the total amount of assistance paid to resident pensioners and on the financial status of the district and is paid at a rate that ranges from 7.5 percent to 32.6 percent of the total assistance costs. In Switzerland, the Cantons administer the complementary benefits and receive a national subsidy of 30–70 percent, according to their financial ability to meet the cost of the means-tested benefits.

The overall cost of the programs in 1964–69 for each of the five countries is shown in table 4, as well as the proportion of the total costs of old-age pensions that expenditures for the means-tested benefits represented. The data indicate a wide range in the relative position of these benefits—from Finland, where well over half (60 percent in 1969) of all expenditures for old-age pensions and allowances were in the form of means-tested benefits, to Belgium, where these benefits represented only 5 percent of the total.

Three of the countries—Austria, France, and Switzerland—show a decline in the relative amount of money spent on means-tested benefits. The Finnish relationship is held constant, and the Belgian guaranteed income program is too recent in origin to permit an analysis of trends. In Austria and France, the decline appears to reflect primarily a drop in the number of recipients. The Swiss pattern is unclear because of the institution of new programs and the sizable pe-

riodic adjustments that have been made in benefit rates.

## CONCLUSION

Did the countries deliberately set out to reduce the need for means-tested benefits and did their specific measures succeed? The answer is no, except in Switzerland. The main reason for the decline has not been government policy but rather the gradual shrinking in the size of the “transitional” group—those recipients who were already retired or approaching retirement age when the means-tested system was inaugurated.

In some of the countries, the relative increase in regular social security old-age benefits as the systems mature has also had the effect of reducing the number of aged who need assistance. The key factor in Switzerland has been the raising of the minimum pension according to a schedule that will, by 1975, make it four times the 1969 figure—a move intended to reduce the need for supplemental benefits. Although in these countries there is currently little or no discussion about the fate of persons in the transitional group, in the future they would presumably be included under the guaranteed income provisions.

## Problems

The difficulties of administration must also be considered in examining the operation of the

means-tested systems. Over the years, various unconnected programs have been created to fill specific gaps. As a result, many are ad hoc increases that lack coherence. The process of "incrementalization" that characterizes such programs in these and other countries may be described as follows:

—The country decides to reorganize (or in the case of Switzerland after World War II, to organize) its old-age and survivor insurance program because of the pressures of inflation, awareness of social needs, and new standards of adequacy.

—It is evident immediately, however, that retired persons, their survivors, or those nearing retirement cannot meet the qualifying conditions of the new arrangement and cannot benefit from the improvements. Even under the so-called universal systems, many persons who are retired or near retirement age do not initially qualify for the flat benefit, since some years of coverage may be required.

—An "interim" means-tested benefit may be set up to help these individuals and often their dependents and survivors. This benefit, instead of being temporary or transitional, continues to be paid to substantial numbers of persons for many decades.

—It becomes apparent that many more workers will never be able to contribute for the number of years required to earn a full old-age pension. In some instances, even a minimum pension cannot be earned for at least 10 years after the reorganization. A second means-tested benefit is therefore created to help this category—the solidarity benefit in France, for example, and the complementary benefit in Switzerland.

—Eventually, other disadvantaged classes appear—particularly dependents and survivors—and a third kind of means-tested benefit may be established for them.

—Special arrangements may be made for individual groups, such as the single women's benefit in Finland or a catchall intended for "all others," like the "special allocation" in France. Where one benefit is not sufficient, two or more may be granted to the same individuals.

The existence of separate means tests for each category, primarily as a consequence of the historical process, has complicated the administration of these multiple programs. In time, the system extended coverage to all the elderly, and there was no longer a reason for the multiplicity. In fact, several of the countries studied are drifting toward that kind of solution. They have extended coverage to all needy pensioners or to all persons in need, thus eliminating some of the administrative burdens.

Despite the measures intended to improve pro-

grams over the years, all these countries feel that the level of their means-tested benefits is too low but that any sizable or rapid improvement would simply cost too much. In adjusting the level of the means-tested benefits—either by legislative action or by use of a price or wage index—the countries have debated what rate of growth is desirable and financially feasible. They had to decide whether to maintain the relative level of already inadequate benefits or to raise the level more rapidly than the increase in prices (or wages) in order to improve the lot of the recipients.

## Solutions

No adequate solution to these problems has been found, but three of the countries have either undertaken or studied approaches to (1) simplify the systems, (2) raise regular old-age benefits to a level that would eliminate much of the need for assistance, or (3) try a variety of changes.

*Simplification.*—The guaranteed minimum benefit adopted in Belgium has the advantage of simplicity, but the benefits are extremely low. That country hopes, at some future time, to make these benefits large enough to assure at least a subsistence level for an elderly individual or couple. The Swiss have also taken a step toward simplification by granting very elderly pensioners both of its means-tested benefits in what amounts to a guaranteed minimum standard income.

*Improvement of old-age benefits.*—In coping with the problem of improving the established pension, the Swiss were willing to consider a significant change in the basic philosophy of their social security system. Swiss social security, like that of the United States but unlike that of other European countries, was originally designed to provide a base of protection only, not to be adequate by itself. This policy led to a need for supplementary means-tested allowances for the needy aged. A growing feeling that too many people required this supplementation and that the provision of a base of protection no longer meets today's needs led to a policy of raising both the minimum and maximum pensions faster than wages. In addition, company plans were made compulsory, as a supplement to the regular

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

[In millions]

Period	Total	OASDHI (health insurance) <sup>1</sup>			Other programs			
		Total	Hospital insurance <sup>2</sup>	Medical insurance	Veterans	Temporary disability <sup>3</sup>	Workmen's compensation <sup>4</sup>	Public assistance <sup>5</sup>
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	5,897	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	1,798	66	1,040	5,576
1971.....	18,064	7,868	5,761	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								
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			787
July.....		744	553	191	231			737
August.....		820	585	234	216			806

<sup>1</sup> Benefit expenditures from the Federal hospital insurance and supplementary medical insurance trust funds as reported by the U.S. Treasury.

<sup>2</sup> Excludes payments by Railroad Retirement Board for beneficiaries in Canadian hospitals.

<sup>3</sup> Benefits in California and New York (from 1950), including payments under private plans. Monthly data not available.

<sup>4</sup> 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.

<sup>5</sup> Federal matching for medical vendor payments under public assistance began October 1950.

<sup>6</sup> Data not available.

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

## FOREIGN SSI PROGRAMS

(Continued from page 12)

social security pension, with the aim that eventually the two pensions together would reach 60 percent of final earnings.<sup>5</sup>

*Remedial changes in general program.*—The French Sixth Plan, drawn up as a blueprint for guiding social and economic progress over a period of 5 years (1971-75), proposes a series of remedial measures to help the elderly needy by: (1) Indexing the minimum benefits, (2) creating a new housing benefit for aged persons, (3) in-

<sup>5</sup> See the *Social Security Bulletin*, October 1973, pages 46-47, and April 1972, pages 24-26.

creasing benefits for widows, (4) changing the old-age pension formula to provide for higher old-age benefits, and (5) relaxing the requirement for a disability pension.

A DIFFERENT MIX of countries and/or systems might bring out other approaches to aiding the needy elderly. The present sampling, in sum, has indicated a historic trend away from reliance on local assistance programs, which at one time had been the only resources, toward the establishment of a general program for all—as a matter of right—on a means-tested basis.