TABLE 6.—Income scores: Percentage distributions of recipient-nonbeneficiaries, by source of income, 1967 [1]—*Continued*

Proportion of income	Married couples	Nonmarried persons		
		Total	Men	Women
	Income from assets			
Total number of nonbeneficiary units (in thousands)	224	332	(2)	251
Total percent	100	100	100	100
1–19	84	62	(2)	62
20–39	11	17	(2)	15
40–59	2	3	(2)	3
60–79	1	6	(2)	8
80 or more	2	12	(2)	13
50 or more	3	20	(2)	22
90 or more	2	11	(2)	12

[1] Data on private pensions are excluded because the base is less than 100,000.
[2] Denominator less than 100,000.
[3] See footnote 2, table 1.
[4] Less than 0.5 percent.
[5] See footnote 3, table 1.

assistance, earnings, and other public pensions were almost as important for recipients as retirement income. Private pensions were much more important for recipients than they were for the total survey population. Asset income, which many aged units received, was rarely a major source of income.

Social Security Abroad

Proposed Pension Reform in United Kingdom, 1972*

The United Kingdom's proposed 1972 social security legislation is the most recent in a series of efforts by that country to overhaul its pension program in order to ensure adequate income to the aged. The bill provides that private pensions (termed "occupational schemes") would supplement existing flat-rate benefits for most of the labor force.

In 1971, the Conservative Government issued a White Paper on pension reform. That paper, which emphasized the role of private pension plans, was the basis of the 1972 proposed legislation. In 1969, the Labor Government had proposed a universal earnings-related, pay-as-you-go system to replace the existing fixed benefit that is supplemented by an earnings-related second layer.

Currently, employees may "contract out" of the public earnings-related part and join a private company benefit plan instead. Under the proposed 1972 bill, the earnings-related ("graduated pensions") layer would no longer be part of the public social security program but would be handled primarily through private channels. This reliance on private rather than public insurance is its principal innovation.

The Conservative Government's emphasis on private pension plans is based in part on a desire to cut Government expenditures in the social insurance-welfare field. Cost savings are anticipated through reduced expenditures for means-tested supplementary pensions now used to bring the flat-rate old-age benefit up to a guaranteed minimum level. Potential savings are seen also through reduced administrative costs to the Government as a large part of the coverage is turned over to private funds. In addition, it is assumed that as more workers are covered by private plans the subsequent rise in benefit levels will reduce the need for supplemental pensions to the low-income elderly, one of the major cost items in social security programs.

HISTORICAL BACKGROUND

The basic principles on which the British social security system operates were formulated by William Beveridge in 1942.[1] He envisioned a universal compulsory insurance program in which retirees received flat-rate basic benefits, regardless of means, in return for flat-rate workers' contributions, without regard to earnings. Wage and salary workers were to depend on private insurance (employee-benefit plans) for anything beyond the basic benefit. He hoped that encouraging expansion of private plans would lead to retirement income high enough to approach the preretirement level of living. He also saw a need for an assistance supplement for the poor who

* Prepared by Martin B. Tracy, International Staff, Office of Research and Statistics.

[1] Sir William Beveridge, *Social Insurance and Allied Services*, New York, Macmillan Co., 1942. (Reprint edition, Agathon Press, Inc., New York, 1969.)

had little or no income beyond the basic benefit. This supplement was to be means-tested and distinct from the national insurance benefit based on contributions.[2]

The flat-rate approach encountered increasing difficulties when: inflation reduced the value of flat-rate benefits (not automatically adjusted), the proportion of the population of pension age grew, expectations of higher benefits increased, and the cost of means-tested benefits rose steadily. By the early 1960's a way was being sought to raise benefits without increasing contributions to the system or adding sizable general revenue funds. The answer was an earnings-related second layer.

The aim of the second layer (established by the Graduated Contributions Act of 1961) was to provide most retired workers with benefits that would be more in line with preretirement income. It was intended for employees who were not contracted-out to occupational plans. In effect, it placed the financial burden of improving the national insurance system upon employer-employee contributions.

Growing problems also caused concern for those at the lower end of the income scale—impoverished pensioners, for example, and others in need. The means-tested supplement was originally seen in the Beveridge Report as a "safety net" to help the few retirees whose income did not meet a basic subsistence level and who had no occupational benefits or savings to supplement the basic flat-rate benefit. The number of persons requiring the means-tested supplement increased steadily, however, until it reached almost one-third of all old-age beneficiaries by the 1960's. Because this supplement was paid through general revenue, financing became an increasing burden.

WHITE PAPER PROPOSALS

Labor Government

Faced with this situation, the Labor Government prepared a White Paper in January 1969 aimed at altering the present system of flat-rate plus graduated contributions.[3] The paper indicated that the existing two-layer approach could not be adapted to meet basic subsistence needs of lower-paid contributors. Increasing the flat-rate benefits for all would call for larger contributions from all (including those who could not afford them). The Government warned that if costs of higher retirement benefits could not be met without further taxing of the needy, then supplemental benefits would continue to play an even bigger role in meeting minimum subsistence levels. This prospect was not a desirable one since general revenue expenditures would be greater without achieving any reduction in "welfare" outlays.

Specifically, the White Paper proposed replacing the existing formula with a system that was completely earnings-related.[4] The Labor Government saw this change as the best way to increase pensions, cope with inflation, and thereby reduce the need for Government financing of supplemental pensions. The White Paper further proposed that future pension adjustments be based on a review every 2 years of pension rates. It was also anticipated that earnings-related contributions would provide some additional protection against inflation because contributions and benefits both would rise with higher earnings.

The paper called for continued expansion of occupational plans as an essential part of the effort to provide adequate benefits and reduce Government costs. Private pensions were to complement, not replace, a nationally administered social security system.

Conservative Government

When the Conservatives took office in June 1970 they encountered the same problems. In a 1971 White Paper, *Strategy for Pensions*, the problems were summarized as continuing growth in Government expenditures despite failure to meet the retirement needs of low-income workers,

[2] These reform measures were the basis for the Family Allowance Act, 1945; National Insurance Act, 1946; and National Assistance Act, 1948. They are currently incorporated in the social security laws of 1965 and 1966 that consolidated earlier legislation and subsequent amendments.

[3] In 1969, men paid a flat rate of 13 shillings 7 pence, plus 4.75 percent of weekly wages between £9 and £18 and 3.25 percent from £18 to £30. The employer paid a flat rate of 15 shillings plus 4.75 percent and 3.25 percent, respectively.

[4] For a fuller description of the White Paper, see the *Social Security Bulletin*, May 1969.

inability of the two-layer system to expand coverage without excessive taxation to such workers, and excessive use of the supplementary pension beyond its original "safety net" function.

In contrast to Labor's approach, however, the Conservative White Paper related these problems to inadequate expansion of occupational retirement plans. It therefore emphasized the development of private plans. To achieve this end, the proposal promulgated two principal elements: (a) a revised basic flat-rate benefit system and (b) coverage under either occupational pension plans or a "State reserve" plan.

Under the proposal the present flat-rate benefits would be retained. After April 1975, employees would be required to contribute to the flat-rate benefit system and must be covered by either an occupational plan or a State reserve plan. Graduated, wage-related contributions would be replaced by payroll contributions of 12.75 percent. Employees would contribute 5.25 percent and employers 7.5 percent up to a ceiling of one and one-half times the national average earnings (currently £48 a week). The White Paper foresees coverage of about two-thirds of the regular wage and salary workers by private pension plans as the second layer of protection. Coverage under these plans would include mainly those employed by larger companies. The remaining one-third—primarily casual and part-time workers, workers in smaller companies, and the self-employed—would be under the mandatory "reserve scheme." The latter would be in the nature of a large, semiautonomous occupational plan, with the State collecting the contributions.

The occupational pension plans would have to meet and maintain minimum standards. To be initially accepted, a company's plan would have to be "recognized" by an independently operated occupational pension board, which would also have authority to revoke recognition. The conditions for recognition and exemption from the State reserve plan follow.

The minimum pension payable at normal retirement age of 65 (60 for women) must be at least 1 percent (0.7 percent for women) of earnings up to the proposed limit under the basic flat-rate benefit plan for each year of service from April 1975 and after. In addition, a widow's benefit of 50 percent of a retiree's pension must be provided. For widows of workers who died before retiring, the pension must be an annual rate of 50 percent of the deceased's earned pension or a single lump-sum payment.

Pensions would also be adjusted for cost-of-living increases by one of the following options: (1) automatic increase in line with changes in the cost-of-living index, (2) a fixed annual rate of increase (at least 3 percent), (3) provision in the funding arrangements to ensure periodic increases in payable pensions, (4) payment of a basic pension of 1.25 percent of covered earnings per year instead of the minimum requirement of 1 percent per year. Vesting would be required for employees who attain age 26 and have 5 or more years with the employer.

If an employee is not covered by a recognized plan, he would automatically be covered by the State reserve plan, which would be actuarially funded and privately administered by an independent board with broad investment powers. Employees would contribute 1.25 percent and the employers 2.5 percent of earnings up to the same limit as contributions to the flat-rate benefit plan (one and one-half times the national average earnings).

Benefits payable under the State reserve plan, at age 65 for men and age 60 for women, are based on a pure money purchase principle. Benefits accruing annually will be larger for younger employees than for the older workers. A widow's benefit of 50 percent is paid when the retiree dies after age 65. In case of death before age 65, the rate is 50 percent of accrued benefits based on contributions to the date of death. Retirees will receive a pension "bonus" if the reserve pension fund's earnings exceed the assumed 4 percent rate of return on investments.

The proposed revisions in the pension system are designed to reduce Government expenditures and give the private sector a larger role in social security provisions. Four closely related objectives are connected to this approach: expansion of occupational retirement plans, reduction in the need for supplementary benefits, increase in replacement rates, and improvement of vesting.

Occupational retirement plans.—The White Paper expressed concern at the lack of growth of retirement plans in the private sector. The number of employees covered by such plans declined from 12 million to 11 million (representing about 54 percent of the labor force) covered by occupational insurance plans from 1966 to 1971, while the actual number of private plans remained constant at about 65,000. This decline is due in part to a reduction of 1 million workers in the total number in the labor force during this 5-year period.

Of the nearly 9 million noncovered workers in firms with occupational plans, 5 million are ineligible for coverage because of the character of their work (semiskilled laborers, for example) and 3.5 million workers are ineligible because they do not meet tenure requirements. Both groups are primarily women (only 13 percent of women workers are covered by occupational plans). The White Paper estimated that under its proposed program occupational plans would increase coverage by 5 million employees to a total of 16 million, mostly in small firms currently without pension plans. It is expected that additional coverage of some part-time and highly mobile workers, now often excluded from private plans, would result from this expansion. Most of these workers, however, would be covered by the State reserve plan. In sum, of the estimated labor force of 23 million, 16 million would be under occupational schemes and the remaining 7 million would come under the reserve plan.

Supplementary pensions.—A second function of the White Paper's proposal was to reduce the need for means-tested supplementary pension. The accelerating costs of the program as well as the negative aspects of its welfare image have made it a primary problem, according to planners.

The rising costs are reflected in a monetary increase of more than 33 percent in expenditures from 1966 to 1969. The cost increase stems in part from higher benefit rates and payment to more beneficiaries. The proportion of pensioners drawing supplementary pensions has been near 30 percent (about 2 million retirees) of all pensioners in recent years. According to official reports, an estimated 500,000–800,000 additional pensioners would have been entitled to payments if they had filed.

The White Paper's approach to this problem was not intended to eliminate completely the supplementary pension payments. The proposal would reduce the need for these payments by relying on flat-rate benefits, together with occupational or State reserve coverage, to produce sufficient retirement income.

For workers covered under the State reserve program plan, it would be a long time before retirement benefits for older workers would be increased because the proposal contains no provision for accelerating the maturity period. Many retirees, therefore, would remain dependent on the means-tested supplementary pension until the 1980's when employees might have contributed enough to receive benefits at least equal to the guaranteed minimum income.

Nor was it the aim of the White Paper to eliminate supplementary pensions for certain women employees and widows. Thus, women who choose to pay a reduced contribution into the flat-rate system could qualify for a means-tested supplementary pension. Other women may be potential recipients as widows entitled to receive only one-half of a deceased spouse's retirement pension under the State reserve plan. The law will require only that benefits be no less than 50 percent of the spouse's pension, but some occupational plans may exceed this amount.

Replacement rates.—A third area of focus in the White Paper was the provision of a benefit high enough to permit retirees to maintain their preretirement standard of living. It was estimated that a replacement rate of about 50 percent of immediate preretirement income would produce this result.[5]

The real value of even an increased replacement rate would, of course, be reduced if benefits do not keep pace with inflation. Coping with inflation is approached by the proposed reform in three related ways: (1) an annual cost-of-living review of the flat-rate benefit to keep pace with rising costs; (2) use of the earned interest from the State reserve plan (estimated at 4 percent a year) to give the pensioner retirement bonuses; and (3) Government assurance that private plans provide an adequate replacement rate by requiring a minimal pension level and post-retirement increases.

[5] Take, for example, the national average earnings in the manufacturing industry at the 1972 level—£32 a week. Since the flat-rate benefit was then £6.75, the occupation plan would have had to provide £9.25 to bring the benefit up to £16 or half the earnings being received at retirement. This level would not be reached until the system matures.

Vesting.—Another White Paper measure to reduce Government costs and provide adequate retirement income was vesting. In 1971, 90 percent of the 1 million employees who changed jobs did so without preserving their retirement funds for future allocation to retirement benefits. Of these 1 million employees, 70 percent received a straight refund of their own contributions and 20 percent received nothing.

To prevent continuation of such losses, the proposal requires that all occupational pension plans provide vesting of accrued benefits for employees who attain age 26 and have worked 5 or more years for the employer. Such a step could be accomplished by granting deferred pensions or by payment of a transfer value to another fund. The accrued benefits would include retirement plus earlier service benefits, lump-sum benefits, widows' benefits for retired members, options available at pension age, and provisions for pension increases after retirement.

If an employee were to leave a recognized plan with less than 5 years' pension service, the employer would have to pay full contributions for the period into the State reserve plan. Under the reserve plan itself, benefits would be immediately vested and fully portable.

These regulations for private plans do not mean that transferability will be guaranteed. Rather, they ensure that accumulated benefits are to be preserved until retirement. No provisions to maintain the real value of preserved pensions for employees who leave are included in the proposal. Thus, benefits not transferred to another fund will not be linked to cost-of-living increases.

Recent Publications*

SOCIAL SECURITY ADMINISTRATION

OFFICE OF RESEARCH AND STATISTICS. *Achievement, Mobility, and the Draft: Their Impact on the Earnings of Men,* by Phillips Cutright. (Staff Paper No. 14.) Washington: U.S. Govt. Print. Off., 1973. 228 pp. $2.60.

Isolates the influence of such variables as geographic mobility, regional location, academic achievement, years of education, race, and military service upon the level of earnings and changes in earnings over time for a group of men born between 1927 and 1934.

OFFICE OF RESEARCH AND STATISTICS. *Drug Utilization Review With On-Line Computer Capability: Selected Methodology and Findings From a Demonstration,* by Robert F. Maronde, M.D. (Staff Paper No. 13.) Washington: U.S. Govt. Print. Off., 1973. 81 pp. $1.

Results of a demonstration project carried out in the Los Angeles County-University of Southern California Medical Center in which drug utilization review methods were used to correct errors, reduce abuse and fraud, and assist in inventory control and producing insurance claims.

OFFICE OF RESEARCH AND STATISTICS. *Social Security Disability Applicant Statistics, 1968.* Washington: U.S. Govt. Print. Off., 1973. 102 pp. $1.50.

Examines the basic characteristics of applicants for disability benefits under OASDHI for whom determinations were made during calendar year 1968.

OFFICE OF RESEARCH AND STATISTICS. *Women and Social Security: Law and Policy in Five Countries,* by Dalmer Hoskins and Lenore E. Bixby. (Research Report No. 42.) Washington: U.S. Govt. Print. Off., 1973. 95 pp. 50 cents.

Reviews the major provisions relating to women as workers, wives, widows, and mothers and includes the mid-1972 reform proposals for Belgium, the Federal Republic of Germany, France, Great Britain, and the United States.

GENERAL

BROWN, J. DOUGLAS. *An American Philosophy of Social Security: Evolution and Issues.* Princeton, N.J.: Princeton University Press, 1972. 244 pp. $8.50.

Essays by long-time participant in social security affairs, giving highlights of program history and a discussion of its scope and purpose.

COMMUNITY COUNCIL OF GREATER NEW YORK. BUDGET STANDARD BUREAU. *Annual Price Survey—Family Budget Costs.* New York: The Council, 1973. 81 pp. $5.

Sixteenth edition of Survey gives up-to-date quantitative data on family living costs in New York City. Costs reflect October 1972 prices.

INSTITUTE OF LIFE INSURANCE. RESEARCH AND STATISTICAL SERVICES. *Life Insurance Fact Book, 1972.* New York: The Institute, 1973. 126 pp. No price.

Up-to-date information about the life insurance industry provided by that industry.

LANTSEV, M. "Progress in Social Security for Agricultural Workers in the U.S.S.R." *International Labour Review,* International Labour Office, vol. 107, no. 3, 1973, pp. 239–252. $12.

Ways the Soviet government has improved social security coverage for farm workers and has sought to equalize living standards of urban and rural populations.

LEVITAN, SAR A., ed. *The Federal Social Dollar in Its Own Backyard.* Washington: Bureau of National Affairs, Inc., 1973. 304 pp. $7.95.

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