with earnings above the exempt amount would therefore have his benefits suspended

The percentage of not currently payable awards to widowed fathers varied with the age of the father The percentage was highest for those under age 30, considerably smaller for those aged 50 and over, and lowest for those aged 30–49 These variations may reflect differences in family size Families with fathers aged 30–49 tended to be larger than those with fathers under age 30 or over age 49, and the benefits were affected by the family maximum The benefits for all members of these families were probably processed as currently payable, even if the father had earnings over the exempt amount

Time of Entitlement and Year of Wife's Death

A father's entitlement to benefits began in March 1975 or in the month the wife died Since about 52 percent of the fathers became entitled to benefits in April 1975 or later, it is reasonable to assume that in at least half of the cases processed in 1975, the wife died after the Supreme Court decision (table 3) Generally, if the wife died after the decision, the widower would have been advised of the availability of father's benefits when the application was made for survivor child's benefits If she died before the date of the decision, the widowed father would have to learn of the benefits on his own

TABLE 3—Benefit awards to widowed fathers Number, percentage distribution, average monthly benefit amount, and average primary insurance amount, by year of wage earner's death and by month of entitlement, 1975

Item	Number[1]	Percentage distribution	Average monthly benefit amount	Average primary insurance amount
Year of wage earner's death				
All awards	4,582	100 0	$99 10	$176 40
1975	2,964	64 7	95 80	176 80
1974	492	10 7	111 60	188 60
1973	310	6 8	106 40	178 20
1972	197	4 3	100 20	169 10
1971–70	307	6 7	106 20	176 10
1968–69	126	2 7	100 50	163 80
1967–65	105	2 3	88 70	149 00
Before 1965	81	1 8	91 90	153 80
Month of entitlement				
All awards	4 582	100 0	$99 10	176 40
October–December 1975	115	2 5	106 60	185 50
September 1975	220	4 8	97 40	177 60
August 1975	311	6 8	95 40	176 10
July 1975	367	8 0	94 60	174 90
June 1975	417	9 1	94 90	178 90
May 1975	452	9 9	95 20	175 00
April 1975	485	10 6	94 70	177 80
March 1975	2 215	48 3	102 60	175 60

[1] Excludes 125 cases for which detailed information was not available

Although the Court's decision was widely reported and the Social Security Administration publicized the availability of the benefits, some men, particularly those whose wives died many years ago, may still not be aware of them Thus, in 65 percent of the initial awards in 1975 the wife died the same year and in 28 percent of the cases she died from 1970 through 1974 In only 7 percent of the awards did she die before 1970

Among large survivor families, a father's entitlement to benefits would not increase the total family benefits, whether or not he had earnings large enough to offset all of his benefits during the year Consequently, he would have little incentive to file for benefits Nevertheless, he would be wise to do so, even if the family benefit amount would not increase He would then be ready to get his benefit if some family members had theirs withheld or terminated Among smaller families, too, it would be advisable for the father to file for benefits even if they would be suspended because of his earnings, since he would then be on the rolls and able to get his benefit if his earnings ceased or declined

Social Security Abroad

Effect of Recession on Financing of German Pension Program*

The impact of the 1974 recession on the financial position of the U S social security system has recently been the focus of considerable discussion in this country The situation has also prompted interest in how foreign programs fared under similar economic conditions

The recession and continuing high rates of inflation have placed increased demands on the social security systems of numerous industrial countries The financial stress is largely attrib-

* Prepared by Lois S Copeland, Comparative Studies Staff, Office of Research and Statistics

utable to rising unemployment, which lowers payroll tax receipts needed to finance the system at the same time that it raises expenditures for unemployment benefits and job training measures Moreover, costs for other social security programs have continued to accelerate because benefits have been tied to rising prices and wages In addition to these automatic adjustments, some systems have also added ad hoc benefit increases to compensate pensioners for the loss of purchasing power that has resulted when price increases have outstripped wage increases

The financing problem has been further compounded by the decline in the ratio of contributors to beneficiaries caused by the growth of the aged population A smaller work force—reduced because of unemployment as well as the changing demographic structure—means that fewer contributors must support increased benefit costs

The systems were able to cope with moderate inflation as long as revenues and pensions were equally affected The financing problem intensified in 1974 as the economic situation began to deteriorate Because of increasing unemployment, payroll tax receipts began to taper off to the point where income derived in bulk from contributions lagged behind expenditures In many industrial countries, the measures taken to counter these adverse conditions involved decisions either to increase payroll taxes or to delay the introduction of new features planned for the social security programs

The Federal Republic of Germany provides an interesting example of how a social security system has coped with economic conditions of this nature The economic downswing began there in 1974 and quickly triggered marked unemployment By 1975, the average annual unemployment rate had climbed to 3 8 percent, more than quadruple the 0 83-percent average rate for 1960–74 [1] As a result, the social security pension system received less income from payroll tax receipts than previously had been forecast The shortfall in revenue combined with expanded pension costs created a deficit of DM 642 4 million in 1975 [2] Critics have predicted deficits reaching as high as DM 25 billion by the end of 1977 unless corrective action is taken

In October 1976, the Government announced a three-part program aimed at meeting the pension system's increased demand for cash in 1977 The program called for liquidation of bonds from the pension system's reserves, reduction of the system's contribution to the sickness insurance fund, and an advance to the system of a portion of the annual Government subsidy

BACKGROUND

The German old-age, survivor, and invalidity pension program covers manual and nonmanual workers under identical provisions in separate insurance components Self-employed persons, miners, public employees, and farmers are insured under special systems Health insurance, financed primarily from payroll tax receipts and administered by about 1,900 individual sickness insurance funds, is compulsory for persons earning up to 75 percent of the ceiling for pension contributions Pensioners are automatically covered for health insurance, with the pension program contributing a portion of the costs to the sickness insurance funds on behalf of the pensioners

The pension system's primary source of income is an 18-percent payroll tax split equally between employer and employee The tax is assessed on earnings up to a ceiling fixed at DM 3,100 a month currently, or a little more than twice the wage of an average worker in manufacturing The pension system also receives an annual Government subsidy equal to approximately 16 percent of total pension expenditures

A contingency fund large enough to cover 3 months' expenditures is maintained for each of the two insurance components—for manual and nonmanual workers The reserves of the two components are combined when evaluating the size of the fund Each year, financial forecasts are made for the 15 following years, providing a more rapid evaluation of the pension reserves If these forecasts determine that the combined reserves are too small to cover 3 months' expenditures for 3 consecutive years, the contribution rate must be changed to increase the reserves accordingly At the end of 1975, as a result of previous attempts to build up larger reserves, the pension fund of

[1] Published data for Germany relate to the population aged 14 and over The seasonally adjusted statistics from the Division of Foreign Labor Statistics of the U S Department of Labor apply to the population for which compulsory schooling has ended—those aged 15 and over

[2] As of December 1, 1976, one deutsche mark (DM) equaled $0 4142 in U S dollars

the two components was sufficient to pay benefits for roughly 7.4 months[3]

It should be emphasized that the current monitoring system is related directly to the economic conditions prevailing in Germany at the time of each forecast. Consequently, the results of the forecasts have varied substantially from one year to the next.

In Germany, as in all highly industrialized countries, the ratio of white-collar workers to blue-collar workers has been increasing. As a result, the nonmanual-worker component has gained additional contributors while the number of persons contributing to the manual-worker component has decreased. To compensate for the changing contribution pattern, direct financial transfers between the two pension components are authorized under 1969 legislation whenever two conditions are satisfied: if the coverage level of one fund dips below 2 calendar months' expenditures, less Government subsidy, and if the level of the other fund exceeds 4 calendar months' expenditures.[4] In this manner, the less-well-endowed reserve can be brought up to the prescribed minimum level. For the period 1974–75, the nonmanual-worker pension fund transferred approximately DM 12.2 billion to the manual-worker fund.

PROBLEMS OF FINANCING

Various statistical reports on the financial balance of the national pension system have recently spotlighted the problems confronting the program. Though payroll tax receipts rose at an average rate of about 9.0 percent a year in 1974 and 1975, this gain represented a marked drop in the annual rate of increase in contributions to the system. Concurrently, the rate of expenditures—for pensions, rehabilitation measures, and health insurance contributions combined—was growing at an average of 15.8 percent annually. Previously, the income of the nonmanual workers' program was greater than expenditures, and the excess was sufficient to finance deficits in the other system.

By 1975, the situation had deteriorated to the extent that the nonmanual workers' system had to withdraw funds from its reserves to cover the other component's shortfall. Some critics estimate that a continuation of these trends could increase the deficit to DM 19–25 billion by the end of 1977, thereby reducing the reserves by as much as 50 percent. In that event, the coverage of the fund in terms of current expenditures would decrease from approximately 7.4 months to 3.7 months.

Before the 1974 recession, Germany, along with other West European countries, had enjoyed a relatively low unemployment rate for a number of years. For the 15-year period (1959–73) preceding the 1974 economic reversal, the average annual unemployment rate for Germany was 0.85 percent. The rate mounted, however, to 1.7 percent in 1974 and continued to climb steadily, reaching 3.8 percent in 1975.

Two factors helped to minimize unemployment during the recessionary period. First, many foreign nationals dropped out of the German labor force and returned to their home countries. Before the recession, Germany had experienced labor shortages and consequently was forced to import foreign workers. As employment opportunities began to decline late in 1973, the Government stopped foreign labor recruitment and restricted work visas for foreigners already in the country. Since autumn 1973, the number of foreign nationals working in Germany has declined by roughly half a million, leaving about 2 million foreigners still employed there. The departure of foreign workers has tended to improve employment chances somewhat, although many German citizens have been reluctant to do the less pleasant, menial tasks performed by the bulk of the foreigners.

Reduced workweeks, resulting both from layoffs and a trend toward more leisure time for workers, have also helped reduce the level of unemployment. During the boom economic period, layoffs were virtually unknown. At the beginning of 1974, however, 900,000 persons were affected by reduced labor requirements occurring mainly in the automobile and construction industries. The number of layoffs was still as high as 600,000 at the end of 1975. These factors led to a drop in

[3] For a discussion of the historical development of the funding process, see Leif Haanes-Olsen, "Social Security Funding Practices in Selected Countries," *Social Security Bulletin*, May 1976, pages 24–29.

[4] See *Survey of Social Security in the Federal Republic of Germany*, Ministry of Labor and Social Affairs, 1972, for provisions of financial adjustments prior to the 1969 legislation.

the number of hours worked by the average wage earner in manufacturing—40.4 hours per week in 1975, compared with 43.8 hours in 1970.

To the national pension system, the sharp decline in employment as well as more moderate wage increases meant a significant reduction in the annual growth rate of contributions. Because the pension system is based on payroll taxes and is dependent on employment and wage levels, payroll tax receipts in 1969–73 rose rapidly along with an average annual wage increase of 11 percent. The rise in contributions leveled off considerably in 1974 and 1975 as the unemployment rate increased sharply and the rate of wage increases fell to about two-thirds of the previous average rate. Furthermore, the flight of foreign workers—who formerly were a financially stabilizing force to the pension system, contributing more than they received—and the increased number of layoffs resulted in more income loss to the system.[5]

While increases in contributions tapered off as a result of the slack in economic activity, expenditures continued to climb at a rapid pace and began to exceed income. The "dynamic" formula for adjusting pensions to changing economic conditions, which was introduced in 1957, was intended to act as a compensating mechanism that would dampen the effects of recession by increasing benefits, partially financed by the reserves. New pensions or pension increases were to be based on the average wage increases of 2½ and 3½ years before. Average benefits in 1974 and 1975 rose, as a result, by a little over 11 percent to compensate for the sharp wage and price rises of the early 1970's. This mechanism was expected to work in a countercyclical fashion but functions well only with low inflation rates and high employment levels.

OTHER CONTRIBUTING FACTORS

Besides the pressure exerted by the economic conditions, long-range factors have also placed considerable stress on the pension system. Most important have been the social reforms of the early 1970's—introduced in the light of growing social expectations and based on an optimistic financial outlook—and the increase in the number of older persons in proportion to the general population.

Beginning in 1970, the Government eliminated the levy of 2 percent on benefits that was first imposed in 1968 to help defray the amount paid by the pension agencies to the sickness insurance funds for pensioners' health insurance. Instead, these agencies themselves were to make the health insurance contribution, in an amount currently equal to about 17 percent of pension outlays. With medical costs also accelerating briskly, the cost of this measure exceeded original expectations. For the years 1974–75, the pension system's contribution to health insurance increased by an average of about 22.8 percent a year.

The innovations of the 1972 pension reform package included flexibility in retirement choices, a speeding up of the indexing process, special "minimum" pensions for low-wage earners with long service, and extension of coverage eligibility to the entire population.[6] Planners had underestimated the number of eligible persons who would opt for early retirement. Recently issued statistics show that 83 percent of the workers with 35 or more years of old-age insurance credits applied for pensions at age 63 instead of postponing retirement until age 65. The liberal provisions of the 1972 reform package, especially the flexible retirement feature, added substantial cost to the pension system.

Demographic patterns are another element contributing to the current financial strain. In the mid-1950's, planners recognized that the system would be faced with more and more pensioners and that fewer and fewer contributors would be left to support the increased pension costs. Germany has a national guideline plan in the social field that allows planners not only to project the potential demographic and financial patterns but also to introduce measures aimed at countering the impact of such patterns. Planners foresaw, for example, the need to schedule contribution rate increases over a period of years. In

[5] Unemployment benefits paid to foreign workers remaining in Germany, however, served to increase unemployment insurance program costs. Since the funds that finance unemployment benefits are not derived from the national pension system, these added costs had no effect on the financing of the system.

[6] See Gisela C. Wang, "Flexible Retirement Feature of German Pension Reform," *Social Security Bulletin*, July 1973, pages 36–39.

practice, however, the plan did not function as well as anticipated because the economic conditions of the 1970's could not be foreseen

PENSION FINANCING CHANGES

Despite prospects for some improvement in the economic situation, in October 1976, the Government introduced three measures aimed at temporarily improving finances until other solutions can be found during the spring 1977 session of the legislature Under the Government plan, (1) the nonmanual workers' branch would liquidate approximately 10 percent (DM 3 7 billion) of its reserves, (2) legislative action would be initiated to reduce by DM 3 billion the pension system's contribution to the sickness insurance funds, and (3) the Government would pay DM 2 75 billion to the pension system as an advance on a portion of its annual subsidy

The Social Advisory Council, a group composed of labor and management representatives and independent experts who review the programs of the Labor and Social Affairs Ministry, has proposed several methods of improving the pension system's financial situation One is to postpone the scheduled July 1977 pension increase for 6 months An alternative would be to reduce the system's reimbursement to the sickness insurance funds by six percentage points (from 17 percent to 11 percent of benefit costs) and concurrently increase by one percentage point (to 11–13 percent of covered earnings, according to the fund) the sickness insurance payroll tax contribution Under other approaches, the pension system could levy an assessment of 5 percent on pension benefits to defray the health insurance cost or increase the current 18-percent pension contribution to 19 percent

In addition to the Social Advisory Council's proposals, a number of other changes are also being discussed One of these measures involves the deferral of annual pension adjustments from July 1 to January 1, and linking such adjustments to changes in net wages, rather than changes in the more rapidly increasing gross wages, or in average earnings over a more recent period (currently average earnings over 3 years) Another approach would levy higher Federal taxes to allow for an increased Government subsidy to the pension system