January 1, 1974 In addition, the claims for cash benefits of some 70,000 persons previously disallowed by the Department of Labor will be reviewed Claims received and allowed by that agency will be payable retroactively to the onset of disability or, if that date cannot be determined, to the date of request for review of the claim, but no earlier than January 1, 1974

Medical Benefits

Before the amendments, medical benefits for conditions resulting from pneumoconiosis were payable to miners receiving cash benefits under Part C of the program (claims filed after December 31, 1973, and administered by the Department of Labor) Miners receiving Part B cash benefits (claims filed on or before December 31, 1973, and administered by the Social Security Administration) now may also qualify for medical benefits under administration of the Department of Labor for their lung disorders The Social Security Administration will notify all Part B beneficiaries of this provision Beneficiaries will then have 6 months in which to claim medical benefits

Offset for Workers' Compensation Payments

Formerly, Part B benefits were offset by the amount of workers' compensation payments received for any type of disability The law now provides that Part B benefits will be offset in the same way as Part C benefits The offset will be made only for that part of the workers' compensation benefit being paid for disability caused by miners' pneumoconiosis The cost of this change to the Social Security Administration has been estimated at $8–$10 million annually through 1982

Black Lung Disability Trust Fund

Before the 1977 amendments, the cost of benefits not attributable to individual employers was financed through general revenues Public Law 95–227 establishes a black lung disability trust fund to finance the cost of claims involving miners whose last employment was before January 1, 1970, and those for whom no responsible coal-mine operator has been identified The fund will also pay the administrative expenses involved in implementing the 1977 amendments for both the Department of Labor and the Social Security Administration

The fund will be supported by an excise tax payable by all local coal-mine operators, except where a State law has been certified by the Secretary of Labor as providing adequate coverage for pneumoconiosis The tax will be levied on coal mined at the rate of 50 cents per ton for underground coal and 25 cents per ton for surface-mined coal, but the amount collected may not exceed 2 percent of the price at which the coal is sold by the producers Except for claims based on coal-mine employment before January 1, 1970, responsible operators will continue as before to bear individual liability

Social Security Abroad

Italy's Indexing, Minimum Benefits, and Pension Reform*

Italy has changed its method of adjusting social security benefits from a formula based on movements in the cost-of-living index to one based on combined changes in the cost-of-living and wage indexes The changes have tended to aggravate the financial problems of the system, which has been operating at a deficit Interestingly, in a move to curb sharp expenditure increases, cost-of-living increases for high benefits were paid in the form of Government bonds that cannot be redeemed for 5 years

Foreign countries have adopted a variety of approaches to periodic adjustment of pensions Generally, either a price or a wage index is used Price indexing—the traditional, more conservative approach—tries to maintain a worker's standard of living at the time of retirement Wage indexing, sometimes called the dynamic approach, ties the pension to what the retiree would earn if he were currently employed Thus the pensioner shares in improvements in the standard of living enjoyed by the active labor force

Benefits were indexed in 34 countries in 1975 A price index was used by 20 of these countries, and a wage index was used by 11 countries Three additional countries used a minimum wage index [1] Italy, Norway, and Uruguay were the first countries to combine changes in wages and prices in their formula for automatic adjustment of pensions

The new Italian formula was devised for two reasons Wages were increasing more rapidly than prices and it was felt that the value of pensions should be related to

* By Frank B McArdle, Comparative Studies Staff, Office of Research and Statistics, Social Security Administration

[1] See Martin B Tracy, "Maintaining Value of Social Security Benefits During Inflation Foreign Experience," **Social Security Bulletin**, November 1976, page 35

current earnings In addition, uneven distribution of income caused concern and it was felt that steps should be taken to help low-income beneficiaries Legislation in 1975 established two different methods of indexing—one for the minimum benefit and one for regular old-age and invalidity benefits above the minimum

Since 1969 the statutory minimum benefit had been adjusted annually according to changes in the cost of living The 1975 law tied adjustments to movements in the average minimum wages of factory workers—that is, by the entire amount of the rise in the wage index As a result of this modification, retirees receiving the minimum benefit now should gain both from increases in the cost-of-living index and from wage improvements brought about through labor-management negotiations The wage index increased 118 percent in the 5-year period before passage of the 1975 law Consumer prices in that same period rose 54 percent

Pensions above the minimum are adjusted in two steps First, they are increased by the difference between the increases in the wage and cost-of-living indexes Then, in an effort to raise the low pensions proportionately more than the high ones, a fixed cash amount—the same for all pensions above the minimum—is added for each percentage-point increase in the cost of living

Background

The origins of social insurance in Italy date back to 1898 when a work-injury program was introduced Today the social security program consists of a compulsory general system for employees in industry and commerce (covering more than 60 percent of the civilian labor force) and numerous special systems for different occupational categories, such as journalists, theatrical performers, and airline personnel About 95 percent of the total population is covered by some form of social insurance plan

The general system for wage earners in industry and commerce is administered by the National Social Security Institute (INPS), Italy's main social security agency In 1976 the general system paid 67 percent of the 12 million pensions in force The INPS administers the old-age, invalidity, and survivor insurance programs, along with programs for tuberculosis benefits, unemployment insurance, and family allowances It also administers 14 other special systems for different occupational categories

Under the general system, workers are eligible to retire at age 60 (men) or age 55 (women) with at least 15 years of contributions or at any age if they have 35 years of contributions The old-age, invalidity, and survivor pension amounts are based on a worker's highest 3 years of earnings in the last 10 years The pensioner receives 2 percent of the "high-three-year" earnings times the number of years of contribution, up to a maximum of 80 percent of earnings with 40 years or more of contributions A statutory minimum pension amount exists (in 1974, set at 27 75 percent of the average actual earnings of factory workers)

At the end of 1969, roughly 60 percent of the old-age beneficiaries in the general compulsory system, and more then 95 percent of those in the special systems for the self-employed, were receiving only a minimum benefit The law does not specify a statutory maximum pension amount, but the maximum limit on earnings creditable for benefit purposes results in a de facto maximum pension Contributions, on the other hand, are paid on total earnings

The 80-percent replacement rate first became effective in 1976 Earlier the system had a history of paying low benefits, prompting the Government to undertake a series of measures to assure an adequate benefit level

Earlier Reform Measures

The highly inflationary period after World War II brought about a need for the first revaluation of pensions The first compulsory old-age insurance legislation in 1919 had established a capitalization system under which a worker paid premiums based on his wages and received a pension computed like a life insurance annuity After World War II, however, sharp inflation and massive devaluation of the Italian lira virtually wiped out the pensions accumulated by wage earners By 1947 the cost of living was 44 times what it had been in 1939

Invested reserves had been eroded and benefit levels were totally inadequate in the postwar situation In 1945 the system began pay-as-you-go financing and the National Government made its first substantial contribution so that benefit supplements could be paid out immediately

Clearly, the need for revaluing past contributions developed in the postwar period Such revaluation became a part of the benefit formula in 1952 From then until 1968, pensions in Italy were based on contributions over an entire lifetime No provision was made for automatic adjustment of pensions to fluctuations in economic conditions, and pensions were adjusted on an ad hoc basis

In 1965, several significant changes were made Most important among these was the creation of a special "social pension" for workers who failed to qualify for an ordinary old-age pension In addition, the statutory minimum pension was raised 30 percent, and pensions above the minimum were raised 20 percent From the end of 1965 to the spring of 1968, consumer prices rose nearly 8 percent Pensions, in the meantime, had not been increased

1968 Legislation. In 1968 a number of measures to improve the level of social security pensions were enacted against a background of marked social unrest

In that year widespread student rebellions, recurring strikes by workers, and demonstrations and civil disorders occurred Many of the strikes called attention to broad social issues, and several of them were directed toward securing improvements in the pension program

Pensions were considered too low, yet the social security program was operating at an annual deficit The 1968 legislation attempted to resolve the problem by raising the minimum pension level and changing the benefit formula [2] The new formula based the pension computation on actual earnings in the highest 3 of the last 5 years, instead of using lifetime contributions

This change established a new principle in Italy For the first time, pensions became a function of earnings rather than contributions It was believed that by using recent earnings, benefits would not have to be adjusted frequently A retired worker was to get 65 percent of his average earnings, but the Government promised that future legislation would eventually raise the maximum replacement rate to 80 percent of earnings with 40 years of contributions To compensate for the added costs, the law abolished the long-service seniority pension and introduced a retirement test

Pensioners were upset particularly with the fact that the new benefit formula would apply only to new retirees Those already on the rolls would have to settle for what they considered an insufficient increase The new minimum pension amounts were substantially below the level called for by Italy's powerful trade unions The new restrictions on those who continued working after retirement further exasperated the 8 million pensioners Consequently, widespread dissatisfaction continued among pensioners in an atmosphere of general social agitation that culminated in the "hot autumn" of 1969

1969 Legislation. The Government passed new social security legislation in 1969[3] that, among other improvements, raised the replacement rate from 65 percent of earnings to 74 percent after 40 years of work The goal was to have an 80-percent replacement rate in 1976 Minimum pensions were raised 16 percent for those aged 65 and over and 28 percent for those under age 65 A 10-percent benefit increase was enacted for all those with pensions above the minimum Eligibility for the special "social pension," previously for covered workers without sufficient credits for a retirement benefit, was extended to all citizens aged 65 and over with limited income The seniority pension, abolished in 1968, was reinstated with the stipulation that the beneficiary stop working completely Other limitations imposed by the retirement test were relaxed In short, the new law provided substantial measures to raise the income level of pensioners

[2] Max Horlick and Robert Lucas, "Changes in Italian Social Security System,' **Social Security Bulletin,** July 1968, pages 20–22

[3] Robert W Weise, "Social Security Changes in Italy," **Social Security Bulletin,** June 1969, pages 21–23

The 1969 law also attempted to diminish the effects of inflation on the purchasing power of benefits The law established a mechanism that would automatically adjust pensions to changes of at least 2 percent in the cost-of-living index

New Indexing Formula

The 1975 law set up a fully automatic method of adjusting pensions for changes in wages and prices Pensions are increased annually on January 1, and no minimum threshold change is required to trigger a benefit adjustment, as had been stipulated in 1969 The 1975 formula applied only to wage earners under the general compulsory system (about 60 percent of all workers) and to those under the special system for mine workers

Social pensions, partial pensions, and pensions paid under multiple entitlement when the sum of the individual pensions exceeds the statutory minimum pension are still regulated by the 1969 formula Most other special systems had provisions for automatic adjustment to cost-of-living changes that were similar to the 1969 law for wage earners in the compulsory system In February 1978, most of the special systems were brought under the new indexing formula—a major step in the direction of bringing uniformity to the varied indexing provisions of Italy's numerous systems

The new formula sets up two procedures One is for minimum pensions, the other for pensions above the minimum

Minimum Pensions

Minimum pensions under the new formula are tied to changes in the index of average minimum contractual wages (excluding family allowances) of factory workers This is not a minimum wage as known in the United States but an index of average hourly earnings of factory workers as specified in national labor contracts The earnings are considered "minimum" because they do not include overtime pay or any supplemental local agreements negotiated over and above the national contract

The average monthly index of contractual wages for the year ending July 31 is compared with the average monthly index at the time of the last benefit increase Minimum pensions are increased by the entire percentage-point increase resulting from that comparison

Pensions Above Minimum

Pensions that are greater than the statutory minimum are adjusted in two ways They are tied to the percentage difference between the wage and cost-of-living indexes for workers in industry and to a fixed cash amount for each percentage-point rise in the cost-of-living index for families of workers in industry

The percentage difference between the change in the wage index and the cost-of-living index is computed in the following way Shortly before January 1, the annual averages for the monthly wage index and the monthly cost-of-living index are computed separately for the year ending July 31 The two averages are then compared and pensions are increased by the difference between them Since wages in Italy are also indexed to the cost of living, it is unlikely that the percentage difference between the wage index and the cost-of-living index will ever result in a negative amount

A flat-rate cash amount also is added for each percentage-point rise in the cost-of-living index during the four quarters of the year ending July 31 The flat-rate cash amount is not, however, paid to pensioners who continue working, because they are compensated for cost-of-living changes through flat-rate increases in wages, which are themselves indexed Working pensioners receive only the percentage increase resulting from the difference between the wage and cost-of-living indexes

The flat-rate increase for each percentage point was set in the 1975 law 1,512 lire per month for the benefit increase in January 1978,[4] rising annually to 1,910 lire for the 1980 benefit adjustment

Pensions above the minimum are thus increased by a formula that combines the difference in the percentage change of the wage and cost-of-living indexes with an additional fixed sum for each percentage-point rise in the cost-of-living index Pensions above the minimum that were awarded during the previous year are excluded from the benefit increase

An example follows of how the new indexing formula works

> The wage index increased by 28 7 percent and the cost-of-living index by 19 5 percent (24 points) for the year ending July 31, 1977 Because minimum pensions are adjusted separately by the full percentage change in the wage index, they were increased by 28 7 percent, from 79,650 lire to 102,500 lire, as of January 1, 1978
>
> Pensions above the minimum are adjusted in two steps—by the difference between the change in the wage index and the change in the cost-of-living index (9 2 percent) and by a flat rate of 1,512 lire for each percentage-point rise in the cost-of-living index for workers in industry in the four quarters ending July 31, 1977 Since the cost-of-living index rose a total of 24 points, monthly benefits were increased by an additional 36,288 lire (24 times 1,512 lire) As a result, on January 1, 1978, pensions above the minimum, except those awarded in 1977, were increased by a total of 9 2 percent plus 36,288 lire per month

In the first 2 years (1976 and 1977), the automatic adjustment of pensions raised minimum pensions by 42 percent, the same as the rate of increase for minimum contractual wages of the active labor force As the following tabulation shows, both of these factors rose at a faster rate than consumer prices, which increased by

Index	1975	1976	1977
Average minimum contractual wages of factory workers (excluding family allowances)	100	121	[1]142
National consumer prices	100	117	[2]132
Minimum pension	100	120	142

[1] As of January–March 1977
[2] As of March 1977

32 percent Thus, recipients of minimum pensions kept up with the gains of younger workers and experienced real improvement in their income in relation to consumer prices

Reactions

Criticism of the new indexing formula centers on its philosophy and cost Conservatives object to the fact that those who retired with high lifetime contributions suffer a relatively greater loss in their financial position after retirement because the indexing formula favors low-paid workers

The costs of the new indexing formula have been criticized as part of the broader debate over Italy's financial crisis International loans have been made to the Italian Government by the International Monetary Fund with the stipulation that limits be placed on public expenditures Unforeseen rises in public expenditures have occurred, however, with social security pensions as one of the more significant items The automatic adjustment of pensions alone, for example, will cost 3,600 billion lire in 1978 As a result, a social security package is being sought that will economize on expenditures At one point an emergency decree blocking the automatic adjustment of pensions for 1978 was threatened

The sharply rising deficits of the National Social Security Institute have caused much debate over the indexing formula As expenditures exceed receipts by a wider margin each year, pension indexing exerts a disproportionately large impact on a deficit that official estimates predict will rise to more than eightfold—from less than 2,000 billion lire in 1976 to 16,000 billion lire by 1980 The Government has dramatized the implications of the deficit through public statements that say the social security system runs the risk of bankruptcy unless retrenchments are made

In this climate of financial unease the fact that minimum pensions, which concern roughly two-thirds of Italy's wage earners, have nearly doubled in the 4-year period 1975–78, has attracted much attention Critics argue that, for every rise of 1 0 percentage point in aver-

[4] On January 1, 1978, 1 Italian lira was equal to 0 11 U S cent

age earnings, pensions rise 1 2 percentage points and that, for every rise of 1 0 percentage point in the cost-of-living index, pensions are increased 1 5 percentage points They say this difference occurs because the index of minimum contractual wages in industry that is used to adjust pensions goes up faster than actual average earnings In addition, the fixed cash amount for each percentage-point rise in the cost-of-living index is proportionately very high for the mass of beneficiaries who receive small pensions As a result, for every loss of 100 lire to inflation, the indexing formula returns 120 lire to the pensioner

Spokesmen for the more powerful political parties and the trade unions had argued that they considered the 1975 indexing formula as "nonnegotiable" and that reductions in expenditures should be made elsewhere Recently, however, the official program of the new Italian Government included as one of its stated objectives a revision of the indexing formula to help control the escalating social security deficit

In the meantime, ongoing discussion of the indexing formula and the deficit has led to an examination of other areas of social security in which economies might be made Among these are (1) programs for the self-employed, (2) disability pensions, (3) unified collection of payroll tax contributions, and (4) freezing cost-of-living increases into Government bonds

Other Proposals

Attention is being given to the special systems for the self-employed that have been accumulating very large deficits These deficits are caused by contribution rates that are excessively low in terms of the benefits received This problem is especially significant because in Italy almost one-third of the labor force is composed of self-employed individuals and those in family businesses The special systems for the self-employed will probably be reformed in the near future, and a substantial increase in contributions will no doubt be included in the reform

Another area of concern is the disproportionate rise in the number of disability pensioners whose number now equals 25 percent of the active labor force Provisional Official statistics[5] for 1976 indicate that out of a total of 12 3 million pensions paid by all old-age, invalidity, and survivor programs in Italy, more than 5 2 million were disability pensions The civilian labor force numbered 19 9 million in 1976

The same law that established the 1975 indexing formula also made the disability definition more stringent by increasing the required loss of earning capacity from 50 percent to 67 percent Commentators feel that this change has had no significant effect on the number of new disability awards[6] It is believed that many disability pensions have been awarded as a way of providing benefits to retirement-age workers who fail to qualify for an old-age pension and as a palliative for chronic poverty and high unemployment in underdeveloped regions The reform of the disability program is a much-publicized proposal for curbing the rising tide of social security expenditures

A proposal has been made to unify under one agency the collection of contributions for the general compulsory system, the health insurance programs, and the workmen's compensation program These contributions are now collected separately by the agency concerned It is also hoped that, in addition to eliminating duplication of effort, such unification would thwart evasion of payment of social security contributions Such evasions currently cost the social security program 3,000–5,000 billion lire annually, according to various estimates

An austerity measure passed in late 1976 froze, for the period October 1, 1976–April 30, 1978, cost-of-living increases to workers and pensioners earning more than 8 million lire a year (about $9,000) in interest-bearing Government bonds that cannot be redeemed for 5 years If the worker or pensioner dies before the maturation date, the bonds pass to the heirs Those earning 6–8 million lire had only half their cost-of-living increases frozen in Government bonds Those earning less than 6 million lire continued to have their full cost-of-living increase paid in cash The law applied only to the flat-rate portion of the 1978 benefit increase, not to the percentage adjustment Since the average pension paid by the compulsory system for wage earners was just over 1 million lire a year in 1976, the recent freeze did not affect the average pensioner The measure was allowed to expire on April 30, 1978, but the issued bonds retain their 5-year maturation date

[5] Ministero del Lavoro e della Previdenza Sociale, "Rapporto sulla attività previdenziale e assistenziale 1976," in **Relazione Generale sulla Situazione Economica del Paese (1976),** Rome, 1977, page 704

[6] Giuseppe Minicone, "Spunti di riflessione in tema di riforma della tutela dell'invalidita, **Previdenza Sociale** (November–December 1976), pages 1697–1708