Social Security Trends and Developments in Industrialized Countries

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In the industrialized countries, there has been much discussion on the short- and long-range financing problems of their social security programs. Prolonged unfavorable economic conditions triggered by the oil price shocks of the 1970's and negative demographic trends have caused many of these countries to adapt their social security programs in an effort to maintain financial stability. System modifications that have occurred abroad over the past 10 years have centered primarily on changes in financing, adjustments for inflation, measures to slow down increases in health care expenditures, and steps to promote the hiring of the unemployed. This article examines some of the significant changes that have taken place in the social security programs of the Western European countries, Australia, Canada, Israel, and Japan since 1971.

Recent information suggests that the social security program expansion that characterized the industrialized countries during the past few decades is no longer the norm. Many of the problems that emerged in the mid-1970's following the 1973 oil-price shock—such as recession, inflation, and high unemployment—were presumed at the time to be temporary. Consequently, the initial response to these pressures was to bring additional income into the social security system.

Faced with increasingly more difficult economic conditions, many industrialized countries began adjusting their social security programs to respond to these pressing strains in a more severe manner than they did initially. Such adjustments became more important as the unfavorable economic conditions proved to be more deep rooted with the passage of time. In some countries, proposals for further program expansion have been set aside; in others, steps have been taken to shore up program financing while expenditures for existing programs have been curbed.

This article concentrates on trends and developments that have occurred in the social security programs of the industrialized countries (including the United States) surveyed since publication of the 1979 edition of the Social Security Administration's biennial publication, **Social Security Programs Throughout the World**. This article is based largely on information contained in the 1981 edition of this report, as well as on more recent legislation and other documentation.

Two major parts comprise this study: The first summarizes global trends in social security program growth from 1970 to 1975, thereby providing a perspective for evaluating more recent developments. The second part focuses on developments that have occurred since 1979. The period between the two later dates was characterized by slight curtailments in program growth, but is generally not the subject of this article.[1]

Social Security Trends, 1970–75

During the early 1970's, many countries continued to expand and improve social security programs that, for the most part, had been instituted since the end of World War II. The optimism and economic prosperity that preceded the oil-induced economic recession of 1973–74 accounted to a large extent for the program broadening that characterized this period. The oil crisis of 1973 and its aftermath of inflation and slow econom-

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[1] For further discussions on social security developments and trends during the period 1975–79, see Lois S. Copeland, "Worldwide Developments in Social Security, 1975–77," **Social Security Bulletin**, May 1978, pages 3–8, and Joseph G. Simanis, "Worldwide Trends in Social Security, 1979," **Social Security Bulletin**, August 1980, pages 6–9.

ic growth impacted adversely on many social security programs. Several countries addressed these problems with short-run solutions. All the countries presumed that the difficulties would be temporary.

In general, the first half of the 1970's marked a period of added programs and new provisions designed to (1) raise benefit levels to keep them in line with inflation, (2) provide for earlier and more flexible retirement, (3) improve health care, and (4) expand disability protection. This section outlines the significant trends that emerged in social security during this period.

Adjustment for Inflation

Concerned over the unfavorable effects of inflation on the purchasing power of pensions, several countries initiated procedures in the 1970's to adjust benefit levels (table 1). These procedures generally involved changes to the indexing mechanism or changes in benefit formulas.

Indexing. By 1975, about 20 industrialized countries were using some kind of indexing mechanism (mostly implemented between 1965 and 1970) to maintain the value of past earnings, benefits, or both.[2] The accelerated pace of inflation following the 1973-74 economic recession, however, forced many countries to reexamine the adequacy of their adjustment mechanisms. Several countries introduced automatic adjustments to replace periodic reviews made by advisory councils or legislative bodies. In 1975, for example, Australia adopted semiannual pension adjustments tied to price changes. Between 1975 and 1977, other countries added wage indexing on top of (Israel)—or in conjunction with (Italy)—price indexing, or used the more favorable of the two (United Kingdom). Several countries reduced the time lags both between reviews of benefit adequacy and between benefit increases and actual payment. Instead of reviewing benefit levels annually, the Canadian system at the end of 1973 not only instituted quarterly reviews, but also reduced the time lag between the changes in the index and increases in pension levels. About the same time, Austria and the Federal Republic of Germany also cut the time lag between index changes and increases in pension levels. Until the change, both Austria and West Germany determined adjustments in January of each year and had lags of 2 1/2 to 3 1/2 years (West Germany) and 2 to 3 years (Austria) between the average wage calculation and actual pension increases. The process was accelerated in both countries by making adjustments in July instead of waiting until the following January.

[2] For a detailed analysis of indexing mechanisms, see Martin B. Tracy, "Maintaining Value of Social Security Benefits During Inflation: Foreign Experience," **Social Security Bulletin**, November 1976, pages 33-42.

Benefit formulas. Another mechanism used to keep benefit levels in line with inflation was to revise benefit formulas so that pensions were based either on fewer years or on more recent (usually higher) earnings. The Portuguese system illustrates this approach: In 1974, the benefit formula became based on the last 10 years of earnings instead of on total years of contributions. In 1975, France began computing invalidity benefits on the highest 10 years of earnings rather than the most recent 10 years, partly because the disability itself could have led to a decrease in recent earnings.

Liberalizations in Pensionable Age

Until the 1960's, most programs provided full old-age pensions to persons aged 65 or older with 15 to 30 years of covered employment. Benefits claimed before the "normal pensionable age" generally were actuarially reduced. The sole exception that also permitted receipt of a full pension at an earlier age was for arduous or unhealthy work.

By the early 1970's, policies that provided for an earlier pensionable age with little or no financial loss compared with the normal, or full, benefit were adopted in a number of countries. Not only was there a trend toward lowering the general pensionable age, but also toward new opportunities for flexibility in retirement. By 1975, four Western European countries (Austria, West Germany, Italy, and Luxembourg) had adopted provisions providing for early retirement with full benefits for long service; two (Denmark and France [3]) had early retirement provisions for health reasons or prolonged illness resulting in partial disability; and four (Austria, Finland, France,[4] and West Germany) permitted early retirement for involuntary unemployment.[5]

In addition to changes in the pensionable age, new financial incentives to promote deferred retirement were also implemented. Norway passed legislation effective January 1973 that not only lowered the pensionable age from 70 to 67 but also provided for a pension increment of 3/4 of a percent per month for up to 3 years for delaying retirement beyond age 67.

Expanded Health Care

The 1970's was also a period of growth in health benefit programs. Although a large number of national

[3] In 1972, France liberalized the definition of disability for workers aged 60-64 from the previous 66 2/3 percent loss of working capacity to 50 percent. Under this provision, the pension amount is calculated as if the beneficiary were aged 65.

[4] The French benefit for involuntary unemployment is paid under the unemployment benefit program.

[5] For a detailed discussion of retirement practices, see Martin B. Tracy, **Retirement Age Practices in Ten Industrial Societies, 1960-1976** (Studies and Research No. 14), International Social Security Association, 1979.

Table 1.—Unemployment rates [1] and consumer price indexes [2] in 1971-81, selected countries

Country	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	Unemployment rate										
Belgium	2.2	2.8	2.9	3.2	5.3	6.8	7.8	8.4	8.7	9.4	11.6
Denmark	1.2	1.2	.7	2.0	4.6	4.7	5.8	6.5	5.3	6.2	8.3
France	1.6	1.8	1.8	2.3	3.9	4.3	4.8	5.2	6.0	6.4	7.8
Germany, Federal Republic	.7	.9	1.0	2.2	4.2	4.1	4.0	3.9	3.4	3.4	4.8
Japan	1.2	1.4	1.3	1.4	1.9	2.0	2.0	2.2	2.1	2.0	2.2
Netherlands	1.3	2.3	2.3	2.8	4.0	4.3	4.1	4.1	4.1	4.8	7.3
Sweden	2.5	2.7	2.5	2.0	1.6	1.6	1.8	2.2	2.1	2.0	...
United Kingdom	3.2	3.5	2.5	2.4	3.8	5.3	5.7	5.7	5.3	6.9	10.6
United States	5.9	5.6	4.9	5.6	8.5	7.7	7.0	6.0	5.8	7.1	7.6
	Consumer price index										
Australia	106.1	112.4	122.9	141.5	162.8	184.9	207.6	224.0	244.4	269.3	295.1
Austria	104.7	111.3	119.7	131.1	142.2	152.6	161.0	166.8	173.0	183.9	196.4
Belgium	104.3	110.0	117.7	132.6	149.5	163.2	174.8	182.7	190.6	203.4	218.9
Canada	102.8	107.7	115.9	128.5	142.3	153.0	165.2	180.0	196.6	216.5	243.3
Denmark	105.8	112.8	123.3	142.1	155.8	169.8	188.6	207.7	227.6	255.6	285.5
France	105.5	112.0	120.2	136.7	152.8	166.9	182.6	199.2	220.5	249.8	283.0
Germany, Federal Republic	105.3	111.1	118.8	127.1	134.7	140.8	145.9	150.0	156.1	164.7	174.4
Japan	106.3	111.5	124.5	152.7	171.2	187.7	202.9	210.6	218.2	235.6	247.2
Netherlands	107.5	115.9	125.2	137.3	151.3	164.6	175.1	182.3	190.0	202.3	215.9
Sweden	107.0	114.0	122.0	133.0	146.0	162.0	180.5	198.3	212.8	241.9	271.2
Switzerland	106.6	113.7	123.6	135.7	144.8	147.3	149.7	149.8	155.2	161.6	172.0
United Kingdom	109.4	117.2	127.9	148.4	184.4	215.0	249.2	269.9	306.0	361.0	404.0
United States	104.3	107.7	114.4	127.0	138.6	146.6	156.1	167.8	186.8	212.0	234.0

[1] Unemployment rates expressed as a percentage of the civilian labor force.

[2] For the consumer price indexes, 1970 = 100.

Sources: Data for unemployment rates from **Eurostat Review**, 1971-80, Statistical Office of the European Communities, November 1981, and **Eurostat Monthly Series**, European Community, Luxembourg, 1982. Consumer price indexes data from **International Financial Statistics Yearbook, 1977 Supplement** (Vol. XXX, No. 5) for annual data for 1971-76; **International Financial Statistics Yearbook, 1982**, for data for percent of change since 1976.

health insurance programs were already in operation by that time, new benefits and extended coverage features were added to many existing programs. Some examples include longer benefit periods for maternity benefits (France), the introduction of catastrophic health insurance (Japan), and the extension of coverage to previously excluded groups. West Germany, for example, began covering prisoners and France extended coverage to some groups of nonearners such as young persons looking for their first job.

This continual growth in health care programs was not without its financial consequences, however. During the mid-1970's, concern mounted over rising health care costs. In several countries (Austria, Australia, France, Japan, and the United States), commissions were established to study the problem of health care financing and various approaches were suggested or tried to restore financial equilibrium to the national health insurance programs. In some countries, these approaches involved using or increasing general revenue contributions or transferring surpluses from other social security components to the health insurance branch. Reorganization of the national health care system took place (the United Kingdom in 1974) or was under study (Italy and Switzerland). Most countries, however, relied on increased income from higher payrolls and contribution ceilings and occasionally on increases in the contribution rates themselves to offset rising expenditures.

Changes in Disability Programs

Expanded disability protection. In addition to expanding health benefit programs per se, many countries introduced or liberalized disability-related cash benefit programs in the 1970's. For example, in the area of cash sickness and long-term disability programs, some countries unified their programs covering short-term income loss due to sickness or injury by relaxing or eliminating the definition of job-related disability.[6] In this connection, Denmark brought together the payment of cash sickness and temporary work-injury benefits under one agency and equalized benefits for both contingencies.

During this period, several more countries joined those whose social security programs offered constant-attendance allowances.[7] These allowances are cash

[6] It was to the worker's advantage to show that the disability was work-connected since work-injury benefits were usually paid at a higher rate than general disability benefits.

[7] For a more thorough discussion of these benefits, see Martin B. Tracy, "Constant-Attendance Allowances for Non-Work-Related Disability," **Social Security Bulletin**, November 1974, pages 32-37.

benefits paid on behalf of the permanently disabled who require either full- or part-time care by another person. By enabling the disabled to receive this care at home, utilization of hospitals and nursing homes is reduced.

Coverage for those with limited work histories. During the decade, a tendency also developed toward relaxing the usual requirements for previous or current labor-force attachment for the receipt of benefits. One notable example of broadening the base of these programs lies in the disability area. Individuals disabled at a young age and women who stop work to raise a family and subsequently become disabled usually cannot satisfy the social insurance requirements calling for recent or significant past labor-force participation.

In the mid-1970's, Israel, the Netherlands, and the United Kingdom took steps to close the gap in coverage for these particular groups. In Israel and the United Kingdom, for example, homemakers who met stringent disability definitions and were unable to do their regular housework were made eligible for long-term disability pensions regardless of their previous labor-force attachment. In 1976, a Dutch law provided a cash benefit equal to the old-age benefit for disabled heads of families—including the self-employed and unemployed—and disabled single persons aged 17 or over—including those disabled since childhood. Before the change in the law, only employed persons were eligible for these benefits. The 1976 law also provided for rehabilitation benefits for homemakers but otherwise excluded married women and widows receiving survivor benefits because of the costs involved in providing this protection.[8]

This liberal approach to disability coverage occurred despite concern over program growth. Many disability programs expanded in terms of the number of pensioners as well as in benefit outlays. Several countries (Belgium, Finland, Italy, the Netherlands, Sweden, and the United States) undertook studies to determine the causes of program expansion. A variety of interacting factors were identified as contributing to the problem: Changes in the statutory disability definition, changes in other program provisions, economic conditions, demographic patterns, and public awareness and attitudes.[9]

[8] The 1976 Act was subsequently amended in 1979 to enable married women to qualify for cash benefits. Contained in the amending legislation was the stipulation that the disability must have actually resulted in income loss, and, in particular, on the condition that the insured had been employed or self-employed in the previous year. Thus, homemakers will still not normally qualify for benefits. The previous-employment condition does not, however, apply to those disabled at an early age.

[9] For a discussion of factors underlying disability growth in several European countries, see Lois S. Copeland, "International Trends in Disability Program Growth," **Social Security Bulletin**, October 1981, pages 25-36.

Recent Social Security Developments

As the programs continued to expand, the need for increased revenue became apparent in numerous countries. In fact, program expansion contributed to the financing problems many countries were experiencing, though other factors such as slow economic growth, prolonged high inflation, growing unemployment, and unfavorable demographic patterns certainly also played a role. Since 1979, program changes have reflected a considerable concern over financing. Program modifications have focused on new ways to increase revenues, to limit expenditures, or both. These changes are aimed at restoring the financial balance in the short run as well as ensuring long-range stability to offset anticipated unfavorable demographic ratios.

In most industrialized countries, particularly those in Western Europe, the number of younger workers compared with those over age 65 has been steadily declining since the 1950's. Table 2 shows that the worker/dependent ratio in some of these countries is already low compared with the ratio for the United States. Projections for 1980 showed three countries (Austria, Belgium, and Sweden) where the worker/dependent ratio was less than 3 to 1, while the projection for the United States was more than 4 to 1.

Although internationally comparable statistics showing contributor/beneficiary ratios are not available, it is known that the situation for social security is actually worse than that reflected in table 2. For example, most countries count the unemployed and persons with less than permanent disabilities as members of the labor force. Yet, the conditions affecting these individuals may in fact exempt them from actually making contributions. Furthermore, many beneficiaries over age 65 are housewives who have never worked and therefore did not contribute. Individual country statistics point to the seriousness of the situation. In 1978, France had a ratio of about 1.8 social security contributors to each old-age pensioner; in the United Kingdom, the ratio was 2.8 to 1 for the same year.

For some of the Western European countries such as Belgium, France, and the United Kingdom, the demographic problem was expected to peak around 1980 and either stabilize or improve slightly until the year 2000. For some non-Western European countries such as Canada and Japan, however, the forecast is for declines in the ratios by the year 2000.

Social security programs are thus trying to cope not only with sustained inflation and sharp rises in unemployment but also with the problem of aging populations.[10] The sections that follow highlight developments

[10] For more detailed discussion of the demographic problems in Europe, see Special Committee on Aging, U.S. Senate, **Social Security in Europe: The Impact of An Aging Population** (Committee Print, 97th Congress, 1st Session), December 1981.

Table 2.—Number of persons in labor force under age 65 for each person aged 65 and over, selected countries, 1950-2000

Year	Australia	Austria	Belgium	Canada	France	Germany, Federal Republic	Japan	Netherlands	Sweden	United Kingdom	United States
1950	5.0	4.5	3.6	4.7	3.9	4.8	8.5	4.9	4.1	4.2	5.0
1955	4.7	4.1	3.4	4.6	3.7	4.5	8.2	4.3	3.8	4.0	4.5
1960	4.6	3.8	3.2	4.8	3.5	4.2	7.9	3.9	3.5	3.8	4.2
1965	4.7	3.3	2.9	4.7	3.3	3.7	7.6	3.8	3.4	3.8	4.1
1970	4.9	2.9	2.8	4.9	3.1	3.3	6.9	3.6	3.2	3.5	4.2
1975	4.9	2.8	2.7	4.9	3.1	3.1	6.3	3.5	2.9	3.3	4.1
1980	4.7	2.8	2.7	4.9	3.1	3.1	5.7	3.4	2.7	3.2	4.1
1985	4.6	3.3	2.9	4.6	3.6	3.6	5.4	3.5	2.7	3.3	4.0
1990	4.4	3.3	2.8	4.4	3.4	3.5	4.9	3.3	2.7	3.3	4.0
2000	4.6	3.4	2.7	4.4	3.2	3.1	3.8	3.2	3.1	3.6	4.2

Source: Derived from International Labour Office, **Labour Force Estimates and Projections, 1950-2000**, second edition, 1977.

that have taken place in the programs of the countries surveyed. The nature of the key steps taken since 1979 involve changes in (1) financing, (2) adjustments for inflation, (3) retirement practices and employment incentives, and (4) health care programs.

Financing

To maintain financial stability in their social security systems, countries have sought increasingly to obtain additional revenues either by increasing the amount of earnings subject to social security payroll taxes (raising the contribution ceiling), raising the rate at which earnings are assessed, taxing benefits, or increasing other taxes.

Contribution ceiling. One method of increasing program revenues has been to raise the contribution ceiling. Since 1979, the ceilings in virtually all the countries surveyed have increased, usually because of the operation of automatic adjustment, or indexing, mechanisms. In some cases, ad hoc increases have been necessary to raise additional revenue. In Belgium, for example, the contribution ceiling has been increased in recent years beyond what was called for by the usual indexation formula triggered by a 2-percent increase in the consumer price index. In 1980, an ad hoc adjustment in the contribution ceiling for the Belgian disability insurance program raised the ceiling an additional 20 percent.

Another method for increasing revenues has been to adjust the contribution ceiling on a more frequent basis. This approach has recently been followed in France where, effective January 1982, the social security contribution ceiling is adjusted twice a year instead of only once. The major impetus for this change was the desire to put the timing of the contribution and benefit adjustments on an equal footing since benefits were automatically being adjusted twice a year. By adjusting the two ceilings at the same intervals, the time lag that has become ever more crucial with the persistence of inflation can be mitigated.

A third technique for raising revenue has involved the elimination of the contribution ceiling. Belgium moved in this direction in January 1982, when it eliminated the ceiling for the cash sickness, maternity, and disability benefit programs for salaried employees. Effective April 1981, the ceiling for the unemployment benefit insurance program was provisionally removed for employees but not for employers, with the stipulation that it can be reinstated if unemployment falls below a specified level. Furthermore, effective October 1982, the contribution ceiling for salaried workers under the old-age and survivors pension insurance programs was also removed. As a result, contributions for all program branches except unemployment benefits are now based on total earnings.

Payroll tax rate. Another common approach for generating increased revenues has been to raise the rate at which earnings are taxed for social security purposes. Most countries (including Austria, Belgium, Finland, France, Italy, Japan, the Netherlands, Norway, the United Kingdom, and the United States) have recently increased the payroll tax contribution rate, usually for both employers and workers. In Italy, only the employers' contribution rate was raised.

On the other hand, a few countries have reduced the employer contribution rates for some programs, partially to offset increases occurring in others. In Israel, the employer contribution rate decreased slightly for the old-age, survivors, and disability insurance component but increased 1.3 percentage points for medical care.

The reduction in the employers' share of the social security payroll tax rate also reflected concern over growing unemployment and increased labor costs and their subsequent effects on exports. To help reduce unemployment and to make its goods more competitive internationally, the Belgian government has shifted more of the burden of social security contributions to

capital-intensive industries, thus reducing labor costs. In June 1981, the employer payroll tax rate for wage earners was lowered by 6.17 percentage points for all programs. Revenue losses are offset by an increase in the value-added tax (VAT) on luxury goods. This special government subsidy marks the first time the Belgians have used the VAT for such purposes.[11] In the United Kingdom since 1979, only the employee contribution rate has increased. In fact, in August 1982 the employer surcharge for all programs was reduced by 1 percentage point, from 3.5 percent to 2.5 percent.

Table 3 shows the combined employer-employee contribution rates for each of the major social security programs in ten countries. Table 4 shows the social security contribution rates for various years since 1971 and emphasizes the rates for the old-age, disability, and survivors insurance and health insurance programs. Going back 10 years at intervals, one can discern certain patterns in financing. In the Netherlands, the total employer/employee contribution rate increased sharply, the result primarily of a near doubling in the old-age, survivors, and disability insurance rate from 16.70 percent in 1971 to 32.45 percent in 1981. In contrast, West Germany and the United States had only slight increases in their old-age, survivors, and disability insurance program contribution rates.

Taxing benefits. Another technique countries have used to raise social security revenues is to tax previously exempt sources or to increase the share of revenues generated from supplemental sources. Increasingly, the primary areas for this new revenue are the social security benefits themselves. In particular, the benefits now subject to social security contributions are old-age pensions, disability pensions and cash sickness benefits, and unemployment benefits.

•**Old-age pensions.** Since 1980, both Belgium and France have taxed old-age pensioners (except those with low incomes) to finance programs providing for their health care. Belgian pensioners pay 1.8 percent (2.18 percent from October 1980 to December 1981) of their total old-age (including private pension) and survivor benefits to the health care program. Since July 1980, the French have contributed 1 percent of their old-age benefits and 2 percent of their private pension benefits (or 2 percent of the early retirement benefits received by unemployed older workers) to the health insurance component.

West Germany has also moved toward requiring that pensioners contribute toward the cost of their health care. At present, West German pensioners make no health insurance contributions (instead, the pension funds transfer an amount equal to the retirees' contributions of 11.8 percent to the various health insurance funds). The seriousness of the health care financing problem, however, led to several legislative changes in 1981 and 1982. Among these changes was a requirement that pensioners would begin paying 5.9 percent of any private pension benefits and 0.83 percent of any lump-sum private benefits for their health insurance beginning in January 1983.

The legislation further stipulated that pensioners would also pay the total 11.8 percent contribution

[11] For further analyses, see William J. Lessard, Jr., "Social Security and Economic Reforms in Belgium," **Benefits International** (London), March 1982, pages 26–31.

Table 3.—Employer and employee social security payroll contribution rates in selected countries, January 1981

Country	All programs		Old-age, disability, and survivors insurance program		Health insurance		Work injury		Unemployment		Family allowances	
	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
Austria	26.10	14.20	11.35	9.75	[1] 6.95	[1] 3.15	1.50	0	1.30	1.30	5.00	0
Belgium	26.82	10.10	8.86	6.25	5.59	[1] 2.95	3.85	0	1.27	.90	7.25	0
France	37.41	11.14	8.20	4.80	13.45	5.50	4.00	0	2.76	.84	9.00	0
Germany, Federal Republic	18.125	16.625	9.25	9.25	5.875	5.875	1.50	0	1.50	1.50	0	0
Japan	12.80	10.05	[2] 5.30	[2] 5.30	4.20	4.20	[3] 2.30	0	.90	.55	.10	0
Netherlands	29.225	25.625	12.90	19.55	13.65	5.30	...	...	.775	.775	1.90	0
Sweden	32.65	.11	21.15	0	10.05	0	.60	0	.40	[4] .11	0	0
Switzerland	8.45	9.15	4.70	4.70	0	4.20	1.50	0	.25	.25	2.00	0
United Kingdom	13.70	7.75	...	...	...	...	...	...	...	...	...	...
United States	11.45	6.65	5.35	5.35	[5] 1.30	[5] 1.30	1.90	0	2.9	0	...	...

[1] Contribution rate for wage earners.

[2] Rate for men in noncontracted-out plan.

[3] Represents rate for manufacturing of metal products, including metal working industry. Source: **Hoken to Nenkin no Doko**, 1980.

[4] Estimated percentage based on contributions per member per year and on estimated average salaries. Source: **Statistisk arsbok**, Stockholm, 1981.

[5] Includes the Medicare program only.

Source: **Social Security Programs Throughout the World, 1981** (Research Report No. 58), Office of Policy, Social Security Administration, 1982.

Table 4.—Social security contribution rates as percent of payroll, selected countries and years

Country	All programs [1]				Old-age, disability, and survivors insurance				Health insurance			
	1971	1975	1979	1981	1971	1975	1979	1981	1971	1975	1979	1981
Austria	34.80	33.80	38.20	40.30	17.50	17.50	19.50	21.10	7.30	6.30	10.10	10.10
Belgium	39.35	39.30	37.50	36.92	14.00	14.00	14.00	15.11	8.75	8.45	8.45	8.54
France	38.40	40.50	47.45	48.55	8.75	10.25	12.90	13.00	15.75	15.95	17.95	18.95
Germany, Federal Republic	27.90	31.83	33.78	34.75	17.00	18.00	18.00	18.50	8.10	10.53	11.28	11.75
Japan	15.30	17.32	20.57	22.85	6.20	7.60	9.10	10.60	7.00	7.60	8.00	8.40
Netherlands	39.40	47.10	50.91	54.85	16.70	21.10	28.05	32.45	15.25	20.00	19.06	18.95
Sweden	15.35	22.47	31.79	32.76	11.80	14.95	20.30	21.15	3.20	7.00	10.60	10.50
Switzerland	11.89	15.52	17.25	17.60	5.80	9.40	9.40	9.40	[2] 3.10	[2] 3.70	[2] 4.00	[2] 4.20
United Kingdom	10.30	14.00	20.00	21.45	...	...	...	...	...	...	...	...
United States	13.40	15.30	16.96	18.10	9.20	9.90	10.16	10.70	[3] 1.20	[3] 1.80	[3] 2.10	[3] 2.60

[1] Includes any or all of the following programs: Old-age, disability, and survivors; sickness and maternity; work-injury; unemployment; and family allowances. In cases where contribution rates differ for wage earners and salaried employees, the rate given is for wage earners.

[2] Estimated. Actual cost depends on level of benefits and services insured and is estimated to be 3.0–4.5 percent.

[3] Includes the Medicare program only.

Sources: **Social Security Programs Throughout the World, 1981** (Research Report No. 58), Office of Policy, Social Security Administration, 1982, and **The Cost of Social Security**, International Labour Office, 1981.

from their social security retirement benefits directly to the health insurance funds and then have the contribution fully reimbursed by the pension funds. The purpose of this seemingly administrative change was to make pensioners more aware of health care costs and to introduce a gradual cut in the subsidy of 1 percentage point per year beginning in 1985. As the financing problems worsened, legislation moved up the beginning of the cut to January 1983. By 1986, retirees will be paying 4 percent of their social security benefit toward the cost of health insurance.

In October 1982, a new West German government took office and postponed the effective date for all pensioner health insurance contributions from January 1983 to July 1983. The government, however, has indicated its intent to pursue the previous plans for pensioner contributions from private insurance and social security benefits toward health care costs.

•**Cash sickness and disability benefits.** Effective April 1982, Belgian disability and early retirement benefits above a specified limit are taxed at the rate of 3.5 percent, with the proceeds going toward the old-age and surviving spouse pension program. Similarly, the Dutch government is seeking to levy social security contributions on cash sickness benefits as of January 1983. However, strong opposition, particulary from the Dutch trade unions, makes implementation uncertain.

•**Unemployment benefits.** Since June 1982, French unemployment benefits above the minimum wage have been taxed at the rate of 1 percent. The revenue from this contribution goes toward financing the health insurance program (including medical care, cash sickness and maternity benefits, and disability pensions).

Other taxes. France has also sought to increase revenues by doubling—from 6 percent to 12 percent—the tax levied on automobile insurance premiums that is used to help finance health insurance. At the same time, the service fees paid to insurance companies to collect this surcharge were reduced from 1.5 percent to 1.0 percent of the automobile insurance tax. Another revenue source is the previously indicated Belgian use of increases in the VAT on luxury items to compensate for losses resulting from the reduction of the employer payroll tax rate for wage earners.

Automatic Adjustments

Concern over the effects of inflation on the purchasing power of pensions led to the adoption of social security automatic indexing provisions in the early 1970's. The continuing inflation of the 1980's, however, has necessitated even further changes in a number of the indexing mechanisms.

Generally, the modifications involve increasing the frequency of benefit adjustments, thus better maintaining the value of pensions in light of cost-of-living increases. Australia changed the benefit adjustment from once a year to twice a year, as of May 1980. Italy went from annual to biannual adjustments in 1980 and subsequently to triannual adjustments in 1981. Recently, however, the effects of sustained inflation on the financial stability of the systems have caused great concern as the more frequent need for cost-of-living adjustments has strained social security funds.

Of late, various steps have been taken to change the frequency or method of adjusting benefits so as to limit the amount of increase, thereby reducing expenditures. In some countries, the cost-of-living adjustment has been delayed by a few months. In others, the benefit

level has been frozen for a specific time. In 1978, West Germany suspended scheduled pension adjustments and substituted smaller fixed percentage increases. This suspension of the normal formula continued through the end of 1981. In October 1982, the new West German government announced its plans to defer until July 1983 pension adjustments originally scheduled for January 1983. Also in October 1982, Denmark suspended the indexed adjustments of social security benefits until 1985.

The recent Canadian Budget proposal calls for limiting the adjustment of the universal Old-Age Security (OAS) benefit to 6 percent in 1983 and 5 percent in 1984. The income-tested Guaranteed Income Supplement will continue to be fully indexed, however, and recipients of both benefits will be compensated for any losses from reduced OAS benefits.

Another method of cutting expenditures has been to change the adjustment method to a slower rising index. In the United Kingdom, pensions have been linked since November 1980 to movements in prices rather than to the higher of wages or prices, as was previously the case, since prices there are rising more slowly than wages.

Sweden has reduced outlays by removing certain factors from the price index it uses to adjust benefit amounts. By taking out of the index changes in energy prices, indirect taxes, and import duties, among others—items whose prices have increased more rapidly than others—the amount of benefit increase was lessened.

Social Security and Employment Incentives

The oil crises of 1973 and 1979, and the subsequent recession and inflation, have contributed to a rapid rise in the number of unemployed in most Western European countries, as well as in the United States (see table 1). The high rate of long-term unemployment has had serious consequences for social security programs. It strains the unemployment funds and increases demands for benefits in the other programs. At the same time, it reduces the number of contributors to the social security programs, thus decreasing the flow of revenue.

Among the Western European countries, Belgium, France, the Netherlands, and the United Kingdom have been especially hard hit by unemployment (which reached levels of 11.6 percent, 7.8 percent, 7.3 percent, and 10.6 percent, respectively, in 1981).[12] The problem has been particularly acute among certain groups in the population—namely, those under age 25, those over age 55, and women (especially those in the age groups just mentioned).

[12] These figures represent the total average rate as a percentage of the civilian labor force in 1981. See **European Economy** (Supplement A No. 8-9), Commission of the European Communities, 1982.

Some countries are particulary worried because many of the unemployed are young persons who cannot obtain their first job. The concern is, therefore, not just over the current loss of revenues to social security but also over the long-range consequences for systems already plagued by unfavorable demographic ratios. Thus, some countries have opted to give priority to job-creation measures even if this leads to increased financial strains on social security programs. The steps taken to alleviate unemployment involving adjustments in social security programs include the following measures: (1) Replacing older workers with younger workers, (2) reducing social security contributions for new employees, (3) reducing the pensionable age, and (4) changing the retirement test. Recent provisions to achieve these objectives are discussed below.

Replacing older workers with younger workers. One way of dealing with unemployment is to encourage early retirement and replace older workers with younger ones. Effective 1982-83, the French government may enter into "solidarity contracts" with private companies. These contracts are funded through the unemployment benefit insurance program and general revenue subsidies. The contracts provide for the payment of early or phased retirement benefits to employees aged 55 or older who stop work—either partially or totally—if they are replaced by unemployed persons. Under this program, an older worker who retires totally receives a benefit of 70 percent of his or her average gross salary in the preceding 12 months, payable to age 60. After that time, the benefit is typically replaced by an income guarantee under the unemployment benefit scheme. If the worker changes to half-time employment, the benefit amounts to 30 percent of average gross salary during the preceding 12 months.

Denmark, too, enacted legislation in 1979 to encourage older workers to voluntarily leave the work force and thus create new jobs for the young. This early retirement benefit, payable out of unemployment benefit insurance funds, is provided to workers aged 60 who have been members of an unemployment fund for 5 of the preceding 10 years and have ceased all employment.

The United Kingdom has also continued its efforts to reduce unemployment. One such step that has a bearing on social security concerns is the Job Release Scheme (JRS). Introduced in 1977, this plan pays a weekly tax-free allowance to older workers who retire 1 year before reaching pensionable age (65 for men, 60 for women). For the worker to receive this special benefit, the employer must agree to both the worker's release and the hiring of a registered unemployed person, although not necessarily to fill the same position. Recent legislation lowered the male eligibility age for the JRS allowance from 64 to 63 in November 1981 and to 62 in February 1982, effective until March 1984. (Women continue to be eligible at age 59 and disabled men at age 60.) The in-

tent of these age reductions is to encourage the large number of older workers due to retire in the mid-1980's to leave their job earlier.

Reducing social security contributions for new employees. Several Western European countries have introduced financial incentives to encourage the hiring of new workers. One such method is to reduce or excuse the employer's share of social security contributions for new employees for a given period of time.

The French "solidarity contracts" with private enterprise are a two-pronged attempt to give employers incentives to hire new workers. First, by establishing (in September 1981) a gradual reduction in the workweek—from 40 hours to the current 39 hours and eventually to 36 hours by September 1983—the government hopes new jobs will be created. Second, companies that hire young or unemployed workers because of the shorter hours will receive temporary reductions in the employer's share of social security contributions for each new employee. Thus, if a company hires more employees because of a reduction of 2 to 3 working hours per week, 75 percent of the employer's share of social security contributions for each new job is waived during the first year, and 50 percent during the second. If working hours are cut by 3 or more hours per week, 100 percent of the employer's social security contributions are waived for each new employee during the first year and 75 percent during the second. The effective hiring period for this program is from September 15, 1981, to September 15, 1983.

Besides these contracts, the French government has also created National Employment Pacts to encourage the hiring of certain groups of unemployed persons, particularly youth and women. Since the First Pact began in July 1977, there have been many variations concerning the eligibility of employers, the amounts of the subsidy, and the target groups involved. Nevertheless, the primary purpose remains the promotion of hiring through the use of exemptions of the employer's share of the social security payroll tax.

Introduced in July 1979, the current Third Pact is targeted at persons under age 26 who have finished school, apprenticeship, vocational, or military training within 2 years of July 1981; individuals aged 45 or over who have received unemployment benefits for at least a year; and certain categories of single women. The employer must offer a minimum 1-year contract to the individual involved as well as meet certain other criteria. In exchange, 50 percent (100 percent for an apprentice) of the employer's share of social security contributions for the employee is excused for 1 year.

Belgium has adopted similar measures to deal with its worsening unemployment situation. The government's latest efforts in this area were authorized under the temporary emergency powers given by Parliament to enact economic reform measures without legislation. The Belgian plan exempts employers who permanently hire unemployed youths under age 25 from the necessity of making their share of social security contributions for 2 quarters.

The United Kingdom recently has also taken several steps to reduce the high unemployment rate, particulary among young people. The Youth Training Scheme will offer young school leavers guaranteed training programs for at least 1 year. Beginning in September 1983, 16-year-old school leavers (and by 1985, 17-year-olds) will be eligible for the program. An employer who sponsors a trainee receives a fee from the government as well as a waiver of the firm's share of social security contributions on behalf of each trainee. In turn, the employer must pay the trainee a specified allowance. Although the firm is not obligated to offer a permanent job after program completion, it can hire the youth at any point during the training.

Lowering the pensionable age. Effective April 1983, France is scheduled to lower the eligibility age for a full pension from 65 to 60 with 37.5 years of contributions. A person meeting these criteria can claim a full pension equal to 50 percent of average annual salary during the highest 10 years of revalued earnings instead of the 25 percent payable to those who now retire at age 60. Pensions are proportionally reduced, however, for fewer years of coverage. The maximum benefit possible is 50 percent of average earnings, regardless of whether the person continues to work past age 60. At present, the pension for those aged 60 with 37.5 years of contributions is 25 percent of average revalued earnings with a 5-percent increase for each year the pension is deferred beyond age 60 (that is, 30 percent at age 61; 50 percent at age 65; and 75 percent at age 70 and so forth).

This French reform is not without its problems. No decision has been reached as to how social security will fund the measure. Furthermore, the compulsory private pension plans must integrate the lower retirement age into their programs by 1983. Additionally, the government's plan for a 70-percent replacement rate at age 60 for the social security benefit and the private pension combined has led the private pension funds to warn of large increases in their contribution rates.

In West Germany, provisions for special retirement benefits as early as age 58 for women and age 60 for men are under consideration. Normal pensionable age in West Germany is 65 for men and 60 for women, but many persons retire earlier due to a variety of flexible retirement features. The new proposal would pay a special benefit equal to two-thirds of net annual income until attainment of normal pensionable age. The cost of the plan would be divided equally between the employer and the government. The government's share would be funded through an increase in the VAT, an idea that is presently drawing strong opposition.

Denmark also is discussing a lowering of the pension-

able age for social security benefit entitlement (currently age 67) because of the government's plans to lower the pensionable age from 67 to 65 for civil servants. In a related development, the main private employers association in Denmark has recommended the adoption of a phased retirement plan similar to the Swedish partial pension system.[13] Under the Danish plan, an employee aged 60 or older could work part time until age 67 and receive a partial pension.

Changes in the retirement test. Along with lowering the pensionable age to encourage older workers to vacate jobs, countries have also made changes in their retirement test to discourage old-age pensioners from continuing to work part time. In the United Kingdom, legislation in 1980 abolished automatic increases in the allowable earnings for pensioners who continue to work. As a result, the maximum exempt amount for receipt of a full pension has been frozen at 452 per week.[14]

In France, effective April 1983, retirees must stop all paid work with the former employer to quality for an old-age pension. Previously, no limitations were placed on a pensioner's work activity. The pensioner may, however, accept employment elsewhere, providing the pensioner and the new employer make contributions to the unemployment benefit insurance fund.

Health Care Programs

The industrialized countries have been trying to cope with rising health care costs for some time. Recent developments in this area often have involved revisions in financing various aspects of the country's health care program. The Belgian, French, and West German changes that require pensioners to contribute toward their health care have been noted. In addition to utilizing previously untapped revenue sources, several countries are also seeking ways to cut health care expenditures and are raising tax rates and contribution ceilings.

One of the most significant changes occurred in Australia in September 1981 when the government finished a basic dismantling of the national health service started in December 1975. (Called Medibank and financed out of general revenues, this system initially covered all residents for 85 percent of approved doctors' charges, provided for free public hospitalization, and provided treatment by a hospital-appointed doctor.) A series of changes designed to restructure the whole health insurance program has been implemented. The latest effort in September culminated in a new policy under which only old-age pensioners, the unemployed, and persons with limited means will continue to receive government-paid health care benefits for 85 percent of the costs. About 80 percent of the population is therefore expected to join government-subsidized private health insurance funds, which will cover approximately 85 percent of the medical expenses of the subscribers. Since July 1981, the subscribers can claim a tax rebate equal to about one-third of the basic insurance premium cost.[15] Should the individual not join, he or she would pay 100 percent of all medical expenses.

Other direct methods for trimming health care expenditures involve the introduction or increase of patient cost-sharing for specific types of care, limiting or cutting back on cash sickness benefits, or both. Japan in 1981 raised the patient's cost-sharing for both in-hospital and outpatient care. This curbing of health care expenditures was accompanied by increases of up to 0.55 percent for Employee Health Insurance[16] in the combined contribution rate and also rises in the contribution ceiling. Belgium has also attempted to reduce expenditures by raising the copayment for medical care and prescription drugs and has initiated efforts to increase revenues. In West Germany, new plans call for the introduction of patient copayments for the first week of hospitalization, an increase in the copayment amount for prescriptions, and the exclusion of certain types of drugs from reimbursement.

Countries are also considering steps to reduce expenditures for cash sickness programs. Denmark and the Netherlands have drafted legislation to reduce costs by increasing the waiting period before benefits become payable or by reducing the actual benefit amount. The Danish law introduces a 1-day waiting period before payment of cash sickness benefits and increases the employer's responsibility for payment of these benefits from 5 weeks to 13 weeks. The Dutch government proposal would delay the number of waiting days from the current 2 to 5, during which time the employer would pay cash sickness benefits.

In the United Kingdom, the earnings-related supplements to cash sickness, maternity benefits, and to the other short-term benefits such as work-injury and unemployment were reduced in January 1981 and eliminated entirely the following year. The government also has new proposals concerning the cash sickness program. Under current practice, many employees actually receive two cash sickness benefits—one from social security and additional sick pay from the employer. Furthermore, the social security cash sickness benefit is presently not taxable as income, thus creating a situation where the employee is often financially better off sick than at work. The government has proposed a few different plans, but all of them would (1) transfer bene-

[13] For an analysis of the Swedish program, see Michael D. Packard, "Retirement Options Under the Swedish National Pension System," **Social Security Bulletin**, November 1982, pages 12–22.

[14] On September 28, 1982, £1 equaled $1.75.

[15] The basic annual family premium costs approximately $550.

[16] This insurance covers employees in firms with five or more workers.

fit payment responsibility to the employer for the first 8 weeks of illness, (2) eliminate the social security cash sickness benefit when there is employer-paid sick pay, and (3) tax all sick pay as income. The proposals differ mainly on what percentage of employer costs would be reimbursed by reductions in their social security contributions. The government intends to have a sick-pay plan fully implemented by April 1983.

Summary and Conclusions

Social security developments in the industrialized countries in recent years are in marked contrast to those of a decade ago. While countries were expanding and liberalizing their programs 10 years ago, today they are retrenching. The reasons are chiefly economic—sustained inflation, high unemployment, and limited economic growth rates—coupled with unfavorable demographic patterns.

The outlook for the future is for increased belt-tightening, particulary in the areas of adjustment for inflation and in health care. Moreover, the unemployment situation, especially as it involves youths who cannot obtain first jobs, will continue to be of immediate and long-range concern to social security program planners in the industrialized countries.