Notes and Brief Reports

Worldwide Developments in Social Security, 1981–83*

The year 1983 marked the 100th anniversary of the first social security program, inaugurated by Germany as a sickness insurance program. In the following year, 1884, Germany introduced a work injury program and other Western countries quickly established their own social insurance programs. Since 1940, these developments have been registered in successive editions of the Social Security Administration's biennial chartbook, **Social Security Programs Throughout the World.**

Types of Programs

The definition of the kinds of measures that are included in a "social security" program, as distinguished from private or group measures of protection, varies somewhat from country to country. Nevertheless, fairly widespread agreement exists as to the chief characteristics of such programs. Thus, the term "social security" in the context of this note refers to programs established by Government statutes that (1) insure individuals against interruption or loss of earning power and (2) that compensate for certain costs arising from marriage, birth, illness, and death. Cash allowances for the maintenance of children also come within this definition. Protection of the insured person and his or her dependents is usually provided either in the form of cash payments to replace at least a portion of lost income or as services, such as those for hospitalization, medical care, and rehabilitation. Another principal characteristic of social security programs is the approach used in providing the cash payments, which is normally either employment-related, universal, or means-tested. Under the first two approaches, the insured person and his or her dependents and survivors may claim benefits as a matter of right. Means-tested benefits are administratively determined.

The scope of social security in **Social Security Programs Throughout the World** is basically the broad definition used by the International Labor Organization and includes the five main branches of social security: (1) old-age, invalidity, and survivors insurance; (2) sickness and maternity coverage; (3) work-injury protection; (4) unemployment insurance; and (5) family allowances.

Recent Developments

The 1983 edition of this reference work[1] provides information on 140 countries or territories having some form of social insurance program. The following tabulation shows the total number of countries listed in various editions of the chartbook from 1940 to 1983.

Type of program	1940	1949	1958	1967	1977	1983
Some type of program	57	58	80	120	129	140
Old-age, invalidity, and survivors	33	44	58	92	114	130
Sickness and maternity	24	36	59	65	72	85
Work injury	57	57	77	117	129	136
Unemployment	21	22	26	34	38	40
Family allowances	7	27	38	62	65	67

Traditionally, a work injury program has been among the first phases of social security established in a given country. In 1983, 136 of the 140 countries with some type of program had this coverage. The tabulation also shows that the greatest amount of growth in social security systems took place in the 1960's and early 1970's, when the industrialized countries, in particular, added many new programs. The slowed rate of growth in social security since the late 1970's is attributable primarily to the worldwide economic situation, but also to the fact that most countries had already instituted some form of social security protection. In the industrialized countries, in particular, recent developments reflect increasing concern with escalating program costs and have tended to concentrate on reducing or containing social security expenditures.[2] Thus, most new program additions have occurred in the developing countries, where efforts have been made to increase coverage of the population and to improve benefit levels.

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[1] **Social Security Programs Throughout the World, 1983** (Research Report No. 59), Office of Research, Statistics, and International Policy, Office of Policy, Social Security Administration, 1984.

[2] For a further discussion of financing changes in the industrialized countries, see Ilene R. Zeitzer, "Social Security Trends and Developments in Industrialized Countries," **Social Security Bulletin**, March 1983, pages 52–62.

New Programs

Information on four additional countries has been added to the current edition of the chartbook. Grenada introduced a new social security system in 1983 and Papua New Guinea implemented its provident fund in 1981. The other two additions—Antigua-Barbuda and Belize—are newly independent and were thus included in the 1983 edition. Examples of countries that have added new branches to their existing social security systems include Barbados (unemployment insurance), Belize (work injury), and Nicaragua (income-tested family allowances). Entirely new programs were created to replace existing ones in Burundi (old-age, survivors, and disability insurance—OASDI—and work injury) and in the Central African Republic (OASDI). Guinea created a new National Social Security and Pensions Fund by unifying the Civil Service Fund with the Social Security Fund. Gabon has set up a totally separate system for the self-employed and for workers under contract to the state. This system provides OASDI, maternity, work injury, and family allowance benefits for the abovementioned categories of workers as well as family allowances and medical care benefits for the indigent. Three countries established special income or means-tested programs under social security to help those in need of assistance: Greece instituted a new noncontributory old-age pension for resident nationals over age 70 who meet an income test and are otherwise ineligible for a pension, and both Mauritius and Tunisia adopted means-tested unemployment assistance programs for heads of households who lose their jobs.

Several countries added new provisions under existing programs. Among these, a few countries broadened their old-age program to include the payment of survivor benefits. Both Cape Verde and Pakistan provide survivor benefits for the first time and Burundi and Guyana now pay periodic survivor benefits instead of a lump sum. Among the more industrialized countries, Iceland added maternity protection with a new parental cash benefit payable in general for a maximum of 3 months, Israel merged the income-tested supplement administered under social security with public assistance, and Italy added a means-tested supplementary family allowance for low-income families to the regular family allowance program.

Changes in Coverage

In the industrialized countries, social security coverage usually extends to the entire working population except when certain occupational categories are protected under separate programs. A few notable extensions of coverage occurred in the industrialized countries. In the Federal Republic of Germany, compulsory OASDI coverage for self-employed artists and writers was implemented, and in Portugal the self-employed were included in the general OASDI program instead of under the previous special system. Coverage is mandatory in Switzerland after January 1, 1984, for all employees under the new work accident insurance program (with voluntary affiliation available for the self-employed).

In the developing countries, however, coverage usually is not broadly based and is often restricted to workers employed by larger firms in urban areas. Large sectors of the population such as the self-employed, students, casual laborers, and, most significantly, agricultural workers may be covered only partially or not at all. Therefore, many developing countries have begun to gradually expand coverage to include additional categories of the population under one or more branches of social security. Thus, coverage under OASDI was broadened to include all workers in paid employment in Nicaragua (with voluntary affiliation available for the self-employed, agricultural landowners, and uninsured workers who were previously covered), workers in firms with 10 or more employees in Bahrain, employees earning more than 1,000 rupees a month (about U.S. $79) in Pakistan, and the self-employed in Kuwait. OASDI and health care coverage have been extended to students in Brazil, employees below age 18 in Colombia (under special provisions), and agricultural and forestry workers in Morocco. In South Korea, workers in firms with 10 or more employees are now covered against work injury, and those in firms with 16 or more employees are insured for sickness and maternity benefits. Sickness and maternity coverage is also being extended to rural areas in Mexico (with health care facilities in towns of 2,000 or more persons as a national goal). In the Seychelles, 95 percent of the population is protected under a newly enacted subsistence unemployment benefit program.

Civil servants are often covered in many countries under totally separate systems, but this policy is being reversed in some instances. Thus, the Central African Republic's new OASDI program includes coverage for civil servants (as well as teachers and domestics). In the United States, Federal employees hired after December 1983 are covered under the general social security program, and all Federal employees must contribute toward Medicare hospital insurance coverage as of January 1, 1983.

Changes in Benefit Amounts

Increases in benefit amounts generally reflect inflationary trends. The resulting rise in amounts payable usually applies to both pensions in force and new pensions. In many countries, particularly the industrialized ones, benefit amounts are linked to changes in the cost of living or changes in wages by automatic indexation provisions.

One of the principal means used to change benefit levels in many countries is to alter the adjustment mechanism for earnings taken into account for benefit purposes. By increasing the frequency of benefit adjustment, social security programs help their pensioners keep pace with inflation. Thus, in Cyprus earnings subject to contributions and basic pension amounts are now adjusted every year instead of every 2 years and a 13th-month benefit has been added. Iceland switched from ad hoc to automatic adjustment of the wage index on which benefits are based, and Nicaragua changed to 3-year adjustments from the previous practice of making adjustments on an irregular basis. Italy has made several changes, including the adjustment of OASDI benefits every 3 months (instead of every 4 months), the revaluing of earnings for cost-of-living changes (previously, there was no revaluation), and the adjustment of long-term work-injury benefits annually (instead of triennially). Mexico also has changed to annual benefit adjustments for OASDI and permanent work-injury benefits (instead of making such adjustments every 5 years). Other countries, however, rely on either periodic adjustments or occasional ad hoc changes to help maintain the value of pensions during inflationary periods. Some examples of countries that have raised benefit amounts on an ad hoc basis since 1981 include Bermuda (for the flat-rate old-age, invalidity, and survivors benefits), Jamaica (flat-rate old-age, spouse's supplement, and survivors benefits), the Philippines (old-age benefits), the Seychelles (OASDI, sickness and maternity, and work injury benefits), South Africa (OASDI), and Uruguay (OASDI).

On the other hand, several countries increased the benefit amounts by changing the benefit formula—that is, by changing the method of calculation for the payment of benefits. Among these nations were the Bahamas (invalidity), Barbados (sickness, maternity, and work injury), Cape Verde (old-age and invalidity), the Congo (OASDI), Costa Rica (OASDI and work injury), France (old-age and survivors), Greece (minimum old-age and survivors), Guyana (old-age and survivors), Panama (work injury), Poland (old-age and survivors), and Portugal (OASDI and unemployment). Italy calculates old-age benefits on the basis of average earnings in the last 5 years of work (instead of the highest 3 of the last 10) and Uruguay now bases its OASDI benefit calculation on average earnings in the last 4 instead of the last 3 years.

Other Changes

Retirement age. As in previous years, a number of countries took steps either to reduce the retirement age for everyone or to permit earlier retirement in special circumstances. Since 1981, two countries have lowered the retirement age for all insured persons. In Cape Verde the retirement age is now 65 for men and 60 for women with 36 months of contributions rather than age 70 for both men and women after 10 years of contributions. Nigeria lowered the retirement eligibility age from 55 to 50. In addition, other countries have made adjustments to the retirement age to take into account special conditions such as long service, long-term unemployment, or arduous working conditions. Thus, Yugoslavia has made retirement possible with no actuarial reduction at age 55 for men and 50 for women (with 35 and 30 years of contributions, respectively) and Tunisia also now permits workers with long service to retire early but with reduced benefits. Furthermore, Tunisia permits early retirement at full pension for the long-term unemployed and for mothers who have three or more children and have made at least 180 months of contributions. Because some occupations are more physically arduous than others, countries often permit workers in those categories to retire earlier than members of the general population. Thus, in Nicaragua, workers in "stressful occupations" may retire 5 years earlier at age 55 (previously only applicable to miners), and in Tunisia, early retirement with a full pension is now available to those who have been prematurely aged after a lifetime of arduous work.

In some European countries, high unemployment, especially among younger, inexperienced workers, has brought about incentives for early retirement, provided that young persons are hired to fill the vacancies created. For example, in Belgium, a full old-age pension is now available to men at age 60 if they are replaced by an unemployed person under age 30. (The voluntary prepension has been abolished.) In Spain, retirement is possible at age 64 if the employer hires and trains a young person. As part of a general policy to encourage employment, France is paying full pensions at age 60 (formerly at age 65) and has eliminated incentives of 5 percent a year for delaying retirement.

Only two countries have taken steps to raise the retirement age since 1981. In Zaire, the age is now 59 and will gradually be raised to 65 for men and to age 60 for women. In the United States, the 1983 Amendments to the Social Security Act provide for a gradual increase in the eligibility age for full benefits from age 65 to age 66 by 2009 and to age 67 by 2027.

Equal treatment. Since 1981, legislative activity concerning equality of treatment for men and women under social security has shown signs of slackening, partly because such treatment is already guaranteed by law in many countries. In addition, coping with the effects of growing unemployment and rapid inflation has become the primary concern of the social security systems in many countries, postponing for a time reforms in other areas. Nevertheless, a few countries enacted changes dealing with equal treatment.

The most significant development took place in Austria, where an amendment to the social insurance law mandating equal treatment of men and women went into effect on July 1, 1981. Under this legislation, both sexes are treated equally under the survivor programs, as dependents under the sickness and work injury programs, and for making voluntary pension contributions when out of the labor force for the purpose of caring for a child. Other developments concerning equalization of treatment took place in Japan and Kiribati. In Japan the payroll tax rate for women is gradually being increased to equal the rate for men. In Kiribati, women no longer have the right to withdraw pension contributions upon marriage. They had been allowed to do so because they were required to resign from employment when they married. This change was made to equalize the treatment of men and women.

Unemployment Insurance Legislation, 1983*

Two laws enacted in 1983 amended provisions of the unemployment insurance program. First, the Social Security Amendments of 1983 (Public Law 98-21), which was enacted in April, extended and modified the Federal Supplemental Compensation program and amended certain financing and coverage provisions of the unemployment insurance program. Second, the Federal Supplemental Compensation Amendments of 1983 (Public Law 98-135), which was enacted in October, further extended and modified the Federal Supplemental Compensation program as well as amended some unemployment insurance provisions.

This note briefly describes the unemployment insurance system, including the Federal Supplemental Compensation program in effect at the beginning of 1983, and explores the recent changes. It then outlines other changes in the unemployment insurance program that were included in the 1983 legislation.

The Unemployment Insurance System

Unemployment insurance is a national program established by Titles III and IX of the Social Security Act of 1935. Each State operates its own program under its own law, within national guidelines promulgated under Federal law. Under the program, covered workers who are involuntarily unemployed receive partial wage replacement benefits for specified periods, generally up to 26 weeks. These benefits are financed from State taxes paid by employers on workers' earnings up to a set maximum.

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Funding for administration of the program is provided through a corresponding Federal tax. The law requires that employers pay a 3.5-percent Federal tax on covered earnings. However, employers may credit State contributions made under an approved law towards Federal payroll tax. They may also credit any savings on the State tax under an approved experience rating plan. The maximum credit is 2.7 percent of earnings. Hence, the net Federal tax rate paid by employers is 0.8 percent.

Since 1958, a number of Federal programs have been created to supplement the State-operated programs during economic downturns. In 1970, a permanent extended benefits (EB) program was enacted, financed half by the Federal unemployment payroll tax and half by State payroll taxes. Congress made various changes during the 1970's, including the creation of temporary supplements to the extended benefits provided under the 1970 act. The 1982 Federal Supplemental Compensation (FSC) program, modified in 1983, is the most recent of these supplemental programs.

Under the permanent program for extended benefits, workers exhausting their regular benefits are eligible for extended benefits at a weekly rate equal to that of their regular program benefit amount. The EB is payable for a maximum duration of the lesser of 13 weeks or half the regular benefit duration. Thus, regular program benefits of up to 26 weeks are payable, plus up to 13 weeks of EB, with a 39-week overall maximum of regular and extended benefits. EB becomes payable in a State when the insured unemployment rate is at least 5 percent and at least 120 percent of the corresponding rate 2 years earlier. Optionally, a State can initiate an EB period if the rate is at least 6 percent regardless of earlier levels. Once triggered, EB provisions remain in effect for at least 13 weeks. Further, once a benefit period ends, another statewide period cannot begin for at least 13 weeks.

Federal Supplemental Compensation

Background

In response to higher unemployment rates in late 1981 and 1982, Congress enacted a temporary addition to the benefits payable to long-term unemployed workers—The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248). This law established a special subtitle called the Federal Supplemental Compensation Act of 1982, which authorized a temporary program of extra benefits for unemployed workers who exhaust their entitlement for regular and extended benefits under the permanent program.

Effective September 12, 1982, through March 31, 1983, additional weeks of unemployment compensation were provided under agreements with each State. Workers were eligible for payments if their entitlement to