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INTERNATIONAL PRACTICES IN PENSIONS, SOCIAL SECURITY, AND MEDICAL INSURANCE

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1. The perspective of pension legislation in the United States as compared to proposed Canadian pension law amendments and new pension bills in Germany and the United Kingdom.

2. Comparison of social security developments in the United States, Canada, Europe, Australia and New Zealand.

3. The contrast of Canadian and European governmental medical insurance programs to the continuing controversy in the United States over government health insurance.

MR. CHARLES B.H. WATSON: We are in this session going to take a look at practices in the area of employee benefits, social insurance and health insurance outside the United States and Canada. This particular panel has been scheduled because, although those of us living in the North American continent tend to think that everything of interest is happening here, it is not really quite true. There are activities and developments in foreign countries which can and should be of considerable interest to us, not only because they tell us things that we would rather not know, but also because they can tell us some things that we should know about potential developments in the future. To that end, we have assembled a number of participants who are well versed in benefits and insurance outside North America.

As a preamble, I should describe how we are going to organize this. We will take a "zoom in" on the international scene. We will first hear from Ken Buffin, who will describe somewhat briefly a number of areas in which interesting developments are occurring in benefit situations outside the United States and Canada. He will be followed by Larry Coward, who will look with considerably more focus on a limited number of these areas. Finally, Jack Dyer will talk about one particular question: how governmental and private benefit plans interrelate in providing benefits, as viewed from an international perspective.

MR. KENNETH G. BUFFIN: For the purposes of my remarks I have identified ten topics of general interest in Canada and the United States in the area of pensions and social security:

1. Relationship between social security and private plans
2. Financing the costs of social security
3. Protecting benefits against inflation
4. Retirement age
5. Equality of treatment for men and women
6. Vesting of benefits under private plans
7. Funding and solvency guarantees for private plan liabilities
8. Taxation treatment of contributions
9. Industrial relations and codetermination
10. Government health insurance

For each of these topics it is of interest to observe how other countries react to the problems involved and to study the particular solutions that have been developed or that are proposed and currently under discussion in various parts of the world.

1. Relationship Between Social Security and Private Plans

The two basic functions of benefit planning are generally accepted as income support and income maintenance.

There is virtually universal acceptance of the role of social security in providing basic benefit levels to meet subsistence needs. Beyond this basic level, however, there is a great global debate raging over the relative roles to be played in achieving income maintenance goals by social security and private plans.

In many countries, e.g. Italy, Spain, Portugal and Austria, the social and political thinking has produced virtually total reliance on the social security system. Italy is the much-quoted example where retirement benefits of up to 80% of final three year average earnings may be payable. The same is true in many South American countries and appears to be the trend among less developed countries and the emerging "third world" nations.

By contrast, in the more industrial countries of Western Europe a system of basic social security benefits supplemented by either mandatory or voluntary private benefits is typical. In the United Kingdom, for example, recent legislation requires that the basic social security benefits be supplemented by an earnings-related retirement benefit of up to 25% of earnings within a defined range to be provided either through social security or through recognized private plans. The Netherlands presents an example where mandatory occupational pensions of up to 70% of final earnings are proposed. Similarly, Switzerland is developing legislation to provide up to 60% of final earnings jointly from the basic social security system and compulsory employee benefit plans.

At the other end of the spectrum, there are countries with little or no social security benefit provision or with social security benefits that are means-tested. South Africa would be one example of such country.

Obviously, the debate will continue since there is no single answer to the question of the proper role of social security and the private pension system.

2. Financing the Costs of Social Security

The debate over financing social security in Canada and the United States will be well known to this audience. However, it may be useful to put the matter into perspective by contrasting social security costs for pensions as a percentage of the gross national product for different countries. It is 2% for Canada, 3% for the U.S., 4% for the U.K. and Sweden, 7% for France and as much as 9% in Germany.

Many social security systems around the world are in serious financial difficulties. The general pattern has been as follows: systems were in balance or in surplus in the early 1960's, liberalizations in benefit amounts and conditions were made in the latter 1960's and 1970's, followed by global recession and inflation; changing demographic factors with substantial increases in the proportion of the population over 60 or 65 have been experienced; reduced retirement ages have been introduced. The foregoing have been the principal factors contributing to the common problem.

Germany is one of the countries involved in a review of the financing of its social security system with the objective of reducing the burden or redressing the balance to avoid future deficits. Some of the ways being studied include: increasing the contribution rate for insured persons; deferral of annual adjustments for current pensioners; requiring pensioners to contribute for health insurance; and increasing federal taxes to allow for higher subsidy to the social security system.

The increasing burden of social security financing appears to be a global trend. The long-term solutions to the problem seem to fall into three major categories: higher contributions or taxes; later retirement ages; and shifting the burden to mandatory private plans.

3. Protecting Benefits Against Inflation

The adjustment of social security benefits using formal indexing system has become in recent years a common feature of social security systems. More than thirty countries use an indexing system. France, Germany, Netherlands, Spain and the United Kingdom are among the countries utilizing a general wage index adjustment system. Brazil and Mexico use minimum wage index system. Many countries use a price index system such as Belgium, Denmark, Italy, Japan, Sweden and Switzerland.

A notable trend in adjusting benefit amounts is that special periodic reviews, rather than automatic adjustments, are being instituted. The periodic review has been adopted in Spain, Portugal, and the United Kingdom for example.

Many countries use an index to signal a time for review of benefit amounts and then base any adjustment on both wages and prices and other economic factors. With the increasing impact of inflation in the 1970's, many countries have shortened the time between these periodic reviews; annual reviews are now commonplace.

Another approach to the problem of inflation which is being increasingly used is to move to a final average earnings basis often with the averaging period being shortened. Panama has moved from highest 10 years to highest 5 years. Most European systems already use some sort of final average earnings base; Portugal and Peru are examples of countries which have recently moved to this basis.

The cost of providing inflationary adjustments to benefits has been the direct cause of increased payroll taxes in several countries; in others, general revenue financing has been introduced specifically to meet the additional costs.

4. Retirement Age

As an illustration of how dramatic has been the recent change in retirement age practice, just six years ago 40% of men in the United Kingdom were actively in the labor force at age 70; today the corresponding figure is only 10%.

Changes in retirement age under various social security systems constitute a notable trend. Germany, Norway and Ireland are examples of recent reductions in the retirement age. Changes for men or women alone have been enacted in Portugal, Egypt and Luxembourg.

Many factors may be identified to account for this trend, including the tempo of modern living, technological changes and redundancy, and increasing availability of old age retirement benefits.

Early retirement conditions have shown an increasingly liberalized trend over the last decade; for example, a number of countries specify an earlier than normal retirement age for certain dangerous occupations; flexible choices based on years of service have been introduced in more than twenty countries.

Some countries do not specify a normal retirement age but use the concept of a retirement band or spread of ages, permitting, for example, retirement at any age between 60 and 65. Another feature of some systems is to permit early retirement for older workers close to retirement age who become involuntarily unemployed; generally the concession extends over the five-year period preceding normal retirement.

A very recent development in the United Kingdom is the proposal to encourage early retirement by the payment of early social security benefits specifically to make jobs available to younger persons and so ease the impact of high unemployment.

While the main trend in retirement ages is toward earlier retirement, there is also a trend to supplement benefits for workers who defer retirement. Typical supplements are 3 to 5 per cent a year after age 65.

5. Equality of Treatment for Men and Women

The concept of elimination of sex discrimination has impacted on many aspects of both private plans and social security systems, particularly in the areas of participation or membership eligibility conditions, benefit entitlement conditions, benefit amounts, provision of spouse benefits, and retirement age.

As an illustration, the U.K. Social Security Pensions Act 1975 mandated equal access requirements to provide that membership in a private pension plan must be available to both men and women on terms which are the same as to the age and length of service and the same as to whether membership is voluntary or compulsory. Equal access conditions are, however, just simply that and nothing more; they do not cover equality of benefit conditions or amounts.

To use the U.K. again to illustrate another point, where retirement age for social security is currently 60 for women and 65 for men, a bill has been introduced in Parliament to permit men to retire at age 60 on terms equivalent to those available to women at that age. The cost of the proposal is, however, prohibitive in terms of social priorities and comitments and the proposal appears unlikely to be adopted.

Elimination of sex discrimination in social security systems and private benefit plans is a serious topic which is receiving serious attention in many countries. Perhaps the United States, Canada and the United Kingdom are among the leaders seeking to rectify the problems of sex discrimination. However, there are many countries where the topic has not been a real problem simply because equal treatment and equal access have generally been practiced in the past.

6. Vesting of Benefits Under Private Plan

Compulsory vesting of private pension plan benefits is a subject very familiar to Canadian and U.S. actuaries through legislation adopted in recent years. The use of legislation to provide compulsory vesting in private plans is a very evident global trend:

- The new German law provides for vesting at age 35 when a worker has either at least 10 years of covered service under a company pension plan or has at least 12 years of service including 3 years of covered service under a company pension plan.

- The U.K. passed legislation in 1973 providing for full vesting of accrued pensions at age 26 after 5 years of service.

- Proposed legislation in Switzerland will provide full and immediate vesting of accrued pensions and a system of portable pensions on changing jobs.

- The existence of compulsory vesting for private plans in many countries has produced an interest in the study and development of mandatory funding and solvency guarantees which form the next topic.

7. Funding and Solvency Guarantees

It is of interest to contrast the position taken in the United Kingdom with that of Germany of the question of legislated controls affecting the funding of private pension plans and the provision of solvency guarantees.

In the U.K. virtually complete discretion is left to the actuary in establishing actuarial methods and assumptions for funding purposes. No statutory minimum basis exists. Similarly there are no statutory provisions for solvency guarantees. However, under the terms of the Social Security Pensions Act 1975, for a plan which is contracted-out of the additional component of the State Scheme, the actuary must provide a certificate relating to the sufficiency of assets to meet certain "priority liabilities" corresponding to the additional State Scheme benefits.

In Germany, the actuarial basis for pension reserves is specified by law. The interest rate is 5-1/2% and the entry age-normal method is used.

The new German Pension Law also makes provision for pension benefit guarantees. The guarantee is implemented not through a government agency but through a cooperative arrangement called the Pension Insurance Association, sponsored by the German Employers Association, The Association of German Industry and the Association of Life Insurance Companies. The guarantee is financed by contributions from the employers and in the event a plan is terminated and insufficient assets are available to provide benefits, the Pension Insurance Association will purchase annuities from an insurance company.

8. Taxation Treatment of Contributions

Generally, employer contributions to social security systems are tax deductible. The tax treatment of employee contributions, however, varies from country to country: examples of countries where employee contributions are deductible include Belgium, Denmark, France, Netherlands, Sweden and Switzerland; they are not deductible in Finland, Norway and the United Kingdom.

Under private pension plans, employer contributions are generally fully deductible within limits. Employee contributions are deductible in Belgium, France, Netherlands, Norway, Sweden and the United Kingdom. The U.S. practice of not permitting employee contributions as tax deductible items is very much contrary to the general global practice.

9. Industrial Relations and Codetermination

The subject of industrial relations has assumed increasing importance in the international benefits arena in recent years. Two illustrations will serve to highlight the issue.

In the United Kingdom, under the terms of the Social Security Pensions Act 1975, employers must consult with recognized unions over the issue of whether to contract out of, or participate in, the additional component of the new State Scheme. This development brings much greater union interest in, and attention to, the whole subject of pension plans and is expected to change the way in which company sponsored plans have been developed and administered.

German labour law requires an employer to negotiate and come to an agreement with the Works Council on a number of subjects, including the establishment of principles concerning pension planning in general; the establishment of principles concerning the implementation, administration and change of pension plans; and suggestions by the Works Council to improve or change the pension plan.

The Works Council has the right to be informed in detail on a timely basis about an employer's intended actions affecting the pension plan. It also has the responsibility to investigate the pension plan to determine whether it offers "fair and equal treatment" under the terms of the Labour Law.

The employer in Germany is, however, free to decide certain matters unilaterally; including whether to have a pension plan or not, the costs limits to be borne, the financing method to be used, and eligibility conditions.

10. Government Health Insurance

If there is one virtually certain bet in this world, in the opinion of many persons it would be the adoption of a program of National Health Care in the United States during the term of the next administration. Among the major industrialized countries of the world, the U.S. is a notable exception to the pattern of providing a national health program.

Recent developments in Australia may be of some interest. The Australia Medibank system has covered all persons for health care since 1975. Prior to October 1, 1976 it was financed through consolidated revenue. As from October 1, 1976, however, a 2-1/2% levy on taxable income to a maximum of $150 ($300 for a family) is being introduced to finance standard Medibank benefits, with provision for contracting-out if the person is a member of a private health insurance fund providing at least the equivalent of standard Medibank coverage. Medibank "Private" is also being established by the government in competition with private health insurance funds to provide coverage in excess of standard Medibank.

In conclusion, if we look at the international benefits scene today in the expectation of determining what influences global trends and developments might have on U.S. and Canadian practice, one might predict that the most likely areas of activity in the near future will be:

- Restructuring of social security financing, possibly with an element of general revenue financing.
- Adoption of a U.S. program of National Health Care.
- Proposals to make employee contributions under U.S. pension plans tax deductible.
- Greater employee representation in employee benefit planning along the lines of the European models of codetermination.
- A re-examination of funding and solvency guarantees for private pension plans.
- A greater concern with formal systems of adjusting private plan pension benefits to recognize inflation.

MR. LAURENCE E. COWARD: Pensions, social security and medicare are rapidly developing in many countries. Increasing prosperity makes possible the improvement of social security and the rising tide of consumerism makes it certain. The laws and program now in effect are also the consequences of unpredictable items such as attitudes and the fortunes of political parties. There is little agreement on principles and changes of direction are common.

There are several burning issues at the present time which are treated very differently in different countries and which are debated vigorously by people of different political philosophies. In the field of social security these issues include the following:

(1) Adequacy of social security benefits.

(2) Discrimination by age, sex, marital status, etc.

(3) Indexing of benefits for cost-of-living increases.

(4) Relations between public and private plans.

(5) Incidence of cost arising from the financing system.

In the field of private pension legislation some of the same issues arise, plus the following:

(6) The need for regulation.

(7) Disclosure requirements.

(8) Protection of benefit rights through funding regulation or a guarantee system.

How adequate should social security benefits be? Should they provide a bare subsistence level, or sufficient without private plans, or should they provide a high percentage of average industrial wages? One thing is sure - no level will be regarded as sufficient by all pensioners. Once a luxury is within reach, it very soon becomes a necessity. To paraphrase Parkinson, needs continually expand to keep ahead of social security benefits. Today the minimum social security level is about 30% of pay up to some limit, but the aim in some countries is up to 70%.

Eliminating discrimination is now considered more important than catering to average needs of different demographic groups. It seems to be believed that males and females, single, married, common-law or divorced must in principle all be given equal benefits. But anti-discrimination is far more a Holy Law in North America than in Europe where women are not so prominent in the workforce. In Europe it is not considered immoral to provide for widows, but not for able-bodies widowers, or to have different retirement ages for men and women. These differences are increasingly under attack because of the changing status of women.

Indexing has become the rule with rare exceptions. The pension at retirement date is nearly always related to an average wage index. Indeed, the U.S. social security and public service plans are overindexed. After retirement social security benefits may rise with a cost of living index as in Canada or with an earnings index as in Germany, or both. In the U.K. the flat rate portion rises with an earnings index and the additional pension rises with a price index.

The relationship of public and private plans raises the question of expansionism versus conservatism. One solution adopted in France and Finland is to have compulsory private pension plans. A study of this has been recommended by the CPP Advisory Committee. A second approach is to allow contracting-out of a portion of social security as in the U.K., with the government guaranteeing the indexing of both its basic benefits and the contracted-out benefits. Canada and the U.S. are still reasonably conservative and encourage private plans through tax shelter and supervision, but the expansionist forces are strong.

The incidence of costs is receiving more attention now that contribution rates in mature social security plans are so high. The U.K. and the U.S. are in the mature group. The question is how much cost should be borne by general taxation. The U.S. so far has maintained the so called "insurance principle" that all costs come from contributions. In most countries there is a charge to the state, for example, 18% of the cost in the U.K. and the entire cost of Old Age Security in Canada.

In considering the regulation of private pension plans, much of the same influences are seen but with different effects. Moreover, each country must initially decide how much regulation and supervision of the private area is desirable - a question related to the degree of socialism in the country and the degree to which reliance is placed on private plans.

In applying the principle that there should not be discrimination between males and females, the question is whether the criteria is to be equal benefits or equal value, whether a unisex mortality table is required. Can money purchase plans be based on the same contributions for men and women, thus providing different amounts of pension? The U.K. says no and has legislated in effect that unisex mortality tables must be used. The U.S. is near to that position. Canada has taken a more practical course and allows distinctions solely due to actuarial factors.

Indexing of private pensions is relatively uncommon except in public service. Recent inflation has shown that it is not enough to provide early vesting of the earned pension - what is needed is not preservation of pension based on earnings at termination date, but portability so that the pension for service with first employer shall be based on salary the employee would have earned at retirement. In Europe this is taken as simple justice. In the U.K., proposal is that pension should be increased 5% a year in the deferral period.

Let us look at some interesting developments in social security: In the United Kingdom a graduated pension was introduced on top of the basic pension in 1961 and employers were allowed to contract out. The graduated pension was replaced under the Social Security Act of 1973 by a 5% money purchase plan. However, this Act never became operative and has been repealed and replaced by the Labour Party's Social Security Pensions Act of 1975. The formula is similar to Canada's, that is, the basic amount similar to OAS plus 25% of earnings up to a ceiling, but there will be a 20-year transition period before anyone gets the full earnings-related pension. The pensions will be indexed. A married employee with average earnings should get a pension just over half pay.

A striking feature of the U.K. plan is that contracting out is encouraged. Contracting out has not been particularly successful in the past and the administrative arrangements are frightfully complex. If an employer contracts out, the contributions to the State plan will be 6% less and the private plan must provide pensions based on final five-year average salary at the rate of 1-1/4% per year of service, with 50% continuing to widows. However, the indexing of this private plan pension will fall on the state.

Contracting out is attractive in Britain because of the desperate shortage of investment capital. This in turn is connected with the fact that 60% of the national income goes to the government, compared with 44% in Canada and 36% in the United States.

It is claimed that the new plan puts an end to the treatment of women as second class citizens entitled to third class benefits. Women will get the same benefits as men with the same earnings. However, this does not mean that discrimination has been abolished. The retirement age for women is 60 and for men 65, and there are benefits for widows but not for widowers. Politically it would be impossible to raise the women's retirement age and the cost of reducing the men's retirement age to 60 would be prohibitive. The British scheme is now sufficiently mature that the costs are heavy. That is, total contributions of 16-1/2% are required.

By contrast Australia has been very cautious. Australia has received the report of a three-man National Superannuation Committee on what do do about its present means-tested non-contributory flat rate pensions. Unfortunately the Committee could not agree. The basic amount of pension was to be 25% of average earnings. The proposed contribution for national superannuation plus a proposed medicare plan would be 5% of income and this may be the limit of what the public would tolerate. It is still not clear whether Australia will have a contributory feature.

New Zealand is much more social security conscious. The 1974 Act is being repealed and an unfunded national scheme introduced. This is designed to pay 42% of average wage to a single person and 70% to a married couple and it will rise with average wage. The commencement age for the pension is age 60 for both males and females.

By comparison Canada is relatively stable with its flat rate pension plus 25% of earnings up to the ceiling. However, there is pressure for change. Among other things, the CPP Advisory Committee suggested that there should be a new deal for housewives and that a system of <u>compulsory</u> private plan should be introduced.

With respect to private pension legislation, Canada took the lead some 12 years ago and the Pension Benefits Acts are now operating in five provinces and the federal government. Vesting is still at age 45 with 10 years service, except that Manitoba has made the qualification 10 years regardless of age. Serious consideration is being given to changing the funding rules and requiring far more disclosure than at present.

In West Germany 90% of private pension plans can still have a balance sheet reserve. Vesting is required at age 35 with 12 years of service. A guaranteed system through private insurance is required. Every three years the plan must review the benefits of pensioners, but afterwards need do nothing.

In these countries offset plans are prohibited. That is, the pension that has accrued or the pension that is being paid does not decrease because of an increase in social security benefits.

To sum up, the public demands more pensions at earlier ages and protection against inflation. General governments are increasing social security and increasing their control of private plans while squeezing them out. Few people seem to be bothered about the huge demographic waves that will drastically alter the ratios of old to young.

MR. JOHN K. DYER, JR.: "The Benefits Commitment: Whose Responsibility?" was the theme of the 1976 IBIS Conference, held in Zurich three weeks ago. Speakers from the International Social Security Association, private industry, the consulting field, and the life insurance industry addressed themselves to this subject with eloquence and imagination. Predictably, none came up with the final answer.

The principal area of agreement, implied if not expressed, was that, at least so far as pensions are concerned, there are three zones of responsibility identified by earnings levels. These zones make up what might be called the earnings-pension spectrum. It consists of:

The bottom zone, encompassing the lowest paid group, where it is generally agreed that the government must provide pensions, with or without means test.

The top zone, which includes executives and on down to some fairly high earnings level, where employers generally assume responsibility for pensions, although individual savings are a factor here.

The middle zone. This is the problem area, where decisions must be made and agreements reached as to the assignment of pension responsibility. There is a wide variety of solutions, influenced by tradition, political factors, employer attitudes, and union positions.

Looking more closely at the middle zone of the earnings-pension spectrum, we can discern three broad categories of solutions that have been employed:

1. The first is the minimum social security approach. The government's responsibility is limited to the provision of subsistence level pensions, sometimes subject to a means test, with anything beyond this level provided by individuals and their employers. In other words, the middle zone and the top zone are in effect merged.

   Australia and South Africa are the only two important countries in this category, and both of these are presently considering extending social security beyond the subsistence level.

2. The second category consists in a sharing of the middle zone responsibility between government and employers. Social security benefits are extended into the middle zone, with benefits paid as a right and generally earnings-related but subject to ceilings and limits which leave a need for private supplementation, at least in the upper middle zone.

   The United States and Canada are in this category, as are Germany, the Netherlands, Belgium and various other countries.

3. The third category is characterized by social security benefits so liberal that they preempt all or a large part of the middle zone, leaving only the top zone to be occupied by private plans.

   Italy is the best illustration of this category, with Spain headed in that direction with 100% pensions up to a fairly high earnings level.

A variation of the intermediate approach - the one where social security and voluntary private benefits share the middle zone of the spectrum - is of particular interest at the present time. The variation consists in making the supplementation of middle zone social security benefits mandatory, but leaving to each employer considerable leeway as to how much supplementation is to be accomplished, within specified minimum requirements. Finland has had this type of program for some 15 years. In the United Kingdom a new system to become effective in 1978 will provide a second layer of social security in the middle zone, but permit employers to contract out of this layer through the adoption of a qualifying private plan. In the Netherlands and Switzerland programs in the course of development will provide a mandatory layer of privately financed benefits in the middle zone, but without offering the alternative of government social security benefit for this zone.

The idea of dividing the responsibility for the middle zone between social security and a mandatory private plan seems to have at least one advocate here in Canada. In an article that appeared in the Financial Post last August, a Canadian actuary came out unequivocally for a mandatory, privately funded, fully vested money-purchase plan for all Canadian employees, to be superimposed upon the present Old Age Pension and Canada/Quebec Pension Plans. I understand that some other Canadian actuaries are less than enthusiastic about this proposal.

The use of mandatory privately financed pensions in the middle zone of the spectrum seems to have been successful in Finland. Similar arrangements in the course of development on the Netherlands and Switzerland seem to have a good chance of success, if they ever manage to get off the ground, and if the governments can manage to keep pensions out of politics.

I do look upon the contracting-out route with considerable skepticism. The British seem determined to give it a good try, even though their earlier effort - the so-called "graduated scheme" in effect from 1963 to 1973 - must be counted as a failure. Japan has permitted contracting out under the earnings-related layer of their social security system, but the difficulty there is that the government persists in undermining the system by making substantial increases in the basic benefits.

I close with a brief case history, demonstrating that, despite all the actuarial formulas and theories, in the final analysis political considerations tend to outweigh all other factors in determining the shape of a social security system. The New Zealand Superannuation Act 1974, introduced by a Labour Government, became effective as of the 1st of April, 1975. This was a funded money-purchase type of plan, with provision for contracting out. It was a second layer plan, superimposed upon the existing flat benefit national pension system.

In the November, 1975 general election in New Zealand, the Labour Government was replaced by a new government controlled by the National Party, which had promised to dismantle the New Zealand Superannuation Scheme if elected. This they did, with unseemly haste, discontinuing further contributions in December, and arranging for the return to employees of both employee and employer contributions, the latter in lieu of interest.

The new National Superannuation Scheme, to become effective in February, 1977 (unless another election should intervene) restores the old flat-rate, non-contributory unfunded national pensions, with an initial level about 20%

above the former rates, and with a retirement age 60 without means test. This appears to be an expensive scheme, if not an inspired one.

MR. E.J. MOORHEAD: This observer of the social security scene is moved to question the seemingly excessive emphasis upon "replacement ratio" as the test of sufficiency of the retirement benefit provided by the system.

"Replacement ratio" is the ratio of the retirement benefit to the earnings (as defined for social insurance purposes) just before retirement.

One difficulty with this measure is that earnings just before retirement tend, in the United States at least, to be an excessively crude measure of the worker's pre-retirement standard of living. The earnings curve tends to flatten and often to turn downward as a worker moves beyond the ages at which his or her services have been in relatively heavy demand and into the age-span in which disability periods are relatively frequent.

Another disadvantage of this measuring-stick is that it departs from the concept of the social insurance benefit as part of a three-way provision for retirement income, the other two being private pensions and personal savings. The aim to reach a replacement ratio through the social insurance route that is sufficient by itself is bound to reduce the spheres of these latter two and to raise the cost of the social insurance system.

I am not arguing against paying attention to replacement ratios, particularly if these are computed by averaging earnings over several pre-retirement years. I am suggesting, however, that comparable attention be paid to the verdicts on adequacy of other tests, especially the test of what food, clothing, shelter and other essentials the social security benefit will purchase.

MR. ROBERT J. MYERS: It has been commented that, based on the unique experience of the allocation of Social Security contributions in the Netherlands, it would appear that the employer there in reality bears the entire cost. On the other hand, many economists assert that, in all systems, regardless of the ostensible allocation between employer and employee, the latter really bears the cost. In my opinion, it is actually impossible to trace the incidence of such taxes.

It has also been quite correctly pointed out that high-earnings workers retiring currently receive larger "windfall benefits" (excess of value of benefits over employer-employee taxes paid) that are larger in absolute terms (but not relatively) than for lower-earnings workers. This is only the natural effect of an earnings-related social insurance plan by an upward graded tax schedule in its early decades of operation. It could be avoided only by having a flat-benefits program. Perhaps, one answer to this concern is that such apparently inequitable situation is only a partial return of the excessively high "progressive" income taxes that high earners paid during their working years.

Finally, I would like to pose a general question about the situation in Canada, where the earnings test has been eliminated after age 65 under the Canada Pension Plan (although not in the Quebec Pension Plan). How did this change come about, and was it not in the wrong direction, considering the great increase coming in the future in the proportion of the ages in the population and the likelihood that more persons aged 65 and over will therefore be employed and thus have a pension plus full wages?