

**TRANSACTIONS OF SOCIETY OF ACTUARIES
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SOCIAL INSURANCE

1. What have been the important developments in Congress during the current year concerning proposals for revision of the Social Security Act? What basic issues do they present?
2. What is the present status of social security legislation in Canada, and what is the outlook for the next year or two?
3. What has been the experience to date with the National Health Services Act?

MR. R. J. MYERS opened the discussion with an outline of recent legislative activity. The 80th Congress had established an advisory council to the Senate Finance Committee, one of whose seventeen members was Mr. M. A. Linton. In February 1949 a bill was introduced in the House of Representatives at the request of the President, embodying the recommendations of the Social Security Administration. This bill went through many modifications and finally emerged from the House Ways and Means Committee as H.R. 6000 under a closed rule which prohibited amendments from the floor but permitted a substitute bill which was introduced by the minority members of the Committee. The minority bill was defeated by a vote of approximately 2 to 1 and the original bill was then passed in the lower house by a vote of 333 to 14.

This bill would extend OASI coverage to about 30 percent more persons than are now covered, bringing in regularly employed domestic servants, employees of nonprofit institutions, and most of the urban self-employed with the exception of certain professional groups, such as doctors, lawyers, dentists, engineers and publishers. State and local government employees are included on an optional basis.

H.R. 6000 would considerably increase the level of benefits to those retiring in the future as well as to those already enjoying benefits. Of the several changes in types of benefits, he thought that perhaps the two most important are the liberalizations in regard to child survivors and a provision that the lump sum payment, averaging about \$150, would be paid in all cases of death of insured persons, whether or not anyone is immediately entitled to a monthly benefit. The work clause is amended to permit an increase from the present \$15 a month to \$50 a month that may be earned without loss of benefits.

A new feature of the bill is the inclusion of permanent and total disability benefits. This is one of the provisions which was opposed by the

minority group in the Ways and Means Committee. Another provision allows wage credits for World War II veterans to the extent of \$160 for each month of military service. The maximum amount of wages taxable and creditable for benefits is increased from the present \$3,000 per year to \$3,600. In this respect, the Advisory Council recommended \$4,200, the Social Security Administration \$4,800, and the minority group recommended no increase.

He called particular attention to the change in the reserve or funding philosophy, recalling that the original act provided a self-supporting system with a large reserve, the 1939 amendment changing it to a, more or less, pay-as-you-go basis, while the new bill reverts to the original financing basis and omits the provision which is now present that the government may appropriate money from general funds to the system. The Committee states its intention in the Committee Report that the system should be completely self-supporting, and accordingly the bill provides for a combined employer-employee contribution rate increasing from 3% in 1950 and 4% in 1951-59 to an ultimate rate of 6½% in 1970 and after (with the covered self-employed paying ¾ of such rates). This, he thought, would result in very large reserves, estimated eventually to be in the neighborhood of 80 or 90 billion dollars. He mentioned briefly the new provisions for public assistance to the permanently and totally disabled and the change in the matching formula under which the Federal Government would put in up to 80 percent of the total assistance payments with the state providing only the balance.

MR. ALBERT PIKE, JR. discussed the philosophy that social security was intended to provide a basic floor of protection at the subsistence level, any greater benefits being the responsibility of the individual rather than the government. He stated that his review of the debate over the current social security bill showed not a single instance where the principle of a subsistence level was alluded to, but that, instead, there was talk about defending the Social Security Act against the challenge of private retirement plans financed solely by the employer. He was not sure that the present benefit level is far out of line with the principle of subsistence benefits but this appeared to be by accident rather than design. He thought that some of the fundamental principles of social insurance and its financing should be re-examined.

MR. M. A. LINTON said that he would like to present some of the thinking of the Joint Social Security Committee of the American Life Convention and the Life Insurance Association of America, of which he is chairman. He agreed with what Mr. Pike had said about the concept of benefits at the subsistence level. As a member of the Advisory Council,

he had dissented on the proposal to increase the wage base to a figure above the present \$3,000 for the reason that raising the base does not help those earning less than the base amount, but increases benefits a second time for those earning over \$3,000. The Joint Social Security Committee objects to the yearly increment in benefits as having no place in a social insurance program and believes that the maximum benefit, in any case, should be \$120 per month rather than \$150. The provision of lump sum benefits should be limited to those not receiving monthly benefits. The Committee is emphatically opposed to the introduction of extended disability benefits payable as a matter of right on an "insurance" basis.

He observed that the new bill extends the coverage to full-time life insurance agents, but is not clear as to whether this is limited, as it should be, to full-time service for a single company. He pointed to the political consequences of the tendency of people to think that government should provide workers with pensions considerably above subsistence levels. That could easily lead to entrenching in power that party which had the least conscience and was willing to promise the most. That road leads to dictatorship.

MR. H. E. BLAGDEN commented on a series of editorials in the New York Times which seemed to follow the theory that provision for pensions should be taken out of the realm of collective bargaining and handled by a comprehensive pension system which presumably is not to be on a subsistence basis at all. He noted that some industrialists seem to be supporting this view and that the effect of recent pension agreements between unions and industry, which provide for specified aggregate pension benefits including the portion payable under social security, may be to lead employers to favor liberalization of the old age benefits payable under social security. He mentioned that some employers may be following this approach because they have the mistaken idea that pensions can be provided more cheaply through social security than through private pension plans.

MR. W. R. WILLIAMSON referred to the "Additional Minority Report" on H.R. 6000 which was written by Congressman Carl T. Curtis of Nebraska. Mr. Curtis had suggested that greater study be given to social security legislation and that a uniform old age benefit be provided for all. He also directed attention to papers by Mr. William Anderson and Mr. R. J. Kirton and to a study of health services and their financing which has been commenced by the Brookings Institution. He characterized the social security bill, H.R. 6000, as one full of complexities, *double entendres*, and promises for posterity to keep. He expressed the belief that the members of the Senate would appreciate informed opinion to help them in their

consideration of this bill. He referred to a letter from a British friend criticizing the insurance concept of social security because "the active beneficiaries get more than they pay for, and demand it on the ground that they have paid for it."

MISS E. W. WILSON described the administrative program of the National Health Service in Great Britain and compared it with the proposed administrative organization for the United States as provided by the Thomas-Murray-Wagner Bill. She stated that under the British plan the costs of medical and hospital benefits were not much in excess of the anticipated costs because of the power of the Minister of Health to set the rates of remuneration of doctors and to authorize hospital expenditures. However, supplemental estimates developed last February showed the cost of dental benefits to be two-and-a-half times the expected amounts and that of the ophthalmic benefit to be six times the expected amount. Altogether, the supplementary estimate was 39 percent higher than the original estimate. Present costs, she stated, are about double the estimate.

Turning to the situation in this country, Miss Wilson stated that she had estimated the annual cost of a complete medical service program at \$100 *per capita* and that General Hawley, the head of the Blue Cross Commission, had arrived at the same figure by use of other data. This would amount to something like 16 billion dollars a year by the time such a system could be put into operation. Other social security costs—old age and survivorship, unemployment, public assistance, cash sickness and disability benefits—she thought might easily amount to an additional 20 billion dollars a year or more. She stated that according to a survey made at the University of Notre Dame, the total 1944 incomes of people with individual incomes of over \$5,000 amounted, after the payment of federal income taxes, to only about 15 billion dollars and that a forthcoming report will show that even if a ceiling of \$15,000 were put on all individual incomes, the amount of additional taxes which could be realized by the government from people earning \$5,000 and over would not be more than about 3 billion dollars. This means, she concluded, that the high cost of social security must be paid by the workers themselves, at least in large measure. She expressed concern as to how full employment could be maintained, since heavy taxation would deplete the funds formerly available for the necessary expansion and renovation of industry.

MR. RICHARD HUMPHRYS presented an outline of social security legislation in Canada. Unemployment insurance went into operation on a federal basis in 1941. Benefits and contributions are graded according to nine classifications of earnings. He observed that the plan had started at a fortunate time, commencing on a rising wave of employment which has

continued at a high level. Benefit payments in 1948 amounted to about 50% of normal contributions and are even higher in 1949. It is disturbing to see such high levels of benefit payments in prosperous times. Among the problems which have arisen are those of claim payments to married women who have withdrawn from industry and to aged persons who have retired and are virtually unemployable. Difficulty has been experienced in administering the Act in remote regions of Canada due to the long distances involved and the sparseness of the population, as a result of which certain areas have been excluded from the operations of the Act.

He explained that old age pensions are administered by the provinces but three-fourths of the cost is paid by the federal government. All such pensions are on a means test basis although small amounts of income are allowed in addition. The first act providing old age pensions was passed in 1927 and benefits have been liberalized by subsequent legislation. He said that there was much discussion in Parliament and in the election campaign concerning contributory old age pensions free of the means test, but he expressed some doubt that a universal, contributory plan was practical in a country as widespread and thinly settled as Canada. The Family Allowance Act went into operation in 1945, providing to all children in Canada, other than those in institutions, the payment of allowances—\$5 per month for children under the age of 6, grading up to \$8 for those over 13 and under 16, subject to residential requirements and school attendance. There is a partial recovery through the income tax since the taxpayer may reduce his taxable income by \$100 for each child eligible for family allowance or by \$300 for each child not so eligible.

He said that while a proposal for National Health Insurance, made in 1945, was never put into effect due to constitutional difficulties, a policy of making substantial grants to the provinces for health projects was announced in 1948. These grants are, for the most part, distributed on a *per capita* basis and are being made for general health surveys, public health research, development of public health facilities, control of tuberculosis, mental health, venereal disease, cancer, for assistance to crippled children, professional training and hospital construction. In all, the grants have amounted to \$2.40 *per capita*.

A conference with the provinces has been called to meet in Ottawa in January 1950 for the discussion of constitutional questions. He expects that after the constitutional questions are settled, definite steps will be taken concerning health insurance and old age pensions. He thinks it likely, however, that the health and hospital facilities in all of the provinces must be developed and expanded enough to cope with a scheme of health insurance before it can be further advanced. While the question of cash

sickness benefits has been raised, he considers that it is too early in the discussions to conjecture what may happen in this field. He gave the estimate of 400 million dollars as the expenditures during 1948 for unemployment insurance, old age pensions, family allowances and national health grants, which amount is well over half the revenue of the year from individual income taxes although it does not include any of the amounts expended in connection with veterans' affairs. He also mentioned without enlargement the plans administered solely by the provinces, which include workmen's compensation, mothers' allowances and, in a few provinces, schemes of hospitalization insurance, maternity benefits and free dental care for children.

MR. B. R. POWER commented further on the present social security situation in Canada. He mentioned that the Unemployment Insurance Act operates on a uniform basis throughout the Dominion, is supported by contributions from employers and employees and provides benefits at a subsistence level, with no provision for merit rating. Benefits are graded as between beneficiaries who have and have not dependents.

Referring to the Family Allowances Act in Canada, he explained that the purpose underlying the allowances payable to the parents of dependent children is to compensate for the fact that remuneration of workers is not geared to their family responsibilities.

He referred also to the Hospital Insurance Acts adopted in Saskatchewan in 1946 and in British Columbia in 1948, under which the entire population is covered on a contributory basis and provided hospitalization at a public ward level with no limit as to the length of hospitalization, together with a wide range of related benefits. He noted that the plan in British Columbia had developed a deficit of some 3 million dollars at the end of its first year of operations and that the rates of contribution had already been increased.

He expressed the opinion that contributory old age pension legislation is the most likely of various proposals to be enacted in the near future as it is currently having the active consideration of the Government. It has been suggested in the press that a plan might be established to cover employees in specified industries, very much along the lines of the Unemployment Insurance Act, or that the present system of old age assistance pensions might be liberalized by making the means test less rigorous and the public encouraged to make provision for their own retirement through the purchase of Dominion Government annuities on more attractive terms. The rates for these annuities, he observed, had been changed only a year ago from a 4 percent to a 3 percent basis.

Alluding to the recent adoption of a program of national grants to im-

prove the public health, he stated that the Government has admitted that hospital accommodation and the number of doctors and nurses are not nearly adequate to meet present needs and has indicated that it may be five or ten years before Canada is equipped to inaugurate a full-fledged plan of health insurance, the establishment of which is advocated by all three of the principal political parties. He said that there are signs that the provincial hospitalization plans might be spreading, with interest being shown in Manitoba and Alberta.

SIR GEORGE MADDEX said that he would like to indicate the difference between the National Insurance scheme and the National Health Service, which is not fully understood even in Great Britain. The two schemes are separate in almost every respect, the main link being the general practitioner, whose job is, on the one hand, to look after the health of the population, and, on the other, to give them, in case of illness, the certificate which qualifies them for payment of sickness benefits.

The administration is by different departments, the Ministry of Health being the central department responsible for the Health Service, and the Ministry of National Insurance being the operative department for all the Insurance cash benefits. In National Insurance the Ministry acts through 1,000 or more local offices which are all Ministry property and which are staffed by civil servants. But in the Health Service, although the Ministry of Health is the central department, its writ runs only to a limited extent. There is a whole complex setup of local executive councils and committees dealing with various aspects, the membership of which in many instances contains no government servants at all, but is composed of doctors, hospital officials and various types of local officials and as regards which the Minister, although he may have some overriding powers, is bound to defer to the reasonable views of the councils with whom rests the administrative operation of the scheme.

As regards finances, again the systems are different. The Government Actuary's Department has a considerable responsibility for the activities for the National Insurance scheme. However, it has no responsibility for the estimates for the National Health scheme, at any rate for those which were made at the outset.

He pointed out that the contributions for National Insurance contain the contributions which make the National Health Service a contributory scheme. While, strictly speaking, there is no contribution, there happens to be in a man's contribution tenpence per week and in a woman's contribution eightpence per week which goes for the Health Service, part of which is contributed by the individual and part by the employer, in case he is employed. The amount of this contribution and its existence are more

or less an accident which he would not trace in his discussion. The whole cost, apart from the income from this small contribution, is met from general taxation or, to a small extent, from the local rates. He wished to point out that the benefits provided by the National Insurance contributions are at a level which cannot, by any stretch of the imagination, be called overgenerous. Before the war, the old age pension was ten shillings for a man and twenty shillings for a married couple. It is now twenty-six shillings for a man and forty-two for a married couple. He thought that, with due regard to the change in the cost of living, these increases are not substantial and that the rates are now fixed with the intention of giving a minimum subsistence level of benefit, whether in sickness, old age or unemployment, which can be supplemented by private insurance through friendly societies for sickness and for pensions, through life insurance, superannuation funds and other methods. Such supplementation was indeed encouraged by the Labour Minister in the introduction of the pension bill.

He stated that for the year 1949-1950 the total expenditure for the Health Service is now estimated to run at about 300 million pounds, of which perhaps 50 millions or more may be provided by the tenpence and eightpence contributions. The total is well over 50 percent more than the initial estimates. It is estimated that the Health Service will cost about seven pounds ten shillings *per capita* per year. More than half of the total expenditure goes to the hospital specialists and services and about one-eighth to the general medical services, that is, the ordinary family doctor. For the provision of dentures, spectacles, wigs, and so forth, only about a pound per head or one-eighth of the total is required. He mentioned that there had been in the press a headline story about a number of expensive wigs sent to a man in jail and similar stories, but he observed that, while these items may require a good deal of investigation, they cannot seriously affect the cost of the scheme.

He stated that the great excess of the cost of dental services over the original estimates indicated a tremendous demand and need for dental services on the part of the population and that the dental profession was undermanned. A similar position occurred in the case of spectacles except that it was less expected because no one had realized the extent to which people did get along without proper spectacles. He had no doubt that, although there had been some cases of abuse, mismanagement and extravagance, the Ministry of Health will take care of that as opportunity offers, and felt that it is quite unfair to look at the current record as an indication of the long-term costs because it represents an attempt to deal under quite unfavorable conditions with an accumulated demand.

He said that the position of the doctors is one of those cases of rough justice which is being looked into. The arrangements for their remuneration are unsatisfactory, mainly, he thought, because of their lack of flexibility, but, as in the case of the remuneration of dentists, there is now a certain amount of actuarial and statistical investigation in process. He saw no reason why, on the financial side, a reasonably satisfactory position should not be achieved.

He was not in a position to say anything on state medicine and its effect on doctors, which is clearly a contentious matter, but he pointed out that over 50 percent of the British population have been used to a variety of state medicine for thirty-seven years. The panel system has had its critics and defenders but the doctors' associations have, for many years, advocated an extension of the coverage for general medical attention, more or less on the lines of the old National Health Insurance system.

There are some evident mistakes, due largely, he thought, to bringing into operation in a single step such a vast and complex scheme under conditions which, in many respects, were not favorable, but financially these extravagances were of relatively minor importance, not appreciably affecting the over-all cost of the scheme. Whatever else may have affected the outlook and incentives of the British population at the present time, he did not think that the National Health Service can be held guilty, but that, on the contrary, it ought to aid in increasing productive capacity.

He considered the dominant factor in the financial picture of the Health Service to be the position of the hospitals, the enormous cost of hospital services being largely due to the unsatisfactory position into which the hospitals had fallen by the end of the war and to the attempt to raise their level too quickly, combined with the attempt to bring hospital salaries into a reasonable relation with salaries in other walks of life.

MR. J. N. SMIT explained how social insurance benefits were provided in Holland through self-governing units organized on an industrywide basis. Associations of industrialists in the same trade or industry have grown into national organizations following the example of workers who had already formed national unions. By an Act effected in 1937 the Minister of Social Affairs may make conditions of work which have been accepted by a large majority of employers and workers in a particular industry binding upon the unorganized employers and workers in that industry.

He stated that social insurance began in 1901 with the introduction of compulsory accident insurance, covering accidents in connection with one's employment. Benefits for total incapacity are at the rate of 80 percent of wages for the first six weeks and 70 percent for the entire remain-

ing period of incapacity, but wages in excess of 10 guilders per day are not considered for the payment of benefits. Premiums for this insurance are classified by industry and paid in full by the employer.

He said that subsequent legislation of social insurance has provided for administration through the industrial organizations. For instance, the 1930 Sickness Insurance Act is administered by 56 trade associations, each covering one particular industry, directed by delegates of employers and workers, in equal numbers, appointed by their respective organizations. Sickness insurance benefits are payable for a 52-week period after a waiting period of three days, with special provisions for maternity and a "confinement allowance" in case of family dependents of a worker.

Through similar arrangements on an industry basis, provision is made for the payment of family allowances, depending upon the number of children, the insurance premium for which is 6 percent of wages, paid entirely by the employer.

An Unemployment Insurance Act is expected to come into force next year based upon the same principles of administration, provision being made for payment of benefits for up to 21 weeks of involuntary idleness, the cost of which will be borne by employers, workers and the State.

An Invalidity Act, adopted in 1913, went into operation in 1919 and entitles a worker to benefits in case of invalidity, as well as old age pensions commencing at 65, and pensions to widows and orphans. Premiums are paid by means of stamps which form the basis for computing the amount payable.

He said that, in view of the inadequacies of the old age benefit, a number of supplementary old age pension schemes have been established, either by individual companies or by entire industries. In a typical industry-wide fund, administration is by a committee consisting of an equal number of representatives of employers' and workers' organizations.

Mr. Smit hoped that his brief outline of social insurance in Holland indicated the preference in that country for placing the administration of social insurance in the hands of those immediately concerned rather than to have a system directed from above by civil servants.