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DIGEST OF PANEL DISCUSSION ON UNEMPLOYMENT INSURANCE

Members of the panel:

Reinhard A. Hohaus, *Moderator*, New York
Henry S. Beers, Connecticut
Richard J. Learson, Ohio
James Hunter, Canada

(Members of the panel, all of whom have been advisers in unemployment insurance matters, undertook to give an account of what they did—"case history" illustrations of what can be done by way of actuarial service in legislative and administrative matters.)

MR. R. A. HOHAUS devoted a large share of his remarks to the discussion of the vexatious problem of devising an acceptable "experience rating" formula for Unemployment Insurance tax rates in the State of New York and likened the problems involved to those of "experience rating" in group insurance. Because of the similarity of the problems, Mr. Hohaus believes there is a fascinating and challenging field for actuaries, particularly those active in Group insurance, to apply their talents in this field.

MR. H. S. BEERS discussed "merit rating" in Connecticut and traced the history of the liberalization of unemployment benefits in that state. He also stressed the difficulty and importance of making rational cost estimates.

MR. R. J. LEARSON detailed some of the administrative problems involved in setting up the record-keeping system under the Ohio plan. He also outlined the nature of the more or less constant pressure from various sources for changes in Ohio's merit rating system.

MR. JAMES HUNTER observed that experience or merit rating has no place in the present Canadian scheme of Unemployment Insurance. In Canada, he said, no attempt has been made to make the contributions from one industry pay for all the unemployment experienced by that industry. In this respect the approach in Canada has been quite different from that in the United States where Unemployment Insurance appeared to have been conceived along the lines of Workmen's Compensation.

MR. HOHAUS pointed out that social insurance legislation in the United States falls into three main subdivisions:

1. The Federal Old-Age and Survivors Insurance Plan.
2. State Unemployment Insurance Plans. Such plans are in effect in all states as a result of the provisions in the United States Social Security Act.

3. State Disability Benefits Plans. Such plans are in effect in four states (Rhode Island, California, New Jersey and New York), and there has been legislative consideration in a number of other states.

In Canada, there are three main categories of Federal social insurance legislation—Old Age, Unemployment Insurance and Family Allowances.

To the general public, social insurance is a field in which actuarial science should be an important factor. That has been recognized by the executive and legislative branches of the Federal Governments of the United States and Canada, and a number of state governments have also recognized it so far as Disability Benefits plans are concerned.

Members of the Society have played an important part in these various areas of government. Some have done so as Government employees, others as advisers to the executive and legislative branches of national and state governments, others as representatives of insurance and other organizations, and still others as individuals. There is, however, one field in which the active interest shown by our members has been very limited—namely, the State Unemployment Insurance plans of the United States. There is a decided need for the advice and counsel of actuaries in this field. This situation is all the more surprising since actuaries—especially those active in Group Accident and Health insurance—need much less reorientation to be familiar with problems and possible solutions in unemployment insurance than in the old-age field of social insurance.

One of Mr. Hohaus' purposes was to point up the opportunities that exist in the United States for actuaries to render public service as citizens by interesting themselves in the unemployment insurance plans of their home states. This he proposed to do by the case approach. Though there may be others, he said he knew of only three states—Connecticut, New York and Ohio—in which members of the Society have been actively associated in one manner or another with the legislative or executive branch of government in unemployment insurance matters.

As a background for his account of the cooperation of actuaries in three states, Mr. Hohaus then presented a summary of historical developments at the Federal and state levels.

FEDERAL ACTION

The Federal Social Security Act, enacted in August 1935, stimulated the several states to adopt unemployment insurance legislation through the so-called "tax offset" device. While the Federal Government levies on the payrolls (as defined and limited in the statutes) of all commercial and industrial employers of eight or more employees in the United States a tax at a uniform rate (3% since 1938), employers making contribution pay-

ments under approved state unemployment insurance laws are permitted to credit or offset such payments against the Federal tax, the maximum credit allowed being 90% of the Federal tax. Special arrangements are included for determining the tax credits for employers granted reductions in their state contribution rates under merit or experience rating provisions. The practical effect of those arrangements is that the employer pays the Federal Government a net tax of 3/10 of 1% of his taxable payroll, and the state governments the tax determined by the provisions of the respective state laws. The Federal Act also makes available grants to the states for the purpose of defraying their administrative expenses. These are in effect financed from the net Federal tax of 3/10 of 1% not subject to the tax offset. However, there is nothing in the law to indicate that revenue from this source must be so used and to date such revenue has exceeded administrative grants to the states by more than $1,000 million.

STATE ACTION

The adoption of unemployment insurance legislation by the states progressed rapidly and was completed by June 1937.

As to determining the employer contributions under the state plans, the major question was whether the rate of contribution should be uniform or be varied according to the unemployment experience of the individual employer. Such variation is referred to as "experience rating." There has been considerable debate, not only on the question of use of experience rating, but also as to the type of rating plan to be adopted when this method is used.

New York—a Case History of Cooperation by Actuaries

A. *Background*

New York was one of the last states to shift from a uniform rate basis for employer financing after it became permissible to do so under Federal law. It was not until 1945 that, after protracted and heated debates, the proponents of experience rating were successful in convincing the legislative and executive branches of the state government that the basis for employer financing should be changed for the reason, among others, that the uniform rate basis failed to provide an incentive to employers to stabilize employment.

However, when New York did depart from the uniform basis in 1945, it did not adopt one of the experience rating patterns current in other states whereby the employer's net contribution rate for a given year was determined in advance for that year. Rather, it devised a "tax credit"

plan whereby the employer's net contribution rate for a given year was determined on a "retrospective" instead of a "prospective" basis.

Under this type of plan a flat "premium" of 2.7% of insured payrolls is collected during the year. At the end of each year, after losses paid in that year have been taken into account, it is determined how much money there is in the Fund, and how much of that money is needed for a reserve against future losses and contingencies. The difference is "surplus," which is distributed to qualified employers by means of credits that can be applied in lieu of cash against future "premiums"—similar, in effect, to application of dividends to premiums due for life insurance.

In New York such credits for the respective employers were originally measured through three exposure factors: age of firm, reflecting exposure to the hazard of going out of business; quarterly variations in total remuneration paid, reflecting exposure to the risk of seasonal unemployment; and annual variations in taxable payrolls, reflecting exposure to the possibility of unemployment consequent upon labor turnover. The 1945 "tax credit" plan was amended in 1947 to replace the annual-variations-in-payroll factor by a benefit factor which used the ratio of total annual wages paid to beneficiaries to total annual payroll.

In the six year period 1945–50, benefit payments averaged $211 million per year while contributions averaged $272 million, of which $201 million was paid in cash and $71 million in tax credit. The amount by which cash income fell short of cash outgo was covered by interest earned by the Fund on its investments. The net effect of the tax credit plan was to stabilize the Fund at around $900 million.

The tax credit plan did not quiet the controversy on experience rating. The debate increased in intensity and the question of the basis of employer financing continued to be one of the most vital issues before the New York Legislature. Proponents of experience rating maintained that the Plan did not meet the main objectives of experience rating because:

1. A tax variation based on only six classes of employers did not provide necessary motivation for an individual employer to reschedule work so as to avoid layoffs or otherwise stabilize his employment.
2. The Plan did not provide an effective incentive for employers to give the current and comprehensive information necessary for good claims administration. Employer interest was essential in avoiding improper payment of benefits aggregating a very significant sum.
3. There were inequities inherent in the exposure factor measuring labor turnover, including failure to relate more directly an employer's tax to the cost of providing benefits for his former employees.
4. "Retrospective rating" was distinctly less satisfactory for many employers than "prospective rating." Competition with employers of other states re-

quired a better advance knowledge of costs. The tax credit plan had a disturbing influence on the economy of the state.

In anticipation of major legislation on unemployment insurance at the 1951 session, studies were undertaken by a Joint Legislative Committee, by the tripartite State Advisory Council on Employment and Unemployment Insurance, by employer and labor organizations, and by other groups.

B. *Cooperation of Actuaries in New York*

As a result of the experience with legislative and executive branches in the design and operation of the Disability Benefits Law in New York in 1949, Mr. Hohaus said he became actively interested in the experience rating studies under way in the state. Preliminary investigations made evident that in many basic respects unemployment insurance experience rating presented problems similar to those with which an actuary is faced in determining dividend formulas, prospective experience rating, contingency reserves, and related matters for Group Term insurance.

That, in turn, suggested that there was a real opportunity for one or more New York actuaries to make available technical advice as a service to the state. Mr. Hohaus said several of his actuarial friends joined in indicating willingness to be of such service, on the understanding that they would function as individuals and not as representatives or advocates for any particular group. The opportunity to serve was readily afforded them by both the legislative and the executive branches.

Fortunately, there was a wealth of pertinent information available. Hence the work consisted mainly of using that information to test alternative experience rating methods, and drafting detailed formulas which would, to the extent practical for a volatile risk such as unemployment, provide the advantages claimed for experience rating, and at the same time remove valid criticisms as to some of the formulas being proposed. In doing so, they held discussions with representatives of various interested nongovernmental groups, and were also privileged to participate in the deliberations of the legislative committee. Happily, from all indications, despite the heat of the controversy, the unofficial actuarial advisory group had the respect and confidence of the various interested parties, and was given credit for having been of decided assistance in developing an outstanding experience rating plan, which included several innovations serving to strengthen the underlying financial structure of the state unemployment insurance plan.

Legislation was enacted to carry out the Joint Legislative Committee's recommendations, which had as their objectives:

1. Guarantee of the existence of differential rates at all times regardless of the status of the Fund.
2. Use of a benefit factor which would measure exposure to future potential liabilities and, therefore, result in higher contribution rates when payrolls were increasing.
3. Use of a device facilitating stabilization of contribution rates from year to year.

After 3½ years of experience, employers can now qualify for rate reduction in accordance with two general factors: (1) the solvency of the State Fund, and (2) the individual employer's experience under the Unemployment Insurance Law. The first factor, known as the size of fund index, is determined as a ratio of all monies in the fund to the total of all taxable payrolls. In addition, an emergency contribution may be required whenever a "general account" balance in the State Fund falls below amounts equivalent to designated percentages of the total taxable payroll. The second factor, or employer's experience factor, is a weighted computation measuring benefit payment experience, degree of quarterly and annual payroll decreases, and length of period of liability (benefit factor, quarterly factor, annual factor and age factor, with the benefit factor receiving about three times the weight of the other three factors combined).

Unfortunately, Mr. Hohaus said, the story does not have a 100% happy ending as the controversy over experience rating still continues. But such an ending is, perhaps, a millennium which it is unrealistic to hope for in the United States.

Need for Actuarial Cooperation in Other States

It does not require much familiarity with the unemployment insurance plans of other states, in Mr. Hohaus' opinion, to become convinced that there is in many if not all of them a great need for the kind of technical advice and assistance many actuaries could give. This is especially true in the immediate future because of the importance unemployment insurance, as well as other social security fields, will have in the major study of Federal-state relationships which has been initiated by the Federal and state governments. Discussions with various individuals closely concerned with unemployment insurance developments in a number of states have made it very apparent that they would be happy to have actuaries become interested in their state unemployment insurance plans.

Mr. Hohaus called attention to another type of problem which the situation in some states is bringing increasingly to the fore. That is the question of maintaining the solvency of a state's unemployment insurance fund so that it will not become depleted as a result of adverse economic

conditions, general or localized, passing or persistent. Here again is an area in which many actuaries, by reason of their special training and experience, can render vital assistance.

What is the best way for an actuary wishing to interest himself in unemployment insurance to go about it? In Mr. Hohaus' opinion, there is no general answer to that question. It depends on the individual, the nature of his work, his employer, the extent and kind of his past activity in public, political and business organizations. As one illustration of the many potential avenues that are open, it is quite common for a Chamber of Commerce to be in close touch with unemployment insurance in its state, and often to have a special committee for that purpose. If an actuary personally, or his company, is already active in such a Chamber, he was confident that Chamber would welcome any overtures from the actuary to take part in its continuing studies of unemployment insurance, and indeed of any other branch of social insurance.

However an actuary decides to interest himself in unemployment insurance, he would find it a fascinating and challenging field for his talents—actuarial and otherwise. The need and opportunity are present, and Mr. Hohaus hoped that the case histories furnished by this panel would inspire a representative number of members—especially those active in Group insurance—to follow their example.

MR. BEERS said he had been concerned with the Connecticut Unemployment Compensation Law from the very beginning. Following the passage of the Social Security Act in 1935, the Governor of Connecticut wanted an actuary to be chairman of a commission to study the subject of unemployment compensation and to draft a bill for the consideration of the Connecticut Legislature, and he had accepted that appointment. The commission submitted its report in November 1936, and the original Connecticut Unemployment Compensation Law was passed at the end of that year.

While the Federal Social Security Act laid down a few requirements that a State Law had to comply with—this compulsion being exercised through the tax-offset device—the State Legislature was given a relatively free hand with respect to benefits.

The main problem was what kind of benefits, and in what amount, could be provided with a reasonable expectation that their cost would stay within 2.7% of payroll. If they were conservative in this matter, and if actual experience indicated that they had overestimated the cost, subsequent Legislatures could increase benefits or reduce costs through liberalized merit rating. Both of these things have in fact been done several times.

The first problem really was to determine what kind of benefits ought to be provided. History had indicated that governmental benefits for the relief of the able-bodied unemployed were very dangerous. Any that had been provided in the past had led to abuses and to deterioration of character of recipients so serious as to seem almost more undesirable than the distress sought to be alleviated. Nevertheless, the conviction was widespread in 1936 that unemployment compensation ought to be provided in amounts equal to some percentage of normal earnings, benefits to commence after a short waiting period of unemployment, and to be paid at least for a limited period during each spell of unemployment.

The 1934 Committee on Economic Security, a Federal committee whose working staff included an able member of the Society, Mr. W. R. Williamson, had assembled some statistics which were taken to indicate, within reasonable limits of accuracy, the percentage of the labor force which had been unemployed during the period from 1922 to 1933, and Mr. Williamson had prepared some suggestions for approximating the necessary adjustments to these figures for determining the cost of a particular plan of unemployment benefits.

The plan finally suggested by the Connecticut Study Commission provided benefits equal to half pay up to a maximum benefit of $15 per week, payable beginning after a waiting period of two weeks of unemployment, up to a limit of not more than 13 weeks in any four consecutive calendar quarters. The two weeks of waiting period did not have to be consecutive, but could have been served at any time within the past 13 weeks. The intermittently employed were not entitled to a full 13 weeks each year, by reason of a further limitation intended to limit a worker's benefits to one week of benefits for each four weeks of employment during a previous two-year base period.

Under the Law as adopted, benefit payments commenced in January 1938. Employer contributions were payable at the rate of 0.9% on 1936 wages, 1.8% on 1937 wages, and 2.7% on wages in 1938 and thereafter. Thus, approximately one full year's contribution was available in the fund before any benefit payments were made.

Benefit payments commenced during a period of heavy unemployment, but the benefit load soon lightened, and the average experience during the 15 years the law has been in effect has shown that the original estimates were overconservative, at least for the 15-year period in question. As a result, the law has been amended more or less substantially at nearly every biennial session of the Legislature.

The original $15 maximum weekly benefit and the original 13-week maximum period of benefits have both been doubled, while the two-week

waiting period has been halved. The law now provides benefits in each benefit year of half pay up to $30 per week, for a maximum of 26 weeks, following a one-week waiting period; and Dependent Benefits have been added, *i.e.*, additional weekly allowances for unemployed workers with dependent children under age 16. The weekly allowance is $3 per child, but the dependent benefit may not operate to increase the basic weekly benefit rate by more than half. Thus, the employee with a large family receives $45 per week if he earns $60 or more, or 75% of wages if he earns less than $60 per week. Only ten other states provide dependents' allowances.

In many states, the half-pay basic benefit rule has been increased on the theory that the proper benefit is half of the full-time wage rate, so that perhaps even 65% of average pay should be provided, since there is probably some unemployment during the period over which the average wage is computed. Mr. Beers doubted that the theory was correct because, as he pointed out, the average wage is generally computed from that quarter of the base year in which earnings are highest. Often there will be overtime, rather than unemployment, during that quarter.

The original Connecticut law attempted to set up a plan under which the intermittently employed would draw no more than one week of benefits for each four weeks of employment. This ratio has been liberalized from time to time until now the duration table permits intermittently employed people to draw about two weeks of benefit for each three weeks they are employed, year in and year out. Connecticut is, nevertheless, considerably less liberal than the average in this respect.

Being actuaries, members of the Society would, he supposed, tend to be especially interested in the merit rating, or experience rating, provisions of the unemployment compensation law. The original Connecticut merit rating plan would have been very expensive to administer, and the authorities there soon started to look for a substitute. At about that time some staff members of the Social Security Board in Washington came up with a new plan for merit rating and recommended that every state adopt it. Connecticut, alone of all the states, did so.

Mr. Beers said he personally favored the plan and described it briefly as a process of arraying all the employers of the state in the order of their unemployment rates. For this purpose, the unemployment rate may be thought of as the frequency of becoming unemployed—duration of unemployment is given small weight. The employers are then divided into 13 parts, the number of employers in each part being such that the aggregate payrolls are approximately equal, one part with another. There is a table of contribution rates, 13 rates, one for each part. According to the table

now in use, the employers in the part with the lowest unemployment frequency pay 0.5% of payroll, the highest part pays 2.7%, and the average is about 1.2%. The law contains, in effect, six tables; the one to be used depends upon the current aggregate balance in the State's benefit fund. When the fund is very large, the most favorable rate table is used, and the average tax is then only about 0.7%. When the balance in the Fund is very low, the highest table applies; then all employers pay 2.7%. The other four tables fall between these two extremes and develop average tax yields of 1.2%, 1.8%, 2.1%, and 2.4%, respectively.

Many criticisms have been leveled against this merit rating plan. Some students think it wrong to charge high tax rates to employers who by the very nature of their business must have heavy turnover rates regardless of anything they can do about it. In the more usual form, the criticism is that some employers, like insurance companies, benefit from low tax rates due to low unemployment rates which result not from virtue or well-doing but from the mere nature of their business.

Sometimes a very small employer has found that $20 or $30 of unemployment benefits paid to one of his ex-employees has moved that employer from one of the lowest of the 13 parts to one of the highest, and this has cost him hundreds of dollars in taxes. Sometimes a critic points out that the Connecticut plan raises average tax rates in depressions and lowers them in booms, when it would be better the other way around.

To all of those objections, Mr. Beers had little answer. He had tried to keep his ears open for constructive suggestions but heard none. If anyone could suggest a better scheme, he would like to hear about it—or better yet, let him get on the Advisory Council.

Life on the Advisory Council, Mr. Beers observed, did not consist merely in theoretical studies and discussions of merit rating plans. Now that Unemployment Compensation Laws are drawing attention in the state legislatures, all sorts of sound and unsound suggestions come up for study, analysis and argument. Rational cost estimates are both very difficult and very important in this field. Actuaries have much to contribute. They have the right kind of mental training to prepare them for it, and most of them are, he was sure, only inadvertently ignorant in this interesting and important subject.

MR. LEARSON declared that Unemployment Compensation in Ohio has had, on the whole, a much better than average experience for a large industrial state. He enumerated the several contributing factors that have made for a good result:

1. Benefit payments began in January 1939, providing the whole year 1938 to put together basic administrative procedures, and relieving the fund of the

heavy drain of 1938 unemployment. (Michigan, for example, which began in the middle of 1938, suffered administrative agony and many political difficulties because of this earlier start.)

2. State governments of both parties have resisted Federal domination in administration and have given consistent support to the Bureau of Unemployment Compensation in its efforts to collect contributions simply and pay benefits promptly and inexpensively.
3. The State Advisory Council, consisting of seven members—three public, two labor, two industry—has had unusual continuity of membership. The three public members and one industry member have had almost unbroken service since 1938. The Council's annual and special reports to the Governor and the legislature have always had a respectful hearing and in general have been influential in shaping legislation.
4. The three periods of substantial unemployment—1939, 1945 and 1949–50—were abruptly brought to an end, by war twice and reconversion once. The contribution base has therefore never been tested and pressures have nearly always been in one direction, to pay more benefits for longer periods and to collect less tax.
5. Since 1940 there has been a great growth of industry in the state. The fact that there are now 876,000 more workers and 26,000 more employers has improved, not worsened, the diversification of work opportunities.

Mr. Learson said he was projected into the administrative phase of the Ohio plan at the very beginning, in 1938, by one of the public members of the Advisory Council. The fight was to determine how 1,300,000 wage records, 50,000 employer contribution accounts, and untold thousands of future benefit payments were to be processed. The staff of the Social Security Board in Washington and the salesmen for the equipment companies wanted full mechanization. He and the staff of the Ohio Bureau of Unemployment Compensation (though for different reasons) wanted a minimum of mechanization, a maximum of hand routines. The home team won out.

With the ample supply of clerical help then available and with the respite gained to search for the best solution in the light of actual day-to-day experience, the Bureau has succeeded over the years in giving Ohio the least expensive administration of any large state in the Union. While this is partly a futile success in that the Federal Government keeps the money Ohio does not use, it is a strong argument for state collection and budgeting of taxes for unemployment administration purposes. Also, in achieving this record, it was necessary to lessen the reporting load of the employer who has thus been a direct gainer in the process.

At the outset, the benefit formula provided that a claimant should get 50% of his *average weekly wage*, but not more than $15 per week. This

benefit base was then defined in about 150 words involving several arguable entities such as "full time employment," "reasonable periods of busy and slack weeks." The result was confusion which lasted until the law was changed in 1941. Almost interminable hours of argument took place among staff members, representatives of employers and labor to determine a single satisfactory way out. He hoped that he had contributed in getting both sides to join in a recommendation to adopt a "legislative" formula which would avoid ambiguities and tie benefits to the arithmetic of the individual situation. A "high quarter" formula covering a base period of four quarters now supplants the original law and conforms in general to the method used in many other states.

Later, the merit (or experience) rating problem arose, with many serious and continuing implications. The original law provided, for merit rating, a simple formula that reduced benefits when the contributions to the credit of the employer, less claims charged back, exceeded certain percentages, with reverse or demerit ratings if such a fund fell below certain levels. Labor disliked merit rating on general principles. Industry was split; some firms with excellent experience wanted strong merit provisions, while the pottery and mining groups, perennially troubled with unemployment, wanted freedom from penalties. Chamber of Commerce groups wanted no merit ratings more onerous than charged in adjoining states in the same industry.

Added to these constant pressures for change, there came in the war years a proposal to charge new industry of the "war baby" type a higher or penalty rate so that reconversion after the war would see at least some reserves in the fund to cover claims that would never be charged back to an employer who himself failed to survive reconversion. This involved experimentation with the basic rating formula to adjust for increase in covered wages of abnormal amount (over 50%) and to predict their effect. From 1944 to 1947 such an extra or penalty rate applied, equal to 0.1% to 1.0% of wages. It was in these areas that an actuary could offer substantial guidance in giving estimates of the effect of changes in tax rates under various assumptions.

The net result was in general quite satisfactory, judged by the fact that Ohio has had and still has a higher than average reserve fund, 9.5%; a lower than average contribution rate, 1.14%; and benefits higher than average, $30 weekly plus $5 for dependency, and for the longest term, 26 weeks.

Mr. Learson next commented on what he termed the "explosive political dynamite" in a large reserve fund rapidly growing in a time of full employment. It tempts industry to cut contributions and labor to ask for

larger benefits, including dependency benefits. Since each group can concede the other's arguments and change the law to achieve both goals, a situation can easily occur that would have serious consequences in any major reversal of current trends. Any serious attempt to estimate the future effects of such changes by an independent actuary can serve a very valuable purpose, in Mr. Learson's opinion, because it will temper the ardor of the contesting interests and strengthen the hand of the moderates who would try to maintain a balance.

To support the case of the recent downward revision of the tax rates under merit rating in Ohio to permit contributions as low as 0.1%, Dr. Edison L. Bowers, of Ohio State University, a public member of the Advisory Council, has performed with the aid of the University Economics staff fundamental research into unemployment costs in Ohio and has developed sound bases for the Council's recommendations made into law this year. This was the kind of job that the actuaries of the state might well have assisted or helped review, and in Mr. Learson's opinion it is the type of study that should be in existence in every state to the end that the state's own peculiar characteristics in unemployment may be known and evaluated against those of neighboring states.

Under the Ohio law, the Bureau may suspend or reduce benefits in a period of marked unemployment "until such time as the fund is restored to a sound actuarial basis." This is justification for the actuarial profession to get into the problem and help establish measures of such soundness.

Mr. Learson agreed with Mr. Hohaus' suggestion that actuaries find a way of advising one of the organizations interested in unemployment compensation, like the Chamber of Commerce or the unions. He warned that the opportunities to help will usually not be exciting in content and a passion for anonymity will never be out of order. Nevertheless, he ventured to suggest that the give-and-take of this kind of practical politics would broaden and develop even the most exceptional actuary and that the time so spent would never in retrospect be considered by the giver as a civic sacrifice.

MR. HUNTER pointed out that, in contrast to the multiplicity of state plans in the United States, Unemployment Insurance in Canada is a Federal project. It is governed by the Unemployment Insurance Act, 1940, as amended from time to time. This Act became effective on July 1, 1941, and is administered by a Commission which is also required to maintain an employment service.

The Act provided for an Unemployment Insurance Advisory Committee to perform the duties specified therein. This Committee consists at present of a Chairman and eight other members, four of whom represent

employers and the other four, employees, and all are appointed for a term of five years. This division ensures that the interests of the chief contributors to the fund are adequately represented. Mr. Hunter was appointed as a member of this Committee in 1947 and reappointed in 1952 to represent employers. Prior to his appointment, the late Victor R. Smith, a member of the Society, had also been a member of the Committee, serving from its inception.

The duties of the Advisory Committee and the extent of its responsibilities are as follows:

1. To make a Statutory Report to the Governor in Council each year before July 31 on the financial condition of the unemployment insurance fund as of the 31st day of March last preceding; also to make a report whenever it considers that the fund is, or is likely to become, and is likely to continue to be, insufficient to discharge its liabilities. It may make a report on the financial condition of the fund at such other times as it may think fit. The Committee is charged with the responsibility, when it thinks the fund is likely to become insufficient to discharge its liabilities, of making recommendations for the amendment of the provisions of the Act or of any regulation made thereunder, such that, in the opinion of the Committee, the fund will be made sufficient. On the other hand, if, at any time, the Committee considers the fund to be more than reasonably sufficient to discharge its liabilities, it is charged with the responsibility of recommending amendments which may appropriately be made in these circumstances, and in either case its reports must contain an estimate of the effect which the amendments recommended will have on the financial condition of the fund.

The Committee is required to give public notice of its intention to make any of the aforementioned reports and shall receive any representations which may be made to it with respect thereto, and such reports must be laid before Parliament within a specified time.

2. To investigate and make a report whenever the Governor in Council shall require the Committee to do so. Under the Act, such additional investigations refer specifically to the provision of unemployment insurance for excepted employments.

3. To give advice to the Commission on questions relating to the operation of the Act and to advise on its amendment.

The Minister of Labour may provide the Committee with such professional, technical, secretarial and other assistance as the Committee may require, but the provision of such assistance otherwise than from the public service is subject to authorization by the Governor in Council.

Members of this Society will be aware that A. D. Watson, the former

Chief Actuary of the Dominion Department of Insurance, and Hugh H. Wolfenden, Consulting Actuary, both prepared actuarial reports for the Employment and Social Insurance Act of 1935 which was passed by the Dominion Parliament but subsequently was declared *ultra vires.* The British North America Act, 1867, was then amended with the consent of the Provinces to give the Dominion clear power to legislate for unemployment insurance. Mr. Watson made another actuarial report for the 1940 Act, and included therein the rates of contribution which he had calculated for the benefits provided under this Act. Mr. Wolfenden gave evidence before the Committee of the House of Commons dealing with the Unemployment Insurance Bill, as also did Mr. V. R. Smith, representing The Canadian Life Insurance Officers Association. It may be claimed, therefore, that the actuary in Canada played a vital role in the setting up of unemployment insurance in the Dominion. Since then, Mr. Watson has continued to exercise a considerable influence. He is normally in attendance at the meetings of the Committee, and in recent years his successor as Chief Actuary of the Dominion Department of Insurance, Richard D. Humphrys, has also usually been present.

The Canadian Scheme is a pooled fund to which employers and employees now make equal contributions, with the Dominion Government adding a contribution equal to one-fifth of the combined employer and employee contributions and in addition defraying the entire costs of administration including the costs of the employment offices. The object in Canada is to extend the benefits of insurance coverage as widely as possible and considerable progress has already been made in bringing under insurance the industries and employments originally excluded mainly because of administrative difficulties. It has been felt that the more stable industries should help to carry the less stable ones. No attempt has been made to make the contributions from one industry pay for all the unemployment experienced by that industry. The approach in Canada has been quite different from that in the United States where unemployment insurance appears to have been conceived along the lines of Workmen's Compensation. Experience or merit rating has no place in the present Canadian scheme of things.

The Canadian Unemployment Insurance fund has grown steadily since 1941 and at the end of the last fiscal year, March 31, 1953, it had reached $851 million. Conditions of high employment during the war and unexpectedly high employment after the war have produced this substantial fund. In the absence of a precise actuarial estimate of the size of reserves necessary to discharge the liabilities under the Act, it is perhaps inevitable that pressures should develop and be accentuated now for larger benefit

payments and relaxation or elimination of many terms and conditions of the Act. These pressures come mainly from labor organizations whose officers are members of the Committee. As a result of experience in administration and favorable employment conditions, the Act has already been amended at many points and, on balance, as a result of these amendments, the fund will, in Mr. Hunter's judgment, be subject to greater strains than were contemplated when the original calculations were made by Mr. Watson. He believes that in its contemplation of the fund, the Committee should take a reasonably long view. Very substantial benefit rights, both by duration and by amount, have been built up by the insured group who now are estimated to exceed 3,100,000.

In recent years, despite favorable employment conditions, substantial benefit payments have been made to claimants aggregating as high in the most recent years as 79.9% of the regular contributions for the year. Substantial drains on the fund caused by claims from married women and pensioners who, although retired from the labor market, hold themselves out as available for work, have been indicated by the analyses of the claims statistics made by the Dominion Bureau of Statistics for the Committee and the Commission. The Committee has been able to take remedial action so far as married women are concerned by requiring certain proof of attachment to the labor market after marriage, but the problem of the pensioners and the old age groups generally has so far proved intractable.

By comparison with the United States, a much higher percentage of the labor force in Canada is employed in export industries. Foreign trade is vital to Canadian prosperity. Decisions reached by foreign governments or business people over whom Canada can have no direct control can drastically affect the lives and fortunes of Canadians. Therefore insured persons under the Canadian Act need a large fund for their security. Actuaries are accustomed to look at all the facts and to take a long view and, apart from their technical work, they can be a stabilizing influence in the deliberations of a body such as the Unemployment Insurance Advisory Committee.

Mr. R. C. Guest asked the panel how they account for the fact that the Canadian system has so studiously avoided the merit rating system as in contrast with the United States.

Mr. Hohaus said he thought that Mr. Hunter had indicated the reasons for it. One is that in the United States the approach took the Workmen's Compensation route, namely that the responsibility for unemployment was placed primarily on the employer, and that naturally suggested com-

plete financing by the employer. When you take that route you are led to the conclusion of merit rating. If, however, the other approach is taken, namely that responsibility for unemployment should be placed on employees (and perhaps also society generally) as well as employers—and a good theoretical case can be made for each approach—that naturally suggests a contributory plan such as Canada has adopted.

Mr. Beers pointed out that merit rating has been a device for reducing the employer tax when Congress wouldn't permit it any other way.

Mr. Hunter said he thought there is an additional reason. According to a recent estimate, in Canada only about 15% of the employers have more than ten employees, and in the United States there are many states where employers with less than, say, eight employees are not included.

Mr. Learson emphasized that merit rating has had many beneficial effects on the employer himself. He has done a great deal to put his own house in order—dismissal wages, spreading work, anything to prevent having a claim against his account.

Mr. Hohaus referred back to the problem of unemployment benefits being paid to married women and pensioners. That problem was also very acute in New York prior to the adoption of the 1951 changes in the law. Since the 1951 experience rating formula became effective, it has been possible to take corrective steps probably more quickly and effectively than may be the case in Canada