# Cross National Comparisons of Social Services Pensions for the Elderly

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by

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## PREFACE

Teachers and researchers with an interest in the workings of social security systems in the western world will be familiar with P.R. Kaim-Caudle's book *Comparative Social Policy and Social Security — a Ten Country Study*, (London, Martin Robertson, 1973). When Professor Kaim-Caudle visited Australia recently, the Social Welfare Research Centre was fortunate in having him deliver a seminar. Although well attended, it would have been a shame to limit the contents of that seminar to those able to attend on July 14, 1981. This monograph is an expansion of the seminar delivered on that day.

In providing an overview of public income support systems in six countries, Professor Kaim-Caudle sees his main task as descriptive, but within that description a number of analytical issues emerge. The public income support systems of New Zealand, Australia, Britain, Canada, the German Federal Republic, and the United States of America are described in terms of seven criteria. They are : the nature of pension schemes ; financing of the schemes ; persons covered ; circumstances giving rise to entitlement ; benefit formulas ; benefit levels ; and equity between women and men.

Kaim-Caudle suggests (p.6) that facts make dull reading, but that they are necessary for greater understanding. What we have here is not dull reading, but a goldmine of information as well as a host of theoretical questions about rights, shares and claims, the essence of social policy today. Two examples will suffice. a) In describing benefits in some countries it is notable that women do not fare well, and at times do better as a dependent spouse than as an individual beneficiary. Women live longer than men, but sometimes receive less — why do social security systems create such a form of dependency?
b) Proportions of National Disposable Income devoted to social service pensions in the countries surveyed range from a high of 8.7% (German Federal Republic) to a low of 3.2% (Australia). While international comparisons are notoriously difficult (and often measure different things) what does this range tell us about public resources, public sector priorities, welfare politics and welfare futures ? These are only two of the many provocative issues that emerge from these pages.

Peter Kaim-Caudle is Professor of Social Policy at the University of Durham in the U.K. While in Australia in mid-1981 he was based with the Ageing and the Family Project in the Research School of Social Sciences at the Australian National University, a project with which the S.W.R.C. has strong working links.

Adam Graycar

Director
Social Welfare Research Centre

## INTRODUCTION

Support for the elderly takes various forms; amongst these, income support, housing subsidies, health care and welfare services are the most important. These four are interdependent and often cannot be distinguished easily. Additional support may be received through free or subsidised transport, rate rebates, reduced fees for TV licences, supply of limited amounts of free electricity and gas, telephone rental concessions, food stamps, as well as various discounts by private businesses such as cinemas, hairdressers, dry cleaners and hotels. Income support can be rendered through social service pensions, in the form of social security benefits, demogrants, social assistance, veterans service pensions, through tax concessions and through occupational pensions. Social service pensions are only one component, though an important one, of a complex, interlocking support system augmenting the other resources at the disposal of the elderly: earnings, home/ownership, income from investments and capital consumption.

The fiscal cost of social service pensions is determined by two factors only: the ratio of men and women in employment (workers) to pensioners and the ratio of pensions to replace net income. The relative importance of these two factors can be illustrated in tabular form (see Table 1).

### TABLE 1

### FISCAL COST OF SOCIAL SERVICE PENSIONS AS PROPORTION OF EARNINGS

| Ratio of Workers to Pensioners: | Ratio of Earnings Replacement: | | | |
|---|---|---|---|---|
| | 1/4 | 1/3 | 1/2 | 2/3 |
| | % | % | % | % |
| 2 - 1 | 11.1 | 14.3 | 20.0 | 25.0 |
| 3 - 1 | 7.7 | 10.0 | 14.3 | 18.2 |
| 4 - 1 | 5.9 | 7.7 | 11.1 | 14.3 |

This table shows quite clearly that the higher the ratio of workers to pensioners and the lower the ratio of earnings replacement the lower will be the fiscal cost of pensions. The expression of the fiscal cost of pensions as a proportion of earnings does not imply that an impost on earnings is the only possible or indeed the most desirable method of financing pensions. It is only meant to indicate the cost of pensions relative to a large component of the GNP in an unsophisticated way which is easy to comprehend. These percentages are equally valid for three different pension schemes: flat rate pensions equal to specified replacement ratios of average earnings; pensions which are proportionate to past individual earnings; and pensions proportionate to past individual earnings but subject to a ceiling of earnings which are replaced and a ceiling up to which the impost is levied. (It is assumed that these two ceilings are identical but this of course need not be the case).

The ratio of workers to pensioners is influenced by several factors of which the more important are:

1. The age composition of the population, especially the ratio of the over 65s to those aged 16-64.
2. The labour force participation of the 16-64s.
3. The minimum pension age.
4. The proportion above the minimum retirement age who are entitled to a pension.
5. The proportion of those entitled who claim a pension at various ages.

The age composition over any relevant time perspective is an unalterable fact. Labour force participation depends on factors 3-5 above, on the proportion of married women working and the proportion of 16-25s in tertiary education as well as on the state of the labour market. In any case labour force participation is a crude measure; millions of hours worked per year per thousand people of a particular age and sex is a more meaningful concept. The minimum pension age is determined by a political decision which is influenced *inter alia* by the fiscal cost of pensions. In an increasing number of countries there are different pension rates varying with the age of retirement and there are also restrictions on earnings related to the age of retirement.

The proportion entitled to pensions depends on the coverage of a particular system; it may exclude specific groups of employees, for example agricultural workers, domestics or civil servants. It also depends on the type of scheme. In a demogrant scheme, those eligible are all who satisfy a residence qualification; in a social insurance scheme, all who satisfy contribution conditions (and usually to a lesser extent, their dependants); and in a social assistance scheme, all who satisfy residence qualifications as well as a means test or an income test.

In a demogrant scheme virtually all who qualify will claim a pension. In the other schemes decisions whether to claim pensions or continue working will be influenced by :

a) The age, if any, at which retirement is compulsory.

b) The rate of pension relative to current earnings. The lower the level the fewer will retire.

c) The prevalence and level of occupational pensions. The greater the prevalence and the higher the level the more will retire.

d) The state of employment. Most of those entitled will claim a pension if they have no earned income.

e) The health of the elderly.

f) The nature of employment available to the elderly and the job satisfaction they can derive from it.

g) The extent, if any, to which the pension can be increased by deferring claiming a pension.

Social service pensions involve not only fiscal costs which are in the nature of income transfers but also economic cost : reductions in output of goods and services, due to lowering the willingness to work, to take risks and to save. The latter is at least partly offset by two factors: social service pensions may create a morale and spirit of social solidarity which increases productivity. This is possibly more persuasive if put the other way round. In an industrial society, the absence of a satisfactory pension scheme may create a climate of industrial relations and possibly even political tension which reduces productivity. The second offsetting factor is that leisure has as much economic value as goods and services and that the disregard of that fact leads to erroneous and unrealistic conclusions.

It should however be emphasised that indexing of social service pensions in line with either a Consumers Price Index or an Earnings Index does not involve any fiscal or economic costs. If in any year the fiscal cost of pensions is 10 per cent of GNP and in the following five years there is no economic growth but prices and pensions rise by seven per cent then at the end of this period the GNP will have increased by the same percentage and the proportion of GNP spent on pensions will have remained unaltered. The cost of pensions rises in only three circumstances: first, if pension rates increase by more than the GNP per head; second, if GNP per head declines and pensions are indexed to prices which are rising and third, if the proportion of pensioners increases relative to the labour force. If in a period of inflation pensions are not indexed or otherwise increased in line with prices, the cost of pensions declines and inflation becomes an excuse for the active, the young and the middle aged to rob the old, the disabled and the widows.

Cross-national comparison can be made in respect of certain characteristics of social service pensions:

1. The nature of schemes:
   - social insurance pensions subject to contributing conditions
   - demogrant pensions subject only to residence qualifications
   - social assistance pensions subject to residence qualifications and income or means test

2. Financing of schemes:
   - general revenue
   - flat rate or earnings-related contributions in different shares by employees, employers or both
   - contributions by self-employed
   - extent to which contributions are progressive, proportionate or regressive over different bands of income
   - extent, if any, to which contributions are tax deductible

3. Persons covered:

   variations by sex, age, marital status, employment status, occupation and industry

4. Circumstances giving rise to entitlement:
   - attainment of minimum retirement age
   - sex
   - residence
   - retirement from work
   - level of earned income

- level of non-earned income
- contribution conditions

5. Benefit formula :
   - flat rate or earnings related
   - abated for other income
   - assessed in relation to earnings in specified period
   - based on different methods of revaluing past earnings
   - related to age at retirement
   - marital status
   - household status
   - minimum and maximum rates
   - different income replacement ratios according to levels of income

6. Benefit levels of persons who are identical in all respects.

   Related to:

   - life time or recent pre-retirement earnings
   - average of median earnings of all employed or males only
   - national disposal income per head
   - post-tax or pre-tax income of averages

7. Equity between men and women in

   - survivors pensions
   - pensions to wives with no or limited employment record
   - case of divorce
   - minimum pension age
   - recognition of time spent on 'home responsibilities' in pension assessment

In describing and commenting on the social service pension schemes for the elderly in the six countries, no reference will be made to the adequacy of the pensions or to poverty amongst the elderly. In order to do so in any meaningful way, it would be necessary, as has already been mentioned, to take into account occupational pensions, health and housing provisions, income from investments and labour force participation. The purpose of this paper is more restricted; to attempt a largely factual comparison of one aspect of income support. It aims to provide for six industrial countries a greater understanding of the similarities and differences in these pensions. This does not make for interesting reading, facts tend to be dull, but understanding requires knowledge of the facts as well as the ability to analyse them. The sources used in this paper with few exceptions are official government publications.

## NEW ZEALAND

Social service pensions called National Superannuation are paid to all men and women at 60 years subject to residential qualifications, but irrespective of financial circumstances.

Since 1979 the rate of superannuation for a married couple after deduction of income tax equals 80 per cent of the post-tax ordinary time weekly average wage; each of a couple receives half that rate. A couple both of whom are 60 years or more thus receive a cash-in-hand payment equal to 80 per cent the cash-in-hand payment received by a person earning the average ordinary wage. The rate for a single man or woman - surviving spouse, permanently separated, divorced or never married - is one fifth higher than the gross married rate. A married person whose spouse is under 60 years of age or does not satisfy the residential qualifications may opt either to receive superannuation at the single rate regardless of financial circumstances or at the married couple rate, to include the non-qualified spouse, subject to the normal social security income test as it is applied for invalids' and widows' benefit.

The rates are adjusted every six months in line with changes in the next average ordinary time wage. Superannuation is subject to income tax at the normal rates. In New Zealand there are no tax free personal allowances for single people. In 1980 the tax paid by pensioners who had no other income was about 15 per cent, while the average tax paid by pensioners, taking all their income into account, was estimated to be about 20 per cent. The cost of superannuation payments is met out of general taxation.

Superannuation is based on ordinary time wages, excluding overtime, shift work and bonuses, and not on average weekly earnings. It relates to the earnings of all full-time employed persons, men as well as women. Separate earnings data for men and women are not normally computed but figures published in the Heggie Report on Equal Pay Implementation show that in New Zealand in October 1978 the average ordinary time earnings for women were 76 per cent of those of men and the average gross weekly earnings for women were 71 per cent of those of men. On the basis of these figures male average weekly earnings were about 21 per cent higher than average ordinary time earnings for all employees. The pre-tax married couple superannuation was about three fifths of the pre-tax average male weekly earnings. This is broadly comparable with the Australian age pension for a couple which at that time was about 50 per cent of average male weekly earnings.

Since 1979, Additional Benefit has been available to recipients of National Superannuation with limited income and cash assets who have relatively high accommodation cost. Only 1.2 per cent of all pensioners of 60 years and over received this benefit in 1980.

Superannuation in New Zealand differs from that in the other five countries in three respects: first, the only social service pension is a demogrant; second, the qualifying age for the receipt of pension is 60 years, a lower age for men than in the other countries; and third, pensions are adjusted in line with changes in earnings and not as in the other countries linked to changes in prices. Superannuation in New Zealand and age pensions in Australia bear no relation to the time when they were awarded or the age of the pensioners. In the other countries pensions awarded in the recent past are, and in Britain will be in future, higher than those awarded in the more distant past.

A flat rate superannuation represents a higher rate of income replacement for low than for well paid workers. It also redistributes income in quite a number of ways: first, within any year there is redistribution from those who have income from earnings and property to the over 60s; second, there is redistribution over the life span; third, there is redistribution from those who had earned incomes to those who have not been in the labour force, for example from the never married and couples both of whom earned to couples only one of whom earned and to surviving spouses who had not been earning; fourth, redistribution from men to women, partly because women live longer and thus are pensioners for longer and partly because women on average earn less than men and therefore contribute less in taxes; fifth, within the same income group from manual workers who have a shorter expectation of life at 60 years to non-manual workers who have a longer expectation of life; and finally, as pensions are flat rate and aggregate taxes, on goods and services as well as on income, are broadly proportionate to income there is a vertical redistribution from high to low incomes.

New Zealand superannuation and Australian age pensions in contrast to the provisions of the four other countries have the advantage that the break up of a marriage does not affect unfavourably the pension entitlement of either spouse; on the contrary, if either of the parties remain single their pension is a fifth higher than if they had remained married.

In August 1980 the single and married post-tax superannuation rates were about 12 per cent higher than the corresponding rates for invalid, widows and sickness benefit, none of which are taxable. Expenditure of National Superannuation in 1979 was 7.3 per cent of the National Disposal Income. If payments had been made only to those aged 65 and over, expenditure on superannuation would have been less by approximately 27%. In March 1980 some 406,000 received superannuation - this was about 13 per cent of the New Zealand population.

## AUSTRALIA

Social service Age Pensions subject to residential qualifications and an income test are paid to women at 60 and to men at 65 years. For those over 70 there is a demogrant - an income test free minimum pension - set at the pension rates current prior to November 1978.

The maximum pension rate for each of a married couple in May 1981 was 19.6 per cent of the average weekly earnings of all male employees; for a single pensioner it was one fifth higher. Capital is not taken into account when assessing pension entitlement but for single pensioners any private income in excess of $20 (before deduction of tax) and for a couple income in excess of $34.50 per week results in a reduction of the pension by half the excess. Thus for a widowed pensioner the age pension of $66.55 is reduced by $5 if she has private income - earnings, occupational pension or investment income - of $30 per week. If this income is in excess of $152 she loses all her pension. A couple may have a joint income of $255 - approximately the earnings of a full time non-managerial adult male employee - before they lose all their pension.

The wife of a pensioner who does not qualify for an age pension receives a wife's pension at the married age pension rate subject to the same income test as applies to all pensioners but irrespective of age and residence qualifications. The cost of Age and Wives' Pensions is met out of general taxation.

All pensions are automatically adjusted at six monthly intervals in line with changes in the Consumer Price Index. Pensions are subject to income tax but the tax exempt personal allowance for a single person is some \$8 per week above the maximum pension rate. A pensioner who had private income of \$20 per week in May 1981 was liable to pay \$3.90 in tax. At a private income of \$150 he would still receive a small pension of \$1.65 but his tax liability would be \$25.05. The combined effect of pension abatement and tax liability is a low increment in disposable income for increases in private income between \$20 - \$152 for a single person and between \$34.50 - \$255 for a couple. Within these income ranges disposable income rises by a mere 34 cents for every additional dollar received.

In Australia entitlement to free hospital, medical and certain other health services for people above pension age depends on their income. Here, as in assessing pension entitlement, capital is not taken into account. Single pensioners whose private income is less than \$40 or for a couple less than \$68 per week are entitled to these free health services as well as to various other benefits. These, conservatively estimated, are worth \$11 for single and \$14 for married pensioners. A single pensioner who has a private income of \$40 is thus \$10.64 worse off than if his income had been \$39 per week. The separate income testing for health service entitlement on top of pension abatement and tax deductions results in an increase in gross income between \$40 - \$73 for single and \$68 and \$110 for a couple, actually reducing disposable income. A glaring example of the 'poverty trap'.

The effect of these provisions may well be to discourage pre-retirement savings and post-retirement part-time earnings. They encourage investment in assets which produce capital appreciation rather than income. In recent years advice on tax avoidance given by accountants and financial institutions has broadened to include advice on 'income avoidance' to satisfy the age pension and health service income tests. The fact that capital is not taken into account in assessing entitlement to pensions and other benefits offers considerable scope to manipulations resulting in capital appreciation which is in the nature of income. They also encourage other practices which are illegal but often difficult to detect. These problems for a number of reasons are peculiar to Australia. In no other pluralist democracy are major basic health benefits for the elderly subject to an income test, in no other country do income tests take no account of capital, in no other country are occupational superannuation benefits, both in the private and the public sector frequently paid as lump sums rather than as pensions and in no other country are pensions subject to an income test paid to about 82 per cent of the population over 65 years.

Pensioners who pay for rent or lodging charges are entitled to Supplementary Assistance if they have little or no income apart from their pensions. This is subject to a special income test but not taxable. The minimum rate of assistance in May 1981 was $5.00 per week. It was received by 14 per cent of all pensioners. In the Federal Budget brought down in August 1981 it was announced that from February 1982 the rate would be increased by $3 to $8 per week. This will be applicable only at a subsidy rate of 50 cents for each $1 of rent in excess of $10 per week. The amount of assistance will be reduced by $1 for each $2 of private income. Pensioners receiving assistance who are public housing tenants will not, in future, be eligible for supplementary assistance.

Tax avoidance differs from income avoidance in that in tax avoidance the greater the income the greater are the benefits of not paying tax, while in income avoidance the gain cannot exceed the combined value of the maximum pension and of health benefits - in September 1981 this amounted for a couple to some $6500 per year. All the same the better off are likely to be more sophisticated, have more skill and buy more skill, in arranging income avoidance than the less well off. This makes the policing of liberal means tests more difficult than that of more restrictive ones.

Men and women who served in the Australian or Allied Forces in a theatre of war are entitled to Service Pensions. These pensions which are not a social service type are paid at the same rates and subject to the same income test as age pensions and differ from them only in four respects: they are paid five years earlier to men at 60 and women at 55 years, they are paid irrespective of age to the 'permanently unemployable', in assessing income for Service but not for Age pensions one half of a Disability pension is disregarded, and they give entitlement subject to eligibility to a somewhat wider range of health benefits. Dependants of service pensioners are entitled to wives' pension at the married rate as an alternative to an age pension. In assessing the proportion of the population above minimum pensionable age who receive pensions, age pensions (1.32 millions), service pensions (0.16 millions) and the small number of invalid and widows pensions paid to this age group must be taken into account.

On this basis some 99 per cent of the population over 70 receive social service pensions, about one seventh the minimum demogrant, a fifth a reduced, and just under two thirds the maximum pension. For the 65-69 age group 78 per cent receive a pension, about seven tenths at the maximum rate. For women aged 60-64 many of whom have husbands who are still working the proportion of pensioners is 65 per cent, two thirds are at the maximum rate. The proportion of the population above the minimum pensionable age who receive a pension is 87 per cent.

There is no evidence that the income test for age pensions is considered stigmatising. The advice given in the financial pages of newspapers how to maximise pension entitlement and the advertisements for age pension counselling seminars seem to indicate that income tested age pensions are widely considered as a citizen's right earned by paying high taxes during the working life. The political pressure for abolishing the income test - the avowed policy of all political parties in the mid-1970s - does no longer come from pensioners who feel stigmatised but from people of pension age who are excluded by the income test from receiving pensions.

In March 1981 the Department of Social Security estimated that the gross cost of abolishing the income test for all pensioners over 65 years would be about $600 million per year that is equivalent to the cost of increasing age pension by about 15 per cent. The net cost, allowing for the tax on these pensions, would be approximately $400 millions. The $600 million which would be incurred in abolishing the means test would suffice to raise all pensions (age, invalid, widows, as well as supporting parents' benefit) by $6 or 9 per cent per week. Abolition of the income test would benefit only the relatively well off. The $600 million dollars could alternatively be utilised to increase the pension and allowances for the least well off pensioners or to liberalise the health benefits income test.

In a dynamic economy in which the purchasing power of wages increases over time, the adjustment of pensions in line only with prices maintains pensioners' standards of living but reduces it relative to the population of working age. The government can prevent this happening by ad hoc adjustments of pension rates in excess of that required by price changes. The effect of income testing 91 per cent of the pensioners, all but those of the over 70s who claim only the demogrant, and the abatement of about a quarter of all pensions, makes Australian pensions for the elderly more redistributive from the higher to the lower income group than the New Zealand national superannuation scheme. In 1981, it is, however, less redistributive than it was in 1969 when the tapered means test (which reduced pension abatement, above the amount disregarded, from 100 to 50 per cent) was introduced and prior to 1976 when the test on both income and assets was replaced by a test of incomes alone. In other respects the redistributive effect of age pensions is much the same in New Zealand.

In 1981 the single and married rates of age pensions were the same as the corresponding rates of widows and invalid pensions and of supporting parents' benefit. The income tests for these pensions and benefits are identical. Age and widows pensions and unemployment, sickness and supporting parents' benefit are taxed but invalid pensions are exempt from tax.

In 1980 expenditure of social service pensions for the population above the minimum pensionable age was about 3.2 per cent of National Disposable Income. In June of that year these pensions were paid to 10.2 per cent of the Australian population.

## BRITAIN

Social service pensions for the elderly in Britain are more complex than in New Zealand and Australia and have been frequently modified during the last 35 years. The present system came into operation in 1978 but this too has already been altered in important respects. Social insurance retirement pensions are awarded to women at 60 and to men at 65 years subject to contribution and retirement conditions but irrespective of financial circumstance and residence qualifications.

The integrated social insurance system covers in addition to retirement pensions also widow's, invalidity, sickness, maternity, unemployment, industrial injury and death benefits. In 1981 expenditure of retirement pensions accounted for about 70 per cent of the aggregate expenditure on social insurance provisions. All pensions and benefits are financed by one contribution which is levied in four classes: Class 1 earnings-related contributions paid by employed earners and their employers, Class II flat rate contributions paid by the self employed, Class III flat rate contributions paid voluntarily by non-employed persons and Class IV related contributions paid by the self employed within prescribed ranges of income. One contributor may be liable to pay contributions in several classes. Class II, III and IV contributions give entitlement to only the basic flat rate retirement pension. The number of contributors in these three classes is relatively small and accounts for only about six per cent of all contributors. All men and women above minimum pensionable age are exempt from paying social insurance contributions. The British social insurance scheme provides for basic and for additional retirement pensions and for a lower and an upper contribution limit.

Liability to pay Class I contributions depends on whether earnings from employment reach the lower earnings limit of ₤27 per week (all figures refer to 1981-82 unless otherwise stated). Employed earners and self employed with incomes below this level are exempt from contributions. Men and women irrespective of conjugal status pay the same contributions, but a large group of married women and widows with long employment records, in preservation of existing pre-1978 rights, may pay a reduced contribution of only 2.1 per cent up to the upper earnings limit of ₤200 and, if they are self employed, need not pay any contribution. Other employed earners fall into two categories depending on whether they are or are not contracted out of the state's additional retirement pension scheme. Employed earners who are not contracted out pay a contribution of 7.10 per cent (plus 0.65 per cent National Health Service contribution) and their employers pay 9.40 per cent (plus 0.60 per cent N.H.S. contribution and 0.20 per cent to the Redundancy Payment Fund) up to the upper earnings limit. Contracted out employed earners and their employers pay the same contributions as are paid by and for other earners up to the lower earnings limit but for earnings between the lower and the upper limit they pay contributions which are 2.5 per cent lower for employed earners and 5 per cent (4.5 per cent up to 1981) lower for their employers.

The lower earnings limit is, but for rounding, the same as the basic retirement pension and has in recent years been equal to about 21 per cent of the average earnings of all adult males. The upper earnings limit according to the Social Security Pensions Act 1975 has to be between six and a half and seven and a half times that of the lower earnings limit. In 1981-82 it was 7.4 times (₤27 to ₤200) that limit and thus imposed a contribution ceiling of just over one and a half times the average earnings of all adult males.

Employers may contract their employees, or any group of their employees, out of the state's additional pension scheme if they provide for them and their widows an occupational pension scheme which is at least as favourable as that provided by the state scheme. The purpose of the reduced contributions for contracted out employed earners is to assist them and their employers to pay contributions to an occupational pension scheme. This arrangement is a compromise between the two major British political parties after many years of bitter controversy about the relationship between state and occupational pensions.

The contributions paid by employed persons are proportional to earnings up to the upper income limit and thereafter are regressive. A man who earns ₤200 per week pays a contribution of 7.10 per cent, that is ₤14.20 per week, while the man who earns ₤300 per week also pays ₤14.20 but this represents only 4.73 per cent of his earnings. The fact that social insurance contributions are not levied on unearned income makes the scheme even more regressive. The incidence of real burden of the employers' contributions is notoriously difficult to assess; it differs between industries and even between individual employers in the same industry; is it not the same at all times, but in its general effect it is not unlike a value added tax. The contributions paid by employed earners, their employers and the self employed towards social insurance pensions and benefits are augmented by a Treasury supplement equal to 14½ per cent (18 per cent until 1981) of contributions paid. This supplement is calculated on the contributions which would have been payable without provisions for contracting out.

The basic retirement pension of ₤27.15 is awarded to contributors in all four classes who have reached the minimum pension age, have retired from regular employment and satisfy the contribution conditions. Married women receive this pension on the same terms as other contributors but are also entitled on their husband's contributions to a wife's pension of 60 per cent of the basic pension. Married men pensioners whose dependent wives are less than 60 years old receive an adult dependent's allowance of an amount equal to the wife's pension. In Britain single pensioners thus receive pensions which are a quarter higher than half the pension received by a couple: the corresponding ratio for New Zealand and Australia is one fifth.

Basic and additional pensions are reduced where contributors have not reached the minimum contribution levels in the requisite number of years but, where these conditions are satisfied in at least 20 years and in each of the other years the contributor was precluded from regular employment by responsibilities at home, no reductions are made. More than 97% of men and of women claiming on their husband's contribution are awarded the basic pension without reductions. In the past under different regulations, some 14 per cent of women mainly married women claiming a pension on their own contributions received the basic pension at a reduced rate. This will not be the case to the same extent under the present law.

Basic pensions are only paid to people who have retired from regular work. Pensioners whose earned income exceeds ₤52 per week have their pensions abated by 100% of the excess. This earnings rule does not apply to men over 70 and women over 65 years. The basic retirement pension is the same as that for younger widows but is about 30 per cent higher than the sickness and unemployment benefit received by single persons or couples. The rate of invalidity benefit depends on age at the onset of entitlement. For most invalids it is the same as or higher than the basic retirement pension.

The additional pension scheme which was introduced in 1978 provides a pension of 1.25 per cent of earnings between the lower and the upper earnings limit for each year of earnings under the scheme. The pension is based on the 20 years in which earnings were highest; other years are disregarded. Actual earnings are revalued in terms of earning levels which are current in the last complete tax year before pensionable age. The additional pension paid to contributors retiring in 1981 was thus 3.75 per cent of the relevant revalued earnings between 1978-81. In 1998 when the scheme will have matured the additional pensions will be 25 per cent of the relevant, revalued earnings. The impact which the additional pensions (which are not subject to the earnings rule) will make, is illustrated in Table 2.

Surviving spouses inherit the deceased spouse's pension entitlement subject to two limitations: no-one is entitled to a basic pension higher than that which can be earned by one person — ₤27.15, and no-one is entitled to an additional pension higher than one person could have earned on maximum earnings under the scheme — one quarter of the difference between ₤27 and ₤200, that is ₤6.49 in 1981. When the scheme will have matured in 1998 the maximum will be ₤43.25 revalued for price changes between 1981 and 1998.

The basic and additional pensions are uprated annually in line with the movement of prices. The Social Security Pension Act 1975 had provided for an uprating in line with earnings or prices whichever was most favourable for pensioners.

Contributors who defer retirement for up to five years after reaching the minimum pensionable age earn an increment in both the basic and additional pension of 1/8 per cent of the pension forgone for each week of deferment. For five years of deferred retirement the increment is thus 3.25 per cent of the pension. A rather poor bargain for the contributor. The actuarial increment at current rates of interest would be substantially greater.

## TABLE 2

## EFFECTS OF 1978 STATE SCHEME ARRANGEMENTS

| | Pre-retirement earnings as proportion of average full time male earnings | Basic and Additional Pension as percentage of pre-retirement earnings for retirement in | | | | Surviving Spouse Pension as percentage of couple's pension | |
|---|---|---|---|---|---|---|---|
| Column: | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | | 1978 | | 1998 | | 1978 | 1998 |
| | | Single | Couple* | Single | Couple* | | |
| | ½ | 40 | 64 | 55 | 79 | 63 | 70 |
| | 1 | 20 | 32 | 40 | 52 | 63 | 76 |
| | 1½ | 13 | 21 | 35 | 43 | 63 | 81 |
| | 2 | 10 | 16 | 26 | 32 | 63 | 81 |
| | 3 | 7 | 11 | 17 | 21 | 63 | 81 |
| | 4 | 5 | 8 | 13 | 16 | 63 | 81 |

Source for Col. 1, 2 and 4 - Inquiry into the Value of Pensions H.M.S.O. 1981 Cmnd. 8147.
Col. 3, 5, 6, 7 author's calculations.

* Wife's pension on husband's contributions.

All these proportions are of gross earnings before deductions of tax. After deductions of tax net pensions will in all cases be a higher proportion of net earnings.

The Occupational Pension Board was set up to protect the interest of contracted out employed earners. The Social Security Pension Act 1975 and regulations made by the Board, both of which are inherently complex, ensure that these earners irrespective of their employment career receive at least the same level of earnings related pensions than they would have received if they had not been contracted out. This may be a combination of an occupational pension or pensions and a pension under the state scheme. While the statutory objective is achieved, successfully contracted out earners who change their employment, and this is the norm rather than the exception, may well pay more in contributions for an additional benefit. Occupational pension schemes are not required to adjust the pensions in payment of contracted out members in line with rises in price. Such adjustments are paid by the state in respect of that pension level to which the member would have been entitled had he not been contracted out. The adjustment of pensions above that level, if any, is the responsibility of the occupational pension funds.

On top of basic and additional pensions and deferred retirement increments there are age supplements of ₤0.25 for pensioners over 80; invalidity allowances varying from ₤1.80 to ₤5.70 for those who have been awarded invalidity pensions more than five years before attaining minimum retirement age; and graduated pensions averaging a mere ₤0.58 under legislation in force between 1959-75 are paid to half of all pensioners.

A demogrant, known as a non-contributory old age pension, is paid to all persons reaching 80 years of age who satisfy a residence test and who either failed to qualify for a social insurance pension or qualified for a pension at a lower rate than the demogrant. These pensions are paid at a weekly rate of ₤16.30 with an allowance of ₤9.80 for a dependent wife under 80 years. About 10 per cent of all pensioners of this age group receive these pensions. They mainly benefit people who have some other income and do not wish to claim or are not qualified to claim social assistance.

People of pensionable age are also entitled to a Supplementary Pension at a rate sufficient to bring their resources up to the level of their requirements. Basic requirements prescribed by regulations have since November 1980 been the same as the basic retirement pension rates. For householders, requirements are increased by a 'rent addition'. This includes rent and rates paid by tenants and for owner occupiers rates, mortgage interest and an allowance for maintenance and repairs. Depending on a pensioner's circumstances requirements may also include an Exceptional Circumstance Addition for fuel, domestic assistance, special diets or laundry. Resources include all social insurance pensions as well as other income, with a disregard of £4 earned income for both the pensioner and his wife. A pensioner with capital of more than £2000 (excluding the value of his house, car, furniture and personal belongings) does not qualify for a supplementary pension, capital of £2000 or less is disregarded in assessing his entitlement.

In 1979 there were about 9.7 million men and women above pensionable age of whom 8.8 millions received a social insurance retirement pension. The great majority of those not receiving a pension were either wives between 60-64 whose husbands were still working or men and women past the minimum age who had not yet retired. Some 22 per cent of retirement pensioners received also supplementary pensions, virtually all of these were householders and three quarters of them received Exceptional Circumstances Additions. Only one hundred thousand supplementary pensioners of retirement pension age were not in receipt of a social insurance retirement pension. The receipt of supplementary pensions is considered widely as stigmatising and it is estimated that about a quarter of those entitled to claim them fail to do so.

The combined basic and additional retirement pension is progressive. Contributions are proportionate to income while pensions are a higher proportion of low than of high earnings. The progressive effect of flat rate basic pensions is partly offset by the regressive nature of the earnings related additional pensions. These are regressive as income up to the lower earnings limit is disregarded. The selective income tested Supplementary Pension makes the aggregate effect of social service pensions for the elderly even more distributive. The redistribution however takes place mainly between people who earn less than about one and a half times the average wage of an adult man.

A married woman in New Zealand and Australia receives the same pension as her husband, while in Britain a married woman who has not worked outside her home receives only 60 per cent of his basic pension. The pensions received by a couple are not split equally. Furthermore as men normally earn more than women their additional pension will be correspondingly higher, though as the combined basic and additional retirement pensions favour the lowest paid, women will receive pensions which present a higher proportion of earnings than that received by men. As additional pensions are assessed on earnings in the best 20 years, women can qualify for a full pension by working for only 20 years as long as for the years they did not work they had 'responsibilities at home'. On average men will have to work many more years than women to receive both the basic and the additional pension and will receive these pensions five years later than a woman. As women live substantially longer than men they will also derive more benefit from the provision that, subject to statutory limitations, the surviving spouse inherits the retirement pension of the deceased spouse. The retirement pension scheme in many respects is thus favourable for women and especially for married women. This however does not apply to divorced women. They have no claim to a share in their ex-husband's additional pension while he is alive nor do they inherit any share of his pension after his death.

The proportion of retirement pensioners claiming supplementary pensions will decline with the increase in additional pensions between 1981 and 1998. The younger pensioners will thus be better off than the older ones. In a dynamic economy with rising real wages this will also be the case as each cohort retiring will have had somewhat higher earnings than those who retired some years previously.

Retirement pensions are taxable but as the tax free allowances are higher than the pension, pensioners who have no other income are not liable to tax. In 1979 the basic retirement pension received by a couple was 33 per cent of the average gross wage but 43 per cent of the average net wage, after deduction of tax and social insurance contributions, received by adult male workers. The corresponding percentages for single pensioners were 21 and 28 per cent.

About 16.1 per cent of the population receive retirement pensions. Expenditure on retirement and supplementary pension in 1979 was ₤8,400 millions, about 5.5 per cent of the National Disposable Income.

## CANADA

Social Service pensions in Canada are provided in three tiers. Their history is quite different from that of British pensions but at present the two systems have many common features. In Canada, demogrants - Old Age Security Pensions (OAS) - are paid to all men and women over 65 years subject to residence qualifications. These pensions in January 1979 were paid at the rate of $167.25 per month, equivalent to about 15 per cent of the average industrial wage. In addition, persons who have no other income but these pensions received a Guaranteed Income Supplement (GIS) of $137.25 per month for an unattached individual and $228.33 for a married couple. The unattached individual thus received a fifth more GIS, but only 8 per cent more minimum pension entitlement, the aggregate of OAS and GIS, than a married couple. This minimum pension was equal to about 26 per cent and 49 per cent of the average of wages and salaries for the unattached and the couple respec

The GIS is abated at the rate of $1 for every $2 in respect of income reported on the income tax return of the previous year after disregarding income from OAS pensions, income tested Provincial supplements and statutory death benefits. A single man who had income from earnings, investments, other social service or occupational pensions of $270 per month would still have been entitled to a small GIS of $2.25 per month while a couple could have an income of about $448 before they lost all entitlement to GIS.

A spouses allowance is payable to OAS pensioners' spouses aged between 60-64. This allowance for a couple who have no other income is paid at the same rate as the aggregate of OAS and GIS for a married person. It thus puts the couple one of whom is 60-64 in the same position as were they both of pensionable age. The Spouse's allowance is however abated more steeply — $3 for every $4 of other income — for that proportion which equals the OAS pension. The Canadian Spouses Allowance is paid for men as well as women but contrary to New Zealand, Australia and Britain there is no allowance or pension of any kind for the wife of a pensioner who is less than 60 years.

OAS, GIS and Spouses allowance are adjusted quarterly in line with upwards movements in the Consumers Price Index. There is no reduction if the index should decline. An interesting feature of social service pensions is that seven out of the ten Provinces supplement the Federal GIS. Alberta, Saskatchewan, Manitoba, Nova Scotia and, since 1980, Quebec also pay supplements which vary with the amount of GIS received. Each Province applies its own rules but generally, individuals with higher Guaranteed Income Supplement also receive higher Provincial supplements. British Columbia and Ontario pay supplements to bring pensions up to a Provincial statutory minimum income level which is higher than the Federal minimum pension. In some of the Provinces not all GIS recipients benefit from supplementation. In British Columbia it is not paid to pensioners in institutions while in Saskatchewan and Manitoba the supplement is paid only to those receiving close to the GIS maximum. The Provincial Supplements, except in Nova Scotia, are not indexed but are adjusted periodically on an ad hoc basis.

The average supplementation was about \$34 per month in 1979. Expenditure on supplementation approximated to 18 per cent of the Federal expenditure on GIS and was less than four per cent of the combined OAS/GIS expenditure. These averages however hide quite substantial differences in the maximum income support received by pensioners in different Provinces. In Alberta the Provincial supplement was \$45 for single and \$94 per month for a couple who had no other income, equivalent to an increment of about 15 per cent over the Federal minimum. In British Columbia all single pensioners, except those in institutions, received a supplement of \$37 and a couple received \$99. With the exception of Nova Scotia, the Provinces which pay supplements are the ones where the proportion of pensioners who receive GIS is smallest and in which average amount paid in GIS is least, that means, those where pensioners on average, relative to pensioners in the other Provinces, are least deprived. However, as in these Provinces incomes are higher than in the other Provinces, pensioners receiving only the Federal minimum pensions would be worse off in relation to the rest of the population in their own Province. (See Table 3).

However, the Provincial supplements are too low to offset the income differences between the Provinces. Thus, while in Ontario and in British Columbia personal incomes are almost 50 per cent higher than in the Maritime Provinces, the average supplementation of OAS/GIS was only 13 per cent.

In 1978 the number of demogrant OAS pensioners was 2.1 millions, equal to 11.1 per cent of the Canadian population, of these 55 per cent also received the GIS. A quarter of all pensioners and just less than half of all GIS recipients also benefited from the Provincial supplement; less than one hundred thousand received the Spouse's allowance.

All expenditure on OAS and GIS since 1972 is met out of Federal taxation. Prior to that date these pensions had been financed through a 3 per cent sales tax, a 3 per cent tax on corporation income and a tax of 4 per cent on personal incomes. OAS pensions are subject to income tax while the income tested GIS, Spouse's Allowances and Provincial Supplements are tax exempt. In 1978 the OAS pension was well below the \$2430 basic tax free allowance. In addition there was a person exemption of \$1520 for individuals who were over 65 years. Thus pensioners would only commence to pay tax when their income, other than the OAS pension, was at about the same level as the OAS pension.

TABLE 3

PERSONAL INCOMES, GUARANTEED INCOME SUPPLEMENTS AND PROVINCIAL SUPPLEMENTS

ANALYSED BY PROVINCE

1978

| | GIS Recipients as % of OAS Recipients | Average GIS | Provincial Supplement to OAS/GIS (1) | | Personal Income per Head |
|---|---|---|---|---|---|
| | % | $ p.m. | $ p.m. | % above OAS/GIS | $ |
| British Columbia | 51 | 79 | 38.9 | 13 | 8036 |
| Alberta | 56 | 59 | 45.0 | 15 | 7507 |
| Saskatchewan | 54 | 81 | 25.0 | 8 | 7015 |
| Manitoba | 57 | 79 | 7.8 | 3 | 6850 |
| Ontario | 46 | 77 | 38.9 | 13 | 8035 |
| Quebec | 63 | 83 | | | 6847 |
| New Brunswick | 67 | 83 | | | 5509 |
| Nova Scotia | 68 | 83 | 13.5 | 4 | 5826 |
| Prince Edward Isle | 71 | 84 | | | 4951 |
| Newfoundland | 82 | 90 | | | 4989 |
| Canada | 55 | 80 | | | 7342 |

(1) For unattached pensioners.

The third tier of social service pensions are the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP). These plans cover retirement, disability and survivors benefits. The two plans, in respect of retirement pensions, are very similar and ensure that coverage is provided regardless of the place of work. Contribution to the plans is compulsory for almost all employees and self employed between the age of 18 and 65 years. They are levied on all income from employment above a basic exemption level and a ceiling, the yearly maximum pensionable earnings level. In 1978 the lower level was $1000 and the upper level was $10,400 per annum, the rate of contribution is 1.8 per cent of earnings for both employers and employees and 3.6 per cent for self employed persons.

The contribution rate was thus progressive up to $10,400 per annum (0.9 per cent for $2000 and 1.62 per cent for $10,000) and regressive thereafter (0.81 per cent for $20,000). The ceiling in that year was only about three quarters of the average of wages and salaries. It is intended to increase the ceiling by 12.5 per cent annually until it reached the average of wages and salaries and thereafter index it in line with movements of wages and salaries.

The retirement pension regardless of any other income and, since 1975, regardless of retirement is 25 per cent of average lifetime pensionable earnings, revalued to reflect changes in the maximum pensionable earnings level. In order to compensate for years of low earnings due for example to unemployment or sickness, 15 per cent of contributor's years in these plans may be disregarded in assessing lifetime average earnings. As at present contribution ceiling is well below the average earnings for men and women and is planned to equal that average sometime in the 1980s, it follows that retirement benefit for persons with above average earnings is and will remain a flat rate equal to a quarter of the maximum contribution and pensionable earnings ceiling.

In 1978 the maximum retirement pension was $194 per month so that pensioners receiving the maximum CPP or QPP retirement benefit were still entitled to receive a reduced GIS if they had no other income but their OAS pensions. This meant that unattached individuals retiring in 1979, who had earnings equal to the average of wages and salaries, replaced with OAS/GIS and CPP or QPP pensions, slightly more than a third of pre-retirement earnings. For a couple, where one spouse had not been working outside the home, the corresponding proportion was nearly three fifths. The income replacement ratio for individuals, particularly women, who had below average earnings was higher. It was also somewhat higher for net after-tax earnings than for gross pre-tax earnings.

CPP and QPP retirement pensions are not augmented by adult or child dependants allowances. Surviving spouses over the age of 65 receive in addition to their OAS/GIS pensions a CPP or QPP pension equal to 60 per cent of the retirement pension to which the deceased spouse was or would have been entitled. Surviving spouses between 60-64 fare much worse, they are not entitled to the OAS/GIS pensions and their CPP Pension in 1978 was a flat rate of only $48 plus 37.5 per cent of the deceased spouses retirement pension entitlement.

These elderly widows in all Provinces but Quebec thus received a pension of only 11 per cent of the average wage and salary. In Quebec under the QPP they fared slightly better; their flat rate pension was $125 and this brought their pension up to 17 per cent of the average wage and salary. Surviving spouses who are also entitled to a retirement pension on their own contributions may not receive combined survivors and retirement pensions exceeding the maximum retirement pension which can be received by one contributor.

CPP and QPP retirement pensions are paid only to contributors or their widows or widowers; non working spouses do not acquire any rights in respect of their partner's contributions while they are alive. Surviving spouses of a contributor receive lower pensions than the contributors had themselves received. This results in widows who have not worked outside the home being worse off than most other unattached individuals. The formal equality between men and women in Canadian pension legislation does not result in effective equality. Indeed for CPP and QPP pensions it is less than in the other five countries except Germany. The CPP and QPP were introduced in 1957. For the following ten years retirement pensions were awarded at the rate of 2.5 per cent of earnings for each year of contributions, so that the full 25 per cent pension has only been awarded since 1976. As in the years between 1957 and 1977 the level of pensions awarded increased annually, older pensioners receive on balance lower pensions than more recently retired pensioners. People who retired prior to 1967 receive no earnings related pensions at all.

These social insurance pensions are adjusted annually in line with movements in the Consumer Price Index. In a dynamic society in which wages and salaries are rising faster than prices CPP and QPP pensioners will merely maintain their standard of living while that of earners will increase. In such a society people who retired recently will have had higher life time earnings and correspondingly higher pensions than people who retired with lower life time earnings in the more distant past.

Two recent amendments are of particular interest to women. Since 1977 a couple, on divorce, can split the CPP/QPP credits which they have built up while they were married. A year later a further amendment enabled parents to withdraw from the labour force for up to seven years to raise a child without these years being included in assessing the average lifetime earnings on which pensions are based. This amendment was implemented in Quebec but by 1979 had not come into effect in the rest of Canada as it had not yet been approved as is required by the CPP Act 1966 by a majority of two thirds of the Provinces having two thirds of the population.

The benefits under the CPP/QPP are financed entirely out of contributions to these plans without any state subsidies. All pensions are subject to tax. In 1978 CPP/QPP pensions were received by about 40 per cent of all OAS pensioners. This proportion will increase as the earnings related programmes mature but it will never reach 100 per cent as the over 65s who were not contributors, such as married women who have not worked outside the home or invalids, will not qualify for these pensions.

The rate of contributions fixed in 1966 and which has remained unaltered since, was well above that required to meet the current cost of benefits. This has led to an accumulation of funds. In 1977 contributions levied exceeded benefits paid by 80 per cent and the surplus accumulated at that date was $17 billions. This surplus will continue to grow until the middle 1980, when benefits paid out currently will equal contributions levied. Thereafter the funds accumulated will decrease, unless contributions are raised, and it is estimated that they will be exhausted early in the twenty first century. In 1977-78 expenditure on OAS/GIS was $4,050 million and on CPP/QPP was $1,411 millions, amounting in aggregate to about 3.4 per cent of the National Disposable Income.

## GERMAN FEDERAL REPUBLIC

In Germany in contrast to the other five countries, there is no national system of social service pensions. Virtually the whole employed population is covered by some pension scheme but for certain groups of self employed the distinction between social service pensions, occupational pensions and pseudo social service pensions, in fact, though not in law, is somewhat blurred. There are several dozen separate pension schemes for self employed farmers, professional people and one-man businesses and partnerships. All these provide different benefits, charge contributions at different levels in different ways and receive Federal

Government grants. For some groups these grants are minimal while in the case of farmers they exceed contributions by a factor of three. Other groups of self employed are wholly or partly, compulsorily or voluntarily covered by the statutory pension schemes for employees. The self employed and members of their families working with them account for about 13 per cent of all employed.

Some public servants (Beamte) are not included in the statutory schemes for employees but have their own statutory occupational pension scheme. Other public servants, approximately half, are included in the employee schemes but are also covered by a separate supplementary scheme. Both groups in aggregate have virtually the same pension rights, but the second group has to pay contributions to one of the general employee social insurance schemes but does not contribute to the supplementary scheme. The second group does, however, enjoy a more favourable tax position compared with the Beamten. Persons who work only occasionally or intermittently for minimal reward (all these terms are defined in great detail in regulations) are not covered by any social service pension scheme, nor are the non-employed including married women who have not worked for prolonged periods outside the home.

All other employees are compulsorily insured for old age, invalidity and widows pensions in one of three statutory social pension schemes. There is a scheme for about 300,000 miners (the number was much larger in the 1950s) which provides more generous pensions, at an earlier age and on often less onerous conditions. The employee contributions to this scheme are marginally higher than those paid by other employees while the employers, are almost twice as high as those paid by other employers. The other two schemes cover manual workers and non-manual workers respectively and provide pensions for at least 85 per cent of the population. These two schemes used to provide different benefits and charge different contribution rates. They are still organisationally separate but since 1942 they provide, with fairly insignificant exceptions, identical benefits and charge identical contributions. For all practical purposes, they can be considered as one scheme though in Germany there is strong political support for keeping them separate.

Germany in 1889 was the first country to set up a system of social service old age pensions for employees though, at that time, it covered only certain classes of manual workers. This system has been modified in many respects during the last 90 years but in several of its major characteristics, it has remained unaltered. Contributions are compulsory, earnings related, shared equally between employees and employers and are augmented by grants out of general taxation. Pensions are paid in respect of old age and invalidity and are related to earnings. The pension scheme is administered by autonomous public bodies which are composed of equal numbers of elected representatives of 'masters and men'. Some of these characteristics differ markedly from those prevalent in the Anglophone countries. In these, social service pensions are administered by the state and in all but New Zealand since 1977, pension schemes endeavour to bring about a modest redistribution of income not merely over the life span and between generations but also vertically between income groups.

At present social insurance contributions for old age, survivors and invalidity pensions under the two major statutory pension schemes for employees are levied at the rate of 18.50 per cent of earnings up to a ceiling of twice the average earnings of all adult men and women covered by social insurance. This ceiling does not relate to current earnings but to time lagged earnings representing the average of the first three of the last four years. In 1981 it was twice the average earnings of the three years 1977-79 and was thus on average twice the average earnings of three years ago. In recent years the ceiling has been about 160 per cent of the current average wage. These contributions are shared equally between employers and employees except that for regular employees who have very low earnings the whole contribution is paid by the employer. The burden of social insurance contributions on employees is mitigated by making them in part a deductable allowance for income tax. The proportion which may be deducted varies with income and marital status. The detailed rules are quite complex; for a married man on average income whose wife does not work, all contributions can be deducted; for single people and for higher groups only a proportion of the contributions can be deducted.

Contributions to social pension insurance are supplemented by a grant from the Federal Government. In 1980 and in recent years that amounted to about one quarter of the contributions paid.

Old age pensions are assessed by a sophisticated formula which produces pensions which are meant to reflect pensioners' standard of living during their working lives and the number of years in which they were deemed to have worked in insured employment. This formula is the product of four components: the general basis of computation (Bemessungsgrundlage), the personal assessment basis,the years covered by insurance and the statutory increment payable in respect of every year insured.

The general basis of computation is half the contribution ceiling for 1977 adjusted annually by the percentage change between average earnings in insured employment in the last three years but one, and the average earnings in the last three years. So that the basis of computation from 1980 to 1981 was increased by the rise in average earnings between 1977-79 and 1979-80. It thus reflects average earnings with a time lag of two years (prior to 1978 the time lag had been three years).

The personal assessment basis is the average percentage by which over the whole period covered by insurance an individual's earnings deviate from the average earnings in insured employment. Thus if in 1977 a man or woman earned DM30,000 (average earnings in that year were DM25,000) the personal assessment basis for that year would be 120 per cent; if he earned DM20,000, his basis would be 80 per cent.

In order to assist people who have been covered for pension insurance for at least 25 years but have had very low earnings for the whole or part of this time the law provides that in computing the personal assessment base in respect of earnings prior to 1973, these earnings are assumed to equal at least 72 per cent of the relevant general basis of computation. The introduction of this provision in 1972 raised the pension of about one million women and 200 thousand men by an average of DM105 per month.

The years covered by insurance are not only one-twelth of the months for which contributions had been paid but also other periods during which persons are deemed to have been insured. These may be 'substitute periods' during which for reasons beyond their control contributors were unable to pay contributions, for example, war service or imprisonment for political reasons between 1933-45, or 'gap periods' during which they could not undertake renumerative employment for reasons unconnected with public policy, for example, inability to work due to illness, accidents, unemployment, maternity or tertiary education.

Pensions are payable at the incremental rate of 1.5 per cent of earnings, or prescribed national earnings for substitute or gap periods, for every year of insurance cover. Men and women who are covered for 50 years, from 15 to 65 years, are thus in theory entitled to a pension of 75 per cent of their average life-time earnings. This is the same percentage as the maximum pension which can be earned by civil servants, though a civil servant receives the maximum pension after only 35 years service.

The effect of the pension formula can best be illustrated by an example. What would be the pension of a man or woman who retired in 1980 after having been covered for insurance for 40 years and whose average earnings were 20 per cent higher than those of all men and women covered by pension insurance?

General basis for computation for 1980 - DM21,911

Personal assessment basis - 120 per cent

Years covered by insurance - 40 years

Incremental rate - 1.5 per cent

$$\text{DM}21{,}911 \times \frac{120}{100} \times 40 \times \frac{3}{200} = \text{DM}15{,}776$$

If wages remained unaltered from year to year, that means if there was neither an increase in real wages nor an inflationary increase in money wages, the man or woman in this example would have retired with a pension of 72 per cent of average earnings or expressed differently 60 per cent of his revalued life time earnings. As however the general basis of computation increases with rising earnings and as it lags two years behind current earnings the actual pension replacement ratio will be less than 72 per cent. If for example earnings increase on average by 10 per cent annually the ratio would only be about 60 per cent of average earnings or 50 per cent of his revalued life time earnings. Two factors not explicitly included in the pension formula are crucial in determining the pension replacement ratio: first the rate at which average earnings increase and second the length of the time lag between the period taken into account for the assessment of the general basis of computation and the time of retirement.

Insured persons in managerial, professional, supervisory and clerical employment are likely to have higher earnings in the years immediately preceding retirement than they had previously while for manual workers the opposite will be the case. As the personal assessment basis is related to average life time earnings it follows that the pensions awarded will be a higher proportion of manual workers pre-retirement earnings than that of non-manual workers. In Canada this is not the case to the same extent, as earnings in the 15 per cent of years in which they were lowest are disregarded in assessing pensions and, what is more important, the earnings related pension is only one tier in a possible three tier pension, while in Germany the whole pension is earnings related. In Britain the differential effect on manual and non-manual workers of assessing pensions on life time earnings is avoided by basing pensions only on the 20 years in which revalued earnings were highest.

In Germany the age at which pensions are awarded is flexible. Pensions can be claimed at age 60 by three classes of insured persons: women who have been covered by pension insurance for at least 15 years and have paid contributions in at least 121 months in the 20 years prior to retirement; men and women who have been covered by pension insurance for at least 15 years and either have been unemployed for one year in the previous 18 months or are disabled. Men and women can retire at 63 years if they have been covered by pension insurance for at least 35 years. All other men and women receive a pension at 65 subject to having had pension insurance cover for 15 years at any time of their lives. The pensions are computed irrespective of age without any regard for the actuarial cost of early retirement. Men and women who retire at 63 after 35 years in insured employment rather than at 65 years lose two years pension entitlement and therefore receive a pension which is less by three per cent of their annual average life time earnings or expressed differently, assuming that their earnings between 63-65 would have been the same as their average earnings had been previously, the pension would be less by 5.4 per cent than if they had retired at 65. Women, disabled and unemployed persons who retire at 60 rather than at 65 on similar assumptions reduce their pension by 12.5 per cent. As will be seen later, the corresponding proportion in the USA is a reduction of 28.5 per cent.

Pensions awarded prior to 65 are up to that age subject to retirement and earnings restrictions. Pensions awarded at 65 or later are free of all restrictions. Men and women who are entitled to a pension at 65 years can augment their pensions by delaying retirement and not claiming a pension. In this way, they receive an increase of .6 per cent for every month, until the age of 67, for which they do not receive the pension. By not claiming their pension for two years, they can increase it by one-seventh.

A widow is paid 60 per cent of the old age pension which her deceased husband had received. If he was still working at the time of his death and she is 45 years or older, she will receive 60 per cent of the higher grade invalidity pension to which he would have been entitled at the time of his death. This pension is computed by the same formula as the old age pension but requires a waiting period of only five years, compared with the 15 years required for the age pension. In order to boost the invalidity pensions of comparatively young, disabled people they are credited with 'additional periods' in assessing their years in insured employment. These are the number of years between the incidence of invalidity and the 55th birthday. This results in a pension for a widow of 46 years whose husband died aged 48 years after having been in insured employment for 28 years, being based on 35 years insured employment. A man is entitled to a widower's pension only if he had been wholly or mainly supported by his deceased wife. A widow or a widower receive their pensions for the remainder of their life, unless they remarry. They do not become at any age entitled to old age pensions other than on the basis of their own contributions.

Widows who have no claim to an old age pension fare much worse than widowers who receive such pensions. Widowers and other old unattached men will on average have old age pensions two-thirds higher than the widows pensions of old women. Furthermore, in spite of the credit for 'additional periods', widows who lost their husbands before they were 63 years are worse off than widows whose husbands died after retirement. Their pensions are based on fewer years of insurance cover than if their husbands had survived until the normal retirement age. The unfavourable position of widows and the difference in pension entitlements between men and women have been much discussed in Germany in recent years. The Federal Constitutional Court ruled in 1975 that laws which made different provisions for widows than for widowers were unconstitutional and must be changed in due course. An expert commission was appointed in 1977 to make recommendations about changes in the social security provisions of women and surviving spouses. The government is expected to introduce new pension provisions favourable to women by 1984.

In the past, pension payments have been increased annually in line with changes in the general bases of computation; that means in line with time lagged changes in average earnings. As a result of the recession in the 1970s, expenditure on benefits exceeded income from contributions and Federal Government grants. This led to temporary changes in the adjustment of pensions currently paid. In 1977 pensions were increased by 9.9 per cent in July and it was decided to delay any further adjustment by 18 instead of the customary 12 months. In the following year as a further temporary measure pension increases for 1979 were restricted to 4.5 per cent and those for 1980 and 1981 to 4.0 per cent. As from 1982, pension payments are to be adjusted as previously: annually in line with time lagged earnings. In spite of these economy measures the Federal Ministry of Labour and Social Affairs claims in its Annual Report for 1980 (Sozialbericht 1980) that pensioners have not fared too badly. Between 1976-80 pensions increased by 28 per cent and the special Pensioners Cost of Living Index by 14 per cent. In 1969 the post-tax income replacement ratio of a pensioner after 45 years in insured employment had been 65 per cent, by 1979 it had increased to 73 per cent. This development was decidedly favourable for pensioners. Pensions increased not only relative to prices but also relative to workers take-home pay. This favourable development was, however, largely the result of higher deductions from wages rather than increases in pension rates. In any case relatively few employees retire after 45 years in insured employment. In spite of the provisions for 'substitute periods' and 'gap periods', the pensions of men retiring in 1977 were based, on average, on 37 to 38 years of insured employment, while those of women were based on some ten years less.

The Pension Insurance Funds are not only responsible for the payment of pensions but also for the financing of health services for pensioners. In 1980, they contributed to the statutory Health Insurance Funds sums equal to about 12 per cent of the expenditure on pensions. This provided comprehensive, free of charge health care for the pensioners. In addition, they spent a further four per cent in directly financing rehabilitative and preventive health care for their members.

The German Pension system is based on the principle of income replacement. It provides relatively generous income replacement ratios for all people who had incomes. The system, like all social insurance, redistributes income over the life span, between contingency groups, for example, between people who survive for different lengths of time after retirement, and between generations. It does not redistribute income vertically between income groups. People who had low incomes receive low pensions and so, relatively do people who experienced prolonged periods of unemployment or illness. The system favours people who had a steady work record as employees and enjoyed a good income. These are, of course, also the people who contributed most during their working life. Nor does the German system redistribute income as much as other systems between women and men. Women receive lower pensions proportionate to the extent to which they have earned less and worked for fewer years then men. Married women who have not worked for prolonged periods outside the home do not receive any pension as they have not lost any income. Widows receive pensions because they lost their income support by the death of their husbands. The ideology on which this system is based, especially as regards the treatment of women, is no longer prevalent in Germany today. For that reason, major changes in the system are expected to be implemented in 1984.

One major change was already implemented in 1977. Since that date on the divorce of a marriage the pension rights acquired during the marriage by both partners are aggregated and each is credited with half the aggregate. This normally involves a transfer of some pension rights from the husband to the wife. The disadvantage of this provision is that both parties may be left with unduly low pensions.

The provisions as well as the organisational structure of social and pseudo social service pensions make it difficult to ascertain the number and the proportion of elderly who receive pensions. The flexible minimum pension age, the fact that pensioners can receive two or more pensions from the statutory schemes for employees and that simultaneously they may be entitled to pensions of a pseudo social service character, for example, farmers' pensions, all combine to make it virtually impossible at present to quote with any confidence figures about the proportion of a particular age group receiving pensions. Let it suffice to say that in 1979 some 15.3 per cent of the population were above the age of 65 years and 19.2 per cent, almost one-fifth, were above the age of 60 years. All of these over 65 years with quite minor exceptions either received a pension or were married to a pensioner. The best possible estimate suggests that pensions under the statutory scheme for employees in that year were on average about equal to just under three-fifths of the post tax income of men who have currently a similar income to that which the pensioner used to have while he worked. As women on average worked few years their pensions will be correspondingly less.

In attempting to estimate the aggregate expenditure of pensions for the elderly it seems reasonable to disregard pensions paid to civil servants and the expenditure of Pension Funds on health care. On this basis, the cost of social service pensions for the elderly in 1979 came to about DM107,000 millions equal to about 8.7 per cent of the National Disposable Income. This is the right magnitude but it is not claimed for the reasons already stated that this proportion is as accurate as those for the other five countries.

## UNITED STATES OF AMERICA

Social service pensions for the elderly are provided by the Federal Old Age Survivors Disability and Health Insurance Programme (OASDHI). This programme is administered by the Social Security Administration of the US Department of Health and Human Services. It covers virtually all persons in remunerative employment irrespective of whether they are employees or self employed.

Excluded from cover are federal employees, state and local government employees and household workers whose earnings are below prescribed fairly minimal levels.

This programme is financed entirely by contributions of insured persons and their employers. The contributions levied in respect of employees are shared equally between them and their employers. In 1981 both paid 6.65 per cent of an employee's earnings, of this 4.7 was in respect of Old Age and Survivors insurance, .67 for Disability insurance and 1.3 for Health insurance. The rate for the self employed was half as much again for Old Age, Survivors and Disability Insurance and the same for Health Insurance. The system provided identical benefits for employees and the self employed though the self employed contributed only three quarters to Old Age Survivors and Disability insurance and only half to Health Insurance of the contributions paid by and on behalf of employees. The equity of this arrangement depends on an assessment of who bears the burden of the employers' contributions. This is a topic well beyond the scope of this paper.

Contributions on earnings of employees and the self employed are levied only up to a ceiling which was $29,700 in 1981 and which is adjusted annually in line with changes in an earnings index. Between 1975 and 1979 this ceiling was 167 per cent of the average weekly wage in private non-farm employment, for 1980 and 1981 the ceiling was about double this wage.

Contributions to social insurance are not tax deductible and pensions are not subject to tax.

The normal pension age for men and women as well as surviving and dependent spouses is 65 years. Insured persons may opt to claim a pension at any age after 62 years. However, if they claim a pension between 62-64 years this is subject to an 'actuarial reduction'. This is meant to give men and women who opt for early retirement a pension of a discounted value equal to the discounted value of the pension they would have received at the age of 65 years. This actuarial value is a bit of a myth. As the average expectation of life of women is decidedly longer than that of men this ought to be reflected in different rates of reduction but this is not the case. Furthermore, discounted values are strongly influenced by the current and expected rates of interest; the recent sharp increase in interest rates should have led to an increase in these reductions but this again has not happened. The aim of incurring the same expenditure on an individual's pension irrespective of the age which he retired thus has not been achieved. The early retiree fares rather better than was intended.

Since 1972, the pension of an insured person has been reduced by 5/9ths of one per cent in respect of each month for which the pension was paid prior to the normal pension age. This means that for a person claiming a pension at 62 years the reduction is ($\frac{5 \times 36}{9}$ = 20) one fifth. The corresponding reduction for a wife or husband who became entitled to a pension (Dependant's benefit) in respect of their spouses' contribution is ($\frac{25 \times 36}{36}$ = 25) one quarter, and that of a surviving spouse or a surviving divorced wife, who may claim a pension at the age of 60, is ($\frac{19 \times 60}{40}$) 28.5 per cent.

Retirement before the normal pension age is the rule rather than the exception in spite of the quite substantial reductions in pension this involves. In 1977, the last year for which detailed statistics are available, about one quarter of all men retiring before the age of 70 years, retired at 62 years and another quarter at 63 and 64 years. For women, the corresponding ratios are even higher, two-fifths and one-third respectively. Two-thirds of wives of retired workers claim a pension prior to 65 years. Half of all widows' pensions are awarded to women under 65 years and the majority not claiming will not have been widows at that age.

Pensions are paid subject to contribution conditions and for those under 72 years (70 years as from 1982) to an earnings and retirement test. For any earnings of pensioners under age 65 years in excess of $3,720 per year in 1979 the pension is reduced by $1.00 for every $2.00 earned, for pensioners above that age, the same rate of abatement applies to earnings in excess of $5,000 per year. Both these exempt amounts are adjusted annually in line with an earnings index. The lower amount equals about one-third of the average private non-farm wage while the higher amount is rather more than two-fifths of that wage.

Persons who have satisfied the contribution conditions and are entitled to claim a pension at 65 can earn Delayed Retirement Credits if they postpone retirement and refrain from claiming a pension. These credits for workers who attained the age of 62 after 1978 are earned at the rate of one quarter of one per cent for each month, up to the age of 72 years, for which the pension claim is delayed. A man or woman who delays retirement for five years would thus increase his or her pension by 15 per cent. This increase is inherited by the surviving spouse of the pensioner who was entitled to the increase. The increment seems a very poor bargain and well below the actuarial increase which would make the discounted value of a pension at 70 years equal to that of a pension at 65 years.

Contributions giving entitlement to pensions are such that virtually all insured persons are able to satisfy them.

Pensions are related to past earnings with two exceptions. As a transitional provision fixed rate pensions are paid to elderly people over 80 years. These are not financed out of contribution but out of a Federal grant. Special minimum pensions are paid to people with low earnings who have a long work and insurance record. All other monthly pensions are determined in two steps: first, the computation of average indexed monthly earnings (AIME) and second, the calculation by prescribed rules of benefits payable at age 65 based on these earnings and on a statutory formula. The AIME reflects the individual's taxed earnings, that means, earnings on which contributions have been levied, for each year after 1950, relative to the national average taxed earnings in the indexing year. This is the second year before the year in which the insured person attains the age of 62. These provisions are best illustrated by an example. The indexing year for an insured person who was 62 years in 1979 is 1977, while his earnings, say, for 1965 were $2,500. In that case, $2,500 is multiplied by the quotient of average taxed earnings for 1977 ($7,672) divided by the average taxed earnings for 1965 ($3,108). This equals $6,150. It is important to note that the indexing is not applied to the actual earnings in 1965 but to the taxed earnings. As in that year more than 60 per cent of all men, who had worked in all four quarters, had earnings above the maximum taxable ceiling, it is apparent that for most men the AIMEs were well below the index wages which would reflect their actual earnings. This is not the case to anything like the same extent for women, only 20 per cent of whom had earnings above the ceiling in that year. In recent years, the proportion of workers who had earnings above the ceiling has been very much lower. This is due to the contribution ceiling now being twice the average private non-farm wage.

In computing the pensions the five years for which the indexed monthly earnings were least are disregarded, earnings after the indexing year are counted at their nominal value. The statutory benefit formula for 1980 was 90 per cent of the first $194 per month, 32 per cent of the next $977 plus 15 per cent of the excess over $1,171. The sums incorporated in that formula, known as bends, are adjusted annually in line with the movement in average wages (not in average taxed wages). For an insured person with average private non-farm earnings who had an income of about $1,050 per month in that year the benefit formula gives a hypothetical pension replacement ratio of almost half of average earnings at the age of 65. This, however, is not possible since earnings in some of the earlier years when the maximum taxable earnings, relative to actual earnings, were fairly low, are included in the AIME. In 1977, the last year for which detailed figures are available at the time of writing, the average monthly pension awarded to those aged 65 was $306 for men and $239 for women; for those who had opted for early retirement the corresponding pensions were $271 for men and $184 for women. In that year, average private non-farm earnings were $823 per month.

In addition to pensions for retired insured persons the OASI scheme also provides pensions for their dependent spouses and their divorced and not remarried spouses. These pensions are also subject to an earnings test and are paid at the rate of half the insured person's pension. Surviving spouses and surviving divorced wives are paid pensions equal to those which were received by their deceased spouses. The OASI scheme provides pensions for widows or surviving divorced wives below the age of 60 only if they are disabled or caring for children. Pensions for divorced wives are only paid to women above the age of 62 but a dependent wife can receive a pension at any age if she cares for children of the pensioner, but otherwise only after the age of 62 years.

These pension arrangements especially as regards women have been criticised on several counts. Married men receive greater benefits (including those for their dependants and survivors) for the same contributions than those received by single men or women. Two earner couples may receive lower combined pensions than couples with only one earner though aggregate incomes may be the same. A married woman with low earnings has to pay contributions but may effectively receive no pension as her wife's pension on her husband's contributions will be more favourable than one based on her own contribution. She will not be able to claim both without suffering reductions. Women receive lower pensions as their incomes are generally lower than those of men. However, proportionate to income, women fare better than men as the pension formula is biased towards the lower paid, that means it redistributes income vertically downwards. Women also fare better because in the past a higher proportion of women's than of men's wages were taxed and thus included in computing the AIME. The expenditure on pensions for women is also greater as, on retirement, they have a longer expectation of life than do men. Divorced surviving spouses receive the same pension as widows which appears a fairly generous arrangement in an earnings related contributory scheme.

The second social service pension scheme for the elderly is the Supplementary Security Income (SSI). This is also administered by the Social Security Administration and provides monthly cash payments in line with nationwide eligibility requirements to persons above the age of 65. SSI is a deficiency payment scheme which raises incomes to prescribed levels after taking into account any other income they receive. In December 1979, the needs level for householders was $208 for single persons and $312 for a couple. The rates for those not living in their own households were one third less. The first $60 of OASDI pensions or other earned or unearned income in a calendar quarter were disregarded and so were $195 a quarter earned income plus one half of any earnings above $195. Any capital resources, excluding a home and modest car, above $1,500 for an individual or $2,250 for a couple, disqualified for receipt of SSI. States have the option of supplementing the SSI levels for all or certain categories of recipients.

The number of elderly receiving SSI payments in 1979 was about 1.9 millions, of these 1.2 millions received Federal payments only, .4 millions received both Federal and State payments, and .3 millions received State payments only. The latter was accounted for almost entirely by three States: California, Massachusetts and New York. Federal SSI payments averaged $94 and State supplementation $112, the overall average based on all recipients was $123. Almost 90 per cent of all recipients lived in their own households.

In 1977, out of every 1,000 population aged 65 and over 904 received OASI and 99 received SSI, in total 943 received OASI or SSI or both. About 8 per cent of those receiving OASI also received SSI and 70 per cent of those receiving SSI also received OASI.

Martin Feldstein (in the Social Security Bulletin) wrote in May 1979 :

> For a worker who has median life time earnings and who retires at age 65 with a dependent spouse, social security benefits now replace approximately 50 per cent of final years after tax earnings.

This appears to reflect adequately the present position of social service pensions for the elderly.

The OASI is a very huge programme which benefited in 1979 some 22.7 million retirement pensioners and 7.6 million survivors. Expenditure accounted for some $95 billions and was equivalent to about 4.6 per cent of the National Disposable Income.

## SUMMARY AND CONCLUSIONS

Administrative expenses incurred in paying social service pensions to the elderly are not recorded separately. Except for OAS/GIS pensions in Canada such pensions are administered jointly with other pensions, particularly disability and invalidity pensions and in New Zealand, Australia and Britain jointly with most other social security cash payments. Furthermore, the administrative costs which are published are not strictly comparable as the methods of computing these costs are not uniform in all countries. The ratio of administrative costs to benefits does depend on whether the schemes are demogrants, social assistance or social insurance, on how frequently benefits are paid, on whether they include those benefits which are inherently expensive to administer. The level of benefits is another factor determining the administrative cost ratio. To pay a pension of $100 per week, *ceteris paribus*, will involve no more administrative cost than paying a pension of $50 per week but the expense ratio for the lower pension will be twice that of the higher one.

The proportions shown in Table 4 are given merely to indicate orders of magnitude. They refer only to the estimated cost of the administrative agency. In New Zealand, Australia and the Canadian OAS/GIS/SPA pensions, there are no other costs but for social insurance schemes there is also the administrative cost borne by employers and the self employed in paying contributions.

In any case, high administrative costs are not necessarily to be deprecated nor do low costs necessarily deserve congratulations. A scheme which has fair, though complex, provisions, settles claims quickly and accurately and provides a courteous, helpful and easily accessible service to applicants will be more expensive but may be preferable to one cheaper to administer which has the opposite characteristics. A scheme with a high level of citizen participation, local involvement (co-determination of employers and employees) and fair and expeditious appeal provisions will be more expensive but not necessarily less desirable than one bureaucratically and cheaply administered efficiently in the sense of using the minimum of resources to attain the objectives which it is endeavoured to achieve.

TABLE 4

ADMINISTRATIVE EXPENSES OF SOCIAL SERVICE PENSIONS FOR THE ELDERLY

| Country | Year | Benefits Included | As Proportion of Benefits |
|---|---|---|---|
| New Zealand | 1979/80 | 1 | 1.9% |
| Australia | 1979/80 | 2 | 2.0% |
| Britain | 1979 | 3 | 3.7% |
| Canada | 1977/78 | 4 | .4% |
| Canada | 1977/78 | 5 | 2.5% |
| West Germany | 1975-77 | 6 | 2.2% |
| West Germany | 1975-77 | 7 | 1.9% |
| U.S.A. | 1979 | 8 | 1.3% |

Benefits included :

1. All social security cash payments except Accident Compensation.
2. All social security cash payments except Workers Compensation.
3. All social insurance and cash payments not Supplementary Pensions.
4. OAS/GIS/SPA.
5. CPP/APP.
6. Manual Workers pension scheme.
7. White Collar Workers pension scheme.
8. OAS/not SSI benefits.

In New Zealand, pensions are demogrants; in Australia pensions are income but not means-tested with a lower rate demogrant pensions for the over 70s; Britain provides pensions for the elderly as part of an integrated social insurance scheme with income and means-tested deficiency replacement, supplementary pensions for more than a fifth of all pensioners. Canada has a three tier system - a demogrant, an income tested deficiency pension for about half of all pensioners, and a modest social insurance pension. Germany provides social insurance pensions; social assistance payments to the elderly are numerically relatively unimportant. In the United States of America, the major social insurance pensions are supplemented by a deficiency replacement scheme which provides low levels of benefits to some 8 per cent of all pensioners.

In the four countries which have social insurance pensions, contributions are not tax deductible in Britain and the United States of America, are largely but not wholly deductible in Germany, but can be deducted as a tax allowance in Canada. Social service pensions for the elderly are subject to income tax as earned income in New Zealand, Australia, Britain, Canada (OAS and CPP/QPP) but in Germany they are only taxed to a very limited extent, while in the United States of America they are exempt from tax.

The minimum pensionable age for women is 60 in New Zealand, Australia, and Britain; women in Germany can retire at that age at a reduced pension if they had recent and prolonged attachment to the labour force; in the United States of America the minimum pensionable age for women is 62 while in Canada it is 65 years. For men, the minimum age is 60 in New Zealand, 63 in Germany, 62 in the United States of America, and 65 in Australia, Britain and Canada.

A married woman who has not worked outside the home receives the same pensions as other married women and men in New Zealand, Australia and Canada (OAS/GIS/SPA), about 60 per cent of the basic flat rate pension in Britain, 50 per cent of the earnings related pension in the United States of America and no pension at all in Canada (CPP/QPP), Germany and Britain (additional pension). A widow receives the same pension as other unattached individuals in New Zaeland, Australia, Britain (basic pension) and Canada (OAS/GIS); she inherits the whole of her husband's earnings related pension in the United States of America and Britain (additional pension), but only 60 per cent of her husband's pension in Canada (CPP/QPP) and Germany. In New Zealand, Australia, Britain and Canada (OAS/GIS) virtually all women above the minimum pensionable age recieve old age pensions while in Canada (CPP/QPP), Germany and the United States of America widows pensions are not converted into old age pensions.

Pensions are subject to a retirement or earnings test in Australia at any age for a full pension but not after 70 years for a reduced demogrant pension; in Britain (basic pension) up to the age of 70 years; in Germany all pensions up to age 65; and in the United States of America all pensions up to age 72 years. There are no restrictions on earnings in New Zealand, Canada and Britain (additional pension).

The self employed are awarded pensions on the same conditions as employees in New Zealand, Australia, Canada and the USA. In Britain they are only entitled to the flat rate basic pension but not to the earnings related additional pensions. Most self employed in Germany are covered by a variety of separate pseudo social service pension schemes while some are insured in the employee schemes but not always on the same terms as employees. In Canada, all self employed and in Germany those self employed who are members of the employee schemes, pay the same contribution rates as are paid by employees and their employers; in the USA they pay only at half the aggregate rate paid by and on behalf of employees. In Britain and Germany (for the majority of the self employed), there are different contribution rates and different benefits.

The proportion of the population aged 65 years and above varies greatly between the six countries. It is proportionately at least two-thirds greater in the two European than in the other four countries. The expenditure on pension proportions is, of course, not strictly comparable (see Table 5). The German data exclude a large proportion of public servants as well as the majority of the self employed, the USA data exclude Federal public servants and an unknown proportion of State and Local government servants. The New Zealand, British and Canadian data are almost completely comprehensive while the Australian data refer to only 90 per cent of the population aged 65 years or more. Furthermore, the data refer to expenditure on pensions for the elderly at different ages, for example, all over 60 in New Zealand, all over 65 in Canada. The data of all countries except Germany contain some expenditure on under pension age wives and for the USA on under age surviving spouses who care for young children. Still, these proportions show the relatively high expenditure in Germany and New Zealand and the low expenditure in Australia and Canada.

This comparison of social service pensions refers to a point of time, approximately the years 1979-1981. It therefore does not indicate any trends. However, as has been mentioned in the sections referring to each of the countries, all social service pensions for the elderly, whether demogrants, social insurance, or social assistance, are indexed in New Zealand and in Germany to earnings and in the other countries to Consumer Price Indexes. This distinguishes these pensions from other income except earnings which the elderly may have.

TABLE 5

EXPENDITURE ON SOCIAL SERVICE PENSIONS FOR THE ELDERLY AND POPULATION AGED 65 PLUS

| | Expenditure on Social Service Pensions as Proportion of NDI | | Population Aged 65 Plus as Proportion of Total Population | |
|---|---|---|---|---|
| | Year | % | Year | % |
| New Zealand | 1979-80 | 7.3 | 1976 | 9.0 |
| Australia | 1979-80 | 3.2 | 1978 | 9.2 |
| Britain | 1979 | 5.5 | 1979 | 14.6 |
| Canada | 1977-78 | 3.4 | 1976 | 8.7 |
| Germany | 1979 | 8.7 | 1978 | 15.3 |
| U.S.A. | 1979 | 4.6 | 1978 | 11.1 |

NDI = National Disposable Income from United Nations Monthly Statistical Bulletin, March 1981.

Two final comments, a diversion from the dull factual content of this paper may be permitted. In a world of perpetual inflation, pensioners greatly benefit from indexed pensions. As all social service pensions, with the exception of the Canadian CPP/QPP pensions for the time being, are financed on an assessment, pay-as-you-go basis, the indexing of these pensions presents no difficulties and, as has been argued above, involves no additional economic cost. This may well encourage people with above average incomes who previously relied on occupational pensions and investment income for support in their old age to desire cover by earnings related social service pensions. Such people can often exert political pressure successfully. If they do, this would lead to a trend towards earnings related pensions with relatively high contribution ceilings and a minimum of vertical redistribution, a pattern similar to that prevailing in Germany and increasingly in the USA. This would impose major reconstruction on the social service pension schemes in New Zealand and Australia. The first step in Australia in this direction would be demogrant pensions for all over 65 years.

The over 80s, a relatively small proportion of the elderly, for at least three reasons unconnected with social service pensions, are, in general, likely to be worse off than other pensioners. First, they will often be in less good health and therefore less able to do things for themselves. Second, they will be less able, if at all, than other pensioners to augment their pension and investment income by working. Third, they will receive less in occupational pensions partly because most over 80s are widows and occupational pensions tend to be lower and frequently non existent, for widows of retired employees than for the retired workers themselves.

Social insurance pensions, but not demogrants or social assistance pensions, for the over 80s tend to be lower than those of other pensioners. This in a dynamic economy in which real wages are rising, is an inherent characteristic of all schemes in which past earnings for assessing pensions are revalued in line with movements in earnings while pensions are adjusted in line with movements in prices. This is the case in Britain (additional pensions), Canada (CPP/QPP) and the USA but not in Germany. The process of gradually introducing earnings related pensions has accentuated this in Britain and Canada. Thus in Canada no CPP/QDP pensions are received by persons who retired prior to 1967 and reduced rate pensions by those who retired in the following ten years. In Britain additional pensions are only paid since 1979 and they will be paid at reduced rates to people who retire in the following 20 years.

At present, amongst the six countries only Britain gives a pension increment to the over 80s, a mere 25p, less than one per cent of the basic pension, in trade union language an offensive and contemptible sum. In equity there appears to be a strong case for higher pensions for the over 80s, which, incidentally, might also enable, at least some of them to remain independent for longer. All the same this is not likely to happen as the over 80s for fairly obvious reasons lack the power to assert political pressure. To ascertain accurate data about income is notoriously difficult but this for various age bands of the elderly should be the task of social policy research in all countries.

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