Security eligibility of the benefit amount to be paid.

The National Commission on Unemployment Compensation noted that there has been considerable disagreement among the States as to whether retirement income should reduce the UI benefit, and it further noted that the current offset provision is a more sweeping and severe disqualifying income penalty than any State had enacted throughout the history of the UI program. Consequently, the Commission recommended that this provision be repealed.

The other Commission recommendation bearing directly on older workers is that an Unemployment Benefit Lifetime Reserve Program should be established for persons aged 60 and over. The Commission argued that this program would strengthen the labor-force attachment of workers as they approach age 65. The Commission suggested that special UI protection for older workers could help workers who are experiencing labor-force dislocations as they grow older; could reduce the amount of Social Security payments for early retirement (although the Commission did not recommend prohibiting simultaneous receipt of Social Security and the special unemployment benefit); and could foster reemployment of older workers and hence give the Nation continued use of their skills. The program includes several features. First, a worker must have at least 40 quarters of coverage under Social Security, of which 20 quarters are within the 40 immediately preceding age 60. Second, an unemployed claimant aged 60-64 would be eligible for these lifetime reserve benefits after having established eligibility for UI in his or her current unemployment and having exhausted all regular and extended benefits. Third, the Unemployment Benefit Lifetime Reserve payments would be payable for up to 52 weeks total (beyond regular program benefits) during the period the claimant is aged 60-64. And fourth, these benefits would be financed through contributions to a special pooled fund in the UI system. The Commission estimated that implementation of this recommendation would cost $35 million in fiscal year 1989.

In connection with this proposal the Commission's Report cited the experience of other industrial nations. A number of other western countries provide special programs to encourage gainful employment of older workers. These programs have certain features in common: Both duration of employment required for qualification and the duration of benefits provided increase with age; governments contribute substantially (from general revenues) to the cost of these programs; special training, relocation and placement programs are provided to help older workers become re-employed; and subsidies are given to employers who hire older workers. At the same time, workers in these countries generally receive unemployment or retirement benefits, but not both simultaneously.

Social Security Abroad

Promotion of Subsidized Savings in the Federal Republic of Germany*

In the Federal Republic of Germany, the Government encourages personal savings as a "third pillar" to supplement retirement income from social insurance and private pensions. Over the past few decades, as an incentive to such savings, a series of national programs have been established to provide supplements that, in effect, greatly increase the return available to long-term savers who leave their money in special accounts, invest in housing, or keep shares in their employer's firm. Programs that are currently in effect now cover two-thirds of the labor force. A large part of the savings generated are generally assumed by analysts to be earmarked as a "nest egg" for retirement.

Subsidized savings, when they were originally introduced after World War II, were designed to promote the reconstruction of the economy, particularly in the area of private housing. Early support for these measures was also based on a desire to lessen inflationary pressures by curbing consumption, at least in the short run. The emphasis subsequently shifted to the encouragement of private savings as an end in itself. Under the three-pillar theory, it had been expected that workers would save for their old age. In practice, it was found that lower income families did not save or could not save enough money to put aside for retirement. Government policy then focused on stimulating the savings of those who otherwise would have to depend entirely on social security.

The main incentive used to encourage the accrual of personal assets is a Federal bonus, which the Government adds to the account of any participant. Eligible accounts usually take the form of savings deposits held by individuals in banks, savings and loan institutions, or building societies. They can also be in the form of life insurance policies, shares in an employer's firm, or guaranteed loans to employers.

There are two ways of opening an account—through an employer plan or a plan for the general public. Both plans are voluntary and subject to income ceilings.

Under plans for the general public, individuals open their own accounts and are the sole contributors. The Federal Government then pays them an annual bonus on savings held for 7 years. The standard bonus, 20

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percent of total savings deposited in any single year, is increased by 2 percent for each dependent.[1] Alternatively, a higher standard bonus, 25 percent, is paid on savings in special deposits earmarked for the construction, purchase, or remodeling of a house.

Two restrictions, however, are placed on eligibility. The maximum deposit to which a bonus applies is DM 800 per year. (In 1975, DM 2.48 equaled $1.) Savers with an annual taxable income above DM 24,000 are ineligible. These limits on maximum deposits and income are doubled for married couples. The income limit is raised by an additional DM 1,800 for each dependent child.

Under employer plans, workers may have an account opened on their behalf by an employer. Contributions are made by the worker, the employer, or both. The worker and the employer must sign a contract fixing the amount of the deposit. Details of the arrangements are determined by collective bargaining as part of the worker's overall package of fringe benefits.

Workers participating under employer plans are entitled to a Federal subsidy on funds invested in savings, housing, shares in the employer's firm, loans to the employer, or life insurance. The usual procedure is for the employer to periodically set aside a percentage of the employee's earnings, which is placed on account in a savings institution. Workers are not required to pay income tax on deposits made on their behalf by the employer. If held for 7 years, these savings earn a 30-percent subsidy (40 percent for families with at least three children). If savings are placed in the proper type of account workers are also eligible for the 20-percent standard savings bonus or the 25-percent housing bonus.

There are also restrictions in the employer program. The maximum deposit to which these subsidies apply is DM 624 per year.[2] Single employees are ineligible if their annual taxable income is more than DM 24,000. The annual earnings limit for married couples—DM 48,000—is raised by DM 1,800 for each dependent child.

The cost of supplements to promote private savings is generally covered by the Federal Government from general revenues, except housing bonuses. This cost is shared equally between the Federal Government and the governments of the State and community in which the saver resides. Under most plans open to the general public the Federal payment is direct. At the end of the year a bonus is credited to savings held in frozen investments. Under employer plans, Federal financing is indirect; the employer pays the Federal subsidies to the worker's chosen account and deducts the cost from the withholding tax.

These programs have undergone considerable growth. The number of participants rose from 50,000 in 1961 to 16 million in 1975, the peak year. During 1975, the Federal Government added an average of DM 580 a year to the account of each saver participating in a Government program. Bonuses and subsidies for programs to promote savings amounted to DM 8.4 billion, and employers provided another DM 5.0 billion in contributions. Tax incentives to higher income savers added another estimated DM 2.8 billion. These payments totaled DM 16.2 billion or 1.6 percent of the country's gross national product.

The success of such programs is judged not only by the volume of savings, but by both the distribution and intended use of such savings. A recent study showed that three-fifths of all Government-encouraged accounts are maintained even after the mandatory 7-year holding period is completed. The findings suggest that such funds are held as a "nest egg" for protection against emergencies and for retirement purposes and do tend to stimulate savings among lower income groups who until recently had held little savings.

Despite the apparent success of the program, the Government, in addressing itself to the problem of reducing budgetary deficits, has expressed its intention to introduce measures aimed at further cutbacks in supplements for earnings and even of an eventual phaseout. Precise details are not yet available, and it is not possible to estimate effects on savings rates at this time. In the meantime, tax incentive programs have been growing in importance as a means of encouraging savings and may compensate for much of the lost momentum in savings rates that may otherwise ensue as a result of any elimination of cash subsidies.

[1] Figures given in this note are for the program as of January 1, 1975. Rates and ceilings have been subject to small changes on a continuing basis. Supplements have, in fact, been reduced slightly since that time, but the essentials have not changed. Before 1975, the standard bonus was supplemented by an additional 40 percent for low-income workers.

[2] If the employer's contribution is less than DM 624 per year, the worker can arrange to make deposits from his or her own funds to make up the difference.