Social Security Abroad

RECENT DEVELOPMENTS of significance in the field of social security are reported for three countries in the notes that follow.* The changes reported constitute adjustments to current needs for expanded programs and improved financing and to price and income shifts.

COLOMBIA

In reviewing progress for 1967, the Minister of Labor of Colombia labeled as outstanding developments in the labor field the inauguration of old-age, disability, and survivors insurance coverage by the Colombian Social Security Institute and the creation of "constant value" bonds to guarantee the Institute's reserve funds. These developments represented important steps for that country in the fulfillment of a blueprint drawn up 21 years earlier.

All the South American countries now have in operation old-age, disability, and survivors insurance systems. Such systems are also operating in Costa Rica, Mexico, Nicaragua, and Panama.

The basis for the Colombian social security system was set by Law 90 of 1946, which provided for the gradual establishment of a compulsory social insurance system for all native and foreign employees, as well as the self-employed. It called for coverage of the risks of nonoccupational sickness and maternity, work accidents and occupational disease, and permanent disability, old age, and death. The Colombian Social Insurance Institute was charged with the duty of developing and administering this program.

The law expressly provided, however, that coverage was not to be initiated for all parts of the program simultaneously but was to be implemented in different stages, limited in geographic area and occupations covered. In the ensuing years, social security in Colombia was limited to the risks of nonoccupational sickness and maternity in four main regional areas of the country. Several large companies maintained private old-age and disability programs. A law providing for family allowances was enacted in 1957. In mid-1966 the National Government authorized assumption of coverage of old age, invalidity, and death (by nonoccupational causes) by the Institute, and this step was implemented in 1967.

Approximately 570,000 workers out of a total labor force of 5.5 million are affiliated with the Social Security Institute. Of all wage and salary workers, roughly 20 percent are in covered employment, mainly in industry and commerce. Agricultural, domestic, and various temporary employees are not as yet included.

The funds of the Social Security Institute are used (1) to cover administrative expenses, (2) as reserves (held in the Bank of the Republic) for payment of claims, (3) for the maintenance of the National Hospital Fund, and (4) to purchase "constant value" bonds (about 200 million pesos or about $12.3 million in value) pegged to cost-of-living and wage indexes.

FEDERAL REPUBLIC OF GERMANY

Effective January 1, 1968, several changes were made in the financing of social security programs in the Federal Republic of Germany. Some of these changes had been scheduled previously or result automatically from the operation of the "dynamic" pension program. Other changes involve a speedup in the schedule of increasing contribution rates. In addition, several provisions regarding contributions and the payment of benefits were revised, with the aim of improving the financing of the program.

Contribution Rates

As a result of 1967 legislation, the following joint contribution rates for insured persons and their employers were established for old-age, survivors, and disability (OASDI) insurance coverage:

Calendar year	*Percent*
1967	14
1968	15
1969	16
1970	17

Before the enactment of the 1967 legislation the joint contribution rate had been scheduled to rise

*Prepared by International Staff, Office of Research and Statistics.

from 14 percent in 1967 to 15 percent in 1968 and 1969 and to 16 percent in 1970.

The contributions are paid in equal amounts by insured persons and their employers, except that for persons earning less than 10 percent of the ceiling for contribution purposes (see below) the entire contribution is paid by the employer.

Covered Earnings

Social insurance contributions are paid on the amount of covered earnings, subject to a maximum. This maximum, determined each year for the following year, is equal to twice the average annual amount of national average earnings for the 3 preceding years. Thus, the ceiling for 1968 was determined in 1967 and equals twice the average annual amount of national average earnings for 1964, 1965, and 1966. The amount of maximum earnings for contribution purposes for the past 5 years has been as follows:

Year	*Annual*	*Monthly*
1964	DM 13,200	DM 1100
1965	DM 14,400	DM 1200
1966	DM 15,600	DM 1300
1967	DM 16,800	DM 1400
1968	DM 19,200	DM 1600

One DM (Deutsche Mark) equals 25 cents.

Structural Changes

Important structural changes in the financing of the social security system now provide that higher-paid employees are no longer exempted from OASDI coverage and that pensioners must now contribute toward coverage for their medical service benefits.

Other changes affecting the overall financial structure of the system include (1) removal of the provision that had permitted insured women to claim, on marriage, reimbursement of contributions paid by them during their working life; (2) postponement of payment of the first pension from the first day of the eligibility month to the month following the date of eligibility; (3) introduction of a provision to prevent overlapping of old-age pensions and unemployment insurance benefits; and (4) revision in payments made on behalf of pensioners by pension agencies to sickness funds to cover part of the cost of their medical service benefits.

Removal of exemption of higher-paid employees.—Higher-paid white-collar workers have traditionally been exempt from compulsory OASDI coverage. The exemption applied to white-collar workers with annual earnings above DM 21,600; before July 1, 1965, the coverage ceiling was DM 15,000. No comparable exemption applied to blue-collar workers, regardless of their earnings.

This exemption has now been eliminated, but workers heretofore exempt may file an application for further exemption from compulsory coverage if they are over age 50 or have a private life insurance contract for themselves and their dependents for which the premium is at least as large as the amount of joint contribution that would be payable by them and their employers under the public program.

It has been estimated that approximately 400,000 white-collar workers were previously exempt, though a majority of these persons already were participating in the public program on a voluntary basis. Nevertheless, approximately 170,000 persons not heretofore covered have now been drawn into the compulsory program. In the absence of further exemptions, contributions paid by them or on their behalf would increase total OASDI contributions for 1968 by about half a billion marks.

A logical reason for the removal of the exclusion is perhaps that the amount of maximum earnings for contribution purposes is now at DM 19,200 a year and that within another year or two it would reach the level of DM 21,600 (the amount of annual earnings that constituted the ceiling for coverage of white-collar employees). Another change in the maximum or its removal would therefore have been necessary unless it was intended to gradually exclude white-collar workers, but not blue-collar workers, from compulsory coverage.

Medical insurance for pensioners.—All pensioners under the OASDI system must now pay a contribution equal to 2 percent of their monthly pension toward the cost of medical service benefits. Previously, all pensioners received coverage for medical service benefits without charge, and the pension agencies paid a contribution for each pensioner to his sickness fund. The latter payments are continued at a revised rate.

UNITED KINGDOM

The United Kingdom's austerity program was extended to the social security field in January 1968. The Government proposed, and Parliament on January 18 approved, certain measures aimed at decreasing the share of public expenditures for social security. They include (1) restoration of a charge for prescribed medicines, (2) a rise in the contributions for National Insurance and for the National Health Service, (3) an increase in maximum payments for dental work, and (4) an increase in family allowances but with tax revisions to assure that only the lower income families benefit from the increase.

Estimates of the total cash savings to the Exchequer were approximately £110 million, including £25 million in charges for prescribed medicines, £1.5 million for the increase in dental charges, £25 million in increased National Health Service contributions, and £60 million in family allowance tax-adjustment savings.[1] The increase in National Insurance contributions is not considered a direct saving to the Exchequer though its stated purpose is "to prevent the National Insurance Fund from going into deficit."

Prescription charge.—The reintroduction of a charge for prescription drugs marks the third about-face in 20 years. The initial policy of giving prescribed drugs free was reversed in February 1952. In 1965 the Government repealed the charge of 2 shillings per item then in effect, which has now been reintroduced at 2 shillings 6 pence per item. It is estimated that about half the population will still receive free medicine since the fee will not be assessed on pensioners, school-age children, expectant mothers, and the chronically ill.

[1] One pound (20 shillings) equals $2.40.

Dental charge.—The maximum charge for dental services was increased from 20 shillings per treatment to 30 shillings—a rise that is expected to result in an increase in revenues of about £1.5 million a year. Certain groups will continue to receive free dental care, including persons under age 21, nursing mothers, and persons receiving "supplementary benefits" (formerly called "national assistance").

National Health Service contribution.—A rise of sixpence for the individual worker (none for the employer) will increase the contribution rate to 3 shillings 2½ pence for adult men and to 2 shillings 6½ pence for adult women.

National insurance contribution.—In order "to prevent the National Insurance Fund from going into deficit," a one-shilling rise in weekly National Insurance contributions (distributed equally between employer and employee) was also announced. This increase may raise the annual revenues of the National Insurance Fund by as much as £50 million.

Family allowances.—The January announcement came less than a month after the Family Allowances and National Insurance Act 1967 (chapter 90, December 20th) that had raised family allowances, effective April 1968, from 8 to 15 shillings for the second child and from 10 to 17 shillings for the third and each later child. The 1968 program for cuts in public expenditures makes the increase in family allowances subject to a "selectivity" test that will restrict the rise to families with low incomes. Each increase, in short, will be subject to recovery through the machinery of the income tax. Details were being worked out at the time of the presentation of the proposals to Parliament.