

## Administrative Costs for Social Security Programs in Selected Countries\*

In view of the budgetary constraints within which most national social security systems have been operating, considerable interest has been generated, both here and abroad, in the comparative costs of administering social security programs. This study was undertaken to determine the level of administrative spending in the United States and 11 countries (Austria, Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom) that are at an advanced stage of economic development similar to that of the United States. The analysis is based on information from the International Labor Office, which collects and publishes data on social security program expenditures in countries around the world.<sup>1</sup>

This note compares the administrative costs of the old-age, survivors, and long-term disability insurance programs from 1971 to 1983.<sup>2</sup> For the purpose of this note, the term "long-term disability" is used instead of "invalidity insurance"—a term used by most European countries. The note also compares administrative costs for administering total social security programs from 1966 to 1983. These programs include the old-age, survivors, and long-term disability insurance; cash sickness payments for temporary disability; cash maternity payments; workers' compensation; unemployment insurance; family allowances; public employee pensions; public assistance; and benefits for war victims.

The comparisons are expressed as a percentage of administrative costs relative to program expenditures. Changes in percentages may reflect changes in administrative costs, program expenditures, or changes in both. The data used appear to be the most representative available for comparative purposes, although a number of conceptual differences are evident. Not all of the countries studied have all of the programs—for example, the United States does not have a family allowance program. Fiscal year periods and program mix differ from

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<sup>1</sup>International Labor Office. *The Cost of Social Security*. Eighth to Twelfth International Inquiry, 1967 to 1983, Basic Tables. Geneva (1976, 1978, 1981, 1985, 1988). For an outline of the structure and provisions of programs in other countries, see *Social Security Programs Throughout the World—1985* (Research Report No. 60), Office of Research, Statistics, and International Policy, Social Security Administration, 1986.

<sup>2</sup>This report updates two studies by Max Horlick: "Administrative Costs for Social Security Programs in Selected Countries," *Social Security Bulletin*, June 1976, pages 31-32, and August 1986, pages 32-33. The author wishes to acknowledge Mr. Horlick's contribution to the study of comparative administrative costs.

one country to another. Some countries, for example, combine old-age, survivors, and long-term disability insurance, while others administer long-term disability insurance with health insurance.

## Old-Age, Survivors, and Long-Term Disability Insurance Programs

Table 1 shows the administrative costs as a percentage of benefit expenditures for old-age, survivors, and long-term disability insurance in 8 of the 12 countries studied—Austria, Belgium, Canada, the Federal Republic of Germany, Italy, Japan, the Netherlands, and the United States (data were not available for the other 4 countries). In 1983, the percentages ranged from a low of 1.2 percent in Canada to a high of 3.2 percent in Italy. Compared with 1980, these relative costs increased only in the Netherlands; they decreased in Austria, Belgium, Canada, the Federal Republic of Germany, Italy, and Japan and remained the same in the United States. Over a longer time span—from 1971 to 1983—relative administrative costs increased in the Federal Republic of Germany and the Netherlands and decreased in Austria, Belgium, Canada, Italy, Japan, and the United States.

The most marked change occurred in Japan, where the decrease in administrative costs as a percentage of expenditures went from 10.8 percent in 1971 to 2.1 percent in 1983. The decrease is most likely attributable to the maturation of benefits. The employees' pension in that country, available in companies with five or more employees, was established in 1954 and required 20 years of contributions for pension eligibility. Also, pension increments are related to additional years of service. Thus, the number of pensioners and the size of the

**Table 1.—Administrative costs as a percentage of total benefits under the old-age, survivors, and long-term disability insurance programs, 1971-83**

Country	1971	1974	1977	1980	1983
Austria . . . . .	3.1	3.7	3.5	3.2	3.0
Belgium <sup>1</sup> . . . . .	2.4	2.1	2.0	1.7	1.6
Canada . . . . .	2.1	1.4	1.7	1.3	1.2
Germany, Federal Republic of . . . . .	1.3	1.9	1.5	2.0	1.4
Italy . . . . .	3.6	3.2	<sup>2</sup> 6.6	<sup>2</sup> 4.0	3.2
Japan . . . . .	10.8	8.5	3.5	2.7	2.1
Netherlands . . . . .	2.0	1.9	2.2	2.3	2.5
United States . . . . .	2.2	1.6	1.7	1.3	1.3

<sup>1</sup>Excludes the long-term disability insurance program, which is administered with health insurance.

<sup>2</sup>Due to reorganization, data not comparable to previous years.

pensions have increased considerably and the resultant rise in expenditures has reduced or offset the relative cost of administration.

## Total Social Security Benefit Programs

The second analysis focuses on a review of the total social security benefit expenditures in the same 12 countries. Data on administrative costs as a percentage of benefit expenditures for all social security programs for these countries from 1966 to 1983 are found in table 2. In 1966, the relative administrative costs of all social security programs varied from 1.9 percent (Canada) to 5.7 percent (Belgium). In 1983, the relative administrative cost of these programs ranged from lows of 2.0 percent (Japan) and 2.2 percent (Sweden) to highs of 4.5 percent (Belgium) and 4.4 percent (France).

Over the 1966-83 period, the percentage of administrative costs to benefits decreased in all countries except Canada. The percentage decrease was greatest in Japan (48.7 percent) and the Federal Republic of Germany (47.1 percent). France and the United Kingdom experienced the smallest percentage decreases, 4.4 percent and 6.3 percent, respectively. A relative administrative cost increase occurred only in Canada—from 1.9 percent in 1966 to 2.7 percent in 1983, a 42.1 percentage increase that may be due in part to the fact that in the base year, 1966, costs were considerably lower in Canada than in the other countries.

Chart 1 shows four countries with significant trends in administrative costs as a percent of benefit expenditures from 1966 to 1983. These countries are highlighted for several reasons: Belgium started with the highest percentage cost; Canada started with the lowest; the Federal Republic of Germany had the largest percentage cost decrease; and Japan now has the lowest percentage cost. The chart also presents the United States experience during that period. The United States remained near the middle of the group of countries studied. A general trend toward narrowing the gap among the countries shown and an increasing stability in relative administrative costs is apparent.

In 1966, the average percentage of administrative costs to total benefit expenditures was 3.9 percent. In 1983, it decreased to 3.2 percent. In the United States, the percentages over this 18-year period decreased from 3.7 percent to 3.2 percent—a percentage decrease of 13.5 percent.

Factors accounting for the pattern of generally decreasing relative administrative costs may include:

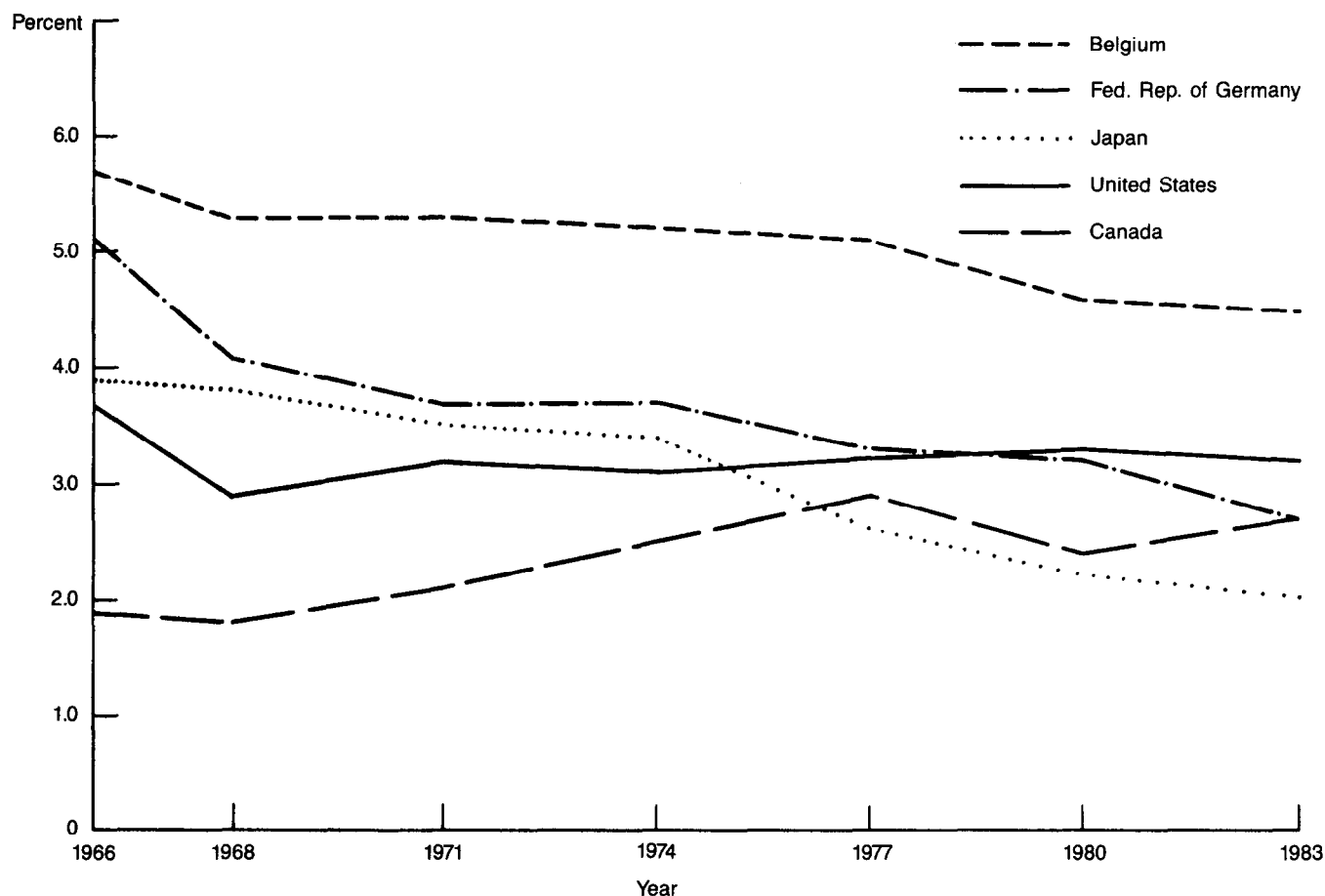
- Government austerity programs that helped contain administrative costs;
- Increases in total benefit expenditures, reflecting not only the maturation and, in some cases, the expansion of the programs, but also the impact of inflation on programs; and
- Greater use of computers for the processing of benefits, with resulting gains in efficiency.

Table 2.—Administrative costs as a percentage of total benefit expenditures

Country	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Austria.....	3.7	3.8	3.7	3.7	3.8	3.7	2.8	2.9	3.2	3.1
Belgium.....	5.7	5.6	5.3	5.4	5.4	5.3	5.3	5.4	5.2	5.2
Canada.....	1.9	2.1	1.8	1.9	1.9	2.1	2.3	2.8	2.5	2.2
France.....	(1)	(1)	(1)	(1)	(1)	(1)	4.6	4.5	4.7	4.7
Germany, Federal Republic of.....	5.1	3.5	4.1	4.1	3.5	3.7	3.7	3.8	3.7	3.4
Italy.....	5.4	5.3	4.6	4.6	4.7	4.7	4.9	4.7	3.9	<sup>2</sup> 7.6
Japan.....	3.9	3.8	3.8	3.7	3.7	3.5	3.8	3.7	3.4	3.1
Netherlands.....	4.3	4.2	3.8	3.7	3.6	3.6	3.6	3.6	3.5	3.4
Sweden.....	2.4	2.5	2.2	2.1	2.0	1.9	2.0	2.0	1.9	1.9
Switzerland.....	3.5	3.2	3.3	3.1	3.0	3.0	3.1	2.8	2.8	2.7
United Kingdom.....	3.2	3.1	3.1	3.0	3.3	3.2	3.5	3.3	3.5	3.4
United States.....	3.7	3.7	2.9	3.1	3.2	3.2	3.0	3.1	3.1	3.1

<sup>1</sup> Data not available.

**Chart 1.** — Administrative costs as a percentage of total benefit expenditures under the total social security programs in 5 countries, 1966–83



under the total social security programs in 12 countries, 1966-83

1976	1977	1978	1979	1980	1981	1982	1983	1966-83 Change		Country
								Absolute	Percentage	
3.0	3.1	2.9	2.8	2.8	2.6	2.6	2.6	-1.1	-29.7	Austria
5.0	5.1	4.6	4.4	4.6	4.6	4.6	4.5	-1.2	-21.1	Belgium
2.2	2.9	2.6	2.6	2.4	3.2	3.1	2.7	+ .8	+42.1	Canada
4.5	4.3	4.2	4.2	4.1	4.0	4.3	4.4	-.2	-4.4	France
3.3	3.3	3.1	3.2	3.2	2.6	2.6	2.7	-2.4	-47.1	Germany, Federal Republic of
<sup>2</sup> 7.6	<sup>2</sup> 5.2	4.8	4.3	<sup>2</sup> 4.2	4.0	3.8	3.9	-1.5	-27.8	Italy
2.8	2.6	2.4	2.3	2.2	2.1	2.1	2.0	-1.9	-48.7	Japan
3.6	3.6	3.4	3.4	3.5	3.5	3.5	3.6	-.7	-16.3	Netherlands
2.6	2.6	2.7	2.7	2.6	2.5	2.4	2.2	-.2	-8.3	Sweden
2.7	2.6	2.6	2.6	3.0	3.2	3.0	3.1	-.4	-11.4	Switzerland
3.6	3.4	3.2	3.0	2.9	2.9	3.0	3.0	-.2	-6.3	United Kingdom
3.0	3.2	3.3	3.2	3.3	3.3	3.3	3.2	-.5	-13.5	United States

<sup>2</sup> Due to reorganization of the social insurance system, data concerning 1975-77 and 1980 are not strictly comparable with those of previous years.