

## METHODOLOGY

The data in this note were extracted from claims folders for a sample of student beneficiaries by systematic sampling with a random start from each of 24 student beneficiary strata. These strata reflected 4 age groupings within 2 race groupings within 3 basis-of-entitlement groupings. In each stratum, the student beneficiary population was arranged by social security number, a random start was selected, and every *n*th record was selected for the sample, *n* being determined in such a way as to yield approximately 75 records per stratum.

The sample selection process called for examining 1,934 claims folders. Actually, only 1,689 claims folders were examined because the remaining folders were in operational use at the time. A later analysis of the characteristics of those student beneficiaries whose claims folders were not available for examination, however, did not point to an unusual concentration of any characteristic. Consequently, it was assumed that the

nonavailability of folders was random and that no bias situation was created.

The data shown in tables 1 and 2 are, of course, weighted sample data where the sample data from each stratum was weighted by the ratio of total number of student beneficiaries in the stratum to the sample number of student beneficiaries for that stratum.

Since the percentages presented in this note are based on sample data, they may differ somewhat from percentages that would have been obtained from a survey of the entire population of student beneficiaries. To obtain an indication of the sampling variability for the percentages shown in tables 1 and 2, confidence intervals were computed, both at the 68-percent and 95-percent levels. Those for the percentages in table 1 are shown in table 3. For example, the percentage of 18-year-olds attending college is shown in table 1 as being 46.9 percent. According to table 3, the chances are 95 out of 100 that the true population percentage would be between 39.5 percent and 54.3 percent.

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## Social Security Abroad

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### Special Retirement Programs for Farmers: New Japanese Law\*

The Japanese Diet passed the Farmers Pension Fund law in May 1970, and the collection of contributions began on January 1, 1971. The special pension program for Japanese farmers is an interesting example of the conception and use of a social insurance plan as an instrument of economic policy—in this case, to modernize the agricultural sector by promoting early retirement. The new program is also important for several other reasons, the most obvious being the attempt to provide farmers with old-age protection at a level approximating that enjoyed by employees in industry and commerce.

In addition to the question of “parity” of social security protection between farmers and employed workers, an important social issue in several

countries, the farmers pension law presents some interesting aspects from the standpoint of social security policy. The new pension will supplement the old-age benefits farmers already receive under the National Pension Insurance program. The coordination of these two programs shows the difficulty of combining a special program with a more general system in order to meet the needs of a particular socio-economic group.

The Japanese farmers retirement program has several significant features in common with the pension programs for farmers in France, Poland, Germany, and Austria (as discussed below). Thus the new Japanese law has clearly shown how the social policy of one country may be influenced by the techniques other countries have implemented to meet particular problems.

### BACKGROUND

In Japan, as in most other countries, farmers began to participate in a compulsory old-age insurance program at a much later date than work-

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ers in industry and commerce.<sup>1</sup> While most wage and salary workers were covered by Employees Pension Insurance by 1941, farmers and the self-employed did not benefit from an old-age, survivors, and disability insurance program until 1959 when the National Pension Insurance program was established for them. This program now covers 23.4 million persons, approximately 40 percent of whom are engaged in agriculture.

Retirement benefits under the National Pension Insurance program have remained low in comparison with benefits for the Employees Pension system—the minimum annual retirement benefit is 21,600 yen for the former and 96,000 for the later (\$1 U.S. = 360 yen, June 30, 1971). One of the motivations behind the setting up of a special program for farmers was to increase the amount of money available to them in their old-age by supplementing National Pension benefits.

The farmers pension law was conceived not only as a social insurance measure but also as a part of the Government's announced policy to modernize the agricultural sector of the economy. In spite of the extraordinary growth of the Japanese economy, the gap between income levels in agriculture and industry and commerce has continued to grow, especially during the last decade. In 1970, the rate of increase in the income of employed persons was 18.2 percent while farmers' incomes rose by only 1.4 percent (a decrease from the 2.7 percent growth farmers experienced in 1969).<sup>2</sup> Statistical indicators also point to the increasing average age of farmers as well as a growing proportion of women workers in agriculture. A survey conducted by the Ministry of Agriculture in July 1970 revealed that 36 percent of full-time agricultural workers were aged 55 or older and that 61 percent of all full-time workers were women.<sup>3</sup>

These figures and others from the survey docu-

<sup>1</sup> For example, the European Economic Community countries give the following effective dates for the first compulsory old-age protection for farmers: Belgium, 1956; the Federal Republic of Germany, 1957; France, 1952; Italy, 1957; Luxembourg, 1956; the Netherlands, 1956. Many had provided social security programs for employees in industry and commerce since early in the century. (Source: *La Protection Sociale des Exploitants Agricoles dans la C.E.E.* Brussels: Commission des Communautés Européennes, 1971, page 3.)

<sup>2</sup> *Kokumin Shotoku Tokei Nenpo. Tokyo: Economic Planning Agency, 1971, page 2.*

<sup>3</sup> *Japan Labour Bulletin, May 1971, page 2.*

ment the exodus of working-age family members, men in particular, to employment in industry and commerce. The overall decrease in the agricultural population has been high for several years (2.4 percent a year between 1956 and 1960, 3.3 percent yearly between 1961 and 1965) and is expected to proceed at an even faster rate in the future (up to 6.5 percent a year by 1975).

Such a long-term trend might be expected to result in a drop in the number of farm households and an eventual increase in the average size of the farm cultivated by a single household. This situation has not, however, developed to the extent that Japanese authorities believe necessary to improve the productive efficiency of farming. Therefore, observing the special incentives employed in other countries, the Japanese have adopted a pension program that rewards farmers who retire early and who transfer or sell their cultivated land.

#### PROVISIONS OF THE FARMERS PENSION LAW

The new program provides for both compulsory and voluntary participation by persons controlling the use of farm lands—leaseholders as well as owners. Those farmers possessing more than one-half hectare (1 hectare = 2.47 acres) are compulsorily insured, and those possessing at least one-third of a hectare can affiliate voluntarily. Authorities estimate that about 2 million farmers will become insured under the program in 1971.

Since the transfer or sale of property is required in order to receive an early retirement pension, there is no provision for the participation of a spouse or dependents. Unlike similar programs in some European countries, the Japanese program does not require that the farmer must have been actively engaged in agriculture for a specified number of years preceding retirement. Because the farmers pensions are to be integrated with benefits under the National Pension Insurance program, the insured must already be covered by that program. There is also a maximum age limit of 55 years for enrolling in the program.

Benefits paid to insured farmers under the new law fall into three categories: (1) an early retirement pension at age 60, (2) an old-age pension combined with National Pension Insurance benefits at age 65, and (3) a lump-sum benefit

if the insured person dies or leaves the program after more than 3 years of contributions. Survivor and disability protection continue to be provided without change under the National Pension Insurance program.

The major innovation of the farmers pension program is the early retirement pension paid to farmers with 20 years of contribution who decide either to transfer control of their land to a dependent or to sell the property to a third party. The early retirement pension—16,000 yen a month with 20 years of contribution—is payable between the ages of 60 and 65. Because of their age at the inception of the program, many farmers will be unable to complete 20 years of contribution before reaching age 60, and, therefore, reduced pensions will be paid to those insured 5–19 years. The rates of these reduced pensions are high—after only 5 years of contribution, for example, the rate is 8,000 yen a month. These liberal provisions for reduced benefits undoubtedly reflect the intention that the early retirement option have an impact on the pattern of farm management in the near future.

The Farmers Pension Fund, in addition to collecting contributions and paying benefits, will assist those who choose early retirement by selling their land and making loans to persons wishing to purchase land from the insured.

At age 65, the farmers' old-age benefit under the Farmers Pension Fund law will be combined with his benefit under the National Pension Insurance program to pay 18,800 yen a month, a sum that compares favorably with the 19,600 yen monthly pension retired workers receive from Employees Pension Insurance. The farmer who retires at age 65 without disposing of his land will not only have forfeited the early retirement pension he could have received from age 60, but, depending on years of contribution, he will also receive less—800–2,400 yen a month—in combined benefits than the farmer who transfers or sells his land. Even without the extra benefits for early retirement, the new program represents a significant increase in old-age protection for farmers since National Pension Insurance benefits are only 8,000 yen per month after 25 years of contribution.

## **FINANCING**

The farmers pension program is financed by

an additional contribution from the insured of 750 yen a month plus substantial subsidies from the central Government. The combined farmers pension-National Pension Insurance contributions for a couple total 2,000 yen a month. This amount includes a supplementary National Pension Insurance contribution of 350 yen that is compulsory for participants in the farmers pension program and voluntary for other persons covered by National Pension Insurance. The Government contributes 321 yen per month for each farmer's contribution in addition to subsidizing one-third of the cost of the early retirement pension. The Government's share in the total cost of the farmers pension program is expected to be about 42 percent, higher than its share for either the Employees Pension or National Pension Insurance programs. The Government will also bear the total cost of "farm separation allowances." These allowances are paid to farmers who for various reasons (over age 55 at the start of the program, not covered by the National Pension Insurance, etc.) are not eligible for coverage by the farmers pension program.

## **EUROPEAN APPROACHES TO FARMERS PENSION**

Most of the European countries do not require a farmer to dispose of his land or even to cease full-time activity as a farmer in order to receive a pension. This is the case, for example, in Belgium, Denmark, Finland, France, Greece, Italy, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland. In countries where the basic pension is supplemented, however, as in Belgium, Finland, France, and Luxembourg, the right to receive the supplement depends on an income test. In Great Britain, as in the United States, a retirement or earnings test prevents farmers (along with all other occupational categories) with income above a fixed amount from receiving a full pension. Other European countries, faced with problems similar to those of Japan, ask a farmer to give up his land or to cease full-time activity as a farmer in order to receive part or all of his retirement pension.

A brief survey of the programs in France, Poland, Germany, and Austria shows that although a policy of using a retirement program

to modernize the agricultural sector is common to all these countries, there is considerable variety in the methods used to achieve the objective.

*France.*—The French program to encourage farmers to dispose of their land upon retirement is, except in one important respect, quite different from the new Japanese plan. The similarity is that the decision concerning whether or not to sell or transfer property upon retirement is voluntary.

Since 1962 the French Government has paid a special pension to farmers who dispose of their lands. This benefit is considered a “complementary” pension and is paid in addition to the regular farmers pension or the means-tested old-age allowance upon retirement at age 65. No contributions are required of the beneficiary since the total cost of the special pension is paid by the Ministry of Agriculture.

The program is administered by the Social Action Fund for the Reform of the Agricultural Structure. The Fund also performs functions similar to the Japanese farmers pension fund with respect to buying and selling property for beneficiaries and making loans to persons wishing to purchase land from insured persons. The amount of the pension varies from 500 to 2,000 francs a year depending on the size of the property.

Unlike the Japanese farmers pension, this special farmers pension in France is paid only when the land is sold directly to the Fund or when the sale or transfer of land results in the formation of a farm of a minimum size fixed by law. The number of special pensions granted has been limited by the difficulty of meeting this requirement concerning the size of the newly formed farm.

*Poland.*—In 1962 Poland instituted a pension benefit for independent farmers who transfer their agricultural property to the Government. It is similar to the French scheme in that it is voluntary and entitlement does not depend on having made any contributions. The Polish program, however, does not serve as a supplementary pension but provides old-age, survivors, and invalidity pensions to farmers who are not members of an agricultural cooperative and who would otherwise not be covered by a social insurance program. A recent survey<sup>4</sup> indicated that a farm-

er's old age and/or ill health are not the only or even the most important reasons for his transferring his farm land to the Government in exchange for a pension: other reasons included the lack of help as young family members leave to work in industry or to continue their education, the heavy financial charges imposed by the Government on farmers, and the relatively high pension considering the average farm income in some areas.

*West Germany.*—The Federal Republic of Germany has enacted a comprehensive system of two pension programs—an old-age allowance and a land surrender pension—to encourage aged farmers to retire from active participation in farm management. The old-age allowance (175 Deutsche marks a month for married persons, DM 115 a month for single persons) is payable at age 65 on condition that the farmer ceases to be actively engaged in agriculture. Although the pension benefits are flat-rate and have no relation to the number of years of contributions, the farmer must have contributed during at least 180 calendar months to be eligible. The Government assumes the difference between the contributions and the expenses of the old-age allowance program—about 33 percent of total costs in 1965.<sup>5</sup> All farmers are compulsorily affiliated with this old-age pension program.

The land surrender pension is directed primarily at holders of small farms and, as in Japan, France, and Poland, depends on the voluntary decision of the farmer to give up his holdings upon retirement. The beneficiary, however, must have contributed during at least 60 calendar months to the regular pension program described above and must have relied on farming for his chief source of income during the last 5 years. The land surrender pension is payable at age 60 or age 55 if it is reasonably certain that the farmer will not be able to find alternative employment. The pension, DM 275 a month for married persons and DM 180 for single persons, is financed entirely from general revenue funds.

These two pension programs are considered to have been major influences in the lowering of the average age of farmers in Germany. Between 1956 and 1968, the number of farmers under

<sup>4</sup> “The Problems of Retirement Pensions for Farmers,” *Zycie Gospodarcze*, January 31, 1971, page 8.

<sup>5</sup> *Le Financement de la Sécurité Sociale dans l'Agriculture*, Serie Politique Sociale, No. 20, 1970, Commission des Communautés Européennes, Brussels, page 56.

age 45 grew from 301,000 to 411,000, and in the same period, the group aged 45-65 dropped from 719,000 to 465,000. The declining proportion of older farmers places the German agricultural sector in a very favorable demographic position vis-à-vis its Common Market partners: 55 percent of the Common Market farmers are over age 57 but for Germany the figure is only 31 percent.<sup>6</sup>

*Austria.*—The Austrian compulsory farmers pension scheme, newly amended as of January 1, 1971, as in Germany, also requires the farmer to totally cease farming in order to be eligible for a pension. Before the latest amendment, contributions were flat-rate amounts that yielded a maximum pension of 356 schillings a month after 35 years of contribution. The amendment now relates pension contributions to annual income. Benefit levels have, consequently, been improved—minimum pensions are 350 schillings a month and maximum pensions reach 4,632 schillings. Even though the income from contributions is expected to increase under the new system, the Government will continue to pay the largest share of the cost from general revenues and special taxes on agricultural and forestry undertakings.

## CONCLUSIONS

When parallels are drawn between the Japanese farmers pension and similar pension programs in European countries, the feature that stands out as being common to all is the heavy participation by the government in the financing of the pensions. The dependence on government subsidies and special taxes is found not only in the retirement branch but in all the social security programs covering farmers. In 1965 the percentage of contributions from farmers in the total revenues for farmers social security programs was only 20 percent in Italy, 23 percent in Germany, 25 percent in France, 41 percent in Belgium, and 44 percent in Luxembourg. Only in the Netherlands where farmers participate in the same programs as employees in industry and commerce did contributions constitute as high a proportion as 89 percent.<sup>7</sup>

In comparison with farmers pensions in Europe,

<sup>6</sup> *Übersicht über die Soziale Sicherung*, Bundesministerium für Arbeit and Socialordnung, Bonn, June 1970, page 95.

<sup>7</sup> *Le Financement de la Sécurité Social dans l'Agriculture*, page 47.

the Japanese Government's share of the cost—42 percent—does not appear unusually high. There will undoubtedly be pressure on the Government to increase its subsidy as the program begins to mature, since the number of beneficiaries is expected to grow at the same time as the number of farmers contributing to the program decreases. The Government will also be urged to increase its share of the burden in order to raise benefit levels in response to the upward movements of wage and price levels in other sectors of the economy. Because the income of farmers is expected to continue to lag behind that of other occupational categories, it may prove particularly difficult to adjust benefit levels by raising the contribution rate.

The adjustment of benefit amounts raises another interesting question concerning the future development of the farmers pension program. In anticipation of continued economic expansion accompanied by fairly high inflation, the Japanese Government has for some time been considering the adoption of automatic adjustment procedures for the Employees Pension and National Pension Insurance programs. Given the built-in inflexibility of a pension system designed to meet the needs of an economically weak sector of the economy, it will be difficult to integrate the farmers pension program into a uniform system of adjusting benefit levels. Any solution, however, that does not provide for farmers pensions will raise the politically potent issue of parity in social security protection.

The creation of a separate system for the benefit of farmers has in itself raised questions of parity in Japan. Farmers pension benefits combined with National Pension Insurance benefits are significantly higher than the pension a beneficiary will receive from National Pension Insurance only: persons other than farmers insured under this program—employees of small industrial and commercial establishments, shopkeepers, and other independently employed persons—have fallen behind with regard to the level of retirement benefits. The result will, undoubtedly, be strong pressure on the Government to amend the National Pension Insurance program to match the gains given to farmers and further narrow the gap between benefits under the Employees Pension and National Pension Insurance programs.