COST RELATIONSHIPS

Like covered payrolls and total benefit payments, the costs of workmen's compensation were about 10 percent higher in 1969 than in 1968. As a result, employers continued to spend for the third consecutive year the same proportion of their payrolls to insure or self-insure their risks under workmen's compensation programs—about $1.07 per $100 of payroll in covered employment. In earlier years, the rate had been lower—$1.02 in 1966 and $1 in 1964 and 1965.

The estimated cost of workmen's compensation in 1969 was $4,441 million, an increase of more than $400 million over the 1968 estimate of $4,030 million. The 1969 total consisted of (1) $3,255 million in premiums paid to private carriers; (2) $792 million in premiums paid in State funds (for the Federal programs financed through congressional appropriations, these "premiums" are the sum of the benefit payments and the costs of the administrative agency); and (3) about $395 million as the cost of self-insurance (benefits paid by self-insurers with the total increased by 5–10 percent to allow for administrative costs).

With total benefit payments and costs rising at the same rate in 1969, the 6-year decline in the proportion of the premium dollar going for benefits was halted. This proportion reached 58.8 percent in 1968 and 1969, after a steady decline from a high of 64.1 percent in 1962.

The same trend shown for all business is seen when the experience of private carriers alone is examined. The ratio of direct losses paid to direct premiums written (commonly termed the "loss ratio") held steady at 50.4 percent in 1969 after dropping gradually from a high of 56.0 percent in 1962. A ratio based on losses incurred (which includes amounts set aside to cover liabilities from future claims payments) would be higher. According to *Spectator* data, losses incurred by private carriers represented 62 percent of net premiums earned in 1969—as in 1968.

With the Federal program excluded, State funds also show a steady decline in the loss ratio since 1962 when benefits paid equaled 78 percent of premiums written. The leveling off, however, began before 1969 and for the past 3 years the loss ratio has remained at 67 percent.

The loss ratios for private carriers and, to some extent, for State funds do not take into account the premium income returned to employers in the form of dividends. Available data indicate that dividends when related to total premium payments (for both dividend- and non-dividend-paying companies) generally average about 4–6 percent.

Social Security Abroad

Recent Social Security Reforms in France*

On July 24, 1970, the Council of Ministers approved a series of social security reforms aimed particularly at slowing down the rate of increase in medical expenditures and improving the circumstances of low-income families and the disadvantaged—widows, orphans, the aged, and the severely handicapped. The changes affect all three branches of the general scheme—(health insurance, old-age pensions, and family allowances), which covers more than 12 million wage and salary workers in industry and commerce.

One of the more important changes provides that the single-wage allowance (paid to families in which the spouse is not working) is to be doubled for low-income families but abolished entirely for those families with earnings above a fixed ceiling. In addition, 1 percent of the employer's contribution rate to the family allowance fund will be used to cover deficits in the health insurance and old-age pension funds. A series of economy measures will reduce costs to the health insurance fund.

The reforms of July took place in the midst of the final stages of approving the sixth 5-year

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plan (1971–75) and the considerable public debate that accompanied the procedures on how much France can afford to spend on social benefits. The need for immediate measures to stabilize the general scheme was sounded by the Commission on Social Benefits of the Sixth Plan. The Commission's report, released in March 1970, estimated that the deficits in the old-age pension and health insurance funds would be over 400 million francs and 1.9 billion francs, respectively, in 1971 and that combined deficits for the general scheme would exceed 10 billion francs in 1975.[1]

The average annual growth rate of health insurance benefits envisaged for the fifth 5-year plan (1966–70) was 7.3 percent. In fact, this rate was exceeded, and the average annual growth reached 8.9 percent. The steady rise in costs is expected to produce a deficit in the health insurance fund despite subsidies from the government in 1967 and 1968 and reforms in 1967 that transferred 2 percent of the family allowance contribution rate to the health insurance fund, added a contribution of 3 percent on earnings above the ceiling, and increased that portion of charges shared by the patient.

In examining the rise in medical expenditures, the Commission on Social Benefits listed as the principal explanations the overall improvement in the standard of living, the growth in the aged population, advances in medical technology, and the lack of efficiency in the organization of the medical delivery system. The Commission concluded that improvements in the level of benefits and extension of coverage to new categories had not led to unreasonable use of health facilities and that abuses in the granting of daily cash benefits for sick leave were not a major cause of the deficit.

The old-age pension fund will experience a deficit for the first time as a result of the Government decision to relax the entitlement requirements for widows and disability retirees and to increase the minimum noncontributory old-age pension in several steps. The Government and the Commission are in agreement that, when the financial balance of the general scheme, is achieved, the sixth plan should give the highest priority to improving the living standard of France's aged population.

[1] One U.S. dollar equals 5.5 francs.

Slowing Down Increase in Medical Expenditures

For the present, the Government is faced with the problem of meeting the financial requirements of the health insurance fund. Although it was first reported that 1 percent of the employer's contribution rate to the family allowance fund would be reallocated and divided equally between the health insurance and old-age pension funds, the Government found it necessary to give 0.75 percent of that contribution rate to the health insurance fund and 0.25 percent to the old-age pension fund. The following tabulation distributes total employer-employee contributions subject to the ceiling, by fund allocation. (An additional 3 percent is levied on earnings that exceed the ceiling.)

Fund	Contribution rates (percent)	
	Old rate	New rate
Total	35	35
Health insurance	15	15.75
Old-age pension	8.5	8.75
Family allowances	11.5	10.5

Although family-oriented associations objected, transfers from the family allowance fund to the health insurance fund had been resorted to on several earlier occasions because of the surplus in the family fund.

In 1971 the health insurance fund will receive an additional 1.5 billion francs from the transfer. Since the deficit would still not be covered, the Government also decreed a series of economy measures, effective September 1, 1970. Fixed prices of several hundred most-often-prescribed medications were lowered, and more than 2,000 other medications no longer considered important for modern therapy were taken off the list of reimbursable prescriptions. The price of pharmaceutical products will be fixed for only a 2-year interval, after which the price will be revised on the basis of real production costs and volume of sales.

These measures, as well as a provisional lowering of the permissible profit margin of pharmacies (pending the signing of a national agreement), prompted the Federated Union of French Pharmacies to stage a 1-day protest strike that closed most pharmacies on July 29, 1970. The representatives of medical laboratories, however, reached an accord with the health insurance fund to reduce by 30 percent the charge on a series of the most common laboratory analyses.

Two other important Government projects—hospital reform and the establishment of "medical profiles"—were part of the July reform and the effort to cut costs but are yet to be the subject of decrees. The hospital reform, which must first be approved by Parliament, affects both public and private hospitals and will introduce a distinction in daily charges between regular hospitals and convalescent hospitals. The construction of convalescent hospitals for the aged and the treatment of certain illnesses will be encouraged through the provision from the general revenue of 100 million francs in 1971. The reform will also attempt a more rational utilization of expensive medical equipment in both private and public hospitals.

The establishment of "medical profiles" for both doctors and patients has been agreed upon in principle by the representatives of practitioners, and it will ultimately be the subject of a national convention. Computers will be employed by the health insurance fund to document the beneficiary's use of medical services and prescriptions and the treatment procedures performed by the doctor, as well as the number of workdays lost by the beneficiary. The purpose of the medical profile is to reduce expenditures by informing physicians of the cost of prescriptions and treatment and, by revealing abuses, to encourage self-discipline and control on the part of both doctors and patients.

As a result of the July reforms the financial requirements of the general scheme will be met until the end of 1971. It is apparent, however, that assuring the financial stability of health insurance will remain a pressing problem during the period of the sixth 5-year plan.

The Commission on Social Benefits proposed more far-reaching solutions than those in the July reforms. According to the Commission's report, one or a combination of the following three measures should be considered: increasing by at least 3 percentage points the contribution on earnings above the ceiling, creating a special tax on wine and tobacco, and increasing the cost sharing of the beneficiary if his income exceeds the contribution ceiling.

Improvements in the Old-Age Pension

The two main objectives of the decrees modifying the old-age pension are to raise the minimum noncontributory old-age pension and to relax the eligibility requirements for widows and those retiring under disability. Approximately 2.3 million old-age retirees and survivors are entitled to receive this means-tested pension (subject after October 1, 1970, to an income ceiling of 4,500 francs a year for a single person and 6,700 francs for a family). The grant of 2,900 francs was increased by 100 francs on October 1, 1970; in 1971, it will be raised to 3,400 francs a year or 9.3 francs a day.

At present, widows are entitled to receive a survivor benefit of 50 percent of the spouse's pension at age 65, subject to an income ceiling of 2,750 francs. After January 1, 1970, this ceiling will be raised to 7,280 francs a year—the annual amount of the guaranteed minimum wage for low-income workers. The qualifying conditions on the length of marriage to the deceased have also been considerably relaxed.

In addition, the Government announced its intention to modify the criteria used to grant a full pension at age 60 to employees no longer able to work or to those exercising a particularly arduous profession. Guidelines will be drawn up to take into account, particularly for women, not only medical factors but also "professional and economic" conditions.

It is interesting to note that the Commission on Social Benefits had urged the Government to consider raising the minimum old-age grant to 50 percent of the guaranteed minimum for low-income workers, instead of the present 30 percent and increasing the survivor pension to 75 percent of the spouse's pension, instead of the present 50 percent. Labor unions, moreover, have long been demanding that pensions be calculated on the basis of the best 10 years of service, not the last 10 years, and that contributions paid after the thirtieth year should be taken into account. At present, contributions paid after the thirtieth year have no effect on the level of the pension.

Toward a More Selective Family Policy

One of the more significant changes affects the single-wage allowance—the income supplement that varies according to the number of children and is granted to a household when only one spouse is the recipient of a wage or salary. This allowance, which accounts for about one-third of all family allowance expenditures, has been the subject of controversy since its inception in 1941. Its aim has variously been described as encouraging the mother to remain at home with her children or simply providing an income supplement to families with only one salary or wage income to help finance the raising of children.

Those favoring the first interpretation say the allocation has always been too low to provide the mother with a real choice between taking a job and continuing to accept the allowance. Those critics who believe it should be considered as an income supplement point out that the allowance may actually operate to accentuate the income differences among families. Since the allowance has been granted to families regardless of income level, women who do not feel compelled to work because their husbands have high incomes continue to receive the allowance, but mothers in low-income families lose their right to the allowance when they begin to work.

Responding to these criticisms, the Government decreed that after January 1, 1971, the single-wage allowance will be abolished entirely for families with monthly income above 5,550 francs and doubled for families with income less than 1,300 francs. The present level will be maintained for the families with income between these limits. The change is significant not only because it involves the loss of an acquired right for some families, but also because the French family allowance policy has historically been based on the uniformity of benefits.

To strengthen Government support of low-income families, the maternity allowance and the regular family allowances will be increased by 4.5 percent, with somewhat higher payments for the third and fourth child. Nevertheless, family allowances are still a long way from catching up with increases in wages and salaries, and any serious attempt to make up for the effects of inflation has been halted by the reallocation of contribution revenue to the health insurance and old-age pension funds.

The resources of the family allowance fund will also be called upon to cover additional expenditures in favor of the disadvantaged. A new orphans' allowance will be created, amounting to 88 francs a month for a partial orphan and 166 francs a month for a full orphan. In addition, more aid will be extended to the family responsible for a severely handicapped child by permitting the payment of a portion of the allowances beyond the date when the child ceases to be a minor.