

TABLE 3—Cost per patient day in short-term community hospitals: Average annual rate of increase, selected periods, 1951-70

Source of increase	Percentage increase from—				
	1951 to 1970	1951 to 1955	1955 to 1960	1960 to 1966	1966 to 1970
Average annual increase...	8 6	8 4	6 9	6 9	13 9
In wages and prices ¹	4 2	3 7	3 8	3 1	7 8
Wage rates.....	5 8	5 8	4 9	4 1	9 8
Price levels.....	2 1	8	2 0	1 5	4 8
In inputs ¹	4 4	4 7	3 1	3 8	6 1
Labor.....	2 9	4 4	2 2	2 5	2 8
Nonlabor.....	6 4	4 8	4 5	6 0	11 0

¹ Based on the weighted average of the two components.

Nonlabor Costs

The increase in nonlabor input cannot be measured directly in physical terms. Nonlabor input is estimated by taking the total increase in nonlabor costs during the period and deflating it by a price index. Under this procedure, the increase in the price index represents the increase resulting from prices and the residual (nonlabor cost in constant dollars) represents the nonlabor input. (The rates of increase were converted to average annual rates.) No precise deflator for hospital expenses was available, and the Consumer Price Index of the Bureau of Labor Statistics was used as a general index of price trends affecting hospitals. The data for nonlabor prices and input are therefore only rough approximations.

As explained previously, the total increases for wages and prices and the total for labor and nonlabor inputs were estimated by combining the separate components appropriately weighted by hospital payroll and nonpayroll expenses. For this purpose, the average weight for each selected period was used.

Interaction Factor

Part of the increase in per diem hospital cost is attributable to the additional costs resulting from the increase in wage rates applicable to the additional labor inputs, and from the price rises applicable to additional nonlabor inputs. Thus, the wage and price increases and the additional inputs have a compounding effect that cannot be directly attributed to either. This effect is defined as the interaction factor. Unless the inter-

action factor were taken into account, the estimates of increase for the combined price, wage, and input factors would be less than the total increase in per diem hospital costs. For the average annual data presented here, however, the interaction is relatively small, and it (together with any estimating error) has been proportionately allocated to and included in the estimates.

Social Security Abroad

Higher Old-Age Pensions in France*

New social security legislation brought into force by the French Government on January 1, 1972, extensively revises pension schedules for old-age and disability retirement and increases benefits for long-term workers by extending the number of years of service that can be credited in computing coverage under the pension formula. These measures, which in the next 3 years will benefit an estimated 1.2 million older persons, have been described by the French Minister of Public Health and Social Security as "the most important amendments to the social security law since its enactment in 1946." The legislation applies to 12.3 million workers in private industry and commerce covered under the *régime général*.

BACKGROUND

The adequacy of old-age and disability pensions has been a question under study in France for some time. The Laroque Report,¹ a 1960 Government-sponsored inquiry into the problems of the aged, acknowledged the inadequacy of the existing pension levels and the difficulties confronting retired pensioners. More recent studies² show that in 1970 about one-third of the population over age 64 were dependent on a total income of 325 francs per month.³ The report of the Commission on Social Benefits for the Sixth Plan,

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¹ Pierre Laroque, *Politique de la vieillesse*, Documentation française, Paris, 1962.

² See Jean-Jacques Dupeyrou, *Sécurité Sociale*, 4th ed., Précis Dalloz, Paris, 1971, pages 395-400.

³ One French franc equals about 20 U.S. cents.

submitted in 1971, stated that more than 80 percent of all retired workers received a monthly benefit less than the statutory minimum wage established by the Government for a 40-hour week.⁴

Since 1971 the French trade unions have been pressing for two major pension changes: an increase of 40–55 percent in old-age pensions under the *régime général*, and a lowering of the retirement age from 65 to 60 for all workers (not just those in arduous occupations). Lowering the retirement age is expected to result in a 7-billion franc loss in revenues and a 12-billion franc increase in benefit payments. It would also require an increase in contributions of 50–80 percent according to the Ministry of Public Health and Social Security.

Both the Government and management oppose lowering the retirement age. They point to the economic dislocations that would arise from increased pension obligations as well as the resulting sudden decrease in the labor supply of workers aged 60–65. The Government prefers a policy of gradually increasing the level of pensions rather than lowering the retirement age.

PROPOSALS OF THE SIXTH PLAN

In considering the problem of retirement reform, the Government has been guided by the recommendations of the Commission on Social Benefits for the Sixth Plan (1970–75), submitted to Parliament early in 1971. This report calls for improving the presently “inadequate” retirement benefits for older people under the *régime général*. The report also noted that retirement provisions under the *régime général* were less favorable than those of other funds (such as the funds for agricultural workers, seamen, miners, government workers, and the self-employed) and that nearly all private retirement systems use age 60 as the established retirement age.

An objective of the reform is therefore to bring the retirement age provisions under the *régime général*, as well as those relating to benefits, more in line with those of other systems and with the private supplemental pension plans. The Commission considered three areas: (1) a lowering

⁴ The minimum salary in 1970 was 6,888 francs a year. See *Rapport de la commission des prestations sociales du VI^e Plan*, Paris, 1971, page 124.

of the retirement age, (2) a general increase in pension amounts, and (3) a reduction in the number of years of work required for retirement in the case of disability.

The Commission rejected any proposal to lower the normal retirement age or to reduce the pension decrement for those retiring before age 65 on the grounds that such liberalization would jeopardize the financial stability of the retirement fund, which is already running an operating deficit. Instead, the Commission called for an increase in the level of existing pensions to alleviate the difficulties confronting retired pensioners. The Commission further recommended that the method for computing pensions should take into account length of service beyond 30 years (which presently does not affect the pension amount). Thus, workers who are between the ages of 60 and 65 could choose whether or not to continue working on the basis of the amount of increase in pension the additional service would produce.

Regarding disability retirement, the Commission found that the provisions of the present law—retirement at age 60 with a pension of 40 percent of covered earnings in cases of total disability—were too rigid. The Commission recommended modifications to take into account arduous labor and to allow retirement at age 60 on partial disability for workers who are unable to follow their usual occupation without endangering their health. The Commission also considered the problem of older workers who are unable to continue in permanent employment. (The Government later rejected a proposal that would have granted early retirement to workers aged 60 and unable to find remunerative employment at greater than half their previous earnings.) The Commission noted that requests for disability pensions after age 60 represented about one-third of all pension applications.

RETIREMENT PROVISIONS

The 1972 revisions to the French social security law set forth the broad principles for improvement of retirement benefits. Detailed procedures for administration are provided for in supplementary regulations drawn up by the Ministry of Public Health and Social Security.

Under the provisions of the 1945 social security law covering the *régime général*, a fully insured

worker—with 30 years' coverage—was eligible at age 60 for a pension equal to 20 percent of that portion of his average earnings within the wage ceiling over the last 10 years. For each year after age 60 the retirement benefit was increased by 4 percent of the base salary per year. Thus, by postponing retirement until age 65, a fully insured worker could increase his benefit to 40 percent. By further postponing his retirement to age 70, the worker could increase his benefit to 60 percent. The pension of an insured worker with less than 30 but more than 15 years of covered service, however, was reduced in proportion to the number of years he worked in insured employment.

The 1972 law continues to compute pensions on the basis of average earnings within the wage ceiling, the period of covered employment, and the age at the time of retirement. By 1975, however, the basic pension at age 60 will be raised by 25 percent and the annual increment for deferring retirement will be increased from 4 percent to 5 percent. The following tabulation shows the new schedule of maximum retirement benefits.

[Percent of average covered earnings]

Age	Previous pension rate with 30 years' coverage	Transitional rates			1975 pension rate with 37 5 years' coverage
		1972, with 32 years' coverage	1973, with 34 years' coverage	1974, with 36 years' coverage	
60.....	20	21 3	22 6	24 0	25
61.....	24	25 6	27 2	28 8	30
62.....	28	29 8	31 7	33 6	35
63.....	32	34 1	36 2	38 4	40
64.....	36	38 4	40 8	43 2	45
65.....	40	42 0	45 3	48 0	50
70.....	60	64 0	68 0	72 0	75

The new law also provides for a 5-percent increase in all retirement pensions that were computed on the basis of 30 years' coverage. Article 10 of the amendments extends retirement provisions to wage earners in agriculture.

DISABILITY PROVISIONS

Under the earlier legislation, retirement on disability at age 60 required that a worker be totally disabled or that he had been engaged in an arduous occupation for at least 20 years. The definition of "arduous" was never clearly defined in the regulations. The maximum pension for retirement at age 60 due to disability was 40 percent of the wage ceiling. Since 1963 almost half of the

pensions granted at that age have been for disability.

The new legislation discards the concept of arduous occupations and instead applies two basic criteria:

- (1) The worker must not be in a position to perform the duties of his "usual" occupation without injury to his health, and
- (2) his mental and physical condition must be such as to prevent him from performing 50 percent of his customary work

Based on these criteria, a full-rate retirement benefit—amounting to half of his average base salary—will be awarded to a person at age 60 with a work incapacity of 50 percent or more. In no case will the worker be forced to accept less demanding employment in another occupation.

PENSION PROVISIONS FOR MOTHERS

The new law provides that mothers who are insured under the *régime général* and who have raised two or more children during the last 9 years are to be credited with one extra year of coverage for each child. This provision, which supplements a recent Government proposal to increase the single-wage allowance (paid to families with only one wage earner), is aimed at improving the status of women.

ECONOMIC EFFECTS

According to the Minister of Public Health and Social Security the 1972 amendments when combined with other actuarial projections will increase aggregate old-age benefit payments between 1970 and 1975 by 1.9 billion francs, or 62.2 percent. The increase in the number of computable years of coverage to 37.5 will affect 370,200 beneficiaries. The benefit increase of 5 percent to persons who retired between 1960 and 1971 and who had more than 30 years of credited service will affect 800,000 retirees. The improvement of disability payments at age 60 will cost between 100 million and 300 million francs annually. The reforms in the new legislation are an important step toward establishing a retirement policy to meet the needs of older workers and to bring social security in line with the French economic, demographic, and social situation.