Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 13, 1939

To Chairman Eccles

From Lauchlin Currie LBC

Subject: Foreign Contributory Plans for Old-age Insurance

Attached is a brief memorandum on the turning away from reserve fund financing systems to government subsidized old-age insurance plans in Europe.

January 13, 1939

Source:
Twentieth Century Fund, More Security for Old Age (1937)

FOREIGN CONTRIBUTORY PLANS

Government Subsidies (p. 47)

The government almost universally shares the cost of contributory pensions, the exceptions being found where separate systems exist for salaried employees, bank staffs and other groups of relatively high income. In other words, the government contribution has been found indispensable in schemes covering the low wage workers, and is absent only in plans limited to higher income classes. . . .

Relation Between Contributions and Government Subsidies (pp. 50-51)

The relative importance of employer-employee contributions and of the government subsidy varies greatly from country to country and, indeed, within the same country at different periods in the development of the pension plan. For example, ~~the~~ in Great Britain in 1929 the total income of the old-age, widows' and orphans' insurance system amounted to £29 million of which the contributions of employer and employees represented about 79 per cent, the Exchequer subsidy 14 per cent and interest and other income about 7 per cent. In 1934 the estimated income was £37 million of which the contributions represented about 63 per cent, the Exchequer subsidy about 35 per cent and interest about 2 per cent. Estimates of the government actuary indicate that in 1940 contributions will be about 61 per cent, Exchequer subsidy about 38 per cent and interest less than 1 per cent of the total.

In Germany in 1927 the total resources of the invalidity, old-age and widows' and orphans' insurance for workers was 1,251 million RM. of which employer and employee contributions were about 70 per cent, the government subsidy about 20 per cent, other resources about 10 per cent. In 1930 contributions were about 65 per cent of the total resources, the government subsidy about 27 percent and other income about 8 per cent.

Pp. 50-51 contd.

In Sweden, where there is no contribution by employer, the employee contribution under the new law will amount in 1937 to about 22 per cent of the entire income of the old-age pension system, the state subsidy about 57 per cent and interest about 21 per cent. By 1960 the employee contribution will be about 16 per cent, the state subsidy about 72 per cent and interest about 12 per cent of the total.

Reserve Financing (p. 59)

. . . The important fact remains that in Europe a definite trend away from reserve-fund principles is apparent and that full reserve systems are practically non-existent. Almost universally it has been found that a "self-supporting" contributory system with full reserves has been impossible to maintain, that it has not solved the problem of providing pensions, and the principle has been more or less diluted by the introduction of current-cost devices.