

3. A SHORT REVIEW OF THE GENERAL FINANCIAL PRINCIPLES AND METHODS OF IRISH* AND BRITISH SOCIAL INSURANCE SCHEMES

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The social insurance schemes at present in operation are those relating to health, unemployment and pensions. These schemes are distinguishable from other social schemes by the fact that direct contributions are taken from the persons included. These contributions are pre-determined and do not necessarily bear any direct relation to current expenditure. The benefits are often either contingent or deferred, and the incidence of risk varies with age or otherwise. Such schemes involve problems of funding and of the equitable treatment of different generations of insured persons. I propose to deal with the three schemes separately.

Health.

The British and Irish national health insurance schemes had a common origin in an Act of Parliament passed in 1911. The Act applied, compulsorily, to specially-defined sections of the community but there were certain exceptions and exemptions. The age limits were originally 16 and 70 but the latter was reduced to 65 in Great Britain in 1928 when the contributory pensions scheme was introduced. In return for a fixed weekly contribution, payable partly by both employee and employer, benefits of stated amounts are payable during sickness and on the occurrence of births. Free medical attendance and drugs, etc., are also provided in Great Britain.

The insured classes are grouped in approved societies; a large number of friendly and other societies were adapted for the purpose. These societies were allowed to have financial autonomy, and this has had the effect of encouraging care in administration because each society was permitted to distribute its own disposable surplus (as certified by Treasury valuers) in the form of additional benefits over and above the minimum or statutory benefits. Special financial machinery was established to deal with deficiencies disclosed on these periodical valuations.

The scheme was applied to all existing persons within the defined limits and it was decided, presumably on grounds of general expediency, to fix a flat weekly rate of contribution irrespective of age; separate rates, however, applied to men and women. The contribution fixed was that which brought about an equivalence in the value of benefits and contributions in respect of an entrant to the scheme at the age of 16. As rates of sickness increase with age this contribution was inadequate for ages higher than 16 at entry and all societies, therefore, started with a capital deficiency in respect of their initial membership, which would have to be discharged if they were to retain their financial independence and secure the funds necessary for their liabilities. As this could not be done

* *i.e.*, operating in the Twenty-Six Counties. The schemes in Northern Ireland are similar to those in Great Britain.

without outside assistance it was provided that the necessary sinking funds would first be provided out of the contributions paid and apparently that the State would restore the resulting shortage by making a corresponding free grant. This grant, which was fixed at two-ninths of the expenditure has remained unchanged here, but in Great Britain it is now one-seventh for men and one-fifth for women.

The scheme has remained unchanged in principle in Great Britain for over 30 years, but there have been many changes in detail. In Éire there was a fundamental change in 1936 when all societies were amalgamated into a single society, but the financial arrangements were continued as before. This step was taken because of the large number of societies which had got into serious deficiency involving the stability of the scheme as a whole. A further important change in the Irish scheme was effected last year when it was decided to allow the payment of additional benefits on the strength of an income in excess of expenditure, although the unified society had not disclosed a disposable surplus according to the original and existing British prescription. This step has involved the abandonment of many of the financial trappings of the original scheme, but not without a consequential reduction in the financial independence of the society. The society has, in fact, now to look to the State as its re-insurer.

Unemployment.

The unemployment insurance scheme originated at the same time as the health scheme and, although in the early years it was confined to certain trades only, it now embraces almost the same classes as the health scheme. Employment in agriculture is not, however, covered in Éire.

There were no separate independent units in this case like the approved societies in the health scheme and, as the risk varied more with the particular industry and with economic conditions generally than with age, there was no need to build up funds to provide for heavy liabilities in old age. The principle adopted was to secure an equivalence of benefits and contributions over a period of time based on the trade cycle. A single fund was established into which were paid the contributions, in equal parts from the Exchequer, employer and employee. The British fund had many ups and downs and in consequence of heavy unemployment rates it was for a long time in debt to the Exchequer. In 1934 a statutory standing committee was established there with a view to keeping the finances, including the relation between benefits and contributions, under proper supervision. Although benefits and contributions were frequently changed the scheme has remained practically unaltered in both countries in its essential features. In Éire there have also been borrowings from the Exchequer, but there is no standing committee as in Great Britain.

The institution in both countries in 1934 of the payment of unemployment assistance benefits subject to means tests, is, of course, a separate matter altogether, but I may remark that it has tended somewhat to force the insurance scheme into the background, especially as regards the necessity for any financial reform.

Pensions.

A scheme of contributory old age pensions and widows' and orphans' pensions was introduced in Great Britain in 1926. There is no contributory old age pensions scheme here, but a widows' and orphans' pensions scheme was introduced in 1935. The old age pensions part of the British scheme provides pensions for the period from age 65 (recently reduced to 60 for women) when health and unemployment benefits cease until age 70 when the non-contributory old age pension begins. Persons who obtain this contributory pension secure the old age pension at age 70 without means test. Contribution rates were determined for the combined benefits, and it was provided that the contributions were to be gradually increased so that in due course the over-70 pensions would be paid for in this way. They were calculated as flat rates appropriate to age 16 at entry, and the women's rate was fixed at one-half the men's rate on consideration of the relative benefits obtained by each.

As in the case of the unemployment scheme there were no separate independent units in the administrative machinery of the pensions scheme and its finances were provided by means of a single fund where the contributions were lodged and from which the benefits were paid. The basis of the State's contribution was that it would provide whatever balance would be required to maintain the scheme. This was calculated in advance as a definite but increasing annuity-certain so that minor fluctuations would not be reflected in it. The scheme was made applicable to all existing insurable classes and to all new entrants between ages 16 and 65. As the capital value of the liability on entry increases with the age at entry there was in consequence, an initial capital liability in respect of all those over the age of 16. Unlike the health scheme, however, and probably because the financial machine consisted of a single national unit, no provision was made to liquidate this initial liability. The State has, however, in effect, accepted the liability involved and will presumably meet it as it emerges.

The Irish widows' and orphans' scheme has a somewhat similar financial structure to the British one. Rates of benefit and contribution differ as between the general insurable classes and the agricultural class, and non-contributory widows' pensions vary in amount as between county borough, urban and rural areas and according to means. Contributions are made by the State and by the employer and employee and the rates of benefit and contribution appear to have been fixed on grounds of expediency rather than on strict insurance principles. As in the British scheme the State is, in effect, making up whatever is required to maintain the scheme as a going concern without much advertence to the relative burden on each of the contributing parties.

General Remarks.

Social insurance can be financed in a variety of ways depending upon the degree of financial independence from the State which it is desired to give to the administrative machine, and on the extent to which provision for the insured's accruing rights is to be earmarked and not allowed to depend on a possible change in Governmental attitude or financial capacity. The highest ideal was aimed at and, indeed achieved, in the original health scheme. As the

administrative unit was to be an independent society, it was in fact the only suitable plan. Our own health scheme which partook of this character until recently is now, as it were, suspended in a state of uncertainty, its capital asset operating merely as a buffer and an income-producing medium. Although this asset is essential if contributions are not to be increased, it is not now an insurance fund in the proper sense of the term. The unemployment scheme was intended to operate on a strictly orthodox temporary insurance plan in which the risk is segregated into temporary phases and the finances are in theory revisable periodically on the basis of experience. Contributions are designed to cover only the passing risk and there are, as it were, no rights to benefits in old age accruing from contributions paid in youth. The pension schemes fall somewhere in between, fixed level contributions being charged for prospective benefits. As the risk increases with age the contributions paid at younger ages should be too great for the current risk and a part of them should be accumulated to meet the heavier risks at later ages. Notwithstanding this, no funds are being built up as the contributions are kept at such a low level as to leave no margin for accumulation. Hence, although the insured have, by paying contributions, a legal and indeed a moral right to at least some future benefits, no monetary asset is set aside to provide them and they are dependent for the securing of their rights on the will of future Governments and the financial capacity of future generations. While, therefore, these schemes are framed on quasi-insurance lines in so far as contributions are specially calculated and charged, the absence of a special fund representing the capital value of the prospective liabilities at any given time negatives their insurance character. In other words, when the risk becomes a reality the real source of any benefit payment will be the then current budget and not any specific insurance asset.

When contributions are compulsorily charged for benefits to be paid on the occurrence of risks which will not materialise for some time—perhaps 50 or 60 years hence—is it not incumbent on the present generation at least to have something set aside in satisfaction of their responsibility for the moral claim, rather than that they should use the enforced contributions now for some other purpose?

If social service schemes are to be insurance schemes, *i.e.*, self-supporting, risk-spreading schemes they ought to be so in the full sense of the term and not half-hearted attempts at insurance. If they are not to be insurance schemes their true character should be recognised and the financial bases fixed accordingly. Schemes which fall short of full insurance on the one hand and involve something more than grants from each year's State revenue on the other hand tend to give rise to muddled finance unless their hybrid nature and its implications are sufficiently adverted to and grappled with.