The Swiss Old-Age and Survivors' Insurance Scheme

by

Dr. Arnold SAXER

Director of the Federal Office of Social Insurance, Berne

The International Labour Organisation has always been deeply interested in social security problems, and has done a great deal of work in this field. While working for the adoption of basic international standards of social security, the Organisation has devoted increasing attention to the practical problems of social insurance administration, and a comprehensive series of documentary studies and monographs on social insurance legislation and problems was published by the International Labour Office before the war. The policy of the Organisation has always been to encourage close contact between social insurance administrators in different countries, with a view to the pooling of experience, and the Office welcomes the opportunity to add to the articles that have already appeared in the Review *on national social security schemes the following article by the Director of the Swiss Federal Office of Social Insurance on the compulsory old-age and survivors' insurance scheme recently established in Switzerland. A note on the scheme appeared recently in these pages.*[1]

ON 6 July 1947 the Swiss people accepted by 862,036 votes to 215,496 the Federal Act of 20 December 1946 on old-age and survivors' insurance. This marks an important step in social progress : the Federal Constitution had since 1925 included provision for the institution of old-age and survivors' insurance, and a first attempt had been made in 1931 to apply this provision of the Constitution, but in that year, the Swiss people rejected by popular vote the first Bill for the application of old-age insurance.

[1] See *International Labour Review*, Vol. LVI, No. 2, Aug. 1947, p. 190.

Outlined below are the main principles of the Federal Act of 20 December 1946, which has now been accepted by the Swiss people. The Act comes into force on 1 January 1948.

Compulsory Insurance

In discussion of old-age and survivors' insurance in Switzerland it has always been insisted that insurance should be compulsory for the whole population. In view of political conditions in the country, a system of compulsory insurance for one class of the population alone, for wage earners, for example, would have been unthinkable, as many of the individual self-employed workers in Switzerland earn only a moderate or small income; the majority of independent farmers, for example, are men of moderate means or smallholders. The same is true of arts and crafts in Switzerland. Very often farmers of average means, small farmers and small craftsmen do not enjoy any better position, economically and socially, than the higher class of wage earner. Their position is in fact often worse, and it is quite clear that these self-employed persons require measures to assure their old age. In these circumstances, it would not have been right for the State to draw up an insurance scheme involving large contributions from public funds for the benefit of one social group alone.

In Switzerland, therefore, the guiding principle has been throughout that if there was to be set up a scheme for old-age and survivors' insurance it was essential that the scheme should cover the whole population, and that any scheme for such insurance should contribute to the solidarity of all classes by uniting the whole people in one common destiny.

The same considerations have led to the rejection of any proposal to set up separate insurance schemes for the different economic groups. If such a proposal was considered at all, it was only because it was thought that separate insurance schemes would allow better account to be taken of the varied needs of the different economic groups; it is in fact an extremely difficult matter to set up a single insurance scheme embracing the whole population and yet taking separate account of every economic and social need. The International Labour Office study on compulsory pension insurance, published in 1933, pointed out as one of the main arguments against compulsory national insurance that it "would have to comprise large landed proprietors, persons of independent means or independent craftsmen, shopkeepers, peasants, employed persons and so on, so that it would be quite impossible to establish a scheme of contributions and benefits which would be satisfactory for all the persons concerned".[1] But in Switzerland there was no alternative to attempting such a scheme, since for organisational reasons it would hardly have been possible to set up a number of parallel schemes, and in any case this wonld have been ruled out on political and social grounds. The indispensable social compensation betwen higher and lower earnings among the whole population would have been extremely difficult to ensure, and the existence of several parallel insurance schemes would certainly have led to differences of opinion and disputes between the various economic groups.

The Federal Act of 20 December 1946 is therefore based on the principle of compulsory insurance; it accepts the principle of optional insurance only in the case of Swiss citizens residing abroad, who can enter the scheme voluntarily on fulfilment of certain conditions.

Contributions

Principle of the System

The question of selecting a system of contributions had practically been decided in advance by the existence of the compensation system for loss of wages and earnings by men on active service. During the war a compensation scheme for loss of wages and earnings had been set up for soldiers on active service, based on contributions from employers and workers, calculated as a percentage of wages, together with sums contributed by the public authorities.[2] In 1942, a popular initiative was put forward that these compensation funds for loss of wages and earnings should be reorganised as old-age and survivors' insurance funds. There was a very strong movement of public opinion in favour of setting up a system of social insurance capable of providing benefits on a really adequate scale from the social point of view. However, it would have been impossible to establish a scheme of the kind desired on the basis of comparatively small contributions, as proposed, for example, by the Bill rejected in 1931. The solution adopted, namely to base the old-age and survivors' insurance scheme on a system of contributions approximating as nearly as possible to that already established for the compensation schemes for loss of wages and earnings, was prompted by the following considerations :

[1] *Compulsory Pension Insurance*, I.L.O. Studies and Reports, Series M (Social Insurance), No. 10 (Geneva, 1933), p. 126.

[2] Arrêté du Conseil fédéral du 20 décembre 1939 réglant provisoirement le paiement d'allocations pour perte de salaire aux travailleurs en service militaire actif (régime des allocations pour perte de salaire); Arrêté du Conseil fédéral du 14 juin 1940 réglant provisoirement le paiement d'allocations pour perte de gain aux militaires de condition indépendante en service actif (régime des allocations pour perte de gain). See *Régime des allocations pour perte de salaire et de gain, dispositions en vigueur* (Office fédéral de l'industrie, des arts et métiers et du travail, Berne, 1945).

(a) the compensation scheme for loss of wages and earnings marked the first appearance in Swiss legislation of the principle of solidarity, and it was essential to incorporate this into the old-age and survivors' insurance scheme;

(b) payment of contributions for insurance against loss of wages and earnings had become accepted through habit;

(c) the system of contributions to the compensation schemes for loss of wages and earnings allowed for the collection of the wage earner's contribution at source;

(d) the system of contributions to the compensation scheme for loss of wages and earnings was based on the financial position of contributors.

Wage Earners.

As regards the amount of contribution to be paid by wage earners, the Act adopts the system of contributions established for the compensation scheme for loss of wages. The contribution of wage earners to the old-age and survivors' insurance scheme will therefore be 2 per cent. of wages. The employer's contribution on behalf of his employees will be at the same rate, namely, 2 per cent., calculated on his wage bill. The total contribution of wage earner and employer together will thus be 4 per cent. of wages. In this way the employer helps his employees to provide for their old age and to guarantee the future of widows and orphans. This principle is fully admitted by Swiss employers in industry, arts and crafts and agriculture.

Self-Employed Persons.

All self-employed persons, in farming, industry, arts and crafts, the liberal professions, etc., must similarly, under the terms of the Act, pay a sum equal to 4 per cent. of their earnnigs as contribution to the old-age and survivors' insurance scheme; since such persons are their own employers, they have to pay the whole amount of the contribution themselves. This ensures a uniform rate of contribution for wage earners and self-employed persons, the total contribution being the same in both cases. The only exception provided for by the scheme is in favour of self-employed persons earning small incomes; it was essential to provide in the Act for exceptions in favour of this class, so that self-employed persons whose income is less than 3,600 francs a year should pay contributions on a decreasing scale. Contributions may be reduced by not more than half, that is to say, to a minimum of 2 per cent. The minimum contribution to be paid by any insured person is fixed at one franc a month. The table below gives the decreasing scale of contributions.

TABLE I. CONTRIBUTIONS OF SELF-EMPLOYED PERSONS OF SMALL INCOMES [1]

Yearly income from self-employment (*in francs*)		Annual contribution (*in francs*)
More than	but less than	
—	600	12
600	900	18
900	1,200	24
1,200	1,500	36
1,500	1,800	48
1,800	2,100	60
2,100	2,400	72
2,400	2,700	84
2,700	3,100	102
3,100	3,600	120

The adoption in the old-age and survivors' insurance scheme of uniform contribution rates for wage earners and self-employed persons represents a great simplification as compared with the compensation scheme for loss of wages and earnings, and a step towards complete equality in the calculation of contributions. It also obviates the difficulty of defining the limits of the various occupational groups.

Persons Not in Gainful Employment.

The problem of fixing contributions for persons not engaged in gainful employment was one of considerable difficulty. Such persons must of course be included in a national scheme of compulsory general insurance; but since they do not receive any income from gainful employment, their contributions cannot be based on such income. A special system had to be devised for this class, and the Act therefore provides a system of fixed contributions for persons not gainfully employed, varying from one to 50 francs a month according to the social position of the person concerned. A minimum contribution of one franc is fixed for persons receiving charitable assistance, disabled persons, and so on, while all other persons not engaged in gainful employment are graded according to the scale set out below. The maximum contribution is 50 francs a month.

[1] Règlement d'exécution de la loi fédérale sur l'assurance-vieillesse et survivants du 31 octobre 1947, art. 21.

TABLE II. CONTRIBUTIONS OF PERSONS NOT ENGAGED IN GAINFUL EMPLOYMENT

Private fortune, or annual unearned income multiplied by 30 [1] (in francs)		Annual contribution (in francs)
More than	but less than	
—	50,000	12
50,000	75,000	18
75,000	100,000	24
100,000	130,000	36
130,000	160,000	48
160,000	190,000	60
190,000	230,000	84
230,000	270,000	108
270,000	310,000	132
310,000	350,000	156
350,000	390,000	180
390,000	430,000	216
430,000	470,000	252
470,000	510,000	288
510,000	550,000	324
550,000	590,000	360
590,000	640,000	420
640,000	690,000	480
690,000	750,000	540
750,000	—	600

[1] If a person not engaged in gainful employment both owns capital and receives an unearned income, the total of the annual unearned income is multiplied by 30 and added to the value of the private fortune.

With the exception of the special system for persons not gainfully employed, there is no upper limit to contributions, and the contributions based on percentage of income must be paid at the specified rate, however large the income may be. This maintains the important principle of solidarity and social adjustment between the economically strong and the economically weak.

Reductions and Exemptions

The Act provides for three classes of reduction in the rate of contribution.

(a) Firstly, the Act specifies a number of exemptions from contribution. These exemptions are of particular importance in agriculture and in arts and crafts. The following classes pay no contributions :

(1) children engaged in gainful employment, up to the age of 15 years ;

(2) wives of insured persons in so far as the wives are not gainfully employed, and wives of insured persons who are gainfully employed in their husband's undertaking but do not receive cash wages. Farmers' wives do not therefore pay contributions ;

(3) widows not gainfully employed ;

(4) apprentices and members of the family working in a family undertaking, provided that they do not receive cash wages, up to the age of 20 years ;

(5) members of the family working in a family undertaking who have completed their 65th year, provided that they do not receive cash wages.

In addition, all persons who at the time of coming into force of the Act had completed their 65th year, or would complete it within the six months following, are exempt from paying contributions.

(b) The decreasing scale of contributions applicable to self-employed persons earning small incomes has been mentioned above : reduction in contributions does not entail any corresponding reduction in the rate of pension, which is still calculated as if full contributions had been paid at the rate of 4 per cent. of income.

(c) Lastly, the Act provides for reduction or remission of contributions in the case of self-employed persons and persons not engaged in gainful employment who cannot be required to pay the full contribution specified in the Act. Remission of contributions is extended to all self-employed persons and persons not engaged in gainful employment who are unable to pay even the minimum contribution of one franc.

Period during which Contributions are Payable

The obligation to pay contributions extends in principle from the first day of the half-year following that in which the insured person completes his twentieth year, to the last day of the half-year during which the insured person completes his 65th year. If the insured person continues to engage in gainful employment after completing his 65th year, the obligation to pay contributions does not cease until cessation of gainful employment. The commencement of obligation to pay contributions is also dependent on commencement of gainful employment, but contributions are not in any case paid before 31 December of the year in which the child completes his 15th year.

Pensions

The system of calculating the amount of pension is the keystone of the Act.

Uniform System

In principle, the system of calculating the amount of pension is uniform for the whole population, but important differentiations have been made corresponding to the system of differential contributions. The system of pension rates reveals very clearly the simultaneous consideration of individual and social factors, but it was essential that the system should, in spite of its uniformity, reflect the diversity of social and economic conditions of the different classes. A system of strictly uniform pension rates would not have fulfilled this need.

Normal and Interim Pensions

The Act makes a distinction between two important classes of pension known as "normal" pensions and "interim" pensions. This distinction is based on the payment of contributions. All insured persons having paid contributions for not less than one year will be entitled to normal pensions, while interim pensions will be paid to those who have not paid any contribution or have paid contributions for less than a full year. Normal pensions are naturally of much greater importance in the scheme than interim pensions, since the former are destined to continue indefinitely while the latter will almost completely disappear after 15 or 20 years. Interim pensions have only a temporary interest, while normal pensions will be of permanent interest.

Types of Pension

The Act provides for the following types of pension:

(a) single old-age pension;
(b) married couple's old-age pension;
(c) widow's pension;
(d) half-orphan's pension;
(e) full orphan's pension.

Qualification for Pension

The insurance scheme gives a right to any or all of these pensions. So long as contributions have been paid, the right is unconditional; if no contribution has been paid, the right will be subject to certain conditions. The Act does not make old-age pensions dependent upon giving up work and the principle of a "retirement pension" has been rejected, since economic and social conditions in Switzerland and the rates of pension established by the Act, make it impracticable to make pension rights dependent on cessation of work. This is especially the case in agriculture and arts and crafts in country districts.

The personal conditions which must be fulfilled in order to qualify for pension are as follows.

Single Old-Age Pension.

Single old-age pensions are paid to persons living alone, that is to say, single persons, widows and widowers, and divorced persons of either sex of 65 years or over. As a special case, married men can qualify for single old-age pension when the necessary conditions for the grant of a married couple's pension have not yet been fulfilled.

The age at which the insured person becomes entitled to a pension has been fixed at 65 years for both men and women. For financial reasons it was not possible for the time being to accede to the opinion expressed by women's organisations that, at least for women, a lower age should be fixed.

The right to old-age pension commences on the first day of the half-year following that in which the insured person completes his or her 65th year.

Married Couple's Pension.

The old-age pension for a married couple is paid when the husband has completed his 65th year and the wife her 60th year.

Widow's Pension.

The widow's pension varies from 50 to 90 per cent. of the rate for a single pension according to the age of the widow at the time of her husband's death. If the widow has completed her 65th year she is entitled to the full rate of a single old-age pension. Widows are entitled to the widow's rate of pension if at the time of their husband's death they have children by blood or adoption in their care or if, having no children by blood or adoption, they have completed their 40th year at the time of the death of their husband and have been married for at least five years. Widows who do not fulfil the conditions for a widow's pension are entitled to a lump-sum payment equal to the annual rate of a single old-age pension, if they have not completed their 30th year at the time of their husband's death; or to a lump-sum payment equal to twice the annual rate of single old-age pension, if they have completed their 30th year at the time of their husband's death.

Orphan's Pension.

The Act institutes pensions for both half and full orphans. There is no pension for orphans who have lost the mother only, though the Act contains a clause authorising the Federal Council to publish provisions by Ordinance concerning pension rights for children whose mother's death entails definite material hardship. The right to a full orphan's pension accrues to children whose blood parents have both died; adopted children are only entitled to an orphan's pension on the death of the adoptive parents or of the person who has adopted them. The Act contains further special provisions for illegitimate children.

As regards the period during which the orphan's pension is paid, the Act specifies that in principle such pensions will be paid until the recipient reaches his 18th year. Payments of pension can, however, be continued until completion of the orphan's 20th year if he is following an apprenticeship or course of study or if by reason of physical or mental defect he is incapable of engaging in gainful occupation, or if his earning capacity is 20 per cent. or less.

From the point of view of family welfare, the provisions concerning surviving dependants are of particular importance, and for this reason orphans' pensions hold a special position in the pensions system. The normal orphan's pension will in fact be at the full rate in every case.

Reduced Pensions.

Normal pensions are paid either as "full" or as "reduced" pensions. Full pensions are payable to insured persons whose age group will be required to pay contributions for at least 20 complete years; while insured persons whose age group will pay contributions for at least one year but for less than 20 years will be entitled to reduced pensions only.

The pension is calculated on the basis of the average rate of contribution and the number of years over which the contributions have been paid. The average annual contribution is obtained by dividing the total of contributions by the number of years; for this purpose it is of course essential that individual accounts should be kept for each insured person over the whole time of his insurance so that, when calculating the rate of pension, it is possible to ascertain the total of contributions paid.

To prevent the average annual contribution being unjustifiably reduced by reason of one or more years in which the contributions paid have been particularly low, owing to disease, accident or unemployment, for example, the Act provides that, having regard to the number of years for which contributions have been paid, those years in which contributions have been lowest, up to a maximum of five years, will not be taken into account. Before such years can be left out of account, it is required that contributions should have been paid for not less than eight years.

Amount of Pension

All pensions are calculated on the basis of the single old-age pension. A distinction is made between average annual contributions of less than 150 francs and average annual contributions of from 150 to 300 francs.

(a) When the average annual contribution is less than 150 francs, the variable portion of the pension is equal to six times the average annual contribution. To the figure obtained by this calculation there is added in every case a fixed portion of 300 francs; the sum of these two portions represents the amount of single pension.

(b) When the average annual contribution is between 150 and 300 francs, this contribution is first of all divided into two parts, one of 150 francs and the other of the amount in excess of this figure. The first of these amounts, namely 150 francs, is multiplied by six, the second by two. The two figures thus obtained are added together and make up the variable portion of the pension, to which must be added the fixed portion of 300 francs. The total sum gives the amount of single pension.

When the average annual contribution is 300 francs or more, the single old-age pension reaches the maximum at 1,500 francs, and no further calculation need be made.

This specially favourable treatment of contributors belonging to the lower levels of average annual contribution is a clear expression, through the system of calculating pensions, of the social inspiration underlying the whole Act: namely, the special consideration to be given in fixing the amount of pensions to persons paying the lowest rates of contribution.

Married Couple's Old-Age Pension.

This is calculated on the basis of the single pension and is in all cases 160 per cent. of the single pension. In calculating the total sum of contributions paid, any contributions paid by the wife will be added to those of the husband.

Widow's Pension.

This is also calculated on the basis of the single pension due to the husband, and may vary from 50 to 90 per cent. of the single pension according to the age of the widow at the time of her husband's death.

Orphan's Pension.

This is calculated on the basis of the single pension due to the father. With a view to the welfare of the family, the Act fixes the rate of pension for a half-orphan at 30 per cent. of the single old-age pension, and the rate for a full orphan at 45 per cent. of the old-age pension.

Maximum and Minimum Pension Rates.

Apart from the differential scales used in calculating pensions on the basis of average annual contribution, the establishment of maximum and minimum amounts of pension is perhaps the clearest indication of the social inspiration of the scheme.

The minimum old-age pension for a single person is 480 francs a year and the maximum 1,500 francs a year; the maximum and minimum rates of old-age pension for a married couple are derived automatically from these figures, the minimum being 770 francs a year and the maximum 2,400 francs a year.

The figures below show the extent to which old-age pensions are a positive contribution to social welfare.

TABLE III. AMOUNT OF PENSION IN RELATION TO AVERAGE CONTRIBUTIONS

(All figures in francs)

Basis of calculation		Full annual rate of old-age pension	
Average annual contribution	Average annual wage	Single pension	Married couple
Up to 30	Up to 750	480	770
80	2,000	786	1,258
120	3,000	1,020	1,632
160	4,000	1,220	1,952
200	5,000	1,300	2,080
240	6,000	1,380	2,208
300 and above	7,500 and above	1,500	2,400

On the basis of current wages and earnings in Switzerland it may be supposed that the majority of wage earners and self-employed persons will receive an annual rate of pension of between 1,200 and 1,500 francs for single persons, or 1,920 and 2,400 francs for married couples. If one adds to these sums individual savings and benefits received from privately-arranged life insurances, one may feel justified in saying that the majority of the population will have its old age adequately provided for.

The minimum widow's pension will be 375 francs a year, whatever her age at the time of her husband's death, and the maximum widow's pension will be 1,350 francs.

The minimum orphan's pension is automatically determined, since it is a percentage of the single old-age pension and must therefore be at least so much per cent. of the minimum old-age pension for a single person: the minimum amount of a half-orphan's pension is in fact 145 francs and that for a full orphan 215 francs. The maximum pension for a half-orphan is 360 francs, and for a full orphan 540 francs.

Reduced Pensions.

As has already been mentioned, normal pensions may be either full pensions or reduced pensions. Reduced pensions are paid to insured persons whose age group is required to pay contributions for at least one but for less than twenty years. The Act makes generous provision for persons entitled to a reduced pension.

Reduced pensions are calculated as follows. The full pension corresponding to the average annual contribution is first established, and if the average annual contribution is 75 francs or less, pension is granted at the full rate. For all persons whose annual contribution is 75 francs or less it is therefore unimportant whether or not they have paid contributions for more than twenty years.

If the average annual contribution is more than 75 francs, the reduced pension is made up of a basic sum corresponding to the full pension to which an insured person is entitled by having paid an average annual contribution of 75 francs, together with an additional amount for each year of paid-up contribution equal to one twentieth of the difference between the basic rate and the corresponding full pension.

Abatement of Pension Rights.

The normal pension as described above, whether full or reduced, may under specified circumstances be reduced in amount. Such reductions are provided for in the following cases:

(a) if the insured person has not paid contributions during the whole period for which his age group was required to do so (incomplete period of contribution);

(b) for foreigners who are citizens of States whose old-age and survivors' insurance legislation does not ensure to Swiss citizens, or the survivors of Swiss citizens, advantages substantially equivalent to those of the Federal Act. In such cases the reduction is of one third and affects all types of pension;

(c) provision is also made for reducing survivors' pensions by the extent to which the total pension exceeds 100 per cent. of the average income earned by the father during the last three years of normal earnings. The pension payment must not in any case be less than two thirds of the whole amount which would normally have been paid to the widow's family.

Interim Pensions.

As has already been mentioned, interim pensions will be paid to persons who have paid less than one complete year's contributions, or to the survivors of such persons; that is to say:

(a) persons who at the time of coming into force of the Act had already completed their 65th year or would complete it during the six months following;

(b) survivors of persons deceased before the coming into force of the Act or during the 12 months following the coming into force of the Act;

(c) Swiss citizens residing abroad who have not been subject to compulsory insurance and have not been voluntarily insured, and who return to Switzerland after completing their 65th year.

The personal conditions which have to be fulfilled in order to qualify for interim pensions are the same in principle as for normal pensions. However, widows of less than 40 years of age without children are not entitled to interim pensions; this is in order that such widows should not enjoy any advantages that they would not have had under the system of normal pensions.

Interim pensions are only paid to needy Swiss citizens residing in Switzerland. The Act establishes income and private fortune limits above which insured persons are not entitled to interim pension. The Act also provides for differential pension rates according to district.

The income limits used to determine the right to interim pension are as follows.

TABLE IV. INCOME LIMITS FOR INTERIM PENSIONS
(in francs)

Type of pension	Urban districts	Semi-urban districts	Rural districts
Single old-age	2,000	1,850	1,700
Married couple	3,200	2,950	2,700
Widow	2,000	1,850	1,700
Half-orphan	900	800	700
Full-orphan	600	525	450

The amount of interim pension had of course to be related to the normal pension scales. The rates specified for urban districts are equal to the full basic amounts as under the "reduced" pensions scheme; the amounts specified for rural districts are equal to the minimum "normal" rates.

TABLE V. AMOUNT OF INTERIM PENSION
(in francs)

Type of pension	Urban districts	Semi-urban districts	Rural districts
Single old-age	750	600	480
Married couple	1,200	960	770
Widow	600	480	375
Half-orphan	340	270	215
Full-orphan	225	180	145

The interim pensions system had already been brought into force for the years 1946 and 1947 by an Order of the Federal Council dated 9 October 1945 to regulate the provisional payment of old-age and survivors' pensions; the Act reproduces the principles of the interim scheme almost without change but raises the rates of pension.[1]

The pensions scheme is based on a combination of individual and social factors, but with special emphasis on the latter. Above all it makes generous allowance for the needs of the first generation, which will be paying contributions for a restricted period only, and those of the interim generation who pay no contributions; a principle of high social importance.

Organisation

Equalisation System

The Swiss old-age and survivors' insurance scheme has adopted the same system of equalisation as that established for the compensation scheme for loss of wages and earnings. The equalisation funds are funds set up by the employers' associations, in addition to which each canton will have its cantonal equalisation fund. As was the case with the compensation schemes for loss of wages and earnings, the employers' associations will be called on to play a large part in assisting with the administration of the old-age and survivors' insurance scheme, which does not contemplate a purely State organi-

[1] *Régime transitoire de l'assurance-vieillesse et survivants. Textes législatifs et directives*, published by the Office fédéral des assurances sociales, 1947.

sation, but joint action by the State and the occupational associations.

The administrative system institutes equalisation at three levels, at each of which contributions and pension payments are balanced: firstly, in each undertaking; secondly, in the equalisation funds of the cantons and of the employers' associations, the latter organised on federative and occupational lines; and thirdly, in the Old-Age and Survivors' Insurance Equalisation Fund.

The equalisation to be effected within each undertaking will result from the collecting of legal contributions and the payment of pensions to former workers and employees or to their survivors. If this double operation leaves a surplus, this will be paid into the equalisation fund; if on the other hand the total of contributions raised is insufficient to pay the necessary pensions, the equalisation fund will make over the necessary sum to the undertaking. The undertaking will thus be able to relieve the administrative organisation of the old-age and insurance scheme of a considerable amount of work.

Equalisation Funds.

The equalisation funds will be the real executive organs of the old-age and survivors' insurance scheme. In the first place it will be their duty to balance the costs between employers affiliated to them. In the second place, they will collect contributions and pay pensions in all cases where the insured person is not eligible for inclusion in the fund of an undertaking; that is to say, persons not engaged in gainful employment and self-employed persons who have no employees or workers. From the financial point of view, the equalisation funds are only intermediaries and have no funds of their own, since they are required to pay any surplus into the Old-Age and Survivors' Insurance Equalisation Fund. However, the equalisation funds occupy a vital position in the administration of the scheme, since it is they who take all administrative decisions necessary for the execution of the Act in regard to the individuals affiliated to them. They determine contributions and rates of pension, and are responsible for collecting the former and paying the latter. They have also to keep individual contribution accounts.

The Central Equalisation Office stands in the same relation to the equalisation funds as these to undertakings and insured persons It supervises the execution of all provisions relating to the keeping of accounts and ensures that any excess of contributions over payments which may accrue to the equalisation funds is paid over to the Old-Age and Survivors' Insurance Equalisation Fund, and that the Fund makes up any deficit incurred by the equalisation funds.

The Central Equalisation Office computes the total amount of contributions raised and of pensions paid out, and keeps a register of individual contribution accounts to ensure that when an insured person becomes entitled to a pension all his individual contributions are taken into account.

In the case of the equalisation funds of employers' associations, it was necessary to include in the Act detailed provisions concerning their organisation and obligations, since they undertake heavy responsibilities in assuming the role of an essential executive part in the administration of the scheme. There are in fact highly important duties under public law which are delegated to the occupational funds in connection with the scheme. For these reasons it is a logical consequence that equalisation funds of employers' associtaions can only be set up subject to specified conditions. The first of these is that any occupational association wishing to set up such a fund must be of a size in proportion to its duties under the scheme and must cover the whole of Switzerland, unless it is an inter-occupational association of a regional character. The occupational equalisation fund which the association plans to set up must also, as far as can be forecast, control contributions totalling at least 400,000 francs. A decision to approve the setting up of an equalisation fund must, in view of the importance of such a decision, be made in due form as laid down for amendment to the statutes of such associations, and a duly certified instrument must be drawn up.

The Act provides that, subject to certain conditions, associations of employees or workers can demand an equal share in the management of an equalisation fund. Since it would be impossible to establish joint management in all cases, arrangements must be made for consultation of workers and employees in all equalisation funds set up by associations of employers alone.

In view of the importance of the duties undertaken by equalisation funds of employers' associations the Act had also to require corresponding sureties. Such sureties must be of an amount equal to one twelfth of the total annual contributions, subject to a minimum of 100,000 francs and a maximum of 250,000 francs. For the same reason it was essential to include in the Act dispositions regarding the internal organisation of equalisation funds of employers' associations.

The cantonal equalisation funds must, in accordance with the law in the several cantons, be autonomous institutions of a public character. The cantons are to a great extent free to organise their equalisation funds at their own discretion. The cantonal equalisation funds will have affiliated to them all employers, self-employed persons and persons not engaged in gainful employment who do not come under the equalisation fund of any employers' association.

The Confederation will set up separate equalisation funds for the staffs of the Federal administration and Federal establishments, and for Swiss citizens residing abroad.

It should be pointed out in conclusion that the equalisation funds may be given further duties by the Confederation, the cantons, or the associations responsible for their foundation, in addition to their work of administering the old-age and survivors' insurance scheme; for example, in connection with assistance to soldiers and with family welfare.

Supervision.

The heavy responsibilities undertaken by the equalisation funds make it essential that there should be supervision both of the funds and of the employers affiliated to them. Supervision will be organised on the principle of decentralisation, and no supervisory machinery will be set up by the State. The task will be delegated to private auditors, while cantonal equalisation funds may appoint auditors from the cantonal audit departments.

Liability for Damages.

The cantons are liable for any damages awarded against the cantonal equalisation funds; the founder-associations are liable for damages awarded against the occupational equalisation funds. Such damages will in the first instance be covered by the sureties deposited by the funds, but if need arises the canton or the founder-association may be held liable for damages in excess of the amount of surety.

Administrative Costs.

The question of determining who should meet the costs of administering the equalisation funds was not easy to resolve. Under the compensation scheme for loss of wages and earnings, these costs had been covered by money from two different sources: firstly, from contributions paid by employers and self-employed persons affiliated to the scheme, and secondly by grants from the central equalisation office. The same solution has been adopted for the old-age and survivors' insurance scheme: the equalisation funds will raise contributions towards the costs of administering the scheme from affiliated persons such as employers, self-employed persons and persons not engaged in gainful employment. In order that rates of contribution to the costs of administration should not differ too widely between one fund and another the Federal Council is authorsed to set up an equalisation scheme to cover costs of administration, and grants can be made to equalisation funds from the Central Equalisation Office towards their administrative costs. The amount of such grants is to be fixed by the Federal Council, having due regard to the internal organisation of each equalisation fund and its duties in connection with the scheme.

Federal Control.

Federal control over the administration of the insurance scheme is in principle assigned to the Federal Council. The Act also provides for the setting up of a Federal Commission on old-age and survivors' insurance, whose main duty will be to advise the Federal Council on all major questions concerning the administration and future development of the scheme. In appointing the members of the Commission, attention will be given to ensuring that contact is maintained between the executive bodies of the social insurance scheme and the general public.

Insurance Institutions

The position within the Federal old-age and survivors' insurance scheme of insurance institutions which already existed or which might be set up in the future, was the most delicate of all questions which had to be faced in planning the scheme. It was impossible not to take account of persons already insured in one form or another since, according to the latest statistics, more than 400,000 workers and employees in Switzerland are already insured under old-age insurance schemes.

Position of the Insurance Institutions

The committee of experts, after a detailed examination of the question, decided by a majority vote that in the last analysis it would be possible to take insurance institutions into consideration in two ways: that is to say, the Act could make provision for two kinds of insurance institutions, those approved as part of the old-age insurance scheme with full reinsurance, and those not recognised as part of the scheme.

Approved Institutions.

Approval of an insurance institution means that such an institution is entitled to administer the State old-age and survivors' insurance scheme. In such cases, the approved institution must pay the legal contributions due from its members and can claim the legal pensions to which its members are entitled. It is only natural that in view of the important part to be played by approved insurance institutions in the administration of the scheme, it will be possible to approve only those which can fully guarantee that the legal provisions will be strictly observed. Certain specific conditions are therefore laid down :

(a) only those institutions may be approved which enjoy legal personality, either as an endowment, co-operative or other form of society, or an institution set up under public law ;

(b) approved insurance institutions shall be required to charge contributions at least equivalent to the contributions payable under the Act ;

(c) pensions paid by approved insurance institutions shall in every case be equivalent to the legal rate of pension.

Non-Approved Institutions.

The Act also makes provision for insurance institutions not recognised under the scheme. The members of such insurance institutions will be insured with the said institutions and with a fund organised to administer the old-age and survivors' insurance scheme ; they will pay contributions to both funds and receive the pensions due to them from both. There will, in effect, be a double insurance.

Adaptation of Institutions.

An insurance institution may prefer not to apply for approval if payment of a double contribution is not beyond the means of its members. The Act gives insurance institutions facilities for adapting their rules to the new situation so that they can continue in being as independent insurance institutions alongside the funds authorised to administer the scheme. Under the Act, insurance institutions existing at the time of coming into force of the Act which do not wish to apply for approval are authorised to modify their statutes and rules, once only, to reduce the insurance premiums charged to individuals insured with them, or their employers, to an amount not less than the amount of contribution payable under the Act ; and to alter their benefits accordingly.

Such, in general outline, are the provisions of the Act in regard to insurance institutions. We believe it is fair to say that the solution adopted takes account of all legitimate interests ; above all it contains nothing that will hinder the future development of private insurance institutions and it fully guarantees the interests of persons already insured. From the financial point of view it has the great advantage of making the position perfectly clear as regards both the insurance institutions and the scheme itself.

Financial Implications of the Scheme

In conclusion, a few observations may be made on the financial implications of the old-age insurance scheme. Since this is a far-reaching social measure, its effects will also be far-reaching. The effects are especially due to the social inspiration of the pensions system, which is based on the following principles :

(a) in calculating pensions, special consideration for the needs of the middle and lower groups of contributors ;

(b) immediate payment of pensions from the beginning of the half-year following completion of the 65th year ;

(c) generous provision for the needs of the first generation, which will only have paid a limited number of contributions or none at all ;

(d) relatively high level of minimum rates of pension ;

(e) adoption of a decreasing scale of contributions for self-employed persons earning a small income, while at the same time paying full rates of pension.

At the same time, it was essential to anticipate that the cost of the scheme would be high, since persons entitled to pension will continually increase in number during the next few decades. During the thirty-year period from 1948 to 1978 the number of persons receiving pensions will increase as shown below.

TABLE VI. NUMBER OF PERSONS RECEIVING PENSION

Year	Persons receiving single old-age pension	Persons receiving married couple's pension	Widows	Orphans
1948	132,815	90,018	43,824	38,127
1953	177,018	133,200	50,644	56,100
1958	221,757	175,842	64,472	82,216
1963	276,442	214,790	76,739	87,914
1968	339,210	248,870	87,774	87,738
1978	427,450	294,798	94,329	86,432

On the basis of reliable estimates it may be calculated that annual expenditure under the scheme, supposing economic conditions to be normal, will rise from about 130 to 140 million francs in 1948 to about 630 million francs in 1968, reaching about 870 million francs in 1978 and 900 million francs in 1988; after this it is to be expected that expenditure will become stabilised at about this level. Expenses will be covered by contributions from insured persons and grants from public funds, and by interest on money held by the Central Equalisation Office. In 1948 contributions from insured persons should bring in about 380 million francs, but in order to leave a margin of safety the scheme assumes receipts of only 340 million francs. Under the provisions of Article 103 of the Federal Act, the public authorities will contribute on an increasing scale.

TABLE VII: ANNUAL GRANT FROM PUBLIC FUNDS

Period	Annual grant *(million francs)*
1948–1967	160
1968–1977	280
1977 onwards	350

Since during the early years income from contributions will greatly exceed the amount of pensions to be paid, a reserve fund will be established. This will vary in amount according to the general trend of economic conditions; supposing economic conditions to be normal, and interest at 3 per cent., the fund should stand at 4,000 to 5,000 million francs at the end of twenty years.

Grants from public funds will be provided by both the Confederation and the cantons: the Federal Act specifies that during the first 20 years following the coming into force of the Act the Confederation will be responsible for two thirds and the cantons for one third of the grant from public authorities. Of the 160 million francs to be provided from public funds during each of the first 20 years, the Confederation will therefore pay 106.7 million and the cantons 53.3 million francs. According to Article 34 *quater* of the Federal Constitution, which gives the Confederation powers to institute a system of old-age and survivors' insurance, the financial contribution of the Confederation and the cantons is not to exceed one half of the total sum necessary for the insurance; under the financial plan adopted in the Act, contributions from the Confederation and the cantons will be slightly less than the one half prescribed.

As a result of the introduction of old-age and survivors' insurance, the costs of public assistance to the cantonal authorities will be considerably reduced. At present, total expenditure by the cantons under public assistance for relief of the aged, widows and orphans is about 30 million francs a year. To assist the poorer cantons, Article 106 of the Act provides that one half of the interest on the sum of 400 million francs transferred to the old-age and survivors' insurance scheme from surpluses accumulated by the compensation scheme for loss of wages and earnings will be used to reduce the contributions required from the cantons. At the end of 20 years, however, the Confederation and the cantons must contribute in full according to the scale set out above.

An insurance scheme in which contributions are based on national income will clearly be very strongly affected not only by demographic factors, such as birth and mortality rates, but also by economic trends such as the state of trade and rates of interest. The Federal Office of Social Insurance therefore studied the financial stability of the old-age insurance scheme under different possibilities of economic development, and confirmed that financial stability would be guaranteed even if there were a recession as compared with the present economic situation.

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