

THE NEW FRENCH SOCIAL INSURANCE LAW

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Properly to appraise and understand any great social legislation one should be familiar both with the historical background of local institutions and customs and the circumstances immediately attending its passage. This is true even though one is interested mainly or solely in the administrative and technical aspects, for in the absence of abuses causing revolutionary protest it is always easier to secure passage of legislation in harmony with existing customs, traditions, and institutions. There is a tendency to make great concessions in this regard even at the expense of much greater technical difficulty after the legislation comes into effect. The English national insurance act utilizing the existing Friendly Societies as the carriers of the compulsory sickness insurance is a case in point, and as appears below the French Act shows similar tendencies. The peculiar immediate circumstances leading to the enactment of the legislation are, of course, the forces which gave it its final impetus and serve to fix the objectives.

The present writer has no first hand knowledge of French institutions and customs and only a superficial acquaintance with French history. There has not been time since the Committee on Program invited him to prepare this paper for any extended research. But considerable light is thrown on the historical background by the still valuable 24th Annual Report of the United States Commissioner of Labor, and R. Risser, *Chef du Service de l'Actuarial du Ministère du Travail*, Paris, in his paper before the 8th International Congress of Actuaries in London, June, 1927, on the Proposed Law Relating to Social Insurance in France gives a brief *résumé* of the circumstances leading up to the preparation of this law which was then pending, of the law itself, and of the basic estimates as to costs and finance. Upon these sources the following historical notes have been based:

HISTORICAL BACKGROUND OF THE LAW

The thriftiness of the French people, especially of the peasant and working class, is traditional. It is also generally understood that this thriftiness is promoted by the desire for a modest pro-

vision for the wants of old age. It would be reasonable to expect among such people a considerable development of voluntary associations for mutual aid, a state policy of encouraging such associations, and a slow awakening to the need of any state compulsion toward cooperative provision for contingencies. Such seems to have been the case in France.

Prior to 1834 mutual aid associations were secretly organized in violation of the law. A law of that year enabled them to obtain a legal status though not mentioning them as a separate class of organizations. By an Act of July 15, 1850, such societies were encouraged by placing them, on request, in the category of "Societies recognized as institutions of public utility" enjoying corporate rights, immunity from taxation and certain other privileges. This recognition was limited to mutual societies which gave temporary aid in case of sickness, accident or other disability, and provided for the payment of funeral expenses in the case of death of a member. They were not allowed to grant invalidity or old age benefits. The membership had to be between 100 and 2,000. The local authorities had close supervision, the mayor or his representative had access to all meetings, and if present he presided. However, few societies asked for such recognition.¹

In 1852 a new decree not only recognized mutual aid societies but provided for their organization into a regular system under governmental supervision. Such societies were designated "approved" societies as distinguished from merely "authorized societies." This law required the mayor and the priest of a commune to organize a society whenever the prefect deemed it necessary. There was provision for both participating and honorary members. The latter contributed to support but were not entitled to benefit. The number of active members was limited to five hundred. There was also a special commissioner often provided for to be appointed by the President of the Republic, whose special function was to encourage the formation of such societies. Over the next forty years there were various subsequent laws not changing this law essentially.

On April 1, 1898, a new law was passed which superseded the

¹ Twenty-fourth Annual Report, U. S. Commissioner of Labor, Vol. I, p. 798-800.

preceding enactments and generally strengthened the system. Societies existing under that law form the basis of part of the administration of the new law and hence some review of it and its operation is pertinent.

Under this law and its amendments mutual aid societies are defined as provident societies having one or more of the following objects:

- (1) to assure to participating members and their families aid in case of sickness, injury or infirmity;
- (2) to provide pensions for their retirement;
- (3) to contract for their members insurance against death or accident;
- (4) to provide for payment of funeral expenses;
- (5) to make provision for aid to widows, orphans, and other dependents of deceased members.

Such societies were permitted to undertake other functions, such as free trade courses or employment agencies or unemployment benefits, but these were required to be met out of a separate fund.²

Three classes of societies were recognized: (1) free societies subject only to the requirement of depositing their constitutions and making certain reports, (2) approved societies, and (3) societies recognized as institutions of public utility. The latter were distinguished from the approved societies mainly in their origin which was a decree in the form of a public administrative regulation in response to a request from prospective members.³

By 1905, the latest date for which the figures are quoted in the report cited, there were 14,955 approved and recognized societies and 3,221 free societies. At that time the aggregate membership was 4,084,962, of which 450,152 were honorary.⁴ The aggregate assets were \$82,762,075.⁵ As to the classes of members the report says:

"Little can be derived from the reports of the Government as to the classes of persons composing the societies under consideration, apart from the general conclusion that participating members are for the most part persons belonging to the employed classes, or, as expressed in the reports, to the world of labor."⁶

² *Ibid.*, p. 801. ³ *Ibid.*, pp. 802, 803. ⁴ *Ibid.*, pp. 813-814. ⁵ *Ibid.*, p. 814.

⁶ *Ibid.*, p. 807.

The honorary members were in the nature of patrons. Among the sources of income given for the societies are, "donations and legacies."⁷ The report points out⁸ that the honorary members reap no benefit whatever yet contribute largely toward their maintenance. It adds, "It is said that almost every benevolent man of the middle or wealthy class is an honorary member of one or more of these societies."

The record of these societies was one of steady growth up to the time named. What adverse effect the war and its consequences may have had the writer has not ascertained, but it is apparent they were not entirely destroyed. The new law makes many references to "existing societies."

The idea of government assistance toward old age retirement is as old as the first Republic. A decree was passed by the Convention in 1794 creating a system of investments and insurance against old age and sickness, but the plan was abandoned by the Directory.

The matter was again under consideration in 1847, a commission having favored creation of a single national fund with which citizens by voluntary action could procure retirement annuities. But the revolution of 1848 intervened. However, in June, 1850, the law was passed, creating "The Old-age Retirement Fund"—"*La Caisse des Retraites pour la Vieillesse*"—which began operations in March, 1851.⁹

The fund was established primarily for the benefit of the working classes but in its early history it was used more by the well-to-do. Various reforms have been made from time to time to restore its service more nearly to that originally intended. It has served the mutual aid societies by providing annuities to meet their pension requirements. It has also received capital values and taken over annuity obligations under the Workmen's Compensation law. It issued two classes of annuities, (1) straight annuities, (2) annuities on the reserve-capital plan under which the deposit was returned without interest to the heirs when the depositor died, either before or after he became a pensioner.¹⁰ This institution was both operated and subsidized by the government in various ways. Again the writer has not ascertained how

⁷ *Ibid.*, p. 810. ⁸ *Ibid.*, p. 812. ⁹ *Ibid.*, p. 833. ¹⁰ *Ibid.*, pp. 833-840.

the war affected this institution and its finance. At least it survived and is made use of in the new scheme.

Such are the more remote historical backgrounds. The immediate influences seem to have been of two sorts: first, with the return of the lost provinces of Alsace and Lorraine to France, there were brought into the national assembly deputies who were familiar with the benefits of the German social insurance system and urged its consideration upon the French; second, consideration of comparative birth and death rates in France and elsewhere led the French to recognize the importance of a broad policy of national hygiene, including housing and hospitalization of workers, establishment of sanatoria and preventoria and similar institutions, and rounded out with a general scheme of social insurance.¹¹

The project was first brought up in 1919 and the first draft of the scheme was presented to the Chamber of Deputies in 1921. It was carefully examined by the Government Commission on Social Insurance and the amended scheme passed by the Chamber in 1924. The Senate referred it to a Commission on Hygiene which reported late in 1926. The original text was promulgated in April, 1928, and amended in August of that year, postponing the effective date from February, 1930, to July 1, 1930. It was further amended in April, 1930. The writer's source of information on the law itself is the multigraphed copy of the English translation of the text issued under date of June 28, 1930, by the Bureau of Foreign and Domestic Commerce of the United States Department of Commerce (C. L. 233).

TERMS OF THE LAW

The multigraphed circular giving the text of the law contains 56 pages. It is obviously impossible within the reasonable limits of a paper for this Society to give a detailed description of the law. It would appear that the major interest of our members would be in the three phases of:

- (1) The classes of the population either compulsorily subject to the law or permitted voluntarily to avail themselves of its benefits;
- (2) the risks covered; and

¹¹ R. Risser "*Étude du projet de Loi Français sur les Assurances Sociales.*" Transactions, 8th Int. Cong. Actuaries, Vol. III, pp. 110-112.

(3) the risk-bearing (insurance) machinery and its administration.

This paper will be confined to these aspects. Even on these it cannot go fully into details.

CLASSES OF POPULATION SUBJECT

"All salaried persons of both sexes" whose total annual remuneration falls below certain fixed limits are obligatorily subject to the act. Among "salaried persons" it would appear, would be included those we would term "wage-earners." The maximum limit is 25,000¹² francs but not all receiving less than 25,000 francs are so included. The fundamental limit is 15,000 francs but under various special conditions it may be raised to the larger figure as an absolute maximum. Were French wage scales similar to ours this would include only the lowest class. As it is, it clearly does not include any of appreciable means.

Persons whose days of salaried labor are less than 90 per year are not considered "salaried workers" nor are children subject to school attendance and working for pay or children who without receiving pay themselves work at home for account of their parents. Under certain conditions foreign workmen working and residing in France are brought under the act. Agriculturalists operating leased property and not owning any part of the same stock are also compulsorily brought under the act. The act provides that a decree shall determine the rules for evaluation of the total annual remuneration of workers and especially of piece workers working at home.

Farmers, cultivators, soil tenants not mentioned above, artisans, small employers, small merchants, intellectual laborers not salaried, and in a general way all who without being salaried live on the product of their labor, if they be of French nationality and the annual product of their labor does not exceed the salary limits set may be voluntarily admitted to the benefits of the act. But if they were not previously obligatorily insured their admission is subject to physical fitness. They must present a certificate that they are not the victims of any acute or chronic disease nor of any total or partial invalidity likely to increase their mortality

¹² French Franc = 3.91¼ cents.

status. The conditions relating to voluntary insurance are somewhat different in detail from those relating to compulsory insurance, but no new principles appear other than such provisions as the above to prevent adverse selection, and these differences in conditions will not be further noticed.

RISKS COVERED

The system covers the hazards of illness, premature invalidity, old age and death, and includes participation in the expenses entailed by reason of family charges and maternity. There is also a limited unemployment benefit, that is, the charges of the system are reduced or waived in the case of involuntary unemployment.

It appears from M. Risser's paper that the draft under consideration in 1927 contained a provision for an unemployment benefit of 33 per cent. of wages increased 50 centimes per day for each child under 16 years of age up to a maximum limit of 40 per cent. of wages, but this benefit is not included in the present law.

BENEFITS

For purposes of contribution and of benefits the persons subject to the law are classified into five salary groups. For each a basic daily salary is set. These are shown in the following table, which is taken from the statutory table in Article 2 of the act:

Limits of Real Salaries by Classes	Daily Basic Salary
1. Class below 8 francs (1 to 2399)*	6
2. From 8 to 14 fr. 99 (2400 to 4499)*	12
3. From 15 to 19 fr. 99 (4500 to 5999)*	18
4. From 20 to 31 fr. 99 (6000 to 9599)*	24
5. From 32 fr. and above (9600 and above)*	36

* Annual salary or wages.

Sickness. The sickness insurance covers general and special medical expenses, pharmaceutical and apparatus expense, hospital and treatment expenses in a sanitarium. This also includes necessary traveling expenses. The benefit is available not only to the insured but to the wife or husband and children of the insured under 16, including the wards of the nation for whom he may be guardian.

There are certain limits of insured's salary above which this benefit is not granted to the spouse. There is also some limitation on dental apparatus.

The insured must also participate in the cost of these services to the extent of 15 per cent. for the first two classes of insured and 20 per cent. for the others. In no case may the total of such expense per day of illness exceed 50 per cent. of the general daily average of the basic salary on which contributions were based during the preceding year. After two years' experience the funds may, with consent of the Superior Council of Social Insurance, reduce the insured's required participation.

It is provided that "The insured freely chooses his own physician," but certain references in the administrative sections to arrangements between funds and professional syndicates seem to imply some sort of panel system. The reference to the syndicates and their charges seems to imply the existence of regular arrangements for charges, etc., independent of the social insurance scheme, and it may be this rather than a panel system to which reference is made.

In addition, after a six day waiting period, on medical attestation that the person is unable to continue or resume work there is a daily cash benefit "labor indemnity" equal to one-half the basic salary of the class in which his contributions place him. If the illness lasts more than two weeks his contributions for the old age benefit is made for him. The sickness benefits are limited to six months' duration. In the case of hospitalization this cash benefit is reduced by one-third if the insured has children or other dependents than wife, by one-half if he is married but has no other dependent, by three-fourths in all other cases.

Cases of intentional injury and cases under the compensation law do not call for benefit.

Maternity. The medical and pharmaceutical benefits are available during pregnancy and for six months following confinement. An insured woman is also given the daily indemnity during six weeks preceding and six weeks following confinement; provided she stops all salaried work during such period and has contributed for 60 days during the three months or 240 days during the 12 months *preceding pregnancy*. This latter is another obvious effort to safeguard against adverse selection. Were there not such a provision a woman might seek employment during the early part of her pregnancy in order to secure the benefits during her confinement. If she suckles her child, she is also entitled during the period of feeding her child, not exceeding nine months, to a monthly allocation of 150 francs during the first four months, 100 francs during the fifth and sixth, and 50 francs from the seventh to the ninth. If because of physical disability or illness she is unable fully to suckle her child and it is so certified by the physician she may receive milk certificates for the duration and quantity certified by the physician, but the total cost can in no case exceed two-thirds the suckling premium.

The existence and forms of this benefit clearly evidence the improvement of national health conditions as a leading motive for the enactment of the legislation.

Invalidity. Invalidity benefit is granted the insured who upon the expiration of six months is still disabled by an affection or infirmity reducing by at least two-thirds his capacity for work. If the disability is due to an accident not coming under the workmen's compensation law, then the invalidity benefit may be claimed for two-thirds disability after the end of the healing period. The disability must be certified to after medical examination. The grant is first made provisionally subject to being examined at any time. After a period of five years, if the insured has not recovered the benefit may be extended for another five years subject to a new review at that time. The benefit is then withdrawn if the working capacity exceeds 50 per cent.

For an insured who became a member of the fund before the age of 30 years, the pension is equal to at least 40 per cent. of the average annual salary on the basis of which his required contributions were paid. Salary at age 16 is substituted for the

actual salary before that unless at the time the benefit is granted the insured is not yet 16. Beginning at 40 per cent. the rate is stepped up 1 per cent. for each year in excess of 30 the insured has contributed, to a maximum of 50 per cent. A minimum period of membership of two years is required. If the insured did not become a member until after age 30, the benefit is reduced $1/30$ for each year between age 30 and that at which he became a member. For this group there is also the requirement that they have contributed for six years. There are some other penalty provisions for cases where contributions have been interrupted for which the law should be consulted.

Old Age. While there are strong arguments both from the theoretical and practical point of view for looking upon invalidity and old age as a single common problem, this has not been the view in this law and separate benefits are provided for old age.

The old age benefit is a retirement pension at 60 years of age, though during the transitional period benefits are not to be granted for five years. The insured may voluntarily postpone his retirement. The amount of the pension is not absolutely fixed but is the amount which the deposits for this account on the insured's behalf and their accumulations will buy according to rates set up by the general Public Administrative Regulations, on the basis of the interest rate on investments and a suitable mortality table. Provisionally a mortality table constructed by the General Statistics office on the basis of the male and female population combined known as the P. M. F. table is prescribed.

Certain minimum benefits are guaranteed. For one who has up to 60 or 65 paid 30 full years' payments of not less than 240 days each the minimum pension is 40 per cent. of the average annual basis salary beginning from age 16. This pension is increased by $1/10$ for any party who has brought up at least three children to age 16, but only one increase is given to both parents when pensioned. The increase is based on the larger of the two pensions.

For persons coming in at the inception of the law and who have paid not less than 240 days' payments each year, the minimum pension is as many thirtieths of the ultimate minimum as

they have paid years' contributions but not less than 600 francs annually.

Death. The death benefit is 20 per cent. of the average annual wages payable in a lump sum. A minimum of 1,000 francs is set for those who have since beginning membership regularly paid their contributions but this is subject to a maximum limitation, two-thirds of the real salary of the deceased.

Family charges. By family charges are meant the responsibility of the insured for children under 16 years of age, his own, adopted or wards of the state. Where there are family charges the benefits are increased as follows for each child:

- (1) Sickness, an increase of 1 franc in the daily indemnity.
- (2) Invalidity, an increase of 100 francs in the annual pension.
- (3) Death, an increase of 100 francs in the benefit.

If both husband and wife are entitled at the same time to benefits, there is only one increase.

Orphans under 13, children of an insured man or woman, and in some cases up to 16 years, are entitled to an orphan's pension of a minimum of 120 francs per year, which is in addition to pensions provided by certain other laws.

Unemployment. A member who has been insured uninterruptedly for a full year is entitled to have his own and his employer's contributions for the above benefits paid for him for a maximum duration of unemployment of four months in each period of 12 months. This is subject to certain regulations as to registration with an employment agency.

RISK CARRIERS

The risk carriers under the system are:

- (1) Primary Funds which may be established by existing mutual aid societies governed by the law of 1898 mentioned in the historical review above, professional syndicates and associations of syndicates regularly established by the law of 1884,¹³ and

¹³ It is the author's understanding that these are in the nature of trade unions.

insurance societies or agricultural mutual reinsurance societies covered by the law of July 4, 1900.

(2) Primary Departmental or interdepartmental funds established and administered under the law of 1898. These funds provide the illness, maternity and death insurance benefits and the care of invalids. They may delegate to existing maternity mutuals the covering of that benefit.

(3) Mutual labor retirement funds, established under a law of 1910.

(4) The autonomous funds organized under the law of 1898. These may be permitted to operate as primary funds for the old age and invalidity benefits. Working men's retirement funds organized under the 1910 law may either transform into a primary fund for these latter benefits or merge with an existing fund for providing such benefits.

(5) A General Guaranty Fund under the direct supervision of the Ministry of Labor (*Caisse Générale de Garantie*) of which there are two divisions known as the Augmentation (or Majoration) and Solidarity Fund and the Guaranty and Equalization Fund.

(6) National Retirement Fund for Old Age, the fund referred to in the historical review.

The former two perform certain interinsurance and reinsurance operations between funds and meet some of the transitional problems, the latter providing the old age benefits for those not registered for them with any of the other funds.

ACTUARIAL AND ADMINISTRATIVE ASPECTS

The benefits are provided by equal contributions by employer and employee which represent on the average 8 per cent. of the annual basic pay. The daily, monthly, and annual contributions of both parties are set up in a table in the law. Collection of the employees' shares is made by the employer, and the usual means of payment by purchasing stamps for both sets of contributions and affixing them upon cards is provided for.

The proceeds of the sale of these stamps, which are sold through the post office, are transferred to the Bank of Deposits

and Consignments, which must open a special account "Ministry of Labor—Product of the sale of revenue stamps for social insurance." Under direction of Departmental Social Insurance Services it must transfer to each insurance fund the amounts accruing to it, with final accounting and distribution at the end of each year.

As was pointed out by M. Paul Razous, Secretary General of the French Institute of Actuaries, before the 8th International Congress in London in 1927, two different methods of meeting the liabilities of a social insurance system may be adopted, the current cost, "repartition" and the capitalization system. The French have adopted the former for the sickness, maternity, death and medical and pharmaceutical benefits, and the first six months of the invalidity benefits and the capitalization system for the remainder of the invalidity benefit and the old age benefit. This is evident from the method of determining the old age pension.

The use of capitalization system for part of the benefits calls for some mechanism for the transition period, if not permanently, to provide the difference between the minimum guaranteed pensions and what may be purchased through the accumulated contributions. The use of many local funds, some of which may be quite small, opens the possibility for individual insolvencies which may break down the system unless some mechanism of reinsurance between them is provided. These two needs are met by the establishment of the Augmentation and Solidarity Fund and the Guaranty Equalization Fund as referred to above and by certain other arrangements to be noted later.

The function of the former is to provide this difference between the cost of the minimum guaranteed invalidity and old age pensions and the amount purchasable by the accumulated contributions, as well as the refund of the family expenses allowed in some cases and the administrative and other expenses of retirement provisions of the law. It also meets the cost of medical and other care of invalidity cases of more than five years' duration.

A law of 1910 provided state contribution toward a scheme of workingmen's and peasants' retirement. Under the new law the obligations of this provision are transferred to this fund as is the reserve accumulated under it.

The sources of revenue to the Augmentation and Solidarity Fund are:

- (1) A quota from the contributions to be fixed each year by decree, to meet management expenses and family charges.
- (2) An annual contribution from the state to cover obligations which it assumes for the old workingmen's and peasants' retirement scheme which is once and for all fixed at 540 million francs per year.
- (3) A certain portion of the joint contributions more fully discussed hereinafter.
- (4) Several miscellaneous sources of probably small¹⁴ individual amount, for the details of which the reader is referred to the text of the law—Article 69, Section 5.

The sources of revenue of the Guaranty Equalization Fund are appropriations from the joint contributions which will be explained in a later part of this paper.

Aside from the appropriation to the Augmentation and Solidarity Fund to compensate it for taking over the obligations of existing old age benefits, and a special subvention for certain guaranteed benefits to agriculturalists, there is no direct, continuous contribution from the state,¹⁵ though documentary revenue stamps are not required on documents of the system. The Treasury is authorized on a proper decree to advance to the insurance funds and the General Guaranty Fund the necessary first organization expenses, but these must be reimbursed within a year by the General Guaranty Fund. The latter is to recover the amounts from the several funds and may amortize them by a fifteen year annuity.

All the social insurance organizations and services are granted the postal frank but the expenses resulting therefrom are to be levied in a lump sum fixed annually by the Law of Finance and are to be reimbursed to the postal, telegraph and telephone budget through the Augmentation and Solidarity Fund.

¹⁴ It might not be proper to so characterize one of these, a proportion of the savings on public charges to the State and communes. Summaries of this law, published by the International Labor Office, quote estimates of this at 125,000,000 francs annually. This is, of course, a direct state subsidy.

¹⁵ But see above note.

From the above it appears that unless the writer has misread the law the entire benefits and expenses of the system, so far as the benefits are new, i.e., excepting certain old age benefits previously guaranteed by the state, are chargeable to the joint contributions and are expected to be provided from them. It will be recalled that together these average 8 per cent. of the wages.

M. Risser, in his International Congress paper quoted the then estimated cost as 10 per cent. of the salaries apportioned as follows:

Sickness benefit	2.82	
Maternity benefit	.45	3.27
Death benefit	<u> </u>	.20
Invalidity benefit	2.10	
Old age benefit	3.50	5.60
Family charge benefit	<u> </u>	.10
Unemployment benefit		.10
Management and operating expense		.50
Initial expense and cost of transition period		.23
<i>Total</i>		<u>10.00</u>

This estimate is 25 per cent. greater than the combined contributions set up in the law but it is provided that beginning April 1, 1934, the contributions shall be increased one-eighth, bringing them to an average of 9 per cent. and there shall be another equal increase beginning April 1, 1940, when the full estimate will be reached. The writer has not ascertained why, other than for reasons of expediency, these changes were made. It may have been due to the opinion that the full cost of the old age and other benefits will not be felt at once but will at first be but a fraction of the ultimate. In any event during this transition period the data can be developed both as regards invalidity rates and mortality rates of both classes of pensioners to permit a more accurate determination.

THE MUTUAL ASSOCIATION AS THE PRIMARY RISK CARRIER

Both from the provisions of the earlier laws and those of the present law one may infer that the associations constituting the Primary Fund will be mostly local in character, either on a

geographical (communal) or institutional (establishment or trade) basis. There is, however, provision for Primary Departmental Funds (the significance of the Department as a regional administrative unit in French government must be kept in mind), and "by exception" Interdepartmental Funds. There seems to be an intent to place the primary administration in the hands of relatively small local units, partly because this has been traditional.

Unless the numbers in the local associations are too small to give a suitable risk distribution there seems to be an advantage in administration of current cost benefits through such associations, particularly when as in this law there is permission for increased benefits to members through efficient management. In such institutions the individual members may be known to the officers and the merits of their claims, therefore, more readily and accurately gauged. The reservation above as to the effect of small numbers on the regularity of the experience is important and has not been overlooked. Without some safeguard here the system might easily break down. There might also be inefficiency in handling investments. The law permits and encourages regional and national federations of social insurance funds for effectuating works of common interest, such as social hygiene organizations, sanitation works, preventoria, sanatoria and the like, and for reinsurance.

These local funds and their associations enjoy the right of civil personality, but they are under the supervision and control of the state through the Ministry of Labor and the Ministry of Finance. They report relative to their financial condition to the General Guaranty Fund. They are subject to the prescription of uniform accounting and must keep separate accounts for (1) sickness insurance, (2) care for the invalids, (3) maternity insurance, (4) death insurance, (5) invalidity insurance, (6) old age insurance, (7) waiver of charges in case of unemployment, and (8) family charges.

"In no case may the funds allow a salary to their founders and administrators. Salary is granted only to the agents and employees of the fund." By administrators appear to be meant the governing officers who do not give full time to the work. The maximum expense any fund may incur is to be fixed by the

Ministry of Labor but a maximum is set at 3.50 per cent. of the contributions received. Since the total amount set up in the estimates was .50 per cent. of wages or $6\frac{1}{4}$ per cent. of contributions, the remainder for the administration of the other services is not large. However, there is no competitive selling cost and no taxation. With such items out some of our own compensation institutions could operate on about this scale.

The funds are required to deposit either with the Bank of Deposits and Consignments (a division of the French Treasury) or the Bank of France any amounts in excess of the figure they are permitted to retain. As with us, the fields for investment of funds are definitely prescribed. It appears that the investment portfolio is to be held by the former. It is not clear whether the Bank of Deposits and Consignments or the local funds select the investments. From certain phrases one might infer it to be the former.

It appears that the local funds also provide the old age benefit which is on a capitalization basis. During the accumulation period before any pension is granted there is no great risk in the small numbers, but this is not the case after the pensions are entered upon. The law appears to provide that no pensions are to be paid for the first five years of the system¹⁰ and lays down a table for rates for retiring annuities, but it specifies that after ten years of experience the Old Age Funds, whose members are drawn in the majority from industries whose members are subject to extra mortality may, subject to the approval of the Ministry of Labor, avail themselves of special rates based on a more suitable table. It is provided that no such action shall increase the charges on the Augmentation and Solidarity Fund.

Since there is provision for recognizing existing retirement funds as primary funds for old age benefits, it may be inferred that some or all of the general Primary Funds would be permitted or encouraged not to furnish this benefit, but to contract with some other institution for the annuity on retirement. Perhaps the fault is in the writer's reading of the law. At any rate such arrangements would make the provision for this benefit more stable. It would create less likelihood of strain on the general reinsurance arrangements noted in the next section.

¹⁰ Article 13, Section 2.

GOVERNMENT SUPERVISION, REINSURANCE AND SPECIAL
REINSURANCE FUNDS AND THE TRANSITION PERIOD

There is set up in the Ministry of Labor and under its Chairmanship a Superior Council of Social Insurance charged with the general administration of the social insurance law. On it are represented the Senate, Chamber of Deputies, Ministry of Labor, Ministry of Finance and various other interests, among them representatives of funds. Two members are the General Director of the Treasury of Deposits and Consignments and the General Director of the General Guaranty Fund. This Superior Council chooses from its ranks a permanent section to advise on questions submitted to it. This permanent section is divided into four subsections, technical and financial, administrative and guaranty against unemployment, legal and medico-pharmaceutical.

There is also set up the General Guaranty Fund which also comes under the administration of the Ministry of Labor. It has civil personality and financial autonomy. It is administered by a council presided over by the President of the Financial Section of the State Council. The council is composed of twenty members, of whom fourteen are members of the administrative councils of departmental and interdepartmental associations for reinsurance or of primary funds. The other six are chosen two each representing the Superior Council of Social Insurance, the Ministry of Labor and the Ministry of Finance. This body administers the Augmentation and Solidarity Fund and the Guaranty and Equalization Fund, and receives the reports of financial conditions of the Primary Funds.

The law requires the Primary Funds to comply with the regulations of the Ministry of Labor in allocating benefits. Whenever the fund ceases to fulfill its engagements, irregularities are found in its accounts, or it fails to comply with the regulations, its right to exist as a social insurance fund may be withdrawn subject to the ruling of the Superior Council of Social Insurance which is the final authority.

The invalidity risk is provisionally assumed by the Augmentation and Solidarity Fund and the joint contributions collected for the primary funds are to be apportioned into two equal parts intended to cover, one the old age benefits, the other the benefits for illness, maternity, death, and care given invalids.

From the sums collected for each local fund there is first withheld 1 per cent. which is paid over to the Augmentation and Solidarity Fund which must hold it in a special account "financially and legally separate from all other social insurance resources." This account is first to be used to keep up the payments on the insured's behalf during periods of unemployment as is provided as one of his rights. When the balance in the fund is in excess of the total collections for it during the preceding fiscal year part of it may under close restriction and supervision be used for subvention of other recognized unemployment benefit funds.

Of the old age part an amount annually set up by decree shall be put to the credit of the individual members' old age benefit account. This amount shall not be less than 3.60 per cent. of the basic salary for persons 30 years of age or older and 2 per cent. of the basic salary for those under 30 years. The difference between the one-half of the total collection for the individual and the decreed figure for the first group is all transferred to the Augmentation and Solidarity Fund. The difference for the second group up to 1.60 per cent. of the basic salary is paid into the same Fund and the remainder into the Guaranty and Equalization Fund.

Of the other half of the funds collected for each local fund 5 per cent. is to be retained for the benefit of a departmental or interdepartmental association of social insurance funds for reinsurance and 5 per cent. for the benefit of the Guaranty and Equalization Fund. In addition to this the Guaranty and Equalization Fund receives 0.2 per cent. of all contributions received by the insurance funds. This rate may be lowered by decree when the assets of this fund reach the sum of 100 million francs.

It is anticipated that the contributions collected for this group of benefits, known as the "distribution services" may produce from time to time in individual funds, surpluses. Before these may be used for the benefit of members, there must be set aside (1) 20 per cent. for a general reserve fund until that reserve equals the revenue received from the contribution rates for the last fiscal year, (2) 3 per cent. for the benefit of the Augmentation and Solidarity Fund, and (3) 2 per cent. for the benefit of the Guaranty and Equalization Fund.

The remaining surplus may be used to provide increased benefits to members and their dependents, first by allowing the nursing benefits to the uninsured wives of members, second by reducing the proportion of medical and pharmaceutical costs charged to members, and if these do not absorb it all then the law indicates other ways and the order of preference among them.

In case of an adverse experience in any fund, its own surplus and reserves are first to be called upon. If the experience has produced a burden in excess of these resources, an advance is to be made from the General Guaranty Fund, presumably from the Guaranty and Equalization part of it, which may take such measure of control of the delinquent fund as may be necessary, including prosecution of those responsible if that appears necessary or desirable. In extreme cases the benefits may be reduced.

If a shortage arises which exceeds the financial capacity both of the local fund or funds and the Guaranty and Equalization Fund, or if a shortage develops in the Augmentation and Solidarity Fund which might be brought about by a fall in the rate of interest, the benefits may be generally reduced or assessments increased. This will be by decrees issued in the State Council on proposal of the Ministers of Labor and Finance after approval by the Superior Council of Social Insurance. The remedies to be considered are, first a reduction of benefits not exceeding 20 per cent. for one or several funds or all funds, or a tightening of the conditions for receiving one or more benefits, and second, an increase up to a maximum of one-fourth in the contribution rates of employers and employees. Of all the resources so obtained two-thirds are to be allocated to increase the provision for one or several types of benefits and one-third as a reserve for the Augmentation and Solidarity Fund.

It is distinctly provided that the establishment of the social insurance scheme shall not impose upon the general budget or departmental or communal budgets any charges in excess of those set up in the law.

MISCELLANEOUS

Members, either participating or honorary, of existing societies who had been members for three months when the law went into

effect are presumed to remain members and to have selected the fund with which their society is associated. A number might express a view to the contrary and it would be effective if expressed at least one month before the inception of the law. The membership once accepted is binding for two years unless the insured changes his place of work. Within this limitation transfer of membership is permitted.

On such transfer the accumulated reserve for the old age and disability benefits, calculated as laid down by the Ministry of Labor, must be transferred to the new fund of his choice. The old fund remains liable on all benefits until he has been affirmatively accepted by the new fund.

There is provision for voluntary insurance of those not subject to the compulsory features of the act and there are special provisions relative to agricultural workers. Of necessity there are provisions of a temporary nature for the transition period until the scheme is well established and going. Some of these relate to the provisional continuance of existing societies. Some provide for the ultimate liquidation of those which do not meet a satisfactory test. Others refer to the employees of the state railways and to war invalids for whom special provisions existed prior to this enactment. To elaborate on these would still further lengthen this paper and might tend to cloud the more important points.

SUMMARY AND CONCLUSION

From the above study it appears that:

1. While the adoption by the French Republic of a social insurance system was a distinct step in state policy it was not hurried but preceded by extensive investigation.
2. The adoption of the system merely makes universal and compulsory provision which many of the citizens had previously made voluntarily with strong governmental encouragement.
3. The scheme is a unified whole, excluding workmen's compensation but bringing into itself the other parts of the social insurance program which both in Great Britain and Germany

are covered under separate laws and with separate administrations.

4. An endeavor has been made to utilize existing institutions and to commit the administration of the benefits largely to local units.

5. Proprietary insurance enterprises are not recognized as suitable for any part in the administration of the benefits.

6. Benefits of short duration, even though they might be affected by the age or other peculiar composition of the local group, are provided for on a current cost basis. Those of large cost and certain ultimate occurrence, old age and invalidity, on a capitalization basis.

7. Elaborate reinsurance arrangements are provided to avoid the dangers inherent in the use of small local funds as primary insurers.

8. The old age benefits are on the basis referred to in connection with pension schemes in this country as the "savings bank principle."

9. Just as in setting up a pension fund there is a problem of prior service liability to be met by some sort of temporary provision, so in this there was the problem of workers too old to accumulate a satisfactory pension fund. To meet this condition a minimum guarantee was provided and a separate fund, the Augmentation and Solidarity Fund, with a special revenue was set up to meet it. There should not be under this plan of capitalizing these benefits the steadily increasing costs for a period of years found in those countries where the old age and invalidity benefits are on a current cost basis.

10. The local funds have considerable autonomy both in administration and finance, but there are inter-relations set up transferring part of the surplus of individual funds for general reinsurance purposes which protect against too strong a tendency in such provisions to weaken the whole structure.

* * *

With a totally different background of customs, and of relations of the individual and government to each other and in the

absence of the extensive system of local mutual aid associations which had grown up in France it is hardly likely that when we come to adopt general social insurance schemes we shall closely follow the French model. It will, however, be interesting to watch the working out of this law. It may furnish our profession with ideas, examples and data which will enable us to be of greater use to our government and people.