

regard to a record of prior contributions, it weakens the link between the individual's contribution and benefit which is the essential strength of the insurance system itself.

36. The insurance system also involves the setting up of a reserve fund, out of which benefits are ultimately to be paid, and the recording of premiums throughout the working life of each of the insured.

37. These administrative difficulties and inherent weaknesses of the insurance approach from the viewpoint of providing adequate old age security for the population as a whole must be weighed against the psychological values of such a scheme.

UNIVERSAL PAY-AS-YOU-GO SYSTEM

38. The universal pay-as-you-go system of old age security is designed to avoid the chief weaknesses of the insurance approach by assuring benefits to the entire population in the eligible age group. It does not attempt to relate the benefit which an individual receives or the amount of that benefit to the individual record of contributions. Under a universal pay-as-you-go system it is still necessary to face up to the total costs involved and to collect from those who will ultimately benefit a portion of their earnings in order to meet the cost of paying pensions to those who are now eligible. By this device of pay-as-you-go, the necessity for the accumulation of a reserve fund can be avoided, and it becomes unnecessary to keep records of the amount or number of individual contributions.

39. There is, the Committee recognizes, in the universal pay-as-you-go system, some loss of the psychological values inherent in the insurance approach, arising out of the fact that no direct relationship exists between the record of prior contributions and the right to benefit. For this reason it is important that any universal pay-as-you-go system should be solidly based on a revenue system that involves direct contributions for old age security purposes from the largest possible number of citizens.

40. The universal pay-as-you-go system is, of course, costly by its very nature. Benefit payments cannot be limited to that section of the population which can prove need, as in the case of old age assistance, or to those who have previously made the required number of contributions, as in the insurance approach. Considerations such as these have made it necessary for countries such as New Zealand and Sweden to set the rate of their present universal benefits substantially below minimum subsistence levels. Such considerations have also led the Committee, after close study of the financial implications, to the view that benefit rates under any universal system that may be considered should not be set so high as to make the over-all cost too burdensome.

41. This argument has added force for a country of such wide expanses and diversified conditions as Canada. And flat rate benefit for a married couple which would be reasonably adequate in an urban area where living costs are high would almost certainly place beneficiaries in the low-income areas of many of the provinces on a level of living superior to that prevailing in the locality as a whole. It is considered, therefore, that the rate of benefit paid should be set at such a level as to avoid so far as possible the social inequities of a situation in which the retired beneficiary group might find themselves in more favourable economic circumstances than those not yet retired who are still actually engaged in productive employment.

42. At the same time, care should also be taken not to diminish the area of incentive for private savings or for supplementary provision of old age security through employee pension schemes or individual purchase of annuities.