

may be necessary in order to fully comprehend this calculation, we believe some general comments are appropriate. As noted above, the formula which has been used to derive this 37½-percent rule has the following elements:

1. The relationship of the "primary" Social Security pension benefit to the Social Security base.
2. An adjustment factor to reflect the fact that "ancillary" Social Security benefits are provided along with the retirement benefit.
3. A second adjustment factor to reflect the fact that wage and salary deductions in the form of a tax run to individuals as well as employers in order to provide the fund for paying Social Security benefits.

It is, of course, the adjustment factors that provide much of the controversy because they are the variables subject to the widest fluctuation depending on the assumptions from which one proceeds. However, the first aspect of the formula is of great importance and our discussion starts with it.

RELATIONSHIP OF BENEFIT TO COMPENSATION

The first factor is the percentage ratio of the benefits under the public system to the compensation on which such benefits apply. This first factor has been relatively stable ever since the wage base was at \$3,600. Specifically, this relationship has been as follows:

1. (Wage base at \$3,600)

$$\frac{\text{Primary Insurance Amount (PIA)}}{\text{Monthly Maximum Wage Base (MWB)}} = \frac{80}{008} = 27 \text{ percent}$$
2. (Wage base at \$4,200)

$$\frac{\text{PIA}}{\text{MWB}} = \frac{108.50}{350} = 31 \text{ percent}$$
3. (Wage base at \$4,800)

$$\frac{\text{PIA}}{\text{MWB}} = \frac{127}{400} = 32 \text{ percent}$$
4. (Wage base at \$6,600)

$$\frac{\text{PIA}}{\text{MWB}} = \frac{168}{550} = 31 \text{ percent}$$

Indeed, proposals before the 89th Congress would, for whatever the reason, maintain this stability. For example, H.R. 18420, introduced by Congressman Burke and apparently designed with the President's proposals for the 90th Congress in mind, would provide as follows:

$$\begin{array}{l} \text{(Wage base at \$7,800)} \\ \frac{\text{PIA}}{\text{MWB}} = \frac{208}{650} = 32 \text{ percent.} \end{array}$$

Another more far reaching proposal put forth by Senator R. Kennedy would show a similar result notwithstanding the fact his measure would raise benefits an average of 50 percent and take the wage base to \$15,000, as follows:

$$\begin{array}{l} \text{(Wage base at \$15,000)} \\ \frac{\text{PIA}}{\text{MWB}} = \frac{382}{1250} = 31 \text{ percent.} \end{array}$$

This stability is, of course, of considerable significance. First, the ratio reflects a benefit-related approach and is a kind of results test or analysis. Second, it is this primary insurance benefit that is the building block for private plan designers. Third, it appears to be a controllable relationship in the sense that in the way Congress has viewed the benefits there is an implicit long-range "objective" of about 30 percent of the wage base. Fourth, of all the factors in the formula, this is the most understandable and simplest to work out. We stress these points because in just about any formula approach that might be selected this relationship would seem to be appropriate.⁷

However, the suggestion put forth in Announcement 66-58 would seem to unduly complicate this relationship. Specifically, the 1966 relationship (PIA/MWB=132.70/385=34.5 percent) is averaged with the 1965 change in the law

⁷ As we understand it, until 1951 the integration rule was entirely benefit oriented along these lines.