DETERMINING THE LEVEL OF BENEFITS

The factors discussed thus far lead to the conclusion that the payment of retirement benefits above subsistence levels of income is consistent with valid social objectives. But, to justify the need for some social intervention in providing for retirement is easier than to determine the proper degree of intervention. The ethic of individual responsibility has greater and greater force, the higher an individual's income. The social interest in maintaining very high incomes is correspondingly very weak. To take an extreme example: there is no justification for public provision of retirement benefits based on the full income of a high-level executive whose earnings exceeded $100,000 a year for many years. Some compromise between amounts no greater than those necessary to guarantee subsistence income levels and amounts related to incomes at the upper tail of the distribution is necessary. But, the choice within this wide range is a pragmatic decision, on which analytical considerations are of little help. In reaching a decision, the desirability of making public expenditures for other purposes must be weighed against the desirability of pushing up social security benefits for those with relatively high preretirement incomes. The present modest level of OASDI benefits certainly does not exceed the wide range suggested by this analysis; minimum benefits unfortunately fall short of the levels needed for subsistence.

In practice, OASDI benefits above the minimum are determined on the basis of preretirement earnings. The ratio of benefits to preretirement earnings is called the "replacement rate," because benefits are supposed to replace those earnings. The benefit formula is structured so that replacement rates vary inversely with previous earnings; the higher the preretirement earnings, the lower the replacement rate. Thus, while high earners are entitled to larger absolute benefits, their benefits are less relative to previous earnings than are those of low earners.

This structure is roughly consistent with the two objectives discussed earlier. The high replacement rate for the low earner and the minimum benefit can be interpreted as a guarantee of minimum income support for the aged. The larger absolute benefits paid to the high earner can be viewed as an effort to meet the objective of preventing drastic declines in the incomes of the nonindigent aged. This interpretation of the OASDI benefit structure corresponds roughly to the traditional social security concepts of social adequacy and individual equity.

Image of Social Security

Social security is most commonly viewed as a system of mandatory insurance, different in important respects from private insurance, but nonetheless insurance. This analogy shapes the image of social security and thereby influences the prevailing body of beliefs, conceptions, and opinions that govern popular understanding of the system. It has played a major part in developing public support. Nevertheless, the analogy is strained and, in the end, seriously misleading.