

that each individual pays for his own benefits, and, therefore, that he receives his benefits not as a matter of public charity, but, rather, because the benefits are his earned rights. This view largely explains why being a social security beneficiary carries no stigma. It is also responsible for the belief that benefits cannot legally be withheld from any entitled person.

Another feature of the system—the relationship of both benefits and contributions to an individual's earnings during his working life—seems to imply and be implied by the insurance analogy. Basing benefits on previous earnings is accepted as a simple matter of equity: individuals who pay more into the fund receive higher benefits when they retire just as individuals who choose to pay higher insurance premiums subsequently receive larger annuities from private insurance companies. It seems a fair conclusion that these elements of the private insurance analogy, which are understandable to most citizens, contribute to the tremendous appeal of social security to virtually all classes of society.

SIMPLE ECONOMICS OF SOCIAL SECURITY

Nevertheless, when the terminology of social security is stripped away and the structure of the system is examined, it is clear that the private insurance analogy is largely invalid. Decisions about how retirement benefits should be distributed and how they should be financed are, in principle, independent. In fact, to make benefits depend directly on the amount an individual has paid in taxes would be inconsistent with the objectives of the program.

The Committee on Social Insurance Terminology of the American Risk and Insurance Association has suggested a detailed definition of social insurance which lists many of its characteristics. The committee states explicitly that one major characteristic is that “the benefits for any individual are *not* [emphasis added] usually directly related to contributions made by or in respect of him, but, instead, usually redistribute income so as to favor certain groups such as those with low former wages or a large number of dependents.” The committee added that its “definition of social insurance shows that in addition to possessing some characteristics which it shares with voluntary insurance written by private insurers, social insurance possesses many unique characteristics.”¹⁸

In practice, the relationship between individual contributions (that is, payroll taxes) and benefits received is extremely tenuous. Present beneficiaries under OASDI receive far larger benefits than the taxes they paid, or that were paid on their behalf, would entitle them. Furthermore, this situation will continue indefinitely—though to a decreasing extent—as long as Congress maintains benefit levels in line with higher wage levels. This arises because OASDI is not an insurance system, but a transfer payment system that distributes to the aged a share of the gains from the growth in the overall productivity of the economy.

Some participants in private group retirement plans also receive far larger benefits than they are entitled to on the basis of their own

¹⁸ *Bulletin of the Commission on Insurance Terminology of the American Risk and Insurance Association*, vol. 1, No. 2 (May 1965), p. 2.