

lation. On the "level wage" assumption—i.e., the general level of wages is assumed to stay constant—account is taken of projected changes in population by age group and the likely numbers of beneficiaries and their average benefit levels.

The latest projections show a sizable increase in the OASDI trust funds. On the basis of these projections, there have been proposals to limit increases in benefits in the near future to levels that would merely use up the prospective growth in contributions as the population increases, and involve no tax rate of maximum wage base increase.⁴

While the "level wage" assumption is the actuarial procedure officially sanctioned for long-range estimates, it obviously leaves open the questions of what the effects will be of rising wage and price levels, and of increased levels of benefits that very likely will be adopted in the future.

Short- and intermediate-range projections are made on the assumption of increasing wage levels, but for the purpose of estimating fiscal effects rather than determining contribution rates. The short-range estimates are important for purposes of economic policies affecting stability and growth in the near future. The long-range estimates affect primarily the determination of contribution rates and the distribution of the costs or burden of the program.⁵

The level wage assumption builds a moderate safety factor into the cost estimates. More importantly, it is argued that long-range cost estimates (in the United States) are for a fixed schedule of benefits related to current economic conditions. Consequently, it would be illogical to use an increasing earnings assumption without also using a "dynamic" assumption about benefit levels; and to do this would involve the actuary in the difficult task of projecting future legislative changes in benefits. An increasing earnings assumption would be appropriate only if the benefit schedule in the law were also "dynamic"; i.e., automatically adjusted for changes in earnings levels.⁶

However, for at least two reasons use of the level wage assumption may be questioned. The first is that recent economic and legislative history shows that realistically a "dynamic" benefit structure must be taken into account. It can be argued that the most relevant set of assumptions for actuarial analysis of social security financing—and thereby for determining the allocation of costs—is the "dynamic" set which takes account both of increasing wage levels and prospective increases in benefit levels. (See appendix.)

The second reason is that since more and more economic policy decisions, both public and private, are based on long-range projections that take account of likely price increases as well as growing levels of

⁴ The U.S. Chamber of Commerce and the National Association of Manufacturers took this position in statements before the House Ways and Means Committee in 1967.

⁵ For further discussion see Henry Aaron, "Benefits Under the American Social Security System," in Otto Eckstein, ed. *Studies in the Economics of Income Maintenance* (Washington, D.C.: The Brookings Institution, 1966), pp. 53-61. For an explanation of the long-range methodology see Robert J. Myers, *Social Insurance and Allied Government Programs* (Homewood, Ill.: Richard D. Irwin, Inc., 1965), ch. VIII.

⁶ Robert J. Myers, "The Applicability of Projected Economic-Trend Assumptions in Medium- and Long-Range Actuarial Cost Estimates for Pension Systems," reprint from *Actas de La III Conferencia Internacional de Actuarios y Estadigrafos de la Seguridad Social*, Madrid, November 1962.