

A high maximum wage base would also mean increased benefit levels. With the present type of benefit structure, which is heavily weighted in favor of those low earnings records, a higher maximum base would also serve to increase the emphasis on adequacy.¹⁶

Even more than a general revenue contribution, the alternative of modifying the payroll tax would reflect the social adequacy objective and mean almost complete departure from the principle of relating an individual's contributions to his benefits.

SEPARATING WELFARE AND INSURANCE ELEMENTS

The conflict between the objectives of social adequacy and individual equity suggests the possibility of separating the major elements in OASDI programs designed to meet these different objectives.

These portions of the programs may also be called the welfare and insurance elements. In the broadest terms, the welfare element may be defined as that part of benefits which is determined largely on the basis of adequacy. Thus, the minimum old-age benefits bear no relation to the average covered wages of the beneficiary except that these wages must be low and the beneficiary must have a record of some covered employment.

The insurance element, on the other hand, would consist of that part of benefits which, is, or can be, related to average covered wages. This relation would not be the strict relation between individual premiums and value of benefits in private individual insurance; it would necessarily be a looser relationship more characteristic of private group insurance and group annuities. Moreover, many of the variations in risks that may be taken into account in private insurance might not be appropriate for a social insurance program—such as differences in length of life characteristic of different races or income groups or areas.

In group insurance, "equity requires that, within the bounds of practicality, each group pay a premium which reflects its expectation of loss."¹⁷ State regulation usually provides that * * * the benefits provided under a policy must be reasonable in relation to the premium charged."¹⁸

Isolating an insurance element in OASDI programs raises fundamental questions of whether there are insurable risks that are unlikely to be met by private enterprise and private saving, and for which compulsory coverage by a governmental system may be justified. Because of the overlay of the social adequacy objective in the past, these issues have not received the detailed analysis that would be appropriate if the emphasis in social insurance were to be shifted toward the individual equity principle.

A separation of insurance elements would mean greater reliance on the benefit principle of taxation. The economic argument here is that

¹⁶ " * * * under the cash-benefits portion of the OASDI system, the basic benefit amount (payable to a worker retiring at age 65 * * *) is \$107 a month for a person earning \$275 a month, whereas it is \$168 a month for a person at the maximum creditable earnings of \$550 a month. Thus, although the latter individual contributes twice as much as the former individual, his benefit rate is only 57 percent higher." (Robert J. Myers, "Employee Social Insurance Contributions and Progressive Taxation," to be published in the *Journal of Risk and Insurance*.)

¹⁷ Morton D. Miller, "Manual Rate Making in Group Life Insurance," in *Group Insurance Handbook* (Homewood, Ill.: Richard D. Irwin, Inc., 1967), p. 184.

¹⁸ *Ibid.*