

The plan is financed by "contributions" from the employer, the employee, and the self-employed. Currently the employer and the employee each pay a tax of 1.8 percent on taxable earnings up to \$5,000, with a \$600 exemption. The self-employed pay a tax of 3.6 percent on earnings from \$600 to \$5,000. The contributions are deductible for income tax purposes, while benefits will be taxable income when paid.

The retirement pensions eventually will amount to 25 percent of annual covered earnings up to the maximum of \$5,000 with an allowance for low or nonearning years. Full retirement pensions first become available on January 1, 1976. Until that date reduced amounts of pensions will be paid to those eligible. Where both husband and wife have contributed, both are entitled to retirement pensions.

This system appears to have developed more in response to public demands for old-age security than as a fully thought-out scheme for social insurance.²

MEANING OF "SOCIAL INSURANCE"

If revision of the U.S. system were to be in the direction separating elements based on the individual equity principle, an essential problem would be to define more clearly the insurance elements appropriate in a compulsory governmental system.³

A good deal of analytical effort has gone into developing a definition of "social insurance."⁴ Part of the problem of terminology is that the definition depends in some degree on judgments concerning appropriate methods of financing and the extent to which concepts of adequacy can be combined with a wage-related, contributory system. The definition is also likely to change as actual social security systems evolve.

A recently revised draft (spring 1967) of the definition of "social insurance" by the Committee on Social Insurance Terminology of the American Risk and Insurance Association reads in part as follows:

SOCIAL INSURANCE.—A device for the pooling of risks by their transfer to an organization, usually governmental, that is required by law to provide pecuniary or service benefits to or on behalf of covered persons upon the occurrence of certain predesignated losses under *all* of the following conditions:

(1) Coverage is compulsory by law in virtually all instances.

(2) Eligibility for benefits is derived * * * from contributions having been made * * * by or in respect of

² On the political history of the old-age pension, see A. Kenneth Eaton, *Essays in Taxation* (Toronto: Canadian Tax Foundation, 1966), pp. 132-157. On the Canada Pension Plan, see Irving J. Goffman, *Some Fiscal Aspects of Public Welfare in Canada* (Toronto: Canadian Tax Foundation, 1965), p. 100. There were precedents, however, in other countries, particularly West Germany (*Old-Age and Sickness Insurance in West Germany in 1965*, Social Security Administration Research Report No. 13, Washington, D.C.: Government Printing Office, 1965).

³ A theoretical analysis of medical insurance relating to private nonprofit systems as well as to government can be found in Kenneth J. Arrow, "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review*, vol. LIII, No. 5, December 1963, pp. 941-973.

⁴ C. Arthur Williams, Jr., "Social Insurance—Proper Terminology?" *The Journal of Insurance*, vol. 30, No. 1, March 1963, pp. 112-128.