

The question of how the costs of these windfalls are to be distributed has now been largely answered by past decisions in this country; namely, through employer's contributions and the flow of employee contributions from new entrants to the labor force. A justification for this kind of financing can be made on the same grounds as the justification for a "mature" wage-related system, as long as the transitional financing does not fall outside the limits of the principle of "individual equity."

It is argued in the appendix that the transitional problems of financing under a pay-as-you-go system can be consistent with the principle of individual equity. The implication of this conclusion is that in separating "welfare" and "insurance" elements, it is redistribution by income level for current contributors, not "intergenerational" redistribution, that is logically financed by general revenues. Intergenerational redistribution can, under reasonable assumptions, be financed by payroll taxation subject to the individual equity principle for current contributors. The "transfer" payment to current beneficiaries does not mean that current taxpayers will not "get their money's worth" in exchange for their own contributions.

COMPLEXITY

One of the considerations in a shift of emphasis to the individual equity principle would be an increase in the complexity of theoretical and administrative problems. The aggregate principle of "actuarial soundness" now being used is simple as compared with the problems of relating individual contributions to individual benefit levels.

A considerable expansion of the research programs of the Social Security Administration would probably be required. As the Chief Actuary once pointed out:

The principle of individual equity is difficult to disagree with. The problem arises that this principle is easy to discuss in general but relatively difficult to define specifically. Certain questions arise: Should only workers who actually earn the maximum taxable wage for every year of their working life be considered, or should a probable wage-history basis be used? Should retirement be assumed to occur at the earliest possible age, or should the probability of retirement at later ages be considered? Should allowance be made for the probabilities of marriage and parenthood, or should only single men and single women be considered? * * * ¹⁷

A detailed analysis of risks and costs would involve the Social Security Administration in more actuarial work similar to that done by private insurance companies, but with different kinds of "packages" of insurance and annuities. Some change in the treatment of single and married persons would probably be necessary, and perhaps account should be taken of the varying risks for certain categories in the population. However, many variations in risks might not be appropriate to consider in a social insurance program—where significant

¹⁷ *The Financial Principle of Self-Support in the Old-Age and Survivors Insurance System*, Social Security Administration Actuarial Study No. 40 (Washington, D.C., 1955), p. 3.