

with fixed dollar amounts of personal exemptions, make it more difficult to ignore the problems of equity involved in existing provisions for income tax treatment of the aged.

A shift to a social insurance system with primary emphasis on the contributory principle, combined with a separate financing of "welfare" elements, could provide a better basis for the income tax treatment of the aged.

Current exemption from taxable income of social insurance contributions, as under the Canadian system, and inclusion of benefits in taxable income at the time paid could improve individual equity by relating the income tax liability more closely to current disposable income (although this is not the only consideration involved). Such a change in the treatment of social insurance contributions has been proposed by several tax experts in the United States.²⁶

The question of the respective roles of public and private pension plans has apparently been given relatively little consideration in the past. Lack of attention to this question has probably been due to the narrow coverage of private pension plans until recent years. As recently as 1950 private pension plans covered only 9.8 million persons, including those receiving benefits. In the same year 85.9 million persons (including retired beneficiaries) were covered by OASDI. In 1950 the number of persons covered by private plans amounted to 11 percent of those covered by OASDI. By 1965 this ratio has risen to 20 percent.²⁷

The question of coordination of public policies on pensions and related systems is thus becoming much more important. Social insurance has generally been thought of as providing a "floor" of protection against loss of income and the other risks covered. However, a "floor" of protection is subject to a wide range of interpretation.

The level of contributory pensions, on an individual equity basis, should take account of the extent to which private pensions and other provisions for old age are likely to provide for old age. It would not be reasonable to provide compulsory governmental pensions at a level that would check the growth of private provision for old age. The coverage and benefits provided by private pension plans as time goes on will probably change substantially.²⁸

At the low end of the benefit scale, concepts of adequacy have obviously dominated social security benefits. The OASI system was originally intended gradually to replace a substantial portion of old-age assistance, and it has at least partially achieved this goal. The number of old-age-assistance recipients reached a peak of 2.8 million in 1950 and thereafter declined steadily to 2.1 million in 1966.²⁹ Increases in receipts of other public assistance programs have, in part, offset this decline.³⁰ The close relation between OASDI programs and public

²⁶ For example, Ray M. Peterson, "Federal Taxation in Relation to Lifetime Income Spreading and the Complementary Roles of the Public and Private Retirement Programs," in proceedings, 18th National Conference of the Tax Foundation, pt. II, *Pension Fund Problems, Private and Public* (New York: 1967), pp. 17, 18; Joseph L. Seligman, Jr., "Pension and Other Employee Benefit Plans," in *Tax Revision Compendium, Compendium of Papers on Broadening the Tax Base*, submitted to the Committee on Ways and Means, U.S. House of Representatives, November 1959, vol. 2, pp. 1368, 1369.

²⁷ Institute of Life Insurance, *Private and Public Pension Plans in the United States* (New York: 1967), p. 3.

²⁸ Further discussion of the relative roles of public and private pension programs can be found in Dan M. McGill, "Major Policy Issues in American Private Pensions," *Transactions, Social of Actuaries, 1966 Annual Meeting Number*, vol. 18, No. 52, pp. D408-D416. The expansion of public pension plans in Canada appears to have had a significant effect on private pension plans (Benjamin T. Holmes, *ibid.*, panel discussion, p. D442).

²⁹ *Social Security Bulletin*, June 1967, p. 43 and *Annual Statistical Supplement*, 1965, p. 103.

³⁰ Further discussion can be found in Robert J. Myers, *Social Insurance and Allied Government Programs* (Homewood, Ill.: Richard D. Irwin, Inc., 1965), ch. X.