maximum accumulated tax payments for old-age insurance of a self-employed person retiring in 1967 is $2,908, compared with benefits for himself and his wife worth $26,631. This is a cost-benefit ratio of only 11 percent. In 1965, 6.6 million persons out of 62.7 million—11 percent of civilian employees covered by OASDI—were self-employed.[3]

The estimated cost-benefit ratios for different groups of persons retiring in 1967, shown in table 2, indicate that the prevailing conception of social security as an insurance program in which workers are purchasing an annuity is incorrect. In fact, a significant net transfer over their lifetime is being made to the 15 million persons who are currently receiving old-age pensions.

Because of the inflation between 1937 and 1967, the real value of the taxes paid in is larger than the nominal amount. Table 2 shows that in terms of 1966 dollars the total value of tax payments for old-age insurance for the man contributing the maximum from 1937 through 1966 is $6,960, approximately 32 percent more than the nominal value. Even so, the value of his tax payments for old-age insurance alone would be worth only 26 percent of the value of the pension he is entitled to for himself and his wife.

Table 2 also shows that cost-benefit ratios for persons retiring in recent years have been increasing. The married man who retired 5 years ago, in 1962, paid in, at most, only 12 percent of the value of his pension. Two years ago it was 16 percent. Today, it is 20 percent. The reason for this increase is that payroll taxes have been increased sharply. Underlying this is the fact that the old-age insurance system attempts to collect each year just enough through the payroll tax and through interest on the trust fund to cover benefit disbursements. The system has become more costly as larger numbers of persons have retired who are eligible for higher benefits, and as benefits for those already retired have been increased to keep up with the cost of living or to provide larger minimum benefits.

Because of the variation in the cost-benefit ratios among different categories of retired workers, the social security program is transferring more income to some groups than to others. Those benefited most are the self-employed, those blanketed in after the program was initiated, workers whose wives have not been employed, and workers with less than the maximum wage base. Those benefited least are single persons and working couples.

II. Cost-Benefit Ratios for Young Persons

For young persons, cost-benefit relationships are uncertain. The tax rate on payrolls, the maximum wage base, and benefit levels may be raised in the future, and future trends in interest rates are difficult to forecast. Nevertheless, an examination of the cost-benefit ratios in the current law for young persons entering the system shows some of the problems ahead.

A young person starting work in 1967 at the age of 22 and earning at least $6,600 per year for the next 43 years is scheduled to pay

[3] *Social Security Bulletin,* Annual Statistical Supplement, 1965, page 4.