The social security law allocates seven-tenths of 1 percent (raised from one-half of 1 percent in 1965) of covered payrolls to a special disability insurance trust fund. On this basis, the funds allocated for disability insurance amount to approximately 9 percent of total payroll taxes for OASDI.

No specified amount is set aside for survivors' benefits. Approximately one-third of those who start work in their early twenties do not live to age 65.[8] If it is assumed that two-thirds of the survivors' benefits paid to widows are paid to widows of workers who live to retirement, the remaining percentage of total benefits for disability and survivors insurance is approximately 20 percent.[9]

NUMBER OF SURVIVORS AT SINGLE YEARS OF AGE, OUT OF 100,000 BORN ALIVE, BY COLOR AND SEX, UNITED STATES, 1964

Age	White male	Nonwhite male
20	96,099	93,334
65	66,009	50,341

(d) Is the payroll tax on the employer a cost to the employee?

In this study, both the portion of the payroll tax that is nominally paid by the employer and the portion deducted from the employee's paycheck are included in the cost to the worker of his old-age pension. This is based on the belief that payroll taxes on an employer are soon shifted to his employees. A payroll tax increases the employer's labor cost and decreases his demand for labor. This spread over all firms slows up the rise in wages, so that the wage earner, in effect, pays the employer part of the tax as well as that nominally levied on the employee.[10]

Beliefs concerning the incidence of the payroll tax on the employer vary widely. The estimates of cost-benefit ratios by Myers and Oppal and by Peterson, shown in table 5, exclude completely the payroll tax on the employer. On the other hand, in a recent study of social security contributions and benefits, Aaron makes the same assumption as in this study—that the entire tax on the employer is shifted to the worker.[11] Aaron relates the old-age pensions of typical workers in various industries to their "actuarially justified annuities." Although he presents the comparison in a different way, the issues discussed are similar to those in the studies of cost-benefit ratios.

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[8] The following figures are taken from U.S. Department of Health, Education, and Welfare, Vital Statistics of the United States, 1964, vol. II, Mortality, Pt. A, sec. 5, table 5–3.

[9] Estimates of the cost of different components of social security coverage may be found in table 14 of Robert J. Myers, "Social Insurance and Allied Government Programs" (Homewood, Ill., Irwin, 1965), p. 125.

[10] For an interesting account of the incidence of the payroll tax on the employer, see Paul Douglas, "Social Security in the United States," second edition (New York, Whittlesey House, 1939), pp. 62–68. He concludes that under conditions of pure competition, the entire cost of the tax on the employer would be transferred to the workers, and under monopoly, in most cases, it would be at least partially shifted.

[11] Henry Aaron, "Benefits Under the American Social Security System," in Otto Eckstein, edition, Studies in the Economics of Income Maintenance (Washington, D.C., Brookings, 1967), pp. 63–67.