personal income. Social security taxes are treated like premiums of a private annuity. The earnings are built up, tax free, during the period in which premiums are paid in. If it were assumed that the annual interest income was taxed as current income, the accumulated value of the social security taxes paid in would be less and the cost-benefit ratios would be smaller.

IV. Conclusion

Despite different possible assumptions, the studies of cost-benefit ratios that have been made by various authors lead to similar conclusions.[12] The first is that the insurance concept of the social security system in which workers are supposed to be purchasing an old-age annuity with the taxes they and their employer are paying is largely a myth. It is a popular analogy and is often repeated in newspaper editorials and statements by public officials, but, there is, in fact, little to support it. The second conclusion is that cost-benefit ratios vary considerably depending on the age, sex, income, and occupation of a person. Some of these differences are the result of ad hoc changes in the program as it has developed. There is a need to reexamine social security as a program of income transfers in order to assure that it is fulfilling the objectives of public policy. Although it is usually assumed that the social security system redistributes income so as to benefit lower income groups, it is not obvious that it is actually doing so. The final conclusion is that unless the tax paid by the employer is not, in fact, a cost to the employee, the cost-benefit ratios of young entrants into the labor force have become very high. Because scheduled benefits may be raised in the future, the terms of the current law do not necessarily mean that young persons are not going to get their money's worth. They do indicate the need for a social security model which explicitly assumes increasing benefit levels. One of the objectives of such a model might be to provide a closer balance between costs and benefits for young workers.

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[12] See particularly Ray M. Peterson, "Misconceptions and Missing Perceptions of Our Social Security System (Actuarial Anesthesia)," Transactions of the Society of Actuaries, XI (November 1959), 812–851, and "People, Pensions, and Production," address at 11th Annual Southwestern Economics Forum, University of Southwestern Louisiana, Lafayette, La., Mar. 7, 1962.