

D. SOCIAL SECURITY LOSERS : ALTERNATIVE ESTIMATES

Estimates of the relationships of taxes to benefits for the losers are likewise affected by earnings level, employer tax shiftability, family status, and price inflation. Table 3 contains tax-benefit ratios for the maximum and average earners. The total compounded value of taxes and the total discounted value of benefits are derived from the same formulas as used for the gainers, except that the number of years for tax payments is different.

For present purposes, only case I in table 3 is relevant. Case I ratios are based on the following assumptions: (1) The taxable earnings ceiling will be \$6,600, the present level, throughout the contribution period, 43 years; (2) workers' earnings are assumed to remain at the present levels (\$6,600 for the maximum earner, and \$3,215 for the average earner); (3) benefits will be based on the average of the taxable earnings during the last 10 years of employment, and the benefit formula in the future will be the same as that used at present; (4) benefits will be received for 14 years;¹¹ and (5) the interest rate is 3 percent for compounding and discounting.

As shown in the table, under the assumption of no-backward shifting, the maximum earner loses when he receives only his retirement benefits (a ratio of 1.16); he gains under other family circumstances. The average earner gains in all situations with the no-backward-shifting assumption, his lowest ratio being 0.45.

If the half-backward-shifting assumption is followed, the maximum earner loses either when he alone receives retirement benefits (a ratio of 1.74) or when he and his wife both receive benefits (a ratio of 1.16). Under the same assumption, the average earner loses only in one situation—when he receives only the retirement benefits, his ratio being 1.35.

Alternatively, when full-backward shifting is assumed, the maximum earner loses even when he is credited with the maximum family payments, but the loss is rather small, with a ratio of 1.05; the average earner loses unless he is entitled to the maximum family payments.

When case I ratios are computed in constant dollars, with an assumed annual rate of price inflation of 2 percent, nearly all ratios exceed unity, the highest being more than 4.50. These ratios are not presented in tabular form.

The foregoing discussion may be summarized: (1) Under the assumptions used in computing tax-benefit ratios in future years, there are still gainers in certain circumstances; (2) there are losers, but some lose more than others, depending upon earnings levels and family status, given the same assumptions on (a) the shiftability of the

¹¹ If life expectancy at age 65, in the future, is more than 14 years as assumed, total benefit payments will be larger, and, therefore, tax-benefit ratios will be lowered. There was some improvement in mortality rates between 1949-51 and 1959-61, as evidenced in the table in footnote 2. Although extrapolation of this trend may not be reasonable, some lengthening of life expectancy may be expected. If so, contributions may need to be increased.