II. Social Security vs. Private Insurance: Comparative Cost

In order to examine the proposition that a young worker of today will receive more financial protection if he purchases private insurance with the tax dollars he and his employer are paying into social security,[12] it is necessary to compare these two methods in terms of the comparative cost for the same benefits. Putting aside health benefits, social security provides (1) old-age, (2) survivors, and (3) disability benefits in a single package. Since no private insurance carrier offers an equivalent policy, precise comparisons are most difficult. There are those who would argue that it is well-nigh impossible to make such comparisons because of both the large number of parameters involved and the large degree of variations in the types of policies offered by private insurers. For the present purpose, however, it is imperative that an attempt be made to offer as nearly accurate a comparison as possible, and that the cost comparison be done with respect to the three types of benefits *as a whole.*

With the aid of actuaries in and out of the insurance industry, several sets of estimates have been obtained on the premiums required by commercial insurance carriers for providing the benefits that social security offers. These estimates represent the rates used for both participating and nonparticipating policies by as many as seven insurance companies. Although it is reassuring that several of them come very close to one another, these estimates are merely *suggestive* in nature, and they serve to indicate the range of premiums that an insurance company would probably charge. It should be emphasized that much care has been taken to assure that the premium rates quoted are those necessary for providing the benefits that are virtually equivalent to those available under social security. As a consequence, some of the rates incorporated in the range of premiums reported below are not those for the policies currently available: rather, these rates are for the policies that are designed to provide benefits nearly identical to those under social security.

For purposes of appraising the value of potential survivors and disability benefits in addition to retirement benefits, the estimates are provided for three hypothetical workers, A, B, and C. For ease of identification, their characteristics are listed in tabular form as follows:

Worker	Earnings in 1966 and thereafter	Age in 1966	Age of— Wife	Age of— Children No. 1	Age of— Children No. 2
A	$1,800	22	22	2	1
B	3,000	22	22	2	1
C	6,600	22	22	2	1

[12] This proposition has been supported by the computations of the cost for retirement benefits under social security, after deducting 20 percent of the combined employee-employer social security taxes. Twenty percent of the combined taxes are treated as the cost for the provision of survivors benefits and disability benefits under social security. See Colin D. and Rosemary G. Campbell, "You'll Never Get Back All Those Old-Age 'Contributions'," *Washington Post,* Nov. 7, 1965, p. E–3, and also, James M. Buchanan and Colin D. Campbell, "Voluntary Social Security," *Wall Street Journal,* Dec. 20, 1966, p. 14.