customarily provided in its recent annual reports two sets of medium-range projections (for about 15 to 20 years) by means of alternative assumptions.[15] While one projection assumes that the provisions of the current law will be in effect in the future, the other projection assumes that the maximum taxable earnings and benefit provisions are amended periodically so that the relationships among total earnings, taxable earnings, and benefit expenditures during the period in question are the same as those shown in the long-range intermediate-cost estimates prepared on level-earnings assumptions. For both projections, average total earnings of covered workers is assumed to rise at an annual rate of 3 percent.

The assumptions underlying the second projection are more realistic and hence more meaningful. Case II is illustrative of how tax-benefit ratios would be affected by rising earnings and rising maximum taxable earnings base. Case II assumes that the maximum taxable earnings will be adjusted upward at 10-year intervals (see notes to tables 1, 2, and 3) and the worker's earnings will increase at a rate of 3 percent annually. As for the benefit provisions, case II uses the same benefit structure as determined by the benefit formula now in the present law. Specifically, under existing provisions, the primary insurance amount of the maximum earner is a little over 30 percent of the average of his taxable earnings in the last 10 years of employment; for the average earner, it is approximately 39 percent. These percentages serve the basis for benefit computations in case II.

As shown in table 3, tax-benefit ratios in case II are all lower than those in case I—the ratios in case I are reduced by about 40 percent. In case II, the ratio exceeds unity for the maximum earner only under two circumstances, and all but one of the ratios for the average earner are less than unity.

From 1940 to 1966, benefit payments to the retired worker had been increased at an average annual rate of 4.2 percent.[16] In light of this historical record, it would be of interest to appreciate the effects on tax-benefit ratios of *changing* benefit formula *without altering* the conditions of the maximum taxable earnings and the worker's earnings as assumed in case II. Case III, in which benefit payments are increased annually by 4.2 percent, is set up for such a purpose. As shown in table 3, the tax-benefit ratios in case III are all lower than those in case II. As compared with the ratios in case I, the ratios in case III are more than 50 percent less. The maximum earner loses only in one case, having a ratio of 1.07, whereas the average earner loses in none.

B. "INCREASING" ASSUMPTIONS: 3 PERCENT VERSUS 5 PERCENT

Although the annual growth rate of 3 percent for earnings assumed in cases II and III is more realistic than the level-earnings assumptions in case I, the projected gain in earnings may fall short of what may actually take place. If earnings are assumed to rise by the annual gain in productivity of 3 percent and, in addition, by the annual rise

[15] For example, see the 1967 *Annual Report,* Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (mimeographed).

[16] See notes to tables 1, 2, and 3. H.R. 5710 is currently under consideration in the U.S. Congress. This bill proposes, among other things, an average increase of 20 percent in benefit payments.