

TABLE 6.—ESTIMATED REAL RATES OF RETURN ON CONTRIBUTIONS, VARIOUS ASSUMPTIONS AND EARNINGS LEVELS, 1966 LAWS

[In percent]

Assumptions				Taxable earnings levels				
r	Cost	Age	Type ¹	\$2,000	\$4,000	\$6,000	\$6,600+	Mean
2.....	L	18	M	3.78	2.82	2.39	2.30	2.92
2.....	L	18	F	4.27	3.34	2.93	2.85	3.43
2.....	L	18	C	5.34	4.43	4.02	3.94	4.52
3.....	L	18	M	4.72	3.73	3.30	3.21	3.83
3.....	L	18	F	5.22	4.26	3.84	3.76	4.35
3.....	L	18	C	6.28	5.36	4.97	4.88	5.51
2.....	L	22	M	4.46	3.43	2.98	2.89	3.53
2.....	L	22	F	4.97	3.96	3.53	3.44	4.06
2.....	L	22	C	6.10	5.13	4.71	4.62	5.23
3.....	L	22	M	5.51	4.47	4.02	3.92	4.58
3.....	L	22	F	6.00	5.01	4.57	4.48	5.11
3.....	L	22	C	7.17	6.18	5.75	5.66	6.28
2.....	H	18	M	3.66	2.68	2.24	2.15	2.78
2.....	H	18	F	4.12	3.18	2.76	2.68	3.28
2.....	H	18	C	5.22	4.29	3.88	3.80	4.38
3.....	H	18	M	4.59	3.58	3.15	3.06	3.68
3.....	H	18	F	5.06	4.09	3.67	3.58	4.21
3.....	H	18	C	6.16	5.23	4.82	4.73	5.32
2.....	H	22	M	4.36	3.31	2.86	2.76	3.42
2.....	H	22	F	4.83	3.82	3.39	3.30	3.92
2.....	H	22	C	6.06	5.01	4.58	4.48	5.12
3.....	H	22	M	5.40	4.35	3.89	3.79	4.46
3.....	H	22	F	5.88	4.87	4.43	4.33	4.98
3.....	H	22	C	7.05	6.06	5.63	5.54	6.16

¹ The 3 types of recipient are: M (single male or married male with wife who worked); F (single female or married female with nondependent husband); and C (couple eligible for wife's benefit).

Yields over 7 percent appear in the table, but these are for the unlikely case of an earner who waits to start work until age 22, but nevertheless commands an income only slightly more than half the mean. However, yields of over 6 percent are projected at this income level for those beginning at age 22 and eligible for wife's benefits. Despite the rather pronounced variation in these projected yields they continue to be bounded by the poor past performance of savings accounts and the lucrative long-term results of investment in equity.

To illustrate at a very hypothetical level the effect of the recently proposed social security changes one more set of estimates was computed assuming a \$10,800 ceiling and the proposed new benefit-earnings schedule.⁴¹ It was estimated that the higher ceiling would yield an average taxable income of \$4,225 in 1966 compared to \$3,700 under the actual ceiling.⁴² Allowance for this and the proposed change in the benefit-earnings schedule produces a further graduation of the yield-earnings relationship, as shown in chart 2.⁴³

⁴¹ This is purely illustrative since this higher ceiling would go into effect in 1973. Once more, there is no way of learning whether the changes are consistent with the pay-as-you-go assumption. However, the slope of the benefit-earnings schedule is the key element in this exercise. The results should be at least indicative of the order of magnitude of changes of this type.

⁴² The alternative average taxable earnings in 1966 was estimated by means of the relationship between the percentage of earnings taxable and the ratio of the ceiling to the mean available for 1964. In Michael Resnick, "Annual Earnings and the Taxable Maximum for OASDHI," *Social Security Bulletin*, November 1966, vol. 29, No. 11, 1965.

⁴³ These sketches do not indicate the relative importance of the two factors in this change. The proposed new schedule is somewhat more graduated than the old since the proposed minimum benefit represents a relatively greater increase than at other levels. However, even an increase in the ceiling alone would further graduate the yields if the tax rate were adjusted to keep total tax receipts unchanged; this would increase taxes of upper income groups and lower payments by others while leaving benefits unchanged.