

- (3) Rising illness incidents due to age but declining medical expenditures due to medicare and related health programs,
- (4) Declining aged tax liabilities and elimination of fringe benefit payroll deductions in retirement,
- (5) Elimination of household expenses associated with child rearing,
- (6) Possible declining physical activity and associated expenditures or rising recreational expenditures due to increased leisure time.

Various organizations and individuals in the United States have discussed or suggested what the appropriate P/E ratio should be. The P/E ratios that have been recommended range between 0.50 and 0.75 and are therefore somewhat higher than ILO international guidelines.

Table 1 shows hypothetical social security P/E ratios for workers with and without inclusion of the supplemental spouse benefit. The usefulness of this table is limited by the fact that the ratios assume "normal" retirement and take no account of earnings over the taxable limit.

TABLE 1.—SOCIAL SECURITY P/E RATIOS¹ (1965 LAW)

Average monthly taxable earnings ²	Ratio	
	Excluding supplemental	Including supplemental
\$100.....	0.63	0.95
200.....	.45	.68
300.....	.37	.56
400.....	.34	.51
500 ³	.31	.48

¹ Source: Robert M. Ball testimony before the Committee on Ways and Means, Hearings on H.R. 5710, pt. 1. Washington: Government Printing Office, 1967, pp. 223-224.

² Average monthly taxable earnings depend upon the social security taxable wage ceiling existing during the relevant years.

³ Not achievable for persons retiring currently. See (b) in preceding text.

TABLE 2.—RATIO OF MEDIAN NORMAL RETIREMENT BENEFITS PLUS SOCIAL SECURITY TO PRERETIREMENT EARNINGS, WINTER 1962-63

Item	Annual earnings and service periods							
	\$3,600		\$4,800		\$6,000		\$8,400	
	20 years	30 years	20 years	30 years	20 years	30 years	20 years	30 years
Excluding social security.....	17.3	25	13.5	19.5	12	17.2	10.9	18.6
Including social security.....	55.0	63	48.0	54.0	39	44.0	40.0	38.0

Source: Based on Donald J. Staats, "Normal Benefits Under Private Pension Plans," Monthly Labor Review, vol. 88 (July 1965), table 4.

Table 2 shows that private pensions currently do a poor job of income replacement for the middle income groups. Only at the lower earnings levels (together with long years of coverage) are P/E ratios greater than 0.50 achieved when the hypothetical private pension benefits are added to social security.

It is possible to estimate what the P/E ratio will be for future retired workers by using simulation techniques. The simulation model