

sumed to start at age 22. Both were assumed to retire at age 65. The projected real rate of return was placed alternately at 1.5, 3, 5, and 8 percent.

Tax benefit ratios are so heavily dependent on the rate of return assumed that any absolute evaluation of the tax benefit relationship provided to different groups under the system would be arbitrary. More meaningful is the implied rate of return for each group—the rate which equalizes the value of the tax and benefits streams. If past experience is a plausible guide, social security participants in the categories shown in the table will fare much better than they would if offered the option of a private savings program. On the other hand, these relatively attractive rates of return fall considerably short of the long-run yield on equity capital in recent decades.

The yields projected for these average earners under various assumptions range from 2.78 percent to 6.28 percent. This spread indicates substantial income redistribution among categories of participants. However, even the least favored group (single male, starting work at 18 facing a high-cost system and a slow-earnings growth rate) would fare much better over the long run than private savers have in the past. Clearly the key assumption of the present analysis is that benefits keep pace with earnings.

Graduation of the benefit-earnings schedule produces a substantial graduation in the yield-earning relationship. For example, the yields for \$2,000 earners are generally one and one-half percentage points or more higher than for those earning \$6,600 or more and paying the maximum tax. However, even the most unfavorable projection for the latter continues to show a real rate of return over 2 percent which is generally better in the long run than the savings account yield.

TABLE 1.—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).