

[CONFIDENTIAL]
SOCIAL SECURITY REVISION

**PROCEEDINGS
IN EXECUTIVE SESSION**

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE
EIGHTY-FIRST CONGRESS**

SECOND SESSION

ON

H. R. 6000

AN ACT TO EXTEND AND IMPROVE THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE SYSTEM,
TO AMEND THE PUBLIC ASSISTANCE AND
CHILD WELFARE PROVISIONS OF THE
SOCIAL SECURITY ACT, AND
FOR OTHER PURPOSES

JANUARY 12, 1950

Printed for the confidential use of the Members of the
Committee on Finance



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II

SOCIAL SECURITY REVISION

THURSDAY, JANUARY 12, 1950

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to notice at 10 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Connally, Lucas, Hoey, Myers, Millikin, Butler, and Martin.

The CHAIRMAN. This morning I thought we might have an explanation of H. R. 6000, the social-security bill, and Mr. F. F. Fauri, who is a specialist in social legislation, and who worked in conjunction with the Ways and Means Committee in the consideration of H. R. 6000, is present.

Mr. Fauri, I believe you were with the Ways and Means Committee all the way through.

STATEMENT OF F. F. FAURI, SPECIALIST IN SOCIAL LEGISLATION, LEGISLATIVE REFERENCE SERVICE, LIBRARY OF CONGRESS

Mr. FAURI. Yes. I started with the Ways and Means last February, and finished over there on October 15.

The CHAIRMAN. You may have that seat there. I think each Senator will find before him an analysis already in writing, prepared by Mr. Fauri, of H. R. 6000, and a comparison with present law, the recommendations of the advisory council appointed by this committee in the Eightieth Congress, and I believe it will be helpful for Mr. Fauri to give us a statement analyzing this bill and pointing out the points of difference—that is, between the recommendations made by the advisory council. It will be recalled that the council was composed of 17 members, selected people, and it was headed up by the late Mr. Edward S. Steetinius, Jr., and he had on it a number of very able people from industry, from labor, and from the groups interested in social security in the country. Prof. Sumner Schlichter, of Harvard, was the associate chairman of the council. These recommendations were submitted to this committee, and in certain respects they were followed by H. R. 6000, and in others they were not. At least we would like to have a statement of the present law, those recommendations, and H. R. 6000—how they differ and how their dovetail.

Mr. FAURI. For the purpose of identification, my name is Fedele F. Fauri. I am a member of the staff of the Legislative Reference Service, Library of Congress, and was detailed to the Ways and Means Committee this past year, and in 1948 I was detailed as staff member

to the advisory council on social security of this committee, and prior to that time I was employed by the State of Michigan as director of the State social-welfare department and the State bureau of social security. At present I have been detailed to the staff of this committee at the request of the chairman.

The bill H. R. 6000 modifies five programs now in the Social Security Act. It does not modify in any way except for very minor technical amendments the unemployment-insurance program. That program is not covered by the bill.

The five programs that are modified are the old-age and survivors insurance program, the three public assistance programs—namely, old-age assistance, aid to dependent children, and aid to the blind—and the child welfare services program.

The bill provides two new programs: One, permanent and total disability insurance, which would become a part of old-age and survivors insurance and would provide benefits to people who are permanently and totally disabled.

The CHAIRMAN. Without regard to age? The person has to be permanently and totally disabled, and has had to contribute to the system over a period of time. I will discuss this proposed program in more detail a little later on.

The other new program would provide grants-in-aid to the States for needy permanently and totally disabled persons. This grant-in-aid program to the States for needy permanently and totally disabled persons would be the same as the grant-in-aid program for old-age assistance. In other words, you would have four grant-in-aid programs under public assistance, old-age assistance, aid to dependent children, aid to the blind, and the new one, aid to the permanently and totally disabled. You would have two new programs for the last group of people, one under insurance and the other under assistance.

Senator LUCAS. The State, I presume, will do its share? Mr. FAURI. Just like old-age assistance, sir. If the State puts up \$20 for a payment, the Federal Government would put up a maximum of \$30, just like for old-age assistance.

To comment briefly on the first of the programs I mentioned, old-age and survivors insurance, there are today about 2,700,000 people receiving old-age and survivors insurance benefits, and out of these 2.7 million people, about 1.9 million are over 65 years of age, either retired workers or their wives or their parents or widows over 65 years of age. There is close to 2,000,000 people over 65 getting old-age insurance benefits.

The balance making up the 2.7 million are children and widows under 65 years of age with children of deceased workers in their care.

Senator HOEY. How much does that ordinarily amount to? Mr. FAURI. The cost of benefits is running about \$700,000,000 a year.

Senator HOEY. What does that mean to the individual?

Mr. FAURI. The benefit for retired workers today is \$26 a month.

The CHAIRMAN. Is that the average?

Mr. FAURI. That is the average, sir. The maximum is \$45.20, but the average is \$26.

Under H. R. 6000 coverage would be extended to about 11,000,000 new workers.

Senator Lucas. Let me ask you about that \$26 average. Does that include the amounts appropriated by the Federal Government and the States?

Mr. FAURR. No, sir; the \$26 per month average relates to the old-age and survivors insurance program which is financed out of the OASI trust fund.

Senator Lucas. I understand that.

Mr. FAURR. Of these 11,000,000 workers, about 7,000,000 would be brought under the system on a compulsory basis, and close to 4,000,000 would be eligible for coverage on a voluntary basis. The 4,000,000 is made up of State and local employees. They may not be brought in on a compulsory basis because the Federal Government cannot, of course, tax a State and so this group would be afforded coverage through State-Federal compacts. So how many of those 4,000,000 would be covered will depend upon State action.

Senator MARTIN. How many under State? What is the number? Mr. FAURR. There are close to 4,000,000 employees of State and local governments.

Senator MARTIN. State and local. I see. That includes local, too? Mr. FAURR. Yes. As to the benefits under that program, as I mentioned in answer to Senator Hoer's question, the average for retired worker is about \$26. The bill would raise the benefits for the retired workers now on the rolls, receiving an average of \$26, to about \$44, or an increase of about 70 percent for the people already retired.

Senator Hoer. The funds that have been accumulated for this, have they been contributed to by the employer and employee?

Mr. FAURR. Yes, sir.

Senator Hoer. I wonder what sort of condition that fund is in with respect to what effect this raise would have on it?

Mr. FAURR. I am not an actuary, sir, but there is about 12,000,000, 000 dollars in the fund presently, and according to the report of the Ways and Means Committee, the tax schedule, which I will mention later, provided in the bill is designed to make the system self-supporting. That is what the committee report sets forth.

Senator MARTIN. I would like to go back to the State and local employees. What is the plan as to how that would be handled? I know in our own State we have had in existence for 35 years our retirement system. What would be the plan of handling that? I will be asked that question.

Mr. FAURR. The State legislature would have to authorize that a compact be entered into with the Federal Government. You would have to have State enabling legislation. In addition, the bill prescribes what groups can be brought in, and further prescribes that any group under an existing system—an existing retirement system—cannot be brought in under any circumstances unless the adult beneficiaries and the individuals covered by the system vote in a written referendum, and there is a two-thirds majority of those voting in favor of coverage under old-age and survivors insurance.

Senator MARTIN. That would be necessary? Well, we will take, for example, the city of Philadelphia. Say they wanted to come in. It would be necessary for them to have an enabling act from the Commonwealth of Pennsylvania, and then they would vote, we will say, by two-thirds to come into the system?

Mr. FAURR. That is correct, sir. You see, the contract is made with the State, not with the locality.

Senator Hoer. Does that apply to different towns? A great many firemen have written me, and I imagine to others, saying they don't want to go in because they do not want to interfere with their present retirement system. Would it be two-thirds of the firemen voting or two-thirds of all State employees?

Mr. FAURR. Two-thirds of the firemen if they are covered under an exclusive system for firemen. If the system covers firemen and policemen, then it would be both.

Senator MARTIN. That would be the particular municipality. It would not have to take in the whole State?

Mr. FAURR. That is right, sir; if the municipality has a separate system.

Senator MARTIN. We have in our State several that have their separate systems. We have tried to bring it into the State system, but we have not been very successful in doing it.

Senator MYERS. I understand none of those systems will be disturbed unless you have enabling legislation and unless the employees themselves vote, two-thirds of those affected by that, in the affirmative.

Mr. FAURR. That is the way it is.

Senator MYERS. There is certainly a great deal of misunderstanding because the local groups, particularly in my State, believe that this legislation automatically brings them under the Federal act.

Senator MARTIN. That is the reason I was going into those questions. I have had inquiries the same as you have had them, and some are very much disturbed. For example, our State police, they are not only in Pennsylvania's retirement system, but they have one of their own, and in which they contribute very heavily toward it, and they have been uneasy that it might be disturbed; but as I see it, it could not be disturbed unless the majority of two-thirds, after we have enabling legislation from the State, as I understand it.

The CHAIRMAN. Two-thirds of those actually in the system and two-thirds of the beneficiaries under the system, as I understand it. Is that right?

Mr. FAURR. Yes. Senator MYERS. Could you refer us to the page of the act where that is covered?

Mr. FAURR. Yes, I can. I will give you first the page in the committee report where it is discussed at great length. Would you like that?

Senator MYERS. Yes, that would be very helpful.

Mr. FAURR. In the Ways and Means report, report 1300, it is on pages 10 to 11 and is discussed further, the whole State and local employee matter, on 100 to 104, 129 to 130.

Senator, if I might just comment, in this blue document that I prepared, Major Differences in the Present Social Security Law, the Recommendation of the Advisory Council of H. R. 6000, for example, under State and local employees, you will find on page 4 and running over to page 5 at the conclusion of the statement under H. R. 6000, there are page references to the Ways and Means Committee report so you can find the appropriate pages in the committee report, and in turn the sections in the bill from the committee report.

Senator MARTIN. That is very well done.

Senator Lucas. Take the example of the State police of Pennsylvania; would there be any advantage in the State police of that State coming into this system?

Mr. FAURI. As I understand it, as the chairman asked me to explain the bill, and not to editorialize on it, but I might just say this, that much would depend upon the Pennsylvania system as to how long an individual has to stay in the system to get vested rights, and other matters of that nature.

Senator MARRIN. For the benefit of Senator Lucas, I doubt very much whether that would fit in because you see, they retire at 50 and I doubt very much whether it would fit into this, but I wanted to be sure of your position, because I have had a lot of letters on it. I have had State policemen ask me about it. Some of them are fearful that maybe they would be forced to come into it. You have explained it very nicely.

Senator LUCAS. You can rest assured if there is any advantage of any of these outfits that they get, getting a little better arrangements financially, they are going to be in; if not, they will be out.

The CHAIRMAN. It would in each instance involve a comparison of the benefits and the State system or municipal system with the bill as it finally passes, and that, of course, would be a matter that would address itself to the judgment of the members of that system.

Mr. FAURI. If we can go back to benefits, you will recall I mentioned that for those now retired the average benefit would go from \$26 to \$44 or a rise of about 70 percent.

The CHAIRMAN. After the enactment of the law?

Mr. FAURI. That is right, sir. For workers retiring within the next few years the benefit average would be increased from \$26 to about \$50 to \$55; in other words, almost doubled, if the provisions in this bill became law.

The CHAIRMAN. The theory of that, I presume, is that those who have already retired contributed under the existing law, whereas those who hereafter retire will make some contributions under the new act, perhaps at higher rates.

Mr. FAURI. Yes. The rise of 70 percent for the people now on the rolls is very comparable to the cost-of-living rise since 1939—the 70 percent.

The CHAIRMAN. I understand.

Mr. FAURI. The bill also modifies the insured-status requirement, or in other words, the eligibility requirement for benefits. Today a person has to have, if he is retiring, one quarter of coverage for each of the two calendar quarters elapsing after 1936, and before he attains the age of 65 or dies. So if he attains age 65, as of right now he has to have 26 quarters of coverage. A year from now a person becoming 65 years of age would have to have 28 quarters of coverage. The bill provides a new test, I should say an additional test, for eligibility of 20 quarters out of the 40-quarter period ending with the quarter in which the man becomes 65, or later. In other words, a man coming under the system for the first time would get fully insured status—he would be eligible for old-age benefits, his wife would be eligible for benefits, his children would be eligible for benefits—if he has 5 years of continuous coverage. It should be noted, however, that the 5 years or 20 quarters must be within the 40-quarter period I mentioned.

Senator HOER. Under the present law, do you have to have 26 quarters of coverage to participate at all?

Mr. FAURI. A man becoming 65 right now, Senator, would have to have 26 quarters of coverage to be eligible for old-age benefits.

Senator HOER. Suppose these men, as I have had so many letters about this from people who, say, have 10, 12, 14 quarters, and they do not get anything at all, they are out; do they ever get anything from that, the money that they paid in over the period of time which covered 13 or 14 or 15 quarters? They do not get anything at all?

Mr. FAURI. Those now attaining age 65 do not get anything unless they have 26 quarters of coverage, with this exception: If a person dies, he does not have to have 26 quarters for his family to get benefits. He has to have 6 quarters out of the 13-quarter period ending with the quarter of his death. But for retirement purposes, he has to have, if he attains age 65 during the first half of 1950, at least 26 quarters of coverage.

Senator HOER. How do they get into this sort of position? I am asking because of so many inquiries. I had a letter today, "I have got 14 quarters, and I am retired, and I don't get a cent." How does he get into that sort of situation? Is it because he is out of service before he reaches 65?

Mr. FAURI. That is right. He could have become disabled, and the bill makes provisions for that as to the future, but there is no provision under present law, or he may have left covered employment, left employment in the factory and went to work on a farm, and with the farm employment not being covered, he would not acquire additional quarters of coverage, and in turn lose his insured status.

Senator HOER. All of those now that have been covered, unless they reached 26 quarters, and they go into something else, or anything else happened—they are disabled or anything—they do not get anything at all?

Mr. FAURI. That is as to the man who becomes 65 now. If he was 65 a year ago it was 24 quarters.

Senator HOER. But now he would have to have 26 quarters or would not get anything at all.

Mr. FAURI. Insofar as his retirement benefits are concerned, that is true.

Senator HOER. Would he get anything?

Mr. FAURI. If he died, he might be what we call currently insured with the 6 quarters out of the 13-quarter period ending with his death, and his family would get survivor benefits.

The CHAIRMAN. He would get, Senator, under existing law, no refund. But he would have the protection running to his children and his widow if she has the children in her care, if he dies.

Senator HOER. But if he dies any time after he becomes 65, do they benefit from whatever he has paid in?

Mr. FAURI. Not unless he had insured status. Was he drawing benefits, you mean, sir, at 65?

Senator HOER. No.

Mr. FAURI. No. Senator HOER. I am talking about the man who has paid in, say, just this morning this man said he had paid in 14 quarters, and he became disabled and could not do that work, and had to get some other lighter work in some different field not covered, and he said of course

he could not get anything back of this 14 quarters, and that he thought that if he died his family would not get any benefit either.

Mr. FAURI. As the chairman said, there is no refund, and the family would not get any protection unless those 14 quarters fell into this category, that he had 6 quarters of coverage out of the 13-quarter period, ending with the quarter of death.

Senator LUCAS. In other words, any money that is collected under those circumstances, there is never any refunded for that.

Mr. FAURI. That is correct.

The CHAIRMAN. That is, under existing law.

Mr. FAURI. Yes.

The CHAIRMAN. That would be true under 6000?

Mr. FAURI. That is right.

The next major provision that I might mention under the old-age and survivors insurance is the wage base, the taxable wage base is increased from \$3,000 in present law to \$3,600 per year.

The CHAIRMAN. On that point, the advisory committee recommended what?

Mr. FAURI. Of the advisory committee, the majority recommended \$4,200, a minority recommended \$3,000, as in the present law, and another minority recommended \$4,800. There was a three-way split. Senator LUCAS. I should like to return for a moment to the man Senator HOER. I was discussing who only has 14 quarters. Was that discussed before the Ways and Means Committee as to the advisability of trying to do something for that fellow who has paid in this money—rather they have just taken it away from him, he did not have anything to do with it? They just took it away from him and put it in a fund, and then because he did not have quite enough service here, why, he gets nothing in return. What was the position of the Ways and Means Committee on that?

Mr. FAURI. The Ways and Means Committee discussed that at great length, but then ended up with the provision I mentioned of having to have a minimum of 20 quarters of coverage for retirement. One factor being that the amount paid back to individuals is not a great deal, would not be very helpful to the individual, and another factor that comes into that particular proposition is that the individual, like this man with 14 quarters during some period of time, he very likely had currently insured status in case he died. You see, he had some protection in the sense of term insurance for his family.

Senator HOER. It was regarded more on that basis.

Mr. FAURI. That is one of the factors.

Senator HOER. Like term insurance, it runs out; you have not got anything.

Mr. FAURI. Yes.

Senator LUCAS. I suppose there would be some administrative difficulties involved in there.

Mr. FAURI. You mean to pay back the contributions. Yes; very much. That is another factor. In some instances the amount returned would be less than the cost to return it.

In concluding the high lighting of old-age and survivors insurance, I might mention the tax rate. As you know, under the present law, the tax rate is 1½ percent on the employer and 1½ percent on the employee for 1950 and 1951. The present law increases the tax rate to 2 percent on the employer and 2 percent on the employee beginning

in 1952. The bill proposes a tax rate of 2 percent on each beginning in 1951, 2½ percent in 1960, 3 percent in 1965, and 3¾ percent in 1970.

These are the high lights that I wanted to present on old-age and survivors insurance, and then if time permits I shall come back to this program. If you would like, Mr. Chairman, I will go to the other programs mentioned.

The CHAIRMAN. All right; suppose you do that.

Mr. FAURI. The next program is the permanent and total disability insurance. This program for the permanently and totally disabled would be administered in connection with old-age and survivors insurance. Under the bill as it is proposed benefits would be paid to the worker who is permanently and totally disabled, but no benefits would be provided for his dependents, such as his wife. To be eligible he must have had a minimum of 20 quarters of coverage out of the 40-quarter period ending with the quarter of disability, or roughly 5 out of 10 years, and 6 quarters of coverage out of the 13-quarter period ending with disability. So you have a long time test, and a short time test for that program, and the disability must have lasted at least 6 months before he becomes eligible for benefits, and total disability has to be one that is classified as permanent and total to be eligible.

Senator MYERS. Are the benefits retroactive to 6 months?

Mr. FAURI. Retroactive benefits can only be made for 3 months, and that is not within the 6-month waiting period. Actually under the bill, a person would have to wait about 7½ months from the time he became disabled before he could get benefits, but if he delayed coming in to apply, benefits could be retroactive for 3 months.

Senator LUCAS. He would be about ready to pass out at that time. Mr. FAURI. And there are exceptions to the time that he is permitted to come in and apply for benefits up until 1953, to let people get acquainted with the program.

Senator HOER. These benefits, are they based on the amount of earnings?

Mr. FAURI. Just like his old-age benefit. The simplest way to state it is probably this: He would get the same benefit for himself as he would get had he become 65 at the time he became disabled.

Senator HOER. There is no provision for partial; it is just total.

Mr. FAURI. Only total.

Senator CONNALLY. That applies only to those that pay in?

Mr. FAURI. That is right, Senator Connally; just to those who pay.

Mr. FAURI. That is right, Senator Connally; just to those who pay. Senator HOER. The man on the farm who becomes disabled and stays disabled would not get a cent.

Mr. FAURI. That is right. The bill has another program for that type of individual which I will mention just a bit later.

Senator CONNALLY. I am talking of this one we are now talking about. He would not be covered at all.

Mr. FAURI. No.

Senator CONNALLY. And the allowance for total disability is not dependent upon his continuing to pay, of course.

Mr. FAURI. No; after he becomes disabled and is eligible for disability benefits, he pays no longer.

Senator CONNALLY. He pays no longer.

Mr. FAURI. That is right.

Senator CONNALLY. Is it dependent upon how much he paid in before?

Mr. FAURI. Yes, sir. He has to have paid in for a minimum of 5 years out of 10, and then the amount of benefits is related to the wage that he earned while he was in covered employment.

Now to touch briefly on public assistance, there is the old-age assistance program which today is providing payments, State and Federal payments, to about 2,700,000 people over 65. The principal change in the bill relating to old-age assistance is the formula for grants-in-aid to the States which would provide for additional Federal funds to all States, but relatively larger increases would go to States that are making low payments.

I can put it this way: A State that is now having an average payment of \$30 per recipient or less could increase the payment per recipient to the same number of people on the rolls \$5 without any additional State money, but for the States that pay higher average payments, the Federal increase is less.

This proposed matching formula for old-age assistance gives the greatest aid generally to States having a low per capita income, but it is not a formula based on per capita income. You get that result because most of the States with low per capita income make low payments.

A similar formula is provided for aid to the blind for the 74,000 aid-to-the-blind recipients.

Senator HOER. Before you leave this on the basis of \$30 where the State pays \$30, how much of that would be paid by the Federal Government, and how much by the State, or the counties?

Mr. FAURI. Under the bill?

Senator HOER. Yes; under the new bill.

Mr. FAURI. You are paying \$30. I have a table here on that.

Senator HOER. I was just taking any figures; you mentioned \$30.

Mr. FAURI. If a State has a \$30 matchable average today, the Federal Government contributes \$20 of that, and under the bill the Federal Government would contribute \$22.50 of that amount.

But to put it another way, the average monthly payment to the individual which is now \$30 could be increased to \$35 under the bill with the expenditures from State funds staying the same.

As I mentioned, you have the same provision for aid to the blind, plus another provision designed to encourage blind individuals to become self-supporting. The bill would permit the State to exempt \$50 of earned income of a recipient of aid to the blind without affecting the amount of his assistance payment.

Senator MARTIN. Does that mean where a State is carrying on a plan of that kind, would the State plan be independent of this, and then this would supplement it?

Mr. FAURI. Not on this point, sir. On this point, the exemption of \$50, it would apply to the approved State-Federal plan. I think, Senator Martin, the point you bring up relates to the special provision in the bill for States that now do not have an approved aid to the blind program, such as Pennsylvania.

Senator MARTIN. What I am getting at is this: We have a plan that is working very well, I believe. What I was getting at was whether that plan would be disturbed and this could be in addition.

Suppose we would continue what we are doing in Pennsylvania. Then could this supplement what we are already doing?

Mr. FAURI. The provision in the bill, as I understand it, would do this for Pennsylvania: Pennsylvania could continue its present system, which is not approved by the Federal Government, as you know. Then it could also provide aid to individuals who met the Federal requirements and get matching for that group, so you would have, as I understand the bill, a State-Federal system, and also a system for payments to individuals who do not meet the Federal requirements. This arrangement would be provided for a temporary period.

Under the bill the State of Pennsylvania would be permitted to continue its present system, and get a federally approved system until June 30, 1953. That is the way it is set up, sir.

Senator LEWIS. This bill is not going to disturb any State system unless the State system wants them disturbed. That is about the size of it.

Mr. FAURI. On aid to the blind, in general, that is right.

Senator MARTIN. After 1953, we would be out; would we not?

Mr. FAURI. The way the bill now stands.

The third program under public assistance is aid to the dependent children. That program today is aiding with State-Federal payments about one and a half million children in five hundred and some thousand families. And there would be additional funds to all States under the new formula for this program. In addition, the bill would recognize the needs of the mother or other adult relative taking care of the children for Federal matching purposes, which are not recognized today.

Senator HOER. Under the new bill what would be the matching?

Mr. FAURI. The Federal share per recipient under the bill would be four-fifths of the first \$15 of the average payment, one-half of the next \$6, one-third of the next \$6, within a \$27 maximum for the mother, or the other adult relative, a \$27 maximum for the first child, and an \$18 maximum for each additional child; whereas under the present law the Federal share is three-fourths of the first \$12 of the average, plus half of the remainder, within the maximum of \$27 for the first child, \$18 for each additional child, with no provision for the mother or other relative of the children.

The fourth public assistance program under the bill is the aid to the needy permanently and totally disabled. This is the new program under assistance that is created under the bill for Federal grants-in-aid to the States for people who are permanently and totally disabled and who are in need. This program would have the same grant-in-aid formula as for old-age assistance.

Senator HOER. These public assistance programs, that is contributed out of the Public Treasury?

Mr. FAURI. That is right.

Senator HOER. And nobody is taxed for that except the general taxation?

Mr. FAURI. Yes.

Senator HOER. Now, about how much is presently required to meet these public assistance programs to the blind and dependent children and the old age?

Mr. FAURI. They are running currently. Senator Hoey, Federal costs are running somewhat in excess of \$1,000,000,000 a year for that purpose. Would you like them broken down by program?

Senator HOEY. I just wanted to get the total. You would add by this another program to it without regard to whether they were covered under anything?

Mr. FAURI. Yes.

Senator HOEY. Do you have an estimate when you add that to it, and the changes made, as to possible amounts of appropriations that would be required out of the Public Treasury?

Mr. FAURI. The report of the Ways and Means Committee shows the public assistance provisions of this bill increasing the Federal cost about \$256,000,000.

Senator HOEY. That would be extras.

Mr. FAURI. Yes. That includes the totally and permanently disabled category estimated by the Ways and Means to cost \$65,900,000 a year.

The only other program in the bill is child-welfare services.

Senator MYERS. I do not think you covered the needy permanently and totally disabled.

Mr. FAURI. That is the group that the bill would provide Federal grants-in-aid for just like old-age assistance, that would cost the 65.9 million dollars, and it would be up to the State to set up eligibility requirements, send in a State plan, just like old-age assistance.

Senator HOEY. That would be participated in by the State.

Mr. FAURI. The same way as old-age assistance.

Senator MYERS. Apparently to cover those that were not covered by payments?

Mr. FAURI. That is right; if a person became permanently disabled and totally disabled and was not eligible for disability insurance under the bill.

Senator MYERS. For instance, a farm laborer.

Mr. FAURI. That is right. The farm laborer could come under the State-Federal program, and also the person who got insurance benefits could come in and get supplementary benefits from the need program if he showed sufficient need and that this insurance benefits and his other income were not sufficient to take care of him, just like the man getting old-age and survivors insurance today.

Senator HOEY. Does this compensation for the disabled arranged like with old age to go along with it, the benefits?

Mr. FAURI. For the permanently and totally disabled it would be up to the State, sir, and could be identical with old-age assistance, or less; but the matching formula of the Federal Government is the same.

This last program, effected by this bill is child welfare. The bill would authorize appropriations from the Federal Government to the States in the amount of 7 million dollars a year, instead of the 3.5 million dollars that is now provided, and there is one other change in that program that I am not going to take your time with now.

I might mention that if you would like, with these brief high lights as a background, Mr. Chairman, I could go back and discuss coverage under old-age and survivors insurance, which is probably the first thing that the committee will be considering, if you have the time.

The CHAIRMAN. We have about 40 minutes.

Senator BUTLER. Mr. Chairman, I would appreciate a word or two on how the adoption of H. R. 6000 becoming a law would affect current pension systems.

The CHAIRMAN. Private ones, you mean?

Senator BUTLER. Current systems that are now in effect. Many industries have their own pension systems.

Mr. FAURI. That is a broad subject. I will try to comment a bit on it, and see if I can be helpful.

Senator BUTLER. You can generalize on it.

Mr. FAURI. These private pension plans—of course, there are many types, but as I understand some of the new ones, such as Ford Motor, if the benefits under the old-age and survivors insurance program are raised, it would not change the total amount that the worker, such as with Ford, would receive.

In other words, if he had 30 years of service with the Ford Motor Co. and was eligible for \$100 payment, if he was eligible today under present law for, say, \$40 old-age and survivors insurance, the private pension would be \$60, to make up the \$100. If under the bill that \$40, that he would get under present law became \$70, he would still get a total of \$100. Under some other systems that is not true. The private payment is independent of the social-security payment.

Senator BUTLER. In many cases, then, one who qualifies under 6000 would also be drawing perhaps a private pension.

Mr. FAURI. In many cases, you say?

Senator BUTLER. Yes.

Mr. FAURI. Yes; in a considerable number. There is much discussion as to just how many are under private systems.

Senator BUTLER. To say nothing of policies that individuals carry on their own account. Of course, those would not be affected in any way.

Mr. FAURI. They would not be affected.

Senator HOEY. Do you have any estimate of how many get private pensions from the various industries in the country? How many are eligible?

Mr. FAURI. The most recent figures I have seen show about 5 to 6 million that are covered under private systems.

Senator LUCAS. Would this have a tendency to destroy any of those private systems?

Mr. FAURI. I do not think I can answer your question except to say this, Senator Lucas, that the passage of the Social Security Act did not have adverse effect on private pension plans then in effect, and at that time there was much discussion that it would destroy them, but history shows that private pension plans did not drop out of the picture after the passage of the act. What the future is going to be, I do not know.

Senator LUCAS. If we provide as much as, under this bill, some private pension plans provides, would they continue? That is the question in my mind. That is, would they continue under the private pension system if they are getting the same under this bill?

Mr. FAURI. I suppose you would have varying results, depending upon the private system.

Senator HOEY. In most of these private systems, does not the employee contribute along with the company, the employer, to the pension fund?

Mr. FAURI. The new ones such as the CIO-Ford, the CIO-United States Steel pension plans are noncontributory, but the older ones generally had contributions from employer and employees. During the war period, however, the number of noncontributory plans increased.

Senator HOER. You mentioned about this number of probably 5,000,000 being covered; would you have any idea as to how many of those were in the class where the employee contributed to the fund?

Mr. FAURI. No, I do not.

The CHAIRMAN. You might proceed as far as you can.

Mr. FAURI. If we go back to the first page of this blue document you gentleman have in front of you I will highlight the various coverage groups, that make up 11,000,000 individuals that are affected by the coverage provisions of the bill.

You will notice, first, we have "A. Self-employed: 1 Nonfarm self-employed." The nonfarm self-employed are not covered under existing law, and over in the last column, you will notice that they are covered under H. R. 6000, if the self-employment yields annual net income of at least \$400, except for services performed by individuals falling in the 10 excepted groups, i. e., physicians, lawyers, dentists, osteopaths, veterinarians, chiropractors, optometrists, Christian Science practitioners, publishers, and designated engineers. They are not covered under the bill.

Senator BURRER. Could you tell us in a few words why they should be exempted, why they should not be included? Can you tell us that in a few words?

Mr. FAURI. I would like to answer you more this way, if I may, that the committee excluded this group—that is, the Committee on Ways and Means—on the basis that many of them do not retire. Many doctors, say, work until they die, and they do not retire. Similarly with veterinarians and other professional groups. Exclusions were made, I believe, in some instances, at least, through specific requests of the various groups.

Probably another factor was that many of these people are in an income class that generally does not become dependent on public assistance.

Now, the advisory council, if you will notice in the third column, covers all nonfarm self-employed with no exclusions, if the self-employment yields an annual gross income of at least \$500 and a net income of at least \$200.

Senator BURRER. They do not exclude even these professionals.

Mr. FAURI. No. The bill would bring in about 4½ million people under this particular item of nonfarm self-employed.

As to item 2, under "A," you note farmers are not covered under present law and not covered under the bill. The advisory council recommended that farmers be covered in the same manner as the nonfarm self-employed. It is estimated that there are about 4¾ million farmers.

Now, as to agricultural workers, item B. Under present law agricultural workers are excluded and also certain border-line agricultural services are excluded even though they are not performed on the farm. These services are, as you will note in the second column, services in connection with the production or harvesting of maple sirup or maple sugar, or services in connection with raising or har-

vesting of mushroom, hatching of poultry, or ginning of cotton, or services in connection with irrigation. That is reservoirs, and so on, if the water is to be used for farming purposes. Then postharvesting services such as packing and processing are excluded, performed for farmers or farmers' cooperatives, and for commercial handlers of fruits and vegetables, and services in connection with production of crude gum, from a living tree, or the processing of such crude gum into gum spirits of turpentine.

Under the bill agricultural labor in general is not covered, but it would bring in about 200,000 of these border-line agricultural services. In the fourth column of page 1 you will note, first, services performed on or off the farm in connection with the processing of maple sap into maple sirup or maple sugar. And then, two, services performed off the farm in connection with the raising or harvesting of mushroom, hatching of poultry, or irrigation, bringing in all of the services under (2), under the column of "Present law," except the ginning of cotton. And third, the postharvesting services performed for farmers' cooperatives or for commercial handlers of fruits and vegetables, providing they are not performed for a farmer, or for an informal group of farmers.

Senator LUCAS. They are covered?

Mr. FAURI. Under the bill these services are covered.

Senator LUCAS. They were covered under the council's report?

Mr. FAURI. Under the council's report you have blanket coverage for all farm workers as well as farmers.

Senator LUCAS. These last that you mentioned are not covered under the present law.

Mr. FAURI. That is right.

Senator HOER. Does this represent seasonal employment, these groups down here, or is it regular?

Mr. FAURI. Well, you have some of both.

Senator HOER. How do you manage it when it is seasonal, say, only 3 or 4 months in the year? How do they provide for the coverage, for occupations like that?

Mr. FAURI. Under the bill, Senator, there is no provision as to how these workers would be covered in the sense of how the tax would be collected. Present law permit the Bureau of Internal Revenue to collect the tax by pay-roll return, or by a stamp plan. In other words, you have a fairly broad authority in present law so the method would be left to the Bureau of Internal Revenue.

Senator HOER. I was wondering if a man has 3 or 4 months' employment in the year, and he gets under this, does he just pay it for the 3 or 4 months under the present law?

Mr. FAURI. Yes.

Senator HOER. Then he would share a less portion of the benefits; would he not?

Mr. FAURI. That is right, or he may be the type of man you mentioned who only ends up with 14 quarters. As you know there is a great variation in agricultural employment. There about 1¾ million employees in agriculture in an average week, but on a yearly basis there are about 4½ million people working as agricultural laborers.

Senator LUCAS. This last group that you have included in H. R. 6000, are there any figures to show how much time, for instance, a

farmer would put in on processing of maple sap into maple sirup during the year?

Mr. FAURI. No; I have not seen any, sir.

Senator LUCAS. In view of the fact that it seems to me that this is only seasonal and not regular, that you get back into the category of the 14-quarter man that Senator Hoey was talking about, these fellows would pay in quite a bit from time to time through this seasonal operation, and may never get any benefit out of it. They would have to go a long, long time to get any benefit. I throw that in for whatever it may be worth.

Mr. FAURI. That is very possible in that category.

Senator BUTLER. No provision for agricultural temporary laborers is made, like imported into the sugar-beet area for that work?

Mr. FAURI. No, sir.

If we can move down to C on page 2, you will notice "Domestic workers" and under present law domestic workers are not covered if services are performed in a private home, local college club, or local chapter of a college fraternity or sorority. Under the bill domestic services would be covered if performed in a private home—but not on a farm operated for profit—and the services in the private home are covered only if the worker is employed 26 days or more in a calendar quarter by one employer, and is paid cash wages at least of \$25 for the services rendered in the quarter. Services in local college clubs and local chapters of college fraternities performed by a nonstudent worker are covered if the remuneration is in excess of \$100 in a calendar quarter. But as to the larger group here, the domestic servants in the private homes, the bill would cover only those working 26 days for one employer in a quarter period. It was estimated by the Committee on Ways and Means the provision relating to domestic service would bring in about 950,000 domestic servants out of a labor force in the group of 1,750,000 in an average week.

Senator MARRIN. A great number of people in their homes employ maybe the regular person for just a day in the week at so much an hour. Would they be covered?

Mr. FAURI. If that person worked 26 days in the quarter and got paid at least \$25 in cash for the quarter.

You will note in the third column that the advisory council recommended full coverage of domestic servants.

The next big group is the employees of nonprofit organizations, item D, pages 2 and 3. In general, as you know, under present law, the nonprofit group is not covered. Under the bill services for nonprofit organizations would be covered except services performed by ministers and members of religious orders, and certain other exclusions shown here on page 2. Under the bill the tax would be levied on a compulsory basis on the employees. The tax is not levied on the employer unless the employer waives his tax exemption and elects to pay the tax. That is the employer's tax. If it happened that an employer did not waive the tax exemption, then the wage credits on which the benefits of the employees would be based are reduced 50 percent, which means that the benefits themselves would be reduced 70 percent, because although you cut the wage credits in half under those circumstances it does not cut the benefits in half, because the benefit formula is so drafted that benefits would be based on 50 percent of

the first \$100 of the average wage, and 10 percent of the balance. It is estimated that the bill would extend coverage to about 600,000 employees of nonprofit organizations.

The advisory council took a different approach in its recommendation on nonprofit employees than does the bill. The advisory council would exclude, as under the bill, clergymen and members of religious orders, but would levy a compulsory tax on both the employer and the employee. The council said however, that the Congress should indicate its intent that taxation of nonprofit organizations for old-age and survivors insurance in no way implies a departure from the principle of promoting the functions of these organizations through tax exemption, and that a major reason for extending protection to this area of employment is to assist these institutions in fulfilling their purpose.

There was a minority report on this point by the council and you will find that in the council report on page 63. Two members of the council wanted only voluntary coverage, saying that it should be left to the nonprofit institutions to elect whether they would bring their employees in or not, but the majority of the council recommended mandatory coverage.

Senator HOEX. That is the provision where the employer would not be required to pay unless he elected to do so?

Mr. FAURI. That is right.

The next coverage group appears in item E, page 4, and is Federal civilian employees. Under present law Federal civilian employees are not covered if they are employed by the United States or for an instrumentality of the United States which is either wholly owned by the United States or exempt from the employer's tax for old-age and survivors insurance imposed by section 1410 of the Internal Revenue Code.

Under the bill coverage would be extended to a small group of Federal employees. It is estimated that about 100,000 Federal employees out of roughly 2,000,000 Federal employees would be brought under the bill. It would not bring any judicial employees, no legislative employees under the system, it would bring in a relatively small number such as those working for Federal credit unions, production credit associations, national farm loan associations, and such as mechanics working for TVA, on a temporary basis, and not covered under the TVA system.

The advisory council recommended a much broader provision than is in H. R. 6000. They recommended immediate coverage of all employees of the Federal Government and its instrumentalities, except foreign nationals, who are not covered by an existing retirement system, and that the wage credits of employees who die or leave Federal employment with less than 5 years of service should be transferred to old-age and survivors insurance. In other words, if an employee is under civil-service retirement and leaves Federal service before 5 years of service, he is given his contributions back and has no vested right under the system.

The council also recommended that because of the complexities of coverage of Federal employees the Congress should direct a study be made of how the two systems could be coordinated with the further recommendation that the combined benefits should not be less than

what Federal employees would get under the existing civil-service retirement system.

As to employees of State and local governments, I discussed that somewhat before, and as I mentioned the bill would provide voluntary coverage for the bulk of the 3.8 million State and local employees. The bill, however, does provide for compulsory coverage for a very limited group of workers, and that is workers on transit companies formerly owned by private interests and taken over by a governmental unit. The advisory council went somewhat further than the bill in respect of compulsory coverage for State and local workers. They recommended compulsory coverage for all employees performing so-called proprietary functions for the State or for local units of government, such as employees of liquor stores operated by the State. Publicly owned utilities. The council recommended voluntary coverage for other State and local employees. Under the council's recommendations there is no special consideration given to individuals recommending retirement system as is provided under H. R. 6000. Senator MARTIN. What is the reason for compulsory coverage, we will say, of the employees of the liquor stores of the State where they have the monopoly system?

Mr. FAURI. The advisory council recommended that those employees be covered on a compulsory basis with the view that these employees are performing a function that is not the ordinary function of government, and that the Federal Government could levy a tax on that particular service. That is the way the advisory council analyzed it. Whether that is legally possible or not, I cannot say.

Senator MARTIN. The reason I was asking that, it seemed just a little bit doubtful to me. You take in Pennsylvania, the employees of our State liquor stores are civil-service employees, but they come under the same jurisdiction and the same rules and regulations as any other employee of the State. We have in Pennsylvania part of our folks under civil service and part are not, but they are all under the same regulations as far as conduct is concerned, and paid out of the general funds. That is the reason I was asking that question.

Mr. STRAM. I do not think there would be any constitutional question because long before we did not tax the State employees, we did levy an income tax on those employees that were engaged in proprietary functions as distinguished from governmental functions, and I think the bill is designed to sort of carry that out. I mean, so far as the constitutional question is concerned, I think that is pretty well settled.

The CHAIRMAN. Mr. Fauri, we will not have time to finish with your statement, and I make this suggestion, that you complete your statement on coverage for the record and that your statement be held as a confidential print for the use of the committee. The committee print entitled "The Major Differences in the Present Social Security Law," the recommendation of the advisory council, and H. R. 6000 could then be attached to your statement of this morning.

Senator MARTIN. Would it be possible for each one of us to have a copy in a confidential way?

The CHAIRMAN. That is right; each member of the committee.

Senator MARTIN. That would be very helpful.

The CHAIRMAN. This Committee print that we have used this morning in following Mr. Fauri's statement is not confidential but I

would suggest that it be attached because that in a way completes the comparison of the principal differences in present law, the recommendations of the advisory council, and the provision in H. R. 6000. Mr. FAURI. The next category, item G, page 5, relates to employees outside the United States. Under present law employees outside the United States are not covered, except for employment on or in connection with an American vessel under a contract of service entered into with the United States or employment on and in connection with an American vessel that touches at a port in the United States.

The bill would cover services performed outside the United States by citizens of the United States for an American employer, and the provision under present law relating to American vessels would be made applicable to American aircraft. It is estimated that the extension as provided in the bill would bring in about 150,000 employees. The advisory council made no specific recommendation, but did call attention to the lack of coverage for American citizens employed outside the United States by American firms.

The next is railroad employees, item H, page 5. Railroad employees are covered under a separate system and in addition survivorship protection is afforded railroad workers based on combined earnings in railroad and old-age survivorship insurance.

The bill makes no change in the present survivorship provisions and does not extend coverage to this group of employees.

The advisory council recommended that the Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable method of making railroad retirement supplementary to old-age and survivors insurance.

The council in its recommendation also stated that the combined protection of both systems should at least equal that provided under the Railroad Retirement Act.

Members of the armed forces, item I, page 5. The armed forces are not covered by old-age and survivors insurance under present law. The bill leaves present law unchanged.

The advisory council recommended that members of the armed forces be covered, and that the service retirement system should be adjusted so that the combined protection is at least equal that afforded servicemen at present.

Employment in Puerto Rico and the Virgin Islands is not covered under present law. The bill would extend coverage to employment in the Virgin Islands and also to Puerto Rico if requested by the Puerto Rican Legislature in the latter case. The advisory council made no recommendation for immediate coverage, but did recommend that a commission should be established to determine the kind of social-security protection appropriate to Puerto Rico, Virgin Islands, Guam, and other possessions of the United States.

Tips and gratuities are not included as wages under present law. The bill would include cash tips and other cash remuneration customarily received by an employee in the course of his employment, but only in the amount the employee reports in writing to his employer.

The advisory council recommended inclusion, as wages, all tips and gratuities customarily received by an employee from a customer of an employer, either as reported by the employee or as estimated by the employer.

Definition of employee: Under present law the term "employee" includes an officer of a corporation but does not include—

(1) Any individual who, under the usual common-law rules applicable in determining the employer-employee relationship, has the status of an independent contractor; or

(2) Any individual, except an officer of a corporation, who is not an employee under such common-law rules.

H. R. 6000 would repeal the provisions in existing law and in brief the term "employee" would include—

(1) Officers of corporations;

(2) Individuals who are employees under the usual common-law rules, and individuals performing services under a contract expressly reciting that the person for whom the service is performed shall have complete control over the performance of the service and that the individual in the performance of the service, either alone or as a member of a group, is an employee;

(3) Individuals in the following occupational services who perform services under prescribed circumstances:

(a) Outside salesmen in manufacturing or wholesale trade;

(b) Full-time life-insurance salesmen;

(c) Driver-lessees of taxicabs;

(d) Homeworkers;

(e) Contract loggers;

(f) Mining lessees;

(g) House-to-house salesmen; or

(4) Individuals who are determined to have the status of employees under the combined effect of the following seven factors:

(a) Control over the individual;

(b) Permanency of the relationship;

(c) Regularity and frequency of performance of the service;

(d) Integration of the individual's work in the business to which he

renders service;

(e) Lack of skill required of the individual;

(f) Lack of investment by the individual in facilities for work; and

(g) Lack of opportunities of the individual for profit and loss.

The advisory council made no recommendation relating to definition of employee.

The changes in insured status in H. R. 6000 and also the recommendations of the advisory council are set forth on pages 7 and 8 of the committee print, Major Differences in the Present Social Security Law, the Recommendation of the Advisory Council and H. R. 6000.

Benefit categories appear on pages 8 and 9, and the benefit amounts on pages 9, 10, and 11 of the afore-mentioned committee print.

Page 11 sets forth the change in the employment income limitation for beneficiaries, or in other words, earnings permitted a beneficiary under H. R. 6000, as well as under the recommendations of the advisory council.

Benefits for World War II veterans are outlined on page 12 of the committee print.

The provisions relating to financing of the social insurance system under the bill and the recommendations of the advisory council on financing are outlined on pages 12 and 13.

The provisions of the bill and the recommendations of the advisory council relating to permanent and total disability insurance appear on pages 14 to 16 of the committee print.

Public assistance: Provisions relating to the existing public assistance programs for which Federal grants-in-aid are provided—namely, old-age assistance, aid to the blind, and aid to dependent children, as well as the proposed fourth category of assistance for the needy permanently and totally disabled under the bill, and the general assistance category proposed by the advisory council—are discussed on pages 16 to 22 of the committee print.

Child welfare services are referred to on page 22.

The CHAIRMAN. The committee will now recess.

(Thereupon, at 12 o'clock noon, the committee recessed.)

X