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NATIONAL COMMISSION ON SOCIAL SECURITY REFORM RECOMMENDATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY AND INCOME MAINTENANCE PROGRAMS

OF THE

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NATIONAL COMMISSION ON SOCIAL SECURITY REFORM RECOMMENDATIONS

THURSDAY, FEBRUARY 24, 1983

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 9:35 a.m., in room 2221, Dirksen Senate Office Building, Hon. Robert Dole (chairman) presiding.

Present: Senators Dole, Pryor, Chafee, Moynihan, Bradley, Long, Heinz, Wallop, Durenberger, and Grassley.

The CHAIRMAN. Today we are continuing our hearings on social security financing. We have had a number of outstanding witnesses, and we have a number of outstanding witnesses today.

We are pleased to have with us as our lead-off witness the distinguished senior Senator from North Carolina, Senator Helms.

Jesse, there will be other committee members along shortly, but if you wish you may go ahead with just me here.

Mr. HELMS. Well, as a matter of fact, it may be more desirable, Mr. Chairman.

STATEMENT OF HON. JESSE HELMS, U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator HELMS. Mr. Chairman, I do appreciate the opportunity to appear before this distinguished committee this morning. And I am flanked by my brains, as I call them. David Kraft on—I use this word advisedly—the far left; and Joe Cobb, by far the best looking one; Athena Mineo; and Scott Wilson, all of whom I think you know.

Mr. Chairman, I know how pressed you are for time, and if it is satisfactory, let me submit my full statement for the record, and I will summarize it.

[The prepared statement of Senator Helms follows:]

PREPARED STATEMENT OF SENATOR HELMS

Mr. HELMS. Mr. Chairman, distinguished members of the Committee, it is an honor and a pleasure to appear before you today to testify on behalf of legislation I introduced this week to broaden and strengthen our social security system and to guarantee once and for all the retirement security of elderly Americans.

My bill, S. 541, "The Social Security Guarantee and Individual Retirement Security Act of 1983," would guarantee to every American the social security benefits to which he or she is now entitled without raising taxes. As a matter of fact, it would repeal all future scheduled payroll tax increases. It has both a long-term and a short-term goal for addressing the funding problems facing social security.

In the long run, Mr. Chairman, it would phase in a new kind of private savings account, called an "Individual Retirement Security Account" (IRSA), in which each working American could invest for his or her own retirement. These federally insured accounts would guarantee for all time absolute retirement security for every American. They would also help the nation's economy by providing a capital pool for investment to create jobs and put people back to work, lower interest rates, boost GNP, and help this nation towards a much needed economic recovery.

In the short run, it would keep our present social security system solvent while the long-term plan has a chance to take effect.

THE PRESENT PROBLEM

We will be deceiving ourselves if we do not face up to the seriousness of the social security crisis. In my view, it is both a national tragedy and a national disgrace. What's more, too few Americans understand the nature and extent of these problems. Certain politicians and members of the media have made a political football out of social security.

Let's examine for a moment how so many Americans have been misled, even deceived, by political and bureaucratic words and phrases that have created false impressions in their minds. To put it bluntly, the people have been hoaxed by expressions that have crept into the American vocabulary.

First, how many times have we heard references to the "Social Security Trust Fund"? <u>There is no trust fund</u>. It doesn't exist. It has <u>never</u> existed. Just ask someone to point out the vault where the money is kept. From the first days of social security, the American people have been led to believe that every worker has an accumulated savings account in Washington with his or her name and social security number on it. That is what employer and employee payroll taxes were supposed to be paying for. But such accumulated savings accounts do not exist, they have <u>never</u> existed.

Second, how many times have American workers been told that they "contribute" a specified sum of money to social security, and their employer "contributes" a like amount? But that is not correct either. <u>All</u> of the money--what workers "contribute" and what employers "contribute"--all of it is a part of the total payroll expenses that an employer has allotted for a particular job, including salary and other costs involved in his having hired someone in the first place. So every penny is really the worker's money, the money an employer has to pay in a dozen different ways to employ someone.

So, Mr. Chairman, that "contribution" is not a contribution. It is a tax, and nothing more. Social Security, as it now exists, is not really a retirement insurance and savings program. It is a program of taxation that is in fact bankrupt; and the retirement benefits of every American are, and have been, at the mercy of politicians who decide how much money from the federal treasury retired Americans will receive.

Mr. Chairman, the most informative and concise fact sheet and analysis of social security I have seen was compiled and distributed by my good friend, the distinguished Senator from Colorado (Mr. Armstrong). I'm going to take the liberty of borrowing some of this information from him, and I ask unanimous consent that it be printed at this point in the record. (Insert #1)

THE COMMISSION PLAN

Along with other Americans, I waited--perhaps too patiently--for the fifteen-member, blue ribbon, bipartisan Social Security Reform Commission to come up with proposals that, we had all hoped, would realistically and honestly address the problems facing the social security system. But after more than a year's work, the Commission submitted proposals to the President that reflect a total absence of creativity and imagination--and, worse still, a total lack of understanding of where they would lead the American economy. The Commission asks Congress to raise taxes and reduce social security benefits. Taxes on working people and their employers would be increased. Taxes on self-employed persons such as farmers, doctors, and lawyers would be increased. For the first time ever, the benefits of social security recipients would be taxed. Non-profit organization employees would be brought into the system, and employees of state and local governments would be prohibited from withdrawing from the system.

But these painful changes and others recommended by the Commission may still not, by the Commission's own admission, be enough to cover either the short-term funding needs and surely will not cover the long-term social security deficit.

According to the Commission's report, the short-term deficit (that is, the deficit that would accumulate between now and 1989) would come to between $150 and $200 billion dollars. Their short-term remedy would take care of $168 billion of that projected shortfall.

Estimates of the long-term deficit (that is, for the next seventy-five years) vary depending on your source of information. Or perhaps I should say it gets worse each time it is calculated.

The Commission report estimates a long-term deficit of 1.82 percent of payroll--estimated to be roughly $1.6 trillion. The Commission's proposal would reduce this deficit by only two-thirds. The members came to no agreement on whether to recover the remaining one-third by gradually raising the retirement age or by increasing the payroll tax on employers and employees.

Shortly after the report was published Social Security actuaries revised their estimate of the deficit. They now project it will amount to 2.1 per cent of payroll, which is equal to several hundred billion dollars more than previously estimated. The Commission plan, then, falls woefully short of resolving the long-term deficit, even if the retirement age were to be raised or payroll taxes increased.

Clearly, then, Mr. Chairman, however well-intended the report of the Social Security Reform Commission is, it not only fails to address all the problems facing our social security system, but it does not adequately solve even those it does address.

DISTRUST OF SOCIAL SECURITY

Is it any wonder, then, that the American people have lost faith in social security? Some weeks back, I saw the results of two polls that had been taken among younger Americans now in the work force. A 1982 Washington Post-ABC News poll stated 66% of those under 45--and 70% of those under 30--believe that social security will not be in existence when they retire. A 1981 New York Times-CBS News poll found that 75% between ages 25 and 34 doubt they would receive any of the social security benefits they have been promised. The same poll found that 73% of all Americans have lost confidence in social security.

The same doubts and fears have been expressed to me in letters and telephone calls from countless Americans--young, middle-aged, and elderly, including some who are already retired. These people are concerned, and rightly so, about their futures, and about the futures of their children and grandchildren.

HELMS PLAN WILL NOT:

In a moment I will describe in greater detail what my proposal would do, but first let me emphasize what it will not do.

It will not--I repeat not--reduce any promised benefits to anyone--not to retired Americans, not to those about to retire, and not to anyone else who has a right to any retirement benefits.

It will not--and again I repeat not--raise social security taxes in the future. In fact, it would repeal the social security tax increases already scheduled to take effect in 1985 and 1990.

It will not raise taxes on self-employed individuals.

It will not bring any employees of non-profit, tax exempt organizations into the social security system.

It will not require employees of state and local governments to participate in social security.

It will not tax benefits of social security recipients.

It will not make our senior citizens wait 6 months for the annual cost of living adjustment they depend on so much.

It will not raise the retirement age.

THE IRSA ACCOUNT

My plan would authorize every American worker to establish an "Individual Retirement Security Account" in whatever authorized institution he or she chooses, be it a local bank, credit union, savings and loan association, or whatever. These fiduciaries would be qualified under standards similar to those under Treasury Regulations section 1.401-12(n).

This new kind of account would be similar to the IRA accounts most people know about already, but with a big difference. The difference would be that a tax credit, instead of a tax deduction, would be given for deposits in these individual retirement security accounts. A tax credit means a dollar-for-dollar tax write-off, the kind that means something to the small and medium income taxpayer.

Individuals could contribute to these IRSAs any amounts they choose. For every dollar contributed to an IRSA, the individual would be entitled to claim a 20 cents on the dollar credit against the income tax liability, up to a maximum credit of 20 percent of the amount paid that year by the individual to the social security trust fund. To the extent the individual elects to take advantage of the income tax credit, his future pension claims against the common social security trust fund would be reduced according to an actuarial formula. Maximum utilization of the income tax credit each year for 20 years would reduce the individual's OASI claims to zero. Lesser utilization would reduce the trust fund's liabilities proportionately.

GUARANTEED BENEFITS

My proposal would guarantee all current pension obligations with the full faith and credit of the United States. Many Americans are surprised when they learn that social security benefits are not guaranteed under current law. In fact, in 1960, the United States Supreme Court ruled in Flemming v. Nestor (363 U.S. 603) that the federal government can renege on social security benefits at any time. That case is still the law today. If Congress wants to reduce social security benefits, it is free to do so. I want to change that.

Under my plan, every participant, upon retirement, would receive a certificate made out in his or her name. It would be an obligation backed by the "full faith and credit of the United States." This bond would guarantee continued social security benefits. Never again will a retired American feel that his or her social security benefits would be cut by an act of Congress, the courts, or any other agency of government. No one could ever be denied the credits he or she has earned or will earn in the future under the government system.

Everyone's retirement credits must be guaranteed.

MOBILIZE PRIVATE SECTOR VIA IRSAs

But in the long run, we also need to offer workers something more--a supplement, an alternative to the government-managed system.

No system of taxes can improve real benefits to Americans because taxes are not productive. They destroy the incentive to create jobs and the incentive to save. What we need is a system of savings and investment. A lot of people originally thought that was what the social security system was supposed to be. But in fact we have a system where the taxes collected this month are paid out in benefits next month, and this system is bankrupt. I want to expand the system to create individual worker's investments in the private sector. I want to encourage savings and investment, create jobs, help lower interest rates, and thereby restore the strength and vitality of America.

Interest, dividends, and capital gains accumulated in the IRSA account would be tax exempt, and annuities and withdrawals from it upon retirement anytime after age 62 would be tax free. Funds held in an IRSA account could be used tax-free by a worker before age 62 to acquire life insurance, health insurance, or disability insurance. The individual could participate with his fiduciary in managing the IRSA account as a fully-funded individual retirement program.

For the first ten years after enactment, an individual could set up an individual retirement security account and receive tax credits. Then, starting in 1994, there would begin a phased transfer in which employers and employees would be required to pay part of their social security taxes to the respective worker's individual retirement security account instead of to the federal government. As more of the individual's and employer's taxes go to the worker's IRSA, less would be paid to the common OASI trust fund to pay benefits for a declining number of social security beneficiaries.

By the year 2004 the phased transfer would be complete, and all payroll tax payments would be made to employees' IRSAs. Tax credits would be available between 1994 and 2004 for amounts invested in an IRSA above the amount deposited by employees and employers via the FICA deduction. The credit would phase to zero as the OASI component of the FICA deduction phased to zero by the year 2004.

I asked experts to estimate the amount of money that would be saved and invested in the private sector as gradually increasing percentages of the population began to participate in IRSAs. For example, if only 38% of our nation's workers elect to establish IRSAs during the next 10 years, a whopping $271,401,000,000.00 will have been invested. Think what this new supply of savings could do for our economy.

The following table provides a breakdown of the experts' estimates:

ESTIMATED IRSA PARTICIPATION AND INVESTMENT

(dollar amounts in billions)

Year	Participation Rate in IRSAs	Amount Invested
1984	.01	$ .894
1985	.03	3.072
1986	.07	7.802
1987	.10	12.050
1988	.13	16.926
1989	.16	22.432
1990	.19	31.037
1991	.24	42.288
1992	.30	57.000
1993	.38	77.900
		$ 271.401

OASI liabilities would shrink as participation in IRSAs increased. By the year 2045, according to my projections, residual OASI liabilities would be reduced to zero.

The following chart shows projected OASI and IRSA participation and fiscal impact through the year 2050:

PROJECTED OASI AND IRSA PARTICIPATION AND FISCAL IMPACT[1]

(thousands of individuals)

Year	FICA Covered Workers	OASI Annuituents	IRSA Annuituents	OASI Cost (% of payroll)
1982	115,308	31,483	0	10.42%
1985	123,300	33,106	0	10.32
1990	132,410	63.428	33	9.87
1995	137,644	83.403	53	8.29
2000	142,248	39,814	4,460	7.14
2005	146,798	41.725	16,897	6.46
2010	149,515	45,359	32,218	4.92
2015	150,148	51,048	51,048	2.51
2020	149,873	57,753	57,753	1.22
2025	150,205	64,500	64,542	.79
2030	151,750	45,323	68,234	.46
2035	153,889	16,873	71,277	.03
2040	156,015	997	71,440	*
2045	157,777	0	71,824	0
2050	159,545	0	73,034	0

[1]Alternative II-B assumptions; source of data for covered workers, OASI annuitants, 1982 Trustees Report. IRSA participation rate, 1984-93 assumed 20% of covered workers with 50% retiring by 1995; increase in IRSA coverage and decrease in OASI coverage computed by applying smoothed exponential decline rate/growth rate curve to population data with parameters as given in Helms proposal (universal IRSA coverage in 1994 with maximum coverage in 2004; no new OASI retirees after 2024).

OASI cost is percent of taxable payroll (Alt. II-B) adjusted for computed decline rate on OASI benefit claims, 1994-2040.

Taxable payroll was not adjusted for economic growth and increase in real wages that would be expected from increased savings rate and capital formation as retirement income source shifts from transfer payment via OASI tax on payrolls to annuity withdrawals by individuals from IRSA accounts. By 1995 this impact on real GNP and real wages would be significant, further reducing the percentage of taxable payroll represented above as OASI cost.

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SOLVING TODAY'S DEFICIT

My proposal also addresses the short-term financing crises facing the social security system. Undeniably, a short term infusion of funds is needed to keep the system afloat, at least until my long-range plan has a chance to take effect. The Commission estimates a deficit of from $150 to $200 billion between now and 1989. They propose to raise $168 billion through a combination of tax increases and benefit cuts. Using the Commission's own numbers and assumptions, I have come up with a package of proposals and reforms that will yield $167 billion in additional revenues between now and 1989. Quite frankly, my proposals should actually yield more than this because of the favorable effect on employment of my proposed tax cut. With lower taxes and greater savings, the economy will grow faster than the Commission assumes, thus boosting the tax base and lowering benefit outflows.

INCLUDE ALL FEDERAL WORKERS

The first thing I propose is to include all federal workers under social security--not just new ones, as the Commission has proposed--but all of them, beginning with all Members of Congress and their staffs. The social security problem is a national problem, and all of us ought to participate in solving the crisis.

My proposal would not affect the Civil Service Retirement System in any way. Federal employees could continue to participate in civil service retirement much the same way employees in the private sector participate in their employer-sponsored retirement plans.

COLA DELAY

Second, I propose to delay for three months--from July to October--the social security cost-of-living adjustment.

I don't agree that there should be a six-month delay, as was proposed by the Commission. That's an unfair burden on our senior citizens. A three-month delay would be much fairer, and it would help a great deal to solve the short term deficit.

PRORATION OF COLAS

Third, cost-of-living increases should be pro-rated to reflect the month of retirement. The present system is unfair to the senior citizen who retires in, say, January--because the person who retires the following December now receives the same cost-of-living adjustment as the senior citizen who retired early in the year.

ADMINISTRATIVE COSTS

Fourth, I propose that the expenses of administering the social security system be counted against general revenues rather than the social security accounts. Payroll tax revenues should only be used to pay benefits, and should not go to pay administrative expenses.

UNCASHED CHECKS

Fifth, I propose we adopt the Commission's recommendations regarding crediting the social security system for all uncashed social security checks. Until I began my detailed study of the social security system, I was not aware that millions of dollars in Social Security checks are never cashed each year. I was astonished to learn that the money represented by these uncashed checks does not have to go back to the social security system--but instead may be used for other government spending. My proposal would require that the money be credited to the social security system.

MILITARY BENEFITS

Sixth, I propose the social security fund also be credited for all military benefits the social security system pays out with no government contribution.

REVENUE CALCULATIONS

The following chart reflects the short-term revenue increase under my proposal:

SHORT-TERM REVENUE INCREASE UNDER HELMS PLAN (1983-1990)

(billions of dollars)

1.	Bring all federal employees into the social security system	61.4
2.	Delay payment of COLA from July to October	35.0
3.	Prorate COLA to reflect month of retirement	40.0
4.	Charge Administrative costs to general fund	18.0
5.	Credit uncashed social security checks to social security system	.5
6.	Credit social security system for military benefits paid without a government contribution	17.5
		$172.4

PAYROLL TAX CUT

The revenue figure shown here, $172.4 billion, does not reflect the projected revenue loss as a result of repealing the 1985 payroll tax increase. Under present law, the combined employer-employee payroll tax rate, which is now 13.4 per cent, is scheduled to increase to 14.3 per cent by 1986 and 15.3 per cent by 1990. The maximum payroll tax would become $6,263.40 in 1986 and $8,690.40 in 1990.

The Congressional Budget Office estimates the 1977 payroll tax increases cost 500,000 Americans their jobs. Higher payroll taxes would only exacerbate the unemployment crisis and contribute to further economic stagnation.

My proposed payroll tax cut is projected to reduce the social security system's revenue by only $5.4 billion by 1990. With this projection, my package of short-term proposals would result in a net increase in social security revenues of $167 billion, almost the same amount as the Commission proposes to bring in by raising taxes and cutting benefits.

I emphasize these projections are based on the same assumptions used by the Commission and their figures. Quite frankly, I believe my proposed tax cut will have a more favorable result than projected, and that between now and 1990 the social security system will be much better off under my short-term plan than under the Commission's proposals.

EQUITY REFORMS

Mr. Chairman, along with proposals for solving the long-term and short-term funding problems facing the social security system, my bill also contains proposals for reforming social security in certain areas. I include these reform proposals because of the pressing need for Congress to address issues relating to women, the disabled, nonresident aliens, and older Americans with productive abilities who wish to continue working past age 65.

EQUITY FOR WOMEN

Mr. Chairman, clearly our present social security system treats women unfairly. The problems have become more acute as more women have entered the workforce. When the social security system was created, only 20% of women were in the workforce. Today that figure is roughly 60%.

The National Commission on Social Security Reform addressed a number of issues relating to women. They made several proposals that have merit that I have included in my bill. These proposals are as follows:

1. Present law permits the continuation of benefits for surviving spouses who remarry after age 60. This would be extended to disabled surviving spouses aged 50-59, disabled divorced surviving spouses aged 50-59, and divorced surviving spouses aged 60 or over.
2. Spouse benefits for divorced spouses would be payable at age 62 or over, subject to the requirement that the divorce has lasted for a significant period, if the former spouse is eligible for retirement benefits, whether or not they have been claimed, or if they have been suspended because of substantial employment.
3. Deferred surviving-spouse benefits would continue to be indexed as under present law, except that the indexing would be based on the increases in wages after the death of the worker instead of by the increases in the CPI, as under present law.
4. The benefit rate for disabled widows and widowers aged 50-59 at disablement would be the same as that for non-disabled widower and widowers first claiming benefits at age 60 (i.e., 71½% of the Primary Insurance Amount), instead of the lower rates under present law (gradually rising from 50% at age 50 to 71½% for disablement at age 60). Such change would not only be applicable to new cases, but would also be applicable to beneficiaries of this category who are on

the rolls on the effective date of the provision.

Unfortuntely, the Commission's proposals do not go far enough in ensuring equal treatment for women. My bill contains additional protections.

Under present law, the method of calculating social security benefits creates a disincentive for a parent to remain at home with children. Such years are calculated as zero earning years in the determination of the person's social security benefits. Often a parent, usually the mother, needs to spend time at home during a child's early years of development. The government should not discourage mothers from spending time at home with their children during the children's formative years.

My bill would allow a person to exclude from the calculation of his or her social security benefits each year spent at home with their child as long as the child is younger than six years old. Up to six years could be excluded, and this exclusion could be taken in addition to every individual's already guaranteed five low-year exemption. During the years excluded, the parent could earn up to one-half the average wage of all social security covered workers each year.

I also propose extending additional equity to divorced spouses. Both members of a household should be considered to have made equal contributions to their family and thus retain equal property rights for the income in their family structure. This is not the case under social security today. My legislation would correct this situation by crediting each divorced spouse half the earned family income during the marriage for the purpose of determining social security retirement and disability benefits.

EQUITY FOR DISABLED

Mr. Chairman, another part of my bill addresses serious problems involving the arbitrary cutoff of benefits to disabled citizens. Often disability payments, which provide life-sustaining funds for so many individuals, are terminated by an overzealous Social Security Administration before the beneficiary is actually interviewed. Administrative law judges have reversed roughly 70% of disability cutoff cases reviewed. This indicates the seriousness of the problem.

I would be the first to acknowledge that there has been much abuse of social security disability. But the movement to correct this situation must have guidelines and it must be fair. Therefore, I propose that Congress ensure due process to every individual receiving disability benefits before any benefits can be cut off. My bill provides this. Each disability beneficiary would be entitled to a hearing before an administrative law judge before benefits could be cut. The Social Security Administration could not bring a case before a judge for determination unless they could show a change of circumstances or conditions affecting the individual, fraud, or mistake in the initial determination of disability.

My bill would leave the disability trust account untouched. It will remain in good shape, capable of paying benefits well into the future, if the remaining social security accounts would stop borrowing from it.

LIMIT ALIEN RECEIPTS

Another reform I propose would limit payment of social security benefits to nonresident aliens. The social security system pays out $80 million each month to individuals outside this country. Most of the people, 67% to be exact, who receive such funds are aliens. Many of them entered the United States as resident aliens during the 1950's when the social security payment premiums and quarter requirements were low qualified for social security, and then returned to their respective countries to live off social security benefits. In many cases these benefits provide them with a higher standard of living than they could have in the United States. These individuals often go home and adopt children, parents and grandparents or marry a much younger person to increase their benefit entitlement and ensure the continuation of the United States support to their survivors. The payments these aliens receive from the United States almost always exceed their original contributions to the system. Consider this--more than 50% of the benefits paid overseas are survivor benefits. In the United States, only 30% of the benefits are paid to survivors.

We cannot continue to increase taxes on the American people in order to send social security benefits overseas. My bill strengthens the existing social security provision requiring aliens who leave the United States for a period of six (6) months to forfeit social security benefits. The legislation provides that aliens can draw benefits only to the extent they have paid into the system, irrespective of their employers' contribution, plus the treasury bond rate of interest on that amount. Nonresident aliens who are drawing social security benefits beyond their contribution to the system must be cut off.

EQUITY FOR OLDER WORKERS

And finally, Mr. Chairman, I propose a reform of utmost importance. I propose elimination of the earnings limit on retired persons.

A person's age does not necessarily determine his or her physical or mental condition. Our social security system often forces people into retirement at age 65 no matter what their abilities. A person who chooses to work past age 65 is penalized by loss of retirement benefits--retirement benefits they worked for all their lives. The loss amounts to 50 cents on the dollar, which creates a tremendous disincentive for people 65 and older to continue to work. It means an effective increase in the marginal tax rate for that worker of greater than 50%.

No one should be discouraged from continuing to fulfill their life through work. Therefore, I propose we remove this penalty by repealing the earning limit for social security recipients 65 and older. Older Americans ought to be able to work if they want to without financial penalty.

Mr. Chairman, the retirement security of American workers is as important to the future of this country as any issue Congress will deal with this year. This issue deserves the thoughtful consideration of every Member of Congress, and indeed, every American. I urge my colleagues to study my proposal closely, and to support it.

Insert #1

Social Security Highlights

* One trillion dollars will be paid out in Social Security benefits over the next four years.

* Thirty-six million Americans receive Social Security benfits.

* Most Social Security retirees today receive more in benefits than they paid in taxes -- by a ratio of 5 to 1.

* Social Security benefits have risen sharply over the past few years. In the beginning, Social Security was designed to be supplemental retirement income. Today, Social Security benefits on average equal 60% of the beneficiaries after-tax working income.

* In recent years, Social Security benefits have increased faster than wages or prices.

* Americans are living longer. Women who become 65 in 1982 live, on average, an additional 19 years; men live an additional 15 years. This is a 20% increase in 40 years.

* Social Security comprises one-fourth of the total federal budget and 5% of the Gross National Product.

* The maximum Social Security tax an employee working from 1935 to 1982 could make is $17,000. This will nearly triple to $44,000 by 1990.

* Social Security taxes on the average worker have increased 2,000% since 1935; the maximum Social Security tax has increased 6,500%.

* Fifty-one percent of all Americans pay more in Social Security taxes than federal income taxes.

* Even with the additional $437 billion in tax increases that will be implemented this decade because of a 1977 law, Social Security will exhaust its reserves and total outgo will exceed income by the mid-1980s.

* When Social Security began, only retirement benefits were paid to workers. Today, there are about 21 general types of benefits provided under Social Security.

* One indication of the growth in Social Security: When President Franklin Roosevelt proposed his Social Security program in 1935, he contemplated Social Security expenditures would be about $1.3 billion in 1980. Actual 1980 outlays: $149 billion.

Social Security...

...In the Beginning

Social Security was created in 1935 to partially replace earnings lost through retirement or death. Initially, only commerce and industry workers (about five out of 10 jobs in America) over age 65 were eligible for benefits.

Benefits were supplemental income...about 29% of pre-retirement income (known as the "replacement rate"...the percent of working income replaced by retirement income).

Payroll taxes financed these benefits on a pay-as-you-go basis. Initial taxes were also small...$60 per worker maximum (cost split between employer and employee). In 1980 dollars, this tax equalled $360.

...Program Expansion

Congress and Presidents dramatically expanded the program through 13 expansionary laws and seven automatic benefit increases (although twice Congress slightly reduced benefits). Today, three separate trust funds pay benefits and collect taxes. Two trust funds -- Old Age and Survivors (OASI) and Disability (DI) -- pay cash benefits directly to recipients. The third -- Hospitalization (HI) -- pays costs of medical care provided to the elderly and disabled.

Nine out of 10 jobs in America are included in Social Security. The program now pays retirement, early retirement, widow, children, parent, disability and hospitalization benefits to 35.4 million. Basic benefit rules were expanded, and later made inflation-proof through automatic cost-of-living increases. Generally, eligibility has been liberalized. Cash benefits -- not counting the value of hospital care -- as a percent of pre-retirement income has increased to 49.3%.

Consequently, the tax rate, tax base and number of taxpayers have also increased. Today, the combined employee-employer maximum tax is $4,340. One hundred ten million workers pay taxes; 11 million (mostly government employees) do not. While the number of taxpayers has increased, the worker/recipient ratio has not. In 1940, there were 16 workers supporting each recipient. Today, the ratio is only 3 to 1, and declining.

...As Part of the Federal Budget

Total Social Security outlays comprise about one-quarter of the budget. Including all programs, 27.7% of the federal budget is devoted to elderly needs. By 1985, pensions, national defense and interest payments will comprise 75% of the U.S. budget. Total Social Security and other senior citizen federal outlays amount to $15,000 per elderly couple.

...As Part of the National Economy

Benefits comprise about 5% of the real gross national product, and it's rising. If no changes are made, and if government spending were to be maintained at 20% of GNP, then by 1985 other government spending must be cut 13.1%.

Since Social Security is a major component of the economy, it is particularly sensitive to economic fluctuation. Each 1% of inflation increases costs $1.5 billion annually (although the higher costs are offset in part by higher revenues). Each 1% of unemployment reduces revenues by $2 billion. Social Security tax increases exacerbate unemployment. For example, the Congressional Budget Office projected that the Social Security tax increases since 1977 reduced employment by 500,000 jobs. Accelerating to 1983 the tax increase scheduled for 1990 is projected to increase unemployment two to four million job years by the end of the decade.

...Economic and Demographic Developments

Since Social Security began, significant changes have reshaped America. Once an economy dominated by manufacturing and agriculture, America is quickly becoming a service based economy. Once men dominated the work force; now half of all jobs are held by women. In 1935, a third of all elderly Americans were impoverished; today less than 15% have incomes below the poverty threshold. Forty years ago, less than three marriages in 10 ended in divorce; today five of 10 marriages end in divorce. Family size has declined.

Americans are living longer; on average, men live 15 years past retirement, and women 19 years...a lifespan increase of 20% over 40 years. Even so, more Americans are opting for early retirement before age 65. Today 90% of Americans who retire opt for retirement before age 65.

...As Part of the Lives of Recipients

Social Security is a financial lifeline to most recipients. Fifty percent of benefits are paid to elderly single members of households for whom Social Security is their principal income. Median income for all those over 65 is $ 5,771. Average median income for a retired couple receiving Social Security is $14,300.

Newly eligible retirees -- 80% of whom opt for early retirement -- generally are improved financially. Median retirement income is $14,259, of which 42% is Social Security. Gross family assets -- including personal residences or automobiles -- exceed $48,000. Seventy percent of new retirees either outright own their home, or pay less than $200 in monthly mortgage or rent. The average value of a new retiree's home is $54,000.

Most Social Security recipients today will receive far more in benefits than they contributed in taxes...by a ratio of 5 to 1. This ratio will decline for future recipients. Social Security benefits are progressive... meaning that low-income receive relatively higher benefits than middle- or high-income.

...As Part of the Lives of Workers

The maximum Social Security tax a worker and his employer could have paid from 1937 to 1982 is $16,932. This will nearly triple by 1990 when the maximum tax possible rises to $43,000.

For 51% of all families -- and practically all low-income families -- they pay more Social Security taxes than federal income tax. This is also true for employers, particularly the marginally profitable.

...Benefits

One trillion dollars will be spent from the Social Security trust funds in the next four years (1983 to 1986), an amount roughly equal to that spent from 1935 to 1981. Four-year spending and income by trust funds:

	(billions) Outlays	Income
Old Age and Survivors (OASI)	$728	$634
Disability (DI)	83	135
Hospitalization (HI)	198	210
	$1009	$979

--Social Security Administration
September 1982

Monthly Social Security costs exceed $17.9 billion.

Of trust fund outlays...
...67% go to retirees, their spouses, children or survivors.
...9% go to the disabled, their spouses, children or survivors.
...22% pay medical costs.

Cash benefits paid from the OASI and DI trust funds:

	(millions)	Average annual benefit
Retired workers	20.3	$4,686
Their spouses	3.0	2,350
Their children	.5	1,841
Total	23.8	
Survivors		
Widowed parents	.5	3,372
Widowed spouses	4.4	4,210
Children	.2	3,278
Disabled, widowed spouses	.1	2,760
Parents	.01	3,732
Total	5.21	
Disabled workers	4.1	4,944
Their spouses	.4	1,452
Their children	1.0	1,428
Total	5.5	
Special Age 72	.1	

The maximum possible benefit for a retired couple with children under 18 is $14,748 annually.

These benefits do not include the value of medical benefits provided through Medicare. Since all benefits are tax free, current benefits are about 60% of after-tax, pre-retirement income.

...Taxes

About $1 trillion in taxes has been raised since 1935. If a worker contributed the maximum taxes from 1937 to 1982, he would have contributed $17,000 (an amount matched by his employer). By 1990, this will nearly triple to $44,600.

Today, the total Social Security tax is 13.4% of up to $32,400 of income. This rate will increase to 15.3%, and the base up to $45,600 of income by 1990.

The average tax paid by a worker and his employer annually is about $2,000.

...Individual Equity and Social Adequacy

Social Security emphasizes social adequacy, not individual equity. The social adequacy basis is evident through the provision of relatively high minimum benefits, paying proportionately higher benefits to low average wage earners, the imposition of maximum benefits regardless of past earnings, and the payment of derivative benefits at no additional cost to the worker. While there are some elements of individual equity -- benefits in relation to earnings -- Social Security, over the years, has moved away from individual equity and more toward social adequacy.

...As It Affects Women

Social Security was created when men dominated the work force. Since then, a number of economic and demographic changes involving women affect Social Security and its future. More women work today, are living longer, and the divorce rate is increasing. Since these changes were not contemplated at the time Social Security was created, retirement benefit adequacy for women is a significant concern because a high percentage of the elderly poor are widowed, divorced ~~or were~~ never married. It is also a concern since the current labor force -- once male dominated -- has a high percent of women workers who pay Social Security taxes, and expect to receive just benefits.

Problems in providing benefits to women exist in part because benefits are linked to an individual's earnings and work history. Working women frequently have interrupted work histories due to child rearing. Women also have had generally lower career earnings than men. As a result, a large proportion of women fail to qualify for Social Security benefits, qualify for benefits on their lower earnings, or they qualify based on their husband's benefits, and then receive half of these benefits. Some of these concerns have been addressed by changes made in the computation of spouse benefits, but questions of equity continue to be raised with regard to women, particularly those who work. The National Commission on Social Security Reform identified 12 options that address the issue of making Social Security equitable for women.

...and Other Federal Pension Policies

Since Social Security was created, there have been significant developments in federal pension policy. Among them:

1. Individual Retirement Accounts: Most workers can contribute up to $2000 annually tax free into Individual Retirement Accounts, the proceeds of which are invested, and then paid out as retirement income as early as age 59 1/2. Workers with wives who do not work contribute up to $2,275 annually.

2. Keogh retirement plans: The self-employed can set aside $15,000 annually to help replace earnings lost through retirement.

3. Employee Retirement Income Security Act: Regulates company sponsored, tax-deferred pension plans.

Sixty percent of workers between age 25-34 are covered by retirement pensions other than Social Security.

...Financial Status

Social Security is going broke. High inflation, slow economic growth, rising numbers of beneficiaries, increased benefit levels and an eroding tax base have increased Social Security's costs, and depressed revenues. The retirement and survivors trust fund has run a deficit since the early 1970's. This deficit erased the once large cash reserves...to the point where Congress had to enact legislation permitting the OASI trust fund to borrow from the DI and HI trust fund to make full and timely benefits. By the mid-1980s, however, even these reserves will be exhausted. Technically, Social Security will have no choice but to either reduce all benefits by the amount of income then on hand, or delay checks until enough income is on hand to pay full benefits.

Thus, Congress must achieve two goals in the short-term: Enact legislation that eliminates the future deficits, and achieve adequate reserves so that enough money is on hand to pay two months of benefits.

The National Commission on Social Security Reform unanimously agreed that $150-200 billion is needed this decade to assure Social Security solvency. In addition, the Commission projects that Social Security needs to either increase revenues or reduce spending $1.6 trillion over the next 75 years to guarantee solvency.

Senator HELMS. On Tuesday of this week, I introduced a bill, S. 541, to broaden and strengthen the social security system and to guarantee once and for all the retirement security of elderly Americans. This bill bears the title—and as the Chairman knows, we are privileged to name our bills whatever we wish—and I chose to call it the "social security Guarantee and Individual Retirement Security Act of 1983". It has both a long-term goal and short-term goal for addressing the funding problems facing social security.

In the long run, it would phase in a new kind of federally insured private savings account, called "individual retirement security accounts," IRSA, in which each working American could invest for his or her retirement. In the short run, it would keep our present social security system solvent, while the long-term plan has a chance to take effect.

In a moment, I will attempt to describe briefly what my proposal would do. But first, I think it is important to emphasize what it will not do. It will not reduce any promised benefits to anyone—not to retired Americans, not to Americans about to retire, and certainly not to anyone else who has a right to any retirement benefits. It will not, and I repeat, not raise social security taxes in the future. In fact, it would repeal the social security tax increases already scheduled to take effect in 1985 and 1990.

It will not raise taxes on self-employed individuals. It will not bring any employees of nonprofit, tax exempt organizations into the social security system. It will not require employees of State and local governments to participate in social security. It will not tax benefits of social security recipients. It will not make our senior citizens wait 6 months for the annual cost of living adjustment upon which they depend so much. It will not raise the retirement age.

My plan would authorize every American worker to establish an individual retirement security system in whatever authorized institution he or she may choose, be it a local bank, credit union, savings and loan association, or whatever. This new kind of account would be similar to the IRA accounts about which most people know already.

But there is a difference, a big difference. The difference would be that a tax credit instead of a tax deduction would be given for deposits in these individual retirement security accounts. Individuals could contribute to these IRSA's any amount they choose. For every dollar contributed to an IRSA, the individual would be entitled to claim a 20-cent tax credit against the income tax liability up to a maximum credit of 20 percent of the amount paid that year by the individual to the social security trust fund.

To the extent the individual elects to take advantage of the income tax credits, his future pension claims against the common social security trust fund would be reduced according to an actuarial formula. The maximum utilization of the income tax credit each year for 20 years would reduce the individual's OASI claims to zero. Lesser utilization would reduce the trust fund's liabilities proportionately.

My proposal would also guarantee all current pension obligations with the full faith and credit of the United States. It also addresses the short-term financing crises facing the social security system.

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Now undeniably, a short-term infusion of funds is needed to keep the system afloat at least until my long range plan or some plan of its type has a chance to take effect.

Now the short-term funding crisis would be resolved by the following provisions, and I acknowledge that they will not be embraced warmly by everybody.

One, bring all Federal employees into the social security system. Now we will hear a lot of discussion about that but, Mr. Chairman, the information available to me is that 80 percent of Federal employees will draw benefits from the social security system either because of prior employment or subsequent employment or both. And, for one, do not think U.S. Senators or anybody else ought to be exempt from participating in the responsibility of making sure the retirement system works.

The second is to delay the payment of COLA from July to October, and pro-rate COLA to reflect the month of retirement.

Four, provide for payment of administrative cost of SSA from general revenues.

Five, credit uncashed social security checks to the social security system, and designate social security checks as such.

Six, credit the present value of military credits to the trust fund. Now along with proposals for solving the long-term and short-term funding problems facing the social security system, my bill also contains proposals for reforming social security in certain areas. I include these reform proposals because of the pressing need for Congress to address issues relating to women and to the disabled, and nonresident aliens, and older Americans with productive abilities who wish to continue working past age 65.

Now I will not go into the details of these proposed reforms at this moment, but they are provided in my prepared statement.

In conclusion, the retirement security of American workers is as important to the future of this country as any issue Congress will deal with this year. This issue deserves the thoughtful consideration of every Member of Congress and, indeed, every American. And let me say on a personal note that it gives me a great deal of comfort that the distinguished Senator from Kansas is presiding as chairman of the committee over this problem.

I thank the chair.

The CHAIRMAN. Senator Helms, I appreciate that very much. And I would just say that at a time when most politicians are running from social security, which I think is a mistake, you have taken the courageous position of offering your own comprehensive reform bill, which aims at reducing the payroll tax burden, and encouraging private planning for retirement.

The Social Security Individual Retirement Security Act is designed to meet the critical financing problems of social security in both the short and the long range. And I think the bill addresses head-on some major retirement income policy questions. I might say that there have been other members who have indicated an interest in IRSA—sort of the IRA approach—on this committee. It has a great deal of appeal. You talk about trying to supplement social security income—looking for incentives for people to save. That's an area we are going to look at. And I am pleased to know that you will be setting the pace in this area, and taking a fresh approach to social security reform.

I would also say—and I think it is probably included in your statement—that I think a number of the reforms in your summary are included in the National Commission's reform package. The record should indicate that you support a substantial portion of our package. And I would guess, as I understand it, that if we would include something on the retirement age that it might even have a little warmer support from the Senator from North Carolina. That is in a separate bill that I have introduced to extend the retirement age to 66. Starting in the year 2000, the bill would add 1 month a year to the age, and then index the full retirement age to longevity. That seems to me to make a great deal of commonsense. That's probably why it is not universally acclaimed.

I applaud your efforts. I just wonder what the reaction has been from the elderly and the younger people in North Carolina. As you know, the younger people don't have much confidence in social security. And the elderly people have been frightened by people saying that the system is broke, and that they are not going to continue to receive their checks. What response have you had to your proposed program?

Senator HELMS. Senator, first let me thank you for your generous and gracious comments. I will add that it is constantly a pleasure to work with you. You are, in my judgement, one of, if not the most, the hardest working Senators in this society. But be that as it may, I had never requested a statewide television network during the entire 10 years that I have been in the Senate. But this matter was so delicate. And everybody, as you say, is going down under the punt refusing to touch the football.

I did ask the North Carolina Association of Broadcasters to see if the television stations in North Carolina would be willing to let me talk to the people and explain what I had in mind rather than to have it filtered through some of the newspapers and misrepresented either intentionally or otherwise.

We did that broadcast, a 30 minute broadcast, in which I used charts and graphs and other visual illustrations. Did it in prime time. And, Senator, within 2 days we had a bushel basket of telegrams not only from North Carolina but from other States where people had picked up the signals of the North Carolina stations, and we are yet to have the first criticism of it.

Now telephone calls, we had to have a couple of extra people to man the switchboard in our office. The nearest thing to a complaint that we had was one man called up and said I was stupid. And the young lady that answered the telephone was a little bit indignant about that. And she said, "Why is he stupid?" And he said, "Because he ought to know better than to think Congress is going to adopt anything that sensible."

But the aftermath of that—the television stations went to some of the retirement homes and interviewed a number of elderly people. And the reports I got were very encouraging to me because not only did these elderly retired people understand what I was talking about, but one lady said, for example, "Thank God somebody is thinking about my children and grandchildren."

So we ought not to write off the attitude of the elderly, the retired. Certainly, they are concerned about themselves, but they are also concerned about their children and grandchildren. And I believe, as I assume most people do, that the young people who are concerned that there will be no system available to them have some basis for their apprehension.

The CHAIRMAN. You have four young staff people there who probably hope that when they retire social security will be around.

Senator HELMS. Well, they have demonstrated an unusual zeal in coming up with——

[Laughter.]

The CHAIRMAN. Maybe your bill is tilted toward the younger generation. I had better check that over.

Senator HELMS. Mr. Chairman, I might add that we had about 20 people total working with us on this. These four young people have sort of led the charge, but we ran a number of computers hot in this city for weeks on end. And I think that our conclusions are entirely valid. I think the arithmetic is solid. And I hope that there will be consideration of our proposals.

The CHAIRMAN. Well, again, I appreciate it very much. Your entire statement will be made a part of the record. We hope that whatever may be adopted will address problems in the system for some time to come.

Senator HELMS. That's absolutely essential.

The CHAIRMAN. But that doesn't mean we can't take a look at fresh ideas. This is a fresh idea, and I appreciate it very much.

Senator HELMS. Well, thank you, Mr. Chairman, for your courtesy.

The CHAIRMAN. We have two outstanding gentlemen next. And I understand one has a 10:30 appointment, so we will move very quickly.

The Honorable Wilbur J. Cohen, and the Honorable Arthur Flemming, former secretaries of Health, Education and Welfare, representing Save Our Security, Washington, D.C.

I would like to express my appreciation for your taking time from your busy schedules to give us your views. As I look at the action on the House side, it seems that the package is moving along with deliberate speed. We will hopefully pass a sound proposal before March 26.

Wilbur, do you want to start?

Mr. COHEN. Yes, sir.

STATEMENT OF HON. WILBUR J. COHEN AND HON. ARTHUR S. FLEMMING, FORMER SECRETARIES OF HEALTH, EDUCATION AND WELFARE, REPRESENTING SAVE OUR SECURITY COALITION, WASHINGTON, D.C.

Mr. COHEN. Thank you, Senator. Dr. Flemming and I are here this morning both representing SOS, and representing some managerial experience, I might say, in the handling of these programs in several different administrations. Mr. Flemming also was a member of the Civil Service Commission. We will allocate our time in a way to assign different topics. So I will ask that our full statement be put in the record, and then he and I will just summarize it.

[The prepared statement of Mr. Cohen and Dr. Flemming follows, and a list of the Save Our Security members also follows:]

Prepared Statement of Hon. Wilbur J. Cohen and Hon. Arthur S. Flemming on Behalf of the Save Our Security Coalition

Mr. Chairman, and members of the Committee.

We appreciate this opportunity to appear here today on behalf of the Save Our Security Coalition, to share our views with you on the recommendations of the National Commission on Social Security Reform.

My name is Wilbur J. Cohen. I had the high privilege of serving as Secretary of Health, Education and Welfare during the Administration of President Johnson. I am joined here today by my good friend and colleague, Arthur S. Flemming, who served as HEW Secretary in President Eisenhower's Administration, and as U.S. Commissioner on Aging under Presidents Nixon, Ford and Carter.

In the preparation of the Save Our Security Coalition's position with respect to the report of the National Commission on Social Securite Reform, we had the able advice and counsel of a half dozen other experts in the Social Security field. They include three former Commissioners of Social Security -- William J. Driver, who held that post under President Carter; Robert M. Ball, who served during the

Administrations of Presidents Kennedy, Johnson and Nixon; and Charles J. Schottland, who served during the Eisenhower Administration. They also include two former Commissioners on Aging -- John B. Martin, who served in the Nixon Administration; and William Bechill, who served in the Kennedy Administration. Finally, they include Nelson Cruikshank, former Counselor to the President for Aging in the Carter Administration.

Together, we cover a span of a quarter century and six presidencies, of both political parties, and together we stand united in our views on the Commission report. So Secretary Flemming and I speak for these six distinguished Americans, as well as for the Save Our Security Coalition.

I chair Save Our Security, and Secretary Flemming chairs our Advisory Committee. SOS is a nationwide coalition of more than 140 organizations representing a cross-section of American life. We are attaching a list of the affiliated organizations to give you the full flavor of the coalition. There are organizations representing the elderly and the disabled, trade unions representing workers in the public and private sectors, social welfare groups, women's groups, civil rights groups and religious organizations. Together, these affiliated organizations have a membership of between 35 and 40 million adult Americans, almost equally divided between beneficiaries of, and contributors to, Social Security.

This is a point which simply cannot be stated clearly enough. Within Save Our Security we have bridged the so-called "generation gap."

We have working men and women concerned about their own future protection under Social Security and concerned, as well, about the benefits now being received by their retired parents and their grandparents. And we have older Americans who are concerned not only about their own economic security, but that of their children, and grandchildren as well. Both groups -- the beneficiaries and the contributors -- want to see Social Security's short-term cash-flow problems solved, and they want to see the long-term needs of this system adequately financed to guarantee the benefits which today's workers are earning through their work and their contributions into this system.

On behalf of Save Our Security, we want to express our gratitude to you, Mr. Chairman, and to Senator Moynihan for the efforts which both of you invested in working to achieve a compromise with which all parties could live. At the outset, most political observers gave you little or no chance for success; it is to your credit that you proved these pundits wrong.

On behalf of Save Our Security, we want to express this organization's support for the agreement reached by the National Commission on Social Security Reform and we recommend its adoption.

In taking this position we would like to make three improtant points:

1. We believe inclusion of the COLA delay means that the beneficiaries of Social Security will pay a high price for what is in the compromise package. If there are any changes inserted into this agreement which in any way further cut back on basic

Social Security benefits, we would have to reassess our position.

2. We believe that the proposal to extend Social Security coverage to Federal and postal employees should be implemented only at such time as changes are implemented in the Federal retirement system to make it part of a two-tier system, with the dual program guaranteeing Federal and postal workers a system at least as good as that which they now enjoy.

3. The views presented by SOS have been developed in consultation with organizations and individual members who have had a long association with Social Security policy. However, the coalition is both large and diverse. There are a few organizations which, while members of SOS, do not support passage of the compromise package as presently constituted. These groups will be making their views known to the Congress directly.

As indicated, one of the most troublesome provisions in the Commission's report deals with the six-month delay in the cost-of-living adjustment for the recipients of Old Age, Survivors' and Disability Insurance benefits.

We recognize that some members of the Commission went along with this delay in the COLA only with the greatest reluctance. We share that reluctance. We wish the Commission could have found some other way to deal with the financial problems of Social Security. In his State of the Union message, the President placed the blame for these problems squarely on the shoulders of our national economy --

the long inflationary spiral pushed up outlays to help beneficiaries keep their heads above water; and persistent high unemployment has pushed down income, because when people aren't working, neither they nor their employers are paying into the system. It is unfortunate that the aged, the blind, the disabled and their dependents have to take a reduction in their standard of living, to put to right a situation which is not of their making.

But -- reluctantly, as we have said -- we accept the Commission's COLA recommendation because we believe that other portions of the compromise have so much merit. However, in adopting this provision, we believe Congress should go further than the Commission in recognizing the serious problem confronting SSI recipients. We applaud the inclusion in the agreement of a recommendation for raising the disregard from $20 to $50.

Supplemental Security Income is the basic safety net for the aged poor, the blind and the disabled. We strongly recommend, as a matter of fairness, that, contrary to the recommendations in the Administration's budget, the cost-of-living adjustment for July 1983 be retained for SSI and Food Stamp recipients. SSI recipients would then receive another COLA adjustment in January 1984 -- as would all OASDI beneficiaries -- because of the importance of keeping the two programs in tandem.

We also recommend that the income threshold for SSI be raised at least to the poverty level, and that at some time in the not-too-distant future, consideration be given to bringing this benefit up to a level of 125 percent of the poverty level.

With respect to SSI, we all know that there is a considerable number of Social Security recipients who qualify for, but do not receive, SSI benefits. For some it is a matter of dignity and pride. They know that the benefits are available, but they choose not to submit to the means test which is required for eligibility. But we are convinced that many Social Security beneficiaries are completely unaware that their income is so meager that they could qualify.

We in SOS believe that the Secretary of Health and Human Services should be required by law to issue a notice periodically to all individuals whose OASDI benefits do not exceed the SSI benefit level plus the SSI unearned income disregard. Such notice should state that they may be eligible to receive SSI benefits to supplement their other income. The notice should also encourage the person to contact his or her local Social Security office for additional information. The Secretary should also be required to take the steps necessary to insure that these individuals be fully assisted in filing an SSI application. While Secretary Flemming was serving as Commissioner on Aging, he worked with many public and private organizations in carrying out an "SSI Alert" at the beginning of the program. It worked then; it can work now. It was needed then; it is even more essential today.

We also urge that the 3 percent trigger in the cost-of-living adjustment for Social Security and SSI -- the provision of present law which says that no COLA will be paid if the increase in the Consumer Price Index is less than 3 percent -- be suspended for 1984. Since we began indexing Social Security and SSI benefits, there has never been a year when the CPI rose less than 3 percent. But inflation has moderated, and we hope it will continue to moderate. A delay in the COLA could result in a comparison between the first quarter of last year and the first quarter of this year showing less than a 3 percent inflationary growth. Nevertheless, it still seems to us important that, because of the COLA delay in this year of transition, benefits be increased by whatever amount the inflation rate is.

Another issue which gave us problems in the coalition involves the recommendation that Social Security coverage be extended to new Federal and postal employees, effective January 1, 1984.

We believe that such a proposal should not be implemented until representatives of Federal and postal employees have had an adequate opportunity to review and comment on <u>specific</u> proposals to adapt Federal retirement systems as appropriate supplementary programs for future service in the light of proposed Social Security coverage -- and, as of this date, no such specifics have been forthcoming. Such changes may be complex and difficult for many participants to comprehend.

Further, we believe that any such changes must not result in a loss of protection, but must provide a two-tier system which will guarantee Federal employees a benefit package at least equal to what they now receive in retirement, disability and death benefits.

The date for making any such changes should not be determined on the basis of any increased revenue to the Social Security system, but solely on the appropriateness and fairness of the proposed changes in financing and benefits in both systems. Furthermore, we believe that the effective date for bringing Federal employees under Social Security and for the implementation of any change in the Federal retirement system should be the same.1/

We recognize, Mr. Chairman, that the Committee on Finance does not have jurisdiction over the development of legislation dealing with the Federal retirement system. But in view of the fact that you will be taking actions with respect to bringing new Federal and postal employees under Social Security, we urge you to find the way of insuring that any action you take relative to the coverage of new Federal and postal employees under Social Security not be effective until Congress has also enacted the new Federal retirement program.

Although the Commission reached agreement on a package proposal to deal with the short-range financial needs of Social Security and two-thirds of the long-range problem, it could not agree on how to deal with the remaining one-third of the long-term problem. Mem-

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1/ Mr. Ball feels that this is highly desirable, but not a necessary condition to the inclusion of new Federal employees on Jan. 1, 1984.

bers of the Commission did agree, however, to make separate recommendations dealing with the rest of the long-range financing needs.

Some of the Commission members suggested that the best way to deal with the remaining long-range financing would be by increasing the retirement age to 66 and indexing it to longevity.

The SOS coalition flatly rejects such a course. To change the retirement age would be unfair to today's workers. We would be asking them to work longer for what would be, in the end, lower benefits, and we believe this would be a violation of the implicit compact which has existed between the government and working men and women for nearly half a century.

Other Commissioners recommended increasing payroll taxes in 2010, with a refundable income tax credit so that this would have a neutral impact on the total tax burden of workers. We can support this approach.

There are other possible solutions which most in SOS could support.

-- We could eliminate the maximum earnings base for employers, so that they would be paying Social Security taxes on their entire payroll;

-- We could use general revenues to make up any shortfall; or

-- We could use a combination of any of these methods to meet any situation which might occur sometime in far distant future.

There is another approach which has significant support within SOS. That is for the Congress not to deal this year with the remaining one-third of the long-term deficit which will remain after the Commission's agreed-upon recommendations are enacted. Instead, Congress could recommend that the next statutory Advisory Council on Social Security be charged with making recommendations with respect to the remaining part of the long-term problem, taking into account better economic conditions, increases in productivity, the birth rate, the immigration rate, and all of the other variables which contribute to the stability, or lack of stability, of the Social Security system.

We have devoted considerable time, Mr. Chairman, to the parts of the Commission's report which gave us, in Save Our Security, difficulty. Let us provide some balance by listing for you those recommendations which we had no difficulty in endorsing unanimously:

1. Raising from 3 percent to 8 percent the additional retirement benefits for each year, after age 65, in which a person continues to work.
2. Raising from $20 to $50 per month the OASDI disregard in computing SSI eligibility and benefits.
3. Extension of compulsory coverage to non-profit organizations.
4. Repealing the provision which presently allows State and local governments to opt out. (We would

hope that Congress would go a step further, and give those State and local governments which have opted out in the past a one-time chance to rejoin the Social Security program.)

5. The annual rollover of Social Security investments, so that this program earns the maximum interest possible on the funds it has invested in securities of the United States.
6. Adding two outside persons (no more than one from any political party) to the Board of Trustees, to help restore public confidence in the management of this program.
7. Establishing the Social Security Administration and HCFA as an independent agency. (The Commission endorsed this idea in principle, but a majority of members favored a study of its feasibility. We do not believe a study is necessary and we hope the Congress will move forward with legislation to achieve this goal, under a bipartisan board, as quickly as possible.)
8. The four gender-related provisions to liberalize the way in which we treat women under Social Security. (The report makes specific reference to the issue of income sharing for Social Security purposes. We note with approval the views expressed by Com-

missioners Ball, Keys, Kirkland, Moynihan and Pepper on this issue. We urge you to direct the Social Security Administration to continue studies already under way on this matter and to report back, within a year, specific recommendations with respect to the recommendations of these five Commissioners.)

9. Crediting the Trust Funds for past military service credits and uncashed checks.

10. Reallocating of payroll tax receipts more equitably between the Old Age and Survivors' Insurance Trust Fund and the Disability Insurance Trust Fund.

11. Continuing the authority for interfund borrowing through 1987.

12. Eliminating the "windfall" benefit for future beneficiaries who are eligible for pensions from non-covered Social Security employment.

Most importantly, Mr. Chairman, we in SOS support the Commission recommendation that Social Security be removed from the unified budget and restored to the independent status it enjoyed for its first nearly 35 years.

We also commend the Commission for its conclusion that there should be no tampering with the basic structure of Social Security -- that it <u>not</u> be made voluntary, that it <u>not</u> be conditioned on a showing of financial need, and that it <u>not</u> be based exclusively

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on contributions paid.

The National Commission on Social Security Reform had a difficult -- some thought impossible -- assignment. To its credit it came up with a workable solution. Not a perfect one, not one which satisfied everyone (or perhaps anyone), but a solution with which beneficiaries and contributors can live.

In conclusion, we want to emphasize again the Save Our Security coalition's support for the Commission's recommendations.

We thank the Chairman and the members of the Committee for this opportunity to present our views, and we wish you every success in your deliberations.

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AFFILIATED ORGANIZATIONS

A. Philip Randolph Institute
Action Alliance of Senior Citizens of Greater Philadelphia (PA)
Advocates for the Handicapped
Alton-Wood River (IL) Federation of Labor
American Association of Homes for the Aging
American Association of Retired Persons
American Association of University Professors
American Association of University Women
American Association on Mental Deficiency
American Coalition for Citizens with Disabilities
American Council of the Blind
American Ethical Union
American Federation of Labor/Congress of Industrial Organizations
American Federation of State, County and Municipal Employees
American Foundation for the Blind
American Jewish Committee
American Veterans Committee
Americans for Democratic Action
Armstrong, Clarion Counties (PA) Central Labor Union Council
Associated Actors and Artistes of America
Association for Retarded Citizens
Bakers, Confectionery and Tobacco Workers International Union
Cattaraugus-Allegheny Counties (NY) Central Labor Council
Center for Community Change
Center for Independent Living
Central Labor Union of Erie County (PA)
Central Maine Area Agency on Aging
Central Ohio Council of Senior Citizens
Cincinnati (OH) AFL-CIO Council
Communications Workers of America
Community Council of Greater New York
Concerned Seniors for Better Government
Congress of Senior Citizens of New York
Connecticut State AFL-CIO
Council of State Administrators of Vocational Rehabilitation
Democratic Socialist Organizing Committee
Disabilities Plus, Ink
Disabled American Veterans
Disabled in Action of Pennsylvania
Dunn County (WI) Central Labor Council
Economic Opportunity Commission
Edwardsville (IL) Central Trades and Labor Council
Federation of Senior Citizen Clubs and Organizations
Food Research and Action Center
Fund to Assure an Independent Retirement
Graham-Greenlee Union Club of Clifton (AZ)
Gray Panthers
Highland Valley (MA) Elder Service, Inc.
International Association of Bridge, Structural and Iron Workers
International Association of Machinists and Aerospace Workers
International Chemical Workers Union
International Ladies' Garment Workers Union
International Union of Operating Engineers
Joseph P. Kennedy, Jr., Foundation
Leadership Conference of Women Religious
Legal Research and Services for the Elderly
Massachusetts Association of Home Care Corporations and Area Agencies on Aging
Massachusetts Organization of Disabled Workers
Mechanics Educational Society
Metal Trades Department, AFL-CIO
Metropolitan Baltimore Council of AFL-CIO Unions
Metropolitan N.Y. Coordinating Council on Jewish Poverty
Monmouth County (NJ) Office of the Handicapped
Montana State AFL-CIO
Muskegon (MI) Labor Council
National Association for Human Development
National Association for the Advancement of Colored People
National Association of Private Residential Facilities for the Mentally Retarded
National Association of Retired Federal Employees
National Association of State Universities and Land Grant Colleges
National Black Catholic Lay Caucus
National Board of the YWCA
National Caucus and Center on Black Aged
National Center for Urban Ethnic Affairs
National Coalition for Older Women's Issues
National Conference of Catholic Charities
National Consumers League
National Council of Catholic Women
National Council of Churches
National Council of Jewish Women
National Council of La Raza
National Council of Negro Women
National Council of Senior Citizens
National Council on the Aging
National Education Association
National Farmers Union
National Indian Council on Aging
National Multiple Sclerosis Society
National Organization of Social Security Claimants Representatives
National Senior Citizens Law Center
National Society for Autistic Children
National Urban Coalition
National Urban League
National Women's Political Caucus
New Hampshire Association for the Elderly
New Horizons
Ohio Coalition of Senior Citizen Organizations
Ohio Rehabilitation Services Commission
Older Women's League
Operation Overcome of Lackawanna County (PA)
Operation Overcome of the Anthracite Region (PA)
Operation Overcome of the Lehigh Valley (PA)
Oswego County (NY) Labor Council
Ozaukee County (WI) Trades and Labor Council
Paralyzed Veterans of America
Pennsylvania Alliance of the Physically Handicapped
People United for Self Help
Power, Inc.
Retired Teachers Chapter, United Federation of Teachers
Retirees Union Club of Sierra Vista (AZ)
San Joaquin and Calaveras Counties (CA) Central Labor Council
San Mateo County (CA) Central Labor Council
Save Our Childrens' Security
Secure Our Children
Senior Citizens Task Force/United Planning Organization
Seniors for Adequate Social Security
Southeastern Oregon Central Labor Council
Student Services for the Handicapped
Texas Planning Council for Developmental Disabilities
Texas State AFL-CIO
The Workmen's Circle
UAW Retired and Older Workers Department
Union Club of Cottonwood/Verde Valley (AZ)
Union Club of Sun City (AZ)
United Association of Journeymen & Apprentices of the Plumbing and Pipefitting Industry
United Automobile, Aerospace & Agricultural Implement Workers of America International Union
United Cerebral Palsy Associations
United Furniture Workers of America
United Presbyterian Church
United States Catholic Conference
United Steelworkers of America
University of the District of Columbia/Institute of Gerontology
Washington Armed Services Committee
Washington State Labor Council, AFL-CIO
Waukesha County (WI) Central Labor Council
West Virginia Developmental Disability Planning Council
Western Gerontological Society
Westside Community for Independent Living
Wisconsin Council on Developmental Disabilities
Women's Equity Action League

Mr. COHEN. Let me say, Senator, that I have now appeared before the Senate Finance Committee over a period of 48 years. This is, in my opinion, the most unique experience I have ever had in which the chairman of the committee, the President of the United States, the Speaker, the majority leader, and a distinguished group of people have agreed on something ahead of the hearings. Both Dr. Flemming and I want to compliment you particularly on what we think is a stroke of legislative genius on your part, and on the part of your colleagues in arriving at a resolution of an important issue to the American people. We, as I presume you and others, are not in complete agreement with every detail, but we recognize that one must come to a resolution of this issue this year. So we want to pay particular respect to you for having forged this compromise—I even call it "legislative genius" on your part and the part of your colleagues.

We are here to support in general the proposal. We have a few specific suggestions to make that might be helpful.

Since Dr. Flemming must leave for another appointment, I will come back to it. And I think it might be best for Dr. Flemming to proceed first.

The CHAIRMAN. Dr. Flemming, I am pleased to have you, a fellow Foundry Methodist member, with us.

Dr. FLEMMING. Mr. Chairman, I was about to say that as a fellow Methodist I would like to say "amen" to Wilbur Cohen's comments relative to the work of the Commission and relative to your role in connection with the work of the Commission.

Mr. COHEN. If I might add one addition. Ecumenical agreement.

Dr. FLEMMING. That's right.

I haven't been appearing before the Finance Committee over as long a span of time as Wilbur Cohen has, but I have been coming to the Hill over a considerable period of years. And this certainly does constitute a very unique development as far as my experience in government is concerned. And as Wilbur has indicated, SOS does support the package that emerged from your deliberations. And we certainly hope that it will be enacted into law.

There are certain parts of that package to which we would like to call particular attention. We recognize that a good many members of the Commission were reluctant when it came to deciding to postpone the cost-of-living adjustments over a period of 6 months. We know that they recognized, as we do, the impact of that postponement on the lives of a good many older persons.

We have been particularly concerned about the impact of that postponement on the low-income, older persons. And as we think in terms of the low-income elderly, we think in terms of those who are now beneficiaries under the supplemental security income program.

We were delighted that the Commission did focus its attention to some extent on the supplemental income program. We do believe, however, that Congress should go further than the Commission in recognizing the serious problems confronting the SSI recipients. We applaud the inclusion in the agreement of a recommendation for raising the disregard from $20 to $50. Many of us have been urging that over a considerable period of time.

But in addition, we recommend that as a matter of fairness, contrary to the recommendations in the 1984 budget that is pending before the Congress at the present time, the cost-of-living adjustment for July 1983 be retained for SSI and foodstamp recipients.

SSI recipients would then receive another cost-of-living adjustment in January of 1984, as would all OASDI beneficiaries, because of the importance of keeping those two programs in tandem.

We also recommend that the income threshold for SSI be raised at least to the poverty level.

With respect to SSI, all of us know that there is a considerable number of social security recipients who qualify for but do not receive SSI benefits. We in SOS believe that the Secretary of Health and Human Services should be required by law to issue a notice periodically to all individuals whose OASDI benefits do not exceed the SSI benefit level, plus the SSI under-income disregard.

Such notice should state that they may be eligible to receive SSI benefits to supplement their other income. The notice should also encourage the person to contact his or her local social security office for additional information. The Secretary should also be required to take the steps necessary to insure that these individuals be fully assisted in filing an SSI application.

When SSI was inaugurated, I happened to be serving as U.S. Commissioner on Aging. And we did inaugurate an SSI alert. We had cooperation within the public sector and the private sector for a program designed, literally, to go out onto the highways and byways and identify the older persons who would be eligible for SSI; call their attention to the fact that they were eligible; and indicate to them how they could establish their eligibility.

Some of us believe that we are at a point where we need another SSI. And that could be helped considerably if the Congress would require the Secretary of HHS to periodically provide this information to the social security recipients.

And also, Mr. Chairman, I would like to underline and stress what some of us feel is the importance of granting the SSI recipients their cost-of-living adjustment under the SSI program, and also granting the foodstamp recipients their cost-of-living adjustment under that program because after all that program also affects the lives of the SSI recipients.

We are delighted that the Commission did in its way single out the SSI people through the disregard recommendation. Now we would like to see that rounded out. I appreciate that what we are suggesting is not a part of the package, but our suggestions involve issues that are before the Congress, and we urge the Congress to deal with them in such a way as to bring some hope to the poor who are a part of this SSI program.

I wanted to comment on that, and then also I did want to comment on the recommendation relative to Federal employees.

I did have the privilege of serving for 9 years as a member of the U.S. Civil Service Commission from 1939 to 1948. During that period of time the issue that confronts the Congress at the present time was raised. And it was raised a good many times.

I long ago concluded that the Federal employees should be under social security. I felt that that should be the foundation on which you would build a Federal retirement system. And it seems to me that if the recommendation of the Commission is carried out that means that future Federal employees will be under social security, and then there can be built on that foundation a Federal retirement system. I think the package will end up as a sounder system than the system that is now in effect.

In that connection, you will note in our statement that we believe the effective date for bringing Federal employees under social security and for the implementation of any change in the Federal retirement system should be the same.

Now we recognize, Mr. Chairman, that this committee does not have jurisdiction over the development of legislation dealing with the Federal retirement system. But in view of the fact that you will be taking actions with respect to bringing new Federal and postal employees under social security, we urge you to find the way of insuring that any action you take relative to the coverage of new Federal and postal employees under social security not be effective until Congress has also enacted the new Federal retirement program.

Personally, Mr. Chairman, I believe that objective can be achieved. And I think it can be achieved by next January. There's been a lot of consideration given to how you develop a Federal retirement system and put it on the foundation of social security. And I believe that that thinking can be brought to a head, that the Congress can confront that particular issue and confront it in time so that the effective date for the two programs is the same. We think that is very important, namely, to make the effective date the same. But we do not think that that means there should be a delay in the implementation of that part of the Commission's recommendations.

I appreciate the opportunity of commenting on the SSI part of the report, and then, also, on the Federal employee part of it. Now I will turn it back to Wilbur Cohen who will comment on other parts of your report.

The CHAIRMAN. As I understand, you need to leave at 10:15?

Dr. FLEMMING. Yes. About 10:15 or 20. I've got some time yet.

The CHAIRMAN. I would just like to note that I hope the things we are doing will be in place and helping to insure the long-term viability of social security when your granddaughter, who I believe is here this morning, reaches the retirement age.

Dr. FLEMMING. Well, I have been trying to assure my granddaughter and other grandchildren that when they reach retirement age this social security system is going to be intact, and that the benefit structure that is now in the picture—at least that benefit structure will be in place and that they can count on it. I think one of the serious issues confronting us, Mr. Chairman, is the fact that the polls show that all generations are very supportive of this system; supportive of it to the extent that they believe benefits shouldn't be cut; supportive of it to the extent that they are willing to pay additional taxes in order to preserve these benefits.

But then at the same time, many of them say, "Well, we don't think it is going to be around when we get to be 65." Now to me that's serious because what they are saying is that they don't think the Government has the capacity or the will to live up to the commitments that are built into the social security system.

I believe the Government does have the will and the commitment to do that. And that's one of the encouraging things about your Commission report. And that's why SOS is supporting your report. Because we believe that that does constitute an answer to those who are skeptical about the future, skeptical about the ability of our Government to make a commitment and to live up to it.

The CHAIRMAN. You said precisely the right thing. We want to impress on younger people that we are trying to take action that will preserve the system for them. The polls indicate that up to 60 to 70 percent in certain age groups have no confidence in the system.

I am wondering, Mr. Cohen, since Dr. Flemming has to leave at 10:15, if I might yield to my colleagues for questions of Dr. Flemming and then go on with your testimony.

Mr. COHEN. Yes, sir.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Yes. I'm sorry, Dr. Flemming, that I didn't hear all of your testimony. And if I am correct, it's the combined testimony of you and Dr. Cohen?

Dr. FLEMMING. That's right, Senator Chafee. I was just simply emphasizing that portion of our combined testimony which deals with SSI and deals with the recommendations relative to Federal employees. And on the SSI——

Senator CHAFEE. Well, I will get that from your testimony here. On the Federal employees, didn't you say that you would like to delay that for a little while?

Dr. FLEMMING. No. No, I don't think it's necessary to delay it, Senator.

Senator CHAFEE. Until such time as the second tier goes in.

Dr. FLEMMING. That's right. All I was saying is—and this is the position of SOS—that we feel the coverage of the new Federal employees under social security and the introduction of the second tier, so to speak, for Federal employees should be effective on the same date. And I believe that that can be accomplished without any delay in the recommendation relative to Federal employees.

I have worked in the Federal field over a good many years and I see no reason at all why the Congress can't reach agreement on that second tier during the remainder of 1983.

Senator CHAFEE. Well, I would hope we can because I agree with you that it is sort of a package deal.

But let me ask you this, Dr. Flemming. It's widely recognized, and the Commission said so itself, that this does not cover the long range problems, or your granddaughter's problems or your grandchildren's problems; that what we are doing is—not absent the votes that were taken that really split along party lines—increased taxes or eventually delay the retirement to 66. And since then, the statistics have come in that show the situation even more depressing.

Now what's your suggestion to handle that problem?

Dr. FLEMMING. As far as SOS is concerned, we believe it should be handled by making provision for an increase in the payroll tax in 2010 or 2015 if the conditions at that time call for such an increase. We do not favor raising the age at which full benefits would be available from 65 to 66 because, frankly, Senator, I feel that that would constitute a breaking of a commitment that is built into the system at the present time. It's a commitment that will be applicable to those who will be retiring in those years. But I think that commitment is a very, very important commitment.

Senator CHAFEE. Well, I think we are entitled to look at the merits of the argument rather than basing it on a commitment. The commitment was that the system be there. I'm not taking a position, but I'm disturbed over the future of this fund. The only commitment I made to our people in this last election is that I was going to see this fund is preserved. And we have got a situation where people are distinctly living far longer than originally anticipated. And three cheers. We want that. And it isn't just people from birth that is significant, but it's the people reaching 65 and living longer.

Now for us not to recognize that in some way and always turn to the taxes, where the social security tax for many workers is now becoming a significant item in their pay check as their income taxes, I think we have an alarming situation.

But your solution is to go with the taxes.

Dr. FLEMMING. That is correct. I feel that the younger persons who are now a part of the system should look forward to the period when they can draw social security benefits with the assurance that there will not be a reduction in those benefits. And moving the year up from 65 to 66 does constitute a reduction in the benefits.

Also, we are in a period now where there is a great deal of emphasis on second and third careers. And I think that that emphasis is going to increase as we look down the years. And, consequently, I think that younger people should be able to plan on the fact that at age 65 they will be able to draw these benefits. And if they want to move on into a second or third career at that particular time, they can do it. Now the projection of the Commission was that if it became necessary to get increased revenues that it would require an increase in the payroll tax of .46 on each side, employee and employer. I recognize that there has been some questions raised by actuaries about the adequacy of that so it might require some upward adjustment.

But, of course, when we are adjusting our thinking that far ahead, we are obviously using assumptions, some of which may be borne out and some of which will not be borne out. But as a matter of principal, we feel that the system can be financed at that particular point in its history without changing the benefit structure. And we feel that that is the approach that should be made.

Senator CHAFEE. My time is up. Well, thank you very much.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. I yield.

Dr. FLEMMING. Wilbur Cohen will deal with that one further.

Senator MOYNIHAN. John.

Senator CHAFEE. The word "principal" implying that there is something sacred about the principal of retiring at 65 when there doesn't seem to be anything sacred about the principal on not trying to tax these wage earners too substantially seems to me somewhat of a contradiction.

Dr. FLEMMING. But the question is at what year can the person count on receiving full benefits, whether it is 65 or 66 or it's 67. And I feel that we have built into the system the understanding that a person can count on receiving full benefits at 65. We use the word "retirement," and I think sometimes it's a mistake to do that. It's the year at which the person can count on drawing full benefits. And that is built into the system. If you move that up to 66, that does constitute a reduction in benefits.

Senator CHAFEE. Thank you.

Senator MOYNIHAN. I want Senator Bradley to say a word, too, before you leave.

First of all, we thank you gentlemen. And I want to express our appreciation for your work. Not just your career, but your work with SOS in the last couple of years.

But I think that I would like very gently to suggest that to someone who has stormed around on social security, and is very much committed to it and very preoccupied with it for the last couple years, it has been a miraculous life work for Wilbur Cohen and Bob Ball and Bob Myers. But it is a fact that most Americans don't believe it works. And that is a political fact. It's not an accidental one. It's a consequence of the very same campaign to make people believe it. And they do believe it.

As the Chairman said, public opinion is very skewed on this. As you get to be 59, you get to be a believer because you don't have much choice. And what very young people think isn't taken too seriously because they are very young.

But when people in their 30's and 40's are convinced that a system will not work, that is a lack of faith in government. That is the belief that you have been lied to, you are being cheated, your money is being stolen from you. And if we have to do some painful things to restore at some level that confidence, I think you would agree we have to. That's why you are here testifying for things that you wouldn't normally want to be done.

Dr. FLEMMING. That's where you came in, Senator Moynihan. I said, for example, we have to swallow very hard on the delay in cost of living adjustments for a period of 6 months because of the impact on the lives of older persons. And in particular because of the impact on the lives of the low income older persons. And that is why we have made certain recommendations relative to SSI. And that's why we welcome the Commission making a recommendation on the disregard provisions.

But on the fundamental issue, we are in complete agreement with you. And we recognize that together we definitely have a very serious issue confronting us.

Senator MOYNIHAN. Thank you very much.

The CHAIRMAN. Senator Bradley.

Senator BRADLEY. Mr. Secretary, I would like to have you and maybe Mr. Cohen as well share with the committee what you think the purpose of social security is. Because I think frequently the solution to the problem goes with how you describe the purpose of the program. And I think that we have lost sight of that.

Dr. FLEMMING. Senator Bradley, I am going to ask Wilbur Cohen to pick that up. And I would just like to share with the other members of the committee the fact that I have been serving for a little over 2 years as member of the Commission on Wartime Relocation and Internment of Civilians. That Commission is having a press conference over in the Labor Department auditorium where we are releasing part 1 of our report this morning, and I do feel under some obligation to be there with my colleagues. This has been a fascinating experience serving on that particular commission.

But on that issue and on any other issue involving the fundamentals of the social security system, I have no hesitancy in leaving my proxy with Wilbur Cohen because I regard him as one of the architects of the system, and not only an architect of the system, but one of its great defenders. And it has been a joy and privilege for me to be associated with him and with the SOS organizations that are trying to deal with these very basic fundamental issues.

Senator BRADLEY. Well, thank you very much, Mr. Secretary. And certainly no one on this panel will criticize you for going to a press conference. [Laughter.]

If you could assure that the networks would be there, we would be there behind you. [Laughter.]

Dr. FLEMMING. It's not only the press conference, but it happens to be the subject matter of the press conference that I am concerned about it.

Senator BRADLEY. Thank you.

The CHAIRMAN. As long as you don't announce for office, it's all right.

Dr. FLEMMING. Thank you.

The CHAIRMAN. Thank you, Dr. Flemming. We appreciate it very much. We will see you Sunday.

Dr. FLEMMING. All right. I will look forward to it.

Mr. COHEN. Senator, would you like for me to answer Senator Bradley's question first before I go back?

The CHAIRMAN. Oh, yes.

Mr. COHEN. Senator Bradley, the purpose of social security as I have looked at it over these last 48 years in terms of the fact that my professor was one of the founders of the system, and what he has said, and President Roosevelt and others said over the years——

Senator MOYNIHAN. That's Frank Alchul?

Mr. COHEN. No, sir. That was Edwin E. Witte.

Senator MOYNIHAN. Dr. Witte.

Mr. COHEN. Dr. Witte was my professor at the University of Wisconsin. As a young man, I came as his research assistant to the cabinet committee in 1934. He's the man who wrote the President's report in 1934 which explained what the purpose was. I will try to recall that as best I can since I use it quite frequently in teaching.

The purposes—I use the term plurally, Senator—purposes, because maybe I think like building a dam, social security is a multipurpose function. It is first designed to be a basic floor of protection to people on which they can build additional protection.

It was never intended that social security would be exclusive in its nature, but to give people some hope that they could build upon it. The best illustration of that, sir, is when this committee in 1939 enacted the survivors' insurance which extended life insurance as an addition to social security on which people could get a basic life insurance protection. The result was that the life insurance companies built tremendous additional protection by going out and saying, "You now have $50,000 worth of life insurance under social security under the 1939 amendments, and now you can afford to buy something on top."

Quite frankly, as I think other gentlemen here will testify, it resulted in a tremendous transformation from industrial insurance into life insurance of all forms, which gave the life insurance companies great additional protection.

So the first point is a floor of protection. The second is to help people plan for the future. I will return to that in connection with Senator Chafee's point.

In all of the research studies that I have done over the years, I have asked people questions—How do you plan for your future retirement? I think that's extremely important. And Senator Dole pointed out that a lot has happened in connection with Keogh plans and IRA's and other things in the ensuing years to give people that planning responsibility upon which they can build on top of it. Unless we have a mechanism in this country in which people can see some public policy goal upon which they can build their retirement, which means home ownership, savings, investments, IRA's, ERISA, and all the other things, I don't think you give them a base upon which to operate.

I think that's the creative genius of social security. To enable people to plan. But I am now emphasizing what I call the "individual protection" aspects of social security. But there are two other purposes of social security.

One was, according to Franklin D. Roosevelt, to reduce the extent of people being on welfare. His whole objective in going ahead and pushing the contributory wage related system as it was known in the early days was because the estimates of what were going to be the future burden out of general revenues for old age assistance were so tremendous that only a contributory system could relieve the Federal Government's general revenues of that burden. Therefore, a strong point was to relieve the Federal Government of it.

A third point was to give the family protection. If you look at social security, what is completely overlooked in connection with what Senator Moynihan said before, by now Congress has created social security as a family protection plan. When you add the life insurance protection to widows and orphans, the disability protection over their lifetimes, and the medicare protection, social security is not a retirement program. It's a family protection program.

And the final purpose of social security is to provide a continuum of purchasing power to people that will stabilize the economy in a sense of building enough purchasing power so that our free enterprise system can operate, and people can choose to do what they want to do with their money, move where they want to move with their money, but still the economy will be sustained. I think that has been a remarkable achievement of social security over the last 50 years.

Does that deal with what you had in mind?

Senator BRADLEY. Yes.

I must say that I have never heard an answer quite so thorough, and I appreciate it very much. When I hear and ask many witnesses, they simply respond that social security is to provide senior citizens a pension.

Mr. COHEN. Yes. That's a common misunderstanding.

Senator BRADLEY. And the way that you have defined this is that you clearly see the benefit to those who are even now paying into the system as long as they can count on the system being around when it is their turn.

Mr. COHEN. I look upon social security as an intergenerational compact between young people, the workers and older people. And to follow what Senator Moynihan said—because I teach young people everyday. I'm still a professor. I see young people of 21, 22; I ask my students what they think—the biggest problem in social security is not all these mechanistic things that we have to deal with. It's the failure of younger people to believe that Congress is going to keep the commitments that are in the law.

Senator BRADLEY. Where does that come from? Why do your students not believe that?

Mr. COHEN. I think the combination of Vietnam, Watergate, the general disbelief in the establishment, if I can use Richard Rovere's word here and others, that our system of government and public policy does not adhere to a commitment in a process that takes them into account.

I must say this. I believe that after looking at this matter and talking extensively—and I was out at the meeting that President Ford and President Carter had 2 weeks ago in Ann Arbor, I participated with the two Presidents in this—the thing that came out in that, Senator Bradley, is not that people want to have to agree with you or anybody else about a specific answer to a question. They feel they are eliminated in some way from the process of policy decisionmaking.

And I don't have a good answer on that. We can't have all the U.S. people in the Senate Finance Committee and participating in the process. But I believe that those of us in the older generation have a very signal and significant responsibility to try to bring these people more into the process of decisionmaking. They feel they are outside. They feel nobody gives a damn about what they think. That nobody asks them. And public opinion polls are not the answer to that process.

Senator BRADLEY. Thank you very much.

Mr. COHEN. Thank you.

Senator MOYNIHAN. I wonder if my colleague would just let me——

The CHAIRMAN. I think what we want to do is stress a couple of points.

Mr. COHEN. Senator Moynihan, I have four points to make from the testimony.

Senator MOYNIHAN. Could I just add to the purpose of social security?

Mr. COHEN. Sure.

Senator MOYNIHAN. The one you didn't mention was the aid to families with dependent children, which is basically a widow's program, or in this case, the program or children with no parents—orphans.

Mr. COHEN. That's a very good point.

Senator MOYNIHAN. About one out of every three children born in 1980—we have done some pretty good work on this—will receive AFDC benefits before reaching 18.

Mr. COHEN. Yes, sir.

Senator MOYNIHAN. One-third of the population.

Mr. COHEN. I will only deal with four points or any others that the committee wants, but I know you are under time restraint, and I would like to deal with several of them.

First, I will get the two or three simpler ones out of the way. As the other members who came in later know, Mr. Flemming and I are not only testifying—as former secretaries who managed the social security system, but also for four commissioners of social security, and two commissioners of aging. So that makes eight of us who have had a very, very important administrative function in this program.

We feel very strongly, Senator, that you ought to put into the legislation to transfer the Social Security Administration back to an independent social security board as it was in the beginning.

Now I think that's a remarkable thing for two former secretaries to say—take it out of HHS; make it independent as it was when the Senate Finance Committee created it in 1935 as an independent, three person board. It has become so big, so important financially, so necessary to be nonpartisan in its nature. That's as it was until 1946. I know you discussed this in the Commission, but we believe that despite the Commission report and the action by the House committee to study it, we would like to see you put back in the provision recreating the section of title VII of social security to have an independent board because we believe in addition to providing additional service to people that that will help in this problem of giving younger people confidence that it's not going to be a political instrument of the budget process or any other process.

All eight of us have come to that conclusion. We recognize that there are other people who have different points of view. But if you are thinking of ways to restore confidence in people, that is one additional point that we want to stress. All you would have to do, quite frankly, since it's within your purview, is to reenact that section of title VII that created the board of three people, which was a bipartisan board. It worked excellently. The first chairman of the board was a Republican. It was a brilliant piece of administrative development. We want you to reexamine that, and see if you couldn't put that in.

Second, and slightly more controversial. As you know, a majority of the Commission recommended taking social security out of the unified budget. We strongly support that. And I want to say this, Senator. I have spoken in the last 2 years to probably 50 audiences of senior citizens. I have tried time after time to explain, when people say to me "How is it that social security affects the budget when I thought there was a separate trust fund?"

I go through it. I tell them how it is a separate fund. But nevertheless, in the unified budget it is taken into account. I must say I have been singularly unsuccessful. My batting average is 0.000. You try to explain that to a 70-year-old widow somewhere, and after it is all through and you have explained it the third time she says, "In other words, Congress is using my money illegally?"

I say, "Madam, no, you are wrong. Congress has been very responsible in doing this." She says, "Well, you have just told me that, therefore, when the income and the outgo is taken in the budget, I thought I contributed to the social security system and my money was inviolate." I say, "Yes, that is true." And she said, "Well, then how is the other thing?" I have never been successful.

I urge you very strongly, knowing that the chairman of the budget committee is reluctant to do this. But you will recall, two of you gentlemen as well as others, that this was an important thing. Mr. Flemming and I believe it would be an important contribution to again restore a degree of public confidence in the system over a matter which people don't understand.

The third point I want to mention is the fact that, as you know, the House committee has acted to provide for temporary borrowing in the social security system, which we very much support.

In connection, Senator Chafee, with your point, I want to mention that this issue came up in 1944 when Senator Vandenberg was a member of this committee. As a result of that, there were negotiations, which I personally handled with Senator Vandenberg and Senator Murray, which developed a bipartisan effort to put into the law a provision that general revenue moneys could be used if you ever found yourself in a situation where you couldn't pay the benefits. That provision was in the law. The so-called Vandenberg-Murray amendment was on the books from 1944 to 1950.

Unfortunately, I have to admit that at the request of Mr. Mills I agreed to take it out in 1950. I think that's one of the very, very unfortunate things that I ever did. I have a great sense of guilt about it because that particular provision was put in, not simply because we were saying there should be general revenues in the system, but to be able to say during that period that Congress commitment to pay its benefits were inviolate in the sense that Congress said if there ever came a situation such as 1977, 1978, or you might say 1983, you could be sure you would get your benefits.

I want to ask you to again consider this stroke of legislative acumen that Senator Vandenberg developed because Senator Vandenberg at that time, as a member of the Finance Committee, said, "I don't want to be a party to having to tell people that if the money runs out there is no mechanism in this law to take care of it."

I believe what the House Ways and Means Committee is now suggesting—it probably needs some perfection, but I think I would ask your staff to look into that.

I personally, to assuage my guilt, would like to say strongly that I am for the Vandenberg amendment completely.

Now to deal with the question that Senator Chafee asked, which is a very important question. If I may, I want to say this. I do not believe the argument that life expectancy has increased is a valid argument for increasing the retirement age. Why is that, Senator?

Life expectancy simply means arithmatically that half of the people die before that age, and half the people die after that.

I don't think it is a useful policy mechanism to determine the retirement age. Now why is that? If I told you that the average depth of the Potomac River was 3 feet, and you went across it and drowned in the 9 foot section, it does not help you to know what the average is. Average is not a good way to make a policy determination. Why is that? Because people get sick before age 65, 66. What you are doing, if you raise the retirement age based upon increased life expectancy, is adversely affecting the sick, the disabled who are not permanently disabled, women, and minorities. I believe, therefore, that the use, first, of the life expectancy as a policy is invalid.

Let me go to the second point, though. I think it's premature because that whole expectation is based upon no increase in the productivity of the United States. I happen to be an optimist about what is going to happen in the future. I guess I am one of the few people that is that optimistic, but I believe the rate of productivity due to high tech development and the savings components after about 1985 and 1986 is going to go back to the long time trend. And when you are arguing that we have to increase the retirement age in the sense of meeting the cost of the program, I believe that wages and earnings are going to be so much higher in the year 2010 or 2015 that an increased payroll tax will be relatively a lesser burden on those increased incomes. As an exponent of a free enterprise economy, I would assume that productivity in the year 2015 is not going to be the same as it is today.

As a matter of fact, we have figures to show that with even a modest increase in the gross national product for productivity, the cost of this system in the year 2020 will not be any greater as a percentage of the gross national product than it is today.

I will go to my third point. What the increased life expectancy overlooks is that while our aged is going to increase because of the decline in fertility, we are going to have fewer children. If you look at what we call the combined dependency ratio, which is adding the number of children under 18 to the number of people age 65, the combined dependency ratio in the year 2015 or 2020, using present fertility rates, will be no greater than it is today, and, in fact, may be less.

Therefore, the burden upon society and the burden upon the Senate Finance Committee to figure out how to finance these problems in that year—and I hope you gentlemen will be here at that time to make that decision. I don't think they are going to be any greater. In fact, they are going to be less.

Senator MOYNIHAN. Well, the dependency ratio, in point of fact, peaked in 1965.

Mr. COHEN. Yes, sir.

Senator MOYNIHAN. And is projected, as far as we project, to be lower.

Mr. COHEN. I believe that if you take all of those factors into account which have not been taken into account, there is no need at this time to make a fundamental policy decision to either raise the retirement age, or to change the bend point, so-called, in the replacement rate as the House Ways and Means Committee decided yesterday. I think that's a lack of faith in the growth of our economy. I have great hope that if one of you gentlemen is later President of the United States that I have enough confidence—well, I would say either of you, Senator Moynihan. Either Senator Dole or Senator Moynihan or any other of our colleagues——

Senator CHAFEE. Well, Senator Bradley resents being excluded on that. [Laughter.]

Mr. COHEN. But I really mean that I think as I look back on the past—I have lived through periods of the great depression; I have lived through periods of economic expansion; I have lived through the periods of the depths of despair—at any one of those points what economists tend to do is always extrapolate the present. When we are at a high point, we are going up the high point forever. And when at the low point, we are going to be there forever. I don't believe either of those are true.

I do believe that the American economy is going to expand in productivity. I believe the burden of social security in the year 2020 will be no greater than it is today. I think the dependency ratio will be less. And I see, therefore, no need to base a policy change simply on the expectation of life.

The CHAIRMAN. Mr. Cohen, we appreciate that very much. It is probably in your statement, but the SOS group is, what, 50 separate organizations?

Mr. COHEN. About 140.

The CHAIRMAN. About 100.

Mr. COHEN. We have 140 organizations that Mr. Flemming and I have tried to pull together. Two of them, of course, don't completely agree with us. We don't have an organization in which we superimpose our judgment.

What we are trying to do, as former officals in this, is act as a catalytic agent to get the best technical information available to help in resolving these problems. But we have about 140 organizations and of the 40 million people that they represent, half of them are contributors and half of them are beneficiaries. So we represent an organizational basis that tries to take both of those into account.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you very much. I have no further questions.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Well, I don't want to delay Secretary Cohen, but I would like to ask him a hypothetical question, not just for the purpose of ignoring the difficulties we may have right now—we do have right now. But imagine the following set of circumstances.

It is the year 2010. We have finally balanced the budget. It took a little while, but we did it. At that point, the social security trust funds are going to be in continuing surplus of some considerable amount. Could you not envisage as reputable an economist as chairman of the council of economic advisors saying to the President, "Mr. President, we are going to have to cut social security taxes this year. We are taking too much money out of the economy."

Mr. COHEN. Could I envision that? Yes, sir.

Senator MOYNIHAN. The intergenerational nature of this and the actual real time impact of the——

Mr. COHEN. To answer that question, may I go back to Senator Bradley? When I was a young research man for the President's committee, President Roosevelt, on the advice of my distinguished senior colleagues, recommended a program largely developed by J. Douglas Brown at that time, who, as you know, was a great genius in the development of this program. And he recommended what we call a "tripartite" program. The employer would contribute a third, employees would contribute a third, and after 1965, the Federal Government would come in and would roughly be contributing a third out of general revenue.

Secretary Morganthau, as a secretary of the Treasury, said "Oh, my goodness, what will the secretary of the Treasury do in 1965 when he has to find that money?" The same question. He said, "I'm sure extrapolating from 1935 it will be a terrible time. It will be a terrible problem for the secretary of the Treasury to find that money."

So he went to President Roosevelt and said, "Why don't we make it self-supporting?" Well, as I tell people, Franklin D. Roosevelt was a fiscal conservative despite what people believe. He accepted Secretary Morganthau's principle, and that is how the system came to be financed by contributions from employers and employees, plus interest payments, which Senator Vandenberg wanted changed in 1939. Senator Vandenberg was the leader in changing it to the pay as you go system.

Now in answer to your question, I happen to be one of those who believe over the years—not supported by many people in Congress—that the system should have some general revenue contributions. And although I wouldn't say it too out loud to people, one of the reasons I can support the genius of your colleagues' agreement is that because the taxation of benefits put back into social security has a progressive effect of taxing me to help the social security system. I'm for that.

But I do believe that in that particular year it might be well—the year 2000—to borrow money from general revenues and pay it back, or to put some general revenue money in it.

Senator MOYNIHAN. But I was suggesting that the reverse might be the case.

Mr. COHEN. Oh, yes.

Senator MOYNIHAN. That in a situation where you had a balanced budget and a surplus in this fund, which we are going to go through for at least about a quarter of a century, you may find that that year the President—you are having the phenomenon called "fiscal drag."

Mr. COHEN. And if I were there at that time, I might support it under the totality of the circumstances. But on the other hand, he night also say—I could envisage theoretically—it's hard to envisage the secretary of the Treasury or the chairman of council who would say, "Well, instead of x point increase in the payroll tax, let's take that out of progressive general revenues." He would say, "Well, I will have a hard time selling the Senate Finance Committee on that."

Senator MOYNIHAN. I simply mean that we are going to live with this program on a year-to-year basis no matter what we pretend our 75-year actuarial estimates are.

Mr. COHEN. You are saying what I have said. And I am going to say it again this afternoon to the assembled group of all of our representatives. Social security will not end with this Congress. We must be prepared to affect policy decisions in the future. With my hope that you will resolve these questions, I will say this to you. I don't think the problems, despite what Senator Chafee says, is with OASDI. It's with medicare.

I mean health is today 10 percent of the GNP. The whole social security system is only 5 percent to the GNP. I will predict to you that within the next 25 years the health cost of the Nation will be above 10 percent of GNP; 11 or 12 possibly.

I think the big problem for the future is not the retirement age. It is the medical costs of terminal illness which are roughly three times the cost of nonterminal illness.

Senator MOYNIHAN. I predict that 25 years from now when we are dealing with this problem, you will be here. [Laughter.]

Mr. COHEN. Well, I hope that would be so. But as I said before you came in, Senator, I've been before this committee 48 years, and my aspiration is only 2 years more. [Laughter.]

The CHAIRMAN. Senator Bradley.

Senator BRADLEY. Mr. Cohen, on the medicare question, a suggestion is to gradually phase medicare out of the trust fund, and put it into the general revenue. You are suggesting phasing general revenues into the trust fund to pay for the explosion, anticipated explosion, in medicare costs?

Mr. COHEN. Not quite that way. I will give you what I hope is a short answer.

My resolution for that is this. First, let me say, as you know part B of medicare is financed roughly at the present time 25 percent by the aged individual, and 75 percent by general revenue. It originally was as high as 80 percent, but under the budget they want to keep it at about 75 percent. So it's three-quarters already general revenues in B.

But in part A, the hospitalization, it's 50-50, employer-employee payroll tax. What I favor is taking part A and B and consolidating them and paying half of that roughly out of the payroll taxes of employers and employees—maybe a quarter of it on the aged person. For the future to continue the $12.20 which it is now—and the other quarter or half to be out of general revenues.

In other words, tackle a different way of financing the totality. But I want to say, Senator Bradley, that I would be vigorously opposed to the proposals that several of my good friends—the most notable of which is Congressman Panetta in the House—who say take disability and medicare out and finance them 100 percent by general revenues. You do that and then you are into a means-tested program completely. And welfare—it would inject itself. I am vigorously opposed to that.

I want to say that nobody has said that because three-quarters of part B is paid out of general revenues, it's a welfare program. I think we've got to think of a different infrastructure on the financing of that program. And as you indicated, I would be glad to come back and expound on that in more detail.

Yes, I have very definite ideas on how to handle the medicare cost constraints and financing. And I hope when there are hearings on it before the committee that—they come up in connection with the budget proposals immediately, as a matter of fact.

Senator BRADLEY. Thank you very much.

The CHAIRMAN. Secretary Cohen, we appreciate your testimony. We hope we will have you back when we get into medicare. We've already had some hearings on prospective payment.

What do you think the consequences might be if we should fail in our effort to reach final agreement on the National Commission's compromise?

Mr. COHEN. I think the consequences would be catastrophic and disastrous. I believe that we must restore people's confidence in the program at all costs. I know both of you—at least you two gentlemen—believe in that. I believe in it wholeheartedly. I'm prepared to accept, as Senator Moynihan said, things which are hard for me to digest. But the commitment that Congress has made to me is important.

I want to stress this because I teach young people. I've spent 48 years talking about public service in the Teddy Roosevelt tradition in which I grew up. I still believe it. But I have students that do not believe in the public trust, the public service, the public commitment; who do not believe that Congress is a responsible body. I want you to show them—all my students—that Congress can act responsibly. I think that's the greatest thing that you can do under the present circumstances. Not merely for social security, but three-quarters of my students go into public service at the State, local, and municipal levels, and you need those people to make Government work during the next 25 years. Along with Princeton and my school and the Kennedy school and so on—we are the people who are trying to train these people to be the ones that carry out whatever you enact. We need their confidence. But we need to be able to tell them as teachers that Congress is a responsible body.

And I believe that is even more important to social security in that limited sense.

The CHAIRMAN. Thank you very much, Secretary Cohen.

We are pleased to have John Post, executive director of the Business Roundtable.

STATEMENT OF JOHN POST, EXECUTIVE DIRECTOR, THE BUSINESS ROUNDTABLE, WASHINGTON, D.C.

Mr. POST. Mr. Chairman, and members of the committee, I am John Post, executive director in Washington of the Business Roundtable, an organization made up of approximately 200 chief executive officers of large American corporations.

I am accompanied by Mr. Tom O'Hara who is a vice president in Washington of the Prudential Insurance Co.

The Business Roundtable is very pleased to appear at this hearing on social security. We have submitted a lengthy statement, and I hope it will be put into the record.

The CHAIRMAN. It will be made a part of the record.

Mr. POST. Thank you, sir.

[The prepared statement of John Post follows:]

PREPARED STATEMENT OF JOHN POST, EXECUTIVE DIRECTOR, THE BUSINESS ROUNDTABLE

Mr. Chairman and Members of the Committee, I am John Post, Executive Director in Washington of The Business Roundtable, an organization made up of approximately two hundred chief executive officers of large American corporations.

The Business Roundtable is pleased to appear at this hearing on Social Security. For some years, the Roundtable has concerned itself with the problems of the Social Security System.

Through our Task Force on Social Security, headed by Robert Beck, Chairman and Chief Executive Officer of The Prudential Insurance Company, we have studied many aspects of the System, and have proposed solutions to the short and long term problems.

As you know, Mr. Beck served as a member of the National Commission on Social Security Reform and actively participated in its deliberations. Only the unavoidable pressure of long-standing commitments prevents him from appearing here today, and I am substituting for him.

Because our country needs a sound, adequately financed Social Security System, legislation must be enacted soon to restore both financial viability and public confidence in the system. The uncertainty and anxiety of those who receive benefits must be eliminated and the confidence of those who pay taxes to support such benefits and look forward to their own retirement must be restored.

The Business Roundtable strongly supports the Social Security System and recognizes its critical role in providing income security. The System has been extremely successful.

As evidence of this success, there was agreement among the experts who testified before the National Commission that the aged are as well off financially today as the non-aged. In fact, the per capita income of those over age 65 now exceeds the per capita income of the rest of the population. Social Security, in combination with other government programs and still-maturing private pension programs, is largely responsible for this fact.

Social Security must be preserved for this generation as well as for future generations. Everyone has an important stake in assuring the continued survival of the Social Security System.

The public should be able to rest assured that there is strong bi-partisan support for the program as evidenced by the agreement reached by the Commission which represented a broad spectrum of the American public.

The Commission's almost unanimous agreement is a symbol that it is time to adopt policies that responsibly solve both the short and long term financing problems. The longer action is delayed, the more severe the consequences of such inaction.

We urge prompt enactment of the bi-partisan compromise plan agreed to by almost all of the members of the National Commission. While the compromise plan is not completely consistent with the policy positions of The Business Roundtable, the Roundtable supports the plan as a responsible compromise to assure the solvency of Social Security.

The Roundtable supports the plan in its entirety, including completion of the agreed-upon financial goals. The plan should not be modified in any significant manner, and Roundtable support is based upon that premise.

The Commission recognized that there were no easy solutions to the financial problems the system faces, and it agreed to solutions that spread the burden as broadly as possible to achieve a fair and balanced compromise. All the members had to compromise deeply held positions to reach agreement.

That compromise is appropriate because it offers the best hope for early legislation. Now is the time to enact Social Security legislation, before such legislation becomes tangled up further with federal budget negotiations.

The members who signed the compromise plan agreed that there were two key issues subject to further debate. That is, those issues could be debated without violating the promise to support the agreed upon plan in its entirety. Those two issues are the need for a "fail-safe mechanism" and provision for the elimination of the remaining long-term deficit of .58% of taxable payroll.

The National Commission agreed that there was a need for a "fail-safe mechanism" to guard against the effects of unexpected adverse economic conditions which might develop. This mechanism is necessary in addition to the other changes recommended in the compromise plan. Even with those changes, there is no guarantee that further financial problems will be avoided because of the extremely modest trust fund margins now available.

Confidence would further deteriorate if the system were faced with yet another financial crisis in a few years. A "fail-safe mechanism" should be available to avoid repeating the recent experience.

The most equitable and responsible form of such a mechanism is one that would automatically limit cost-of-living adjustments if trust fund ratios were to fall below a certain level, such as 12% of annual outlays. This would be equitable because unexpected difficulties would most likely be caused by adverse economic conditions. The working age population would normally experience a reduction in their standard of living under those conditions. A reduction in the cost-of-living adjustment would spread that burden among the entire population. If Congress desired, those at the lowest income levels could be protected in some manner as was done under the Commission's plan.

This proposal is responsible because it preserves the self-financing integrity of the system and avoids the use of general revenues. The use of general revenues as a "fail-safe mechanism" would only serve to weaken confidence in the system, and could ultimately lead to a needs-tested program.

Again, since adverse economic conditions would be the probable cause of future unexpected financial difficulties, the use of general revenues would only increase the deficits of the remainder of the Federal Government. This could have a disastrous effect on inflation and the economy at a time when we would need to encourage economic recovery.

The second issue is the resolution of the remaining long-term OASDI deficit. The Commission agreed that the entire long-term deficit of 1.8% of payroll should be eliminated. The compromise plan eliminates a large portion of that deficit, but leaves the elimination of the remaining .58% of payroll to be resolved.

The long-term problems of the Social Security System are caused, in large part, by demographics and ever-rising health care costs. They are as serious as the short-term problems. However, there are reasonable solutions, and no precipitous changes will be required if action is taken now.

The demographic problems are well-documented. The "baby boom" represents a tidal wave of future beneficiaries. Their benefits will be paid for by the relatively small "baby bust" generation. Continuing improvements in longevity compound the problems because benefits are to be paid over more years, on the average.

By the year 2000, persons aged 74 are expected to have the same life expectancy as those aged 65 when that age was originally selected as the normal retirement age for Social Security.

Currently, 3.2 workers support each beneficiary. Once the baby boom generation retires, "best estimate" projections currently predict there will be only 2 workers supporting each beneficiary. If those projections were modified to reflect continuation of current birth rates, as has been done by the Census Bureau, even fewer workers will be expected to support each beneficiary.

Legislation to eliminate the remaining deficit must also recognize that the Commission did not specifically address Medicare. As you know, there is a separate Advisory Council studying Medicare. The problems of that program must be faced soon, because they will affect the long-term health of the entire Social Security System.

Those problems will probably prove even more vexatious than the problems faced by the Old Age and Survivors Insurance portion of the system. Medicare problems are caused by the same demographic and economic conditions which create the OASDI problems. In addition, they are caused by the continuing rapid escalation of health care costs. Those costs have been rising more rapidly than either wages or prices for several decades.

The projected long-term deficit for the Hospital Insurance portion of Medicare is over 5% of payroll, almost three times as large as the OASDI deficit. That deficit occurs despite massive current cost shifts which represent a hidden form of taxes. It also occurs despite overly optimistic assumptions that predict that health care costs will ultimately be controlled. Optimistic assumptions are used even though the aging of the baby boom generation will impose enormous pressures on the health care system.

Any future long-term tax increases, beyond the three already scheduled, will be required to support Medicare benefits unless one believes that severe cut-backs in Medicare are possible. We do not. This leads us to the conclusion that the long-term deficit for OASDI should be eliminated completely through realistic benefit promises.

We urge enactment of the retirement age proposal recommended by a bi-partisan majority of the Commission. This is a demographic solution to a demographic problem. This kind of change has been recommended by virtually all the major study groups and by experts from both parties who testified before the Commission.

The value of old age benefits increases as life expectancy increases because benefits are paid over more years. A gradual future increase in the normal retirement age merely offsets this continuing increase in the value of benefits.

The Roundtable supports the agreement in its entirety and seeks no exceptions to that agreement. However, it is only fair to acknowledge that in the absence of the agreement, we would advocate a different solution to the financing problems. We believe the long-term deficit is probably larger than 1.8% of payroll. Because of this, and because of the severe Medicare problems, we would recommend an earlier increase in retirement ages to 68 and a modification of the growth of future benefit levels through procedures such as the "bend-point" proposals studied by the Commission.

A "bend-point" modification would reduce the long-term deficit through a gradual reduction in replacement ratios to be paid to future recipients to the level which existed in 1972. The public should understand that future benefit levels will grow in conjunction with economic productivity. That is, future benefits will grow in terms of purchasing power.

The bend point proposal studied by the Commission would merely reduce the level of real growth for a temporary period while helping to restore financial balance to the program. That is, benefit levels would continue to grow in terms of purchasing power, but at a slower rate for a temporary period..

As we said above, this change would restore replacement ratios to approximately the level which existed in 1972, before the faulty indexing procedures unintentionally increased benefit levels. This change should be viewed as the final correction of those faulty procedures.

In summary, legislation to produce long-term financial balance should be enacted <u>now</u> for several reasons.

First, the confidence of young workers must be restored. The best way to accomplish this is to make realistic and affordable benefit promises.

Second, those who are to be affected must be given adequate advance notice for personal and financial planning; therefore, the changes should be gradual. If action is delayed, the changes may have to be precipitous.

Third, the Hospital Insurance program will begin to experience large deficits by the end of the decade, and these OASDI changes can help mitigate the effect of those deficits.

The Social Security program is an intergenerational transfer program. As such, we as parents have to ask the question, "At what age should we expect our children to support us, and what level of income should our children transfer to us?"

If that question is answered realistically, and with a sense of fairness, Social Security will continue to serve its vital role, not only for this generation but future generations as well. The recommendations of the National Commission should be enacted as soon as possible. Decisive and intelligent action is needed now.

Mr. POST. For some years the Roundtable has concerned itself with the problems of the social security system. Through our task force on social security headed by Robert Beck, chairman and chief executive officer of the Prudential Insurance Co., we have studied many aspects of the system, and proposed solutions to the short- and long-term problems.

As you know, Mr. Beck served as a member of the National Commission on Social Security Reform, and actively participated in its deliberations. Only the unavoidable pressure of longstanding commitments prevents him from appearing here today, and I am substituting for him.

Because our country needs a sound, adequately financed social security system, legislation must be enacted soon to restore both financial viability and public confidence in the system. The uncertainty and anxiety of those who receive benefits must be eliminated and the confidence of those who pay taxes to support such benefits and look forward to their own retirement must be restored.

The Business Roundtable supports the social security system and recognizes its critical role in providing income security, and I should add some of the other factors which were expressed by Dr. Cohen as a basic reason for the social security system.

Social security must be preserved for this generation as well as for future generations. Everyone has an important stake in assuring the continued survival of the social security system.

Members of the committee, we urge prompt enactment of the bipartisan compromise plan agreed to by almost all the members of the National Commission. While the compromise plan is not completely consistent with the policy positions of the Business Roundtable, the Roundtable supports the plan as a responsible compromise to assure the solvency of social security.

The Commission's almost unanimous agreement stands as a symbol that it is time to adopt policies that responsibly solve both the short- and long-term financing problems. The longer action is delayed, the more severe the consequences of such inaction.

The Roundtable supports the plan in its entirety, including completion of the agreed upon financial goals. The plan should not be modified in any significant manner, and the Roundtable's support is based on that premise.

The members who signed the compromise plan agreed that there were two key issues subject to further debate. That is, those issues should be debated without violating the agreement to support the compromise plan in its entirety. Those two issues are the need for a fail-safe mechanism, and provision for the elimination of the remaining long-term deficit of .58 percent of taxable payroll. I understand that later figures indicate that that deficiency might be 0.68 percent of payroll.

As to the fail-safe mechanism, confidence would further deteriorate if the system were faced with yet another financial crisis in the next few years. A fail-safe mechanism should be available to avoid repeating the current experience.

To us, the most equitable and responsible form of such a mechanism is one that would automatically limit cost-of-living adjustments if trust fund ratios were to fall below a certain level, such as

12 percent of annual outlays. This would be equitable because unexpected difficulties would most likely be caused by adverse economic conditions.

The working-age population would normally experience a reduction in their standard of living under those conditions. A reduction in the cost-of-living adjustment would spread that burden among the entire population. If Congress desired, those at the lowest income levels could be protected in some manner, as was done under the Commission's plan.

The second issue is the resolution of the remaining long-term OASDI deficit. The Commission agreed that the entire long-term deficit of 1.8 percent of payroll should be eliminated. The compromise eliminates a large portion of that deficit, but leaves the elimination of the remaining .58 percent of payroll to be resolved.

The long-term problems of the overall social security system are caused in large part by demographics and ever-rising health care costs which were alluded to by Dr. Cohen. They are as serious as the short-term problems. However, there are reasonable solutions. And no precipitous changes will be required if action is taken now.

The demographic problems are well documented. The baby boom represents a tidal wave of future beneficiaries. Their benefits will be paid by the relatively small baby-bust generation. Continuing improvements in longevity compound these problems because benefits ought to be paid over more years on the average.

By the year 2000, persons aged 74 are expected to have the same life expectancy as those aged 65 when that age was originally selected as the normal retirement age for social security.

Currently, as you know, 3.2 workers support each beneficiary. Once the baby-boom generation retires, the best estimate projections currently predict that there will only be two workers supporting each beneficiary. If those projections were modified to reflect continuation of current birth rates, as has been done by the Census Bureau, even fewer workers will be expected to support each beneficiary.

Legislation to eliminate the remaining deficit must also recognize that the Commission did not specifically address medicare. And I was interested to see how Dr. Cohen was able to discuss that in the overall context, and how important it is to take into consideration in your present deliberations. As you know, there was a separate advisory council studying medicare. The problems of that program must be faced soon because they will affect the long-term health of the entire social security system.

These problems will be even more vexatious than the problems faced by the old-age and survivors insurance portion.

Medicare problems are caused by the same demographic and economic conditions which create the OASDI problems. They are aggravated by rising medical and hospital costs.

Any future long-term tax increases beyond the three already scheduled will be required to support medicare benefits unless one really believes that severe cutbacks in medicare are possible. And we do not. This leads us to the conclusion that the long-term deficit for OASDI should be eliminated completely through realistic benefit promises.

Mr. Chairman, my time is up. I had a few more comments to make in summary, but I will just——

The CHAIRMAN. Go ahead.

Mr. POST. We urge enactment of the retirement-age proposal recommended by the bipartisan majority of the Commission. This is a demographic solution to what is really a demographic problem and cannot be escaped. This kind of change has been recommended by virtually all the major study groups, and by experts from both parties who testified before the Commission.

In summary, legislation to produce long-term financial balance should be enacted now for several reasons. First, the confidence of young workers must be restored. The best way to accomplish this is to make realistic and affordable benefit promises.

Second, those who are to be affected must be given adequate advance notice for personal and financial planning. Therefore, the changes should be gradual. If action were delayed, the changes may have to be precipitous.

Third, the hospital insurance program will begin to experience large deficits by the end of this decade. And these OASD changes can help mitigate the effect of those deficits.

The social security system is a transfer program between generations. As such, we as parents and grandparents have to ask the question: At what age should we expect our children to support us? And what level of income should our children transfer to us? If those questions can be answered realistically and with a sense of fairness, social security will continue to serve its vital role, not only for this generation, but for future generations as well.

The recommendations of the National Commission should be enacted as soon as possible. Decisive and intelligent action is needed now.

The CHAIRMAN. Thank you very much, Mr Post. We certainly want to indicate the great contribution made by Bob Beck as a member of our Commission. We regret he could not be here, but you have certainly done a splendid job.

Mr. O'Hara, we are pleased to have you here.

Senator Chafee.

Senator CHAFEE. I have no questions. Thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Nor do I, Mr. Chairman. It was quite clear and very intelligently said. Thank you for your support of the Commission recommendations. And I would like to join in sending our regards to Commissioner Beck.

Mr. POST. Thank you.

The CHAIRMAN. Senator Bradley.

Senator BRADLEY. No questions, Mr. Chairman. I just want to thank the Business Roundtable, and Mr. Post, and Mr. Beck for talking to the compromises that are necessary to get agreement with such interest and vigor. I'm sure that you had going into this process a slightly different proposal as to how to solve this. And I think you showed real movement.

The CHAIRMAN. Senator Long.

Senator LONG. I just want to say "amen" to something that I find in your statement here. It's at the bottom of page 3 and the top of page 4 where you say "the use of general revenues as a 'fail-safe' mechanism would only serve to weaken confidence in the system, and could ultimately lead to a needs-tested program."

In my judgment, if you had that in the law right now, it would have been much more difficult to pass this package than it is going to be because that would make a lot of people say "We don't need to do anything. Just don't do a thing. If we do not pass another piece of legislation, they will just have to reach over in the general Treasury to pay these benefits."

Thinking about how you finance programs, I guess I'm thinking about what we need to do to keep this whole Government afloat. Because if the Government itself goes under, it's not going to be able to take care of anybody. If we can't find the revenue out of taxes levied directly to support social security, if we can't find what it takes to do that with all the beneficiaries there are, and with all the political support that would rally behind us if they had no other alternative—if we can't find whatever it takes to finance this program, then we can't finance the Government itself. And it's going to be tough enough to finance this Government the way it is going now.

Here we are projecting a $200 billion deficit. I'm not sure whether the Government can survive that kind of situation over a period of time. But here's one program that we can finance. There are more than 30 million special-interest people involved in this program. I am talking about the most popular special interest I know, all these dear old people and widows and orphan children. If we can't finance this program, we can't find a vote to finance anything.

I took it on the chin for being the floor manager and the committee chairman in 1977 when we passed what was called the biggest tax increase in history in order to finance the program. May I say that it didn't beat me when I ran for reelection. It might have beat some Senators, but it didn't beat me. And I'm proud to have paid whatever political price I had to to make this program solvent. The only reason you had to come back in here and testify is because they gave us bad estimates in 1977. If they had given us good estimates back at that time, and been cautious enough and taken enough things into account, I think we would have been on sound ground. We wouldn't have to face this situation now. We probably wouldn't have had to do it if they had administered the programs the way they should have administered them.

For example, we told them what we had in mind when we passed the disability program. They proceeded to load four times as many people on the rolls as we had in mind. And now try to get them off. Every time you try to do it, they put on television some poor soul who shouldn't have been taken off, but does get taken off in the course of trying to get the program back under control. They show you some poor soul about to die on the stretcher. They say this person can go out and do a day's work when he is likely to live until tomorrow.

In trying to get those rolls back to where they ought to be, bureaucratic mistakes will be made and people like us who are trying to get the thing back to what it was supposed to be have to bear the burden of it.

But if we create a loophole here, then if no one does anything, the social security program will break through to where they just reach into the Federal Treasury to pay for the whole program over a period of time. The question then becomes how will we raise the money to support the Government itself. And if we can't do that, then do you agree with me that if the Government goes under it can't support anybody?

Mr. POST. Senator, I wish you had been here a few moments ago when Dr. Cohen was expressing his great regret that in 1950 the Congress in its great wisdom repealed a provision in the social security law which would have provided for using general revenues in case there was some kind of a problem.

Senator LONG. What year was that?

Mr. POST. Nineteen fifty. It had been enacted in 1944. And you would have been able to express some of those views and exchange some views with him. I'm sorry you weren't here at that time.

Senator LONG. Well, I'm pleased that I was here to vote for that in 1950.

Let me say this about Mr. Wilbur Cohen. I love the fellow. He's one of the sweetest guys I have ever known in my life. Mr. Cohen would go hungry so that somebody else wouldn't have to go hungry. He would walk the extra mile so somebody else wouldn't have to walk a half a mile. He would not only give the guy his cloak, he would give him the shirt off his back to help his neighbor.

He's one of the sweetest guys, with the strongest feeling of love toward his fellow human beings, of almost anybody I know of who has ever gotten dragged into politics, whether deliberately or by mistake. [Laughter.]

But he is just in error on that question of general revenues. And I say that as a person who genuinely loves Mr. Cohen. He's a sweet guy, and every now and then he is just as right as he can be. But like a lot of other people, he's not always right. [Laughter.]

Mr. POST. Senator, I have nothing to add to that.

Mr. O'HARA. Senator, on behalf of Bob Beck, I would like to express the appreciation for working with the Senators on the Commission, and we certainly appreciate the political process that the leaders in Washington face with this issue. And on behalf of myself, I would like to thank you for teaching them some lessons on how the process works. It makes my job easier.

The CHAIRMAN. We haven't finished it yet, but I think it's working.

Senator Pryor?

Senator PRYOR. I have no questions. Thank you.

The CHAIRMAN. The Roundtable, as you have indicated, represents substantial business interest in this country. Their willingness to accept the compromise is another reason the process will work. It's obvious the House has moved very quickly. I don't agree with everything the House subcommittee has done. I don't assume the Roundtable agrees with the general funding portion of their package as far as the fail-safe mechanism is concerned. But we are moving the package. And it's our hope that we can do it rather quickly, and then we can move on to some of the other problems we face after we dispose of the social security financing problem.

Thank you very much.

Mr. POST. Thank you very much, sir.

The CHAIRMAN. We are now honored to have a panel of witnesses. Kenneth R. Austin, chairman and chief executive officer, Equitable Life Insurance Co., Des Moines, Iowa, representing the American Council of Life Insurance; Mr. Thomas M. Gregg, life underwriter, Topeka, Kans., and chairman of Federal Law and Legislative Committee, National Association of Life Underwriters; Mr. Stephen G. Kellison, executive director, American Academy of Actuaries; Mr. Dale Detlefs, corporate vice president, Meidinger, Inc., Louisville, Ky., and cochairman of the Social Security Committee of Association of Private Pension and Welfare Plans. Dr. Mustoe is also a member of the panel. He is executive secretary of the Public School Retirement System of Missouri.

Your entire statements will be made a part of the record. It is hoped that you might be able to summarize and underscore the highlights of your statements. Much of the material we will have heard before, but you may have some other views that you would really like to focus on. That would be very helpful.

So, Mr. Austin, would you like to begin?

STATEMENT OF KENNETH R. AUSTIN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, EQUITABLE LIFE INSURANCE CO., DES MOINES, IOWA, REPRESENTING THE AMERICAN COUNCIL OF LIFE INSURANCE, WASHINGTON, D.C.

Mr. AUSTIN. Thank you, Mr. Chairman.

I am Ken Austin, chairman and chief executive officer of Equitable Life Insurance Co. of Iowa. I am appearing on behalf of the American Council of Life Insurance, which is the principal trade association of the life insurance industry at the company or home office level.

With me is Stephen Kraus of our staff. He is behind me. Oh, you are right here.

The American Council has long been interested in an appropriate national retirement income policy. And social security performs a vital and indispensable function in that scheme, providing a floor of protection for the older population. To continue this role, the system must function properly and be financed adequately which means that action must be taken immediately to correct this critical problem.

Now the National Commission has recommended a compromise solution to meet both short-term and two-thirds of the long-term deficit. And on balance we, the life insurance industry, believe that this plan is a reasonable compromise to help assure the solvency of the system. Although the plan does not include all of the changes we would have preferred, and while we have some reservations about certain elements, it certainly does provide progress in the right direction.

And now, Mr. Chairman, may I comment briefly on a few of the specific recommendations?

The Commission recommends the already-scheduled social security taxes be accelerated. While we would have preferred a package without tax increases, the social security payroll taxes must be set at levels which are adequate to finance the benefits which the law provides, even if this means accelerating the taxes.

Failure to maintain payroll taxes at adequate levels would probably lead to the general use of general revenue, which we strongly oppose. It would be particularly devastating in view of the large budget deficits confronting us, as has been pointed out previously.

We are concerned about the Commission's recommendations for a refundable tax credit which accompanies the acceleration of the tax in 1984. We recommend it be made clear that this tax credit will not be considered a precedent for future legislative action since it introduces general revenue into the financing of social security.

We believe that most of the social security system's financial difficulties are due to the great financial drains on the system resulting from the present procedures for indexing social security. Accordingly, a comprehensive review should be made of the present indexing procedures to determine whether or not they are appropriate under present circumstances. We are not necessarily talking about this action, but future action.

The Commission has recommended that beginning in 1988 the cost-of-living adjustment stabilizer would be a part of the social security system. Although this represents a step in the right direction, we would have preferred an earlier effective date, earlier than 1988, and a higher trigger level. We believe the delay will subject the system to a possible strain during this period when trust funds are virtually nonexistent.

In addition, we believe that the trigger level of 20 percent does not provide adequate protection and we believe a higher, more prudent trigger level would have been warranted.

We support the 6-month COLA delay recommended by the Commission, and the implication it has for the other Federal programs are very important. Not only does this make an important contribution to the short-term financing problems of social security, it also is a significant precedent for other entitlement programs.

We support the Commission's recommendation that coverage be extended to new Federal civilian employees, and all employees of nonprofit institutions as appropriate steps toward universal coverage.

We also support the recommendation of the Commission to eliminate windfall benefits. Finally, we support the recommendation of this option of State and local governments and nonprofit organization to withdraw or be eliminated.

Now the major issue left unresolved, of course, is the remaining long-term deficit. We strongly believe it is essential to provide now for a gradual increase in the retirement age under social security. Thus, giving individuals sufficient advance notice to adjust their retirement plans.

Our suggestion has been that the normal retirement age stay at 65 until 1990, and thereafter it increase one-fourth year annually until age 68 is reached in the year 2002, with corresponding adjustments in the early retirement age.

We also support the idea of actuarial adjustment as life expectancy continues to improve. I realize, Mr. Chairman, that you have introduced a bill to increase the retirement age to 66. We wish that

that went a little farther, but we obviously would support that as a step in the right direction.

Finally, we agree with the recommendation that there be a fail-safe mechanism. Obviously, that has to come from either taxes or reduction of benefits or general revenue. Again, we oppose the use of general revenue as apparently was adopted by the House committee yesterday.

In closing, I want to emphasize again that prompt action must be taken to bring expenditures and receipts in bound. We believe that the recommendations of the Commission go a long way toward accomplishing these objectives, and that it should be enacted into law as quickly as possible.

We also urge the consideration of the change in retirement age as I just outlined. We have also indicated several areas which we would have preferred to be different. And if it is decided to make changes in the package, then we would urge that these changes be considered.

Thank you, sir. That ends my brief statement.

The CHAIRMAN. Thank you very much, Mr. Austin.

[The prepared statement of Kenneth Austin follows:]

PREPARED STATEMENT OF KENNETH R. AUSTIN FOR THE AMERICAN COUNCIL OF LIFE INSURANCE

I am Kenneth R. Austin, Chairman and Chief Executive Officer of the Equitable Life Insurance Company of Iowa, and I hold comparable positions with several affiliated life insurance companies. I also serve as Chairman of the Committee on Social Security and Health Care of the American Council of Life Insurance. I am appearing here today on behalf of the Council which represents 572 life insurance companies. These companies account for 95 percent of the life insurance in force in the United States and hold 95 percent of the assets of all life insurance companies.

GENERAL COMMENTS

We are pleased that your Committee is holding this public hearing on the financing problems of the Social Security system and on the solutions to these problems recommended by the National Commission on Social Security Reform. Social Security performs a vital and indispensable function in providing protection for our older population in the areas of retirement income and health care costs and for all our population in the areas of disability and survivor protection. For these reasons, it is essential that public confidence in the system be maintained. In order to accomplish this, the system must function properly and must be financed adequately.

Social Security now faces severe financial problems. The National Commission unanimously recommended that for purposes of correcting the short-range (1983-1989) problems of the OASDI trust funds, $150-$200 billion either in additional income or in decreased outgo (or a combination of both) should be provided. The problems faced by Social Security were accentuated by stagflation which increased benefits and decreased tax receipts. According to the latest available estimates, unless remedial action is taken, the OASDI trust fund will be unable to meet the July 1983 payments on schedule.

The system also faces long-run deficits on the basis of what now seems to be the most reasonable economic and demographic estimates. The projected deficits become very substantial in the second quarter of the next century when the ratio of Social Security recipients to active workers will increase to relatively high levels, placing heavy financial burdens on the active workers who support the system. The National Commission has unanimously concluded that the imbalance for the 75-year valuation period ending in 2056 is an average 1.8 percent of taxable payroll.

In view of these conditions, we believe that action must be taken immediately. The National Commission has recommended a compromise solution to meet the short-range financing problems of the Social Security system and to cover about two-thirds of the long-range deficit. On balance, we think the plan is a reasonable compromise to help assure the solvency of the Social Security system. Although the plan does not include all the changes we would have preferred, and while we have some reservations about certain elements of the package, it does provide progress in the right direction. In general, we urge your support of the plan.

SPECIFIC COMMENTS

I would now like to comment on several of the specific recommendations of the National Commission.

1. <u>Acceleration of Scheduled Tax Increases</u>

We believe that Social Security should continue to be financed solely through payroll taxes paid equally by covered workers and employers. Such payroll taxes enable covered workers and employers to share the cost of the program in a responsible fashion. These taxes have the capability of producing the large sums necessary to finance Social Security. Moreover, they have the virtue of being highly visible, and they help to maintain the vital link between an employee's benefits and the taxes paid the employee to support the system.

The National Commission recommends that the already scheduled Social Security tax increases be accelerated by moving the 1985 OASDI tax rate of 5.7 percent forward to 1984, by keeping the current law rate of 5.7 percent for 1985-1987, by increasing the 1988-1989 rate to 6.06 percent and by keeping the 1990 rate as in current law (6.2 percent).

While we would have preferred a package without tax increases, Social Security payroll tax rates must be set at levels that are adequate to finance reasonable benefits provided by law, even if this requires Congress to bring forward increases already scheduled under present law. Failure to maintain payroll tax rates at adequate levels would probably lead to the use of general revenues to finance Social Security. This would be particularly devastating in view of the large budget deficits confronting us for the foreseeable future. The adoption of general revenue financing would reduce confidence in the Social Security system, as it would be widely construed as a sign that we are not willing to face up to the need to keep the system on a sound financial basis. Moreover, unless we are willing to accept continued budget deficits with their unfortunate consequences for inflation, the use of general revenues to finance Social Security means that other taxes will have to be raised sharply. In other words, to the extent that payroll taxes are not used to finance Social Security other forms of taxation less suited for this purpose will have to be used.

We are, however, concerned about the Commission's recommendation for a refundable tax credit which accompanies the accelerated tax increase for 1984. We recommend that it be made clear that this credit will not be considered a precedent for future legislation since it introduces general revenues into Social Security financing.

2. Indexing of Benefits

We believe that much of Social Security's financial difficulties is due to the great financial drains on the system resulting from present procedures for indexing Social Security benefits. Accordingly, while benefits should continue to be adjusted for inflation in order to preserve their role as providing a floor of protection and in order to prevent hardship to beneficiaries, a comprehensive review should be made of the present indexing procedures to determine whether they are appropriate in the present circumstances. This review should include an examination of the present Consumer Price Index (CPI) to determine whether it accurately reflects changes in the cost of living for Social Security beneficiaries and whether revisions in the index are needed to avoid overstating increases in such living costs. The present indexing procedure, for example, appears to give undue emphasis to the increased cost of home ownership associated with rises in mortgage interest rates, since the bulk of Social Security beneficiaries do not purchase new homes.

Moreover, there is the broad question of whether the Nation can afford to insulate completely from inflation Social Security beneficiaries, or indeed any other large group of individuals with benefits paid for by taxes collected from workers and employers who are not so insulated. One way to correct this situation would be to limit the annual increase in Social Security benefits under automatic indexing to a specified percentage of the increase indicated by the CPI. Another possibility would be to limit the annual increase in benefits to the increase in average wages for years when such wages increase less than the CPI.

The National Commission has recommended that a cost of living adjustment stabilizer be part of the Social Security system. That is, beginning in 1988, COLA increases will be based on the lesser of wage increases or price increases if the trust fund balances are below certain trigger levels. Although this represents a step in the right direction which we support, we would have preferred an earlier effective date than 1988 and a higher trigger level.

We believe the delay will subject the Social Security program to a possible strain during a period when the trust funds have virtually no margin of protection. In addition, we believe the trigger level being set at 20 percent of annual benefits does not provide adequate protection for the funds. Although the OASDI trust fund ratios were falling at a rate of between 5 percent to 10 percent of annual outlays during much of the decade of the 1970's, the 20 percent level was not reached until 1981. We believe a higher, more prudent trigger level is warranted. If the cost of living adjustment stabilizer with a higher trigger level had been enacted in 1977, the program would not now be faced with its short-term financing problems.

Also, we support the six month COLA delay recommended by the National Commission; the implications it has for other Federal programs are also very important. Not only does the COLA delay make an important contribution to the short-term financial problems of Social Security; it also sets a significant precedent for other entitlement programs. This will help to reduce our huge deficits and thus to encourage economic recovery.

3. Elimination of Windfall Benefits and Movement Towards Universal Coverage of Government Employees and Employees of Nonprofit Organizations

We support the recommendation of the National Commission to eliminate the windfall benefits received under Social Security by former government employees and by employees of nonprofit institutions who have spent most of their working careers in noncovered employment but who acquire sufficient coverage to qualify for Social Security benefits. It has been estimated these individuals pay over their working lifetimes Social Security taxes amounting to only one-third of what the average worker pays, but these individuals get two-thirds of the average benefit received by other workers. Thus, present law gives such individuals unintended advantages in allowing them to receive the full effect of the heavy weighting in the present benefit computation formula which was designed to help and which should be confined to workers who were paid low wages over many years in employment covered by Social Security. Both equity and fiscal considerations strongly favor the elimination of the windfall elements in benefits being paid to individuals whose primary employment was outside the Social Security system.

Moreover, eventual universal coverage under Social Security must be provided for all government employees and employees of nonprofit organizations in a way which assures that present employees who spend their entire careers in such employment do not have less overall benefit protection. We support the Commission's recommendation that Social Security coverage be extended to new Federal civilian employees and to all employees of nonprofit institutions as an appropriate step towards this goal.

Finally, we support the Commission's recommendation that the option of State and local governments and nonprofit organizations to withdraw from coverage be eliminated.

4. Increase the Retirement Age Under Social Security Gradually, After Sufficient Advance Notice

The major issue which was left unresolved by the National Commission is how to handle the remaining long-term deficit. We believe it is essential to provide now for a gradual increase in the retirement age under Social Security, thus giving individuals sufficient advance notice to adjust their retirement plans. Americans are now living significantly longer and are generally able to work until a later age than they did in 1935 when the earliest retirement age for the receipt of benefits was set at 65. As life expectancy becomes longer, it is appropraite to reapportion an individual's life span between years of work and years of employment. The Age Discrimination in Employment Act, as amended in 1979, recognizes this by generally prohibiting employers from setting up plans that mandate retirement prior to age 70, except for some highly compensated executives.

Unless the retirement age under Social Security is increased, the future will see substantial increases in the relative size of the retired population and relatively smaller numbers of active workers to carry on the Nation's productive process. This change will be especially marked in the early part of the next century when the front end of the post-World War II baby boom will begin to reach 65. Currently, there are approximately 3.2 workers who support each beneficiary. When the baby boom generation retires, there will be only two workers to pay the benefits of each beneficiary--or even fewer if the birth rate or immigration rates do not increase.

Social Security should recognize these important demographic and social developments. A gradual increase in the minimum retirement age for receipt of full benefits would help to stabilize the financial position of the Social Security system and would avoid placing undue financing burdens on the working population. Such an increase would greatly reduce the ratio of retirees to active workers in the next century and could eliminate the remaining long-term deficit projected by the Commission which was not dealt with in the Report.

We, therefore, suggest that the normal retirement age be kept at 65 until the year 1990 in order to avoid hardship for those currently near retirement, and that thereafter it be increased by one-fourth of a year annually until a retirement age of 68 is reached for 2002 and later years. At the same time, the early retirement age, at which reduced Social Security benefits are payable (now 62) would be increased to 65 in corresponding gradual increments, again starting the upward movement at about 1990. As an alternative, age 62 could be kept as the earliest retirement age with an actuarial adjustment in the size of the benefit for retirement prior to age 68, the new normal retirement age. In addition, a provision should be included that would automatically raise the retirement age as life expectancy improves. These changes would give the public a long advance notice of the changes and yet have the new normal retirement age be fully effective when most needed--when the members of the World War II baby boom population begin to retire, early in the next century.

Finally, in addition to the cost of living stabilizer mechanism, we agree with the recommendation of the National Commission that a "failsafe" mechanism is necessary to assure that benefits are paid on a timely basis despite unexpectedly adverse conditions which occur with little advance notice. There are several types of fail safe mechanisms that can be used, and we would be glad to work with your Committee to develop the most appropriate one.

This concludes my specific remarks. In closing, I want to emphasize again, in view of Social Security's vital importance to our older people and the Nation and the questions that have been raised about its financial problems, that prompt action must be taken to bring expenditures and receipts into balance. We must put Social Security on a sound financial basis, both in the short-run and over the long-term. We believe the recommendations of the National Commission on Social Security Reform, which go a long way towards accomplishing these objectives, should be enacted into law as quickly as possible. We also urge that you consider making the changes in tho retirement age needed to bring the system into long-term balance. Finally, we have indicated several areas in which we would have preferred different approaches to those suggested by the National Commission. If you decide to make changes to the package, we urge that you consider our recommendations carefully.

I appreciate the opportunity to present the views of the Council and would be happy to answer any questions the Committee may have.

STATEMENT OF THOMAS M. GREGG, LIFE UNDERWRITER, TOPEKA, KANS., AND CHAIRMAN, FEDERAL LAW AND LEGISLATIVE COMMITTEE, NATIONAL ASSOCIATION OF LIFE UNDERWRITERS, WASHINGTON, D.C.

The CHAIRMAN. Mr. Gregg.

Mr. GREGG. I'm Tom Gregg from Topeka, Kans. I am a life insurance salesman, and I am here as chairman of the Federal Law and Legislation Committee of the National Association of Life Underwriters.

We are an association of 125,000 life insurance agents. We belong to a federation of 50 State associations comprising 978 locals. Our daily work brings us in contact with individuals who are single and married, old and young. We visit daily with Americans from all walks of life about their financial problems, and their financial concerns. Historically, we have used social security as a base or foundation upon which all future financial building is done.

The Social Security Administration discusses this subject with more beneficiaries, but I am sure that our association members talk to many more American taxpayers about social security benefits. This is what we have been trained to do.

Assuming that each of us has only five interviews per week—and Mr. Austin as chief executive officer would not appreciate that. He would prefer 10—then we collectively visit in 615,000 homes and offices weekly, which translates to approximately 32 million face to face, eyeball to eyeball interviews each year.

Americans' concerns for the present and their concerns for the future are paramount in our eyes. In our interviews, we have historically touted social security. We are as stated before, the primary source of social security information. We have always endorsed social security as an important and dependable building block of financial planning. Because of our selling activities, we are attuned to public fears, concerns and attitudes. Our clients share their apprehensions, and share their fears with us; often times quite vocally.

For many years now, taxpaying Americans have become alarmingly concerned over the future of social security. Our clients are asking us now and have been for many, many years "Will social security be there when I retire? What am I paying my taxes for? Can the system be made sound? And even can the system be saved?"

The basic concern seems not to be with dollars but with permanency. Too many American citizens feel that social security is a lost cause. They are all concerned about its future. There must be absolute public confidence in the system.

In just a moment, we will lend an endorsement to the Commission's report, but first of all let me categorically state for the National Association of Life Underwriters that after the face-lift there will remain serious and on-going benefit and funding problems which will need your serious attention.

Mr. Chairman, you yourself stated that 36 million people receiving benefits, as well as the 116 million working people who support the system, deserve more than another quick fix. We are hoping that your dedication, concern and immediate action will reverse a downhill slide and that Congress will be able to put social security on a really sound financial basis.

In addition, to the 11 corrective measures already enunciated by the National Commission, we would urge Congress that it must begin working just as soon as possible on the long range financing left unresolved. We are particularly interested in proposals to gradually increase the retirement age from age 65 to age 68, and another proposal to make the automatic increase in benefits increase with the lower of wages or prices. We believe that both of these proposals become absolutely necessary if the long-term deficits are to return to zero, and the system is to regain its health.

We all realize that the Commission package is a compromise. All sides could take issue with various elements of the proposal, but would in so doing, jeopardize the package itself. Because of the fragility of the package and the immediacy of the financing problem, we feel that prompt action is vital.

We, therefore, endorse the National Commission's recommendations in toto. The bipartisan, comprehensive package is a remarkable achievement, and a great step in the right direction. It's fair, quite equitable, reasonable, and most importantly, at this time it is doable. And so for your record, sir, let me say once again that the National Association of Life Underwriters fully endorses this bipartisan proposal.

The CHAIRMAN. Thank you very much.

[The prepared statement of Thomas M. Gregg follows:]

Prepared Statement of Thomas M. Gregg, for the National Association of Life Underwriters, on Social Security Financing Options

Introduction:

Mr. Chairman and Members of the Committee, my name is Thomas M. Gregg. I am a life underwriter in Topeka, Kansas. I am appearing here today as the representative of The National Association of Life Underwriters (NALU). NALU appreciates the opportunity to offer its comments concerning the National Commission on Social Security Reform's consensus agreement on ways to preserve and strengthen the Old-Age, Survivors and Disability (OASDI) System.

The National Association of Life Underwriters is a federation of 978 state and local associations. These state and local associations in turn have a combined membership of over 125,000 individual life and health insurance agents, general agents and managers doing business in virtually every community in the United States. The individual members of the federated associations are called life underwriters.

From the creation of the Social Security program to the present time, life underwriters have provided a primary source of information to individuals and families on what Social Security means to their financial security.

In their professional work, life underwriters counsel individuals and businesses on the means of providing financial security for themselves and employees through private life and health insurance. While it is probably safe to say that the Social Security Administration talks to more Social Security beneficiaries than anyone else, we believe it is also accurate to say that life underwriters talk to more Social Security taxpayers than anyone else. The kinds and amounts of insurance to be sold are frequently determined in part by the benefits to be provided by Social Security. Thus, Social Security plays a significant role in the financial security planning of most individuals.

NALU acknowledges that the Social Security program was designed to provide a basic floor of protection against economic want and need, financed by earmarked taxes imposed upon employers, employees and self-employed individuals and by earnings on the Social Security trust funds.

Upon this basic floor, each covered person, by individual initiative, should plan and build additional economic security for himself and his family by means of private savings, investments, insurance, pension programs and the like.

Through their daily consideration of Social Security, life underwriters have developed expertise in the subject and occupy a unique vantage point from which to assess the public perceptions of the Social Security system.

We are grateful that the National Commission was able to achieve a bipartisan consensus on the seemingly intractable issue of Social Security financing. At the same time, not unlike every other witness who will testify on the bipartisan compromise plan, NALU could, of course, offer subjective suggestions for improvement of various individual elements of the Commission's proposal. (Under other circumstances, we might take issue, for example, with the general revenue financing implications of the proposal). But any such suggestion, however well intentioned, might only serve to weaken and endanger the workable compromise reached during the final hours of the Commission's deliberations. The Commission was composed of representatives of as broad a political, business and labor spectrum as could reasonably be hoped for, and all viewpoints were voiced and considered over the one-year period of the Commission's existence. NALU has great respect for the Commission's achievement, particularly in view of the partisan nature of the debate. Parochial viewpoints should not now be allowed to dilute the overall merit of the Commission's work.

NALU, therefore, supports the compromise agreed upon by a majority of the National Commission on Social Security Reform and urges Congress to adopt it. Social Security is our largest domestic program and action to strengthen the financial status of the program should not be deferred. The expiration of inter-fund borrowing authority and the anticipated inability of the retirement fund to pay full benefits in a timely manner after July 1 of this year is reason enough in itself to impel Congress to act promptly to adopt the Commission's recommendations without delay.

Without temporizing NALU's support for the Commission's recommendations in the aggregate, we would like to offer specific comments in the following areas:

Universal Coverage: NALU particularly favors the National Commission's recommendation that OASDI coverage be extended on a mandatory basis, effective January 1, 1984, to all newly hired civilian federal employees, and that OASDI-HI coverage be extended to all employees of nonprofit organizations. (We would go even further and say that, ideally, even current federal employees employed less than five years, including new Members of Congress, should be covered as well. NALU would also favor the inclusion of state and local employees in the program.)

Coverage of federal government workers may bring a new perspective to Social Security by the people who run it. It always appears ironic, not to say self-defeating, that the individuals who make the decisions with respect to Social Security, namely Members of Congress and current employees of the federal government, are not themselves dependent upon it for their own security.

Windfall Benefits: NALU applauds the National Commission's recommendation to eliminate windfall benefits for persons with pensions from non-covered employment. One of the most disturbing aspects of Social Security today is the ability of some workers to take advantage of the weighted benefit formula, which was adopted by the Congress to help individuals who work at low wages for a long period of time. As adopted, this provision has a worthwhile goal, but many workers who are not low-paid have become its beneficiaries.

This occurs when a worker not covered by Social Security either moonlights or retires from government service at a relatively young age, goes to work in covered work, and becomes eligible for the minimum Social Security benefit, a benefit much higher than that which would be purchased on an actuarial basis by his contribution.

There seems to be widespread belief that government workers in particular have placed themselves in a superior position vis-a-vis the private sector. Government workers are perceived as enjoying pension programs that far exceed those that are available to the private sector, and have manipulated the Social Security system so as to take advantage of the weighted benefit. Lifelong coverage under Social Security would put an end to all windfall benefits problems, and should be adopted for that reason.

Taxation of Benefits: At first glance, this proposal appeared objectionable to us because it seems calculated to penalize thrift and investment. But on further inspection NALU believes the Commission's proposal is consistent with current tax treatment of private and public worker pension plans, which tax benefits derived therefrom (although only after contributions have been recovered). Taxing benefits is consistent with general tax policy, which is to tax income from every source derived.

We had first feared that this proposal would infuse general revenues into Social Security, but this fear was alleviated by earmarking the tax collected for the OASDI trust funds.

Shift COLA's to a Calendar-Year Basis: NALU supports the six-month delay in the automatic cost-of-living adjustment in benefits from July 1 to January 1. (In a perfect world, designed of course by us, we would prefer a change in the cost-of-living adjustment formula itself, so as to more directly relate benefit adjustments to the taxes paid into the system which support those benefit increases; alternatively, we would prefer a delay of a longer period to offset the greater rise in recent years of the cost-of-living over wage levels.)

Revision of Tax Basis for Self-Employed: This proposal will bring self-employment taxes in line with the combined employer-employee rate. It will create an equitable balance between contributions made with respect to employees and self-employed persons, while at the same time the proposed business expense tax treatment of one-half of the self-employed contribution will bring the impact of the Social Security tax in line with that now paid by employer/employee groups.

Increase in Delayed Retirement Credit: NALU favors the gradual increase in delayed retirement credit for individuals between 65 and 70 from 3% to 8% per year. This should increase the desire to continue working of this age group in the future, which could be financially beneficial to the Social Security system and to the workers and the economy as well.

Reallocation of OASDI Tax Rates and Inter-Fund Borrowing Authority: NALU generally supports the reallocation of the OASDI tax rates between OASI and DI for a more realistic distribution. However, we question the wisdom of extending inter-fund borrowing authority from HI (Medicare) to OASDI. We believe that the HI costs must be brought under reasonable control, and soon. If further steps need be taken to redistribute the funds flowing into the Social Security system, a permanent restructuring of the tax rate should be undertaken again.

While a restructuring of the tax rate is less flexible than an extension of inter-fund borrowing authority, there is a certain comfort in a permanent solution. The discipline necessary to implement a rate restructuring can provide the basis for real improvement in public attitude towards Social Security. News of the oversight function will reaffirm the notion that a responsible Congress is making judgments that will guarantee the continuation of the Social Security system into the twenty-first century.

<u>Stabilizer Provisions</u>: NALU supports the automatic trigger, effective 1988, to base automatic benefit increases on the lower of CPI or wages when the combined OASDI fund falls below 20% of the annual outgo. This is a step in the right direction. However, the 20% level may be too low to safely allow for timely correction. We would prefer automatic increases to track every year with the lower of the increases in prices or wages, beginning January 1, 1984.

This may also be an appropriate time to briefly address longer-range financing problems, if only for the record. We think the Congress should consider the following proposals for long-term reform:

<u>Retirement Age</u>: The compromise package adequately addresses short-term financing concerns over OASDI; it does does not resolve the entire long-term payroll deficit. The Commission's compromise would cover only 1.22% of the 1.80% projected payroll deficit, leaving .58% unresolved.

Recent fertility data indicate that the Commission may have underestimated the long-range payroll deficit.

Secondly, the Commission uses intermediate economic assumptions for the long-term. But past experience would indicate that such assumptions may be unduly opimistic. Congress should take the necessary action now to assure future retirees that they will receive expected benefits.

Confidence is not high among current taxpayers that Social Security will pay them the benefits they expect when they retire. To restore taxpayers' confidence in the system, the Congress must convince them that the system will remain financially sound far into the future.

In our view, taxpayer confidence would be bolstered if Congress were to increase the normal retirement age on a gradual, phased-in basis to age 68, to take full effect in approximately forty years. This step is well justified by the increasing longevity of Americans as well as their extended economical productivity.

At the very minimum, Congress should enact the recommendations of eight members of the Commission to raise the retirement age to 66 in the year 2015.

Benefits Should Rise With the Consumer Price Index or Increase in Wages, Whichever Is Lower: As a long-term structural reform, the system should be geared so that benefits can only be paid to the extent that increases in wages occur, presuming the Congress wishes to maintain the Social Security program on essentially a pay-as-you-go system. No insurance system, public or private, can maintain its integrity without the ability to control income and outgo of the system. Steps must be taken now to tie the benefit structure to its underlying financing structure so that the two may go forward together.

Summary:

Virtually all viewpoints on the Social Security financing issue were expressed and considered during the National Commission's year-long deliberations. The compromise package has received the endorsements of the President and the leadership of both Houses of Congress. The package is a compromise where all sides could take issue with various individual elements of the proposal but would, in so doing, jeopardize the package itself. The compromise is a reasonable one. We urge that the Congress meet the challenge and promptly enact the compromise into law.

STATEMENT OF STEPHEN G. KELLISON, EXECUTIVE DIRECTOR, AMERICAN ACADEMY OF ACTUARIES, WASHINGTON, D.C.

The CHAIRMAN. Mr. Kellison.

Mr. KELLISON. Thank you. Mr. Chairman, and members of the committee, my name is Stephen G. Kellison, and I am the executive director of the American Academy of Actuaries. I appreciate the opportunity to present this testimony on behalf of our Committee on Social Insurance, which prepared the written statement that you have before you.

The academy is a professional organization with a membership in excess of 7,000 across all areas of actuarial practice. We believe that actuaries are well qualified to comment on long-term financial implications of social security and changes thereto because the work of an actuary, by its very nature, deals primarily with evaluating the financial impact of long range insurance and benefit programs.

I would like to highlight a few key points from our written statement. First, we support the basic principles underlying the present social security system. Any changes made to this system must restore its financial viability and the public's confidence in it. This is not an easy task.

Second, in our written statement we present 11 criteria against which to evaluate potential changes in the system. These criteria should be adhered to in shaping solutions to the current problems facing the system.

Next, we want to make a few comments on the recommendations of the National Commission in light of these criteria and our experience and expertise.

We have one major overall comment on the Commission report. The Commission recommendations are a reasonable compromise to solve social security's financing problems as far as they go. However, by the Commission's own admission its proposals cover only two-thirds of the long-term projected deficit. With the recent release of revised long-term cost estimates by the Social Security Administration showing a long-term deficit of 2.1 percent of payroll instead of 1.8 percent, the Commission proposals solve even less than two-thirds of the long-term problem.

Second, the Commission recommendations cover only OASDI and do not address HI. However, the long-term deficit in medicare is three times as great as the deficit under OASDI.

Finally, the margins in solving the short-term problem are quite thin and may not get us through the 1980's if adverse experience develops. Therefore, we urge the Congress not to oversell these proposals to the American people. They are not the ultimate solution for all time. More will have to be done. We see three fundamental sources of financial instability in the system which should be, and to some extent are, addressed in the Commission's proposals.

In the short run instability is caused by the fact that benefits are indexed to prices through the CPI, while revenues are a function primarily of wages. It is difficult to reliably predict over short periods what the relationship between wages and prices will be. The Commission has recommended one important step in indexing benefits to the lesser of the increase in prices or wages. However, the conditions and the timing of its implementation greatly weakens its effectiveness.

In the long run, the instability is caused by demographic factors, such as changes in birth rates, death rates, rates of disability and rates of retirement. These factors in combination are producing a significant increase in the ratio of beneficiaries to workers after the turn of the century. A step which would lessen this instability would be to move towards a higher normal retirement age reflecting increased life expectancy. Life expectancy at age 71 today is equal to that at 65 in 1935.

A third stablizing step would be to move toward universal coverage. The problems facing social security are national problems demanding a national solution. All Americans should participate in that solution. It is not clear from reading the Commission's report whether, in fact, its proposals will adequately finance the system through 1989 under all reasonably possible economic and demographic scenarios. We urge Congress to obtain a full actuarial report addressing this matter.

Senator MOYNIHAN. Did you say 1989?

Mr. KELLISON. Yes, I did.

Senator MOYNIHAN. I think our forecasts are 75 years.

Mr. KELLISON. Yes. I am addressing here the short-term proposal in which the margins will cover the shortfall under the pessimistic assumptions, but those margins are very thin.

Senator MOYNIHAN. I follow you.

Mr. KELLISON. The academy recommends additional steps be taken to assure that the actuarial projections of the social security program be as free as possible of political bias. It recommends the requirement of the inclusion in the trustees' annual report on social security of a statement of actuarial opinion concerning the appropriateness as to the methodology and assumptions used in the projections by the actuaries preparing them.

This is essentially the same requirement that Congress mandated for private pensions in ERISA, and in pension law for Federal employees in Public Law 95-595.

We understand that Senator Dodd and Congresswoman Kennelly have introduced bills that would support this principle.

In closing, I would reiterate our concern that the National Commission's proposals do only part of the job. The public should not be misled about that. Much work remains.

Thank you very much.

Senator CHAFEE. Thank you very much, Mr. Kellison.

[The prepared statement of Stephen G. Kellison follows:]

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PREPARED STATEMENT OF STEPHEN G. KELLISON, EXECUTIVE DIRECTOR, AMERICAN ACADEMY OF ACTUARIES

The Committee on Social Insurance of the American Academy of Actuaries (the "Academy") appreciates the opportunity to present this statement at these hearings on the financing of the Social Security Old Age, Survivors and Disability Insurance (OASDI) system. The Academy is a professional organization of actuaries with a broad membership base which includes actuaries in all areas of specialization. In particular, the membership of our Committee on Social Insurance includes actuaries with broad experience in both social and private insurance and benefit programs. Appendix A provides additional background information on the Academy.

As actuaries, we feel we are particularly well qualified to comment on the long term financial implications of Social Security, and changes thereto, since our work, by its very nature, deals principally with long term financial implications.

A. INTRODUCTION

Social Security is a social insurance program of enormous magnitude. The OASDI portions of the program have become, over a period of nearly half a century, the floor of protection against the insured contingencies for most American workers and their dependents. Most Americans presently retired, for example, receive a large part of their retirement income from Social Security. Similarly, workers who are disabled and their dependents, as well as dependents of deceased workers, receive a substantial portion of their income in the form of Social Security benefits.

This statement addresses only the OASDI portions of the Social Security program. It does not address the Health Insurance (HI) part of the program, since HI is not a subject being considered at this hearing. However, consideration of the issues, problems, and proposals for change for the HI portion should not be long delayed.

B. CRITERIA FOR CHANGES

Changes to the program required to restore its financial viability and the American public's confidence in it should be consistent with the principles inherent in a social insurance program of such magnitude and centrality to our social and economic structure. As Congress considers various proposals, we respectfully suggest that they should be tested against the following 11 principles.

1. The program represents a long-term social contract. While Congress legally has the right to change the program, and for that matter even terminate it without notice if it desires, in principle, changes should not deprive covered persons of benefits they are currently receiving or can expect to receive upon retirement based on past covered wages.

2. The program reflects a balancing of concern for social adequacy on the one hand and individual equity on the other. This balance has been arrived at through the political process, going back to the program's inception. While actuaries have no special expertise to offer concerning the right balance, we consider it entirely appropriate for a social insurance system to reflect social adequacy considerations. Nevertheless, concern for individual equity cannot be ignored or the program will fail to maintain public support.

3. The program, to the extent possible, should be universal and mandatory in its coverage provisions. Gaps in coverage mean that some workers are deprived, at least in part, of this basic coverage. Elective procedures, in a program where the same contribution rates apply to all regardless of individual risk characteristics, allow individuals or groups to make decisions concerning coverage which may seem financially advantageous to them but are adverse to those for whom coverage is mandatory. Furthermore, it may turn out that those decisions were not in the best interests of those individuals affected.

4. Balance should be maintained between the interests and rights of the program's taxpayers and those of beneficiaries, in the present and in the future. Since it is impossible to forecast exactly the future demographic and economic circumstances of the program, it is preferable to err on the side of making more conservative benefit commitments in the future, knowing that if favorable experience is realized, increases in benefits levels can be made. The principles stated previously suggest that the reverse is not the case, i.e., it is difficult to reduce current benefits in an effort to keep the tax burden reasonable.

5. Changes should be made so that the program will be adequately financed with reasonable certainty, both in the short range and in the long range. Public confidence in the program can be maintained only if its financing is managed in a fiscally prudent way. Later in this statement we will talk about the importance of the actuarial projections and how they should be interpreted when deciding on the adequacy of the program's financing.

6. The need to maintain and, if possible, improve public understanding of the program should be recognized. The program is already extraordinarily complicated. Few workers have more than a vague understanding of what benefits they can expect to receive from the program, a fact which vastly increases the difficulty of personal financial planning and maintaining public confidence in the program. There is the need to improve public understanding of the underlying philosophy on which the program is based as well as an understanding of the specific provisions.

7. If benefit reductions are necessary, they should be made in a way which will distribute the burden of such changes as widely as possible. Furthermore, if the changes are major in nature, substantial lead time should be provided before such changes become effective, so that those affected have time to make appropriate changes in their own financial planning.

8. Consideration of benefit reductions of a more selective nature should include research demonstrating that such changes will not inappropriately disadvantage those affected, recognizing not only Social Security itself but other financial security systems covering those affected.

9. Anomalies in the program should be avoided. Small changes in circumstances should not produce large changes in the value of benefits to individuals. One of the regrettable aspects of the 1977 amendments to the Social Security Act was that individuals with slightly different birth dates, but otherwise similar circumstances, were eligible for substantially different benefits.

10. It should be recognized that Social Security, as important and as enormous as it is, is not the only financial security program. There are a wide variety of other financial security programs both in the public and private sectors which should be recognized in deciding what the proper role for Social Security is in providing protection against the insured contingencies.

11. It must be remembered that Social Security is only one part of our social and economic system, and that anything done to or for Social Security affects other elements.

C. PROPOSALS FOR CHANGE

As Social Security is currently structured, there are three fundamental sources of financial instability. The three sources of instability are related to: (1) economic conditions, (2) demographics, and (3) the lack of universal coverage.

Legislation should be enacted to address each of these sources of financial instability. The recommendations of the National Commission on Social Security Reform (the "Commission") do address each of these sources of instability. Assuming that Congress wishes to reduce the financial instability of the present system and avoid future financial difficulties, we offer the following comments about those sources of instability and the pertinent Commission recommendations.

1. Economic Conditions

The first source of instability is the sensitivity of the program to economic conditions. After enactment of legislation in 1977, "best estimate" actuarial projections indicated that the OASDI program was expected to generate sufficient revenues to pay benefits until the baby boom generation began to retire in the next century. Unfortunately, since 1977, economic conditions have been much less favorable than those assumed in the earlier projections.

The Academy does not find fault with those actuarial projections. In fact, virtually no actuary or economist was then forecasting "best estimate" economic assumptions as adverse as those that actually occurred since 1977.

Economic forecasting is an uncertain science. Because of that fact, the Commission decision to base short-term financial needs on "pessimistic" assumptions is prudent. That fact also supports the desirability of creating larger trust fund ratios than those now existing. Further, it dictates that serious consideration be given to enactment of structural changes to help avoid future problems, if economic conditions are worse than forecast.

Since 1977, unemployment rates have exceeded those assumed in earlier Trustees Reports. That has created financial strain since fewer workers pay Social Security taxes.

However, of much greater importance is the fact that wages have not kept pace with inflation as measured by the CPI. During the four years ending June 1982, CPI indexed benefits increased 35% faster than average wages. If benefits had grown at the same rate as wages, the program would not now be faced with short-term financial problems, despite higher than expected levels of unemployment.

The National Commission has addressed this particular source of instability in its proposal to base COLA increases on the lesser of wage or price increases if the trust fund ratio (fund balance divided by annual fund outgo) is below 20% beginning 1988. A "catch up" provision is provided if the ratio subsequently rises above 32%. This is an important type of structural recommendation to protect the solvency of the program under conditions of "real wage" losses, and is only one of many possible solutions to the problem.

The Academy offers two observations about the specific recommendation. First, we are not certain what considerations led to the agreement to delay the effective date until 1988. The delay will subject the program to continued uncertainty and possible strain during a period when the trust funds have virtually no margin of protection.

Second, the 20% trigger level does not offer much margin for protection. The trust fund ratio did not drop below 20% until as late as 1981. The OASDI trust fund ratios were falling at a rate of between 5% to 10% of annual outlays during much of the past decade. A higher, more prudent trigger level may be warranted. A 30% trigger level would have prevented the current financial problem. A number of study groups involving actuaries and economists have recommended that trust fund levels should be built up to at least the 50% to 100% level.

The Commission recognized that an insufficiency could develop even if the COLA stabilizer were enacted. Thus, they recommended that a "fail safe" provision also be included to serve as an ultimate means to assure that benefits are paid on a timely basis.

2. Demographics

The second source of financial instability is demographic in nature. This primarily affects the long-term solvency of the program. The problems of the baby boom generation and the decline in birth rates are now fairly well recognized. It is expected that there will be relatively fewer people of working age to pay taxes to transfer income to the much larger beneficiary population in the next century. The "best estimate" actuarial projections indicate that while 3.2 workers now support each beneficiary, once the baby boom generation has retired, only 2 workers are expected to support each beneficiary. This will mean that future generations of workers will be required to transfer a larger proportion of their wages to help support the large beneficiary population.

Increases in life expectancy contribute to this problem, since benefits are paid over a longer period of time. Dramatic improvements in life expectancy have already occurred. Actuarial studies show that people age 71 now have the same life expectancy as those age 65 when that age was chosen as the age to commence retirement benefits in 1935. The "best estimate" projections by the Social Security actuaries forecast that age 74 will be the equivalent age by the year 2000.

If enacted, the bipartisan recommendations of the Commission would eliminate approximately two-thirds of the 75-year deficit for the OASDI program. In supplementary statements, the Commission members offered two major alternatives to solve the remaining imbalance for the OASDI program. One was to schedule future increases in payroll taxes; the other was to gradually increase the normal retirement age to 66 by 2015 and to adjust it to increases (or decreases) in life expectancy thereafter.

While either approach may restore long-term balance to the OASDI program, the retirement age indexation should add more stability. If future improvements in life expectancy are not as substantial as those currently forecast, the deficit would be smaller, the retirement age increases would be more modest, and the savings would decrease, and vice-versa.

Other solutions to the long-term financial problems have been proposed by various advisory groups and commissions, such as gradually moving the retirement age to age 68. Some solution to the long-term financial problems should be adopted now.

The Academy would be the first to admit that long-range projections involve uncertainty. However, our profession is primarily involved with matters of long-term financial security. Therefore, we know that proper financial and personal planning is a very long-term process. If it is Congress' judgment that changes in either benefit levels or retirement ages are warranted, we recommend that those changes be adopted as soon as possible to avoid the possibility of precipitous changes in the future.

There are three important facts that should be considered when making that judgment. First, an increase in life expectancy automatically increases the total value of the benefits as the monthly benefits are paid over a longer period of time. The total value of benefits could be maintained even if there were gradual increase in retirement ages.

Second, actuarial projections indicate that future benefit levels will grow in "real terms" despite the fact that the replacement ratios will stabilize at constant levels for various levels of income. That is, under current legislation, benefits to be paid to future recipients will grow in terms of purchasing power. This happens because the bend points in the formula used to determine benefits are indexed based on wage increases instead of price increases, and wages are expected to increase more rapidly than prices in the future. The Commission reviewed "bend point" proposals that would have permitted continued real growth in benefit levels while gradually reducing the replacement ratios over a temporary period of time.

Third, the judgment should reflect not only the level of future taxes required for OASDI, but for HI as well. The Commission did not address the long-term deficit of the HI program which is approximately three times larger than the OASDI deficit. According to Table 7B of the Commission report, best estimate projections forecast that a combined payroll tax rate of 28% would be required for OASDHI once the baby boom generation retires.

3. Lack of Universal Coverage

The third source of financial strain is the lack of universal coverage. Of particular concern to the Academy is the fact that groups can opt out of the program, which reduces income without a commensurate reduction in benefit outlays, particularly in the short-term.

Many governmental employees and employees of non-profit organizations are not now covered under Social Security. As stated earlier, the Academy supports the principle that Social Security should be universal and mandatory to the extent possible. Accordingly, the Academy is supportive of efforts to bring about universal coverage, or at least comparable protection to all employees, while recognizing that constitutional issues must be resolved with respect to state and local employees.

Alternative approaches are available if Congress wishes to enhance universal coverage. Further withdrawals from Social Security might be prohibited without changing the status of groups that have withdrawn or have never participated. A stronger measure would be to mandate coverage for all groups not presently covered. Either action would improve the universal nature of Social Security coverage and partially alleviate both the short- and long-term financial problems of the system. However, if coverage is mandated for any groups not now covered, Congress should also consider how such action might affect the financing of existing retirement systems for such groups. In particular, any adverse financial effects of such action must be taken into account in weighing the cost advantages of universal coverage.

We recognize that universal coverage is probably not attainable in the near future. Other steps might be taken to improve the cost picture by eliminating, to the extent possible, the windfalls which many persons employed in non-covered groups currently receive. Persons receiving mid-range or large salaries in non-covered employment often qualify for disproportionate Social Security benefits because of moonlighting or full-time but short service in covered employment. We support the concept of modifying the Social Security law to minimize inequitable relationships between such individuals' Social Security benefits and contributions.

D. ACTUARIAL PROJECTIONS AND ASSUMPTIONS

Actuarial projections have always been recognized as central to the proper recognition of the costs of the system and its financing. Given the current financial problems confronting the system, appropriate actuarial projections are more important than ever.

The annual reports of the Board of Trustees of the various Social Security trust funds contain actuarial projections of the operations of the funds. For the OASDI trust funds these projections are made for a 75-year period into the future. These projections are needed because of the long-range nature of the OASDI programs and because current participants will be affected for at least that length of time. Also, changes which are made in the system do not affect the program in the same way in each year. Policymakers need to know what these effects will be and how they will change over the years.

Since no one knows exactly what future experience will be, estimates are made using assumptions which are based on past experience and current trends. Historically three projections (five in the 1981 and four in the 1982 Board of Trustees Reports) have been made for the OASDI trust funds based on different sets of assumptions. These are classified as optimistic, pessimistic and intermediate, with the intermediate projection assumed to be the most probable estimate as to what the future will hold for these funds. While projections based on the intermediate assumptions are generally appropriate for decisions about the long-range financing of the program, they probably are not appropriate for decisions about the short-range, particularly in periods when the solvency of the trust fund is in question.

There are many areas in which actuarial assumptions are needed in order to produce the projections. These fall into two basic areas: (1) economic and (2) demographic.

The economic assumptions include, among others, annual rates of change in average wages and the Consumer Price Index (CPI), average annual interest rates, average annual rates of unemployment and average annual rates of labor force participation. These fluctuate significantly and variations from the assumptions can affect the projections greatly. This is one reason for showing a range of projections.

The demographic assumptions include fertility, mortality and disability rates. These do not fluctuate as much as the economic assumptions but they do change and the trends do not always follow a smooth pattern. The actual experience in these areas is affected by economic and social conditions as well as technological developments especially in the health area.

The actuaries of the Social Security Administration watch the actual experience in each area to see if deviations from their assumptions are occurring. When a trend appears to be taking place, they make changes in their assumptions to recognize this. Congress should not be disturbed by the fact that the actuarial assumptions are changed modestly from year to year. In our view, it is better to change the assumptions incrementally each year rather than freeze the assumptions for a period of years and then make gross changes only occasionally. The fact that the system is not in exact actuarial balance on the basis of the intermediate assumptions does not necessarily require corrective action by Congress. However, it must be recognized that the longer corrective action is delayed, the more severe such action will probably have to be. By its nature, Social Security financing requires constant scrutiny and may need periodic adjustment.

Because policy decisions are based on the projections, it is imperative that the assumptions be as unbiased as possible. Selection of the assumptions should be free of political pressures and should recognize what is actually occurring. We would like to endorse a previous recommendation of the Academy contained in our 1981 testimony (see Appendix B) that the annual reports of the Board of Trustees be required to include a statement of actuarial opinion by the Chief Actuary of the Social Security Administration and the Chief Actuarial Officer of the Health Care Financing Administration on the reasonableness of the assumptions used for the projections. We note that a statement of actuarial opinion has been included in each of the last two annual reports of the Board of Trustees, and feel that future reports should be required to include such an opinion.

We have studied the report of the Commission with interest. We cannot determine from the report whether or not the recommendations made therein will adequately finance the OASDI portion of Social Security. We suggest that Congress be sure that the Commission recommendations do provide adequate financing in both the short- and long-term, so that the current problems do not resurface again after a few years, as they did after the 1977 Social Security amendments.

With respect to the report of the National Commission, we would also like to point out that there is a potential technical problem with the proposal to include 50% of OASDI benefits in taxable income for single persons with adjusted gross income of $20,000 or more and for married persons with adjusted gross income of $25,000 or more. The problem is with the $20,000 and $25,000 thresholds, in that people with adjusted gross income just above these amounts will be worse off on a net after tax basis when compared to individuals with adjusted gross income just below these amounts. The actual legislation should address this problem and should be designed to produce logical and consistent results for individuals with adjusted gross income above and below these thresholds.

E. SUMMARY

1. The Academy is particularly well qualified to comment on the long term financial implications of Social Security, and changes thereto.

2. We support the basic principles on which the present Social Security system is based.

3. We feel there are certain criteria to which any changes should adhere, and have provided 11 such criteria.

4. There are three fundamental sources of financial instability of the Social Security system as it is presently structured. These three sources of instability are related to: (1) economic conditions, (2) demographics, and (3) the lack of universal coverage. Legislation should be enacted to address each of these sources of financial instability.

5. The actuarial assumptions used and the actuarial projections made for the Social Security system should be carefully considered and subjected to close scrutiny and periodic review. Selection of the assumptions should be free of political pressures and a statement of actuarial opinion on their reasonableness should be required.

We appreciate being given this opportunity to testify. We hope our testimony will be helpful, and we would welcome the opportunity to be of further assistance as you proceed with your important deliberations.

AMERICAN ACADEMY OF ACTUARIES

COMMITTEE ON SOCIAL INSURANCE

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APPENDIX A

BACKGROUND INFORMATION ON THE AMERICAN ACADEMY OF ACTUARIES

The American Academy of Actuaries is a professional association of actuaries which was formed in 1965 to bring together into one organization all qualified actuaries in the United States and to seek accreditation and greater public recognition for the profession. The Academy includes members of three founding organizations - the Casualty Actuarial Society, the Conference of Actuaries in Public Practice, and the Society of Actuaries.

The Academy serves the entire profession. Its main focus is the social, economic, and public policy environment in which the actuarial profession functions. Its primary activities include liaison with federal and state governments, relations with other professions, the dissemination of public information about the actuarial profession and issues that affect it, and the development of standards of professional conduct and practice.

Over 7,000 actuaries in all areas of specialization belong to the Academy. These members are employed by insurance companies, consulting actuarial firms, government, academic institutions, and a growing number of industries. Actuarial science involves the evaluation of the probabilities and financial impact that uncertain future events - birth, marriage, sickness, accident, fire, liability, retirement, and death - have on insurance and benefit plans.

Membership requirements can be summarized under two broad headings: education and experience. At present, the educational requirements can be satisfied either by passing certain professional examinations sponsored by the Casualty Actuarial Society or the Society of Actuaries, or by becoming an enrolled actuary under the Employee Retirement Income Security Act of 1974 (ERISA).

The experience requirement consists of three years of responsible actuarial work.

APPENDIX B

EXTRACT OF 1981 STATEMENT OF THE AMERICAN ACADEMY OF ACTUARIES ON SOCIAL SECURITY FINANCING

REQUIREMENT FOR STATEMENT OF ACTUARIAL OPINION

The current financing problems of the program illustrate the continuing need for independent, professional actuarial analysis. The Office of the Actuary of the Social Security Administration and the actuaries employed in the Health Care Financing Administration are uniquely qualified to provide such analysis. They must be given the latitude to select a range of appropriate assumptions independent of "official" economic forecasts.

It should be noted that the Employee Retirement Income Security Act of 1974 (ERISA) requires that valuations of private pension plans be certified by qualified actuaries. A similar actuarial certification is required by P.L. 95-595 for pension plans covering federal employees. In each situation, the actuary must certify that the assumptions used are reasonable in the aggregate, representing the best estimates of anticipated experience, and that methodology is proper. The American Academy of Actuaries recommends that the Social Security Act be amended to enable the public to enjoy the same benefit of professional actuarial certification for the Social Security program. This recommendation has also been made by the National Commission on Social Security.

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Consistent with this recommendation, the Board of Directors of the American Academy of Actuaries has adopted the following resolution:

> "Whereas actuarial projections and cost estimates based on work of the highest professional quality and integrity have been an important force for fiscal prudence in the historical development of social insurance programs; and
>
> "Whereas the growth of these programs and their commitments to future generations of beneficiaries makes it more important than ever that these programs be managed in a fiscally prudent manner;
>
> "Therefore, be it resolved that this organization believes that it is in the best interests of the public that (1) the actuaries who are responsible for the projections and cost estimates be free to use their best professional judgment and expertise independent of pressures for political expediency, and (2) the actuaries ultimately responsible for their work be required to issue an opinion letter accompanying the appropriate annual report stating whether the actuarial assumptions used in the projections contained therein are (a) in the aggregate reasonable taking into account the experience and expectations of the plan and (b) represent their best estimates of anticipated experience under the plan."

Attached to this testimony is a proposed amendment to the Social Security Act. This amendment would require a statement of opinion by the Chief Actuary of the Social Security Administration and the Chief Actuarial Officer of the Health Care Financing Administration that the techniques and methodology used in preparing the actuarial status of the Trust Funds and the cost estimates and the assumptions used with respect to such Funds are reasonable and conform with generally acceptable actuarial principles.

PROPOSED AMENDMENT

(a) Section 201(c) of the Social Security Act is amended by adding at the end thereof the following new sentence:

> "Such report shall also include a statement by the Chief Actuary of the Social Security Administration expressing his or her opinion: (1) that the techniques and methodology used in preparing the actuarial status of the Trust Funds are in accordance with generally accepted actuarial principles; and (2) whether the cost estimates and the assumptions on which they are based are in the aggregate reasonable for the purpose for which they are intended taking into account the experience and expectations of the program, including a statement of the governmental sources of the assumptions used therefor, where appropriate."

(b) Section 1817(b) of such Act is amended by adding at the end thereof the following new sentence:

> "Such report shall also include a statement by the Chief Actuarial Officer of the Health Care Financing Administration expressing his or her opinion: (1) that the techniques and methodology used in preparing the actuarial status of the Trust Fund are in accordance with generally accepted actuarial principles; and (2) whether the cost estimates and the assumptions on which they are based are in the aggregate reasonable for the purpose for which they are intended taking into account the experience and the expectations of the program, including a statement of the governmental sources of the assumptions used therefor, where appropriate."

(c) Section 1841(b) of such Act is amended by adding at the end thereof the following new sentence:

> "Such report shall also include a statement by the Chief Actuarial Officer of the Health Care Financing Administration expressing his or her opinion: (1) that the techniques and methodology used in preparing the actuarial status of the Trust Fund are in accordance with generally accepted actuarial principles; and (2) whether the cost estimates and the assumptions on which they are based are in the aggregate reasonable for the purpose for which they are intended taking into account the experience and the expectations of the program, including a statement of the governmental sources of the assumptions used therefor, where appropriate."

(d) The amendments made by this section shall be effective on January 1, 1982.

STATEMENT OF DALE R. DETLEFS, CORPORATE VICE PRESIDENT, MEIDINGER, INC., LOUISVILLE, KY., AND COCHAIRMAN, SOCIAL SECURITY COMMITTEE, ASSOCIATION OF PRIVATE PENSION AND WELFARE PLANS, WASHINGTON, D.C., ACCOMPANIED BY MANUEL CASTELLS OF KWASHA LIPTON CO.

Senator CHAFEE. Mr. Detlefs.

Mr. DETLEFS. Thank you, Mr. Chairman.

With me here today is Manuel Castells, partner and actuary in the firm of Kwasha Lipton, an employee benefit consultant firm. I'm Dale Detlefs, the vice president of Meidinger, Inc., of Louisville, Ky., a similar type consulting firm.

Together we serve as cochairmen of the Social Security Committee of the Association of Private Pension and Welfare Plans. Our testimony today is provided on behalf of that organization.

We support the recommendations of the National Commission on Social Security Reform, but we believe they need to be enlarged to more definitely resolve the financial problems of the system; particularly, the long-term and the need for later retirement ages.

The action that we ask you to take will be somewhat difficult, we realize, but we very strongly believe that you must act decisively if we are to preserve social security for ourselves and for our children.

First of all, we believe that the proposed short-term solution may not be sufficient. If poor economic conditions continue, we fear that the system might again run out of money before this decade is over. We believe that the economic assumptions used by the Commission may be overly optimistic regarding unemployment levels, and especially the relationship of wage increases and price increases. If these assumptions do not prove to be correct, then the system would not have adequate financial resources.

We believe that a workable short-term solution must include two other important points. One is to postpone the annual cost of living increase for longer than 6 months. This could easily be justified because in the last 4 years cost of living increases have outpaced wage increases by 12 to 13 percent. It would take at least a year, probably more, to restore parity between the two.

Second, the calculation of annual benefit increases should be indexed to the lesser of increases in wages or prices, beginning in 1984; not waiting until 1988 as in the Commission recommendations.

We are also concerned that the recommended short-term solution is based approximately on two-thirds increased taxes, and only one-third on benefit changes. And we are somewhat disturbed by the fact that some of the additional taxes indirectly constitute a form of general revenue financing. We must control increases in social security benefits rather than simply pay for them with a variety of new taxes. Certainly nobody wants our retired citizens to suffer from inflation, but neither should they enjoy disproportionately large benefits at the expense of the working population.

Was it fair, for example, that in 1980 social security beneficiaries got a 14.3-percent raise, not taxed, while working Americans had an average salary increase of only 8.6 percent, and, of course, paid income taxes on those amounts?

Our greatest concern relates to the need to act now to schedule a gradual increase in the retirement age to 68, beginning the increase some years from now under any one of several schedules that have been proposed. The people who will be affected by such a change need time to make retirement plans. We strongly urge you not to postpone making this decision. Longevity has greatly increased since 65 was chosen as the normal retirement age. People who are aged 65 today can expect to live 3 to 5 years longer than people who are 65 when social security was begun.

That differential will go up even more by the time any retirement age increase would take effect.

We strongly endorse the concept that social security be removed from the unified budget, and that the Social Security Administration become a separate and independent agency. Social security's problems have largely come about because the system has been overly sensitive to the political process. And these changes would make it easier to take unpopular but necessary steps to maintain the sytem.

Senator CHAFEE. Could you explain that? Can I ask a question? How do you want to do this? Do you want to wait?

The CHAIRMAN. Are you about finished?

Mr. DETLEFS. Yes.

We support three brief additional points that are covered in greater detail in our written testimony. First of all, while it is reasonable to impose payroll taxes on elective salary reductions under section 401(k) of the Internal Revenue Code, we feel that nonelective contributions should not be subject to social security taxes. And, second, the taxation of benefits above a certain income level should be phased in gradually; not abruptly. And, third, we feel the system must be greatly simplified with regard to qualifying for benefits and the manner in which benefits are calculated.

We appreciate this opportunity to speak on behalf of the Association of Private Pension and Welfare Plans, and we would be glad to answer any questions you might have.

[The prepared statement of Dale R. Detlefs follows:]

Prepared Statement of Dale R. Detlefs for the Association of Private Pension and Welfare Plans

Mr. Chairman, Members of the Committee: My name is Dale R. Detlefs. I am a Vice President of Heidinger, Inc., of Louisville, Kentucky, one of the nation's largest employee benefit consulting firms.

With Manuel Castells of Kwasha Lipton, I serve as Cochairman of the Social Security Committee of the Association of Private Pension and Welfare Plans. The Association represents the private benefit industry, and my testimony today is provided on behalf of that organization.

We support the recommendations of the National Commission on Social Security Reform, but we believe they need to be enlarged to more definitely resolve the financial problems of the system.

The action we urge you to take will be somewhat difficult, but we very strongly believe that you must act decisively if we are to preserve Social Security for ourselves and our children.

First, we believe that the proposed short-term solution may not be sufficient. If poor economic conditions continue, we fear the system might again run out of money before this decade is over.

We believe that the economic assumptions used by the Commission may be overly optimistic regarding unemployment levels and especially the relationship of wage increases and price increases. If these assumptions do not prove to be correct, then the system would not have adequate financial resources. We believe that a workable short-term solution must include two other important points:

One, postpone the annual cost-of-living increase for longer than just six months. This could easily be justified because in the last four years cost-of-living increases have outpaced wage increases by 12% to 13% - it would take at least a year to restore parity.

Two, the calculation of the annual benefit increase should be indexed to the lesser of the increase in wages or prices, beginning in 1984, not waiting until 1988, as in the Commission recommendations.

We are also concerned that the recommended short-term solution is based approximately two-thirds on increased taxes and only one-third on benefit changes. And we are disturbed by the fact that some of the additional taxes indirectly constitute a form of general revenue financing.

We must control increases in Social Security benefits rather than simply pay for them with a variety of new taxes.

Nobody wants our retired citizens to suffer from inflation, but neither should they enjoy disproportionately large benefits at the expense of the working population. Was it fair, for example, that in 1980 Social Security beneficiaries got a 14.3% raise - not taxed - while working Americans had an average salary increase of only 8.6% - and paid income taxes on it?

Our greatest concern relates to the need to act now to schedule a gradual increase in retirement age to 68, beginning the increase some years from now, under any one of several schedules that have been proposed. The people who will be affected by such a change need time to make retirement plans. We strongly urge you not to postpone making this decision.

Longevity has greatly increased since 65 was chosen as the normal retirement age. People who are 65 years old today can expect to live three to five years longer than people who were 65 when Social Security was begun. That differential will go up even more by the time any retirement-age increase would take effect.

We strongly endorse the concept that Social Security be removed from the unified budget and that the Social Security Administration become a separate and independent agency. Social Security's problems have largely come about because the system has been overly sensitive to the political process, and these changes would make it easier to take unpopular but necessary steps to maintain the system.

We support three additional points which I have covered in greater detail in my written testimony.

First, while it is reasonable to impose payroll taxes on elective salary reductions under Section 401(k) of the Internal Revenue Code, mandatory contributions should not be subject to Social Security taxes.

Second, the taxation of benefits above a certain income level should be phased in gradually, not abruptly.

Third, the system must be greatly simplified, with regard to qualifying for benefits, and the manner in which benefits are calculated.

I appreciate this opportunity to speak on behalf of the Association of Private Pension and Welfare Plans, and will be pleased to answer any questions you may have.

WRITTEN SUPPLEMENT TO ORAL STATEMENT

BY

DALE R. DETLEFS

FOR THE

ASSOCIATION OF PRIVATE PENSION AND WELFARE PLANS

SUBMITTED TO THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SD-215 DIRKSON SENATE OFFICE BUILDING

Thursday, February 24, 1983

The Association is pleased to have this opportunity to submit a more comprehensive statement to supplement the oral statement presented relative to the proposed Social Security legislation.

With respect to broader coverage, this appears to be essential from the standpoint of generating additional revenue in the short term. Equally important is the fact that the recent rush to terminate coverage by certain categories of employers has exacerbated the problems of the system. Employees who are covered mandatorily often regard it as unfair that some persons (e.g., congressmen) are not required to pay the Social Security tax.

Under the proposal, state and local government employees who are not presently covered will not be required to join the system (about 28% of the total), and this reflects a timidity on the part of the Commission that may not be affordable. The constitutional question of whether the Federal government can impose a mandatory tax on a state or local government unit has not been tested in the courts. Denying these employers the opportunity to withdraw in the future may run somewhat the same legal risks; therefore, the issue should be faced now. If no legal problem develops, the oft-recommended universal coverage will essentially be achieved by the time the long-range financial problems of the system occur early in the next century.

The extremely slow process of covering federal employees is based solely on political considerations, i.e., avoiding the resistance by the powerful federal employee labor unions. It appears that that resistance is already occurring, anyway, even though no incumbent personnel are affected by the proposal.

Moving more quickly toward mandatory coverage for all employed persons would also be an important step in revenue generation, as well as making most citizens feel that the system is the same for all and fair for all.

The taxation of benefits constitutes a means test for the first time. Persons with moderate to high incomes will only net from Social Security about 75% to 90% of what would have been paid to them. On the face of it, the new rule would seem to be consistent with the manner that private retirement benefits are taxed - and even more generous because half of the benefits received will greatly exceed what would have been purchased by personal contributions. Nevertheless, the tax-free status of benefits was an attractive feature of the program for higher-paid personnel whose benefit amounts are not commensurate with the level of their contributions because the slope of the benefit formula heavily favors low-paid persons.

Furthermore, this is an indirect form of general revenue financing in that IRS collects the tax for the general treasury, and then it is paid over to the Social Security trust funds. No other income tax payments are earmarked in this way. The $20,000 and $25,000 amounts are not indexed, and over the years this exempt amount will be seriously eroded so that more and more persons will be subject to this tax.

Once the $20,000 or $25,000 income (from all sources) is reached, half the Social Security benefit is taxed. If the income falls $1 short of these amounts, the benefit is not taxed. Obviously, Congress needs to remedy this inequity and provide some gradation.

Changing the cost-of-living increase to January 1 is a desirable provision in the sense that the cost-of-living payments have probably been over-indexed for several years, and it represents a substantial cost savings which is vital to the system at the present time. Also, most Social Security changes occur at the beginning of the calendar year, and it is probably desirable for the cost-of-living change to become effective at that time, too.

Acceleration of the tax rates is necessary for the short-term financial health of the system. The tax credit for 1984 is, once again, a form of general-revenue financing which is not a desirable feature. The fact that it is a one-year only provision minimizes this objection.

The provisions that relate primarily to women are directed toward certain inequities that have existed for years and which have a very minor cost associated with them and, consequently, are desirable.

The reduction of benefits for employees with relatively short coverage by Social Security represents a cost savings and is desirable because it addresses itself to ~~the windfall~~ benefits that certain retired government employees often receive from the Social Security system.

Making the self-employment tax rate for the cash benefits program (OASDI) comparable to the combined employer-employee rate is a desirable feature because, while benefit payments have been identical, taxes paid by the self-employed have been only one and one-half the OASDI rate in recent years as compared to the combined payments made by employers and employees. The fact that the additional tax becomes a deductible item on the individual income tax return is not objectionable because the identical result could be obtained if the self-employed person incorporates.

Crediting the Social Security trust funds by an immediate lump-sum payment for certain military service is a desirable feature because, under present law, these payments would have been made anyhow in future years.

Increasing the delayed retirement credit is desirable because it addresses itself to the fact that the 3% delayed retirement increment is nothing close to an actuarial equivalent, and it may also create an incentive for people to retire later, which should constitute some short-term savings to the system. This change involves a small additional long-range cost, however.

Reallocating the tax rates is a desirable feature in that the Disability Insurance Trust Fund, with its improved experience, is receiving too large a share of the total tax receipts. Permitting interfund borrowing is desirable during the mid-1980s because the financing during this period is very thin, and the flexibility provided by the borrowing provision may be needed.

Altering the cost-of-living formula if the fund ratio falls below 20% is a step in the right direction, but the percentage is too low to avoid potential problems. Also, the Commission would have been better off by simply recommending that the annual cost-of-living adjustment be based on the lesser of prices or wages. This provision represents one technique, but others could have been designed into the system so as to avoid the need for major legislation on a regular basis.

One of the more serious problems is the long-term deficit of approximately 1.8% of payroll, one-third of which, or .58%, remains. It would seem that, considering the substantial increase in longevity, the Commission might have taken a more aggressive position relative to later retirement ages. Also, the benefit formula could have been modified in such a way as to preserve the purchase power of future benefit payments rather than increase them as is true of the present system of indexing the bend points in the benefit formula.

Taxing salary reduction amounts appears to be a reasonable technique to increase Social Security revenues in that it is obviously a form of direct compensation as opposed to non-cash benefit programs. This should only apply to elective contributions, however, and not mandatory ones.

Removing the Social Security Administration from the Department of Health and Human Services and making it an independent agency and, also, separating the operation of the trust fund from the federal budget are desirable provisions in that they may help reduce political considerations in connection with Social Security legislation.

The compromise plan may be as good a proposal as is politically feasible, considering the wide spectrum of interests and social philosophies that were represented by Commission members. Since some two-thirds of the problem was resolved by increased taxes and only one-third by benefit changes, one must wonder whether this represents "compromise." It would have been far better if half of the financial imbalance could have come from each of these approaches.

The Commission did not go far enough in resolving the short-range problems of the system because, in absence of reasonably good economic conditions, there is still a risk of continued imbalance between revenues and expenditures for the system during the mid-1980s. Obviously, the long-range problem needs further attention at this time, as well.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Well, Mr. Chairman, I guess we have one more witness, and I will wait.

The CHAIRMAN. He's not on this panel.

Senator CHAFEE. Oh, I see.

The CHAIRMAN. He's just an early starter. He wants to get going.

Senator CHAFEE. All right.

I'm not arguing your point that it should be removed from the unified budget and become a separate agency, but I'm not sure why that would make it less sensitive to the political process. I'm interested in how you arrived at that conclusion.

Mr. DETLEFS. Mr. Chafee, in July 1981 I was at some hearings that Mr. Dole conducted in this room. And I heard Mr. Moynihan address that point, as I recall, about balancing the budget at the expense of older citizens and so on. And because it is part of the unified budget, I think that that claim is going to be made from time to time as we tamper with the social security system.

Now I recognize that this is essentially a perception, but the numbers do not necessarily change. But as Mr. Cohen said earlier today—and I agree with what he said on that point—there is that perception that those kind of efforts are made from time to time.

Senator CHAFEE. Well, I'm not arguing with you. It just seems to me the danger of the political process is that there will get to be a little money in this fund, as the predictions show—it will rise up to 59 percent, I guess—and then immediately somebody running for President will leap up and suggest a 15-percent increase in benefits and it will go storming through with all of us voting for it probably. So I think that's the danger as I see it.

And I don't know how you sense to—whether it is an independent agency or some other place, I don't know how you insulate it.

I would just like to ask this question. Again, not quibbling. Mr. Post says that the—on page 4 of his statement, that the life expectancy would be 74, and you, Mr. Kellison, indicate that it would be 71.

Mr. KELLISON. Our written statement expands on my oral statement. Today the life expectancy at age 71 is approximately the same as it was at age 65 in 1935. By the year 2000 or 2010, which is when the real baby boom bulge starts to hit, it will be approximately age 74. I think those are based on consistent numbers. And our written statement does expand on that point.

Senator CHAFEE. I see. You are right. Mr. Post does say by the year 2000. You are absolutely right.

Let me just ask each of the gentlemen a question. And some of you have covered this in your testimonies. But I don't think you covered it Mr. Austin. That is, what do you think of the official statistics that the social security has produced regarding longevity figures for the outyears? In other words, what concerns me is that the projections are not going to be accurate because people are going to be living a lot longer than the official predictors say so. Do you agree with the social security figures?

Mr. AUSTIN. I am not an actuary. I suspect that our colleague here would be better equipped to answer that than I am. I believe that the figures which they have used are consistent with those which the life insurance industry has used, for example, being our best predictions.

I think that if I may—having stated that I am not an expert, I think what is really happening is that we are having an increase in longevity up to a certain point, but we are not necessarily extending—you know, these ideas that people are going to live to be 150 years old is all foolishness. What we are doing is, as somebody says, squaring out the mortality rectangle. We are keeping people alive more up to the normal end of death, and thus the improvements in health care, for example, which is now existing, will not have probably as much effect on longevity as some have had in the past.

Is that a reasonable statement?

Mr. KELLISON. Yes, I would agree with that. I think our evidence indicates that the improvement in longevity is coming by getting more people into their seventies and eighties, but it's not the type of situation where large numbers of people reach their nineties or over 100. I think it's fair to characterize the mortality forecast of the social security actuaries as anticipating continued gradual improvements in mortality, typical of recent gains in the past few years. They do not anticipate quantum breakthroughs, if you like, in longevity that would arise from dramatic cures to cancer and heart disease. That type of thing would dramatically affect mortality in a very sudden fashion. If anything of that nature were to occur, then, the forecasts could be on the low side. That might be possible. They are not based on that kind of quantum improvement.

Senator CHAFEE. Well, I don't anticipate, as Mr. Austin said, that people will be living way out into the 100's. But as more and more people move above 65 and maintain their health and to remain healthy until 74 or 75, that, obviously increases—what's the technical term I am looking for—the average life expectancy very, very dramatically.

Do you believe that that is occurring?

Mr. KELLISON. Yes, that definitely is occurring. Has occurred, is occurring and will continue to occur.

Senator CHAFEE. I guess I am just such a skeptic on the statistics that we have received. As I guess Senator Long said, if they had told us the right figures in 1977, we might have done things differently. But 1977 was only five years ago, and how they could have been wrong. I don't think it's all based on the economy. I think it's a whole variety of factors that have caused this to go askew.

Mr. KELLISON. Could I address that point? I think that the assumptions that were used in 1977 that have gone furthest off the mark are the economic ones. What has happened in the past five years is unprecedented in post-World War II history; namely, that wages are going up slower than prices over an extended period of time. And that is what has caused the short-term financing problems that have developed since the 1977 amendments.

The demographic assumptions that were made in 1977 have not been far off the mark. So the short-term problems that have developed in the last few years that you are trying to deal with for the rest of the 1980's are very much attributable to the economic assumptions.

Obviously, economic assumptions are difficult to predict. Actuaries have no better crystal ball than the economists do. But the demographic assumptions are pretty reliable because these people have already been born. The baby boom people are already born. The subsequent baby bust that is going to be paying for their benefits—those people are already born too. Longevity will change slowly. Birth rates may change slowly. But the large wave of people are people who are alive today and that's an immutable fact. And so I think the demographic projections are quite reliable.

Senator CHAFEE. My time is up.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. I would like to speak to my colleague's words for a moment, and make what is a little philosophical point.

This is a marvelous panel. I'll be happy to hear that any of you gentlemen think I'm wrong, but with respect to an enormous subject, including life expectancy, human society in the last century and a half has gone through a rather sweeping S-curve. An S-curve is a common phenomenon. Very slow and then swooshing up. It's true in travel. And I think it is probably true about the length of life as well. Bodies wear out at a certain point. And a great many more are getting to that point. But we cannot go much beyond that point. We are getting pretty close.

The second thing I would like to say is that we have a stabilizer provision in the Commission report. The White House ran a simulation of the experience of the last 5 years, whereby you switch to the lesser of wages or prices to index benefits. They ran the system for the last 5 years and found that had you had that in place, you would not be where you are today. You had something that had never happened in history—an inflationary recession, something that, since it had never occurred, would have been hard to anticipate.

Mr. KELLISON. Yes, that's quite correct. That has been documented in the actuarial literature. And you would not be here today with a short-term problem if, in fact, in 1977 you had had a provision like that.

Senator MOYNIHAN. Mr. Kellison, you do note that the actuarial statements that you are interested in have been voluntarily included in the last two reports. You would like to see it made statutory. Is that it?

Mr. KELLISON. Yes, we would. We reached that conclusion in our committee.

Senator MOYNIHAN. Are you sure this is not professional aggrandizement?

Mr. KELLISON. No, it isn't, Senator.

Senator MOYNIHAN. If it isn't, it's the only known instance of it not being so in this committee. [Laughter.]

Everybody else who comes up here.

Mr. KELLISON. Well, it won't create jobs for actuaries if that is what you mean. The Social Security Administration has a fine array of actuaries. And they are going to continue doing their jobs regardless. We hope to try to insulate them as much as possible from political pressures. We feel that any administration, liberal, conservative, Republican, Democrat, what have you, have their official economic forecasts. And it would be helpful if the actuaries are in a position to form a free, independent judgment as to the effect on social security without being subjected to that kind of pressure.

We think the statement of opinion that was voluntarily added in the last 2 years is a very healthy development, and we would very much like to see it continued.

Senator MOYNIHAN. It may not require another law.

Could I make one more point that several of you made? I guess it is best to tell it at this point, too. There is nothing we can do about it now, but this program is too complicated. You can't figure out how much you are going to get.

Which member of this committee would volunteer to demonstrate how much social security benefits are going to be?

Mr. GREGG. That's what you have the salesmen for. To do that for you.

Senator MOYNIHAN. Now I know why it is so complicated. [Laughter.]

But there does need to be some effort to simplify and in a larger effort to explain this. I wish it were so. I have no solution to it. Mr. Gregg, I'm glad there are salesmen because what you do is explain to people what they can expect under social security, and then what they would need from life insurance to supplement it.

Mr. DETLEFS. We have been talking a lot about the statistics here. And referring to Mr. Cohen's point of the fallacy of looking at averages, he said that some people do get sick and can't work anymore long before they are 65. Well, some also get sick in their fifties or their forties. I think the important thing is that the significant numbers who get sick and can no longer work—that's occurring at an age that keeps moving up, as does, of course, longevity itself.

Senator MOYNIHAN. Thank you very much, gentlemen. It was a very rewarding panel.

The CHAIRMAN. Senator Long.

Senator LONG. I just want to make this point about the estimates. From my point of view, the estimates that they gave us were wrong. But to be fair about that, it is not as wrong as many of the other estimates. After all, it's hard to ask people to anticipate that a Khomeni will come to power in Iran and that we will have a worldwide crisis on oil, which will run up the price and put a lot of people out of work. It's hard to anticipate that we would have policies that would let the other countries cheat on the trade rules while we don't react to do something about that in our own interest. Or we let millions of illegal aliens come in and displace Americans at their jobs and not be tough about it in enforcing those laws so that we have all those people on the rolls on the taking-in end rather than on the putting-up end.

I suppose we have a right to complain that they should have been more conservative in preparing their estimates so that if they were offering a guess, then it should have been on the safe side. But this estimate, compared to other estimates coming out of the same department, could really be a landmark in inaccuracy. Some of their other estimates on major items have been off by as much as 100 to 1, 40 to 1.

For example, when Abe Ribicoff came in here recommending that little amendment for social services, their estimate was that it would cost us $40 million a year. We finally managed to get the lid on that program at a time when it would have cost us over $4 billion that year. That estimate was off by 100 to 1. That's 100 to 1 the year we managed to get the lid on it. If we hadn't gotten the lid on it, it would have been off by 200 to 1. The matching was so generous that States would have made their State highway programs a social service, parhaps on the grounds that those highways provide a transportation service which is a kind of social service.

That estimate, as far as a wrongful estimate goes, was wrong because it did not have enough reserve in my judgment. But compared to their other estimates, it was a magnificent estimate.

Now that just argues that we ought to be more conservative actuarially in estimating these things. They had a conservative actuary in Bob Myers, but he resigned, and retired, and went on his way, and let somebody else take that job over.

Now I am concerned—and I would like you to comment if you want to—about the longer life that will come from what I believe are reasonably anticipated medical breakthroughs. It seems to me that we have every right to expect there will be significant breakthroughs in treating cancer during the next 20 years, and significant breakthroughs in treating heart and circulatory problems. I would just like to ask you gentlemen this: Don't you anticipate that we are going to make some major headway in those areas? You are thinking about it and looking at it.

Mr. GREGG. May I make a comment to that, Senator?

Senator LONG. Sure.

Mr. GREGG. Mr. Austin referred earlier to his rectangle curve where things get better, and better, and better. And the end of the mortality table is not necessarily 99 or age 100. But all of a sudden, zoom, there is a cut-off, and we live longer.

During the time that I have been in the life insurance sales business, the population of the country has grown appreciably. But all of the people who are over age 65 today were alive when I came in the business 34 years ago. Now when I came into business in 1949, there were 11 million people over age 65. And the figure now, I believe, is 25 to 26 million people over age 65. And the projection is for somewhere between 37 to 50 million. And all of these people—the strange phenomena is that all of these are consumers. Are they not? They are consumers and they eat food. And they must be fed. Now they will live longer. In the last couple of weeks, there have been a number of national magazines talking about unusual breakthrough in the cancer area, cancer treatment area.

If this happens, combined with the prolonged life expectancy caused by open heart surgery and this type of thing, then this rectangular curve that Mr. Austin talked about is going to go up to 90, and then drop off precipitously to age 99.

Actually what they will do, I hope, is give us a new mortality table. It may be 103, 104, 105 before I die. I hope that is true.

Senator LONG. But that's definitely a possibility. If that materializes, doesn't that mean we will have to raise the tax again or adjust benefits?

Mr. GREGG. We're going to have to adjust benefits. We are going to have to raise the retirement age. Somebody asked not long ago what was so sacrosanct about age 65 for retirement. And it was probably because at that time if a person retired at 65, and he just had a couple more years to go, and he could enjoy that up in Wisconsin or Minnesota. But I am, along with the chairman of this committee, just a few years away from 65, and I hope to go on in my work for many, many more years. Age 65 is a meaningless thing for a lot of people anymore.

But maybe that will have to be changed. At least we are recommending it.

The CHAIRMAN. Senator Pryor.

Senator PRYOR. Yes. This does relate to the 65-age issue. In our society we sort of have three key ages that you are brought up to believe in or certain guides. It used to be 21 to vote and to become an adult. So now it is 18. So we have seen that one change since 1972. And then the next one is—we are told you have got to be 35 to be President, so that's another key benchmark. And then, once again, the sort of arbitrary figure of 65. You may have gathered figures on this. I have not seen the figures. How many Americans would like to continue working after 65? Have we seen any tables or polls for an ascertainment of that number?

Mr. AUSTIN. I haven't any tables but I can tell you as an employer that there has been one constant trend since World War II, and that has been people retiring earlier. There has been some years when the class of people who were going to be 65 in that year were already all gone before the year started. My personal perception is that people don't necessarily want to work longer, but they do want to have the right to work longer if they decide to later on. I don't believe people generally want to work longer unless they are terribly concerned about their economic situation, their social security or whatever it might be.

Senator MOYNIHAN. Could I just remark to my colleague that we heard testimony the other day that the average age of retirement in the private sector is the age 62. Is that your understanding?

Mr. AUSTIN. I would support that based on empirical observations.

Senator PRYOR. I may be so wrong, and I certainly don't have the facts and figures that all of you distinguished gentlemen have, but I have always felt that upon retirement even though we built it up to be the great golden years of leisure, and taking your trailer and going off to the mountains or to the beaches and living this great life of serenity and plenty—I just really believe that on the whole the human condition sort of starts to deteriorate the day one retires. It may be fine for 3 or 4 months, but I don't think Americans—I don't know whether they are ready to retire at that age. I think we have seen some studies about what happens socially, psychologically, and then ultimately physically to the human condition. And I just wonder if you have seen any studies like that. I think that would be interesting, and it should be factored into some of these conditions.

Mr. AUSTIN. Again, I'm speaking as a layman. It seems like everywhere I go I am a layman.

Senator PRYOR. Well, we are laymen on this.

Mr. AUSTIN. Right.

I think that the greatest opportunity that we have in this country in view of budgetary constraints and that sort of thing is to encourage a vast increase in voluntarism by retired people. Volunteer work with social agencies or whatever. Obviously, that's not within the purview of this group, but I think that is the real opportunity. Something for people to look forward to do rather than the trailer on the beach. That will not work.

Senator LONG. Could I make a comment?

Senator PRYOR. Certainly. I don't have any more.

Senator LONG. On this subject I would like to comment a little bit further.

We have all kinds of good people who are retiring because of provisions in the tax laws that are not related to their problems. We just haven't focused on this issue. A friend of mine who was a former officer of the FBI, and a very fine law enforcement agent, decided he would retire and stay retired. He is not interested in doing anything else because when he looked at what his taxes would be, he will be paying 50 percent tax on whatever he makes if he goes back to work—and when he looks at the expense and the bother and the taxes, it is just not sufficiently rewarding to fool around with it. So when somebody talks to him about doing something—he says, "Sorry. I am just not interested."

One of our colleagues that everybody here knows personally—I won't state his name—a former U.S. Senator who is retired, is not interested even on lobbying on some minor thing where he was an expert when he served in the Senate. He is just not interested in doing anything other than enjoying his retirement. If somebody wants him to do anything, he just refers them to somebody else. He would just rather not be bothered with it.

I had a secretary at one time who in my judgment, certainly by the time she retired was the most efficient secretary on Capitol Hill. She was the speed champion in the State of Illinois for both typing and shorthand before she went to work for the man who was then the Majority Leader, Scott Lucas, and many times she was left in charge of my office.

That woman came in one day and said she was going to retire. I asked her why. Well, she said, "I just figured this out. When I look at what little I make by going to all the trouble of buying better clothes and driving down to the office and all the expenses I have, and what I can draw by staying retired, Senator—when you compare those two figures, what you are paying me is peanuts. And that being the case, I am not interested in continuing to work."

We have passed the laws that make it so attractive to retire, and by contrast so much less attractive to continue to work, that we are confronting people with almost a requirement that they retire if they have common sense. It seems to me as though we ought to be changing some of that.

Mr. AUSTIN. Senator, may I suggest that our concern, which I believe everyone on this panel has expressed, about social security benefits increasing faster than wages is only compounding the problem that you are talking about. We have it in our company. We have had lower paid people who actually improve their income by retiring with a rather modest pension, plus their social security and so on. That does not seem right.

The CHAIRMAN. Senator Chafee has another question.

Senator CHAFEE. I just want to say in answer to what Senator Pryor said about in his view that people didn't thrive on retirement. He knows his people very well. I can just report up my way that they can't wait to retire. [Laughter.]

I don't know whether the jobs are dull or what or they want to head off to Florida, but like your experience, you have nobody left around at 65. When 62 comes, they head for the hills. And some may stick it out until 65; not for the love of their work, but because they want a little increased pension when 65 does come.

That law extending the age of retirement to 70 has no effect at all in my State. They are all gone by then.

But I do want to ask you gentlemen why did some of you plug for extending the retirement age to 68? Mr. Austin, I can't remember who did.

Mr. AUSTIN. I believe everyone here suggested age 68, Senator Chafee. Now why? Was it for an actuarial concern?

Mr. AUSTIN. We have taken the position—and this subject has been discussed considerably of the lengthening of life or life expectancy, which is at least 3 years, perhaps 4 years longer now than it was previously, and obviously for reasons we have discussed. We are talking about arriving at this date 20-plus years from now. And that seems like a reasonable basis.

Senator CHAFEE. Well, let's not debate whether you are moving into it in general fashion. Let's assume that for the sake of discussion. As you know, the Commission, the group in the Commission that said let's extend it to take care of this one-third problem that is not covered, go to 66 in 2012. But you have gone to 68. Now that's a dramatic difference. Why?

Mr. AUSTIN. No. 1, I do not have the statistics of the Commission in front of me, but I do not believe that a 1 year extension quite did it. Wasn't it somewhat less than the——

Senator MOYNIHAN. Well, we have since got a second set of assumptions. And it would do it.

Mr. AUSTIN. Well, it seems to me that there needs to be some conservatism in here. In fact, I would say to Senator Long that if there is any place in all of government where we need to use conservative assumptions, it is in social security. Because the down side of not making it is so traumatic. It seems to me that an increase of this amount is within reason. If age 65 was OK in 1965 or really 100 years ago in Germany—am I not correct? Isn't that where the age 65 retirement actually came along?

Senator CHAFEE. Well, that's what they always say, but let's skip——

Mr. AUSTIN. But it's a long time is my point that it has been 65, during which time mortality has improved remarkedly. But it is arbitrary, obviously.

Senator CHAFEE. All right. Mr. Kellison, did you go to 65, too, in your recommendations?

Mr. KELLISON. Our committee did not take a specific position on that issue. I think that privately in discussions with most of the committee members they feel that it will ultimately need to be higher than 66, which is in the Commission's proposal. We think that 66 is a step in the right direction, but I don't think it is really enough to do the job. When you take into account medicare, we are looking at severe deficits when the baby boom generation retires. And I think at that point in time something greater than 66 will be necessary to keep the tax situation under any degree of control. And I think the big problem in the retirement age is not, in my judgment, to increase it, but it's to do it precipitously.

Senator CHAFEE. Yeah, we recognize that.

Mr. KELLISON. If you start doing it now for 20 years from now, it's much easier to do than when you have to do it on a crash basis. Then it does get to be a real problem to take someone who is 60 or 61 and all of a sudden tell them that four or five years from now the age is going to move up. That is too drastic to be reasonable.

Senator CHAFEE. Mr. Detlefs.

Mr. DETLEFS. We recommended 68. And there were a couple of reasons for this. One is that longevity, of course, has gone up that much so all you are doing really is maintaining the relationship of working years to retirement years. But I think the main reason is it has a tremendous impact on the financial aspect of the system because if we pay into the system for 36 additional months, but 36 fewer checks, then, obviously, the combination of that should take care of most of that long range problem.

And I endorse what Mr. Kellison said about the HI problem because HI is financed through the payroll tax, too. And that is awfully important. I think the demographers would tell us that we are on the brink of having certain labor shortages later on, too, and working later might be very necessary.

I might also say that Bismarck established the retirement age at 70. It's an often quoted myth that it was 65. And I see that Bob Myers has entered the room, and I am sure he will be glad to furnish anyone with the original of the German document, and the English translation as he has done for so many people over the years.

Senator CHAFEE. He's nodding assent back there so I guess the Bismarck of 70 was correct. Right, Mr. Myers?

Mr. MYERS. Yes.

Senator CHAFEE. Thank you.

The CHAIRMAN. What date was that?

Mr. MYERS. Somewhere around 1887.

Senator LONG. While they are all in the room, who does know where the 65 came from? Mr. Myers ought to know it. You tell us, Mr. Myers.

Mr. MYERS. Senator Long, the 65 came from just a political or logical compromise. You recall that in the mid-1930's it was the Townsend movement where Dr. Townsend wanted to pay $200.00 a month to everybody aged 60 and over. Other people suggested age 70 because that was the retirement age in many private pension plans, and especially the railroad pension plans which were numerous.

So 70 seemed far too high to people. Sixty was far too low because of a matter of cost. And most people 60 were still working so you picked a figure in between. And the only nice round figure was 65.

Senator LONG. That's like the 27½ percent depletion allowance. It was a mid figure between 25 and 30 percent. One House had 30 percent and the other House had 25 percent and so they came out at 27½ percent out of conference.

Mr. MYERS. That's right.

The CHAIRMAN. Well, Mr. Myers is going to testify later on today or whenever you are ready.

Mr. MYERS. Whenever you want, Senator.

The CHAIRMAN. And you are supposed to clean up all the problems we have left in 5 minutes. [Laughter.]

Are you worried about the social security trust fund reserves? Can you give us any help on what reserve level we ought to try to maintain? It used to be 100 percent of outgo until about 1970. Now we are down to about 14 percent.

Mr. KELLISON. And that is essentially the minimum you can be at because you have 1 month's benefit to pay at the beginning of the month. You get much below that, you couldn't pay benefits on a timely basis. The reserve level is a judgment call. I think every group that looks at that comes up with a different number. Certainly from a conservative point of view, a number substantially higher than that is warranted. I think, as our statement pointed out, the triggering mechanism that goes into effect in 1988 uses 20 percent as the benchmark, as the point at which that would kick in. That may be high. It may be low. It depends on how you look at it. But I certainly think it could be looked at as not leaving much margin. It isn't very far to drop from 20 percent down to 12 or 14 percent.

In fact, the ratio didn't get as low as 20 percent until as late as 1981. And we knew well before 1981 that we had serious problems. So a 20 percent benchmark is quite a low figure.

The CHAIRMAN. There has also been some discussion that maybe we ought to accelerate that. Instead of 1988, it ought to be earlier. I am not suggesting it will happen.

Can anybody else think of any other savings measures that would not violate the compromise that we haven't touched on? I mean we will make some adjustments. As you probably know, there's a notch effect in the tax that must be addressed. And there are some questions on the fail-safe mechanism. I don't share the view of the House to turn to general funds anymore than we are general funding now. We have done a substantial amount of that to get the compromise.

You don't quarrel with the self-employment tax? The deduction?

Mr. AUSTIN. No.

Mr. GREGG. No.

Mr. KELLISON. No.

Mr. DETLEFS. No.

The CHAIRMAN. There are some who would like to change that to a credit. Not a refundable credit. But I know the realtors testified that that would make it more acceptable.

Mr. DETLEFS. I think it should be pointed out that the present benefit formula provides for ever-increasing levels of purchasing power. And that some modest tampering with that formula could preserve purchasing power into the future, and still reduce the cost to the system. So that is an important alternative, or maybe a partial alternative along with later retirement ages with respect to the long-term problem.

The CHAIRMAN. Is there a fairly good feeling among those of beneficiary age about what Congress may do on social security? Do they have confidence that we are going to try to responsibly protect their interests?

Mr. GREGG. Because of my rather advanced years, Senator, I am dealing more and more with the beneficiaries who I talked about earlier. And they are coming into my office in ever-increasing numbers. And as I myself approach age 65, I imagine that this will escalate.

Yes, they are concerned. But they are concerned about only one phrase that they hear over and over and over and over again. And I really don't understand it because they are talking about will there be more cuts in my benefits. And I ask them, "What cuts are you referring to?" And I don't know whether Senator Moynihan or Senator Long asked about how do you figure these things. But we use a handy-dandy chart that has been computerized for us. We used to have to figure it out years ago by formula, but we can turn to a certain page and illustrate immediately what their benefits are and assure them that nothing has been cut, and that there have been no proposals so far to cut benefits as they now exist. There have been proposals to realign the COLA's, and possibly to eliminate the COLA's, but not the existing benefits. But they seem to be concerned about what they are reading. And their reading tells them their benefits are going to be cut. And that really is the only apprehension we have.

Senator LONG. Could I comment on that?

The CHAIRMAN. Go ahead.

Senator LONG. If you had that chart out there and you were showing these dear old people what they are going to get in July of next year, if you had an old chart on hand which showed what they were going to get under the old law, they are going to get less with the change. So I would think that if I were one of the people out there and you had given me your estimate of what I was going to get, I would say that I had been cut. And to me it wouldn't make too much difference whether you cut me because I didn't get my cost of living adjustment or just how you went about doing it—if I was a beneficiary, I would figure you had cut me. So, basically, we are talking about the adjustment that you would have had coming under old law. If we don't pass any of this proposal, those people will be entitled to more money.

I don't see how you can argue that any other way. I mean based on what they would have gotten, it has been reduced. The way it was reduced was just by reducing what their cost of living increase would have been. How can you arrive at any other conclusion than that, Mr. Gregg?

Here are three words you use. "Not cut, realigned." They will get less money than they would have had otherwise. That's like calling a tax increase a reform or eliminating a tax expenditure or some such thing as that. To cut tax expenditures sounds like you are cutting government spending, but what you are doing is raising someone's taxes when you do that.

How can you convince social security beneficiaries that they haven't had a benefit cut?

Mr. GREGG. Thank you, Senator. I think it's a question of semantics. When I came into the business that I am in, we talked about guarantees and we projected those guarantees. And as you well know, almost every session of Congress since 1937 has increased to one degree or another a benefit, and then guaranteed it. And I think semantics are involved when we talk about the COLA's, the cost of living adjustments, and the guaranteed benefits. And I did not mean to exclude the cost of living adjustments. I was talking about the guaranteed benefits in the law.

Now you are obviously saying, and I appreciate——

Senator LONG. Well, the cost of living increases were guaranteed.

Mr. GREGG. I appreciate that, sir, they are. And I am just saying it is a question of semantics and I personally don't view it that way. That's all.

Mr. DETLEFS. Perhaps the most significant element of the 1977 legislation was the change in the method of computing social security benefits. And I suppose it could be said, therefore, they were cut, but when the old method was providing ever-increasing levels of benefits far in excess of the inflation rate, and you are simply trying to address that problem.

Then, again, I agree with Mr. Gregg. It's a matter of semantics. In the last 15 years, benefits have gone up something close to 150 percent of cost of living partly because of the very substantial increases voted that were in excess of cost of living such as 20 percent in 1972. And, of course, even a few years before that we were voting increases in the Congress far in excess of the cost of living.

Senator LONG. I helped make those changes in the law. But my view of this thing is that the only way you can honestly tell those people that they hadn't been reduced is to tell them when you are advising them on what they have coming to them that Congress might change the law.

Mr. GREGG. We have, sir.

Senator MOYNIHAN. I wonder if I could just discuss this. What you find out there is a more generalized perception that they are cutting up programs, and they are going to cut them more, and the reality is not what we are recording here. That's a deception.

I share your view.

The CHAIRMAN. That is what the mail reflects from Kansas and other States. I don't think that people believe you can't touch the COLA or delay the COLA. I think they are talking about cuts in the basic benefit structure, which we are not touching. Under the compromise, everybody gets to contribute a little bit to the recovery of the program. That's why, as someone has suggested, the compromise is very fragile. That may be its strength. We don't dare lose a chunk of the compromise, because I don't know where we would go to find a replacement for it. No one wants additional taxes. Some might like more reforms, but it is not politically possible.

Well, we appreciate very much your excellent testimony. As I have indicated, your statements will be made a part of the record.

I would like to put in following Mr. Cohen's testimony the list of the Save Our Security members. There are 140 member organizations in that group. That will be made a part of the record.

Thank you very much. We will see you later.

I might say Senator Grassley is tied up in a Budget Committee meeting or he would have been here.

STATEMENT OF DR. DAVID W. MUSTOE, EXECUTIVE SECRETARY, PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI, JEFFERSON CITY, MO.

The CHAIRMAN. Mr. Mustoe, you are the cleanup witness for this morning. You may proceed in any way you wish. Your entire statement will be made a part of the record. And we appreciate you appearing here this morning.

Dr. MUSTOE. Thank you, Mr. Chairman. I will be as brief as possible. First let me apologize to the committee, and to the gentlemen who preceded me for my attempt to crash the previous panel.

The CHAIRMAN. It was a pretty good group.

Dr. MUSTOE. It was a good group, and I was proud to be seated with them. Apparently I misread the schedule.

I am David Mustoe, executive secretary of the Public School Retirement System of Missouri. I appear here today on behalf of more than 70,000 active and retired Missouri public school educators.

We in Missouri are aware of the problems you face in the social security commitment. We commend the National Commission on Social Security Reform in its efforts to find equitable and feasible solutions to the problems. We extend our support to this committee and to the Congress as it faces the difficult decisions which lie ahead.

The Public School Retirement System of Missouri currently pays annual benefits of approximately $90 million to more than 15,000 retirees, disabled former teachers and beneficiaries. Missouri teachers pay a substantial percentage of their salaries to the retirement system, which is matched by the school district employers. The system is an actuarial reserve plan, building financial reserves to assure the payment of present and promised benefits.

This retirement system was established in 1946, prior to the time that public employees were extended the right of social security coverage. Missouri public school teachers later elected not to enter the social security system, believing that Missouri could build a better, more professional program than could be provided at the Federal level. The intervening period has, I believe, proven the validity of that thesis. Missouri now has one of the soundest and most professionally rewarding teacher retirement systems in the Nation. It has reached that position because Missouri teachers and taxpayers are willing to provide the necessary financial support, teachers are willing not to ask for benefits which could not be funded, and a State general assembly improved the system in a fiscally responsible manner over the years.

Missouri teachers are pleased that the Commission has not recommended extension of social security coverage to State and local government employees like themselves. We believe this to be wise both from the standpoint of questionable constitutionality and the perceived damage to many public retirement systems that could result.

At the present time, this retirement system has assets of almost $2 billion invested solely in American enterprise. The system grows at the rate of about $300 million each year, and has been projected to exceed $6 billion within 20 years. More than 60 percent of the fund is invested in long-term corporate bonds, with the balance in guaranteed mortgages, common stocks, and short-term discount notes. Less than 3 percent is committed to government securities.

Retirement plan funds make a significant contribution to the generation of the Nation's investment capital. If Missouri teachers were to be forced into the social security system, the flow of these moneys into the American business economy would be seriously curtailed. At a time when the Nation is faced with a serious economic recession, a formidable national deficit, and an unacceptable rate of employment we must not, I believe, restrict the production of investment capital so important to the solution of these problems.

I'm certain your committee shares our concerns with the recommendations of the National Commission; implementation of those proposals of the Commission would affect us all. The Commission has struggled with enormous problems, problems for which there are no simple or painless solutions.

Mr. Chairman, you and your colleagues must insure the continuance of a national retirement system vital to the financial security of so many Americans now, and in the future. As you begin your deliberations, I hope you will remain ever mindful of the contribution which professional retirement plans like that of Missouri teachers make to our society. We wish you the best in your endeavor, and we extend our support to you.

Thank you for this opportunity to speak for Missouri teachers.

[The prepared statement of Dr. David W. Mustoe follows:]

PREPARED STATEMENT OF DR. DAVID W. MUSTOE

Mr. Chairman and members of the committee, I am David W. Mustoe, Executive Secretary of The Public School Retirement System of Missouri. I appear here today on behalf of more than 70,000 active and retired Missouri public school educators.

We in Missouri are aware of the problems facing the Social Security System in fulfilling its commitment to American working men and women. We commend the National Commission of Social Security Reform in its efforts to find equitable and feasible solutions to these problems. We extend our support to this Committee, and to the Congress, as it faces the difficult decisions which lie ahead.

The Public School Retirement System of Missouri currently pays annual benefits of approximately $90 million to more than 15,000 retirees, disabled former teachers, and beneficiaries of deceased teachers. Missouri teachers pay a substantial percentage of their salaries to the Retirement System which is matched by their school district employers. The system is an actuarial reserve plan, building financial reserves to assure the payment of present and promised benefits.

This Retirement System was established in 1946, prior to the time that public employees were extended the right of Social Security coverage. Missouri public school teachers later elected not to enter the Social Security System, believing that Missouri could build a better, more professional program for its own career educators than could be provided at the federal level. The intervening period has proven the validity of that thesis; Missouri now has one of the soundest and most professionally rewarding teacher retirement systesm in the nation. It has reached that position because of the willingness of Missouri teachers and taxpayers to provide the necessary financial support, the considered restraint exercised by those teachers in not asking for benefits which could not be funded, and a far-sighted and supportive state general assembly which has steadily improved the retirement program in a fiscally responsible manner.

Missouri teachers are pleased that the Commission has not recommended extension of Social Security coverage to state and local government employees like themselves. We believe this to be wise, both from the standpoint of questionable constitutionality and the perceived damage to many public retirement systems which could result.

At the present time, The Public School Retirement System of Missouri has assets of almost $2 billion, invested solely in American enterprises. The System is growing at the rate of about $300 million each year, and has been projected to exceed $6 billion within twenty years. More than sixty percent of the fund is invested in long-term corporate bonds, with the balance invested in guaranteed mortgages, common stocks, and short-term corporate discount notes. Less than three percent of the funds are committed to government securities.

Retirement plan funds make a significant contribution to the generation of the nation's investment capital. If Missouri teachers were to be forced into the Social Security System, the flow of these monies into the American business economy would be seriously curtailed. At a time when the nation is faced with a serious economic recession, a formidable national deficit, and an unacceptable rate of unemployment, we must not, I believe, restrict the production of investment capital so important to the solution of these problems.

I am certain that this Committee shares our concerns with the recommendations of the National Commission; implementation of the Commission proposals would affect us all. The Commission has struggled with enormous problems, problems for which there are no simple or painless solutions.

Mr. Chairman, you and your colleagues must ensure the continuance of a national retirement system vital to the financial security of so many Americans now and in the future. As you begin your deliberations, I hope that you will remain ever mindful of the contribution which professional retirement plans like that of Missouri teachers make to our society. We wish you the best in your endeavor, and we extend our support to you.

Thank you for the opportunity to speak for Missouri teachers.

Dr. MUSTOE. Also, I would like to submit a written testimony on behalf of Mr. Joseph P. Natale, president of the National Council on Teacher Retirement.

The CHAIRMAN. That will be made a part of the record.

Dr. MUSTOE. Thank you.

The CHAIRMAN. We are pleased to have that.

[The prepared statement of Joseph P. Natale follows:]

Prepared Statement of Joseph P. Natale, President, the National Council on Teacher Retirement

Honorable Members of the Senate Committee on Finance, I am Joseph P. Natale, President of the National Council on Teacher Retirement (NCTR). I am submitting this testimony on behalf of that organization, which comprises 44 statewide teacher retirement systems, and 15 large local teacher retirement plans.

I wish to direct my remarks to only two issues relating to the present proposals to amend the Social Security Act: (1) the spousal offset provision, and (2) mandatory Social Security coverage for state and local governmental entities. Copies of two NCTR Resolutions relating to these issues are attached to this testimony.

1. <u>The Spousal Offset Provision</u>

Under present law, effective July 1, 1983, the Social Security benefit to which an individual is entitled as the spouse of a deceased worker will be reduced dollar-for-dollar by the amount of his or her pension benefit based upon employment by a state or local government. NCTR members believe that public employees should not be penalized one hundred percent for their public service.

Considerable discussion on this subject has centered around higher paid employees. It should be pointed out that the persons who will suffer the most from the offset provision are the auxiliary and food service employees in our public school systems. The offset will cause these lowest paid employees to lose up to one-third of their expected retirement income. These employees are all females who, in most cases, have or have had a husband who had Social Security coverage, thereby entitling them under the old Social Security system to a spousal Social Security benefit. We hope your committee will recommend some restoration in the spousal benefit.

2. Mandatory Social Security Coverage for State and Local Employees

Even though mandatory coverage for state and local public employees was not contained in the list of recommendations of the National Commission on Social Security Reform, we know this topic is still alive. NCTR members believe that mandatory coverage for states not presently under Social Security would create cost pressures in those states necessitating tax increases or ill-conceived changes in benefits provided by the state systems. Under current Social Security contribution rates, the state legislatures would have to raise significant amounts annually to meet the employer payments alone if current benefit plans remain unchanged and

Social Security is mandated for all of our public school teachers. Mandatory coverage would, in all practicality, cause the state legislatures to design integrated pension systems and greatly reduce member and state contributions to the state retirement plans in order to pay for the cost of Social Security. If state taxes were raised to help finance mandatory coverage for all public school employees, the federal treasury would feel the effect because of deductions that would be claimed on individual tax returns.

The entire country supports Congress' all-out efforts to return Social Security to a sound financial position. Members of the National Council on Teacher Retirement support your efforts to tackle this extremely important national issue.

Thank you for allowing me to submit written testimony on behalf of NCTR.

NATIONAL COUNCIL ON TEACHER RETIREMENT

Mandatory Social Security Coverage
For Public Employees

WHEREAS, many retirement systems, based upon provisions of the Social Security Act permitting affiliation, have availed themselves of the provisions of that Act permitting integrated or coordinated plan coverage; and

WHEREAS, other systems, in reliance upon the voluntary affiliation provisions, have elected not to participate in Social Security and have developed independent and excellent programs of retirement and related benefits; and

WHEREAS, imposition of mandated Social Security upon such systems would create cost pressures, necessitating rapid and ill-considered changes in plan benefit design in such states, and possible abandonment of existing programs in such states; and

WHEREAS, the inclusion of such systems would in no way alleviate the long-range Social Security funding problems; and

WHEREAS, serious constitutional questions are raised by the imposition of mandatory Social Security coverage; and

WHEREAS, the dual retirement systems in the United States, of Social Security plus adequate system supplement, are threatened by the trend toward a monolithic Social Security plan which would detrimentally affect retirement systems whether covered or not covered by Social Security; now, therefore, be it

RESOLVED, that the National Council on Teacher Retirement record its strong opposition to mandatory Social Security coverage for public employees of state and local government and that its legislative committee be given the responsibility of opposing such legislation; and, be it further

RESOLVED, that the National Council on Teacher Retirement continue to espouse the present law permitting affiliation on a voluntary referendum basis where teachers are permitted to vote their beliefs in the issue as it affects them; and, be it further

RESOLVED, that the National Council on Teacher Retirement opposes the repeal of the right of those retirement systems to withdraw from Social Security after due notice, based upon the constitutional and democratic principles outlined above; and, be it further

RESOLVED, that the National Council on Teacher Retirement communicate with the President of the United States expressing its appreciation, support, and commendation for the public position he has taken on this issue.

National Council on Teacher Retirement

JOSEPH P. NATALE, *President*
Colorado Public Employees' Retirement Assn
[illegible] Logan, 5th Floor
Denver, Colorado [illegible]
[illegible]

JAMES L. SUBLETT, *Secretary-Treasurer*
275 East Broad Street
Columbus, Ohio [illegible]
[illegible]

RESOLUTION FAVORING REPEAL OF THE SOCIAL SECURITY OFFSET PROVISION

WHEREAS, Public Law 95216 of 1977 established a provision whereby the Social Security spouse's benefit for a beneficiary who is eligible for a benefit December 1, 1982 shall be offset by the amount for which the beneficiary is eligible; and

WHEREAS, This offset provision is discriminatory to recipients under public retirement systems because it does not apply to recipients under private retirement systems; and

WHEREAS, There is no legal or actuarial justification for offsetting benefits in one system based upon eligibility in another system provided they are both earned and funded in accordance with the legal requirements of each system; now, therefore, be it

RESOLVED, That the National Council on Teacher Retirement does hereby express its strong opposition in favor of repeal of the Social Security offset provision; and, be it further

RESOLVED, In the event that legislation to repeal or delay the offset provision is not accomplished prior to the effective date, December 1, 1982, the National Council strongly urge the 98th Congress to repeal said offset; and, be it further

RESOLVED, That a copy of this resolution be forwarded to each member of the Congress, the Secretary of Health and Human Resources, the Director of the Social Security Department, and to any other interested party or group.

Adopted at the Annual Meeting of the National Council on Teacher Retirement, October 8, 1982, Seattle, Washington

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, I would like to thank our witness, Mr. Mustoe. And I take it that you are in firm agreement with the recommendation of the Commission that we do not include public employees who are not already included?

Dr. MUSTOE. That's a fair statement. Yes, sir.

Senator MOYNIHAN. And so you are well content with the——

Dr. MUSTOE. Yes, we are.

Senator MOYNIHAN. Thank you very much.

Dr. MUSTOE. Thank you.

The CHAIRMAN. I have no questions; you have made your views clear. Do you want the record to show that you are accompanied by any other——

Dr. MUSTOE. Not unless the committee has something. As far as I know, I'm on my own.

The CHAIRMAN. All right. We will pass the information on to Senator Danforth, a member of this committee. He is aware of this?

Dr. MUSTOE. Yes, he is. He has a copy of my testimony.

The CHAIRMAN. Good.

We will recess until 1:00, at which time Senator Durenberger will be presiding until 1:30, at which time I hope to return.

Thank you very much.

[Whereupon, at 12:25 p.m., the hearing was recessed.]

AFTERNOON SESSION

Senator DURENBERGER. The hearing will come to order. This is a series of hearings on the Commission report on social security. This afternoon we will start with a panel consisting of. Mr. Bernard Skrebes, president, Metropolitan Senior Federation of St. Paul, Minn. And is Mr. Richard Shepherd here? Mr. Shepherd is the executive director of the National Association of Mature People, Oklahoma City, Okla.

Let me say at the start that your full statements will be made a part of the record. You may abbreviate them, synopsize them, or read them within the time limits as you desire.

Bernie.

STATEMENT OF BERNARD SKREBES, PRESIDENT, METROPOLITAN SENIOR FEDERATION, ST. PAUL, MINN.

Mr. SKREBES. I think I will just have to address Mr. Chairman here. My name is Bernard Skrebes, and I live in the city of New Brighton, which is a suburb of Minneapolis/St. Paul. I want to thank you for extending the invitation to appear before you and to testify to our concerns relative to social security.

I am the president of the Metropolitan Senior Federation. The Federation is a coalition of 270 senior citizen clubs in the seven county metropolitan area of the Twin Cities. Our organization recently celebrated its 10th anniversary, and in that 10 years had grown from a dozen senior citizens concerned about their well-being to over 80,000 retired and near-retired persons. In the 10 years, we have gained a respected voice in our State's legislative assemblies on issues which affect we who are on fixed incomes.

On February 12, our organization sponsored a public hearing for the people to air their concerns and opinions about social security and the Commission report.

I would like my colleague, Oscar Carlson, to take a few of my minutes to share the expressions of the people of Minnesota with you. The Senior Federation does, however, have its own position and I would like to, in brief, present that.

The Metro Senior Federation throughout our history has learned that compromise isn't at all bad, especially when you have all the power. Like other groups representing older Americans, we don't like many of the provisions. But compromise is suggesting something else that is acceptable, so I will do that.

First, the 6-month delay in the cost-of-living adjustment is once again an effort to resolve the problem on the backs of the poor. In Minnesota, 124,000 or 28.4 percent of the elderly recipients of social security receive less than $5,000 annual income. These are real people who are poor. Not just members of a census book or a computer print-out. They have needs that won't be delayed for 6 months, and that is, for these people, that we are testifying. .

We would propose that these people who live under the Bureau of Labor Lower Living Standards either not be delayed or at least receive a bonus of the 6-month delay in their January 1984 paycheck.

Second, we don't like the idea of taxing benefits, but we agree to the 50 percent tax as long as those moneys go into the trust fund. Third, our organization, less the 3,500 retired Federal employees, agree to coverage of newly hired civil service employees. However, we must guarantee them the right to collective bargaining for added pension benefits. And we must be willing to pay the debt created in the current system by bringing them into the social security.

Mr. Chairman, I would like my colleague, Oscar Carlson, now to tell you about our public hearings.

[The prepared statements of Bernard Skrebes and Oscar Carlson follow:]

METROPOLITAN SENIOR FEDERATION

AN ISSUE-ACTION ORIENTED COALITION OF SENIOR CITIZENS

1951 UNIVERSITY AVE.
ST. PAUL, MINN. 55104
612/645-0261

February 24, 1983

Mr. Chairman, members of the committee;

My name is Bernard Skrebes. I live in the city of New Brighton which is a suburb of Minneapolis/St. Paul. I want to thank you for extending the invitation to appear before you and testify to our concerns relative to Social Security.

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On February 12th our organization sponsored a public hearing for people to air their concerns and opinions about Social Security and the Commission report. I would like my colleague Oscar Carlson to take a few of my minutes to share the expressions of the people of Minnesota with you. The Senior Federation does however have its own position and I would like to in brief present that.

The Metro Senior Federation throughout our history has learned that compromise isn't all bad, especially when you have all the power. Like other groups representing older Americans, we don't like many of the provisions, but compromise is suggesting something else that is acceptable, so I will do that. First, the six month delay in the cost of living adjustment is once again an effort to resolve the problem of the poorest. In Minnesota 124,000 or 28.4% of the elderly recipients of Social Security receive less than $5,000 annual income. These are real people who are poor, not just numbers from a census book or a computer print out. They have needs that won't be delayed for six months and it is for these people we are testifying. We would propose that these people who live under the Bureau of Labor Lower Living Standards either not be delayed or at least receive a bonus of the six month delay in their January 1984 check.

Second, we don't like the idea of taxing benefits but we agree to the 50% tax as long as those monies go to the Trust funds. Third, our organization, less the 3,500 retired federal employees, agree to coverage of newly hired civil service employees. However, you must guanantee them their rights to collectively bargain for added pension benefits and we must be willing to pay the debt created in the current system by bringing them into Social Security.

Mr. Chairman, I would like my colleague Oscar Carlson to now tell you of our public hearing.

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1951 UNIVERSITY AVE.
ST. PAUL, MINN. 55104
612/645-0261

February 24, 1983

Mr. Chairman, Members of the committee;

My name is Oscar Carlson, I live in Minneapolis. I am a past president of the Metropolitan Senior Federation and I thank you for the invitation to be here.

I serve on the committee of the Federation which organized the public hearing, attended by 398 people, and we believe it is important that you hear from those people who pay for and benefit by the system. The President of the Farmers Union, Cy Carpenter, set the stage when he stated that we must recogniz Social Security for what it is, social justice and totally part of our economy. The people of Minnesota have been frustrated and angered for over two years by attacks on the Social Security system and attempts to radically reduce our benefits. It is for these reasons we sponsored the public hearing, to give Americans in Minnesota an opportunity to express their opinions.

I can say that speaker after speaker voiced opposition to the proposed delay in the cost of living adjustment. Those who didn't speak wrote their comments and there was unanimity that those who fostered the system should not have to sacrifice more. We, however, being people of understanding and compassion know that for the sake of adjusting the system another sacrifice is required. With that in mind, Minnesotans are willing to delay but out of our compassion we believe those lowest paid beneficiaries should not be delayed. At worst they should receive their six month delay as a bonus in their January 1984 check. The money should come as a loan from the general revenues and as the OASI fund stabilizes the load be repaid.

Mr. Chairman, it concerns me that besides not liking the delay, speaker after speaker at our meeting was voicing hostility toward people they believe undeserving to be on the system. A few of the groups which anger is voiced against are the wealthy, foreign individuals and the disabled. I believe the administration of the country has wittingly or unwittingly driven a wedge between the people of our country. Many of the speakers voiced opposition to the wealthy drawing benefits from the system. I and the Federation believes anyone paying in is entitled to draw benefits. The taxing of 50% of benefits for single people over $20,000 and couples over $25,000 will go a long way to reduce the level of frustration felt, especially by the thousands of poor. We do believe, however, that that revenue should go back directly to the trust funds.

The last point I want to make is the controversy which exists over the inclusion of new federal employees into the Social Security system. The speakers, which included several federal civil service employees, were split. It is our belief that there is much frustration on the part of the general public over civil servants having a separate system. We therefore support the inclusion of new employees into the system. But I want to add that the federal employees must be guaranteed rights for collective bargaining for added pension benefits and that all liabilities for the current system be paid by us.

Mr. Chairman, I would add a final comment. Since the Social Security system is so much part of our fabric, every effort must be made following this short term patch up to stabilizing the system.

I would close by repeating again from Cy Carpenter who at our hearing said, "I think we all need to work together to replace a feeling of fear with a feeling of confidence and to replace criticism with actual contribution, individual participation and involvement of all our public. We expect to work as hard as we can to make sure that Social Security not only is continued, but that it's recognized and continues to be appreciated as a vital contributing part of our economy and our society."

Thank you for your time.

STATEMENT OF OSCAR CARLSON, METROPOLITAN SENIOR FEDERATION, ST. PAUL, MINNESOTA

Senator DURENBERGER. Oscar, please do that.

My colleague, Rudy Boschwitz, reported briefly on that yesterday, I believe, and some of the results that he did in some of his surveys so a lot of us are aware of the activity in Minnesota.

Mr. CARLSON. You are talking about the February 12 meeting?

Senator DURENBERGER. Yes.

Mr. CARLSON. Well, thank you, Senator, very much.

Mr. Chairman, my name is Oscar Carlson. I live in Minneapolis, and I am a past president of the Metropolitan Senior Federation. I thank you for the invitation to be here.

I serve on the committee of the Federation which organized the public hearing, attended by 398 people, and we believe it is important that you hear from these people who pay for and benefit by the system. The President of the Farmers Union, Cy Carpenter, set the stage when he stated that we must recognize social security for what it is. Social justice and totally a part of our economy. The people of Minnesota have been frustrated and angered for over 2 years by attacks on the social security system and attempts to radically reduce its benefits. It is for these reasons we sponsored the public hearings, to give Americans in Minnesota an opportunity to express their opinions.

I can say that speaker after speaker voiced opposition to the proposed delay in the cost of living adjustment. Those who didn't speak wrote their comments and there was unanimity that those who fostered the system should not have to sacrifice more. We, however, being people of understanding and compassion know that for the sake of adjusting the system, another sacrifice is necessary. With that in mind, Minnesotans are willing to delay but out of our compassion we believe those lowest paid beneficairies should not be delayed. At worst they should receive their 6 month delay as a bonus in their January 1984 check. The money should come as a loan from the general revenues, and as the OASI stabilizes, the load be repaid.

The time is getting short, so I will just summarize. I will again repeat from Cy Carpenter, who at our hearing said, "I think we all need to work together to replace the feeling of fear with a feeling of confidence to replace criticism on the actual contribution. Individual participation and involvement are public. We expect to work as hard as we can to make sure that social security not only is continuous but is recognized and continues to be appreciated by a vital contributing part of our economy and our society."

Thank you, Mr. Chairman, for your time.

Senator DURENBERGER. Thank you very much.

STATEMENT OF JOHN JAY DALY, DIRECTOR, GOVERNMENTAL RELATIONS, NATIONAL ASSOCIATION OF MATURE PEOPLE, WASHINGTON, D.C.

Senator DURENBERGER. Mr. Shepherd.

Mr. DALY. For correction, Mr. Shepherd, the executive director of the National Association of Mature People was unavoidably delayed in Oklahoma City so I am substituting for him. My name is John Daly. I'm the Government Affairs representative in Washington for the National Association of Mature People.

I have presented ny full testimony to the reporter, and in interest of time, will simply hit some of the highlights with respect to this.

Senator DURENBERGER. Thank you.

[The prepared statement of John Jay Daly follows:]

PREPARED STATEMENT OF JOHN J. DALY, DIRECTOR, GOVERNMENTAL RELATIONS, NATIONAL ASSOCIATION OF MATURE PEOPLE

OVERVIEW

To allow special interest groups of any constituency to cow the United States government into forgetting its responsibility for the nation as a whole would be ruinous.

The National Association of Mature People believes that those who serve only the self interest of any one segment do not, ultimately, serve the best interest of everyone. The economic rewards and responsibilities of living in our society must be fairly distributed.

Therefore, we seek solutions to the problems of Social Security that protect not only the older people of today, but those who will be our older people 20 and 30 years from now. We must protect not only taxpayers of today, but taxpayers supporting our older people in future decades.

That is why we do not come here to offer "knee jerk", automatic condemnation of the direction of the proposals of the Social Secuiryt Reform Commission. We are here to say that the proposals are no solution to the immense problems of the System. We urge that deeper, more realistic appraisal be given the problems and that a solid, far-reaching set of proposals be developed. The best use to make of the current proposals is to consider them a temporary measure, allowing a thorough-going overhaul of the system.

The purpose of our testimony is, therefore, to tell: 1) why we believe the Social Security Reform Commission proposals are inadequate; 2) how we must change our thinking in order to clear-headedly define solutions; and 3) what NAMP proposes as an approach to the problems.

THE SOCIAL SECURITY REFORM COMMISSION PROPOSALS.
A Questionable Stopgap Solution

The Reform Commission has proposed a set of measures we believe deal only superficially with the problems of the Social Security System. They do not deal substantially with the System structure. They do not address demographic trends. They do not address an uncertain economic environment.

We are pessimistic about the efficacy of superficial "fixes" to the Social Security System. We have only to look at the recent past to see how such "fixes" take.

The Solution of '77

In 1977, Congress voted the largest tax increase ever levied on the American public to stabilize Social Security far into the future. President Carter called that Social Security tax increase "the guarantee that from 1980 to 2030 Social Security funds will be sound." Six years later we find we're in trouble again. And once again our leaders are presenting a solution which will protect Social Security far into the future. And once again it is a quick fix destined to fall apart in a very few years.

The solution of '77 like the quick fix of '83, was predicated on financial assumptions of a "best possible world." Unpredicted weakening in our economy, increased unemployment and booming inflation caused the fix to fall apart. More importantly, demographic trends and unrealistic burdens causing long-term structural problems to the System were not addressed in '77 and are not being addressed in '83.

As a result, the Government now predicts a $1.6 trillion deficit in the program in the next 75 years that was not anticipated in 1977. The proposed quick fix is planned to deal with only $1 trillion of this deficit, and, as before, additional deficits now unforeseen can be expected.

One proposal further demonstrates the lack of foresight that typifies the "quick fix" approach.

The CSRS: Adding Weak to Weaker

The Reform Commission proposes that the Civil Service Retirement System (CSRS) be integrated into the Social Security System. But the CSRS itself is not self-supporting. In 1980, it included 2.4 million workers and collected $3.6 billion from them. It also has 1.8 million annuitants to whom it paid $14.7 billion. Of the shortfall, the U.S. Treasury picked up $9.6 billion through general revenues. CSRS projected liabilities are almost $500 billion and the estimate is that in four years liabilities will grow to $840 billion. The median retirement age of members is 58, but full benefits can be received at age 55, so there will be hundreds of thousands of CSRS retirees coming into the system even earlier than the rest of the retirement population.

The projected savings of $23 billion through coverage of new Federal employees, non-profit employees and prohibiting withdrawal by state and local employees may therefore be a long-term loss. There has been too little evaluation of the additional liability incurred with this additional current income.

As damaging as these just-mentioned proposals could be, they are not as damaging as the Commissions's lack of attention to the long-term issues overall. These issues center on great demographic changes in our society paired with increased expectations of and burdens on the Social Security System.

THE LONG TERM PROBLEM.
Toying with Demographic and Economic Dynamite

We earlier alluded to demographic and economic trends not addressed in the Social Security Reform Commission proposals. We believe it is cowardly and irresponsible to fail to address these long-term trends. Clearly, our leaders do not want to confront the public with hard choices, but, as in the past, find it easier to tell us we can have our cake and eat it too.

The National Association of Mature People believes, however, that, given the facts, the public will not have unreasonable expectations that they can both hold the line on taxes and continue to have growing Social Security benefits for a growing number of people.

Here are just a few of the facts we think have not been made sufficiently clear to the public. They demonstrate that some tougher solutions than those recently proposed must be put into place.

More recipients, fewer workers to support them

There are 37 million people collecting Social Security checks today, including almost 26 million aged 65 or more. By 2025, the number of older persons is projected to more than double, but the number of persons 18 to 64 paying into the Social Security System will remain close to present levels.

The trend for fewer workers to support each retiree is clear. In 1950, 16.5 persons paid in for each Social Security recipient. By 1990, the Social Security Administration projects there will only be three workers providing income for every retiree. And by 2030, there will only be two.

What this trend means is that a larger proportion of each taxpayer's paycheck will go toward paying Social Secuirty. It's estimated that by the year 2000, without major benefit changes, 20 percent or more of every person's salary will go toward Social Security taxes.

Greater life expectancy

The life expectancy of Americans is rising. This means that people who retire at age 65 will need Social Security for more years. In 1940, for example, a 20 year old woman was expected to live to age 71. Now, a 20 year old woman is expected to live to age 80. She will, under current eligibility laws, collect Social Security for 15 rather than 6 years.

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Life expectancies overall have increased dramatically since the 1939-41 period. Then, the average was 63.6 years. In 1982, it was nearly 74 years.

Fewer older persons in the workplace

Even while we see the number of retired persons increasing compared to the number of workers, there is a dismaying trend for there to be fewer older persons in the workforce. They are, in effect, being encouraged not to work at a time when we are approaching a shortfall in productive workers.

Statistics from the Department of Labor showed that in 1960, 81.2 percent of men aged 60 to 64 were in the labor force, while in 1980, only 63 percent were. In 1960, 46.8 percent of men aged 65 to 69 were in the labor force, while only 29.9 percent were in 1980. As people live longer, and in better health, they are working less!

Increased reliance on Social Security

In addition to the discouragement of those 65 and older from being in the workplace, there is increased reliance on Social Security as income for those 65 and older. In 1950, it was 3 percent of retirement income. In 1978, it was 38 percent. Moreover, some 50 percent of male workers now begin receiving Social Security benefits at age 62.

These statistics are both reflected in and encouraged by the increasing outlays for Social Security as a portion of Federal spending.

In 1954, for example, outlays were $3.4 billion, or 4.3 percent of the budget. In 1974, outlays were $54 billion, or 20 percent of the budget. In 1984, outlays will be $188.5 billion, 23 percent of the budget.

Since 1956, we have asked more and more of the System, encouraging more and more dependence on it as a total retirement program.

In 1956, we added disabled workers, and allowed women to retire at 62 with 80 percent of their benefits.

In 1961, men were allowed to retire at 62 with 80 percent of their benefits.

In 1965, we added Medicare. And incidentally, older Americans now spend much more in adjusted dollars on health care than they did before Medicare came along!

We're getting over five times what we put in.

The bottom line to all these facts is that today, the average worker who, with his employer, has paid $24,206 into the Social Security System as of 1980 can expect to receive some $125,125 during retirement. A single person or working spouse can receive a lifetime of contributions back from the system in only four years. The average person receives back five times what is paid in and earned on deposits.

Unfortunately, most of us do not understand that this is the case. Most of us continue to assume that we are entitled to Social Security on the basis of what we have paid into it plus nay interest it may have earned. We do not understand that the average person gets out of Social Security in one and a half years what he or she put in during a lifetime of contributions. And what is occurring with the money that we pay in is that 97 percent of it is being paid out immediately, not held. In other words, today's active workers are paying to support today's inactive workers and relying that there will be workers tomorrow to support them.

The fact is, that there will be fewer workers supporting more retirees. Our conclusion must be that those fewer workers will be paying higher taxes, or that the expense of the System must somehow be kept in check. For the Government has only one place to turn for funds, we the people.

WE'VE GOT TO CHANGE OUR THINKING
Getting rid of myths, facing facts

Before long-term solutions are developed, our government must believe the public will accept them.

We believe, that given enough facts about Social Security, both taxpayers and retired citizens will support a fair solution. Furthermore, the government must rid itself and help the public rid itself of myths about what older people are and what they need.

<u>The myths of aging</u>

There is a tendency to think of older persons as frail, poverty-sticken, dependent and beset by poor health. This generalization is simply not true.

The myth is so pervasive that older Americans will make these assumptions about their peers, even while knowing it is not true of themselves or their personal friends.

Here are glimpses of reality:

There is poverty in our society among all age groups. Yet, the great majority of older people are comfortable.

Almost three quarters of persons aged 65 or more own their own homes and have small mortgages, if any. People aged 65 or older had a combined income of $163 billion in 1978. That is more per person than people aged 35 to 44 or 18 to 25. Those 55 or older control 80 percent of all deposits in savings and loan institutions and make a quarter of all consumer purchases. People aged 55 to 64 are the most affluent group in the country on a per capita basis.

What about health?

More than four out of five persons over 65 are both fully mobile and mentally-fit. People over 65, for example, take almost a third of the nations's automobile trips. More than 98 percent of those aged 65 to 75 are not in institutions. Persons over 65 report far fewer health problems than are ascribed to them by younger people. (But they think others of their age are significantly less healthy than they themselves are!)

And older people want to work.

Almost half of all workers aged 50 to 64 want to work beyond 65.

Almost half of retired people would rather work than be retired, and more than half wish they had never quit work.

Senior corporate officers often view older workers as more valuable than their younger colleagues.

Almost a quarter of retired people return to full or part-time employment.

In short, this is not a group which categorically must be fully supported by a younger working population.

Facing facts

Our leaders must overcome their fear of emphasizing that serious problems require serious measures. The only way for us to face up to these measures is for our leadership to be frank.

Polls show that the citizenry is against decreasing benefits, increasing Social Security taxes, delaying benefits, taxing benefits, or using general revenues to meet shortfalls. Even minor adjustments to the Cost of Lifing Adjustment provisions are opposed by many. In view of the numbers of people coming into the Social Security system and the projected deficits, these views do not reflect an understanding of the problem at hand.

NAMP believes that the public's credulity has been overtaxed, along with its paycheck, with regard to the actual status of the System and the prospects several decades down the line. We have been told either that the System is fine or that it faces immediate bankruptcy. Neither has proven true. We must educate our people to the choices we have so our leaders can, with public support, begin grappling with the problem in real terms.

We believe that all segments of Society, if presented with these and other facts we have discussed up to this point will be willing to come together in support of long-term solutions.

THE NAMP APPROACH.

Rather than an emotionally heated debate between special interest groups -- NAMP calls for an objective assessment of facts and cool-headed development of proposals.

We call for the immediate institution of an Office of Strategic Planning. The responsibility of this office would be to professionally and objectively assess the demographic, economic, human, financial and demand factors not only for the Social Security system, but for all other mechanisms for providing for the elderly. The Office would define a comprehensive set of strategies for providing care to those who need it. At the same time, the Office would help define measures for assisting people to plan for retirement outside government programs.

Among the strategies we would propose include:

- o Complete elimination of the mandatory retirement age and the Social Security penalty for working beyond age 65. We've demonstrated that fewer older Americans are working as compared with years past. With lower numbers of young people entering the workforce and with technical training becoming more lengthy and costly, we must find ways to keep older workers in the labor force. It's been demonstrated that those who continue working live longer as well!
- o Incentives for employers who encourage their employees to continue to work. Currently, pension laws and other regulations penalize employers with older workers.
- o Separation of Social Security from the rest of the Federal budget as it had been through the 1960's. Combining Social Security with general revenues would provide an opportunity to confuse and disguise the problem further and postpone a solution as well as allow continuing irresponsible deficit spending for Social Security.

- o Making Social Security actuarily sound, providing benefits based on actual contributions to the System. Our members have told us they do not want Social Security to be a welfare system, but rather a form of retirement savings and insurance in which their contributions plus earnings are paid back to them in a fair manner. This is how most people believe the System operates, anyhow!
- o Making a concentrated attack on rising health care costs and attendant Medicare payments. Health care costs are the number one concern of the elderly. These expenses constitute a major portion of Social Security fund outlays.
- o Reformation and expansion of the private pension system. We believe financial investments should be in the hands of those whose business it is to provide return on investment. Government spending of Social Security dollars is on consumption, not investment. Private pension plans are forms of saving, channeling money into private capital markets, contributing to the economy. Corporate pension plans should be made transferrable.
- o Incentives for employers who help employees plan for retirement.
- o Incentives for individuals to prepare for their own retirement with decreased reliance on government, such as the Individual Retirement Account program. These types of programs provide an immediate boost to the economy through tax deductions, provide capital for investment by loaning savings to borrowers, and provide a nest egg for retirees.

We have been seeing increased support for measures of the kind we have mentioned -- among the business community, among politicians, among maturing Americans who recognize that Social Security cannot be all to all retirees, even though it must and will contine to help those who need it.

Social Security must and will continue. It is wrong to frighten the aged or the needy with false rhetoric which makes them doubt that next month's check will be delivered. It is equally wrong to mislead people about what the System's capabilities are or what the choices are for keeping it functioning at various levels. We have taken rhetoric so far from reality that people believe that it is their unalienable right to retire at age 65 and that it is absurd to suggest they should work longer even if they are in good health.

If all interested segments of American society can face reality, rather than offering selfish threats, perhaps our government can feel it can strive for long-term, non-politicized, commonsense solutions to a grave and complex problem.

The 200,000 members of the National Association of Mature People spread over the entire country will be behind you.

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The National Association of Mature People was founded in 1975 in Oklahoma City with goals of helping Americans in middle and later years lead more independent and fulfilling lives.

We are grateful to the Senate for allowing us this opportunity to make our views known. Thank you.

SUMMARY FOR TESTIMONY PRESENTER

I. OVERVIEW SECTION (TAKE FROM LONGER DOCUMENT)

II. We think the Reform Commission proposals are a questionable stopgap solution which deal only superficially with the problems of the Social Security System.

We need only look back to 1977, during the Carter Administration, to see the results of this type of quick fix solution. Promises were made that the greatest tax increase ever would save the Social Security system into the next century. Posited on a "best case" set of assumptions, the fix hardly lasted into the next decade, let alone the next century. In 1977, no attempt was made to address the structural problems made critical by rising numbers of retirees, a bad economy and an overextended system. Much is also true of the Reform Commission's proposals of today. In addition, one proposal, to add the Civil Service Retirement System to Social Security, may have a terrible impact. That system is far from self-supporting, having drawn $9.6 billion out of its $14.7 outlay to annuitants from the U.S. Treasury. Yet, we're adding their liabilities to that of Social Security for a short term gain.

The Reform Commission has totally neglected the larger issues facing the Social Security System. These include:

- o more recipients, but fewer workers to support them
- o greater life expectancy
- o fewer older persons in the work force
- o increased reliance by retirees on Social Security

Let me read just a few facts to demonstrate why these issues are so important.

The number of retirees is increasing relative to the number of workers. There are 37 million people collecting Social Security checks today, including almost 26 million aged 65 or more. By 2025, the number of older persons is projected to more than double, but the number of persons 18 to 64 paying into the Social Security System will remain close to present levels. In 1950, there were 16.5 people paying in for every 1 drawing out of Social Security. By 1990, the Social Security Administration, projected there will only be three providing for every 1. A greater and greater chunk of our wages will be going toward Social Security.

People are living longer, which means they're drawing Social Security longer. In 1939-41, the average life expectancy was 63.6 years. In 1982, it was nearly 74 years.

There are fewer older people in the workplace at the same time that we need more productive workers paying in rather than taking out of Social Security. Labor Department statistics show that in 1960, 81.2 percent of men aged 60 to 64 were in the labor force, while in 1980, only 63 percent were. In 1960, 46.8 percent of men aged 65 to 69 were in the labor force, while only 29.9 percent were in 1980.

There is increased reliance on Social Security as a proportion of retirement income. In 1950, it was 3 percent cf retirement income. In 1978, it was 38 percent.

The bottom line to all this is that the average worker and his employer are paying in $24,206 to the Social Security and drawing out $125,125 as of 1980. The average person receives back five times what is paid in and earned on deposits.

We just don't believe the proposals of the Reform Commission deal strongly enough with these issues!

We know that they won't deal strongly with them until they believe they can get public support for long term measures. We think they can get support if they are only frank and open with the public, clearly telling them what the facts are and what the choices are. We think the choices are plain — either raise taxes substantially, or reduce costs.

In order to get public understanding of the choice, several things must happen to the governmental mindset. One, the government must believe that older Americans are capable of thinking in broad-minded ways about the good of our entire Society. Not, despite the activitsm of some groups claiming to represent older Americans, just in self-interested terms. Second, the government, and the public at large, must abandon its myths about who older people are and what they want. We seem to have a stereotypical image of older people as frail, helpless impoverished and dependent which facts don't support.

And I'd like to mention here several facts which actually may surprise those who hold on to the stereotype.

Almost three quarters of persons aged 65 or more own their own homes and have small mortgages, if any. Those 55 or older control 80 percent of all savings and loan deposits. People aged 55 to 64 are the most affluent group in the country on a per capita basis.

People over 65 take almost a third of the nation's automobile trips. Fewer than 2 percent of those aged 65 to 75 are in institutions. Persons over 65 report far fewer health problems than are ascribed to them by younger people.

And almost half of all workers aged 50 to 64 want to work beyond 65.

In short, this is not a group which must be categorically fully supported by a younger population. In fact, many are insulted by this institutionalized agism.

In conjunction with a public education program, other strategies must be employed to develop longterm solutions. NAMP offers its own recommendations for consideration by this committee.

III. NAMP APPROACH (TAKE FROM LONGER DOCUMENT)

Mr. DALY. To allow special interest groups of any constituency to cow the Government into forgetting its responsibility for the Nation as a whole would be ruinous. The National Association of Mature People believes that those who serve only the self-interest of any one segment do not ultimately serve the best interest of everyone. The economic rewards and responsibilities of living in our society must be fairly distributed.

Therefore, we at NAMP seek solutions to the problems of social security to protect not only the older people of today, but those who will be our older people 10, 20, and 30 years from now. We must protect not only taxpayers of today but taxpayers supporting our older people in the future decades.

This is why we don't come here to offer knee jerk automatic condemnation of the direction of the proposals of the Commission. We are here to say that the proposals are no solution to the immense problems of the system. We urge that deeper, more realistic appraisal be given the problems, and that a solid, far-reaching set of proposals be developed. The best use to make of the current proposals—and we understand the sincerity behind them—is to consider them a temporary measure allowing a thorough-going overhaul of the system.

The purpose of our testimony, which extends to 11 pages—and I will not read it completely since it has been accepted into the record—is why we believe the Commission proposals are inadequate, how we must change our thinking, and what we propose as an approach. Some highlights of the NAMP's proposal for an approach is to call for the institution of an office of strategic planning. The responsibility of this office would be to professionally and objectively assess the demographic, economic, human, financial, and demand factors not only for the social security system but for all other mechanisms for providing for the elderly. The office would define a comprehensive set of strategies for providing care to those who need it. At the same time, this office would help define measures for assisting people to plan for retirement outside government programs.

There are many strategies that we would propose, but among the few would be complete elimination of the mandatory retirement age, and the social security penalty for working beyond age 65. Our earlier testimony noted that fewer older Americans are working as compared with years past. With lower numbers of young people entering the work force, and with technical training becoming more lengthy and costly, we simply must find ways to keep older workers in the labor force. It's been demonstrated that those who continue working live longer as well.

Incentives for employers who encourage their employees to continue working should be developed in greater degree. Currently, pension laws and other regulations penalize employers with older workers. Separation of social security from the rest of the Federal budget, as had been done through the 1960's. Making social security actuarially sound; providing benefits based on actual contributions to the system. Members of NAMP have told us they do not want social security to be a welfare system but rather a form of retirement savings and insurance in which their contributions plus earnings are paid back to them in a fair manner.

Anyhow, this is how most people believe the system operates. We believe you should make a concentrated attack on rising health care cost and attendant medicare payments. Health care costs are the No. 1 concern of the elderly. These expenses constitute a major portion of social security fund outlays.

We believe in a reformation and expansion of the private pension system. We believe financial investments should be in the hands of those whose business it is to provide return on investment. Government spending of social security dollars is on consumption; not investment. Private pension plans are forms of savings, channeling money into private capital markets, contributing to the economy. Corporate pension plans should be made transferrable.

Incentives for employers who help employees plan for retirement.

And incentives for individuals to prepare for their own retirement with decreased reliance on government, such as the individual retirement account program. These types of programs provide an immediate boost to the economy through tax deductions, provide capital for investment by loaning savings to borrowers, and provide a nest egg for retirees.

We have been seeing increased support for measures of the kind we have mentioned among the business community, among maturing Americans who recognize that social security cannot be all things to all retirees, even though it must and will continue to help those who need it.

We thank you, and appreciate the fact that our entire statement will be entered into the record.

Senator DURENBERGER. And I thank you. It's the first time in a long time that all the speakers have finished before the light went off. And I certainly appreciate that. But the people who really appreciate it are the ones sitting back there waiting to testify, especially those at the end of the program.

Let me ask a question of both of you that is suggested by Mr. Daly's testimony relative to the changes that are apparently (we are told) taking place in the work place. We seem to be coming off of 20 or 25 years of presumed labor surplus, and somewhere out there in the future heading into a time in which we will, surpisingly enough, have labor shortages in this country.

And I think in your statement, Mr. Daly, you appropriately talked about the fact that it isn't only social security. There are other systems out there that work in the direction of early retirement. Obviously a lot of corporate pension plans have been made attractive for early retirement and so forth. Social security has in it some forcing mechanisms, not only the benefit side, but on the penalties for outside work and so forth. Do both of you have a position on the recommendation that was a minority recommendation of the Commission, I believe, to raise the retirement age to 66, and index it somewhere out in the future?

Mr. SKREBES. Well, the Metropolitan Senior Federation of the State of Minnesota is opposed to raising the retirement age. Because I think we all fail to realize—and as our President stated here last week—that the economy is on the upturn, which means more people will go back to work. There will be more money coming back into the social security funds. And I, for one, within the next 5 or 6 years believe that our economy will straighten out itself; more people will go back to work. And, therefore, social security should become solvent.

Senator DURENBERGER. Mr. Daly.

Mr. DALY. At the same panel, we would disagree, and would go along with that portion of the Commission's recommendation, but recognizing it is only a partial solution.

I think what really needs to be fully emphasized is that the average person gets out of social security in a year and a half what he or she put in during a lifetime of contribution. There are some very serious problems associated with the entire structure itself.

Senator DURENBERGER. Of course, if they had had those dollars to invest rather than investing them in social security, they would probably be worth more than the $14,000 allegedly they are getting back out.

Bernie, your answer to the question dealt with the solvency of the social security system. You are probably going to have to make a more succinct argument in favor of it, such as the one—I don't suggest this to you—that I have normally made is that people shouldn't be forced to work longer just because they happen to live longer. But I may be way off base in that particular theory. I suppose at some point in time we need to decide when social security becomes that retirement income, and whether it's a matter of phasing in retirement over some period of years, or ending up with just an automatic cut-off point is something that we have to deal with here either this year or over some period of time.

But if you would adopt the notion that we in our changes that we make in the social security system should try to get rid of the forcing mechanisms that cause people to do things they wouldn't otherwise do, then maybe one of the things we should be looking at is rather than having a break point at age 65 or some other age, just have a gradual—I can't think of the right word—to sort of phase you into full retirement so that people who do have pensions and savings accounts and so forth and those who don't can make different kinds of judgments about when they want to take retirement from fulltime employment and go into some other employment or retire fully.

Mr. SKREBES. Mr. Chairman, I think if you remember back in the earlier days when there was no actual retirement age before social security and even after social security the unions fought hard that anybody at the age 65 should be retired due to the fact that by retiring one individual they made room for the younger to come into the labor market. I think that the longer we keep the elderly who are eligible for retirement and would receive a fairly decent wage—and a lot of them, of course, are pension plans with different companies and so forth—they could live quite comfortably.

My whole concern is to make room for the younger because they are the ones that are going to be supplying the necessary dollars to keep our system in good shape.

Senator DURENBERGER. Senator Grassley, do you have any questions?

Senator GRASSLEY. Well, my view is that people ought to be judged on the basis of their qualifications and their willingness to work regardless of whatever age they are. And that philosophies just expressed have led to discrimination of elderly people. But that's not immediate to this problem.

The problem is that we only have a program before us that will solve two-thirds of the long-term problems in social security. And I suppose you could say two-thirds of a loaf is better than none at all, but we have been playing politics with social security at least since the middle 1960's, and maybe forever—I don't know—but at least since then in the sense of increasing benefits but not providing any sort of long-term security. And I think we have a responsibility this time—and if there is another time, it won't be for a few years—to go away from here and telling the social security recipients or workers or young or old that we have come up with a responsible package that is going to solve the long-term problems of social security.

And I think directly related to that is tackling the issue of retirement age, whether or not it is going to be 65 or 66 or whatever it might be. Or if that isn't possible, then some other alternative approach or combination of approaches so that we can say that we have taken care of this beyond 1990. I think it would be irresponsible for us to walk away as members of the Finance Committee without saying that we have got this thing taken care of as best we can see it.

And maybe history would prove that we really didn't do that, but we know now, based on the proposal that we have before us, that it is not taking care of those long-term problems.

Regardless of which side of that issue each one of you are on, I want to compliment you for your contribution to that discussion because it's all intellectually honest approaches and differences of philosophies and we have to resolve that. But I appreciate all of your views.

Senator DURENBERGER. Thank you very much.

Mr. SKREBES. Thank you, Senator.

Senator DURENBERGER. We appreciate you all being here.

Our next panel is Mr. Hyman Bookbinder, Washington representative of the American Jewish Committee; Sister Serena Branson, executive director of the Diocesan Health and Social Services, Albany, N.Y., representing the National Conference of Catholic Charities; and Mr. Andrew S. Kinsinger, chairman, Steering Committee, Old Order Amish, Gordonville, Pa.

I think we will go in the order that you were introduced appropriately because Senator Heinz wanted to be here to hear the testimony from Mr. Kinsinger, our third witness, and probably to introduce you.

And so, Hy, you can go first. All of your statements will be made a part of the record. You can read them or summarize them as you see fit.

STATEMENT OF HYMAN BOOKBINDER, WASHINGTON REPRESENTATIVE, AMERICAN JEWISH COMMITTEE, WASHINGTON, D.C.

Mr. BOOKBINDER. Thank you, Mr. Chairman.

My name is Hyman Bookbinder with the American Jewish Committee. I hope you won't be confused when I explain that I appear today on behalf of my own organization, the American Jewish Committee, and the American Jewish Congress, two national organizations that have long been committed to programs of social justice and social security for all Americans. And that both of these organizations in turn present this testimony that we prepared jointly on behalf the National Jewish Community Relations Advisory Council, which is an umbrella group in the field of Jewish community relations, representing 11 national and 100 of the 11 local Jewish organizations. So I am pleased to be able to say that while there are differences even among us as to some of the specifics, I am able to say to you today that the organized Jewish community representing several million Americans has authorized me to say that the National Commission recommendations, taken as a whole, merits support, and that we are pleased to commend the work of that Commission. It is an eloquent demonstration that with goodwill and good sense the democratic system can be made to work.

American Jews have a special interest in the subject we are discussing today. In addition to our general concern for the welfare of the nation as a whole and the need to avoid intergroup, interreligious, intergenerational tensions. I refer to the fact that Jews have a significantly higher proportion of elderly and near-elderly than does the general population. Our full statement has several pages of interesting data to that effect.

Just to cite an example, in New York the median age for Jews is 40, compared to a median of 32 for all New Yorkers and 30 for all Americans.

Mr. Chairman, we understand fully how this package was put together, exacting concessions from every segment in order to achieve an acceptable compromise, one that sought to share sacrifices from all, while exempting to the greatest extent possible those at the bottom of the economic ladder.

We understand, too, how fragile that compromise is, and that any major deviations from it could jeopardize the whole package. But the legislative process is now underway, and it is inevitable that changes will be proposed. So while repeating our support for the package as a whole, and our readiness to accept it if that is the will of the Congress, our full statement does indicate a number of concerns we do have, and our hope that some modifications might be made along the lines of our recommendations.

Let me cite in summary form some of these. The taxation of benefits even after the proposed threshold would create difficulties for beneficiaries who have already made plans for their retirement. To minimize these hardships, at least to some of these beneficiaries, we urge consideration of several amendments. One, to eliminate the implicit marriage penalty that is involved in the $20,000 to $25,000 threshold. Second, to make sure that you do work out the notching problem. I'm pretty confident you will.

Third, to provide for retired families with young dependents. And that's an important phenomenon; a new phenomenon of retired families with retired individuals but who have children still at home.

And, fourth, to provide an appropriate indexing for future years so that the $20,000/$25,000 is not frozen indefinitely.

In addition, we urge further action either now or soon—we want to be realistic about this—on a whole range of women's equity issues, including the possibilities of earnings sharing, as has been proposed by some of the members of the Commission.

And, third, we remain troubled that the COLA delay, even though it is minimal and reasonable as it may be for the average beneficiary, it can still constitute a hardship for the lowest income recipients. And we express the hope that both in the social security bill that you are considering and in other relevant legislation the conditions of the very poorest be given the most generous attention.

Finally, Mr. Chairman, we add our voice of approval to the central thrust of the Commission report and to the proposed legislation. Namely, that there should be no basic altering in the fundamental structure of the social security program or undermine its fundamental principles. The changes which have been proposed, while important and even unhappy compromises in some respects, do not violate the basic structure of the system, and will provide the needed relief for the immediate period ahead. And we are happy to join in the positive reaction that has generally been manifested in the weeks since the Commission report.

Thank you, Mr. Chairman.

Senator Durenberger. Thank you very much, Mr. Bookbinder.

[The prepared statement of Hyman Bookbinder follows:]

Prepared Statement of Hyman Bookbinder, Washington Representative for the American Jewish Committee and American Jewish Congress

The American Jewish Congress and the American Jewish Committee, on behalf of the National Jewish Community Relations Advisory Council (NJCRAC), welcome the opportunity to present their views on the compromise package presented by the National Commission on Social Security Reform. The NJCRAC is the national coordinating body for the field of Jewish community relations and is comprised of eleven national and 111 local Jewish organizations.

The American Jewish Committee, a 75-year old national human relations agency, with a membership of over 40,000, researches and analyzes social policy issues that impact on Jews and safeguard America's pluralist society. With the 1971 publication of "The Invisible Jewish Poor" by Ann Wolfe, the American Jewish Committee called attention to the relationship between age and poverty in the Jewish community. The recognition of the importance of aging issues and the organization's general concern for the preservation of a just society, dedicated to meeting the needs of all Americans so that groups need not compete with one another for the essentials of life, provide the basis for the American Jewish Committee's commitment to a strong and stable Social Security system.

The American Jewish Congress is a membership organization of American Jews founded in 1918 to protect the religious, political and economic rights of Jews and to promote the principles of democracy. American Jewish Congress work in the Social Security area has included testifying before legislative and executive bodies, sponsoring an information and referral service to increase the awareness of the elderly about benefits to which they are entitled and publishing information regarding public policy issues that require action. Additionally, at the request of the Social Security Administration, we have translated their documents into Yiddish and aided in the distribution of these pamphlets describing the Supplemental Security Income (SSI) program.

Background

Our concern for the stability of the Social Security system is based on both practical and philosophical grounds. The Jewish community is an aging community that demographically reflects the characteristics of the general population -- only at a faster pace. Tied to the high proportion of aged, is the accompanying level of poverty, especially among women living alone.

Philosophically, we believe the Social Security system is the most effective protection against poverty among the aged. Rather than pit young against old, as some people have claimed, it actually helps middle-aged workers by insuring their parents' financial security. Its universal character eliminates the stigmatization associated with means-tested welfare programs and reflects an important communal value that the currently productive members of society have a responsibility for taking care of those who are unable to produce due to age or disability.

Profile of an aging Jewish community

The Jewish community in the United States is aging far more rapidly than the general population. Whereas 28 percent of the national population was under age 15 in 1970, only 23 percent of the Jewish population was in this category. Yet, the general population had only 10 percent over the age of 65 compared to 12 percent of the Jewish population that same year.[1] That trend has continued.

A recent study of the Jewish population of greater New York, conducted by the Federation of Jewish Philanthropies, found that 30 percent of the Jews in the New York area are 55 or older compared to 20.8 percent in the total U.S. population

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(1) Sidney Goldstein, "Jews in the United States: Perspectives from Demography," American Jewish Year Book, Vol. 81, 1981, p. 44.

or compared to 22.5 percent in the New York State population. On the other hand, only 15 percent of New York area Jews are under 15 years of age, compared to 22 percent in the total U.S. population or 21.2 percent in New York State. In Dade County, Florida, the percentage of Jews over 65 is 35.6 percent compared to 16 percent of the general population.(2)

The median age for Jews in the New York area is 40. For the general population in New York State, the median age is 32 and the median age of the total U.S. population is 30. The difference is even more striking if we look at Dade County, where the median age of the general population is 35 compared to the Jewish median age of 54. In Miami Beach, the Jewish median age jumps drastically to 67.

Because of its lower fertility and its higher proportion of individuals in the middle-age group, the Jewish population can be expected to become even older. According to Sidney Goldstein, a demographer who has been studying the Jewish community for many years, studies indicate the possibility of a 40 percent increase in the number of aged from the 1971 count to the projected 1990 estimate.(3)

In the New York area, 10 percent of the Jewish households with a person over age 65 have incomes of less than $5,000. This rises to 25 percent when we include incomes up to $10,000. More significantly, 67 percent of the one-person households have incomes of less than $5,000. These households are almost entirely women living alone.

In Miami, the reality of poverty among the aged is stark. According to 1980 figures given by the Dade County United Way, the 11,500 persons living alone in South Beach -- the original area of settlement where most low-income elderly,

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(2) From data collected by the Greater Miami Jewish Federation.

(3) Goldstein "Jews in the United States" op. cit., p. 46.

the majority of them Jewish, live today -- are almost totally dependent on Social Security income. For low income Jews in other areas as well, Social Security is the largest part of their annual income.

National Commission Recommendations

The National Commission on Social Security Reform, recommending a compromise proposal to resolve the financing problems of the Old-Age, Survivors and Disability Insurance Trust Funds (OASDI), has demonstrated that with good will and good sense the democratic system can be made to work.

Unanimous agreement was reached on the following issues:

- -- Congress should not alter the fundamental structure of the Social Security program or undermine its fundamental principles.
- -- For purposes of considering the short-range financial status of the OASDI Trust Funds, $150-200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds in calendar years 1983-89.
- -- For purposes of considering the long-range financial status of the OASDI Trust Funds, its actuarial imbalance for the 75-year valuation period is an average of 1.80 percent of taxable payroll.

In addition, a "consenus" package of specific proposals was agreed to by 12 of the 15 members of the Commission. The key provisions include: revising the tax-rate schedule to increase payroll taxes earlier than currently scheduled; shifting COLAs to a calendar-year basis; requiring universal coverage; and taxing benefits of higher-income persons.

Other provisions include: permanently allowing inter-fund borrowing; basing COLA increases on the lower of CPI or wages instead of automatically on wages; increasing the delayed retirement credit; and several provisions that deal with gender-based discrimination. A majority of the members of the National Commission recommended that two public members be added to the Board of Trustees of the OASDI Trust Funds; the operations of all the Trust Funds be removed from the unified budget; and~~, in principle, the~~ Social Security Administration be set up as an independent agency. There was no agreement on the raising of the retirement age or the resolution of the financing problems of the Medicare program.

Comments on Consensus Package

In principle, the Commission's recommendations, which include a menu of diverse proposals, merit support. We take this position in spite of the fact that we are concerned with several components of the Commission's package.

The Commission's proposals are a compromise. We agree with President Reagan's January 15th statement that they contain "elements which each of us could not support if they were not part of a bipartisan" agreement. As a compromise package, no group, including American Jewish Congress and American Jewish Committee, achieved the inclusion of all of its positions in the Commission's final recommendations.

What is important is that the Commission's proposals affirm the national commitment to a federal retirement program and offer a viable means for resolving the short-term financial problems. The latter is accomplished by including a series of painful concessions which do not fall disproportionately on any group. For example, liberals who oppose the COLA deferral are asked to accept the package as are conservatives who oppose the new taxes.

Moreover, by insuring short-term solvency, the Commission buys time which will better enable us to plan for long-term needs. This is important since it will allow us to make more accurate projections about future income and expenses. (4)

While generally endorsing the Commission's proposals, we are especially pleased with several of them. These include moving the 1985 tax rate to 1984, (5) increasing from $20 to $50 the disregard of OASDI benefits for purposes of determining eligibility for Supplemental Security Income (SSI), (6) removing Social Security from the unified budget and making a lump sum payment to the OASDI Trust Funds for the amount of uncashed checks.

At the same time, there are Commission recommendations which concern us. Beginning with 1984, 50 percent of OASDI benefits would be considered as taxable income for single people with an adjusted gross income of $20,000 and married people with an adjusted gross income of $25,000. While taxing benefits is a progressive form of raising revenues, it raises several issues that should be addressed.

While it is true that only half of the benefits would be taxed under the Commission's proposal, for those close to retirement or currently retired, this proposal would

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(4) The reader will understand the difficulty in making accurate projections regarding retirees and benefits since the actual numbers depend not only on fertility, but on mortality, divorce, inflation, labor force participation, unemployment, retirement patterns, earnings, disability incidence and duration, productivity and new immigration. For example, a doubling of new immigrants could lead to the elimination of up to one-third of our long-term problem. One result of the aforementioned is that some have suggested that it is unwise to forecast so far into the future about matters of which we are so uncertain.

(5) The use of a tax credit to offset the increase is important to employees. It's extension beyond 1984 should be considered.

(6) This provision is the only one that deals with the poor elderly. Congress should consider further reforms of the SSI program, including indexing the disregard and increasing the levels of resources allowed for eligibility, to more adequately protect this vulnerable group.

create an unexpected financial loss and would violate an unwritten agreement with beneficiaries whose retirement plans include tax-free Social Security benefits. Furthermore, once this proposal is enacted, a precedent will have been set, and taxation of all benefits would become a viable option for future legislation.

The taxation provision would also recreate a marriage penalty that has just been removed, in part, from the general income tax. While an unrelated man and woman, earning $17,500 each, would not have to pay taxes on their Social Security benefits, a married couple in the same financial position would be required to do so.

We are also concerned about the choice of $20/$25,000 as the trigger, although we realize that this exempts about 85 percent of the retirees. The elderly have many special expenses, particularly in relation to medical care, which Medicare does not adequately cover. In addition, many Social Security beneficiaries still have young dependents, since there is a growing trend toward later marriages and delayed childbearing.

Another problem with taxing benefits is the "notching" issue. Individuals and couples with adjusted gross income of just under $20/$25,000, because their OASDI benefits would not be taxed, would end up with higher incomes than those slightly above those figures. The National Commission was aware of the notching problem and suggests in its Report that "it will be rectified in the legislative process." However, we cannot be as optimistic since the same situation exists in other programs such as unemployment insurance benefits. (7)

Tying the taxation of benefits to an appropriate index would help assure that

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(7) Similarly, in some cases, individuals receiving public assistance, which entitles them to Medicaid, are better off financially than low-income workers who lack health coverage.

only those who can most afford it will have their benefits taxed. Moreover, current retirees, and those within five years of retirement, could be exempt from this provision in order to maintain the expectations of those unable to make up, in savings or earnings, for the loss of income.

The National Commission recommendation that the cost-of-living adjustment should, beginning in 1983, be paid in January, instead of July, is also a subject of concern to our organizations. Delay in the COLA would mean a reduction in benefits for our elderly, many of whom are dependent on Social Security for the bulk of their income.

With average Social Security retirement benefits now equaling but 42 percent of average previous wages, any decline in them would further exacerbate the already difficult problems of the elderly poor. The proposed COLA deferral would cost the average single retiree $132 in 1983 and $1100 from 1983-1989 (for a couple, the figures are $220 and $1800). Especially hard hit would be those in the lowest income brackets, frequently women, some of whom might be pushed into poverty or deeper into poverty. (8)

Related to this discussion of a reduction in benefits is the Commission agreement that a "fail-safe mechanism is necessary so that benefits could continue to be paid despite adverse conditions." Although the Commission was unable to reach agreement regarding a specific mechanism, we believe that a combination of vehicles, including floating bonds and loans from general revenues, could be viable options. The one proposal under consideration which we would oppose "would be to reduce, temporarily, the benefits payable."

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(8) These assume an inflation rate of 5.3 percent and average monthly benefits of $416 for a single person and $700 for a couple.

The Commission Report includes four relatively minor recommendations relating to the issue of women's equity. Unfortunately, as is mentioned in one of the supplementary statements, the Commission did not "begin to address the fundamental, though unintended, inequities, that act to the disadvantage of all people except members of intact one-earner couples." Prominent among these inequities are the second earner, usually the woman, receiving little or no return on her Social Security taxes, because as the spouse of a retired worker, she receives a larger benefit than she would based on her own work record. Another inequity is that a divorced woman fails to qualify for benefits unless the marriage lasted a minimum of ten years.

We believe that these problems could be rectified through a more comprehensive approach, such as earnings-sharing, which would allow both partners in a marriage to receive credit for earnings and quarters of coverage. By doing so, individuals not working in covered employment could establish their eligibility for Social Security on the basis of their spouses' work in covered employment. Under this approach, Social Security credits would be apportioned by a formula that would credit each spouse with 50 percent of the couple's combined earnings.

Taking this step would have several advantages. Of major importance is that homemakers would be brought into the system in their own right, instead of only being able to collect benefits as dependents. Another advantage is that non-working spouses would be eligible for disability benefits. Also, divorced homemakers would have records they could carry with them instead of losing all rights if they were married for less than ten years.

The Commission further noted that the 1982 HI Trustees Report predicts financial difficulties in the early 1990s. (9) Assuming hospital costs continue to rise without an effective cost-containment process, over half the expected deficits of the next century for all three trust funds can be attributed to HI.

An in-depth examination is necessary to understand the specific effects of rising hospital costs on the HI funds and what changes may be appropriate. Without such an examination and national debate, the implementation of the current proposals would leave a major part of Social Security's needs unresolved.

Other areas that require future consideration include changes in the retirement age, the use of general revenues to supplement the payroll-tax, SSI reforms, and a broad educational campaign to restore confidence in the Social Security system.

With an unemployment rate of over ten percent, approximately 11 million Americans and their employers are not paying Social Security taxes. Additionally, it is likely that some older workers who were fired or temporarily laid off decided to retire and draw Social Security benefits at age 62 or, to apply for disability for impairments which, under other conditions, would not have kept them out of the work force.

We, therefore, urge the Committee to consider the direct relationship between high unemployment and inflation and Social Security's financial problems. While inflation has fallen dramatically in the last few years, it has, unfortunately, been accompanied by a dramatic increase in unemployment. Full employment, even under the current low-aspiration Administration definition of 6½ percent, would represent an effective mechanism in reducing the Social Security deficit.

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(9) A new study by the Congressional Budget Office contains projections indicating that the Medicare trust fund will be depleted in 1987 or 1988.

Returning 4-5 million workers to jobs would significantly reduce the projected deficit.

Conclusion

For the following reasons, the next few months will provide an unusual opportunity to enact legislation aimed at insuring the continued viability of Social Security and maintaining confidence in the system: there now is a considerable public awareness and concern; the short-term problems are nearing the point where failure to act will lead to a breakdown in the system; the midterm Congressional elections are behind us; and the recommendations of the National Commission on Social Security Reform have focused the debate.

Unfortunately, the Social Security issue has become somewhat confused because of the widespread demand for "reform" by people and groups for whom that term has very different meanings. For example, for those who believe Social Security must keep people out of poverty, reform holds one meaning; for those whose basic interest is insuring that Social Security does not discourage savings and capital formation, it holds quite another. Moreover, as federal budget deficits continue to grow, the temptation to view Social Security as part of this problem will increase.

Since all options under consideration have both positive and negative consequences, we fear that the U.S. Congress will be tempted to enact marginal changes. This course would sacrifice an unusual opportunity to institute the appropriate adjustments.

Because of its aging population, the Jewish community has a special interest in this subject, which affects Americans across the board. We welcome the compromise agreement, which makes a substantial move toward safeguarding the Social Security system for the foreseeable future, and hope that the long-term issues will be given the important consideration necessary to insure the continued health of the system into the next century.

Submitted by

Hyman Bookbinder
Washington Representative
American Jewish Committee

on behalf of

American Jewish Congress

and

American Jewish Committee

Technical Consultants:

Evan Bayer
American Jewish Committee

Martin Hochbaum
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83-625-06

STATEMENT OF SISTER SERENA BRANSON, EXECUTIVE DIRECTOR, DIOCESAN HEALTH AND SOCIAL SERVICES, ALBANY, N.Y., REPRESENTING THE NATIONAL CONFERENCE OF CATHOLIC CHARITIES, WASHINGTON, D.C.

Senator DURENBERGER. Sister Serena.

Sister SERENA. Mr. Chairman, I am Sister Serena Branson, executive director of the Diocesan Health and Social Services for the 14 county diocese of Albany.

Catholic Charities has a history of service on this continent beginning before the origins of our country. We constitute over 1,000 agencies and affiliated institutions, together providing services in virtually every county. On behalf of the people we strive to serve, I am grateful for the opportunity to present this testimony.

As you consider the various proposals regarding the financing problems of the OASDI trust funds, you will receive volumes of statistical data which support or refute different options. With this in mind, I would like to limit my remarks largely to some philosophical issues which may guide the deliberations.

First, the National Conference of Catholic Charities wishes to confirm its firm conviction that all citizens have the right to those resources necessary to secure adequate food, clothing, and shelter. Such a right is the cornerstone of our teaching as it relates to social justice. It flows from the belief in inherent dignity of every person; a belief that finds expression in the founding principles of our republic as the right to life, liberty, and the pursuit of happiness.

To the extent that social security enables our citizens to obtain adequate food, clothing, and shelter, it is an important means of preserving these dignities.

Second, we want to affirm the proper role of Government in the protection of individual's rights and the assurance of the common good. In a sense, we consider it ironic that such a fundamental principle needs to be affirmed. However, we hear voices from responsible places speak of Government as a hindrance to be curbed rather than a positive means to secure the general welfare.

Given our complex and interdependent economic systems, it seems that only the Federal Government is capable of providing financial security due to retirement, illness, or disability.

Third, we want to stress the value and the virtue of the principle of social insurance as the best historical means to assure retirement protection, and to protect survivors in the event of the death of the family's breadwinner, and also to protect against catastrophic illness and disability.

The intergenerational compact expressed in our social security law is among the most basic assurance our people can offer each other. It is an expression of the moral responsibility of people to care for each other. In our tradition, social insurance is considered a norm. When it is alluded to in papal social teaching, it is usually by nature of an assumption that such a mechanism is in place.

Finally, as mentioned previously, our local Catholic Charities agencies provide services for the elderly and others in need in virtually every county in the United States. In the past several years, the frequent talk of impending collapse of the social security system has left many of our elderly clients very frightened. While solutions to the fiscal problems are soon to be enacted, we believe that significant damage has been done to the social contract whereby people have placed their personal security and trust in the integrity of the social security system. Therefore, the solution offered to meet present and long-range problems must reaffirm the solidity and wisdom of the program.

In order to alleviate these fears and restore the social contract, we urge rapid passage of the consensus package developed by the National Commission on Social Security Reform. While there are individual components which we may have problems with, we support the compromise as a reasonable solution, given the complexity and urgency of the task. In our judgment, the consensus package seeks a reasonable sacrifice from many in order to promote the common good. On the whole, these sacrifices seem to be fair and necessary if the personal security of our fellow citizens is to be maintained.

Two final points. We offer our support for the development of a supplemental retirement program for new Federal employees who would, for the first time, be covered by social security.

Second, we would like to explicitly endorse mandatory social security coverage for the employees of nonprofit organizations. We take this position as a federation of nonprofit employers. We take it because we believe only the widest possible participation can guarantee the kind of social bond the program represents. We take it because we believe including nonprofit employees is the correct moral decision.

Thank you.

Senator DURENBERGER. Sister Serena, thank you very much.

[The prepared statement of Sister Serena follows:]

PREPARED STATEMENT OF SISTER SERENA BRANSON, EXECUTIVE DIRECTOR, DIOCESAN HEALTH AND SOCIAL SERVICES, DIOCESE OF ALBANY, N.Y.

Mr. Chairman, I am Sister Serena Branson, Executive Director of Diocesan Health and Social Services of the Catholic Diocese of Albany, New York. Catholic Charities has a history of service on this continent beginning before the origins of our country. We constitute over 1,000 agencies and affiliated institutions, together providing social services in virtually every county in the United States. On behalf of the people we strive to serve, I am grateful for the opportunity to present our views to the Finance Committee.

As you consider the various proposals regarding the financing problems of the OASDI Trust funds, you will receive volumes of statistical data which support or refute the different options. With that realization in mind, I would like to limit my remarks largely to some of the philosophical issues which might guide you in your deliberations.

First, the National Conference of Catholic Charities wishes to record its firm conviction that all citizens have the right to those resources necessary to secure adequate food, clothing, and shelter. Such a right is a cornerstone in Catholic teaching on social justice. It flows from our belief in the inherent dignity and sanctity of every human person; a belief that finds expression in the founding principles of our republic as the right to life, liberty and the pursuit of happiness.

To the extent that Social Security enables our citizens to obtain adequate food, clothing and shelter, it is an important means of preserving the dignity of individuals and their families. Therefore, potential changes in the Social Security program should be measured in terms of their effect on the individual's ability to adequately meet basic human needs.

Secondly, we want to affirm the proper role of the government in the protection of individual rights and the insurance of the common good. In a sense, we consider it ironic that such a fundamental principle should have to be affirmed. However, we hear voices from responsible places speak of government as a hindrance to be curbed, rather than a positive means to secure the general welfare of society. Given our complex and interdependent economic systems, it seems that only the federal government is capable of providing financial security due to retirement, illness or disability.

Thirdly, we would like to stress the value and virtue of the principal of social insurance as the best historically tested means to assure retirement protection and to protect survivors in the event of the death of a family's breadwinner, and to protect against the catastrophy of disability. The intergenerational compact expressed in our Social Security law is among the most basic assurances our people can offer each other. It is an expression of the moral responsibility of people to care for each other. In our religious tradition, social insurance is considered a norm. When it is alluded to in Papal social teaching, it is usually by nature of an assumption that such a mechanism is or ought to be in place.

Finally, as I mentioned previously, our local Catholic Charities agencies provide services for the elderly and others in need in virtually every county in the United States. In the past several years, the frequent talk of impending collapse of the Social Security system has left many of our elderly clients frightened. While solutions to the fiscal problems are soon to be enacted, we believe that significant damage has been done to the "social contract" whereby people have placed their personal security and trust in the integrity of Social Security, and, therefore, the solution offered to meet present and long-range problems must reaffirm the solidity and wisdom of the program.

In order to alleviate these fears and restore the social contract, we urge the rapid passage of the consensus package developed by the National Commission on Social Security Reform. While there are individual components to the package with which we have problems, we support the compromise as a reasonable solution, given the complexity and urgency of the task. In our judgment, the consensus package seeks a reasonable sacrifice from many in order to promote the common good. On the whole, these sacrifices seem to be fair and necessary if the personal security of our fellow citizens is to be maintained.

Two final points. We offer our support for the development of a supplemental retirement program for the new Federal hires who would for the first time automatically be covered by Social Security.

Secondly, we would like explicitly to endorse mandatory Social Security coverage for the employees of non-profit organizations. We take this position as a federation of non-profit employers. We take it because we believe only the widest possible participation of our citizens can guarantee the kind of social bond the program represents. We take it because we believe including non-profit employees in Social Security is the correct moral decision.

Mr. Chairman, I want to thank you for this opportunity to present our views.

STATEMENT OF ANDREW S. KINSINGER, CHAIRMAN, OLD ORDER AMISH STEERING COMMITTEE, GORDONVILLE, PA.

Senator HEINZ. I would like to recognize our third witness, who is a Pennsylvanian, Mr. Andrew S. Kinsinger, who is the chairman of the Steering Committee of Old Order Amish of Gordonville, Pa. Mr. Kinsinger.

Mr. KINSINGER. Thank you, Mr. Chairman.

I appreciate the privilege of being with you today. However, I would admit that I would feel more at home on a Lancaster County farm.

For the record, I would state that I hope that we will not in any way—it is not our intention in any way to weaken the Social Security Act for the ones that should have social security or be in the program. However, for religious reasons there are a considerable amount of the Old Order Amish, the Old Order Mennonite who would very seriously wish to be exempt and are able to be taken care of which has been sufficient for a long time.

I speak here today as the chairman of the Old Order Amish Steering Committee in behalf of the Amish and the Old Order Mennonite, throughout the United States. And my main concern today regards my brethren who are, for religious reasons, opposed to paying or receiving social security, but to date have been unable to be exempt from the same.

Most of you are probably aware that in 1965 a bill was passed with the kind assistance of the then-chairman of the Ways and Means Committee, Wilbur Mills, for religious groups able to meet the requirements to be exempt from the Social Security Act. And the Old Order Amish and Mennonites are very thankful for this. However, although it is based on religion, it only exempts the self-employed. And since we have many younger members who have not been able to be self-employed, but are seriously opposed for religious reasons, to be covered by the Social Security Act, which has caused them a deep religious concern, as well as feeling that it is not fair to exempt the self-employed for religious reasons and not their employees.

Through the deep concern and prayers of the affected members and their brethren, we feel that Congressman Richard T. Schulze and others have been moved to do something about this, of which we feel most grateful. And accordingly several identical bills have been introduced; namely, H.R. 411 and H.R. 1148, of which we hope and pray that each of you members will support until its final passage.

Some of you may recall the quite recent *Lee* court case that was brought before the U.S. Supreme Court by non-Amish but friends of the Old Order Amish.

Lee was an Amish farmer and carpenter. And had a valued social security exemption. He had several other Amish men working for him who also held a social security exemption. But since they were Lee's employees, the exemption was not considered valid. However, Lee, for religious reasons, did not withhold social security from their pay so the IRS threatened to take their small farm and home. The non-Amish neighbors were sympathetic with Lee and took the case to the district court where the court held in favor of the Amish. The case was then appealed to the U.S. Supreme Court where they ruled against Mr. Lee with the remark that it would be detrimental to the Social Security Act to relieve certain religious groups from social security through the courts. They did, however, suggest that it should be a minor matter for Congress to relieve the Amish employees, as they did relieve the self-employed in 1965, and that it would possibly save the Government money by doing so. I will admit that I felt it a fair ruling.

You may ask, How could it save the Government money? Under the proposed bill, should an employee with an approved exemption work for an employer with no exemption, social security would be withheld, but only the employee's share would be refunded. Also, when an application for exemption is filed, applicant signs to the effect that he will not be eligible for social security or medicare.

The same procedure would be used for processing and making its finding as to eligibility as is presently used for self-employed. You may wonder why there is a need for an exemption. Why not pay in, but just not collect? First, we are religiously opposed to be in the social security system in any form. And further, should the father willingly go along and pay into the system, but not collect, it would only lead to a strong temptation for the next generation to pay into the system and also collect. We strongly believe that a good example speaks louder than words. We are admonished through the Bible and our church to be a humble, peaceable, and law-abiding people, but when law and religion conflict, then we have no choice but to humbly stand for our religion.

I have seen time and again where a checking account or savings account was taken right from the bank, which hurt deeply and was needed badly, being in the thousands, but applicant will in no way try to collect social security.

You may say or think that if we excuse these people from the Social Security Act, what will keep them from requesting exemption from taxes that are used for military and so forth. This is not the case. And again, we are admonished by our church and the New Testament to pay our legal and due taxes as Jesus directed his disciples to pay. What the Government does with the money is up to them, and if social security were a tax, as at times claimed, there would be no problem. And we would willingly pay, but it is considered by the Amish group as an insurance of which they are religiously opposed to. Even the original title, old age and survivors insurance, brings this out.

Should I finish this?

Senator HEINZ. Please continue.

Mr. KINSINGER. We would not wish to condemn or in any way weaken or interfere with the social security program for the ones that want it. But we would humbly plea that our employees also be excused from social security as the self-employed were excused so they need not with a troubled conscience seek ways to avoid the social security program. The Amish are only human and not as perfect as our non-Amish would take us to be, and not near as perfect as we would like to be. And we would not wish to be a burden to our Government or men in authority or to be a hindrance to anyone. We desire no financial assistance from our State or Federal governments in any way. But, again, we would humbly plea that we be allowed to take care of our own in our own way as through alms and brotherly love, as has always been our custom, and has been sufficient to this day.

Several years past, workmen's compensation and unemployment were made compulsory in the State of Pennsylvania. Through the assistance of our State men in authority, a bill was introduced to excuse certain religious groups that would meet the requirements, patterned after the 1965 Social Security Exemption bill. And it was passed by the Senate and the House with 100 percent in favor. Can we depend on our Federal House and Senate to do the same?

We thank you honorable men in authority kindly, and do wish each and everyone the grace and blessing of God in your many tasks ahead.

Senator HEINZ. Mr. Kinsinger, thank you very much.

[The prepared statement of Mr. Kinsinger follows:]

Prepared Statement of Andrew S. Kinsinger, Chairman, Old Order Amish Steering Committee

HONORABLE CONGRESSIONAL MEMBERS, I APPRECIATE THE PRIVILEGE OF BEING WITH YOU TODAY; HOWEVER, I WILL ADMIT THAT I WOULD FEEL MORE AT HOME ON A LANCASTER COUNTY FARM.

I SPEAK HERE TODAY AS CHAIRMAN OF THE OLD ORDER AMISH STEERING COMMITTEE, IN BEHALF OF THE AMISH AND OLD ORDER MENNONITE, THROUGHOUT THE UNITED STATES, AND MY MAIN CONCERN TODAY REGARDS MY BRETHREN WHO ARE, FOR RELIGIOUS REASONS, OPPOSED TO PAYING OR RECEIVING SOCIAL SECURITY BUT TO DATE HAVE BEEN UNABLE TO EXEMPT FROM SAME.

MOST OF YOU ARE PROBABLY AWARE THAT IN 1965 A BILL WAS PASSED WITH THE KIND ASSISTANCE OF THEN CHAIRMAN OF THE WAYS AND MEANS COMMITTEE, WILBUR MILLS, FOR RELIGIOUS GROUPS ABLE TO MEET THE REQUIREMENT TO BE EXEMPT FROM THE SOCIAL SECURITY ACT, AND THE OLD ORDER AMISH AND MENNONITES ARE VERY THANKFUL FOR THIS. HOWEVER, ALTHOUGH IT IS BASED ON RELIGION, IT ONLY EXEMPTS THE SELF-EMPLOYED, AND SINCE WE HAVE MANY YOUNGER MEMBERS, WHO HAVE NOT BEEN ABLE TO BE SELF-EMPLOYED BUT ARE SERIOUSLY OPPOSED, FOR RELIGIOUS REASONS, TO BE COVERED BY THE SOCIAL SECURITY ACT, WHICH HAS CAUSED THEM A DEEP RELIGIOUS CONCERN, AS WELL AS A FEELING THAT IT IS NOT FAIR TO EXEMPT THE SELF-EMPLOYED FOR RELIGIOUS REASONS, AND NOT THEIR EMPLOYEES.

THROUGH THE DEEP CONCERN AND PRAYERS OF THE AFFECTED MEMBERS, AND THEIR BRETHREN, WE FEEL THAT CONGRESSMAN RICHARD T. SCHULZE AND OTHERS, HAVE BEEN MOVED TO DO SOMETHING ABOUT THIS, OF WHICH WE FEEL MOST GRATEFUL AND ACCORDINGLY SEVERAL IDENTICAL BILLS HAVE BEEN INTRODUCED, NAMELY H.R. 411 AND H.R. 1143, OF WHICH WE HOPE AND PRAY THAT EACH OF YOU MEMBERS WILL SUPPORT UNTIL ITS FINAL PASSAGE.

SOME OF YOU MAY RECALL THE QUITE RECENT LEE COURT CASE THAT WAS BROUGHT BEFORE THE U.S. SUPREME COURT BY NON AMISH BUT FRIENDS OF THE OLD ORDER AMISH.

LEE WAS AN AMISH FARMER AND CARPENTER, AND HAD A VALUED SOCIAL SECURITY EXEMPTION. HE HAD SEVERAL OTHER AMISH MEN WORKING FOR HIM, WHO ALSO HELD A SOCIAL SECURITY EXEMPTION, BUT SINCE THEY WERE LEE'S EMPLOYEES, THE EXEMPTION WAS NOT CONSIDERED VALUED. HOWEVER, LEE, FOR RELIGIOUS REASONS, DID NOT WITHHOLD SOCIAL SECUTIRY FROM THEIR PAY SO THE I.R.S. THREATENED TO TAKE THEIR SMALL FARM AND HOME. THE NON AMISH NEIGHBORS WERE SYMPATHETIC WITH LEE AND TOOK THE CASE TO THE DISTRICT COURT WHERE THE COURT HELD IN FAVOR OF THE AMISH. THE CASE WAS THEN APPEALED TO THE UNITED STATES SUPREME COURT WHERE THEY RULED AGAINST MR. LEE WITH THE REMARK THAT IT WOULD BE DETRIMENTAL TO THE SOCIAL SECURITY ACT TO RELIEVE CERTAIN RELIGIOUS GROUPS FROM SOCIAL SECURITY, THROUGH THE COURTS. THEY DID, HOWEVER, SUGGEST THAT IT SHOULD BE A MINOR MATTER FOR CONGRESS TO RELIEVE THE AMISH EMPLOYEES, AS THEY DID RELIEVE THE SELF-EMPLOYED IN 1965, AND THAT IT WOULD POSSIBLY SAVE THE GOVERNMENT MONEY BY DOING SO. I WILL ADMIT THAT I FELT IT A FAIR RULING.

You may ask, how could it save the Government money? Under the proposed bill, should a' employee with an approved exemption work for a employer with no exemption, Social Security would be withheld, but only the employees' share would be refunded. Also, when an application for exemption is filed, applicant signs to the effect that he will not be eligible for Social Security or Medicare.

The same procedure would be used for processing and making its finding as to eligibility as is presently used for self-employed. You may wonder why there is a need for an exemption. Why not pay in, but just not collect? First we are religiously opposed to be in the Social Security System in any form, and further should the father willingly go along and pay into the system, but not collect, it would only lead to a strõng temptation for the next generation to pay into the system and also collect. We strongly believe that a good example speaks louder than words. We are admonished through the Bible and our church to be a humble, peaceable and law-abiding people, but when law and religion conflict, then we have no choice but to humbly stand for our religion.

I have seen, time and again where a checking account, or Savings account was taken right from the bank, which hurt deeply and was needed badly, being in the thousands but applicant will in no way try to collect Social Security.

You may say or think that if we excuse these people from Social Security, what will keep them from requesting exemption from taxes that are used for military, etc.? This is not the case, and again we are admonished by our church and the New Testament to pay our legal and due taxes as Jesus directed his disciples to pay. What the Government does with the money is up to them, and if Social Security were a tax as at

TIMES CLAIMED, THERE WOULD BE NO PROBLEM, AND WE WOULD WILLINGLY PAY, BUT IT IS CONSIDERED BY THE AMISH GROUP AS AN INSURANCE OF WHICH THEY ARE RELIGIOUSLY OPPOSED TO. EVEN THE ORIGINAL TITLE, OLD AGE AND SURVIVORS INSURANCE BRINGS THIS OUT.

WE WOULD NOT WISH TO CONDEMN, OR IN ANY WAY WEAKEN OR INTERFERE WITH THE SOCIAL SECURITY PROGRAM FOR THE ONES THAT WANT IT, BUT WE WOULD HUMBLY PLEA THAT OUR EMPLOYEES ALSO BE EXCUSED FROM SOCIAL SECURITY AS THE SELF-EMPLOYED WERE EXCUSED, SO THAT THEY NEED NOT WITH A TROUBLED CONSCIOUS SEEK WAYS TO AVOID THE SOCIAL SECURITY PROGRAM. THE AMISH ARE ONLY HUMAN, AND NOT AS PERFECT AS OUR NON AMISH NEIGHBOR WOULD TAKE US TO BE, AND NOT NEARLY AS PERFECT AS WE WOULD LIKE TO BE, AND WE WOULD NOT WISH TO BE A BURDEN TO OUR GOVERNMENT OR MEN IN AUTHORITY OR TO BE A HINDERANCE TO ANYONE.

WE DESIRE NO FINANCIAL ASSISTANCE FROM OUR STATE OR FEDERAL GOVERNMENT IN ANY WAY, BUT AGAIN WE WOULD HUMBLY PLEA THAT WE BE ALLOWED TO TAKE CARE OF OUR OWN IN OUR OWN WAY, AS THROUGH ALMS AND BROTHERLY LOVE AS HAS ALWAYS BEEN OUR CUSTOM AND HAS BEEN SUFFICIENT TO THIS DAY.

SEVERAL YEARS PAST, WORKMANS COMPENSATION AND UNEMPLOYMENT WERE MADE COMPULSORY IN THE STATE IN PENNSYLVANIA. THROUGH THE ASSISTANCE OF OUR STATE MEN IN AUTHORITY, A BILL WAS INTRODUCED TO EXCUSE CERTAIN RELIGIOUS GROUPS THAT WOULD MEET THE REQUIREMENTS, PATTERNED AFTER THE 1965 SOCIAL SECURITY EXEMPTION BILL, AND IT WAS PASSED BY THE STATE SENATE AND HOUSE WITH A 100% IN FAVOR. CAN WE DEPEND ON OUR FEDERAL HOUSE AND SENATE TO DO THE SAME?

WE THANK YOU HONORABLE MEN IN AUTHORITY, KINDLY, AND DO WISH EACH AND EVERY ONE, THE GRACE AND BLESSING OF GOD IN YOUR MANY TASKS AHEAD.

Senator HEINZ. I find your statement extraordinarily refreshing and eloquent. Perhaps that's because I have just waded about half way through James Michener's book, Covenant, which is the story of the country of South Africa. It was founded with a great deal of religious fervor. And what is refreshing to me is to hear a fellow American say that where there is a conflict between a law and religion then we have no choice but to humbly stand for our religion. You don't hear many people speak out for their beliefs, even in this august body, to that extent. It's very refreshing.

I have a couple of questions I would like to put to you. I didn't hear Mr. Bookbinder's or all of Sister Serena's testimony. This is regarding the exemption that you request.

As you correctly point out, there was an exemption of the self-employed Amish in the law in 1965. And at that time, that exemption seemed to settle the problem to meet the needs of most of the Amish. Since then, you indicate the kind of employment for Amish men has changed somewhat. Could you describe just a little bit more for the record how this employment situation has changed, and what kinds of employment young Amish men are likely to be in today?

Mr. KINSINGER. Even in 1965 when they did pass the bill for the self-employed, we would have been grateful if they would have included the employees. But Mr. Mills, the chairman of the Ways and Means Committee, explained, "Let this work for a couple of years and see how this works. If this seems to be satisfactory, we can put an amendment to it."

Now this has gone on for quite some years. But it has changed considerably since 1965. In one way, the population has increased. In another way, the values of farms have increased considerably since 1965. A young farmer—it takes a considerable amount of money to purchase a farm and start farming. The Amish live in communities pretty well. They have to keep spreading out, and spreading out, and getting more farms, and more farms. And this takes a considerable amount of money.

Now, for that reason, usually they will work as an employee for a longer period of time before they are able to purchase their farms. And in so doing, they are just as religiously opposed to social security as their employer who they are working for if it so happens that it happens to be an Amish employer. Although under the law there is really no exemption for an employee——

Senator HEINZ. Even if they are working for an Amish employer?

Mr. KINSINGER. That's right. A lot of them already hold an exemption form, approved exemption form, for anything that they will do. That is, self-employed. But being that they are an employee, the exemption form is invalid. It's only for self-employed.

Senator HEINZ. Now, you said this in your testimony and I just wanted to emphasize it. If you are seeking an exemption which, if granted by the Congress, would achieve the following. It would allow a non-Amish employer to employ an Amish employee. The Amish employee would not pay the so-called employee's portion of social security, and would sign a waiver of all benefits at any time in the future against medicare and social security and against disability that would bind them forever.

On the other hand, the employer would still be liable for his half of the social security tax.

Mr. KINSINGER. Right.

Senator HEINZ. And you point out—and I think correctly—that this would benefit the social security system.

Mr. KINSINGER. Right.

Senator HEINZ. Now the original exemption for self-employment was based on the assumption that this employment was primarily farming, and in the agriculture community there would be a capacity to support the members in the event of disability or poverty in old age or medical need. In considering whether that kind of community attention to the needs of the Amish will still be available for younger people, it forces us to ask the question: How many of those Amish who work for the non-Amish are going to remain in what is fundamentally an Amish community?

Mr. KINSINGER. I would say a big majority. I wouldn't be able to state any definite figures, but only a small percent would not stay with the Amish regardless of whether they are in agriculture working for an Amish farmer or not, they would still be taken care of by the Amish community as long as they are Amish members.

Now you are probably aware that when an exemption is signed we are also requested in an exemption that the religious body of the church signs, the bishop signs—we are requested that if he changes his religion, in other words if he changes his membership from the Amish church to some non-Amish church, he——

Senator HEINZ. He would then forfeit his exemption.

Mr. KINSINGER. That's right. He would report this to the social security department. And if this particular group where he is now a member is not on the books of the social security or in the file of the social security on the exemption file, he would lose his exemption. And if he loses his exemption, he will have a chance to again start building up social security points.

Senator HEINZ. If my colleagues will permit me one last question. For that small proportion of Amish who will go and, let's say, work in industrial employment, but who maintain their religion and who would, therefore, still qualify for the exemptions, do you foresee any problems for them as they age, as they become more a part of a non-Amish society by virtue of the fact that they have forfeited their social security, old age, disability, and medicare benefits?

Mr. KINSINGER. I do not for the simple reason that if they are not a true Amish, they will not request a social security exemption. They wish to have the social security. And only if they stay with the Amish group will they request, ordinarily, for an exemption. And even if they change their mind, they will automatically have the privilege to cancel the exemption, and social security would cancel it themselves if they are aware of it. And they will again have the chance to become part of the social security program.

Senator HEINZ. Thank you very much.

Senator Moynihan?

Senator MOYNIHAN. Mr. Chairman, I would like to especially welcome Sister Serena to our council here, and welcome in particular a kind word about the role of all branches of government. We haven't heard as much about it as we used to. And it is very thoughtful of you.

Sister SERENA. Thank you, Senator.

Senator MOYNIHAN. And I welcome both Mr. Bookbinder and you, sir.

Let me just say to Sister Serena, on your two final points, we very much intend to have a supplemental retirement system for Federal employees to enter in the future. That will put the Federal employees in a position, which is very common right now, where they would have social security and then a supplemental retirement system through their employer. It's an anomaly that employees of the Social Security Administration don't belong to social security. It's just something we inherited from the early, somewhat chaotic arrangements.

You might want to know—and I think you all might be interested to know—Senator Heinz, I don't think you were here when we got this testimony yesterday—that almost half the persons who enter Federal employment don't remain long enough to divest it of any retirement benefits. They would have had to remain in the system for 5 years. And when they leave, they can take their own contribution out, but the Federal Government contribution is lost to them entirely. Whereas, were they covered by social security during the 3 or 4 years that they worked, they could take the accumulated benefits with them. Most of them are young and never think they are going to get old, and couldn't care less. But the fact of the matter is that it would be a true benefit to them.

We very much intend to do this. And we will. And we thank you very much for your support. Pray for us to get this done by Easter, will you? It's almost in our hands. We just need to keep moving. And a little spiritual support helps a lot.

And to you, sir, may I say that it seems to me the requests you make are totally reasonable and entirely manageable. There are some difficulties on the edges of any such arrangement, but clearly this committee and this Congress has no intention to violate the religious beliefs of any group. And I am sure we can meet those requests.

At least I hope we can. And may I say, as Senator Heinz knows, Representative Schulze was here yesterday and did speak to that. Thank you very much.

Sister SERENA. Thank you.

Mr. BOOKBINDER. Thank you.

Mr. KINSINGER. Thank you.

Senator HEINZ. I think Senator Durenberger still has——

Senator MOYNIHAN. We are not through with you yet.

Senator HEINZ. The chairman will observe that this is such a good panel that we just can't let you off the hook this easily. Before I recognize Senator Durenberger, I would just say to Mr. Kinsinger that I am convinced that there will be absolutely no problem of any kind in securing the kind of exemption that not only you have made quite a good case for, but that the Supreme Court really invited the Congress to make.

Senator Durenberger?

Senator DURENBERGER. Thank you.

There is in the other half of your concluding statement—and because we have witnesses of contrary testimony following you—I need to ask you about the statement, "We would like explicitly to endorse mandatory social security coverage for the employees of nonprofit organizations. We take this position as a federation of nonprofit employers."

First question: Does that include the Catholic hospitals or not?

Sister SERENA. No. That includes the National Conference of Catholic Charities, although any diocese of Catholic Charities also relates and has the conduct of Catholic hospitals, but that is not universal.

Senator DURENBERGER. Then let me ask you just one part of a second question. If the Catholic hospitals are not included in there, the testimony that we will hear subsequently has, in effect, two premises for seeking an exclusion for nonprofit hospitals. One premise is the high cost of health care in this country. The testimony will indicate, at least in this particular case with this particular hospital, a per patient per day revenue increase of $67 as a difference between social security and their own alternative benefit plan.

But the second reason is the one that would reach into your affiliates, and that is that social security is two separate pieces of legislation. One, the Social Security Act, which sets forth benefits, and the other, the FICA, which is a tax act. And the statement is made, "The precedent for further Federal taxation of churches, schools and hospitals would be established by mandating social security coverage."

Does that bother you or your organization at all? Sister Serena. I haven't——

Senator DURENBERGER. If you haven't focused on it, that's OK.

Sister SERENA. I didn't think that was the reality of it. I know the Government—I didn't think that was part of this issue.

Senator DURENBERGER. All right. Thank you.

Hy, do you have an observation on that?

Mr. BOOKBINDER. No, not on that. We have no problem with coverage at all, but we didn't testify to that.

May I say to my good friend Senator Moynihan that you started out with such satisfaction that the Sister had said a good word for Government, and you ended up interestingly enough by saying pray for us. So it brought to mind then a quotation—one of my favorites—of Rabbi Hanina, back 2,000 years ago when he said, "Pray for the welfare of the Government since but for the awe thereof men would swallow each other alive."

Sister SERENA. Pretty good. [Laughter.]

Senator HEINZ. Senator Durenberger, thank you.

Sister SERENA. I guess I would like to say to Senator Durenberger that in our diocese our bishops have called a halt to any hospitals pulling out of social security.

Senator DURENBERGER. Thank you very much for your testimony.

Senator HEINZ. Thank you very much.

Our next panel consists of Mr. John C. Gavras, Mr. Donald Vandergrift, Mr. Howard Rohan, and Mr. Floyd Kinkead.

STATEMENT OF JOHN C. GAVRAS, PRESIDENT, DALLAS/FORT WORTH HOSPITAL COUNCIL, DALLAS, TEX.

Senator HEINZ. Mr. Gavras, would you please be our first witness?

Mr. GAVRAS. Thank you, Mr. Chairman.

I am John C. Gavras, president of the Dallas/Fort Worth Hospital Council, a nonprofit organization representing 66 member institutions, all of which are hospitals located in the greater Dallas/Fort Worth area.

I am here today to testify on behalf of five hospitals in that area. Since 1934, when Congress instituted the social security program, nonprofit organizations have been exempt from mandatory social security coverage. Indeed, under the regulatory system that has been in place these many decades, nonprofit organizations have been required to elect to participate in social security or find another method to provide their employees with comparable social security benefits. Many nonprofit organizations have developed their own employee benefit plans, and have never participated in the system. For various reasons, many others have left the system over the years and shaped their own employee benefit arrangements.

Now, in a report that has been issued in January of this year, the National Commission has recommended mandatory coverage of all employees of nonprofit organizations effective January 1, 1984. It seems to me that ordinarily it would be fair to suggest that organizations that have never participated in the social security system or have chosen to participate no longer should, in effect, be grandfathered if such rules are to be changed. Indeed, the Commission has chosen to treat State and local governments in this fashion. I prefer this method of treatment for nonprofit hospitals because I believe it to be most fair. The Commission has recommended that the Federal Government begin to participate in the social security program. The Federal Government has, in the past, operated a separate pension program for its employees. And, understandably, ought to be permitted a transition period during which it can move into full participation in social security.

As a result, the Commission recommended that only new Federal employees be required to participate in the social security program. Frankly, Mr. Chairman and members of this distinguished committee, I believe that Congress at the very least and in the spirit of fairness ought to adopt the same approach that has been recommended for Federal employees in the case of employees of nonprofit hospitals that are outside the social security system at this time.

I would like to bring to this committee's attention what is about to happen to one employee at Harris Hospital Methodist in Fort Worth. This story can be repeated 160 times because there are 160 employees at the hospital who are at least 56 years of age.

Mary Jane is a nurse who earns the hospital's average salary of approximately $18,200 a year. Mary Jane is 58 years of age. Mary Jane plans to retire in 7 years at age 65. She will pay approximately $1,300 per year to social security. And with modest pay raises, she will pay in excess of $12,000 in social security in the next 7 years, of which the hospital will match. Mary Jane will not receive one dime of benefits upon retirement at age 65 from social security.

Another employee at age 57 will pay in excess of $20,000 and receive nothing in social security benefits. The employee is not at fault, but neither is the hospital. They both complied with existing law.

In 1982, Harris Hospital Methodist provided over $1 million in indigent care, exceeding their Hill-Burton requirement by a greater than 25-percent margin. They also provided to the community $350,000 in health care education. They also provided health career scholarships that exceeded $78,000. And $¼ million was spent by their social services department for families of loved ones who were in the hospital yet their family did not have money for lodging, long-distance calls, or maybe they needed assistance in identifying special hospitals with special services. And what about the many man-hours and finances for legal assistance to obtain court orders to provide infants necessary blood transfusions to save lives?

The point I am trying to make, gentlemen, is that the hospital is community minded. It understands its responsibilities to the community. You may hear complaints about high medical bills, but I see every day one particular hospital that every time it opens its door in the morning provides $5,000 per day of community service. This totals $1,650,000 per year.

In essence, Harris is a community-minded hospital, and it has operated under long-range plans that have been developed over decades that assumed continued use of their own retirement program. Now suddenly this new social security program will impose dramatically increased costs and an entirely different retirement program immediately.

The system itself will incur some $35 million of increased costs through 1989.

I have two more sentences. May I complete it?

Senator HEINZ. Please do.

Mr. GAVRAS. Would it be fair for this committee to permit this hospital at the very least a short period of transition to adjust to this dramatic change? Harris Hospital Methodist is not asking to be excluded from social security. They ask for a phase-in. No more, no less than what is provided for Federal employees.

Gentlemen, when you consider Mary Jane, the nurse, and when you consider the 1,600,000 community obligations that the hospital is fulfilling, I cannot believe that our Government can find it difficult to provide that equity.

Mr. Chairman, I would like to submit to the committee some draft language that would provide for such a transition period and recoupment of cost under TEFRA.

Senator HEINZ. Without objection, that will be made a part of the record.

[The prepared statement of John C. Gavras and the draft language follow:]

PREPARED STATEMENT OF JOHN C. GAVRAS, PRESIDENT, DALLAS/FORT WORTH HOSPITAL COUNCIL

Senate Finance Committee

I am John C. Gavras, President of the Dallas-Fort Worth Hospital Council ("Council"). The Council is located at 2708 Inwood Road, Dallas, Texas 75235 (214-357-0139). The Council is a non-profit organization representing 86 member institutions, all of which are non-profit hospitals located in the greater Dallas/Fort Worth area. I am here today to testify on behalf of certain member hospitals affected by the pending Social Security reform proposal, including Baylor University Medical Center, Fort Worth Osteopathic Medical Center, Harris Methodist Health Systems, Memorial Hospital of Garland and Methodist Hospitals of Dallas. These five hospitals provide 4,354 hospital beds for greater Dallas/Fort Worth.

DISCUSSION

Since 1934, when Congress instituted the Social Security program, non-profit organizations have been exempt from mandatory Social Security coverage. Indeed, under the regulatory regime that has been in place for these many decades, non-profit organizations have been required to elect to participate in Social Security or find another method to provide their employees with comparable Social Security benefits. Many non-profit organizations have developed their own employee benefit plans and have never participated in the system; for various reasons, many others have left the system over the years and shaped their own employee benefit arrangements. Now, in a report that was issued in January of this year, the National Commission on Social Security Reform ("Commission") has recommended mandatory coverage of all employees of non-profit organizations, effective as of January 1, 1984.

Let me say at the outset that we recognize that our nation faces a serious and immediate need to stabilize and strengthen the Social Security system. In our view, the Commission has done a commendable job in developing a relatively balanced set of proposals to provide near-term support for the Social Security system. The Commission has called upon all Americans — young and old, employer and employee, those who have participated in the past and those who have not — to throw in to rescue the program.

I am not here today to ask you to exempt non-profit hospitals from sharing in this rescue effort. It seems to me that ordinarily it would be fair to suggest that organizations that have never participated in the Social Security system, or have chosen to participate no longer, under rules sanctioned in the past by Congress as being consistent with Federal policy, should, in effect, be "grandfathered" if such rules are to be changed. Indeed, the Commission has chosen to treat state and local governments in this fashion. However, even though I prefer this method of treatment for non-profit hospitals because I believe it to be most fair, I will not recommend it today.

The Commission has recommended that the Federal government begin to participate in the Social Security program. The Federal government has in the past operated a separate pension program for its own employees and, understandably, ought to be permitted a transition period during which it can move into full participation in Social Security. As a result, the Commission recommended that only new Federal employees be required to participate in the Social Security program, thus providing a gradual phase-in.

Frankly, Mr. Chairman and members of this distinguished Committee, I believe the Congress, at the very least, and in a spirit of fairness, ought to adopt the same approach that has been recommended for Federal employees in the case of employees of non-profit hospitals that are outside the Social Security system at this time.

To repeat, you have been advised to provide a transition period for the Federal government. You have been advised to grandfather permanently a whole class of state and local governments, some of which operate hospitals that compete with non-profit health care institutions. Yet, no real adjustment period has been suggested for non-profit organizations. While I am prepared to accept the recommendation that non-profit hospitals ought to join the ranks of other Americans in solving the problems facing the Social Security program, I do not understand why of all the parties being required to join or re-join the Social Security system, a unique burden is to be imposed upon non-profit health care organizations. A transition period ought to be permitted so that these organizations can adjust their pension programs, revise their multi-year budgets, accommodate the many changes that will be required under this new Federal regime, and give protection to older workers covered by private plans who are nearing retirement.

We understand that government records show that there are 36 non-profit health care organizations which have withdrawn from Social Security. Requiring every single one of these organizations to participate immediately in Social Security will only generate approximately $425,000,000 in revenue for the Social Security system for the rest of the decade. If the rule proposed for Federal employees is adopted for these same 36 organizations, revenue flowing into the Social Security system from them will still amount to approximately $260,000,000 over the rest of the decade. Thus, if the Federal employee rule is applied to these non-profit health care institutions, most of the revenue sought to be raised by the Commission from these institutions over the short-term would in fact be raised, and the non-profit hospitals would at the same time be granted a meaningful and important transition period within which to come into the system.

Non-profit organizations consist of religious, educational, health care and other types of service organizations. I do not intend to address special concerns of all non-profit institutions here today, because my expertise is directed to the special problems and conditions of non-profit health care institutions. Out of fairness and an appreciation for other important Federal policies and goals in the health care area that I do not believe the Commission considered, I believe a phased transition into Social Security for non-profit hospitals is appropriate.

First, although it may appear elementary, I want to stress that a "non-profit health care institution" is just what its name implies. It is an institution that provides health care services, with excess revenues over expenses being channeled into medical education, purchases of equipment and the provision of medical care for the indigent. It does not pay dividends to wealthy investors. It cannot be found in the financial pages of the Wall Street Journal. It relies heavily upon contributions and donations that are made by voluntary civic and religious organizations. The only "dividends" that it is motivated to pay and does pay are its own contributions to the general public in the form of medical research and education and free or below cost medical care to the medically needy.

For example, five of the member institutions represented here today provided a total of $9,203,289 in medical research and education during their last fiscal year. These same five member institutions provided a total of $4,675,898 in indigent care during this same fiscal year. Of this, $3,687,436 was in excess of their mandated Hill-Burton obligation. These same institutions are also the ones that provide medical services which are far too costly to be monetarily profitable, such as the provision of kidney transplantation and specialized neo-natal intensive care services. I do not intend to criticize the for-profit hospital, but I want to stress that these critically important, valuable, and expensive services are generally and predominantly provided in our country by health care institutions that do not operate for profit, but use whatever remaining funds they have from year to year to support such services.

We have found in Texas that the non-profit health care institutions that carry the largest social obligations are those non-profit hospitals serving large urban metropolitan areas. These are areas that are traditionally ignored by for profit institutions, for whatever reason. It is precisely these hospitals that are generally experiencing the most substantial cost pressures, and it is these hospitals who have tried to find a more cost-effective way of providing employee benefits for their employees.

A unique, additional problem that will now inadvertently and unfairly confront non-profit health care institutions that must join or re-join the Social Security system will be the inability of such institutions to recoup through Medicare any of their sudden increase in retirement costs. The Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") provides an additional Medicare reimbursement limitation to be imposed upon in-patient health care service providers. This limitation applies to all cost reporting periods beginning on or after October 1, 1982. It limits Medicare reimbursement to a targeted amount of acceptable cost increases. This targeted amount is 7.9% in 1983 and 8.6% in 1984. Hospital costs are presently increasing at a rate of 14% per annum.

The target rate limitation rules contain an inherent unfairness when one realizes that any increased Social Security costs will not be a part of a hospital's base year for purposes of applying the 7.9% and 8.6% reimbursement caps. Thus, for all practical purposes, increased Social Security costs will go unreimbursed for Medicare purposes. Fairness requires change to the new TEFRA Medicare rules to allow a complete pass through of unexpected, increased Social Security costs for purposes of the target rate limitation, as happens in the case of capital and equipment expenditures.

While I do not want to take the Committee's time to address health issues generally, I do want to ask the members of this Committee an important question. We are in an era of health care cost containment. Hospitals are facing $1.7 billion in Medicare costs cuts in 1983. We are mandated to provide indigent care by the Federal government. We have been paid, and continue to be paid, less than our cost by the Medicare program. The elderly population continues to grow, and with it, the subsidy required from our hospitals to cover the shortfall in the cost of operating our nation's Medicare system. Gentlemen, if Congress continues to place additional monetary burdens on the country's health care system (like that of increased Social Security costs), where will the member institutions of that system, particularly those that are non-profit, obtain the funds required to continue to provide the type of medical care the citizens of our great nation have come to deserve and expect? Painful alternatives emerge - increasing charges for services, cutting back on some services (e.g., indigent care and medical education and research) or both.

In addition to considering the effects of mandatory imposition of Social Security coverage on non-profit health care institutions and health care cost containment policies, Congress must also consider the effect of such decision on the hospitals' employees. Older hospital employees may be too old to obtain the ten years of participation required to qualify for Social Security benefits. Thus, by mandating that such individuals be included in Social Security, the Commission's proposal, if adopted by Congress, will force both the employee and the employer to contribute to a system under which the employee has no hope to obtain any return. At the same time, Congress is effectively foreclosing the employee's ability to participate in his present retirement plan and to accrue further meaningful benefits. In essence, Congress is asking this category of employees to bear a hardship that seems inequitable.

The Commission's proposal would also do away with so-called "windfall" benefits which may be realized by some employees who have only participated in Social Security for a relatively short period of their working lives. If the Commission's recommendation on this point becomes law, Congress will be mandating not only that these employees participate in Social Security and personally contribute a portion of their earnings to that system, but will also increase the cost of present hospital retirement plan arrangements that are offset in part by Social Security benefits. This result is extremely unfair in that it imposes yet another cost increase on hospitals who have done nothing more than play by the rules of current Social Security provisions affecting non-profit institutions.

In sum, we recommend that non-profit health care institutions be subject to mandatory Social Security coverage, but through a phase-in approach like that recommended for the Federal government employees. In addition, we recommend that the TEFRA Medicare amendments be changed to allow increased Social Security and related payroll costs resulting from mandated coverage to be fully reimbursed by Medicare.

Mr. Chairman, we are prepared to step forward to do our part. In the interest of fairness and sound health policy, however, and in view of this fundamental change in Federal policy, we request that you provide us with the same adjustment period you are being asked to give the Federal government.

COVERAGE OF EMPLOYEES OF NONPROFIT ORGANIZATIONS

SEC. 102. (a)(1) Section 210(a)(8)(B) of the Social Security Act is amended to read as follows:

"(B) service performed by an employee who is in the employ of a hospital which (i) is an organization described in section 501(c)(3) of the Internal Revenue Code of 1954, (ii) is exempt from income tax under section 501(a) of such Code, and (iii) has not elected to have all service performed by employees of such hospital treated as 'employment' for purposes of this section, provided such employee is in the employ of such hospital on December 31, 1983, and"

(a)(2) Section 210(a)(8) of the Social Security Act is amended by adding at the end thereof the following new subparagraph:

"(C) service performed by an employee who (i) is in the employ of a hospital which is an organization described in section 501(c)(3) of the Internal Revenue Code of 1954 and which is exempt from income tax under section 501(a) of such Code and (ii) cannot, prior to attaining age 65, become a fully insured individual within the meaning of section 214(a) of the Social Security Act, unless such employee elects by written notice delivered to the hospital to have his service from and after the date of such election treated as 'employment' for purposes of this section."

COVERAGE OF EMPLOYEES OF NONPROFIT ORGANIZATIONS

(b)(1) Section 3121(b)(8)(B) of the Internal Revenue Code of 1954 is amended to read as follows:

"(B) service performed by an employee who is in the employ of a hospital which (i) is an organization described in section 501(c)(3), (ii) is exempt from income tax under section 501(a), and (iii) has not elected to have all service performed by employees of such hospital treated as 'employment' for purposes of this chapter, provided such employee is in the employ of such hospital on December 31, 1983, and"

(b)(2) Section 3121(b)(8) of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new subparagraph:

"(C) service performed by an employee who (i) is in the employ of a hospital which is an organization described in section 501(c)(3) and which is exempt from income tax under section 501(a) and (ii) cannot, prior to attaining age 65, become a fully insured individual within the meaning of section 214(a) of the Social Security Act, unless such employee elects by written notice delivered to the hospital to have his service from and after the date of such election treated as 'employment' for purposes of this chapter."

COVERAGE OF EMPLOYEES OF NONPROFIT

ORGANIZATIONS

(c) Subsection (k) of section 3121 of such Code is repealed.

(d) The amendments made by this section shall be effective with respect to remuneration paid after December 31, 1983.

(e) Notwithstanding any provision of section 3121(k) of the Internal Revenue Code of 1954 (or any other provision of law) the period for which a certificate is in effect under such section may not be terminated on or after the date of the enactment of this Act.

(f) Certain Qualified Plans. -- In the case of two or more trusts maintained by an employer which is a hospital that is an organization described in section 501(c)(3) of the Internal Revenue Code of 1954 and which is exempt from taxation under section 501(a) of such Code, if each of such trusts is designated by such hospital as constituting part of a plan or plans intended to qualify under section 401(a) of such Code and one or more of such trusts are a part of any such plan which on the date of enactment of this Act benefits a classification of employees whose service, by virtue of sections 3121(b)(8)(B) and (C) of such Code is not deemed "employment" within the meaning of section 3121(b) of such Code, and one or more of such trusts are a part of any such plan, whether established prior to or after the date of enactment of this Act, that benefits a classification of employees whose service is deemed "employment" within the meaning of section 3121(b) of such Code, each of such classifications shall be deemed to constitute a classification set up by the employer and found by the Secretary of the Treasury not to be discriminatory (for the purpose of section 410(b)(1)(B) of such Code) in favor of employees who are officers, shareholders, or highly compensated.

COVERAGE OF EMPLOYEES OF NONPROFIT

ORGANIZATIONS

(g) Section 1886(b) of the Social Security Act is amended by adding at the end thereof the following new subparagraph:

"(7) In the case of a hospital that becomes subject to the FICA taxes (as defined in paragraph (6)) on January 1, 1984, the Secretary shall provide an adjustment under this paragraph in the amount of payment otherwise provided such hospital under this subsection for a cost reporting period by increasing the target amount for such cost reporting period by the amount of the FICA taxes paid or accrued by such hospital for such period."

STATEMENT OF DONALD VANDERGRIFT, VICE PRESIDENT, COMMUNITY HOSPITAL OF INDIANAPOLIS, IND., REPRESENTING VOLUNTARY HOSPITALS OF AMERICA, DALLAS, TEX.

Senator HEINZ. Mr. Vandergrift.

Mr. VANDERGRIFT. Mr. Chairman, my name is Don Vandergrift, vice president of Human Resources, Community Hospital of Indianapolis, Ind. And also, our hospital is a member of the Voluntary Hospitals of America.

Our hospital is the second largest hospital in Indiana. We have over 800 patient-beds. We have nearly 3,400 employees.

We submitted our notice to withdraw from social security in December 1978, and this was submitted solely for the purpose of cost containment. We had four objectives that we established at that time in which we were going to test each phase of our evaluation.

The primary objective, again, was cost containment. And our second primary objective was employee understanding and acceptance of our replacement plan.

During a 6-months evaluation period, we learned that we could provide a replacement plan that satisfied all of our objectives. So effective January 1, 1981, we withdrew from the social security program.

Our replacement plan provides substantially the same benefits as social security does. That's retirement, survivors, disability, death, and medicare. We contracted with Hewitt Associates, a human resources and actuarial firm, to strive for objectivity in our evaluation, our plan design, and our employee sensing.

We do feel at this point in time that cost containment does exist. Our replacement plan is funded entirely by the hospital from patient revenues at a rate of 1 percent below the current FICA tax. Already over the 2-year period that we have been out, we estimate savings to be nearly $1 million, and we project savings in the area of $600,000 for 1983. Our actuarial projections show a savings of $23 million over the first 20 years of our program.

We also recognize that patient charges must be adjusted if these savings were to be eliminated by our being legislated to reenter the social security program. Our estimates are about $2.20 per patient day, but it could be as high as $18 per patient day if we were pressured to compensate our employees for their loss in take-home pay.

It's hard to understand why at the same time that the public business coalitions in our community at least and Members of Congress are urging the hospital industry to contain costs, that we are here defending a measure which will clearly raise our hospital costs.

There are comparable benefits in our program. Our replacement plan uses current social security benefit calculations. The document is designed to change those calculations as legislation changes. We do have a favorable letter of determination by the Internal Revenue Service as of June 25, 1982. We are pleased that we have employee support. Eighty-six percent of our employees, using a random sample technique of about 400 employees, indicated their preference for our coverage under the replacement plan in lieu of the social security. This followed 7 hours of objective education about both the social security system and our replacement plan. We found out at that point in time not very many of us know very much about social security.

Eighty-eight percent of our registered nurses, as you know a commodity that we have that we must use, preferred the replacement plan. Employee turnover has increased at our hospital about 28 percent over the last 2 years. We attribute a part of that to our competitive position of being out of social security.

As further proof of employee satisfaction, no employees during exit interviews have indicated to us that they are leaving our hospital employment because we are not under social security. As a matter of fact, the opposite has been expressed.

We also have semiannual employee meetings, which we just completed with our employees, and we are requested many times by the employees of how they may help the hospital's effort to remain outside of social security.

We have lower payroll costs. During 1984, our employees will receive on the aggregate about $4 million as additional take-home pay, which would otherwise be deposited in the social security if we are required to reenter the system. These additional dollars are added to our employees' spendable income, without increasing patient charges. In many cases, our employees are using these additional dollars to purchase necessities for their lifestyles.

We think it's pertinent that we also relied upon existing law. The decision to withdraw was made in reliance upon provisions of existing law. We feel that it would not be fair play if Congress were now to change the rules of the game after we followed all of those rules. Significant costs were incurred in employee education, actuarial studies, and replacement plan design. And these costs would be lost and employee morale will be hurt if our hospital is forced back into the social security.

There is also an economic impact on the Indianapolis area. The loss of the $4 million of take-home pay of our employees is translated to be about a $9 million loss to the Indianapolis area, with an additional $1.7 million to local taxes.

These figures are based on the Indiana State Department of Commerce, personal consumption formula.

I submit that hospitals are different than most other nonprofit organizations. Consider the unique relationship between hospitals and the social security insurance of the medicare program. This relationship has resulted in hospitals being regulated—May I continue?

Senator WALLOP. Yes, but if you would summarize because there are a number of people that come after you.

Mr. VANDERGRIFT. We think that we have been regulated through cost containment programs like the most recent TEFRA regulations. Consider also that hospitals are providers of these medicare services, and we are different than nonprofits when considering the cost impact on the public. In our opinion, hospitals do relate more to State and local governmental units in this respect. And particularly where we are involved with the County Hospital situation.

We recognize the problems faced by the social security system, and generally support the recommendations of the National Commission. But we do not support the proposal to bring all nonprofit institutions into social security. We recommend that any nonprofit hospital whose employees are not covered by the social security system prior to the enactment of the Senate bill 1 be allowed to remain outside the social security system, like the State and local governments. In effect, mandate nonprofit institutions into social security if you must, but grandfather those nonprofit hospitals who have acted responsibly and with reliance on existing law.

We also have prepared language for amending section 101 of Senate bill 1, and are prepared to submit that at this time.

Thank you very much.

Senator WALLOP. Thank you, Mr. Vandergrift.

[The prepared statement of Donald Vandergrift and draft legislation follow:]

PREPARED STATEMENT OF DONALD VANDERGRIFT, VICE PRESIDENT, COMMUNITY HOSPITAL OF INDIANAPOLIS, INC.

COMMUNITY HOSPITAL IS THE SECOND LARGEST HOSPITAL IN THE STATE OF INDIANA WITH OVER 800 INPATIENT BEDS. OVER 3,400 PERSONS ARE EMPLOYED BY COMMUNITY HOSPITAL IN ANNUALLY FURNISHING SERVICES TO OVER 28,700 INPATIENTS AND RECORDING OVER 187,100 OUTPATIENT AND EMERGENCY ROOM VISITS.

AS PROVIDED BY LAW IN SECTION 3121(K)(1)(D) OF THE SOCIAL SECURITY LAW, COMMUNITY HOSPITAL SUBMITTED ITS NOTICE OF TERMINATION OF PARTICIPATION IN THE SOCIAL SECURITY PROGRAM IN DECEMBER OF 1978. THIS NOTICE MARKED A TWO YEAR PERIOD DURING WHICH COMMUNITY HOSPITAL AND ITS EMPLOYEES CONDUCTED AN EXTENSIVE STUDY AND EVALUATION OF THE ALTERNATIVES TO PARTICIPATING IN THE SOCIAL SECURITY PROGRAM. TO ASSIST IN THIS PROCESS, COMMUNITY HOSPITAL ENGAGED HEWITT & ASSOCIATES, A HUMAN RESOURCES AND ACTUARIAL FIRM. IN ADDITION, ARIZONA STATE UNIVERSITY, UTILIZING A COMPUTER MODEL WHICH IT HAD DEVELOPED, ANALYZED THE RELATIONSHIP BETWEEN THE CONTRIBUTIONS TO SOCIAL SECURITY FOR COMMUNITY HOSPITAL EMPLOYEES AND THE BENEFITS TO BE RECEIVED.

OBJECTIVES

AT THE VERY BEGINNING OF THE STUDY, COMMUNITY HOSPITAL ESTABLISHED FOUR OBJECTIVES WHICH HAD TO BE SATISFIED BEFORE A FINAL DETERMINATION TO WITHDRAW WOULD BE MADE. NAMELY,

1. Withdrawal had to lower hospital costs.

2. The hospital had to be comfortable that the alternative benefit program satisfied its responsibilities as an employer in today's society.

3. The employees had to be comfortable with the decision to withdraw.

4. The hospital had to be able to administer the alternative benefit program.

The study revealed that all of these objectives could be satisfied.

As a result, on January 1, 1981, Community Hospital withdrew from the Social Security program and established an ERISA qualified retirement plan for its employees as an alternative to the Social Security program. The alternative program provides for all of the significant economic security needs of employees and dependents which had been covered by Social Security. The alternative program is in addition to the other welfare benefit programs and pension plan of the hospital.

COST CONTAINMENT

EVEN THOUGH THE ALTERNATIVE PROGRAM IS FINANCED ENTIRELY BY COMMUNITY HOSPITAL, IT STILL RESULTS IN SIGNIFICANT COST SAVINGS TO THE HOSPITAL. ACTUARIAL PROJECTIONS INDICATE THAT COMMUNITY HOSPITAL'S PATIENTS WILL SAVE APPROXIMATELY $23 MILLION OVER THE FIRST 20 YEARS OF THE PROGRAM. COMMUNITY HOSPITAL ESTIMATES THAT THE ALTERNATIVE PROGRAM HAS SAVED ITS PATIENTS CLOSE TO $1.0 MILLION OVER THE FIRST 2 YEARS OF OPERATION. THIS CONVERTS INTO A SAVINGS OF APPROXIMATELY $2.20 PER INPATIENT DAY.

SUCH SAVINGS TO PATIENTS ARE EXPECTED TO INCREASE AS THE PROGRAM MATURES. SUCH LOWERING OF HOSPITAL COSTS WILL ALSO PRODUCE LOWER COSTS TO BE REIMBURSED BY THE MEDICARE PROGRAM. AS AN ADDITIONAL BENEFIT, EMPLOYEES HAVE HAD AN INCREASE IN THEIR TAKE HOME PAY EQUIVALENT TO THE CURRENT FICA TAX RATE. THIS OF COURSE HAS FURTHER BENEFITED PATIENTS BY LOWERING SALARY AND WAGE EXPENSES.

If Community Hospital's employees are forced back in the Social Security program, then all the cost containment efforts and patient savings would be lost. It is hard to understand why at the same time that the public, business and members of Congress are urging the hospital industry to contain costs, the Senate in Senate Bill 1 is considering a measure which clearly will raise hospital costs. In Community Hospital's case, if its employees are mandatorily covered by Social Security, costs will increase by at least $2.20 per inpatient day without any offsetting benefit to its employees or patients. If Community Hospital is pressured into increasing salaries and wages to compensate for the loss of take home pay to the employees, the increase could be as much as $18.00 per inpatient day.

EMPLOYEE SUPPORT

During the course of the two year study, employees were extensively involved in evaluating the desirability of the withdrawal and the details of the alternative benefit package

ITSELF. EXTENSIVE EMPLOYEE COMMUNICATIONS AND EDUCATIONAL PROGRAMS WERE PART OF THE DECISION MAKING PROCESS. IN THE END, IN EMPLOYEE AND SPOUSAL MEETINGS AND SURVEYS, THE VAST MAJORITY OF THE EMPLOYEES WERE IN FAVOR OF WITHDRAWAL FROM SOCIAL SECURITY AND COMFORTABLE WITH THE ALTERNATIVE PROGRAM. AND AS FURTHER PROOF OF POSITIVE EMPLOYEE SUPPORT, NOT ONE EMPLOYEE IN AN EXIT INTERVIEW HAS INDICATED THAT HE OR SHE WAS LEAVING BECAUSE OF NONPARTICIPATION IN THE SOCIAL SECURITY PROGRAM. IN FACT, WE FEEL THAT THE WITHDRAWAL FROM SOCIAL SECURITY IS ATTRIBUTABLE IN PART TO THE SIGNIFICANT REDUCTION IN EMPLOYEE TURNOVER IN THE PAST 2 YEARS. SINCE SENATE BILL 1 WAS INTRODUCED ON JANUARY 25, 1983, THE HOSPITAL HAS BEEN BOMBARDED BY EMPLOYEES WHO ARE CONCERNED THAT CONGRESS IS TAKING AWAY THEIR ALTERNATIVE PROGRAM AND FORCING PARTICIPATION IN THE SOCIAL SECURITY PROGRAM.

COMPARABLE BENEFITS

THE ALTERNATIVE PROGRAM USES CURRENT SOCIAL SECURITY BENEFIT CALCULATIONS AND IS DESIGNED TO AUTOMATICALLY CHANGE WITH FUTURE

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SOCIAL SECURITY LEGISLATION. THE ALTERNATIVE PROGRAM HAS NOW BEEN IN EXISTENCE TWO YEARS AND HAS ALREADY PAID BENEFITS TO 89 EMPLOYEES AND DEPENDENTS. THE ASSETS OF THE ALTERNATIVE PROGRAM ARE HELD IN A TRUST FUND WITH AN INDEPENDENT NATIONAL BANK AS TRUSTEE AND A PROFESSIONAL ADVISOR MANAGING INVESTMENTS. THE TRUST FUND CURRENTLY CONSISTS OF OVER $6.0 MILLION IN ASSETS AND WILL RECEIVE OVER $3.0 MILLION IN ADDITIONAL CONTRIBUTIONS IN 1983. FINALLY, THE PROGRAM IS ACTUARIALLY EVALUATED EACH YEAR TO ENSURE THAT CONTRIBUTIONS SATISFY ERISA AND THE INTERNAL REVENUE CODE.

IN SHORT, THE ALTERNATIVE PROGRAM IS A VIABLE EFFECTIVE PRE-FUNDED ALTERNATIVE TO THE SOCIAL SECURITY PROGRAM THAT PROTECTS THE ECONOMIC SECURITY OF OUR EMPLOYEES WHILE PROVIDING SAVINGS FOR BOTH OUR EMPLOYEES AND OUR PATIENTS.

RELIANCE ON EXISTING SOCIAL SECURITY LAW

THE ALTERNATIVE PROGRAM WAS ESTABLISHED AS A LONG TERM COMMITMENT OF COMMUNITY HOSPITAL TO ITS EMPLOYEES AND THE

COMMUNITY. IT WAS BASED ON LONG RANGE ACTUARIAL ASSUMPTIONS. IT WAS ESTABLISHED IN RESPONSE TO PUBLIC DEMAND FOR COST CONTAINMENT IN THE HOSPITAL INDUSTRY AND CONGRESSIONAL ENCOURAGEMENT OF PRIVATE PENSIONS IN THE ERISA LEGISLATION.

THE ALTERNATIVE PROGRAM WAS ESTABLISHED IN RELIANCE ON THE PROVISION OF THE SOCIAL SECURITY LAW WHICH AUTHORIZED SUCH WITHDRAWAL. IT VIOLATES ALL CONCEPTS OF DUE PROCESS AND FAIR PLAY FOR CONGRESS NOW TO CHANGE THE RULES OF THE GAME. COMMUNITY HOSPITAL HAS ACTED RESPONSIBLY IN CONTAINING COSTS WHILE AT THE SAME TIME PROTECTING THE SOCIAL SECURITY NEEDS OF ITS EMPLOYEES. AFTER SPENDING THOUSANDS OF DOLLARS AND INVESTING THOUSANDS OF EMPLOYEE AND MANAGEMENT HOURS IN DESIGNING AND IMPLEMENTING A VIABLE ALTERNATIVE PROGRAM, COMMUNITY HOSPITAL AND ITS EMPLOYEES ARE NOW BEING TOLD BY CONGRESS THAT SUCH EFFORTS WERE FRUITLESS.

CONCLUSION

IF CONGRESS WERE TO NOW DENY THIS EXISTING BENEFIT TO OUR EMPLOYEES, IT WOULD HAVE ADVERSE ECONOMIC EFFECTS ON OUR

PATIENTS, OUR EMPLOYEES, OUR COMMUNITY, AND THE CITY OF INDIANAPOLIS. OUR PATIENTS WOULD BE FACED WITH HIGHER COSTS, OUR EMPLOYEES WOULD BE FACED WITH HIGHER TAXES AND LOWER TAKE-HOME PAY, AND OUR COMMUNITY WOULD BE FACED WITH HIGHER HEALTH CARE COSTS. APPROXIMATELY $4 MILLION OF EMPLOYEE INCOME WHICH NOW GOES DIRECTLY INTO THE LOCAL INDIANAPOLIS ECONOMY WOULD BE SHIFTED TO THE FEDERAL SOCIAL SECURITY TRUST FUND. BASED ON THE INDIANA STATE DEPARTMENT OF COMMERCE PERSONAL CONSUMPTION STATISTICS, THE LOSS OF $4 MILLION IN 1984 TRANSLATES AS A $9 MILLION LOSS TO THE INDIANAPOLIS ECONOMY AND AN ADDITIONAL LOSS OF $1.7 MILLION IN LOCAL TAXES. FINALLY, THE MEDICARE PROGRAM ITSELF WOULD BE FACED WITH HIGHER REIMBURSABLE HOSPITAL COSTS.

IN SHORT, THE ANSWER OF BRINGING NONPROFIT HOSPITALS BACK IN THE SOCIAL SECURITY PROGRAM IS NOT AS SIMPLE AND PAINLESS AS IT MAY APPEAR AT FIRST GLANCE. ALTHOUGH WE REPRESENT ONLY A VERY SMALL AMOUNT DOLLAR-WISE IN THE SOLUTION TO THE SOCIAL SECURITY FINANCING PROBLEM, A SHIFT IN THE LAW WOULD HAVE WIDE

RANGING ECONOMIC IMPLICATIONS FOR OUR EMPLOYEES, OUR PATIENTS AND THE CITIZENS OF INDIANAPOLIS AND INDIANA.

WE RECOGNIZE THE PROBLEMS FACED BY THE SOCIAL SECURITY SYSTEM AND GENERALLY SUPPORT THE RECOMMENDATIONS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY AND THE SENATE IN SENATE BILL 1. HOWEVER, WE DO NOT SUPPORT THE PROPOSAL TO BRING ALL NONPROFIT INSTITUTIONS IN THE SOCIAL SECURITY PROGRAM. WE RECOMMEND THAT ANY NONPROFIT HOSPITAL WHOSE EMPLOYEES ARE NOT COVERED BY THE SOCIAL SECURITY SYSTEM PRIOR TO THE ENACTMENT OF SENATE BILL 1 BE ALLOWED TO REMAIN OUT OF SOCIAL SECURITY. IN EFFECT, MANDATE NONPROFIT INSTITUTION PARTICIPATION IN SOCIAL SECURITY IF YOU MUST, BUT "GRANDFATHER" THOSE NONPROFIT HOSPITALS WHO HAVE ACTED RESPONSIBLY IN THE PAST IN RELIANCE ON CURRENT SOCIAL SECURITY LAW.

STATEMENT OF HOWARD ROHAN, VICE PRESIDENT FOR HUMAN RESOURCES, SAMARITAN HEALTH SERVICES, PHOENIX, ARIZ.

Senator WALLOP. Mr. Rohan.

Mr. ROHAN. My name is Howard Rohan, and I am vice president, Samaritan Health Service. We are a multihospital system headquartered in Phoenix, Ariz., employing some 7,000 people, most of whom work in Arizona.

Mr. Chairman, Samaritan's detailed statement has been submitted into the record. I'm sure you have a copy of it. I would refrain from reading the statement, and rather just touch briefly on some salient points that I think we would like to make for the record.

Senator WALLOP. By all means. I think that would be the most effective presentation.

[The prepared statement of Howard Rohan follows:]

SHS Samaritan Health Service
1410 NORTH THIRD STREET/P.O. BOX 25489/PHOENIX, ARIZONA 85002/(602) 239-4159

ARIZONA
DESERT SAMARITAN HOSPITAL & HEALTH CENTER
GLENDALE SAMARITAN HOSPITAL
GOOD SAMARITAN MEDICAL CENTER
MARYVALE SAMARITAN HOSPITAL
PAGE HOSPITAL
WHITE MOUNTAIN COMMUNITIES HOSPITAL
GRAND CANYON CLINIC
PLEASANT VALLEY COMMUNITY MEDICAL CENTER
SAMARITAN EAST VALLEY EMERGENCY CENTER
SAMARITAN WEST VALLEY EMERGENCY CENTER
TRI-CITY MENTAL HEALTH CENTER
AHWATUKEE FAMILY PRACTICE CENTER
AIR EVAC AIR AMBULANCE SERVICE
AMCARE/AMEVAC AMBULANCE SERVICE

UTAH
KANE COUNTY HOSPITAL

Howard Rohan, Vice President, Human Resources

I, Howard Rohan, am the Vice-President, Human Resources for Samaritan Health Service, Phoenix, Arizona, phone (602) 239-4159. Samaritan Health Service is a non-profit, multi-hospital system headquartered in Phoenix, Arizona with 7,000 employees, most of whom work in the State of Arizona.

In early 1978 Samaritan Health Service began a comprehensive two year study of the consideration involved in our continued coverage under Social Security versus exercising our right to terminate participation as outlined in Section 3121(k)(1)(D) of the Internal Revenue Code. Our study involved a detailed analysis of the cost and benefits of Social Security versus the cost and benefits of a comprehensive Alternate Benefit Program that we designed to provide in lieu of Social Security coverage. During the study we received substantial outside assistance from Arizona State University professors and independent actuarial consulting firms. Our employees were closely involved in the evaluation process. The study culminated with extensive employee education on the issues and an employee opinion survey regarding continued Social Security participation versus our proposed Alternate Benefit Program. The major results of our study were the following:

- We were able to construct a comprehensive Alternate Benefit Program that provided equal or better benefits to our employees in all the significant areas covered by Social Security (i.e., retirement, disability, survivors' income and old age medical benefits) at no cost to the employee. While some of the "obscure" Social Security benefits (i.e., for divorced spouses) were not part of our program for practical reasons we were able to cover adequately the basic economic security needs of our employees and their dependents.

- The long-term total cost of the Alternate Benefit Program was projected to be no more than the employer portion of the Social Security taxes required for continued Social Security participation. The cost savings directly translate into lower charges for all health care services provided by our facilities.

- A substantial majority of our employees were (and remain) comfortable with the decision to withdraw from Social Security and become covered by the Alternate Benefit Program.

On the basis of these results, Samaritan withdrew from Social Security and adopted its Alternate Benefit Program effective January 1, 1980. The benefits of this program have kept pace with the increases in Social Security benefits, and the cost experience of the program has borne out our earlier projections--even with the benefit increases we made to reflect the large Social Security benefit increases that occurred during 1980, 1981 and 1982. Three years of experience in funding our Alternate Plan versus the required participating level of Social Security has resulted in significant accumulated savings of $7.4 million over the three year period. These savings have been passed on to patients in the form of lower charges.

We obviously are opposed to any legislation that would require us (and other non-profit organizations that withdrew from Social Security) to resume participation in Social Security. From our own point of view, forced participation in Social Security would require us to terminate our Alternate Benefit Program. This would cause us and our employees significant hardship. Enforced participation in Social Security would require Samaritan Health Service to increase revenues per patient day by $67.00. This startling increase is caused by the need to bring an additional $25.3 million in revenues into the system. This results from:

- $3.6 million effective 1/1/84 (difference between funding the Alternate Plan at 4.33% and current employer FICA Tax of 6.7%),

- $11.9 million effective 1/1/84 (salary increase to offset employees paying FICA Tax - may not be financially possible and total burden may fall on employee) and

- the limited Medicare recovery of these costs under the new TEFRA regulations and the bad debt and charity write-offs which also contribute the overall rate increase.

The above costs ($25.3 million) translate into an additional 8% rate increase over and above the rate increase we were already planning for 1984. Our employees would be required to pay Social Security tax and receive lesser benefits.

Taking a broader perspective, there are significant reasons why forced Social Security participation by non-profit organizations runs counter to the national interest:

- Hospitals find themselves under increasing pressure from the federal government and from the private sector to hold down the cost of quality health care. A large part of our decision to withdraw from Social Security was based on our efforts to contain the cost of medical services. Forcing hospitals into Social Security can only increase the cost of medical services to the general public and to the federal government (through the Medicare system). Any Social Security revenue gained by forcing hospitals to participate in Social Security will be offset by increased medical payments to providers and increased corporate tax deductions for private medical care benefit plans.

- Social Security is embodied in two separate pieces of legislation. The Social Security Act sets forth the basis under which benefits are paid. The Federal Insurance Contributions Act (F.I.C.A.) is a tax act that imposes a federal payroll tax on workers and their employers. Making Social Security participation mandatory for organizations that are tax exempt under Section 501(c)(3) of the Internal Revenue Code represents an unprecedented attack on the tax exempt status of non-profit organizations. The precedent for further federal taxation of churches, schools and hospitals would be established. This runs counter to President Reagan's agenda for a greater social role by the voluntary private sector and a decreased role for federally funding social programs.

We recognize the current problems of the Social Security system and generally support the efforts to put the system on a sound financial footing. We do recommend that any legislation dealing with Social Security participation by non-profit hospitals include the following provisions:

- Any hospital that withdrew from Social Security prior to the release of the Commission's report be allowed to remain outside Social Security. We estimate there are some 80 hospitals in this category with an aggregate impact of approximately $450 - 500 million on the Trust Fund over a six year period. I might note that this is about ¼ of 1% of the $169 billion needed as identified by the National Commission on Social Security Reform.

- Any non-profit organization that is not in Social Security be allowed to enter the system in the future through an irrevocable decision to do so.

This approach would ultimately stabilize long-term Social Security participation by non-profit organizatons without impairing their tax exempt status or frustrating other programs designed to control the rising cost of medical services.

Mr. ROHAN. OK. I would like to cover, very briefly, the impact of this legislation in terms of financial hardship on the system and non-profit hospitals, and in terms of higher medical care costs and lowered employee morale.

Briefly, in January of 1980, Samaritan opted to withdraw from social security and establish an alternate plan. This culminated a 2 year, very intensive study of financial analyses, actuarial studies, and most significantly, a hard look at employee opinion and morale.

We are now in our fourth year of that plan, and it provides equal or better coverage in retirement, disability, survivor income, and old age medical benefits. It also translates into lower charges for all our patients. We have had an aggregate savings of $7.5 million over the last 3 years of operating under this plan at about $2 to $2.5 million a year. The plan also enjoys uniform support from our employees.

We have kept pace with the enormous increases in social security benefits occurring in 1980, 1981 and 1982. While protecting employee benefits, and we have continued to pass this $2 to $2.5 million saving each year on to our patients through lower patient costs.

So I think you can understand why I am here today to try and convince you that what you suggest in the current program runs contrary to what we think is good business judgment.

Hospitals are increasingly pressed to reduce costs. And our alternate plan does really translate into lower hospital costs. It is basic to our cost containment strategies of which we have several.

Compulsory participation in social security would mean higher charges to Federal and State governments by medicare, medicaid, and create new costs for our employees who now do not contribute to our alternate plan.

Incidentally, and this is on page 2 of my testimony, enforced participation in social security would require Samaritan Health Service to increase our revenues per patient day by as much as $67. In order to do that, we would have to bring in roughly $25 million in new revenues to offset the immediate impact of the following three things:

First, $3.6 million immediately in 1984 to offset the difference in funding between the social security tax rate—currently 6.7 and then moving to 7 percent—versus our current level of funding for our alternate plan of 4.33 percent.

Second, $11.9 million for salary increases to offset employees paying FICA tax, so their take home pay would remain essentially the same. This may not be financially feasible or possible for us, but we are calculating it in as a cost because that's an employee relation strategy we may have to seriously consider.

Third, the impact of limited medicare reimbursement under new TEFRA regulations, along with bad debt and charity write-offs, which would occur in an increasing amount. And we know that medicare doesn't reimburse those.

So another way of stating this is that we would require an 8-percent rate increase above and beyond our planned 1984 rate increases.

Another further point—compulsory participation is, in effect, a retreat from the historic tax exempt status of non-profit organizations. And this runs counter to congressional and White House calls for increased reliance on voluntary private sector, and decreased reliance on Federal programs.

Our employees entered into this plan 3 years ago fully educated, understanding it, and open-eyed, and they have not been disappointed. And we feel it's important that they not now have to assume additional severe costs to them effective in 1984.

Now we understand that you have to weigh lots of arguments, and this is just one of them. And your task is awesome.

I respectfully suggest there are some limited, strictly targeted steps, and this is what they are:

First, we believe that those hospitals that have opted out under social security's withdrawal provision be permitted to stay out. There are some 80 of these hospitals, we believe, based upon the information from the Ways and Means Committee report. This amounts to about $450 million over 6 years impact on the trust fund, less than 1 percent of the $169 billion that we are looking for to shore up the social security trust fund. We think this is an insignificant amount nationally, but very important to us.

Second, hospitals that do make a decision to go back into social security do so irrevocably; they can't change their minds.

We think these are just minor adjustments to the proposal and would greatly serve both the objectives of Congress and our own interests.

Thank you.

Senator WALLOP. Thank you, Mr. Rohan.

STATEMENT OF FLOYD KINKEAD, ASSISTANT ADMINISTRATOR AND DIRECTOR OF FISCAL AFFAIRS, HOLY REDEEMER HOSPITAL, MEADOWBROOK, PA.

Senator WALLOP. Mr. Kinkead.

Senator HEINZ. I just wanted to welcome another Pennsylvanian down. We are blessed to have several of you on our witness list today. And as my colleagues will note, Mr. Kinkead is the assistant administrator and director of the Holy Redeemer Hospital.

Mr. KINKEAD. I understand, Senator, you were right up in the blue belt area very recently to a town meeting.

Senator HEINZ. That's correct.

Mr. KINKEAD. Mr. Chairman, and members of the committee, my name is Floyd Kinkead. I'm assistant executive director and director of fiscal affairs of Holy Redeemer Hospital in Meadowbrook, Pa. With me is Sister M. Camilliana of the Sisters of the Holy Redeemer. Sister is treasurer of the hospital as well as a member of the board of directors.

I thank the committee for a chance to appear in this very heavily scheduled hearing, and will keep my remarks very brief.

I am here to comment, Mr. Chairman, on the Commission's proposal to force non-profit organizations, such as our hospital, which has opted out of social security to go back into the social security system. From the point of view of our hospital and others similarly situated, that recommendation is ill-founded for three principal reasons.

One, it would deny the greater employee benefits achieved through an alternative security program.

Two, it would deny our hospital a substantial cost savings achieved through an alternative program.

And, three, it would be unfair to institutions such as ours, which have expended vast amounts of time and money in reliance upon the ability to opt out of social security.

Regarding greater employee benefits, I've heard it suggested that hospitals such as ours have been sold a bill of goods by select insurance salesmen. I can assure you, Mr. Chairman, and members of this committee, that no insurance company could have been put to task more rigorously than our alternative program. The decision to opt out was not taken lightly, especially because we have a majority of Sisters of the Holy Redeemer on our board of directors, who had to be convinced that opting out was morally and ethically the right decision, and that the best interest of the employees was served.

Part of the proof that we achieved that goal are the actual incidents where our employees have received death benefits and disability payments under our alternative program, which were denied by the social security system.

Mr. Chairman, I can say unequivocally that our hospital did achieve greater benefits for our employees by opting out of social security.

With regard to cost savings, I have to express puzzlement that hospitals such as ours have at times been been criticized for saving money by opting out. The single comment that our industry hears most often from Congress and the public is that health care costs are out of control. And that they must be cut. Well, Mr. Chairman, Holy Redeemer Hospital saved over $135,000 in 1982 by being enrolled in the alternative security program. And we expect that annual savings figure to increase every year. Cost saving is not the only or even the primary reason we opted out, but I'm sure all members of the committee would agree that it should be a priority of every American health care institution.

Finally, Mr. Chairman, I think there is a very strong fairness argument against forcing hospitals such as ours back into the social security system. As you know, opting out is a very long process. It is also a very expensive process. To properly inform employees and to secure information for forecasting the alternative program's benefits, 20 meetings were held over a 3-month period. Special meetings accommodated persons and spouses and weekend personnel. We did all this, Mr. Chairman, in reliance upon our legal ability to opt out of the social security system. I think to force us back into the system which would require great amounts of time and money to integrate the alternative program back into social security would violate fundamental principles of fairness.

This last point of fairness suggests one final thought on the issue. I think the nonprofit organizations which have already opted out or have applied to opt out are in a substantially different position than those which might do so in the future. If, Mr. Chairman, this committee decides that the ability of nonprofit organizations to opt out of the social security should be terminated, I would ask that some provision be made to allow organizations like ours to continue in the alternative programs, which we have chosen at much time, thought and expense.

Thank you, Mr. Chairman. Sister Camilliana and I would be happy to respond to any questions.

Senator WALLOP. Thank you very much.

[The prepared statement of Mr. Kinkead follows:]

Prepared Statement of Floyd A. Kinkead, Assistant Executive Director and Director of Fiscal Affairs, Holy Redeemer Hospital

Mr. Chairman and Members of the Committee, my name is Floyd Kinkead. I am Assistant Executive Director and Director of Fiscal Affairs of Holy Redeemer Hospital in Meadowbrook, Pennsylvania. With me is Sister M. Camilliana of the Sisters of the Holy Redeemer; Sister is Treasurer of the hospital as well as a member of the Board of Directors. I thank the Committee for the chance to appear in this very heavy schedule of hearings, and will keep my remarks very brief.

I am here to comment, Mr. Chairman, on the Commission's proposal to force non-profit organizations, such as our hospital, which have opted out of Social Security, to go back into the Social Security system. From the point of view of our hospital and others similarly situated, that recommendation is ill-founded for three principal reasons: (1) it would deny the <u>greater employee benefits</u> achieved through an alternative security program, (2) it would deny our hospital the substantial <u>cost savings</u> achieved through an alternative program, and (3) it would be unfair to institutions such as ours which have expended vast amounts of time and money in <u>reliance</u> upon the ability to opt out of Social Security.

Regarding <u>greater employee benefits</u>, I've heard it suggested that hospitals such as ours have been sold a bill of goods by slick insurance salesmen. I can assure you, Mr.

CHAIRMAN AND MEMBERS OF THE COMMITTEE, THAT NO INSURANCE COMPANY COULD HAVE BEEN PUT TO TASK MORE RIGOROUSLY THAN OUR ALTERNATIVE PROGRAM. THE DECISION TO OPT OUT WAS NOT TAKEN LIGHTLY, ESPECIALLY BECAUSE WE HAVE A MAJORITY OF SISTERS OF THE HOLY REDEEMER ON OUR BOARD OF DIRECTORS, WHO HAD TO BE CONVINCED THAT OPTING OUT WAS MORALLY AND ETHICALLY THE RIGHT DECISION, AND THAT THE BEST INTEREST OF THE EMPLOYEES WAS SERVED. PART OF THE PROOF THAT WE ACHIEVED THAT GOAL ARE THE ACTUAL INCIDENTS WHERE OUR EMPLOYEES HAVE RECEIVED DEATH BENEFIT AND DISABILITY PAYMENTS UNDER THE ALTERNATIVE PROGRAM WHICH WERE DENIED BY SOCIAL SECURITY. MR. CHAIRMAN, I CAN STATE UNEQUIVOCALLY THAT OUR HOSPITAL DID ACHIEVE GREATER BENEFITS FOR OUR EMPLOYEES BY OPTING OUT OF SOCIAL SECURITY.

WITH REGARD TO COST SAVINGS, I HAVE TO EXPRESS PUZZLEMENT THAT HOSPITALS SUCH AS OURS HAVE AT TIMES BEEN CRITICIZED FOR SAVING MONEY BY OPTING OUT. THE SINGLE COMMENT THAT OUR INDUSTRY HEARS MOST OFTEN FROM THE CONGRESS AND THE PUBLIC IS THAT HEALTH CARE COSTS ARE OUT OF CONTROL -- THAT THEY MUST BE CUT. WELL MR. CHAIRMAN, HOLY REDEEMER HOSPITAL SAVED OVER \$135,000 IN 1982 BY BEING ENROLLED IN THE ALTERNATIVE SECURITY PROGRAM, AND WE EXPECT THAT ANNUAL SAVINGS FIGURE TO INCREASE EVERY YEAR. COST SAVINGS IS NOT THE ONLY OR EVEN THE PRIMARY REASON WE OPTED OUT, BUT I'M SURE ALL MEMBERS OF THE COMMITTEE WOULD AGREE THAT IT SHOULD BE A PRIORITY OF EVERY AMERICAN HEALTH CARE INSTITUTION.

FINALLY, MR. CHAIRMAN, I THINK THERE IS A VERY STRONG FAIRNESS ARGUMENT AGAINST FORCING HOSPITALS SUCH AS OURS BACK INTO THE SOCIAL SECURITY SYSTEM. AS YOU KNOW, OPTING OUT IS A VERY LONG PROCESS. IT IS ALSO A VERY EXPENSIVE PROCESS. TO PROPERLY INFORM EMPLOYEES AND TO SECURE INFORMATION FOR FORECASTING THE ALTERNATIVE PROGRAM'S MERITS, 20 MEETINGS WERE HELD OVER A THREE-MONTH PERIOD. SPECIAL MEETINGS ACCOMMODATED SPOUSES AND WEEKEND PERSONNEL. WE DID ALL THIS, MR. CHAIRMAN, IN RELIANCE UPON OUR LEGAL ABILITY TO OPT OUT OF SOCIAL SECURITY. I THINK TO FORCE US BACK INTO THE SYSTEM, WHICH WOULD REQUIRE GREAT AMOUNTS OF TIME AND MONEY TO INTEGRATE THE ALTERNATIVE PROGRAM BACK INTO SOCIAL SECURITY, WOULD VIOLATE FUNDMENTAL PRINCIPLES OF FAIRNESS.

THIS LAST POINT OF FAIRNESS SUGGESTS ONE FINAL THOUGHT ON THE ISSUE. I THINK THE NON-PROFIT ORGANIZATIONS WHICH HAVE ALREADY OPTED OUT OR HAVE APPLIED TO OPT OUT ARE IN A SUBSTANTIALLY DIFFERENT POSITION THAN THOSE WHICH MIGHT DO SO IN THE FUTURE. IF, MR. CHAIRMAN, THIS COMMITTEE DECIDES THAT THE ABILITY OF NON-PROFIT ORGANIZATIONS TO OPT OUT OF SOCIAL SECURITY SHOULD BE TERMINATED, I WOULD ASK THAT SOME PROVISION BE MADE TO ALLOW ORGANIZATIONS LIKE OURS TO CONTINUE IN THE ALTERNATIVE PROGRAMS WHICH WE HAVE CHOSEN AFTER MUCH TIME, THOUGHT, AND EXPENSE.

THANK YOU, MR. CHAIRMAN. SISTER CAMILLIANA AND I WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS.

Senator MOYNIHAN. I was hoping somebody would introduce Sister Camilliana. We welcome you.

Senator WALLOP. Senator Durenberger.

Senator DURENBERGER. Thank you.

I made a couple of observations and a question. One, for those of you who have talked about TEFRA, I know what you are talking about. If you are having trouble with that, wait until you see our DRG proposal. I can sympathize with the cost consequences that quite a number of hospitals are facing. And I think particularly whether the number is 80 or whatever it is, this is a problem that probably the Commission didn't spend a great deal of time in getting down into it on a hospital-by-hospital basis. And some consideration of those who made these alternative investments seems to be important to the people on this committee.

The second observation, however, is that watching this process at work—and it was keyed by something Mr. Kinkead said relative to the slight of hand insurance agents. I happen to have one of my best friends who is one of those slight of hand agents. And I don't think he's a slight of hand agent at all. I think he is very, very good at working with tax policy, and annuities and a whole variety of things. And, obviously, we have started in the past few years in this country to make it good to save again. We have only scratched the surface. We haven't uncomplicated some of our pension systems. We haven't gone to portability, which would help a whole heck of a lot for a lot of people. But we have provided alternative opportunities that compared to social security ought to look terrific; particularly, when everything you read in your newspaper is social security is going down the tube and the costs are going up and all this sort of thing. So I don't doubt that in the last few years in particular there has been a great deal of pressure on good administrators of hospitals to seek alternative income security and retirement systems for people in this country.

But I'm curious to know the extent of the problem. If any of you can measure the dimensions of the problem—I think, Mr. Rohan, you indicated 80 hospitals. I'm assuming those are in the nonprofit category, but maybe I shouldn't make that assumption. I'm wondering if anybody has any statistics about what the field is we are facing in this country. I mean how many hospitals have pensions or annuities or some kind of insured programs plus social security? How many of them have only social security? How many of them have only an alternative pension program? Does anybody have that dimension for us?

Mr. KINKEAD. I think that's a very illusive statistic, Senator, but I think over the years—I've been in health care since 1955. Starting out with very minimal wages and hardly any fringe benefits, I think that most sophisticated hospital managers who are operating a viable system have pretty much compared with the industry insofar as fringe benefits and so forth.

At our hospital we have a pension plan that is noncontributory on the part of employees. We have the availability of another tax shelter. And we also have this program that is tax sheltered.

We have a thrift plan in which they will put 2 to 6 percent of their money away and we will match it. Twenty-five cents on the dollar, $0.50 on the dollar. I cannot speak for the vast multitude of

7,000 hospitals, but I think there has been a tremendous sophistication in fringe benefits in that sense. But not at all valid statistically, sir.

Senator DURENBERGER. I take it, you could see the problem that we would face if we adopted the recommendation that the 80 that are now out stay out with a certain degree of portability—the ability to move from one hospital to the other with the 40-quarter limitation and the current 31-quarter eligibility limitation. It would just make sense for a smart planner who wants to move up the ladder from one hospital to another to find social security somewhere during their life while taking advantage of pension programs in other parts of their life as well.

And I keep going back to the—we shouldn't speak of morality except when we are talking about disarmament.

Senator HEINZ. Would the Senator yield for just one unanimous consent request?

Senator DURENBERGER. You don't want me to talk about disarmament?

Senator HEINZ. I do, but I just have to go and chair another hearing. And I want to bring to the attention of my colleagues an analysis of S. 1 that the Committee on Aging has done. We will be making it available to all of our colleagues. It would be a part of the record, would be my unanimous consent request.

Senator WALLOP. Without objection, we will put it in.

[The analysis follows:]

SOCIAL SECURITY FINANCING

BACKGROUND MATERIAL

ON THE RECOMMENDATIONS OF

THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

BACKGROUND ON FINANCING PROBLEMS

1. FINANCING IN THE 1970s

As recently as 1970, the old-age, survivors, and disability insurance (OASDI) trust funds had on hand a reserve equal to 1 year's payout, an amount then considered adequate to meet any changes in expenditures or income due to unforeseen economic fluctuations. When Congress passed the 1972 amendments to the Social Security Act, economic forecasts projected a continuation of the relatively high growth rates and the low rates of inflation which had been experienced during the 1960's. Under these conditions, social security revenues would have adequately covered payouts, and trust fund reserves would have remained sufficient for contingencies.

The 1972 amendments increased social security benefits across-the-board by 20-percent, and initiated the price-indexing of benefits, and a complex indexing method for computing the initial benefit. A technical error in the method of computing the initial benefit led to an "over-indexing" of initial benefit amounts for new beneficiaries. In addition, when price-indexing of benefits went into effect in 1975, annual inflation rates of around 10-percent began to fuel a rapid increase in payouts from the system. A recession in 1974-75 raised unemployment rates to their highest level since World War II, and slowed the growth in real wages, causing income to the OASDI program to fall below expenditures. Finally, disability insurance trust funds were being steadily eroded because of a continuing rapid increase in beneficiaries.

Beginning in 1973, the board of trustees of the OASDI program began to predict a deterioration in the financial condition of the program in both the immediate future and over the long run. By 1977, the trustees predicted that the DI trust funds would be depleted by 1979, and the OASI trust funds by 1983. The long-run deficit (75-year average) was predicted to reach 8.20-percent of taxable payroll, a dramatic increase from the 0.32-percent average deficit predicted in the 1973 report. By 1977, reserves in the OASDI trust funds had already declined to less than 6 months' payout.

Congress moved in 1977 to correct the financial condition of the OASDI program. The 1977 amendments to the Social Security Act increased the overall payroll tax beginning in 1979, increased the taxable earnings base, reallocated a portion of the hospital insurance (HI) payroll tax rate to OASI and DI, and resolved the technical problems in the method of computing the initial benefit amount (decoupling). These changes were predicted to produce surpluses in the OASDI program beginning in 1980, and continuing over the next 30 years, with reserves building up to 7 months' payout by 1987. The long-run deficit in the OASDI program was to have been reduced from an average 8.2-percent to 1.46-percent of taxable payroll.

Again, however, the economy did not perform as well as forecasts had predicted. Annual increases in the Consumer Price

Index exceeded 10-percent. After 1979, a rate sufficient to double payouts from the program in just 7 years. Real wage changes have been negative or near zero since 1977, and in 1980, unemployment rates exceeded 7-percent. As a result, annual income to the OASDI program continued to be insufficient to cover expenditures. Trust fund balances declined from $36 billion in 1977, to an estimated $26 billion in 1980. Lower trust fund balances, combined with rapidly increasing expenditures, brought reserves down to less than 3 months' payout by 1980.

The 96th Congress responded by temporarily reallocating a portion of the DI tax rate to OASDI for 1980 and 1981. This measure (signed into law as Public Law 96-403) was intended to buy time for the 97th Congress to resolve the shortage of funds in the OASI and DI programs.

2. THE 97TH CONGRESS

The 97th Congress moved quickly in 1981 to address the impending financial shortfall in social security, but quickly encountered the political realities of this issue. Congressional concern about the financing problem had been mounting throughout 1980, and in February of 1981, the House Ways and Means Committee began considering comprehensive financing legislation. Simultaneously, proposals to eliminate social security student benefits and minimum benefits were successfully incorporated into the fiscal year 1982 budget legislation.

But the climate for social security reform soon changed. In May the administration's announcement of a comprehensive social security reform package with immediate benefit reductions touched off an adverse political reaction in the Congress. Enactment of the Omnibus Budget Reconciliation Act of 1981, eliminating the minimum benefit, only added to the controversy. By mid-summer there was general disagreement on even the dimensions of the social security financing problems. The Congress did include in the Social Security Amendments of 1981, which restored the minimum benefit for current beneficiares, a provision authorizing the OASI trust fund to borrow sufficient funds from the DI and HI trust funds to last through July 1983, but this was the last piece of financing legislation considered in the 97th Congress.

At the end of 1981, in an effort to break the political impasse, the President appointed a fifteen member, bi-partisan, National Commission on Social Security Reform to search for a politically feasible solution to social security's financing problem. The Commission was given a year to develop a consensus approach to financing the system.

Meanwhile, the condition of the social security trust funds worsened. By the end of 1981, OASDI reserves had declined to $24.5 billion, an amount sufficient to pay benefits for only a month and a half. Even though falling inflation rates were helping to keep outgo below projected levels, still-sluggish wage growth and rising unemployment kept income to the system below the level needed to cover outgo. Legislative changes included in the Omnibus Budget Reconciliation Act of 1981 and the Social Security Amendments of 1981 were expected to improve the financial condition of the OASDI trust funds by $2.8 billion in calendar year 1982 alone, and by $21.7 billion between 1981 and 1986. But, the 1982 Trustees Report projected that any financial gains from the 1981 legislation would be totally offset by continuing stagnation in the economy.

By November 1982 the OASI Trust Fund had exhausted its cashable reserves and in November and December was forced to borrow $17 billion from DI and HI trust fund reserves to finance benefit payments through July 1983.

3. STATUS OF THE TRUST FUNDS

(A) OASDI - Short Term Financing

In the immediate future, the fund with the major financing problems is the old-age and survivors insurance (OASI) trust fund. At the end of October 1982, the OASI Trust Fund had a balance of $10 billion, almost $1 billion less than was needed to make the November benefit payments. As a result, OASI borrowed $.6 billion from the DI trust fund in November and an additional $16.4 billion from DI and HI in December to enable OASI to meet benefit payments through June 1983. Without further legislation, OASI will most likely have to delay benefit payments for several days beginning in July, with increasing delays each month as the reserves are depleted.

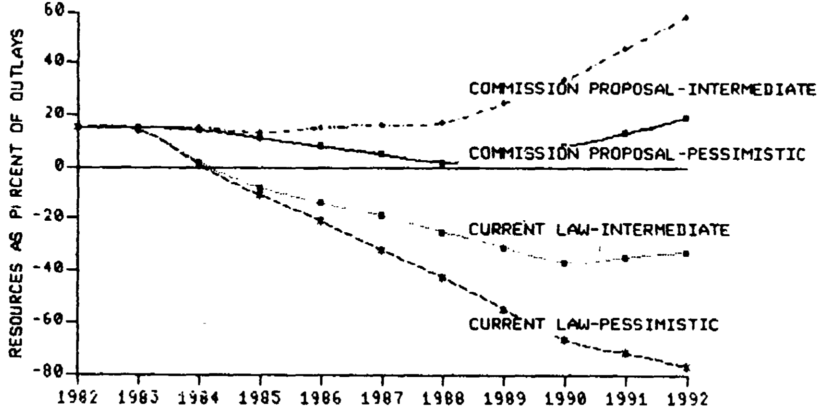
The disability insurance (DI) trust fund is somewhat more sound. Reallocations of the OASDI tax rates in favor of DI in 1977 and in favor of OASI in 1980 have greatly altered the trust fund balances in the DI fund over time. But the existing DI tax rate coupled with the effect of improvements in actual disability experience has maintained a positive cash flow in this program. At the end of October 1982, the DI trust fund had a balance of $6.9 billion. In November and December the DI Trust Fund loaned $5.1 billion of this reserve to OASI. The National Commission has recommended that the tax rates for OASI and DI be reallocated to achieve roughly equal ratios of trust fund reserves to projected expenditures in each program.

Under intermediate cost estimates (Alternative II-B assumptions from the 1983 Trustees Report) the OASDI combined trust funds are expected to experience deficits averaging about $21 billion a year between 1983 and 1989. Under pessimistic cost estimates (Alternative III assumptions) the deficits in OASDI are expected to be about $25 billion a year prior to 1985 increasing to $51 billion by 1989.1/

To maintain trust fund reserves in OASDI equal to 15 percent of projected annual outgo $117 billion in either added revenues or reduced outlays or both between 1983 and 1989 would be required under intermediate assumptions, and $198 billion over that time under pessimistic assumptions. A 15-percent reserve ratio is generally considered the minimum safe reserve margin necessary to enable the system to continue to make timely benefit payments.2/

Chart 1

OASDI TRUST FUNDS:
ESTIMATED RATIO OF RESERVES TO OUTLAYS
CALENDAR YEARS 1982-1992



SOURCE: SSA, Office of the Actuary, Preliminary 1983 Trustees Report Estimates, February 7, 1983

TABLE 1 -- Estimated amounts of additional OASDI tax income or reductions in OASDI benefits required in 1983-89 to maintain assets equal to 15 percent of annual expenditures

(in billions)

	Calendar Year							Total 83-89
	1983	1984	1985	1986	1987	1988	1989	
Based on 1983 alternative II-B:								
Additional tax income	$23	$20	$12	$14	$15	$16	$17	$117
Reductions in benefits	20	20	14	14	15	16	17	116
Based on 1983 alternative III:								
Additional tax income	24	26	22	26	30	34	36	198
Reductions in benefits	21	26	23	26	29	34	36	195

Note -- estimates represent amounts of additional tax income or benefit reductions required relative to present law. Amounts shown do not include provision for repayment of the $12.4 billion that was borrowed from the HI trust fund in 1982. Thus the amounts required in 1983-1989 to maintain a 15-percent asset level and to repay the HI program would equal the above figures plus $12.4 billion.

Source: Department of Health and Human Services. Social Security Administration. Office of the Actuary, Feb. 5, 1983.

In recent years, because of continued deterioration in the economy, intermediate forecasts have proven to be more optimistic than actual experience. As a result, there has been increasing support for basing policy decisions on pessimistic assumptions or on higher reserve ratios to guard against the possiblity of again being too optimistic.

The National Commission on Social Security Reform adopted this approach in it's recommendation that between 1983 and 1989 the Congress improve the financial condition of the trust funds by $150 to $200 billion. Added revenues or savings of this amount would enable OASDI to maintain a 15-percent trust fund reserve under somewhat pessimistic assumptions or to build up a somewhat safer reserve margin should economic performance prove to be better. The changes recommended by the Commission would improve the financial condition of the trust funds by $165 billion between 1983 and 1989, and maintain, under intermediate assumptions, sufficient reserves throughout. Under pessimistic assumptions, the changes recommended by theCommission would need to be supplemented by an additional "fail-safe" proposal to assure that reserves would be sufficient between 1985 and 1987.

(B) Medicare Financing Problems

Early in the debate in the 97th Congress on the short-term OASDI financing problem, the financing problem in the hospital insurance (HI) trust fund was generally viewed as a concern for the next decade. The HI trust fund was seen as a source of funds to aid the ailing OASDI trust funds until the 1990 tax increase went into effect. However, over the last two years the forecasts for the HI trust fund have grown significantly worse. It is now clear that if the HI trust fund is used to sustain OASDI in the near term, its reserves could be exhausted as early as 1984.

The future deficits in the HI program are a result of forecasts of continuing annual rates of growth in hospital costs exceeding the growth rate in the CPI. In recent years, hospital costs have increased at an annual rate of 10 to 19 percent. Intermediate II-B assumptions project rates of hospital cost increases declining from 16.5 percent in 1982 to 10.0 percent in 1995 to 9.3 percent in 2005. These rates of increase are twice the rate of increase projected for the CPI.3/

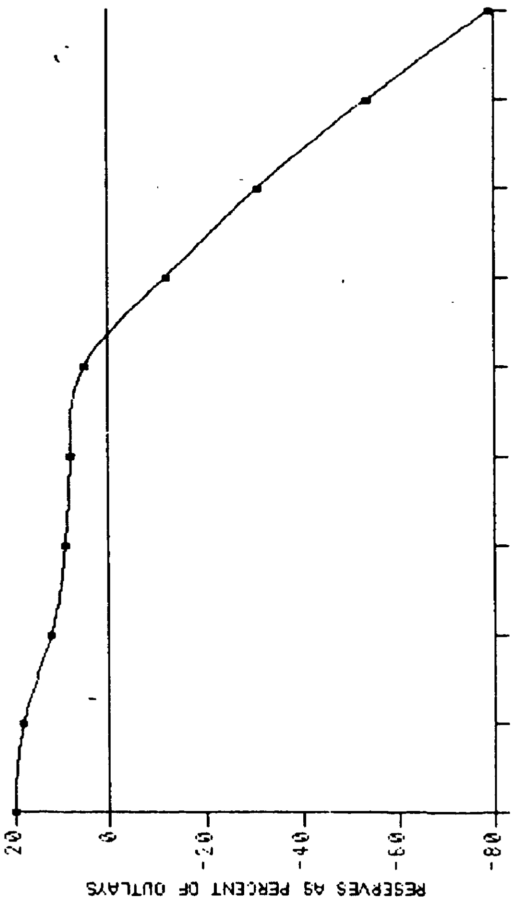
From 1981 to 1986, medicare is expected to have small annual deficits, on average. At the beginning of 1982, the HI fund had \$18.4 billion in reserves, roughly 52 percent of the estimated outgo for the HI program. By the end of 1986, HI is expected (under intermediate assumptions from the 1983 Trustees Report) to have a reserve on hand of \$10.2 billion, only 15 percent of the estimated payout for 1987.

Beginning in 1987, HI will run ever-increasing annual deficits, leading to an estimated \$28.4 billion deficit (under intermediate assumptions) in 1992. HI will retain a sufficient balance in the trust funds to meet payments on time for the next five years, but will be rapidly depleted toward the end of the decade. 4/

Over the next 25 years, under intermediate assumptions from the 1982 Trustees Report, HI is expected to have an average annual deficit of nearly 1.5 percent of taxable payroll. With no change in the law, this deficit would average 5.21 percent of taxable payroll over the next 75 years - far in excess of the average deficit of 1.82 percent of taxable payroll in OASDI, under intermediate assumptions. 5/

Chart 2

HI TRUST FUNDS:
ESTIMATED RATIO OF RESERVES TO OUTLAYS
CALENDAR YEARS 1983-1992



SOURCE: SSA, Office of the Actuary, Preliminary Estimates for the 1983 Trustees Report, February 18, 1983

NOTE: This data reflects the effects of enactment of the Commission's recommendations.

(C) The Long Term OASDI Problem

Forecasts - Forecasts prepared by the Social Security Administration for the 1983 Trustees Report show that, under intermediate assumptions, annual expenditures for old-age, survivors, and disability insurance (OASDI) will exceed revenues beginning in the early decades of the next century and continuing through the first half of the century. Under these assumptions, expenditures are then expected to begin exceeding revenues around 2015, with the trust funds depleted by 2030. On average, over the next 75 years, expenditures are expected to exceed revenues by an amount equal to an average 2.09-percent of the annual payroll subject to social security taxes. This means that if payroll taxes were to be increased to entirely offset this deficit, the average combined OASDI tax rate over the next 75 years would have to be raised from 12.29-percent, now scheduled for OASDI, to 14.38-percent. The actual OASDI tax rate is presently 10.8-percent and is scheduled to rise to 12.4-percent by 1990. 6/

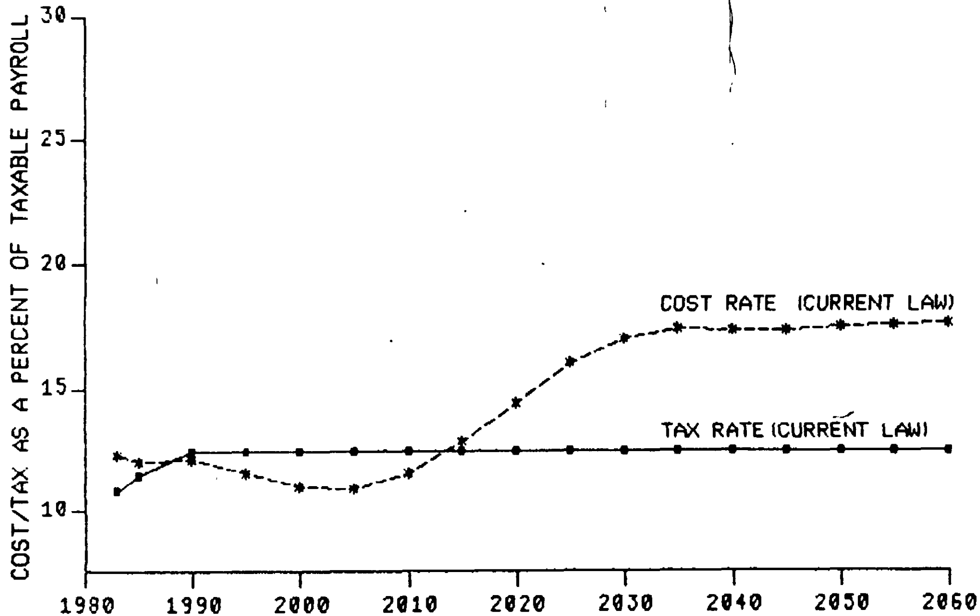
The picture varies considerably over the three 25-year periods between 1983 and 2057. In the first 25-year period (1983-2007), revenues are expected to exceed expenditures by an average of 0.58 percent of taxable taxable payroll. OASDI trust funds are expected to build to more than 100 percent of annual expenditures after 2000.

In the second 25-year period (2008-32), the financial condition of OASDI is expected to deteriorate considerably. By 2015 the trust funds will have grown to over 150 percent of annual expenditures. Thereafter, annual deficits will begin eroding the trust funds. The accumulating deficit is expected to exhaust the trust funds shortly after 2025. Over the 25 years, expenditures are expected to exceed revenues by an average 1.89-percent of taxable payroll.

In the third 25-year period (2033-57), annual expenditures are projected to level off, but remain above annual revenues. Expenditures in this period are expected to exceed revenues by an average 4.96 percent of taxable payroll.

Chart 3

ESTIMATED OASDI COST AND TAX RATES
ALTERNATIVE II-B ASSUMPTIONS
1983-2060



SOURCE: Social Security Administration. Office of the Actuary.
Based on assumptions prepared for 1983 Trustees Report. February 1983.

TABLE 2 -- Estimated average OASDI tax rates, expenditures and actuarial balance (1983-2057)

(Percentage of taxable payroll)

	25-yr average			75-year average
	1983-2007	2008-32	2033-57	1981-2055
Average scheduled tax rate (combined employer-employee rate)	12.07	12.40	12.40	12.29
Estimated average expenditures	11.49	14.29	17.36	14.38
Difference (actuarial balance)	.58	-1.89	-4.96	-2.09

Source: Department of Health and Human Services. Social Security Administration. Office of the Actuary. Based on assumptions prepared for use in the 1983 Trustees Report. February 18, 1983.

The National Commission on Social Security Reform agreed that the long-run deficit was 1.80 percent, based on 1982 trustees report alternative II-B assumptions. The recommendations of the Commission included proposed changes to eliminate two-thirds of this deficit, leaving a long-run deficit of 0.58 percent to be resolved through additional changes. Estimates based on alternative II-B assumptions prepared for use in the 1983 trustees report show a somewhat higher deficit (2.09) due to modifications in fertility and unemployment assumptions, and projections of State and local government and non-profit terminations. Under the 1983 assumptions, the package recommended by the Commission would reduce the long-run deficit by 1.41 percent of taxable payroll, leaving a deficit of 0.68 percent unresolved.

Causes - The projected long-term deficit in social security is expected to result from the problems of financing the needs of an expanding older population on an eroding tax base. The first part of this problem is that there are expected to be proportionately more older people, living longer, and continuing to retire early.

Unusually high birth rates after World War II have already created a bulge in the population - the baby boom generation - which is expected to reach retirement age beginning in thirty years. If life expectancy continues to rise and fertility rates stay low, the relative size of this cohort will be even greater by then.

Future life expectancy gains are projected to be substantial. For men age 65, life expectancy has increased by two years since 1940 and is expected, under intermediate assumptions, to increase by another 3 years by 2040. For women age 65, life expectancy has increased by 5 years since 1940 and is expected to increase by another 4 years before 2040.7/

In addition, low rates of fertility may well keep the younger working population relatively small in the future. Fertility rates of 3.0 to 3.6 children per thousand women resulted in the baby boom in the 1950s and early '60s. Fertility rates then declined precipitously to 1.8 in the late 1970s and early 1980s - rates below the population replacement rate of 2.1 (the rate which will keep the population the same size with no change in immigration rates). Under intermediate assumptions in the 1982 Trustees Report, fertility rates are expected to rise slowly, only reaching the replacement rate (2.1) in 2005.8/

These factors will cause the relative size of the older population to rise substantially. The ratio of older persons (age 65 and over) to the "working age population" (age 20 to 64) has grown from roughly 1:6 in 1960 to 1:5 in 1980 and is estimated to rise to 1:3 before 2030.

If these changes are coupled with a continuation of current patterns of early retirement, the relative size of the beneficiary population will grow substantially. The long-term trend has been for fewer people to continue working beyond age 65. Although roughly one out of four persons 65 and over was working in 1954, only one out of eight did so in 1980. The tendency has been particularly strong among male workers--two out of five men age 65 and over worked in 1954, compared to one out of five in 1980.

The same tendency toward reduced labor-force participation is evident among the 60 to 64 age group, although here, the reduced labor-force participation of men has been offset somewhat by the increased labor-force participation of women. Total labor-force participation of men and women in the 60 to 64 age bracket declined from 55 percent in 1954, to 45 percent in 1980. Male labor-force participation declined form 84 to 61 percent, while labor-force participation of women increased from 27 to 33 percent.

These changes combined are expected to result in more elderly people remaining in beneficiary status for a longer time, thus adding to social security costs, while low birth rates will keep the size of the taxpaying working age group from increasing as rapidly as the beneficiaries. Whereas there are about 3.2 covered workers for every OASDI beneficiary today, there are expected to be about 2.0 covered workers for every OASDI beneficiary in the year 2030.9/

This relative increase in the number of beneficiaries will not necessarily be a problem. Even though there are expected to be fewer workers supporting each beneficiary in fifty years, this added cost per worker will be offset through the increased productivity of the future worker, if productivity gains compare to those experienced over the past thirty years.

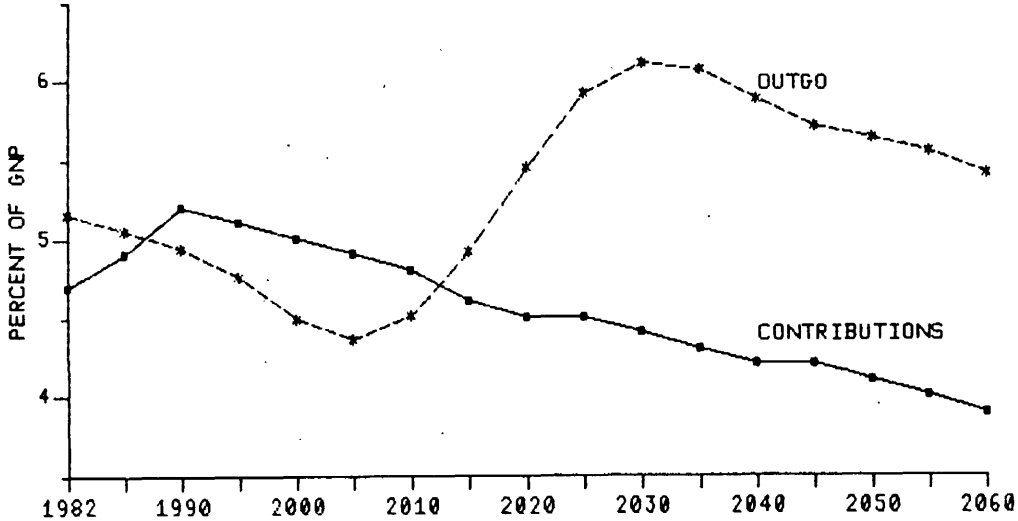
While the absolute cost of funding the current structure of benefits in social security is expected to increase substantially over the next 75 years, due to expected increases in the beneficiary-worker ratio, the cost of social security relative to the economy as a whole will not necessarily increase greatly over levels experienced in the 1970's. Currently, social security accounts for about 5.2 percent of the GNP. Under Intermediate II-B assumptions (with 1.5 percent real wage growth), social security is expected to rise to about 6.1 percent of GNP by 2030, declining to 5.4 percent by 2060.10/

However, this relative increase in the number of beneficiaries will be a problem if productivity increases do not occur or the social security tax base is allowed to erode - as it is now projected to. The second part of the long run problem is that social security is expected to be taxing less and less of the compensation paid to workers in the future. Intermediate II-B assumptions for Social Security financing assume in the long run that the proportion of compensation paid to employees as non-taxable fringe benefits will continue to grow at a rate of .4-percent per year - the average annual rate of growth experienced over the last 30 years. In 1950, fringes accounted for only 5-percent of total compensation, and FICA taxes were levied on 95-percent of compensation. By 1980, fringe benefits had grown to account for 16-percent of compensation leaving only 84-percent to be taxed for Social Security. Continuation in this rate of growth in fringe benefits, as projected by the Social Security actuaries, will result by 2055 in non-taxable fringes accounting for 38-percent of compensation, leaving only 62-percent to be taxed for Social Security.11/

If this potential growth in fringe benefits does occur, it will cause a substantial reduction in the relative value of the Social Security tax base. Under Intermediate II-B assumptions Social Security revenues are expected to decline from a high in 1990 of 5.2-percent of GNP to less than 4-percent of GNP by 2055. The loss of revenues from this shrinkage, assuming a level tax rate after 1990, is roughly equivalent to 1.58-percent of taxable payroll or 90-percent of the current long-run deficit.12/

Chart 4

OASDI AS A PERCENT OF GNP:
INTERMEDIATE ASSUMPTIONS
1982-2060



SOURCE: Social Security Administration, Office of the Actuary, based on 1982 Trustees Report Assumptions

1. COVERAGE

(A) Background

When taxes were first collected for the Old Age Insurance (OAI) program in 1937, mandatory coverage was initially extended only to private-sector workers in commerce and industry. As of 1939, only 43 percent of the labor force was covered by social security. In the 1950s and '60s mandatory coverage was extended to farm and domestic workers, the self-employed, the military, physicians, ministers and some members of religious orders. Coverage was extended on an elective basis in 1950 and 1954 to employees of non-profit organizations and State and local government entities. Today about 115 million workers or 95 percent of all jobs are covered. This includes 70 percent (9.4 million) of all State and local government employees and about 85 percent (4.5 million) of the employees of non-profit organizations.

Federal employees were initially excluded from participation in social security because most were already covered under the Civil Service Retirement System (CSRS). State and local government employees and employees of non-profit organizations were excluded because of concern that mandating coverage might raise some difficult constitutional questions. In the case of State and local governments the constitutional issues have revolved around the immunity of States from Federal taxation, and limits on Federal interference in the employer-employee relationships of States. In the case of non-profit organizations, concern has been centered on whether removal of the tax exemption from social security would lead to a general loss of their tax exempt status, and whether this form of taxation would constitute a violation of principles of separation of church and state, "free exercise" of religious beliefs, and "free assembly".

The constitutional problems have been avoided by allowing State and local governments and and non-profit organizations to elect to cover their employees.

Federal civilian employees are the only regularly employed group of workers who remain entirely outside of the social security system. Of all workers not covered, 2.7 million are Federal civilian employees. Another 3.5 to 4 million are employees of State and local governments and non-profit organizations that remain outside the system by choice.

(B) Issues

Social security from its beginnings was designed as a universal social insurance system. As a universal system it can provide a fully portable foundation of insurance protection and retirement benefit accumulation throughout each individual's working career. As a universal system, it can also share the basic costs of supporting the retired generation reasonably equitably among those still working. Incomplete coverage of the working population creates problems of inconsistency and inequity in the treatment of individuals resulting almost randomly from variations in individual career patterns. Some individuals who move between covered and non-covered employment are able to profit from entitlement to benefits under social security and full alternative pension benefits. Other less fortunate mobile workers suffer benefit losses and gaps in insurance protection as a result of their split careers. Incomplete coverage of the workforce is of concern not only because it may result in inadequate protection for workers, but also because of the perceived unfairness of exempting some workers from participating in the intergenerational transfer of income.

The major coverage issue is whether or not it is feasible to extend mandatory coverage to the three major groups which are either excluded or are covered on a voluntary basis. Full and immediate mandatory coverage of the entire working population, were it practical, would eliminate all other concerns regarding coverage. Barring full coverage, there are two other major coverage concerns. One is that State and local and non-profit employers who have elected to cover their employees may also elect to terminate social security coverage for their employees at any time, and are beginning to do so in record numbers. The second is that those who work most of their careers in non-covered employment frequently become entitled to social security and receive social security benefit "windfalls" in addition to the benefits they have earned.

(1) Coverage of Federal Employees

Proposals to extend social security coverage to Federal employees are motivated by three concerns: a growing interest in reforming the Civil Service Retirement System, popular opposition to excluding Federal employees from social security, and a need to improve both the immediate and the long-run financial condition of the social security system.

Cost-Pressure to reform the Civil Service Retirement System (CSRS) has surfaced most recently in the context of the budget debate. Although many people think that Federal workers finance their own retirement system with matching contributions from their employer, in fact the system is largely financed by taxpayers through annual general fund appropriations and interest payments. While employees contribute 7% of salary to the retirement fund, annual Federal Government payments to the fund, excluding matching employer contributions, amount to 23% of payroll. And these payments are projected to grow in proportion to the total cost of the program. Today the government finances two-thirds of the total cost of the program, in fifty years the government is expected to be paying three-quarters of the cost. In real terms, the cost to the Government is expected to rise from $9.6 billion in 1980 to $13.6 billion in 1990 and $20.2 billion in 2030.13/

The two factors causing the greatest increase in the cost of civil service retirement are the annual automatic cost-of-living adjustment (COLA) and the provision allowing retirement with unreduced benefits at age 55. These features of the CSRS are coming under increasing scrutiny. In the fiscal year 1983 budget, the Congress enacted a three-year reduction in Federal civilian and military COLAs for retirees under age 62. And the Reagan Administration has included proposals in the fiscal year 1984 budget to increase the age of retirement and delay cost-of living adjustments for all retirees.

Alternative proposals for controlling the costs of the CSRS have suggested a complete overhaul of the retirement plan provided to new Federal hires, including coverage under social security. For example, Senator Stevens introduced a bill (S. 2905) in the 97th Congress which would have provided new Federal employees with social security coverage based on their own and a matching employer's contribution of roughly 7% contribution. In addition, the Stevens bill would have provided a supplemental pension plan financed entirely by an employer contribution averaging 14% of salary, and a voluntary thrift plan with a matching employer contribution of up to 3% of salary. This combination was expected to produce substantial cost savings to the government within twenty or thirty years.

Adequacy - Another focus of the reform effort has been concern about the adequacy of retirement benefits for a portion of the Federal workforce. Full career Federal employees usually do well in the CSRS, but at the expense of more mobile employees.

The civil service retirement system, like most employer-provided pension plans, tilts its compensation to reward long service and later termination, and provides a proportionately high compensation to highly paid workers. Social security, by contrast, provides a basic retirement income to all employees, tilts its benefits to provide higher proportional compensation to lower-paid workers, and does not penalize workers for job mobility or early termination. Workers covered by social security plus an employer-provided retirement plan receive the contrasting advantages offered by each. However, Federal workers, covered only by the employer-provided plan, may receive inadequate benefits because they are not covered by social security. This inadequacy stems in large part from the lack of portability in Federal pension benefits. Employees must work five years to become vested in any benefits, and must work ten years before the benefit formula begins crediting at full rates. Employees who leave after vesting may choose to withdraw their own contributions instead of qualifying for benefits, but if they do they forego the value of the government's share. If they leave their contributions in the system, they will receive benefits upon retirement, but the benefits will be fixed in relation to their salary at the time they left Federal service. Because of these limitations, Federal employees who spend less than a full career in Federal service frequently receive little retirement income of value for their years of service with the government. OPM estimates that 62 percent of all new Federal employees will receive no Federal pension benefits at all. In all, two-thirds of the civil service retirement benefits will go to one-fourth of the Federal employees. This would be less of a problem if those who left Federal service early received indexed or transferable credits for their years of service. But lack of social security coverage effectively denies them the portable retirement benefits they would otherwise have received in the private sector.

Equity - On the other hand, those who remain in Federal service for thirty years can receive substantial retirement income. The civil service retirement system is intended to provide retired Federal employees with a nearly full replacement of their highest Federal salary since they are not covered by social security. It therefore pays benefits more than three times the average benefits paid by those private retirement plans designed to supplement social security. 14/ For example, the average monthly benefit for a Federal employee retiring at age 55 with 30 years service in 1981 was $1,242. 15/ With the early age for retirement from the civil service, it is not unusual for career Federal employees to retire and work sufficiently in private employment to also qualify for social security benefits. It is estimated, as of 1979, that 73 percent of all civil service annuitants over age 62 currently receive social security benefits. 16/

Fairness -The public perception of unfairness comes in part from the sense that civil service retirement provides unnecessarily plush benefits to Federal retirees at the taxpayers' expense. It is compounded by public concern that the administrators of social security and members of Congress have chosen to exclude themselves from the retirement program in which everyone else must participate. With social security in financial trouble, and only a limited range of unpleasant options available to restore solvency, there has been a growing public sense that continued exclusion of Federal workers from social security is a luxury the taxpayers can no longer afford.

Effect on Social Security - Extension of social security coverage to Federal employees has become particularly attractive because of its potential to improve both the immediate and the long-run financial condition of the social security system. In the immediate future, including only newly hired Federal employees in social security is estimated to add $1 to $3 billion a year to social security revenues. Because there would be few benefit payments to new Federal employees in the early years, this change would improve trust fund balances by $9 billion between now and 1989. On average over the next 75 years, the inclusion of Federal workers would result in an improvement of the trust funds equal to .29% of the taxable payroll. The long-run savings in social security would result from the relatively high salaries and steady work histories of Federal employees and from elimination of benefit "windfalls".

OPPOSITION - Opposition to extending mandatory coverage to new Federal employees has come largely from groups representing current Federal employees and retirees. These groups generally cite three reasons for opposing social security coverage for new hires: 1)it will raise the cost to the taxpayer of financing retirement benefits for Federal employees; 2)it will help social security only in the short-term and will only add to its deficits in the long-run; and 3)it will bankrupt the civil service retirement fund in a few decades. These concerns, however, are not well-founded.

(a) Cost of coverage to the Government: Some employee groups claim that covering new Federal workers under social security will result in additional costs to the Government as an employer. However, this conclusion is based on a misunderstanding of where the Government's cost is actually incurred. The cost to the Government of financing retirement benefits for Federal employees is the amount by which annual benefit and refund payments exceed annual revenues from employee contributions. Total Federal civilian retirement costs are now 37 percent of payroll, of which 7 percent is employee contributions and 30 percent is Government cost. This cost is determined by the contribution rate and the benefits paid, and is not affected by the way in which various civilian retirement programs are accounted for or funded in the budget. Therefore, as long as the basis for collecting contributions or making payments remains the same, merely covering one group of employees under a different plan in the budget will not make a difference in the cost to the taxpayer.

However, if new Federal employees are covered under a plan resulting in a different rate of employee contributions or benefit payments, then total Government retirement costs will change.

Covering new Federal employees under a combination of social security and a supplemental pension is likely to result in a reduction in total retirement costs for several reasons. First, social security coverage will raise the age of retirement for new Federal employees by about three years. Currently a Federal employee with thirty years service may retire with full benefits at age 55, and half of all Federal retirees begin drawing benefits by age 61. However, social security will not pay reduced retirement benefits before age 62, and will not pay full benefits until age 65. Half of all social security retirees do not begin collecting benefits before age 64. With Federal employees working longer, total benefit payments will be less. Second, full career coverage for new employees under social security will eliminate for them the social security benefit "windfalls" received by current employees with split careers in covered and non-covered employment. Third, future cost-of-living indexing may also be reduced somewhat for the pensions of new federal employees. The current civil service retirement system provides full annual cost-of-living indexing for the entire civil service pension. If the new combined retirement plan is made comparable to the best private sector plans, it is possible that something less than full cost-of-living indexing will be provided for the supplemental employer-financed pension. While none of these differences would result in any near term cost savings, in the long-run the total cost to the Government of civilian employee retirement would most likely be substantially lower as a result of covering new Federal employees under social security.

(b) Effect on the Long-run Social Security Deficit: Employee groups also claim that covering new Federal employees under social security will only help social security financing in the short-run. In the long-run, they claim, covering Federal employees will cost more in added benefits than it will raise in added revenues. This conclusion contradicts the evidence. In fact, coverage of new Federal employees is expected to provide social security with added revenues in excess of its added benefit obligations in each year over the entire 75 year forecast period. Even in the last 25 years of the forecast period (2031-2056), when tax revenues from currently covered employment are expected to fall short of financing social security benefit payments, under present law, by 4.41% of taxable payroll, tax revenues from federal employment would exceed Federal retirees' social security benefit payments by an amount equal to 0.21% of taxable payroll.

TABLE 3 -- Effect of coverage of new Federal employees on the OASDI long-run deficit, 1985 to 2060

Year:	Percent 1/
1985	.06
1990	.17
1995	.25
2000	.30
2005	.34
2010	.37
2015	.41
2020	.44
2025	.43
2030	.37
2035	.30
2040	.23
2045	.19
2050	.16
2055	.15
2060	.14
25-year averages:	
1982 to 2006	.21
2007 to 2031	.41
2032 to 2056	.21
75 year average, 1982 to 2056	.28

1/ Excess of revenues over payments due to coverage - as a percent of social security taxable payroll.

Source: Department of Health and Human Services. Social Security Administration. Office of the Acturary. Based on 1982 trustees report intermediate II-B assumptions.

This positive long-run effect on social security financing results from two factors. First, most Federal employees receive social security benefits anyway, but new Federal hires will have to make a lifetime of social security tax payments and will no longer be able to receive the benefit "windfalls" which resulted from short periods in covered employment. Second, because the Federal workforce has a higher proportion of highly paid workers than the private workforce, annual tax payments to social security would be higher than average tax payments, while average benefit payments would be lower in relation to average earnings.

(c) Effect on the CSRS Trust Fund: Employee groups seem most worried that covering new Federal hires under social security will deprive the civil service retirement fund of their contributions, inevitably leading it to bankruptcy in just twenty years. They argue that in order to prevent the bankruptcy of the CSRS trust fund, the Congress will have to increase annual appropriations to the trust funds, and this will ultimately cost the taxpayers more. This conclusion is based on the faulty assumption that the CSRS is, at least in part, a funded pension system, and, therefore, limited in the amount of benefit payments it can make by the amount of assets in the trust funds. In fact, the civil service retirement system is financed on a pay-as-you-go basis, with a trust fund account in the Federal budget. In any given year, the real cost of civil service retirement is the cost of making annual benefit and refund payments.

If, in a particular year, the Congress appropriates an amount in excess of the cost of payments, the difference is credited to the trust fund. This amount is then used to purchase special government securities - in other words, it is loaned back to the general fund to be repaid at some future date with interest. Because this is in effect returning to the general fund the amount appropriated, this transaction has no net effect on either the general fund or the taxpayer. When the trust fund redeems these securities to make benefit payments, general revenues must actually be spent.

In short, because the assets of the trust funds are all invested internally in the budget, the only actual expenditure of tax dollars occurs when benefit payments are made. No matter how large the civil service retirement trust fund reserves become, they do not lessen the burden on taxpayers of meeting benefit obligations to Federal retirees in the year they come due. The trust fund reserves themselves only serve to convert an unspecified future obligation to pay benefits into a paper claim against future general revenues. If appropriation for the full amount of unfunded liabilities were made to the CSRS, the additional revenue, which would not be needed to pay current benefits, would immediately return to the Treasury in the form of a CSRS investment. Because these two transactions would be equal and would both occur within the budget, there would be no effect on the budget or on taxpayers. The only change would be to transform unfunded liabilities of the CSRS, i.e. demands on future taxpayers to honor obligations to Federal employees, into funded investments, i.e. demands on future taxpayers to honor government liabilities.

Reduced contributions to the CSRS resulting from coverage of new Federal hires will reduce revenues to the CSRS trust fund if annual general fund appropriations remain the same. However, these reduced revenues could easily be offset by increasing annual appropriations by 50 percent. The increase in appropriations would have no effect on either the budget deficit or the cost of the program. It would increase, by an equal amount, the funds credited to the CSRS trust fund and loaned back to the Treasury. In other words, it would increase the amount of Government debt held by the Government. In so doing, it would create a paper obligation to pay for the retirement benefits of current employees out of future general revenues. But it would do nothing to change the fact, which is inescapable even without coverage, that future retirement benefit payments to current Federal employees must be paid for by future taxpayers.

(2) Coverage of State and Local and Non-Profit Employees

Although the reasons for extending mandatory coverage to state and local and non-profit employees are similar to those for covering Federal employees, the circumstances are quite different. Originally, employees of State and local governments were excluded from coverage because many of these employees were already covered under public pension plans and because it was unclear whether the Federal government could impose a compulsory tax on State and local entities. Certain tax-exempt non-profit groups were also not brought under mandatory coverage because many of these groups feared that the social security tax would call into question their general tax-exempt status. However, during the 1940's a consensus emerged that the constitutional and legal issues raised by compulsory coverage could be avoided by permitting these employers to elect to cover their employees. In 1950, elective coverage was extended to State and local governments whose employees were not already under a public retirement system and tax-exempt non-profit (501(c)(3)) organizations. Elective coverage was further extended in 1954 to State and local governments whose employees were already covered under a public retirement system.

Elective Coverage - Elective coverage, as it was developed in the 1950 amendments, followed the principle that coverage applied to the job through the employer, and not to the individual worker; and further that the unit of coverage was a group of jobs. Coverage through the employer and group coverage minimized the potential for optional participation in the system. Social security coverage for employees of States and their political subdivisions occurs through agreements between the Secretary of Health and Human Services and the States. Under the agreements, each State decides which groups of employees are to be covered. Groups whose members are covered under an existing retirement system must approve coverage through a referendum. Work performed for a non-profit religious, charitable, educational, or other tax-exempt organization is covered if the organization files a certificate waiving its exemption from social security taxation.

Terminations - As a consequence of elective coverage, State and local governments and non-profit organizations are also allowed to terminate social security coverage for their employees. States may terminate after social security coverage has been in effect for five years by giving two years' notice to the IRS of intent to terminate. Non-profit organizations may terminate coverage in the same fashion but only after eight years of participation in the system. Once coverage has been terminated for a group of employees, it cannot be restored for this group again. Terminations of coverage have become an issue because of a recent acceleration in the trend. From 1950 to the late 1970s, more employers opted into the system each year than opted out. Then, beginning in 1977, this trend reversed. The first great influx of State and local termination notices was in response to the deterioration in social security's financial status prior to the enactment of the 1977 Amendments. Recently, there has been another rash of terminations, dominated this time by terminations among non-profit hospitals. Since the 1950s, about 881 State and local entities have terminated coverage, affecting about 172,000 jobs, and about 200 non-profit organizations have terminated, affecting an unknown number of jobs. As of the end of 1982, termination notices were pending for 635 State and local entities affecting 228,000 employees, and 935 non-profit organizations, of which 425 were hospitals with 334,000 employees. While only a small portion of State and local and non-profit employees have been affected by terminations, the loss of revenues to the social security system may prove to be substantial. If only those employers terminate who have notices currently pending, the loss of revenues to the system will exceed $1 billion a year by 1984.

(a) State and Local Coverage Issues: Most State and local government employees are now covered under social security. Of the 30 percent (or 3.8 million) who are not covered, more than half are concentrated in four States: California, Ohio, Illinois, and Massachusetts. Four other States also have large concentrations of non-covered workers: Louisiana, Colorado, Maine, and Nevada.

The reasons for extending mandatory coverage to State and local governments are similar to those for covering Federal employees. Incomplete coverage of the working population under social security creates inequities and inadequacies. Some who move between covered and non-covered employment receive inadequate pension benefits from non-covered jobs due to either vesting restrictions or benefit formulas weighted to reward long tenure. At the same time they may receive reduced social security benefits due to the exclusion of non-covered earnings from their benefit calculation. They may also experience gaps in disability and survivors insurance protection. On the other hand, those who spend full working careers in non-covered employment and receive substantial pensions from such employment frequently become entitled to social security and medicare benefits anyway, some receiving unintentional benefit "windfalls" in the process.

The problems of extending mandatory coverage to State and local entities are complex. Some contend that there are insurmountable constitutional barriers to mandatory coverage. In addition, there are added costs which non-participating State and local governments would likely experience in making the transition to a plan coordinated with social security.

Constitutional Issues - The basic constitutional issue derives from limits on the commerce and taxing powers of the Congress. The question is: can the Congress force the States to pay social security taxes? Those who contend that mandatory coverage would be unconstitutional refer to the 1979 Supreme Court decision in National League of Cities v. Usery (426 U.S. 833) in which the Court invalidated Congress's 1974 extension of wage and hour provisions of the Fair Labor Standards Act to State and local employees. The Court's decision relied heavily on the argument that the States have inherent constitutional immunity from Federal taxation. The Court also stressed that the wages and hours amendments would have altered or displaced the States' ability to structure employer-employee relationships. While National League of Cities is cited as evidence that the Court would not uphold compulsory social security taxation of the States as employers, other methods to achieve State and local employee coverage to avoid such constitutional barriers have been suggested. These include: taxing employees the full employer-employee tax rate and covering them under the same provisions applying to the self-employed, or increasing the incentives, such as through conditional grants, for State governments to elect coverage for groups of employees within the State.

Costs to State and Local Governments - Covering previously uncovered State and local government entities would be likely to raise retirement system costs and create transition problems for these States. The Universal Coverage Study, 17/ in reviewing the status of pension plans for uncovered State and local employees, concluded that, in general, coordinating previously separate public employee retirement systems with social security tax payments would raise total retirement system costs by 5 to 10 percent of payroll. The cost of coordinating these plans would be higher because: 1) social security now provides full cost-of-living indexing, a more expensive feature than the typical 3% annual increase provided in most public pensions; 2) most public pensions allow retirement before age 62, a plan cost which would have to be fully met by the State even under a coordinated plan; 3) high employee turnover in State and local agencies (which helps to keep pension plan costs low by eliminating or reducing benefit payments to employees who leave early) would not effect the cost of social security; and 4) States would have to begin paying for Medicare, a benefit most of their employees now receive without paying the tax.

Effects on Financing of State and Local Plans - Extending coverage to previously uncovered State and local employees would also create financing difficulties for some public plans, particularly those operated on a pay-as-you-go basis. These would occur since a portion of the revenues once allocated to the retirement system would now be paid out to the Federal Government for social security. In order to make benefit payments, these States would be have to increase spending on the retirement system to make up for these lost revenues.

In this way, the cost of coverage for State and local governments is different than it is for the Federal Government. The Federal Government can divert payments from the civil service retirement system to social security without raising total retirement costs or jeopardizing CSRS funding, since both programs are in the same Federal budget, and payments have to be made only when benefits come due. The States, however, transfer social security taxes to the Federal Government and must finance these each year, in addition to making benefit payments from the retirement system. The variety in State and local pension plans makes it difficult to assess these costs. Nevertheless, there would be substantial transition problems resulting from mandatory coverage of State and local governments.

(b) Non-Profit Coverage Issues: Nearly all employees of non-profit organizations are already covered under social security. Only about 15 percent (less than a million) remain outside the social security system. However, in recent years, there has been a growing trend among non-profit organizations to terminate social security coverage. More than 900 non-profit organizations with close to a half million employees have notified the IRS of their intent to terminate within the next two years. Terminations of social security coverage are in part a response to the increasing cost pressures on educational and charitable organizations. Non-profit employers outside of social security can take advantage of the mobility of their workforce and social security's extensive coverage to design low cost pension plans which supplement social security. Since nearly all of their employees can be expected to receive social security and medicare benefits either through their own earnings record based on other employment or the earnings record of a spouse, non-covered employers need finance only supplemental retirement and insurance benefits themselves.

Extending coverage to non-profit organizations raises few of the controversial issues raised by mandatory coverage of State and local governments. The inequities and inadequacies resulting from non-covered employment are clearer in the non-profit sector because workers are more mobile, and pension coverage is much less complete. Where pensions do exist without social security coverage, employers are often able to keep pension costs down by capitalizing on the mobility in their workforce through restrictive vesting provisions or offsets against social security benefits. At the same time, the mobility in the non-covered non-profit workforce leads to the same gaps in coverage and losses of retirement benefits found in other types of non-covered employment.

Although there are areas for potential legal challenges to mandatory coverage of non-profit organizations, these objections are thought to be less substantial than those to coverage of State and local employees. Possible challenges from religious organizations could be based on first amendment protections to the free exercise of religion. However, individual ministers and other members of certain religious groups are already allowed to obtain exemption from the self-employment tax for reasons of conscience. Mandatory coverage of secular, non-profit organizations might be challenged as a violation of the first amendment protections accorded "free assembly". In none of these cases, however, does the imposition of social security taxes seem a particularly clear or even significant infringement on these first amendment rights.

A more substantial barrier to mandatory coverage of non-profit organizations is imposed by the difficulty of identifying and taxing many of the exisiting non-profit organizations. Many non-profit projects are temporary, depend heavily on volunteer support, and never come to the attention of the Federal government. There is little information either on the number of non-profit organizations in existence or on the number of individuals working in them. The sporadic nature of employment in the non-profit sector makes social security coverage for the employees important on the one hand, but difficult to accomplish on the other.

(3) Benefit "Windfalls"

Workers who spend large portions of their working careers in non-covered employment and who also meet the minimum coverage requirements to qualify for social security benefits, can enjoy an inadvertant advantage. They receive, in addition to the social security benefit related to their earnings, an unintended subsidy or "windfall". This happens because the social security system, by virtue of its career averaging of earnings, is unable to distinguish between an individual with a short period of high earnings, and an individual with a long period of low earnings.

Benefits are calculated in social security on the basis of average indexed monthly earnings (AIME). An individual's AIME is his total earnings over 35 years, adjusted (indexed) to current wage levels and divided by the total number of months in that period, whether or not he had earnings in those years. An individual with many years of "zero earnings" under social security will generally end up with a lower AIME than an individual with few years of "zero earnings". The AIME that is calculated is then applied to a benefit formula which (in 1983) provides the worker with 90 percent of the first $254 of AIME, 32 percent of the AIME betwen $254 and $1,528, and 15 percent of the AIME in excess of $1,528. The resulting amount is the worker's primary insurance amount (PIA) which is the basic social security monthly benefit.

A worker who has high earnings under social security for only part of a career, and spends most of his career in non-covered employment will have a low AIME because of all the "zero earnings" years. A worker with a full career at low wages under social security could end up with a similar AIME. Both workers will receive a benefit amount heavily influenced by the 90 percent factor. In other words, the "replacement ratio" (i.e. the ratio between the retirement benefit and the covered earnings of the worker) would be quite high for both the low income worker and the high income non-covered employee. On the other hand, a worker with the same career earnings as the non-covered employee, who had all of his earnings covered under social security, would end up with a much higher AIME, and would, therefore, receive a benefit which replaced a much lower proportion of his covered earnings. The table below shows, for three workers with identical earnings, how non-covered employment increases the replacement rate and benefit paid.

TABLE 4-- Earnings credits, present low benefits, and estimated windfall for three hypothetical workers with identical wage streams

Earnings credits	Worker A	Worker B	Worker C
Covered	$12,000	$6,000	$3,000
Not covered	0	6,000	9,000
Total	12,000	12,000	12,000
AIME	1,000	500	250
Present law:			
PIA 1/	432.70	272.60	192.60
Replacement rate (%)	43	55	77
Target benefits:			
PIA	432.60	216.30	108.15
Replacement (%)	43	43	43
Windfall benfit:			
Actual PIA less target PIA	0	56.30	84.45

1/ PIA's are computed using the assumption that each benefit calculation procedure was fully effective and using the 1980 benefit formula. Earnings credits were divided by 12 as if they had been average indexed monthly earnings.

Source: Schieber, Sylvester J. Social Security: Prespectives on Preserving the System. EBRI, 1982. Table VII-3.

The difference between what the non-covered employee would have received if his earnings had been averaged over the period he was covered under social security and what he actually receives because it is averaged over the entire 35 years is a benefit "windfall". This windfall results only because the individual is able to have substantial earnings which are not taxed for social security and which do not enter into his social security earnings record. Because of these years of sheltered earnings, the social security system mistakes him for an individual with long periods of unemployment or an individual with low career earnings. This results in an unfair advantage to the worker who spends a substantial portion of his career in non-covered employment.

(C) National Commission Recommendations

(1) Coverage of Federal Employees

Extend mandatory coverage to new Federal employees hired on or after January 1, 1984. Under the provisions of S. 1 (a bill introduced in the Senate to implement the recommendations of the National Commission), mandatory coverage would be extended at the same time to all current members of Congress, the President, and the Vice-President. Close to 100,000 new Federal employees each year would be covered under social security and supplemental employer-financed pension plans. New employees would contribute 5.4 percent of their pay under $37,500 to OASDI, instead of the 7 percent of total pay contributed by current employees to CSRS. The Government as employer would match this amount. The 1.3 percent HI tax contributed by current employees and matched by the Government would be continued for new hires. An unspecified supplemental pension plan would also be established for new employees, largely financed by the employer. The new retirement system would most likely provide benefits approximating those available to current employees under the CSRS, with some improvement in benefit portability, and a likely increase in the age of retirement.

Revenues (1983-89): $9.3 billion
(75 year): .28 percent of taxable payroll

(2) Coverage of State and Local Employees

Close the option for State and local governments to terminate coverage under social security, effective for all State and local governments which have not completely terminated coverage as of the effective date of the legislation. 635 State and local government entities with termination notices pending over the next two years would be barred from leaving the system. This would maintain coverage for over 200,000 employees who otherwise would have been taken out of the system. In addition, currently participating State and local government entities employing over 7.5 million workers would be prevented from terminating social security coverage for their employees. This proposal would raise additional revenues because current social security forecasts include the assumption that terminations will continue throughout the decade.

Revenues (1983-89): $3.2 billion
(75 year): 0.08 percent of taxable payroll

(3) Coverage of Non-Profit Employees

Extend mandatory social security coverage to all employees of non-profit organizations, beginning January 1, 1984. Approximately 750,000 employees of non-profit organizations not now participating would be covered under social security and have full FICA taxes withheld, beginning in 1984. The option for non-profit organizations to elect coverage or terminate coverage would be closed, and all non-profit organizations which have withdrawn from the system would be brought back.

Revenues (1983-89):	$12.5 billion
(75 year):	0.10 percent of taxable payroll

(4) Elimination of Windfall Benefits

Reduce the social security benefit for retired and disabled workers who become eligible for a pension based on non-covered employment after 1983. Federal and State and local government employees who will receive pension income from jobs not covered under social security, and will also receive social security benefits based on their own earnings record, will have their social security benefits reduced. The proposal included in S. 1 would recompute their social security benefits by providing them 32 percent (instead of 90 percent) of the first $254 of AIME. In no case, however, would the social security benefit be reduced by more than 50 percent of the worker's pension. Savings from this proposal would be minimal in the first seven years, and in the long-run. It would, however, eliminate a current inequity which favors non-covered workers.

Savings (1983-89):	$ 0.2 billion
(75 year):	0.02 percent of taxable payroll

2. PAYROLL TAXES

(A) Background

The collection of payroll taxes to finance the old age insurance program began, under the provisions of the Federal Insurance Contributions Act (FICA), in 1937. To minimize the shock, initial tax rates were low and were scheduled to increase gradually. The tax in that first year was 1 percent of the first $3,000 of a worker's earnings, with a matching tax on the employer. The Social Security Act of 1935 included a schedule of increases in the tax rate of 0.5 percent on both parties every three years, leading to a maximum rate of 3 percent for each by 1949. However, during World War II, the scheduled increases were deferred, and it was not until 1950 that the tax rate was finally increased to 1.5 percent. The old age and survivors insurance tax rate did not reach the originally scheduled maximum of 3 percent until 1963.

TABLE 5 -- OASI tax rates originally proposed and actual, 1937 to 1980

Year	Rate scheduled in 1937 act	Actual rate
1937	1.0	1.0
1940	1.5	1.0
1945	2.5	1.0
1950	3.0	1.5
1955	3.0	2.0
1960	3.0	2.75
1965	3.0	3.375
1970	3.0	3.65
1975	3.0	4.375
1980	3.0	4.52

In 1951, the earnings base was increased for the first time to $3,600, and a tax rate of 2.25 percent was assessed on the self-employed, under the provisions of the Self-Employment Contributions Act (SECA), as they entered the system. Since then, the tax rate and earnings base have increased to keep pace with improvements in the program. Disability insurance was added in the 1956 Amendments, and a DI tax rate of 0.25 percent on employer and employee each went into effect in 1957. Hospital insurance (Medicare-Part A) was added in the 1965 Amendments and an HI tax rate of 0.25 percent on each went into effect in 1966. The 1965 Amendments also set the OASDI and HI tax rate to increase to an ultimate rate of 5.65 percent on both employer and employee by 1987.

The 1977 Amendments incorporated the most recent increase in the tax rates and earnings base. Tax rates were set to rise by 1990 to an ultimate rate on employer and employee of 5.1 for OASI, 1.1 for DI, and 1.45 for HI. The earnings base was also indexed to the increase in average covered earnings ~~in~~ order to maintain a constant relationship to wages. The first automatic increase went into effect in 1982, raising the amount of taxable earnings to $32,400.

As of 1983, the FICA tax rate on employer and employee is 6.7 percent on the first $35,700 of covered earnings. The SECA tax rate on the self-employed is 9.35 percent.

(B) Issues

Three separate issues were raised by the Commission with regard to providing revenues to social security. First: setting tax rates to support an adequate level of benefits in the near term as well as over the long-run. Second: establishing equitable tax treatment for wage and salary income and for earnings from self-employment. Third: maintaining a stable social security tax base.

(1) Tax Rates

The OASDI tax rate is scheduled to rise under current law from 5.4 percent to 5.65 percent in 1985, and to 6.2 percent in 1990. The HI tax rate is also scheduled to rise from 1.3 to 1.35 in 1985 and to 1.45 in 1986. To increase revenues to social security in the immediate future, there have been a variety of proposals designed to accelerate already-scheduled increases in the payroll tax rate. There has been relatively little interest in increasing payroll tax rates in the near future beyond those already scheduled in the law. One suggested solution to the long-run financing problem has been to increase ultimate tax rates at some distant date beyond the rates already scheduled.

Short-run - Short-term adjustments in the tax rate are aimed at raising revenue quickly to eliminate the short-term financing short-fall. Tax increases are viewed as a way of distributing the burden of financing social security on the broadest possible base - the 116 million covered workers. Tax increases have also been generally viewed as placing a burden on the group that has the greatest capacity to make up any losses through work. Opponents of tax increases have pointed to the dampening effects these tax increases could have on the economy. Since the payroll tax is a tax on earnings, and is paid by the employer, it is popularly held that an increase in the payroll tax rate will raise the cost of labor. Opponents believe the increase in labor costs will force businesses to layoff workers, increasing unemployment and lessening the prospects for recovery. The challenge in accelerating tax rates in the short-run is to define a reasonable share of the financing burden to be borne by workers and to time the tax increases so as to avoid interfering with economic recovery.

Long-run - The question of whether to raise ultimate social security tax rates to solve the long-term financing problem is more a philosophical issue. Those who support tax increases in the long-run generally hold that the projected costs of the OASDI program in the worst demographic years are affordable in light of the importance of the social security program. Cost projections suggest that, in the worst years, the current program, under intermediate assumptions, should cost no more than 17 percent of payroll (compared to a combined tax rate of 12.4 percent already scheduled for 1990). Proponents of a tax increase argue that with lower childrearing costs due to projected low fertility rates in the future, workers will have freed up resources which can be easily transferred to programs to support the elderly. In addition, combined payroll tax rates of 17 percent would be similar to current payroll tax rates used to finance social security programs in western Europe. Opponents of an increase in the ultimate tax rate generally oppose any proposal which would underwrite the cost of social security with benefit levels fixed into the indefinite future. These opponents frequently express the view that the public system of income transfers should be limited to permit greater growth in pension systems, increased savings and capital accumulation.

(2) The Self-Employment Tax

Under the Self-Employment Contributions Act (SECA), individuals pay a tax rate of 9.35 percent on self-employment income up to the taxable earnings ceiling ($35,700 in 1983). Those who have earnings from both wages or salaries and self-employment have FICA taxes withheld first on all wage and salary income under the ceiling, and then pay SECA taxes on self-employment earnings until the sum of wages, salary, and self-employment income reaches the ceiling. SECA tax payments are included by the taxpayer in quarterly estimated tax payments, and are adjusted on the 1040 tax form filed by April 15.

When the self-employed were first covered under social security in the 1950 Amendments, a judgment was made to set the tax rate for them at 1.5 times the FICA tax rate on the employee. Ostensibly this differential reflects the fact that the employer can deduct his share of the tax payment as a business expense, while the self-employed can not deduct any of the social security tax payment. Over time, the SECA OASDI tax rate has been kept at roughly 75 percent of the combined employer-employee tax rate. However, when the HI tax was added in the 1965 Amendments, the HI rate for the self-employed was set equal to the rate for the employee.

In recent years, the inequity of the lower tax rate on the self-employed has been questioned. The self-employed receive the same benefit as the employed but pay less in tax contributions than the employer-employee. Those in favor of changing this situation argue that not allowing the self-employed the same tax deduction that the employer receives, and taxing him for social security at a lower rate, deprives the social security trust funds of revenues - to the advantage of the general fund. In effect, this situation results in an unintentional subsidy of the general fund by social security.

Because the self-employed actually pay their income and social security taxes in a lump sum through quarterly estimated returns, it is conceivable that this situation can be rectified with a minimal amount of impact on the self-employed. Increasing the self-employment tax rate with an offsetting tax deduction will result in parity between the self-employed and the employer-employee. However, the value of the tax deduction, hence the net tax burden, will depend on the marginal tax bracket in which the individual falls. Conceivably the low income self-employed would have the greatest relative tax burden, while the high-income would have no increase in tax burden. An alternative suggestion is to provide the self-employed with a tax credit equal to one-fourth of the full social security tax. This tax credit would have the effect of holding the self-employed harmless for any increase in SECA taxes that would result from this proposal. However, the use of a tax credit for the self-employed would establish a precedent of providing tax credits directly tied to the social security tax, leading to pressure for a more substantial tax credit for the employee's share of the FICA tax.

(3) The FICA Tax Base

Erosion in the FICA tax base due to the growth in non-taxable fringe benefits is a problem, which was highlighted during the deliberations of the National Commission, and which could have serious long-run consequences for the financial stability of the social security system .

Forecasts - Intermediate assumptions for social security financing assume in the long run that the proportion of compensation paid as non-taxable fringe benefits will continue to grow at a rate of .4 percent per year - the average annual rate of growth experienced over the last thirty years.

In 1950, fringes accounted for only 5 percent of total compensation, and FICA taxes were levied on 95 percent of compensation. By 1980, fringe benefits had grown to account for 16 percent of compensation, leaving only 84 percent of compensation to be taxed for social security. Continuation of this rate of growth in fringe benefits will result, by 2056, in fringes accounting for 38 percent of compensation, leaving only 62 percent to be taxed for social security.

If this projected growth in non-taxable fringe benefits occur, it will result in a dramatic reduction in the relative value of the social security tax base. Over time, the ratio of total compensation to GNP is projected to be relatively stable. It is only the ratio of cash wages to compensation which is projected to decline steadily. In other words, the social security actuaries predict that over time less and less of the payments employers make to workers will be taxable for social security, and social security will benefit less and less from the growth in the economy. The net effect is to cause the relative value of revenues under intermediate assumptions to decline from a high of 5.2 percent of GNP to less than 4 percent of GNP by 2056. This becomes a significant problem because the benefits paid by social security are fully indexed to the growth in the economy. The loss of revenues from this shrinkage is equivalent to 90 percent of the current long run deficit, or 1.58% of taxable payroll.

In-kind Benefits - To an extent this erosion in the FICA tax base results from an expansion in employee benefits such as private pensions and health insurance which supplement social security. However, to an increasing degree these employee benefits are direct in-kind services provided in lieu of cash wages (such as employer-provided group legal services, or employer paid parking). Employer payments for non-taxable fringe benefits reduce the proportion of compensation the employer is paying as cash wages. For those employees at or below the taxable earnings ceiling, this provision of in-kind benefits represents an often inadvertant trade-off of future social security benefits for current consumption.

Elective Employee Contributions - In recent years there have been increasing cases of fringe benefit options which give employees themselves the choice of receiving taxable cash wages or non-taxable pension benefits or in-kind services. In the past, the general rule has been that elective employee payments to pension plans or other employee benefits are subject to both income and social security taxes. In other words these payments are made from after-tax income. Even contributions to individual retirement accounts (IRAs) and tax sheltered annuities (TSAs), which are not taxed for income tax purposes, are subject to social security taxes. Recently, however, a number of arrangements have come to light which provide employees the option of receiving taxable cash wages or non-taxable fringes. Because these payments are made out of before-tax income, neither social security nor income taxes are applied when the payments are made. Income taxes, however, are eventually collected on any pension contributions when the benefits are received, but social security taxes are never collected. Thus, in effect, the employee can opt out of a portion of his FICA tax payments and future social security benefits, in order to increase his private pension accumulation or disposable income.

401(k) Plans - The most obvious case of tax-sheltered elective contributions has occurred in the case of salary reduction (401(k) plans. Section 401(k) of the Internal Revenue Code was enacted as part of the Revenue Act of 1978 in an effort to clarify the tax treatment of employer-provided profit-sharing bonuses. These are bonuses in excess of the employee's regular compensation and are contributed by the employer, on behalf of the employee, to a profit-sharing plan. The 1978 Revenue Act, in exempting these bonuses from taxation, extended this tax exemption to arrangements made between the employee and employer to reduce current salary in order to make contributions to a deferred compensation plan. Because the statute was unclear, there was little activity until the IRS issued proposed regulations in 1981. Since then 401(k) plans have become popular, but many employers have held off setting up a plan until the final regulations are issued.

401(k) salary reduction plans may provide employees the option of reducing up to 15 percent of their cash compensation to defer it in a pension or profit-sharing plan. This is a before-tax, fully voluntary employee contribution to a pension plan. The only constraint on the amount that can be sheltered within these limits is that the plan must meet an anti-discrimination test which specifies the proportion of the plan's assets which must be contributed by the firm's low income employees.

While the 401(k) plan is a clear instance of an inappropriate shelter from FICA taxes, there are other cases which are emerging as well. It is likely that the issue of what is and is not included in the FICA tax base will receive increasing attention in the future.

(C) National Commission Recommendations

(1) Acceleration of FICA Tax Increases

The 1985 OASDI tax rate of 5.7 percent would go into effect in 1984 - an increase of 0.3 percent on employers and employees. The employee portion of the increase would be fully offset with an income tax credit. Under the provisions of S. 1, the tax credit would be applied during withholding to prevent any reduction in take-home pay for the employee. The 1985-87 OASDI tax rate would remain, as under current law, at 5.7 percent. A portion of the OASDI tax rate increase scheduled for 1990 would go into effect in 1988. The 1988-89 OASDI tax rate would rise by 0.36 percent on each to 6.06 percent. The 1990 OASDI tax rate would remain, as under current law, at 6.2 percent.

TABLE 6-- Social security tax rates, employers and employees, each

(in percent)

	OASDI			OASDHI	
Calendar Years	Current law	Proposed change	HI Current law	Current law	Proposed change
1983	5.40	5.40	1.30	6.70	6.70
1984	5.40	5.70	1.30	6.70	7.00
1985	5.70	5.70	1.35	7.05	7.05
1986-87	5.70	5.70	1.45	7.15	7.15
1988-89	5.70	6.06	1.45	7.15	7.51
1990	6.20	6.20	1.45	7.65	7.65

The net effect of the FICA tax increase and the tax credit would be to raise the employer's tax rate by 0.3 percent during 1984, and the employee's and employer's tax rate by 0.36 percent in 1988 and 1989. In 1984, taking into account the deductibility of FICA taxes, the net added cost for employers would average $.90 per week per job for about 98 million covered jobs. In 1988 and 1989, about 98 million wage and salary employees would pay an average added $2.00 per week in FICA taxes. Employers would have a net added cost of about $1.50 per job per week.

Revenues (1983-89): $39.4 billion
(75 years): 0.03 percent of taxable payroll

(2) Self-Employment Tax Increases

The self-employment (SECA) OASDI tax rate would be equal to the combined employer-employee tax rate, beginning in 1984. The HI SECA tax rate would remain as it is under current law. Also beginning in 1984, individuals would be allowed to deduct 50 percent of the OASDI portion of any SECA taxes from their self-employment income for income tax purposes.

TABLE 7 -- Social Security Tax Rates for the Self-Employed

(in percent)

	OASDI			OASDHI	
Calendar Years	Current law	Proposed change	HI Current law	Current law	Proposed change
1983	8.05	8.05	1.30	9.35	9.35
1984	8.05	11.40	1.30	9.35	12.70
1985	8.55	11.40	1.35	9.90	12.75
1986-87	8.55	11.40	1.45	10.00	12.85
1988-89	8.55	12.12	1.45	10.00	13.57
1990 +	9.30	12.40	1.45	10.75	13.85

For 8.8 million taxpayers with self-employment income, the total SECA tax rate for 1984 would be 3.35 percent higher than the 1983 rate. For the self-employed in a 50 percent tax bracket there would be no net added tax burden, while for those in a 25 percent tax bracket the SECA tax burden would increase by roughly 20 percent, net of income taxes. The average person paying self-employment taxes would pay about $275 more in taxes in 1984.

Revenues (1983-89): $18.5 billion

(75 years): 0.19 percent of taxable payroll

(3) Taxation of Salary Reduction (401(k)) Plans

Salary reductions made after December 31, 1983, under salary reduction plans qualifying under Section 401(k) of the Internal Revenue Code would be included in taxable wages for purposes of collecting FICA taxes. Because few of these plans have been put into effect, this provision would produce little revenue. It would, however, prevent an anticipated loss of revenues in the future.

Revenues	(1983-89):	negligible
	(75 years):	negligible

(4) Future Tax Increases

Five Commission members recommended eliminating one third of the long run deficit by providing for a tax increase of .46 percent on employers and employees each in the year 2010. The employee contribution would be offset by a refundable income tax credit.

Revenues	(1983-89):	none
	(75 years):	.58 percent of taxable payroll

3. BENEFITS

(A) Background

While the architects of the original program foresaw a more complete form of social insurance, the Federal old age insurance (OAI) program established in the Social Security Act of 1935 was only to pay workers retirement annuities directly related to their average career earnings.

This simple retirement program, however, was never put into effect. A year before the first benefits were ever paid, the 1939 Amendments added survivors insurance and dependents benefits and changed the benefit formula to provide more adequate benefits to low income and short-term workers. The change in benefits introduced into social security the principle of greater help for greater presumed need.

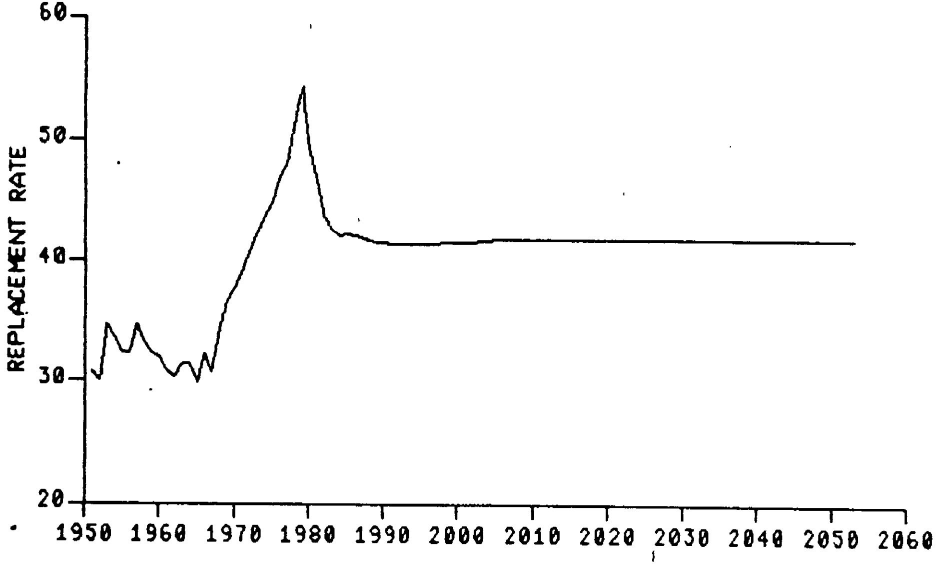
Over the years, the social security program has been modified still further to improve the quality of income protection for workers. In 1956, the disability insurance (DI) program was added, providing cash benefits to severely disabled workers, to for adult children of retired workers disabled before age 18. Dependents benefits were added to this program in 1958. In 1965, Congress established medicare with two parts: basic compulsory program for hospital insurance (HI) funded by a separate payroll tax; and a voluntary supplementary medical insurance (SMI) plan to provide coverage for physician expenses, funded jointly through monthly premiums paid by the beneficiary and Federal general revenue appropriations. Medicare was expanded in 1972 by extending coverage to those under 65 entitled to disability cash benefits for 24 consecutive months, and to certain victims of chronic renal disease.

Congress has also sought to maintain the adequacy of social security benefits over the lifetime of beneficiaries by granting periodic increases to keep up with inflation. Prior to 1975, these cost-of-living adjustments were made on an ad-hoc basis, frequently increasing benefits in excess of inflation. Between 1968 and 1971, the Congress enacted ad-hoc across the board increases of 43 percent, while consumer prices rose by only 27 percent during this period. The 1972 Amendments increased benefits across the board by another 20 percent. At the same time, Congress enacted an automatic annual adjustment for increases in the consumer price index (CPI) of 3 percent or more, effective in 1975, to eliminate the need for ad-hoc increases. It was widely believed at the time that the automatic indexing of benefits would result in lower benefit increases than those granted on an ad-hoc basis. However, rapid price increases caused benefits to rise by another 40 percent between 1978 and 1981.

1972 also saw a change in the method of computing workers' average earnings and the basic benefit amount so that initial benefits would rise with the standard of living over time. A technical error in the indexing method led Congress to enact another change in the computation formula in 1977 which had the effect of fixing the relationship between initial benefits and earnings over time. At the same time, long-run relative benefit levels were set below the levels which would have resulted from earlier legislation. As a result of the 1977 Amendments, social security benefits over the long run are expected to replace about 42 percent of the average worker's pre-retirement earnings compared to replacement rates for the average worker which were projected under the 1975 Amendments to reach 56 percent. As a result of the revised indexing of initial benefits, this 42 percent replacement rate is expected to remain stable in the future.

Chart 5

SOCIAL SECURITY:
AVERAGE REPLACEMENT RATES, ACTUAL AND ESTIMATED
1953-2055



SOURCE: Social Security Administration, "Historical Replacement for Steady Workers" and "Projection of Replacement Rates for Steady Workers" June, 1981

(B) Issues

Pressure to improve the financial condition of social security has brought a re-examination of social security benefit levels and the automatic benefit indexing provisions. For the short-run, attention has focused on the automatic cost-of-living adjustments (COLA). In recent years, high rates of inflation, coupled with slow economic growth have caused indexed social security benefits to rise more rapidly than the wages paid to workers. This system has protected the elderly, at least for the social security portion of their benefits, from high rates of inflation while workers as a group have experienced a decline in their standard of living. However, it has given rise to the argument that the elderly have been overcompensated for inflation, and that full indexing of retirement benefits in a time of slow economic growth is unfair and unaffordable.

Aside from this review of the COLA, there has been little interest in making immediate changes in basic benefit levels, either for those already retired or for those nearing retirement. The exception to this rule has been the proposal to include social security benefits in taxable income. Taxing benefits does not change benefit levels, but it does have the effect of recouping income from the more affluent of the social security beneficiaries. As a result, it has effects which are similar to a benefit reduction for higher income current and future beneficiaries.

For the long-run, the issue is whether the nation can afford to finance the same relative level of social security benefits fifty years from now when there are expected to be proportionately fewer workers in the population. Of course, the answer to this question depends largely upon how much more productive these workers are, and whether social security will be able to tax a fixed share of their productivity gains over time. Those who contend that relative benefit levels will have to be reduced generally support one of two approaches for lowering future benefit levels: raising the retirement age or adjusting the benefit formula to reduce benefits by a fixed percentage across-the-board.

Emphasis over the past few years on financing issues has diverted attention from what are generally known as women's equity issues in social security. These issues remain, though, on the social security reform agenda. Concerns about women and social security are significant because most of the elderly poor are women, and their poverty is in large part attributable to the inability of worker-oriented retirement income systems to provide them adequate income. Some of the barriers to an adequate income result from features of social security designed to respond to life patterns now less common in the society. Reforms to make social security better suited to contemporary career and marital patterns are intended ultimately to improve the overall adequacy of social security benefits, and lower poverty rates among the elderly.

(1) Cost-of-Living Adjustments

In recent years, automatic price indexing of post-retirement benefits has been increasingly viewed as a source of financial instability in the program. Automatic indexing of any feature of the system takes the decision about that feature out of the hands of Congress, and creates a risk that actual conditions, unforeseen at the time indexing was established, can disrupt the financing of the system. Price indexing of post-retirement benefits is thought to be particularly risky because the benefit outlays are the only element in the system tied to prices - the revenues to the system and all other indexing provisions are tied to wages. Whenever wage increases lag behind price increases there is a potential for benefit outlays to outstrip the system's revenues. Much of the concern is a reflection on the economic conditions of the past five years, and an earnest desire to prevent a repeat of the rapid attrition of the social security trust funds which occurred at that time. Those who support automatic price indexing point to the relationship between wages and prices over the previous thirty years as being more characteristic of a healthy economy. In this period, when wages grew more rapidly than inflation, price indexing of retirement benefits most likely would have restrained benefit growth.

Short-term - In the short term, changes in the COLA are seen as way of reducing program outgo without reducing current benefit levels. COLA adjustments have the advantage of distributing short-term savings across the broadest group possible - all 36 million beneficiaries - thereby affecting each minimally. COLA adjustments can go into effect quickly and create substantial savings in a short period. They have the disadvantage of reducing the real incomes of poor beneficiaries and rich beneficiaries alike, and thereforebringing added numbers of the elderly below the poverty level.

There are generally three kinds of COLA adjustments proposed: delays in payment, partial or reduced COLAs, and changes in the index used in computing the COLA.

Delays in the payment date, such as a three month or six month delay, are generally seen as the mildest and least harmful COLA adjustments. This is because a delay does not effect the amount of COLA that is eventually paid and, therefore, does not effect the benefit amount used as a base in computing the next COLA. A COLA delay involves a permanent resheduling of the payment date and may be accompanied by a corresponding shift in the period used in calculating the CPI increase as well. Whether a shift in the computation period increases or decreases the COLA paid depends on the pattern of inflation.

Payments of partial or reduced COLAs are generally proposed for use over a limited period of time (2 or 3 years). Partial COLAs have more serious consequences for benefits, as a rule, since they result in monthly benefit amounts which are reduced in real terms, and these reductions are compounded in the future.

One partial COLA payment lowers the benefit amount used in computing the next COLA payment, and this compounding continues over the life of the beneficiary.

Changes in the index used in computing the COLA are generally the most unpredictable means for adjusting benefit levels. For example the use of a wage-indexed COLA can reduce benefit increases in periods when wage growth lags price increases; but in a healthy economy, with wages growing more rapidly than prices, wage indexing would cause benefits to rise at a faster rate. Even the use of a "wage minus x" COLA, where the COLA is based on something less than the full wage increase, could result in an increase in real benefits after retirement, given favorable economic circumstances. Other proposals to change the method of computing the CPI could have the effect of increasing the growth in benefits if the relative rate of inflation for various commodities should change.

Recently, with the 1983 COLA increase projected to drop below 4 percent, there has been a loss of interest in using major adjustments in the COLA to produce short term savings. Low inflation rates and high unemployment shift the focus of concern from benefit growth to revenue loss due to slow wage increases and a decline in the covered workforce

Long-term Stability - Price indexing of benefits also introduces an element of uncertainty in the long-run financing of the program. Intermediate forecasts of the social security actuaries are based on the assumption that wage growth will exceed inflation by an average of 1.5 percent over the next 75 years. However if wages grow only 1 percent more rapidly than prices, the relative benefit increases will raise social security's 75 year costs by 1 percent of the taxable payroll. Proposals to adjust COLAs over the long-run have been aimed at reducing the sensitivity of the financing to unanticipated changes in the relationship between wages and prices. Proposals to stabilize the program have included changing to a wage-based COLA in order to place program payments and revenues on the same escalator, or using the lesser of wage increases or price increases in determining the COLA in order to assure that a decline in real wages does not cause a reoccurence of the sort term financing problem.

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(2) Tax Treatment of Benefits

Proposals have been advanced over the years to change the income tax treatment of social security benefits. Social security benefits are currently tax exempt. They differ in this regard from other forms of retirement income such as income from pensions or interest and dividends. Benefits from a contributory employer-sponsored pension plan, for example, are counted in taxable income, once the worker's contribution has been paid back. Noncontributory plans benefits are fully taxed.

The tax exemption of social security benefits does not derive from statute, but rather from a 1941 ruling of the Bureau of Internal Revenue that social security benefits were intended to be a form of gift or gratuity. Social security benefits are therefore treated in the same fashion as other Government income transfers, a treatment that seems to conflict with the "earnings-related" design of the program.

Two previous commissions - the 1979 Social Security Advisory Council and the President's Commission on Pension Policy - recommended that social security benefits be included in taxable income. The usual proposal has been to include only half of the social security benefit, since the other half of it is theoretically based on employee contributions which have already been taxed. In addition, some proposals have suggested taxing only the benefits of those who have substantial income from other sources. Most proposals would return revenues from a tax on benefits to social security.

The proponents of taxing benefits explain that analagous tax treatment of social security, pensions and other forms of earnings-related retirement income would result. In addition, some have suggested that taxing benefits would help reduce the current disparity between the treatment of earned and unearned income. Social security benefits are currently reduced by 50 cents for every dollar of earned income over $6600 a year (for those over 65). Taxing benefits would create a similar reduction of sorts for unearned income.

Previous proposals to tax benefits have usually suggested introducing the change in the distant future. Recently, however, taxing benefits has been seen as an alternative type of benefit reduction which would protect those with the lowest incomes. Support for this proposal has also come from those who believe that the elderly as a group are now as well-off financially as the young, and no longer need special tax treatment. This line of thought fits with a traditional concern held by many that high monthly benefits are paid to some obviously wealthy individualswho do not need them. A final argument in support of taxing benefits of current retirees is that by participating in a maturing social insurance system, they receive benefits well in excess of amounts they contributed. To the extent that the portion of benefits not related to their contributions is not needed to maintain an adequate retirement income, proponents argue, it should be taxed.

Opponents of proposals to tax benefits have argued that, in the short term imposing the tax amounts to a substantial benefit cut for current retirees. Current retirees usually cannot return to work to increase other income to compensate. In addition, taxing benefits is seen as means testing the program and compromising the sense of an earned right to benefits. Finally, opponents suggest that taxing benefits will create a disincentive to save for retirement.

The proposal to transfer the tax revenues from this proposal to the social security trust funds is viewed by opponents as a thinly veiled form of general revenue financing for social security, which differs from the way we treat revenues from taxes on pensions and other forms of retirement income.

(3) Long-run Benefit Changes

There are two types of benefit modifications being seriously proposed to eliminate the long-run deficit - raising the retirement age and revising the benefit formula to reduce benefits by a fixed percent across-the-board.

(a) Raising the Retirement Age

Social security pays a full retirement benefit (100 percent of the primary insurance amount (PIA)) at age 65. Individuals become entitled to retirement benefits at age 62, but benefits paid prior to age 65 are "actuarially reduced" (adjusted to assure that the total amount of benefits received over a lifetime remain the same despite early retirement). A worker retiring at age 62 receives 80 percent of the full benefit amount. After age 65, workers who do not retire receive a delayed retirement credit equal to 3 percent per year. This amount, however, is not a full actuarial increase - so that an individual delaying retirement after age 65 actually receives less in lifetime benefits as a result.

If older people live longer in the future, retirement system costs will rise because beneficiaries will be drawing benefits for a longer period. Raising the statutory age for payment of full social security benefits is seen as a way to protect the financing of the system from the effects of changes in life expectancy. The effect of an increase in the retirement age is to reduce the proportion of the full benefit paid at any particular age of retirement. Some people may choose to work longer so that their monthly benefits will not be reduced; but for everyone, no matter how long they work, raising the retirement age will reduce lifetime income from social security.

Raising the retirement age actually changes the proportion of the PIA paid at a given year of retirement and does not affect the PIA itself in anyway. As a result, it affects only retirement benefits and does not affect either survivors, or disability benefits. By contrast, proposals to adjust the benefit formula in order to reduce replacement rates actually change the PIA and therefore reduce all benefits.

Proponents of raising the retirement age point out that it is justified because Americans are on average living longer. An increase in the retirement age to 68 would result in a length of retirement at least equivalent to that envisioned when the age of retirement was set at 65 in 1935. In addition, an increase twenty years from now in the retirement age may well conform to changes in preferences for work in later years. Demographers project the development of labor supply shortages toward the end of this century which will lead to an increase in the demand for older workers. Today's younger work force may simultaneously want to work longer than today's generation of retirees. On average, they entered the labor force later, have developed higher levels of education and skills, and have worked in less physically demanding occupations than their elders. Current preferences for early retirement may, therefore, be naturally reversed in the future.

Opponents of an increase in the retirement age emphasize that there is a conflict between this policy and the current trend toward early retirement. It can well be contended that in the future, as workers realize higher real incomes and improved retirement incomes, they will choose to work less and not more. In addition, while some might choose to work longer, not all will be able to. There are many categories of workers - primarily those in stressful or hazardous occupations - who will need to maintain the option to retire early. There will continue to be workers with poor health, low skill levels, and inconsistent work histories who will be unable to work or will be unable to find employment when they are older. For those who can work longer, primarily the white collar and professional workers, raising the retirement age will not affect their monthly benefit amounts. But for the worker who cannot work longer, this proposal will substantially reduce the amount of monthly benefits unless adequate provision is made elsewhere (such as in the disability program) for early retirement for age or health related reasons.

(b) Revising the Benefit Formula

Besides raising the retirement age, other major proposals to curb the growth of benefits include decreasing the replacement rates by altering the formula for calculating benefits. Social security bases benefits on each worker's average indexed monthly earnings (AIME). This is the total amount of covered earnings over 35 years, with earnings in each year adjusted to current wage levels, divided by the total number of months to get a monthly amount. A benefit formula is then used to calculate a worker's basic benefit - the primary insurance amount (PIA). The benefit formula gives the worker a benefit which (for a worker attaining 65 in 1983) is equal to the sum of:

90 percent of the first $254 of AIME, plus
32 percent of AIME between $254 and $1,528, plus
15 percent of AIME in excess of $1,528.

The factors in the formula (90,32,and 15 percent) are fixed under current law. The dollar amounts ($254 and $1528) or "bend points" as they are called, are indexed to wages. Proposals to reduce replacement rates in the future have suggested either "freezing" or partially indexing the bend points for a period of years, or changing the percentage factors in the formula. In either case, replacement rates could be reduced in a fairly predictable fashion. However, slowing the increase in the bend points has the disadvantage of reducing benefits more for those whose AIME is just above one of the bend points. Adjusting the formula results in a more even and controlled effect on benefit levels.

Proponents of reducing the replacement rate usually believe that high social security benefits have discouraged people from deferring consumption and saving for retirement during their working years. Were social security benefits reduced, there would not only be greater incentive to save, but also greater incentive to develop adequate pension coverage and benefits.

In addition, proponents often base the need for reductions in replacement rates on the argument that ad hoc increases in the late 1960s and early '70s were too generous and that these, coupled with the effects of the "double-indexing" increases of the late 1970s, have led to an unaffordable level of benefits. Although a portion of these increases were recouped in the 1977 amendments when average ultimate replacement rates were set at 42 percent, some argue that long run replacement rates are still about 10 percent higher than they were prior to 1972. Proponents of reducing the replacement rate may also point to the equity of this approach--it tends to affect benefits of all workers, survivors, and dependents relatively equally and does not necessarily alter the progressive benefit structure of social security.

Opponents of reducing replacement rates usually argue that social insurance programs in a normal economy can provide better or equivalent benefits with less risk to the average worker than can pensions or investments. In addition, social security can provide an adequate replacement rate to the lowest wage workers who are unlikely to have pension benefits or savings. Since social security can provide a secure low-risk foundation for building a retirement income portfolio for the average worker, and it can provide an adequate retirement income for the low-wage worker, public policy should be directed toward increasing public confidence and support for the system and not toward reducing the adequacy of future benefits.

(4) Women's Benefits

Retirement benefit adequacy for women is a most pressing concern because a very high proportion of the elderly poor are widowed, divorced, or never-married women. In 1976, older women living alone accounted for three out of four aged units with subpoverty income.

The problems of providing adequate benefits to women have existed, in part, because retirement income systems link benefits to an individual's earnings and work history. Working women frequently have interrupted work histories due to childbearing responsibilities. Women have also generally had lower career earnings than men. As a result, a large proportion of women either fail to qualify or qualify for low benefits based on their own earnings.

Social security has addressed the problem of providing income to homemakers by paying dependent spouses benefits - based on the earnings record of the principal earner and by paying survivors benefits to young widows with children and widows over 60. Employee pensions however, do not pay spouses benefits and generally provide inadequate protection for survivors.

Despite the comparatively better protection afforded women under social security than under private plans, there are nevertheless inadequacies in benefits for women which have been exacerbated by changes in family structures and the roles of women.

Widowhood - Increasing life expectancies of women compared to men has raised the average length of widowhood, increasing the economic hardship for women dependent on savings, insurance, or their husband's retirement benefits for income. Seven out of ten women reaching age 65 are or will become widows and, on average, will live as widows for 18 years. Widows, who constitute two-thirds of all elderly poor units, are the largest group with inadequate benefits. While many widows receive an adequate benefit from social security, some widow's benefits can be particularly low. First, a widow whose spouse dies before she reaches retirement age receives benefits based on an earnings record which has been maintained at the standard of living at the time he died, rather than updated to the standard of living at the time of her retirement. This is due to the price indexing of the earnings record upon the death of the primary earner. If the period between his death and her retirement is lengthy, the relative value of the full retirement benefit can be quite low. In addition, if a widow chooses to begin drawing benefits at age 60 - as most widows do - the actual benefit received will be only 71.5 percent of the full benefit.

Survivors of retired two-earner couples often find it difficult to maintain their previous standard of living because their family benefits are reduced by half when their spouse dies.

Survivors of retired one-earner couples, on the other hand, receive two-thirds of their previous family benefit.

Divorce - The increasing rate of divorce is another trend transforming family structure and necessitating changes in social security. In the 1960's and 1970's, several changes were made in social security in response to the rising divorce rate - resulting in the availability of spouses benefits to divorced women whose marriages had lasted 10 or more years. However, the divorced wife is only entitled to the spouses benefit. This benefit, designed to supplement the primary benefit, is rarely adequate to maintain a separate household. And a divorced spouse must wait until the primary earner retires to become eligible for spouse's benefits. In addition, there are problems of equity. For a marriage that lasted for less than half of the worker's career, there is little reason for providing benefits based on the worker's entire wage history. For a lifelong marriage, however, the one-third/two-thirds distribution of benefits conflicts with the concept of an equal partnership.

Work - Questions of equity have also been raised with regard to women who work. Social security provides a lower total family benefit to two-earner couples than to one-earner couples with the same covered earnings.

Proposals - Several proposals to improve the adequacy of equity of women's benefits have been advanced in recent years. The most prominent proposal is for earnings sharing between a husband and wife. Under this proposal, each partner in a marriage would receive credit for half of the sum of the couple's earnings during the marriage. Each individual would receive benefits based on their own earnings record - and the spouses benefit would be eliminated. This change would enable an individual who is divorced or widowed to add earnings from their own labor supply to earnings acquired through marriage. It would also make social security similar to the treatment, in community property States, of other income and assets obtained during marriage. Pure earnings sharing would weaken survivors and disability benefits. As a result various proposals have suggested modification of the pure earnings sharing approach to allow some inheritance of credits or benefits and to provide full credits in the event of disability.

Inheritance of credits is intended to improve the benefits of widows. This approach would allow surviving spouses to inherit all or a portion of the earnings credit of their deceased spouses and add these to their own earnings credits. Survivors of lifelong marriages would benefit from the provision. However, survivors of short marriages could lose benefits because they would inherit credit only for the years of marriage.

Earnings sharing has become increasingly visible as a reform proposal. In 1981, the President's Commission on Pension Policy recommended that earnings sharing be used upon divorce and that surviving spouses be allowed to inherit their partner's earnings record. In addition, H.R. 3207 introduced in the same year by Representative Pickle, included a provision for limited earnings sharing in the event of divorce.

The strong relationships between pensions, women, and the elderly poor make some modification in social security to improve women's benefits a high priority in the coming years.

(C) National Commission Recommendations

(1) Six Month COLA Delay

The annual cost-of-living adjustment now applied to the June check (payable in July) would be permanently delayed for six months, beginning in 1983, so that henceforth it would be applied to the December check (payable in January). As a result, the COLA due in July 1983 would be received by beneficiaries in January 1984 instead. Beginning in 1984, the computation period for the CPI change would be shifted 6 months as well so that it would maintain the same relationship it now has to the COLA. This means that future COLAs would be based on the third quarter-third quarter increase in the CPI, instead of the first quarter-first quarter increase as it is under current law. In addition, for those who receive both Social Security and SSI, the amount of social security benefits that is disregarded before the unearned income offset is applied would be increased from $20 to $50 monthly.

The effect of the delay would be to reduce the total amount of COLA paid during the year by half in every subsequent year for 35 million social security beneficiaries. It would not, however, affect the monthly amount of COLA that was eventually paid, nor would it affect the real value of future monthly benefit amounts. The dollar value of the income lost due to delayed COLAs would depend upon the annual increase in the CPI. The CPI increase for 1983 is now estimated to be about 4 percent. The average retired worker with a monthly benefit of $416 would have a $17 a month increase in benefits deferred for 6 months. This would result in $102 less in annual income than under current law. For a beneficiary with monthly benefits of $250, the delay in the $10 a month benefit increase would result in $60 less in annual income. For 2 million social security beneficiaries receiving SSI, the increase of $30 a month in the disregard will more than offset the delay in the COLA. This change will increase costs to SSI by $4.75 billion between 1983 and 1989.

Savings (1983-89): $39.4 billion
(75 year): 0.30 percent of taxable payroll

(2) COLA Stabilizer

Beginning in 1988, at the earliest, if the ratio of OASDI trust fund reserves to estimated outgo at the beginning of the year is less than 20 percent, the subsequent COLA would be based on the lesser of the increase in the CPI or average wages. When the trust fund ratio at the beginning of the year again exceeds 32 percent, after a period of wage-indexing, "catch-up" payments would be provided, increasing benefit amounts to levels they would have attained if full CPI increases had been given in each year. "Catch-up" payments would be provided only to compensate for periods in which people were receiving wage-based COLAs.

The stabilizer is not expected, under current forecasts of the economy, to go into effect. Rather it is designed to protect the trust funds against the possibility that the economy could perform less well than expected. Even then, it is only likely to be effective in protecting the trust funds against a combination of high inflation and slow growth. It is possible that trust fund ratios could be lower than 20 percent even with wage increases slightly above price increases. In this case, the stabilizer would not be activated. In addition, activation of the stabilizer is contingent upon the Congress allowing trust fund reserves to decline to such low levels.

Savings	(1983-89):	none
	(75 years):	none

(3) Change in Tax Treatment of Benefits

Beginning in taxable year 1984, half of the social security benefits received in that year would be added to adjusted gross income, if other adjusted gross income exceeds $20,000 -- in the case of a single taxpayer or a married taxpayer filing separately -- or $25,000 in the case of a married couple filing a joint return. The Secretary of the Treasury would be required to transfer the revenues from this provision to the appropriate trust fund on at least a quarterly basis.

An estimated 10 percent of the 35 million beneficiaries will have an increase in their income tax liability as a result of this proposal. A single taxpayer with $30,000 in adjusted gross income, $6,000 in social security benefits, and standard deductions, would have 1984 tax payments $841 higher under this provision than otherwise. However, this individual would only pay $636 more in taxes in 1984 than they did in 1983, due to the effects of the third year of the tax cut.

The National Commission noted that this proposal would result in a "notch". That is, a person with $19,999 in other income would not pay taxes on any portion of their social security benefit, while a person with $20,000 in other income would pay taxes on a full half of their benefit. The Commission expressed its concern that the Congress rectify this notch in the legislative process.

Revenues	(1983-89):	$26.6 billion
	(75 years):	0.63 percent of taxable payroll

(4) Increase in Retirement Age

Eight members of the Commission agreed on a recommendation to raise the social security normal retirement age from age 65 to age 66, beginning for those reaching age 62 in 2000, and phasing it in a month a year until the full age reaches 66 in 2015. The early retirement age of 62 would be retained, and improved disability benefits would be provided for those between ages 60 and 66. Beginning for those reaching age 62 in 2012, the normal retirement age would be automatically adjusted so that the ratio of years of working life (age 20 to 64) to retired life would remain the same as it was in 1990.

An individual retiring in 2015 at age 65 would have a 7 percent reduction in monthly retirement benefits relative to current law. This reduction would apply only to those receiving retirement benefits. It would not apply to those receiving survivors or disability benefits, since these are not actuarially reduced.

Savings	(1983-89):	none
	(75 years):	0.65 percent of taxable payroll

(5) Delayed Retirement Credit

The delayed retirement credit would be gradually increased from 3 percent to 8 percent between 1990 and 2010. This would result in a full actuarial adjustment for delayed retirement after 2010, eliminating one disincentive to working past age 65. After 2010, an individual who postponed retirement beyond the normal retirement age would no longer experience a loss of lifetime social security benefits as a result. Whether there is a cost or savings from this proposal depends upon whether large numbers of older persons delay retirement and continue paying the payroll tax.

Cost	(1983-89):	none
	(75 years):	0.11 of taxable payroll

(6) Women's Benefits

Four changes would improve benefits for certain individuals, most of them women. These changes would become effective after December 1983. The four changes would be:

(a) Deferred Surviving Spouses Benefits - During a worker's career, earnings are indexed for wage increases. Upon the worker's death , a surviving spouses benefits are indexed for price increases, even if the surviving spouse must wait several years to begin receiving them. In a normal period of real wage growth, this indexing causes a loss in the relative value of the benefits. The recommended change would continue to index the earnings record for wages after the death of the worker and until the worker would have reached age 60, or two years before the survivor becomes eligible for benefits.

Cost	(1983-89):	negligible
	(75 years):	0.05 percent of taxable payroll

(b) Divorced Spouses Benefits -A divorced spouse who is eligible for retirement benefits may not draw benefits until the worker begins to draw benefits. This may result in a divorced spouse who is retired or ready to retire waiting several years to begin drawing benefits. The recommended change would make benefits payable at age 62 to divorced spouses, if the former spouse is eligible for retirement benefits, whether or not benefit payments have begun.

Cost	(1983-89):	$ 0.1 billion
	(75 years):	0.01 percent of taxable payroll

(c) Disabled Widow(er)s Benefits - Widow(er)s may begin receiving actuarially reduced social security benefits beginning at age 60, and full benefits beginning at age 65. Benefits paid at age 60 are 71.5 percent of the full benefit amount. Disabled widow(er)s may begin receiving reduced benefits at age 50. Benefits paid at this age are 50 percent of the full benefit amount. The recommended change would increase the disabled widow(er)s benefit to 71.5 percent of the full benefit.

Cost	(1983-89):	$ 1.4 billion
	(75 years):	0.01 percent of taxable payroll

(d) Remarried Divorced or Disabled Widow(er)s - Benefits paid to disabled widow(ers), divorced widow(er)s, and disabled divorced widow(er)s are not paid if the individual remarries. Widow(er)s benefits are not paid if the individual remarries before age 60, but may be paid if the individual is remarried after age 60. The recommended change would extend the provision for remarried widow(er)s to members of the three groups who remarry. It would allow benefits to continue to be paid to disabled widow(er)s, divorced widow(er)s, and disabled divorced widow(er)s if the marriage takes place after the age of first eligibility for the benefit. The change would eliminate a marriage penalty for these three groups.

Cost	(1983-89):	$0.1 billion
	(75 years):	negligible

4. MISCELLANEOUS FINANCING MEASURES

(A) Background

As the social security financing problem has grown more immediate, the opportunity to resolve these problems through moderate payroll tax and benefit modifications has diminished. With each delay there has been further deterioration in economic forecasts, and more severe financing problems in social security. The National Commission , in its review of the financing needs of the system, established quite clearly that there is an urgent and quite substantial need for revenues and/or savings in the first few years. Under the 1983 Trustees Report intermediate and pessimistic assumptions, OASDI would need more than $20 billion each year in 1983 and 1984 to maintain a 15 percent reserve ratio. No proposal to cut the benefits of future beneficiaries, and no options for adjusting the COLA could provide sufficient financing in the first two years to meet this need. In addition, no Commission members wanted to raise payroll taxes significantly in the next few years, with unemployment in excess of 10 percent.

Under these circumstances, the only choice left to the Commission was to look for immediate sources of revenue that could get the trust funds over the hurdle of the first two years, and provide some margin of safety if the assumptions proved to be too optimistic. The Commission adopted four simple recommendations which are intended to help the OASI trust funds remain solvent over the next few years: 1)a lump sum transfer from the Treasury to the OASDI trust funds to pay for gratuitous military service credits and uncashed checks, 2)reallocation of a portion of the DI tax rate to OASI, 3)extension through 1987 of authority for OASDI to borrow from the HI trust fund, and 4)the adoption of a "fail-safe" mechanism to assure that benefits could be paid on time if unanticipated adverse economic conditions develop.

(B) National Commission Recommendations

(1) Lump Sum Payments

The Commission recommended that three kinds of lump sum payments be made from the Treasury to the social security trust funds in 1983: payments for gratuitous military service wage credits granted for service bfore 1957, payments for gratuitous military service wage credits for service between 1957 and 1983, and reimbursement for the amount of outstanding uncashed OASDI checks.

(a) military service wage credits before 1957 - Social security coverage was first extended to the military in 1957. Those who were in the service at that time were given a wage credit on their earnings records equal to $160 for each month of service before 1957. These wage credits are financed through payments from the general fund to the social security trust funds. The total payments are amortizedover the next 30 years, so that level "amortization" payments are made each year to the social security trust funds. The recommendation of the Commission is to transfer in a lump sum the estimated future liabilities for the pre-1957 wage credits. Adjustments would be made in future years to reflect actual experience.

(b) military service wage credits 1957-1982 - Since 1957, the military has been began making regular employer and employee contributions on cash pay. In addition, in recognition of the in-kind benefits provided the military, there is an additional wage credit given at the rate of $100 per month of service. These wage credits are financed from the general fund at the time benefits are paid. The payments are equal to the increases in benefits resulting from the wage credits. The Commission recommendation is to transfer a lump sum from the Treasury equal to the accumulated employer-employee taxes on already granted wage credits (plus interest) with adjustments for any past excess payments. Wage credits for service after 1982 would be financed by transferring to the OASDI trust funds on a current basis the employer-employee taxes on the wage credits.

(c) Uncashed Social Security Checks - At the beginning of each month, money is transferred from the social security trust funds to the general fund to cover the total value of all social security checks issued by the Treasury. Once these checks are issued there is no limit to their negotiability. Some checks are cashed by beneficiaries immediately. Others, however, are lost, stolen, or "saved" by the beneficiaries and are neither reported nor returned. The amount that has been transferred to the general fund to cover these unnegotiated checks is never restored because there is no limit on the negotiability of the checks. In 1976, the Social Security Administration estimated, based on a sample of social security checks issued, that about $250 million in OASDI checks remained outstanding for a year or more. In addition, if the amount of unnegotiated social security checks were credited to the trust funds, the annual increase in income would be about $30 million a year. The Treasury has now developed a procedure to reimburse the trust funds for checks which remain uncashed in the future for more than a year. The Commission recommendation is to transfer a lump sum of about $400 million to the OASDI trust funds in payment for currently outstanding OASDI checks.

Revenues (total)	(1983-89):	17.2
	(75 years):	negligible

(2) Tax Rate Reallocation

Under current law, using intermediate assumptions, OASI trust fund reserves are never expected to fully recover over the next 75 years. DI trust fund reserves, on the other hand, are expected to build substantially over the next 75 years, reaching levels thirty times as great as the annual outgo from the fund. This discrepancy between the two funds is a function of the tax rates which have been assigned to each under current law. Though the two trust funds are usually treated as a single unit in analyzing the long run problem, and together, under current law, their reserves are expected to accumulate toward the end of this century and the beginning of the next, they remain separate trust funds by statute. In order to smooth out the discrepancies between the performance of these two trust funds, without merging them in statute, the Commission recommended that the tax rates for OASI and DI be reallocated to maintain similar fund ratios in each.

TABLE 8 -- Reallocation of OASI and DI Tax Rates

Year	Present law tax rates (%) OASI	Present law tax rates (%) DI	Proposed tax rates (%) OASI	Proposed tax rates (%) DI
1983	4.575	0.825	4.575	0.825
1984	4.575	0.825	5.45	0.25
1985 to 1987	4.750	0.950	5.20	0.50
1988 to 1989	4.750	0.950	5.56	0.50
1990 +	5.100	1.100	5.40	0.80

(3) Extension of Interfund Borrowing Authority

To defer the onset of cash flow problems in the OASI trust funds and give the National Commission time to develop a consensus package, the Congress authorized limited borrowing from the DI and HI trust funds as part of the Social Security Amendments of 1981 (Public Law 97-123). Borrowing authority expired at the end of 1982 and was limited to the amount necessary to enable OASI to make timely payment of benefits through the end of June 1983. The amount borrowed was to be repaid with interest at a time and in a manner determined by the Managing Trustee (the Secretary of the Treasury). In November and December 1982, OASI borrowed $17 billion from DI and HI trust fund reserves. The Commission recommended that borrowing for the OASI and DI trust funds from the HI trust fund be authorized through 1987, with repayment under provisions similar to those governing the 1982 borrowing. This authority will enable OASI and DI to use HI reserves to meet emergency needs over the next five years, until the 1988 tax rate increases go into effect. The HI trust fund had about $16 billion in reserve at the end of 1982, equal to about 20 percent of anticipated outgo in 1983. However, these reserves are expected to decline rapidly over the next five years. For this reason, borrowing is expected to be used only if other measures are insufficient to enable OASDI to make timely benefit payments.

(4) Fail-Safe

The Commission believed that, in addition to the measures mentioned above to maintain adequate financing between 1983 and 1987, and in addition to the COLA "stabilizer", a "fail-safe" mechanism should be implemented to assure that the occurence of unexpected adverse economic conditions would not prevent the timely payment of benefits. The options for a fail-safe are to enact limited authority to borrow from the general fund, or to enact automatic COLA reductions or payroll tax rate increases which would go into effect when reserves reach a specified danger level. The Commission, however, was unable to reach agreement on a specific fail-safe mechanism, but suggested there could be a combination of mechanisms. The difficulty with reaching agreement on a fail-safe mechanism is that any choice would, necessarily result in either an automatic tap on the Treasury, or an automatic change in the program. This would give the Congress an opportunity to automatically restructure the program in ways not normally possible through to the legislative process, and many see this as unwise.

5. ADDITIONAL PROPOSALS

(A) Background

The National Commission also made four recommendations which have no significant effect on program financing. These recommendations are largely in response to concerns which have been expressed about how legislation is enacted and how the program is administered. The changes are intended to improve public confidence in the political and financial viability of social security.

(B) National Commission Recommendations

(1) Investment of the Trust Funds

High rates of interest paid on government securities in recent years led to concern about social security trust fund investment practices established by statute and Treasury practice over the past twenty years.

Currently, payroll tax revenues available for investment are put into certificates of indebtedness which mature the following June 30. Each June 30, these certificates are rolled over into longer term special issue securities. Treasury sets maturity dates on the new special issues to achieve an even portfolio spread over the next 15 years. Interest paid on new special issues is set equal to the average market yield on all interest-bearing obligations of the United States with maturities of more than four years. During the year, when securities must be sold to meet benefit obligations, special issues which are closest to maturity are redeemed first. When several securities with the same maturity are available, those with the lowest interest are redeemed first. Special issues may be redeemed at par at any time. Once all special issues have been redeemed, marketable obligations would have to be sold at a capital loss.

In general, the policy of investing in longer-term securities has led to an average portfolio yield which has consistently lagged behind current market rates due to rising interest rates over time. In fiscal year 1981, the four Social Security trust funds earned an average yield of 9.2% compared to a composite rate on all Treasury securities of 13.2%. It has been estimated that over the last 21 years the trust funds received an average annual yield of 5.2% compared to an average market rate on all Treasury securities of 6.3%.

In addition to the question of how to improve trust fund performance in the context of fluctuations in the relative yield of short-term and long term investments, there is the question of how to change investment practices in response to the current rapid decline in the trust fund reserves. Current investment practices are based on the assumption of that the trust funds have substantial reserves which remain relatively stable in the long run. The emphasis on a 15-year spread of maturity dates, the policy of redeeming the earliest maturities first, and the bias toward long-term interest rates all seem questionable, however, when the trust funds are being rapidly depleted and special issues are being cashed in to pay benefits. At issue is not only the specific practice of the Managing Trustee, but also the inability of the Managing Trustee to change practices when situations warrant.

Finally, there is the more peripheral question of whether the interest calculated for new special issues to the trust funds should be changed to reflect the current average market yield of all Treasury securities which the trust funds are permitted to purchase. There is little disagreement that the current method for assigning interest rates has some unfair downward bias.

In response to these concerns about trust fund investment, the National Commission recommended that investment practices be revised. Specifically, they recommended that all future special issues be invested on a month-to-month basis at an interest rate based on the current average market rate of all public-debt obligations (except those with artificially low yields) with a maturity of four years or more. All present special issues would be redeemed at par, but all marketable securities would be held until maturity. The trust funds would purchase only special issues in the future.

(2) Social Security and the Unified Budget

Prior to the submission of the first unified Federal budget in fiscal year 1969, the operations of the social security trust funds were accounted for apart from the "administrative budget" -- in a special trust fund budget. Although the operations of the trust funds were accounted for in a separate budget, the trust fund budget was combined, for purposes of economic analysis, with the administrative budget in special summary tables included in the annual budget document.

Beginning with the fiscal year 1969 budget, accounts for the OASDI trust funds were combined with those of general-revenue financied income maintenance programs in the income security function of the unified budget, while the opertions of the HI trust funds were combined with the general-revenue financed health care and health financing programs in the health function of the unified budget. In 1974, the Congress implicitly approved the use of a unified budget by including social security trust fund opertions in the annual budget process set up under the Congressional Budget and Impoundment Control Act. Inculsion of trust fund operations in the unified budget has resulted in the annual surpluses and deficits in the operation of these funds either increasing or decreasing the general budget deficit that would have otherwise been shown.

Those who support removing the trust fund operations from the unified budget believe that the present method of accounting makes the opertion of the trust funds unclear and provides a misleading picture of annual budget deficits. In years when social security is building trust fund reserves by running surpluses, the total budget deficit is reduced, even though the revenues, coming into social security are not available for current spending. In years when social security is spending trust fund reserves by running deficits, the total budget deficit is increased even though there is no increased claim on available revenues.

Proponents also believe that social security is a program which should not be continually adjusted solely for the purpose of correcting the effects of its annual surpluses or deficits on the over-all Federal budget. Because it has a long time-horizon with benefits in the distant future based on the current earnings and tax payments of workers, it is important that permanent changes in the system enhance the long-run integrity of the system and not be precipitously made to meet the immediate needs of the Federal budget.

Finally, those who support separation from the unified budget point out that the effect of this shift would be only to remove social security from the annual budget debate. It would not limit the ability of the Congress to review total Federal expenditures and their impact on the economy.

Those who oppose this recommendation beleive that it is essential that the operations of the social security program remain in the unified Federal budget because the program involves such a large proportion of all Federal outlays. Thus, to omit its operations would misrepresent the activities of the Federal Government and their economic impact. Opponents also suggest removal from the budget process would weaken Congressional discipline in addressing social security financing problems.

A majority of the members of the National Commission recommended that the operations of the OASI, DI, HI, and SMI trust funds be removed from the unified Federal budget. Some who did not support this recommendation believed the issue would be adequately addressed if the operations of the social security system were displayed within the present unified budget as a separate budget function, apart from other income security programs.

(3) Public Members on the Board of Trustees

Currently, the Trustees of the social security trust funds are members of the administration: the secretaries of Treasury, Labor, Health and Human Services and the Social Security Commissioner and Administrator of HCFA. In the past there has been concern that this leads to a political bias in the selection of assumptions for cost estimates and a conflict of interest in making decisions on investment procedures. The National Commission recommended that two individuals outside the Executive Branch be added to the OASDI Board of Trustees, no more than one from any particular party. This change is intended to increase public confidence in the integrity of the trust funds.

(4) Independent Agency Status

The Social Security Administration has been a part of the Department of Health and Human Services (or its predecessor HEW) since the creation of the Department in 1953. The original Social Security Board was created as an independent agency, but was subsumed under the Federal Security Agency in 1939. Those who favor making the Social Security Administration a separate agency again emphasize that it is larger in number of employees (over 80,000) and budget (over $150 billion) than any other Federal Department except the Department of Defense. There is also concern that, because it is such a large part of the Department of Health and Human Service budget , Social Security distorts the perspective in the Department and encourages the use of program changes in social security to meet short-term departmental budget targets. Proponents feel that separation would encourage a longer-term perspective in the administration of the program. In addition, the perception that social security is independent of politics and the budget process will help inspire greater public confidence in the program. Those who oppose independent agency status generally raise the problems of sorting social security's programs from other health and income security programs in the Department now administered by the Social Security Administration. Opponents also question the ability or the wisdom of insulating social security from the political process. The National Commission endorsed the separation of the Social Security Administrationin principle, and recommended that a study be undertaken on the feasibility of doing this.

NOTES

1/ Social Security Administration. Office of the Actuary. Based on assumptions prepared for use in the 1983 trustees report. Tables 2 and 3. Feb. 7, 1983.

2/ Ibid., table 10.

3/ 1982 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund. table A1.

4/ Health Care Financing Administration. Office of the HI Actuary. February 1983.

5/ Report of the NationalCommission on Social Security Reform. Appendix K, table 7B. January 1983.

6/Ibid., table 7C.

7/ Ibid., table 12.

8/ Ibid.

9/ Ibid., table 11.

10/ 1982 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. Table 36.

11/ Social Security Administration. Office of the Acturary. Growth in Fringe Benefits. Prepared by John Wilkin, Ronald Gresch and Milton Glanz Actuarial Note No. 113, June 1982, pp. 2-3.

12/ Social Security Administration. Office of the Actuary. also National Commission on Social Security Reform Adjusting the Payroll Tax Rate to Compensate for the Erosion of the Tax Base Due to the Growth of Fringes. Technical Memorandum No. 50, Sept. 8, 1982.

13/ U.S. Congressional Budget Office. Civil Service Retirement: Financing and Costs. Washington, U.S. GovernmentPrinting Office. Table 2. May 1981.

14/ Employee Benefit Research Institute. Special Tabulation of the March 1980 Current Population Survey.

17/ U.S. Office of Personnel Management. Federal Fringe Benefit Facts, 1981. Table 4.

16/ Social Security Administration. Research and Statistics Note No. 6 December 30, 1982.

17/ Report of the Universal Social Security Coverage Study Group. The Desirability and Feasibility of Social Security Coverage of Employees of Federal, State, and Local Governments and Private, Non-Profit Organizations. March 1980.

Senator WALLOP. I would say just for the record that Senator Packwood has presented a series of questions to Mr. Rohan that can be answered for the record.

Mr. ROHAN. Yes. I have them here.

[The answers from Mr. Rohan to questions from Senator Packwood follow:]

QUESTIONS FOR MR. HOWARD ROHAN FROM SENATOR PACKWOOD

Question. If the Commission's recommendations are passed by Congress, what impact, if any, will there be on health care costs?

Answer. I cannot speak firsthand for all hospitals, but Samaritan is not an atypical institution and the impact on us will be immediate, direct, and substantial. We will experience an immediate first year cost increase of $3.5 million representing the difference between the 4.3 percent of payroll we pay to fund our alternate program and the 6.7 percent required under Social Security. In addition, our employees currently do not contribute to our plan so we will have to consider raising salaries to offset the loss they will sustain as a result of having to pay the employee's share of the FICA taxes which is also 6.7 percent. Frankly, we may not be able to afford totally offsetting their losses, but to make them whole and remain fully competitive with other institutions would cost us $11.9 million.

Together, then, FICA taxes and increased salaries will amount to around $15 million, or $41.25 per patient day, in increased expenses. But that isn't the end of it. In order to raise net income by $15 million, we must seek $25.3 million (or $67.11) in new gross revenues. This is because the higher rates will result in an increase in bad debts and charity care and under the TEFRA limits Medicare will not cover its share of the new FICA costs. These losses must be offset, hence the need to seek substantially more than $15 million.

Question. When your hospital decided to no longer participate in the Social Security program, were your employees involved in this decision making process?

Answer. We conducted a two year study of the options, implications, advantages, and disadvantages of withdrawing from Social Security. Our employees were involved from the outset and every step of the way. We established a Social Security Information Committee composed of 33 employees representing a cross-section of the hospital's total staff (excluding top management). The Committee functioned not only as a participant in the decisional process, but also as a clearinghouse for opinions solicited from throughout Samaritan on all issues related to Social Security.

As I said in my testimony, our employees entered into this fully educated and confident, and they have not been disappointed. They helped develop our alternative plan and remain committed to it as ongoing attitude surveys have proven to us time after time.

Senator DURENBERGER. I just wanted to finish up without getting into the morality issue. And to avoid the question I asked earlier relative to the precedent that we might be setting in taxing certain types of religious organizations.

To come back and flip this issue over on the other side, and say would it be a recommendation that hospitals be exempted entirely from social security? And if so, what rationale would you use for that other than the cost rationale that has been used here today?

Mr. VANDERGRIFT. Could I address that?

Senator DURENBERGER. Yes.

Mr. VANDERGRIFT. I think it has to be on the responsibility to the employee group as well. I would feel that cost containment is a major issue, but it runs right along with the employees. And we would not support a hospital withdrawing from social security and being irresponsible to their employees. I think that's a part of it.

Senator DURENBERGER. Mr. Rohan.

Mr. ROHAN. Well, I think there are some 5,000 or 6,000 nonprofit hospitals, and that's the general sector that we come from. Our whole point here—and this may be in part an answer to you—we are talking about those hospitals who opted out in a responsible manner as my colleague here talked about in designing an IRS qualified and ERISA qualified type plan, and has spent considerable moneys. And the employees are enjoying that. And to go back in, in part destroys one of the basic concepts of cost containment that these hospitals have now begun to rely. And it's significant. To expand that horizon, I think, would be perhaps difficult for you.

Senator DURENBERGER. Senator Moynihan.

Senator MOYNIHAN. Well, I think it would express the quandary that Mr. Durenberger expressed. I find the numbers somewhat illusive. And, Mr. Kinkead, did you say—I find it illusive because social security is now and will for another generation be a system in which the beneficiaries at point of retirement, in addition to lifelong insurance, will receive back considerably more than by any actuarial terms they put in. This is the characteristic of a maturing system.

You suggested that the system that you have worked out at Holy Redeemer depends on a tax shelter arrangement.

Mr. KINKEAD. Well, that's right, sir. For instance, our hospital since we went out in April 1981 and recognized very real cost savings, they have actually doubled in the sense that the employee did not have to pay that amount of money in taxes because under our system it's tax deferred. And they are getting a return at 12 or 11 percent on the money that went in.

Senator MOYNIHAN. Enough people are alarmed in this country about this subject, but you know what is happening to tax shelters around this committee, don't you? It's called tax reform. And they are disappearing. Another variation on the theme is that we are going to cut tax expenditures, which is another form of——

Mr. KINKEAD. Senator, I understand where you are coming from. I know some of the very bad publicity on tax sheltering and so forth is true.

Senator MOYNIHAN. I'm being a little ironic about this.

Mr. KINKEAD. Educational groups and 501(c) organizations have had this ability for a long, long time. And I guess initially, although I'm not sure historically how it would work, perhaps there was some kind of a balance over the low wages that a lot of health care people were getting back in 1955 and 1960. But this is a legitimate insurance plan.

Senator MOYNIHAN. I don't question its legitimacy.

Mr. KINKEAD. And it is measured by various regulations, certain amount of money you put aside, for which when the time comes for retirement you will have to pay the taxes.

Senator MOYNIHAN. So that is why the initially improbable proposition that you can do better outside this system than——

Mr. KINKEAD. Yes, sir. Social security is simply an exchange system, whereas this is a funded system. In all our pension plans, our accountant is writing us up every year. If we haven't funded the proper amount of money based on actuarial evaluations, we would get an exception. So you do gain by all the rates that are out there. And it's not unusual for fiscal people in hospitals to do very good money management in that sense.

Senator MOYNIHAN. Thank you very much.

Mr. ROHAN. Senator, if I may?

Senator MOYNIHAN. Please.

Mr. ROHAN. I know in our case and in several other cases this alternate plan is not based upon any other arrangements in order to make it successful. They are generally designed to stand on their own and not depend upon some other tax deferred annuity program to make it whole. And I think that's important because if that was the case, I don't think we would be fully honest in working with our employees. And we have been very honest. So it stands alone.

Senator MOYNIHAN. Of that I am certain. That's a serious thing we have to deal with.

Mr. KINKEAD. Senator, I would affirm that. When I talked about tax shelters, that is the approach we are using on this alternative. But there is also available to the other people a tax shelter through the 501(c) other than the alternative.

Senator MOYNIHAN. I see. Thank you very much.

Mr. Vandergrift, did you want to say something?

Mr. VANDERGRIFT. Yes. In trying to evaluate that part of whether the hospital individually has acted responsibly toward their employees so that we are not slighting them as we have been depicted from some corners, it may be a worthwhile consideration to look at the exemption aspect of this. And then as the hospitals were discussed with the last panel, those hospitals who have really gone the full mile in making an evaluation and knowing that it is financially sound and that their employees are adequately protected with those kind of criteria, then those hospitals that had done that could then be worked on an exemption basis rather than giving a blanket kind of approval for the not-for-profit hospitals.

We, for one, would not feel compromised if we were put before that kind of a review. We think that our program offers—we know it offers retirement, survivor, disability, death, and medicare so we are not attempting to just go with one provision of it. We are attempting to do all of them. We are using existing social security calculation formulas so that we know we are replacing for our employees. And we feel that is responsible.

We have, as Mr. Kinkead has indicated, invested a lot of dollars in our evaluation in making sure that our employees went along with the program. And we just feel now that some way or another if the Congress finds no way to look at not-for-profit hospitals as a group then maybe the exemption might be a way of looking at those who have acted responsibly.

Senator MOYNIHAN. Thank you very much, sir.

Senator WALLOP. Thank you, Senator Moynihan.

Mr. Rohan, how many patient days, off the top of your head, do Samaritan Hospitals have?

Mr. ROHAN. Two hundred and fifty thousand patient days. That's a rough guess.

Senator WALLOP. 250,000. I have a hard time with your revenue figures. I don't think they all add up. I think maybe in a quiet moment that you might admit that $67 was slightly overstated.

Mr. ROHAN. Can I give you a quick answer?

Senator WALLOP. Yes. For instance, I think you are attributing a whole lot of things to the social security reform that is not likely to result because of it. For instance, bad debts.

Mr. ROHAN. Yeah. Bad debts and charity write-offs, the portion under TEFRA where medicare won't cover certain——

Senator WALLOP. Bad debts are not going to increase whether we reform social security or not.

Mr. ROHAN. Well, the point is that if we have to absorb the $15.5 million, which is made up of the two hard figures you have in front of you, we know that we are going to have to raise our room rates by forty some dollars based upon those two figures. In order to offset that loss of $15.5 million, that expense that is not now contemplated, we would have to raise revenues in *x* amount. That *x* amount, we say, is $25.5 million, and we get there by the $15.5 million; some deduction from medicare impact off of that; and then the fact that we are going to have an increasing amount of bad debt and charity problems because our rates will be too high. And that compounds itself. And our best estimate is that we will need $25 million to offset those three factors.

Now I agree with you that it is a little hard maybe to get there today. But that's our best judgment.

Senator WALLOP. Well, I think you have got a case that's good enough without overstating it.

Mr. ROHAN. Well, I appreciate your point.

Senator WALLOP. There are some other things that we have to consider besides what we have heard here. But it is very difficult in all of this to deal with instances of the spectacular when we are sort of wallowing in the mundane trying to get it accomplished.

Senator Dole.

The CHAIRMAN. I'm sorry I missed the testimony. I was off speaking.

As I understand in the testimony, based on staff monitoring the testimony, that a number of you proposed a grandfathering of nonprofit groups that have already terminated coverage. Is that correct?

Mr. ROHAN. Yes, sir.

The CHAIRMAN. That would reduce the revenue. Have you got some way to pick that up?

Mr. ROHAN. Yes, sir, Senator, we have.

The CHAIRMAN. Without taxing anybody?

Mr. ROHAN. In Samaritan's prepared testimony we have a ballpark figure that we think shows that there is about $450 million total aggregate cost over the 6-year period that would impact the trust fund. That is to say would not flow into the trust fund. And we are saying 80 hospitals. And we will admit that that is a judgment call because the figures are not easily obtainable. But we get there by using the report of the Ways and Means Committee, which said 159 nonprofit organizations had opted out of which half are hospitals. Well, that's 80. And we know the average salary in these hospitals runs about $10,000. And when you calculate that out—and it's easy enough to do if you get into it—it comes to about a $450 million aggregate impact on the trust fund over the 6 years. That's our best calculation.

The CHAIRMAN. I will just say that we are certainly going to have the staff check that carefully. We are having hearings so we can pick up information. And I know there must have been 25 or

30 more hospitals who wanted to testify. And they were encouraged to submit statements in some cases.

But I would assume that this is a pretty good cross section. Would that be a correct assumption?

Mr. KINKEAD. I think so.

Mr. ROHAN. Yes, sir.

The CHAIRMAN. So you probably covered most of the points that any other group might have had in mind.

Mr. KINKEAD. Yes, sir.

Senator WALLOP. Thank you all very much.

We appreciate you coming hêre to help the committee.

Our nex' witness is Mr. James M. Wootton, attorney and president of Family Security Foundation, Washington, D.C.

STATEMENT OF JAMES M. WOOTTON, ATTORNEY, AND PRESIDENT, FAMILY SECURITY FOUNDATION, WASHINGTON, D.C.

Mr. WOOTTON. Mr. Chairman, thank you for the opportunity to testify today.

I am going to summarize my testimony, and ask that the testimony and the appendix be included in the record.

Senator WALLOP. By all means. The whole thing will be included. We appreciate that, Mr. Wootton.

Senator MOYNIHAN. And we appreciate the curves. You don't always get a curve that has a chink in it. This is the fanciest curve I have seen in a long time.

[The prepared statement of James M. Wootton follows:]

Prepared Statement of James M. Wootton, President, Family Security Foundation

The time has come to give people the option of saving their own money for retirement and to scale down a Social Security system that is undermining the economy and the financial security of all Americans.

Crushing burden: Social Security requires higher and higher taxes to maintain benefits. The New York Federal Reserve Bank found that if pessimistic assumptions are correct and benefits are not cut, payroll taxes will be nearly 20 percent in 1995, 24 percent in 2005, 30 percent in 2015, 42 percent in 2030 and 53 percent in 2060.

Killing the economy: In 1977 the Congressional Budget Office estimated that for each percentage increase in payroll taxes the U.S. economy loses 500,000 jobs. The system requires a vicious cycle of tax increases that cause unemployment that cause revenue shortfalls, that require more tax increases.

Benefit cuts: It is morally and politically impossible to cut benefits enough to prevent this tax spiral. Inflation, government regulations and payroll taxes have made many senior citizens more dependent on Social Security than was ever intended.

Unfair system: Social Security could never be passed today. It is an ill-designed program that takes money from the working poor and gives it to the retired rich, discriminates against women and accounts for a third of the Federal budget.

Time to opt out: Sixty-three percent of Americans feel they could do better investing their money in an IRA instead of Social Security. Forty percent are ready to quit today and lose all of the taxes that they have paid into the system.

Private alternatives: The Family Security Program would give people the option of saving from their own earnings for their retirement and buy their own private life and disability insurance.

THE FAMILY SECURITY PROGRAM

The Family Security Program would be an option to the current social insurance system. Instead of a worker's Social Security payroll taxes being sent to the U.S. Treasury to immediately finance the benefits of current retirees, both the employee's and employer's share of that tax would be sent to a Family Security Account opened by the worker at a qualified bank, savings and loan, pension fund, insurance company, etc.

Retirement Account

The employer's share, 7.5 percent of taxable wages, would go into a Retirement Account similar to an IRA. The funds could not be used by the worker until he reached the age of 59 1/2 at which time they would be available at the worker's discretion. The employer's share would continue to be tax deductible to the employer and employee. Withdrawals from this account after age 59 1/2 would be taxed as earned income.

Savings and Insurance Account

The funds in the Savings and Insurance Account would be used by the worker to bargain for prescribed minimums of life and disability insurance. Any savings realized on the cost of insurance would remain in the Savings and Insurance Account as surplus. A worker could increase the portion of his wages that would go to his Savings and Insurance Account up to 17.5 percent of covered earnings in order to create a larger surplus.

Any surplus in this account would accumulate and earn interest tax free subject to the protections of the Family Security Account and would be available to the worker at his discretion. The funds in the Savings and Insurance Account would provide resources to purchase a home or business and to deal with unemployment, illness, school expenses, etc.

Transition

Each worker would have the option of either joining the Family Security Program or staying in the Social Security system. If he chose to stay in Social Security he would continue to pay payroll taxes and would be entitled to whatever benefits that system provides. A person who stayed in the Social Security Program could open a Family Security Savings and Insurance Account and put whatever percentage he desired of wages in excess of payroll taxes up to 17.5 percent of covered earnings.

If a worker chose to join the Family Security Program, his Social Security benefits, when he or his spouse becomes eligible, would be based on his earnings to that date. He and a dependent spouse would be ineligible for Medicare, except catastrophic Medicare coverage.

Any worker who stayed in the Social Security system until he was 65 years old or older could join the Family Security Program and would still receive full Social Security benefits, including Medicare. If after 65, he chose to work under Family Security, the funds in both his Retirement and Savings and Insurance Account would be available at his discretion and accumulate tax free. If he chose instead to continue to work under Social Security he could do so without the currently required reduction in benefits.

Financing and Transition

For the next thirty years, all current and future obligations of the Social Security system would be paid by the Social Security system, not by general revenues. Therefore, the revenue loss created when some worker's payroll taxes became contributions to private retirement and insurance accounts would be financed by the sale of Social Security Bonds. The net impact on credit markets would be minimized by the fact that the amount of funds injected into the credit markets by Family Security Accounts would always equal or exceed the deficits to be financed by Social Security Bonds. The addition to the capital stock would be substantial.

Some will object that issuing Social Security Bonds will increase the national debt. In fact, the current liability of the Social Security Administration is $12.6 trillion, ten times greater than the $1.2 trillion debt to which we currently admit. That implicit liability is a binding obligation in every moral and political sense. Without radical reform the payment of that debt will require resources equal to as much as 45 percent of payroll.

The Family Security Program will cut the magnitude of that liability substantially by ending future disability and Medicare claims and by freezing the accrual of retirement and survivors benefits for those who join the Family Security Program. After thirty years, the Social Security Bonds that had been previously issued would be retired by the use of general revenues.

There need be no cuts in current or projected Social Security benefits. By financing the transition with long-term bonds, the generations that will benefit the most will pay the most. Those retired or nearing retirement age today have been forced by inflation, government regulations and taxes to become very dependent on Social Security. We need not break faith with them to buy our way out of a program that has put the country on the road to disaster.

Indeed, the Family Security Program offers members of the older generation more options and more security than they would have under Social Security. By paring down our liabilities while meeting our solemn commitments, we will be avoiding the time when members of the working generations cannot and will not continue impoverishing themselves to support those already retired.

98th CONGRESS
1st SESSION

S. ____________

(NOTE.—Fill in all blank lines except those provided for the date, number, and reference of bill.)

IN THE SENATE OF THE UNITED STATES

A Legislative Outline

Mr. ____________

introduced the following bill; which was read twice and referred to the Committee on ____________

A BILL

To provide wage-earners the option of joining the Family Security Program in lieu of being covered by Social Security, to create Individual Savings Accounts and to amend in other particulars the Social Security Act of 1935 and Internal Revenue Code.

(Insert title of bill here)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That this Act may be cited as the "Family Security Act of 1983."

PREAMBLE

The Congress finds that citizens in every economic station can save for retirement, home ownership and other needs only with great difficulty, that the United States is not creating sufficient capital to sustain her economic growth and that the Social Security system is not suited to meet the needs of all citizens.

SUMMARY

Family Security Act of 1983

1. All workers must be covered by Social Security or join the Family Security Program or both.
2. Employers of members of the Family Security Program shall send at least 15 percent of the employee's wages or salary to a financial institution of the employee's choice instead of to the Social Security Administration.
3. Seven and one-half percent will go to a Retirement Account similar to an IRA which shall be available when the member reaches the age of 59 1/2.
4. Seven and one-half percent to 17.5 percent shall be put in the worker's Savings and Insurance Account. Part of that fund will be used to buy life and disability insurance.
5. Any person who joins the Family Security Program will get any Social Security benefits earned up until that time including catastrophic Medicare coverage.
6. Social Security Bonds shall be issued to fund the shortfall in Social Security as people opt to join the Family Security Program.

I. FAMILY SECURITY OPTION

All employees or those self-employed working within the United States shall either elect to participate in the Social Security Program or the Family Security Program. This shall include employees of the Federal government including Congress and its staff, the military, State and Local governments, and non-profit corporations.

II. FAMILY SECURITY PROGRAM

Family Security Account - Generally

A. (1) Each person who exercises the option to join the Family Security Program shall open a Family Security Account (FSA) with a qualified Family Security custodian (hereinafter custodian) and become a member of the Family Security Program.

(2) A Family Security custodian shall be any bank, savings and loan, pension fund, insurance company, brokerage house or registered investment advisor who meets the financial responsibility requirements.

(3) The funds and assets accumulated in a Family Security Account shall be insured by the Federal government against losses from negligence, fraud or institutional failure on the part of qualified custodians, but not against ordinary investment risks.

(4) Although the member would be free to suggest investments or investment strategies to the custodian, it shall be the responsibility of the custodian that all investments be made in accordance with appropriate and prudent investment principles.

(5) Should a member become dissatisfied with the rate of return the custodian is achieving, or for any other reason, he shall be allowed to move his FSA to another qualified custodian.

(6) Funds in a FSA shall accumulate free of all taxes, federal, state or local.

B. (1) The employer of an employee who chooses to join the Family Security Program shall contribute 7.5 percent of the member's covered wages or salary to the member's FSA to be placed in the Retirement Account. (Covered wages or salary shall be the same as for Social Security.)

(2)(a) A member shall instruct his or her employer to send between 7.5 percent and 17.5 percent of his or her covered wages or salary to the custodian for deposit in the members Savings and Insurance Account.

(b) Protection against judgment, garnishment or attachment shall not apply to any additional percentage of a member's adjusted wages or salary for any obligations that arose prior to the member's election to have additional income withheld and sent to his or her FSA.

(3) The employer's contribution shall be deductible for Federal income and corporate tax purposes to the employer.

C. (1) The funds and assets of a Family Security Account shall not be used or looked to as collateral for any debt or loan and shall not be subject to judgment, garnishment or attachment in any state, local or Federal court.

(2)(a) Notwithstanding Section C(1) above, upon divorce, the combined FSAs of both spouses may be divided by a court of competent jurisdiction.

(b) Neither spouse shall be awarded more than half of the combined FSAs of both spouses.

(c) In addition, the Savings and Insurance Account of either spouse shall be subject to garnishment or attachment to satisfy a proper judgment for child support.

(d) Funds cannot be withdrawn from an FSA without the signatures of both spouses without an appropriate court order.

(e) The funds and assets of an FSA shall pass by bequeath, inheritance or devise free of federal, state or local inheritance taxes.

(f) Each FSA shall be covered by a beneficiary clause.

Types of Accounts

Each Family Security Account shall be divided into two distinct and separate accounts, a Retirement Account and Savings and Insurance Account.

Retirement Account

A. Upon receipt of the monthly or bi-monthly payment on behalf of a member, the custodian shall deposit an amount equal to 7.5 percent of the member's total adjusted wages or salary for that period into the member's Retirement Account.

B. The funds and assets of a member's Retirement Account shall not be available to the member until age 59 1/2, at which time they shall be available without restriction. Provided, however, that such funds and assets shall remain exempt from judgment and taxation until withdrawn from the Family Security Account.

Savings and Insurance Account

A. Upon receipt of the monthly or bi-monthly payment on behalf of a member, the custodian shall deposit am amount equal to at least 7.5 percent of the member's total adjusted wages or salary for that period into the member's Savings and Insurance Account.

B. From the funds of this account the custodian shall pay the premiums of a prescribed minimum of life and disability insurance.

C. Any surplus remaining in the Savings and Insurance Account after insurance premiums have been paid may:

(1) accumulate tax-free with all the restrictions and protection of the Family Security Account;

(2) be withdrawn tax-free after one year.

D. Insurance companies that qualify to offer insurance under the Family Security Program shall participate in state pools for certain high risk, categories of Family Security members.

E. (1)(a) A member who claims any depends for Federal income tax purposes shall designate sufficient life insurance three times his average covered earnings for the previous five years. This amount shall be recomputed by the custodian every five years on the anniversary of the member's joining the Family Security Program.

(b) The beneficiary of a life insurance policy purchased through the Family Security Program shall be the Family Security Account, the disposition of whose assets shall be governed by a beneficiary clause executed by the member and shall not be subject to probate.

(c) Upon the death of a member, the funds and assets of his or her Family Security Account may pass tax-free to the Family Security Account of the member's devisees.

(2) Each member shall purchase a minimum amount of disability insurance capable of replacing 50 percent of covered income.

III. VESTED SOCIAL SECURITY BENEFITS

A. Certain benefits to which an individual is entitled under the Social Security Act of 1935 and subsequent amendments shall vest at the time a worker elects to join the Family Security Program

(1) An individual and his or her family shall be entitled upon meeting the qualifications of the Social Security system, to all retirement and survivors benefits earned as of the date of election to join the Family Security Program.

(2) No individual, spouse or dependent shall be entitled to Medicare or Disability benefits after the person on whom those benefits are dependent elects to join the Family Security Program, except

(3) Any person who stays in the Social Security Program until at least age 65 may join the Family Security Program and shall receive full Social Security benefits, including Medicare. If, after 65, a person chooses to work under the Family Security Program, the funds in both his Retirement and Savings and Insurance Accounts shall be available at his discretion and shall accumulate tax-free.

(4) All persons shall continue to be covered by a new catastrophic Medicare coverage.

IV. AMENDMENTS TO THE SOCIAL SECURITY ACT OF 1935

Interim Financing

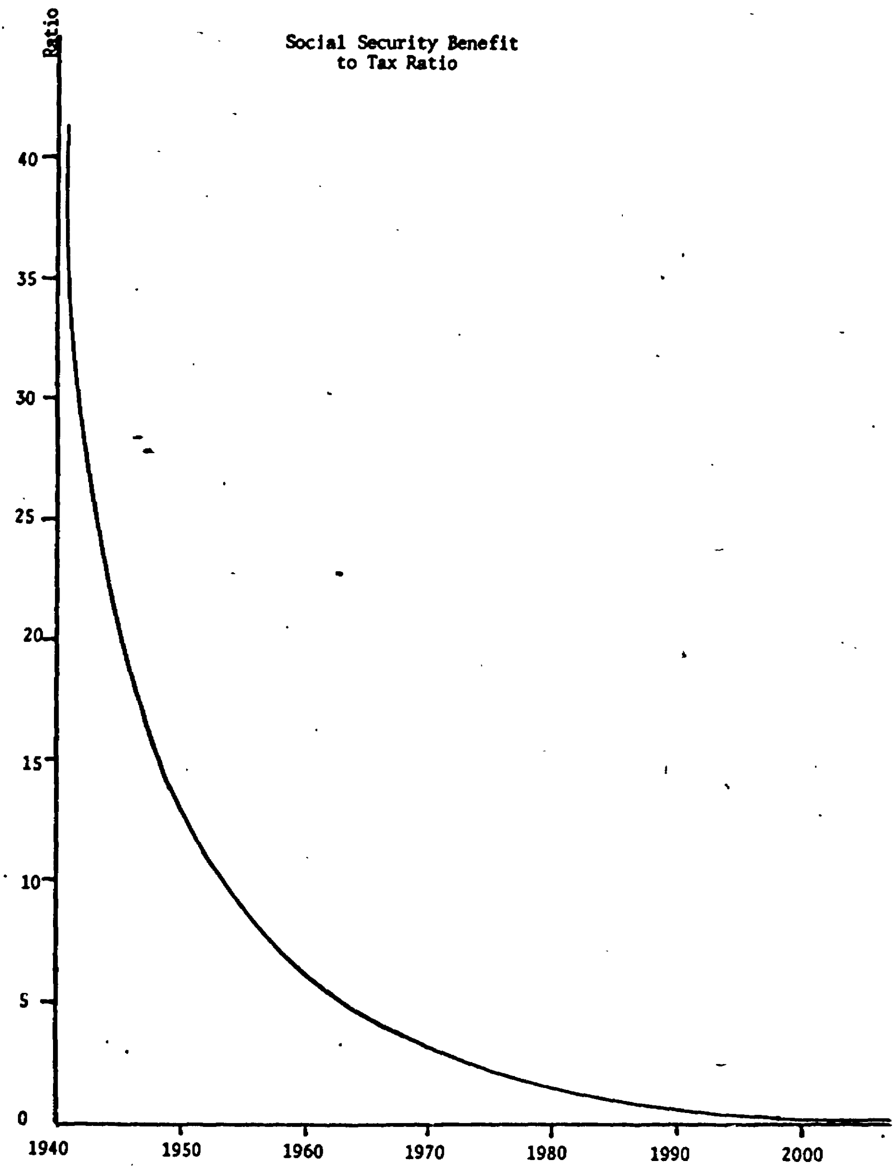
A. The combined payroll tax rate shall be 13.4 percent, 6.7 percent paid by the employer and the employee respectively.

B. (1) The Social Security Administration is hereby authorized to issue through the Treasury Department, Social Security Bonds in sufficient amounts to fund the revenue shortfalls created by this Act.

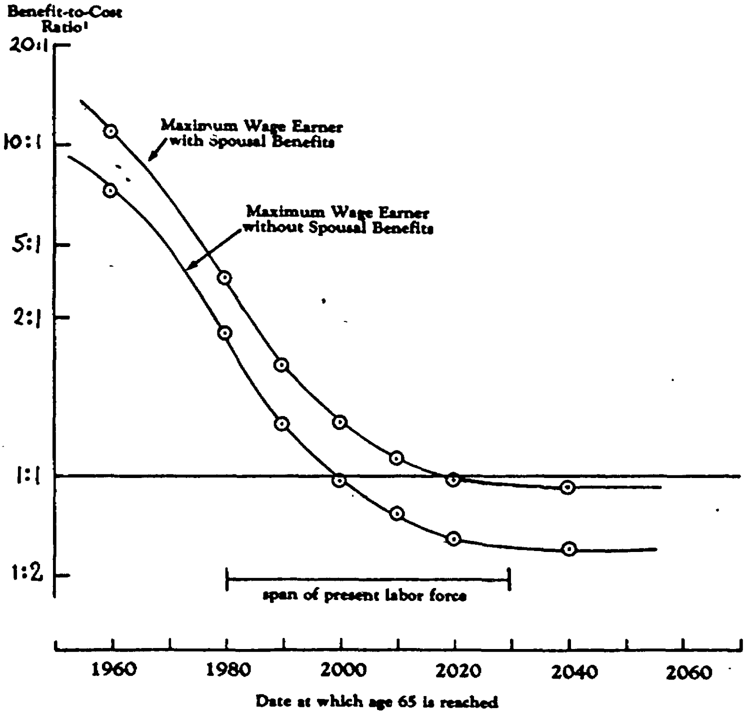
(2) Such authority shall cease thirty years from the date of this bill at which time such bonds shall begin being retired and any residual obligations of the Social Security system shall be met with general revenues.

C. There shall be no reduction in Social Security benefits at any age based on income from any source.

D. All persons over the age of 65 shall be covered by catastrophic insurance under the Medicare program.


Social Security Benefit
to Tax Ratio
Ratio
40
35
30
25
20
15
10
5
0
1940
1950
1960
1970
1980
1990
2000

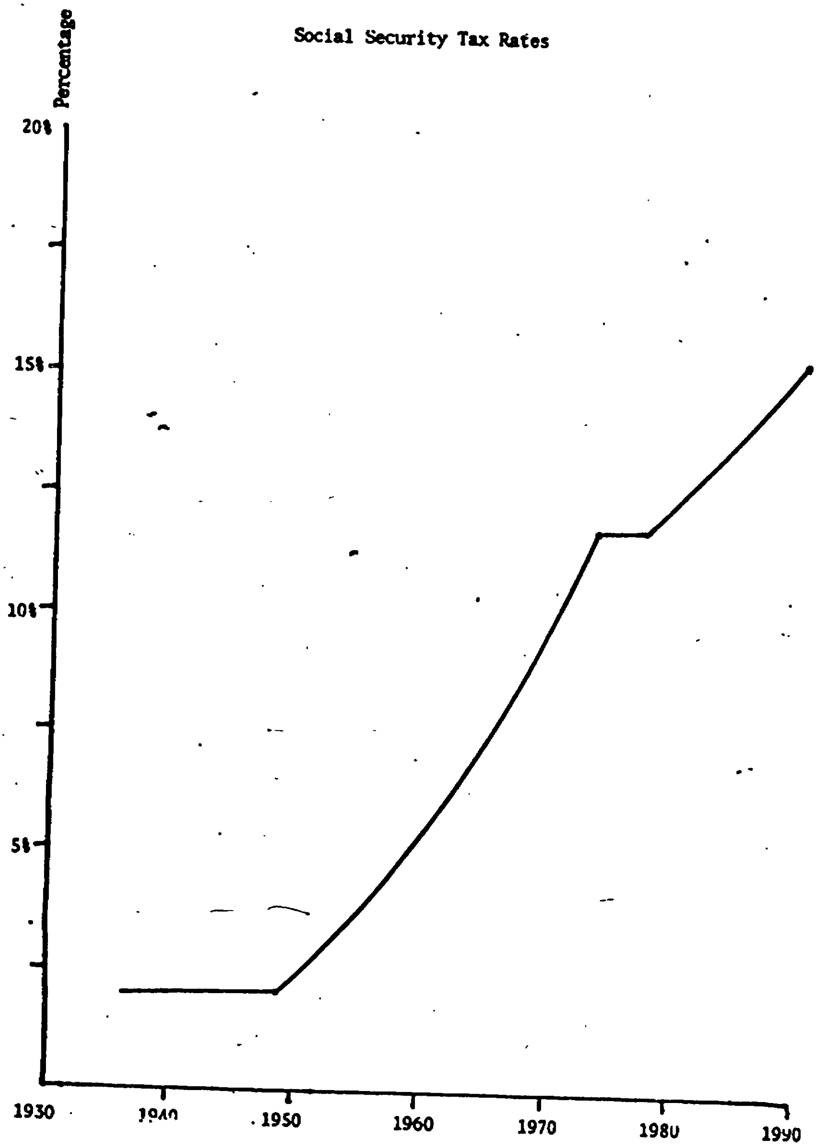
BENEFIT-TO-COST RATIOS FOR DIFFERENT GENERATIONS OF RETIREES



H.C. Wainwright & Co., Economics

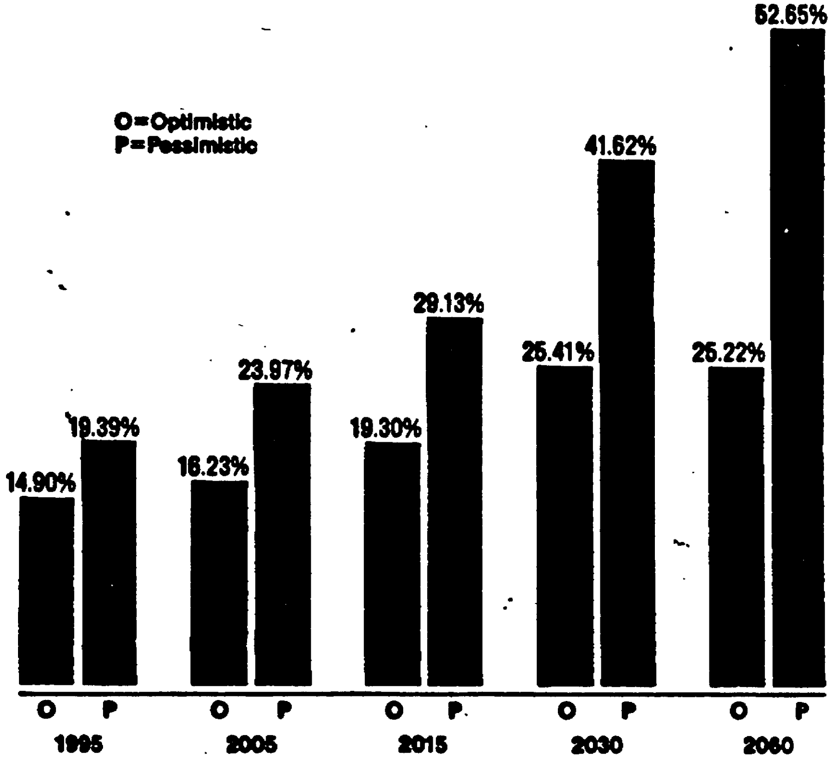
[1] Ratio of $\frac{\text{Discounted value of expected pension at age 65}}{\text{Accumulated value of lifetime contributions plus interest}}$

Social Security Tax Rates

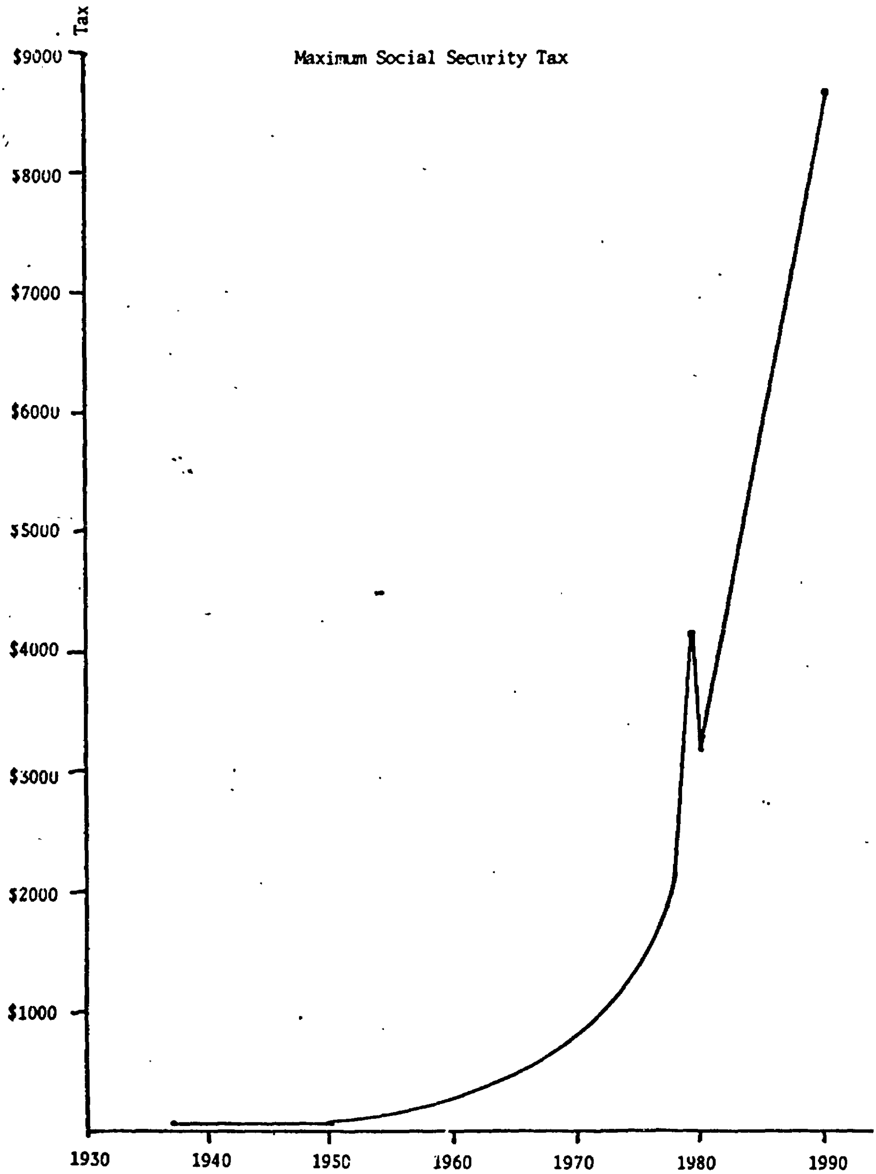


The Long Term Problem

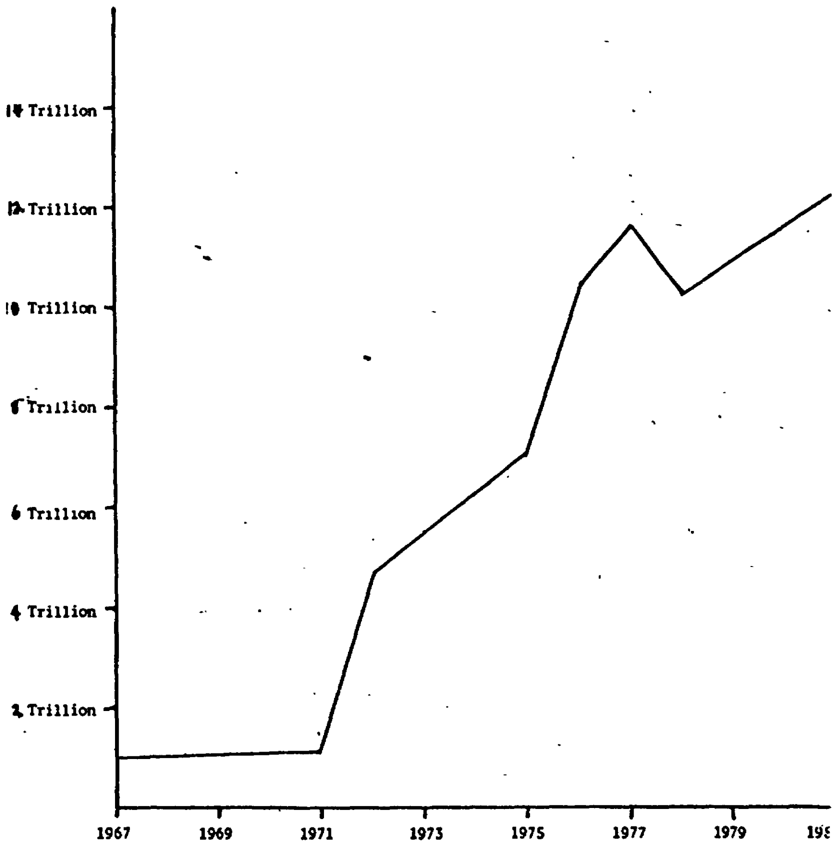
Projected Social Security Tax Rates Needed To Retain Solvency If Benefits Not Reduced



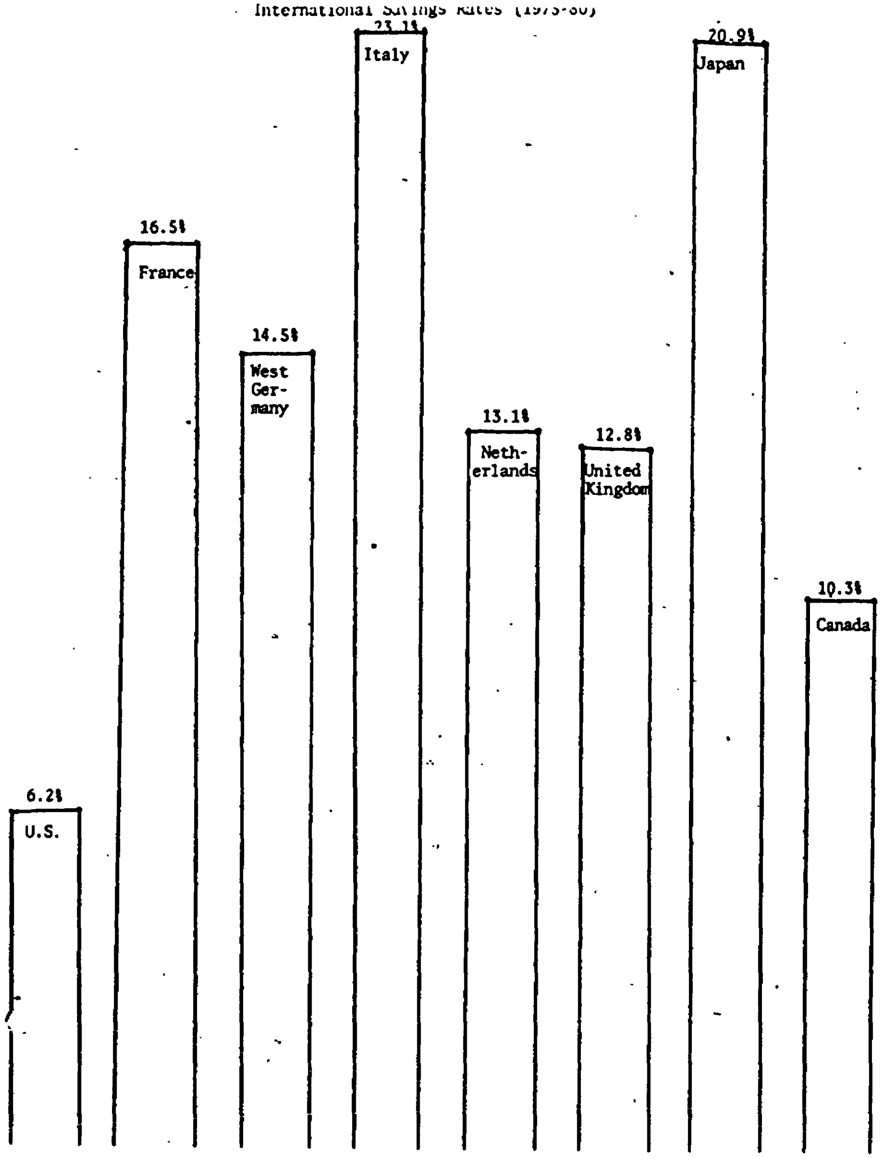
Source: Social Security Administration
Federal Reserve Bank of New York


Tax
Maximum Social Security Tax
$9000
$8000
$7000
$6000
$5000
$4000
$3000
$2000
$1000
1930
1940
1950
1960
1970
1980
1990

Present Value of Future
Social Security Benefits



International Savings Rates (1975-80)



FAMILY SECURITY PROGRAM

6% Compounded Monthly	$8,000 Annual Salary		$18,000 Annual Salary		$36,000 Annual Salary	
	Retirement (7.5%)	Savings (5%)	Retirement (7.5%)	Savings (5%)	Retirement (7.5%)	Savings (5%)
Monthly Deposit	$50.00	$33.33	$112.50	$75.00	$225.00	$150.00
5 Year FSA Value	$ 3,488.50	$ 2,325.43	$ 7,849.12	$ 5,232.75	$ 15,698.25	$ 10,465.50
10 Year FSA Value	$ 8,193.95	$ 5,462.08	$ 18,436.38	$ 12,290.92	$ 36,872.77	$ 24,581.85
15 Year FSA Value	$ 14,540.90	$ 9,692.96	$ 32,717.02	$ 21,811.35	$ 65,434.05	$ 43,622.70
20 Year FSA Value	$ 23,102.00	$ 15,399.79	$ 51,979.50	$ 34,653.00	$103,959.00	$ 69,306.00
25 Year FSA Value	$ 34,649.65	$ 23,097.45	$ 77,961.71	$ 51,974.47	$155,923.42	$103,948.00
30 Year FSA Value	$ 50,225.75	$ 33,480.48	$113,007.93	$ 75,338.62	$226,015.87	$150,677.25
35 Year FSA Value	$ 71,235.50	$ 47,485.58	$160,279.87	$106,853.25	$320,559.75	$213,706.50
40 Year FSA Value	$ 99,574.50	$ 66,376.36	$224,042.62	$149,361.75	$448,085.25	$298,723.50
45 Year FSA Value	$137,799.60	$ 91,857.21	$310,049.10	$206,699.40	$620,098.20	$413,398.80
Income from Family Security Percentage of Salary	$ 8,267.97 103 percent	$ 5,511.43 69 percent	$ 18,602.94 103 percent	$ 12,401.96 69 percent	$ 37,205.74 103 percent	$ 24,803.00 69 percent
Income from Social Security Percentage of Salary	$ 4,728.00 59 percent		$ 7,200.00 40 percent		$ 9,720.00 27 percent	

Mr. WOOTTON. Yes, sir. That had something to do with the legislative process. There might have been a kink in that process at that point.

The CHAIRMAN. That's what we call a notch.

Mr. WOOTTON. Mr. Chairman, the time has come to give people the option of saving their own money for retirement, and to scale down the social security system that is undermining the economy and the financial security of all Americans.

Social security requires higher and higher taxes to maintain benefits. The New York Federal Reserve Bank found that if pessimistic assumptions are correct and benefits are not cut, payroll taxes will be nearly 20 percent in 1995, 24 percent in 2005, 30 percent in 2015, 42 percent in 2030, and 53 percent in 2060.

In 1977, the Congressional Budget Office estimated that for each percentage increase in payroll taxes the U.S. economy loses 500,000 jobs. The system requires a vicious cycle of tax increases that cause unemployment, that cause revenue shortfalls, that require more tax increases.

It is morally and politically impossible to cut benefits enough to prevent this tax spiral. Inflation, Government regulations, and payroll taxes have made many senior citizens more dependent on social security than was ever intended.

Social security could never be passed today. It is an ill-designed program that takes money from the working poor and gives it to the retired rich, discriminates against women, and accounts for a third of the Federal budget.

Sixty-three percent of Americans feel that they could do better investing their money in an IRA instead of Social Security. Forty percent are ready to quit today and lose all the taxes that they have paid into the system.

The Family Security program would give people the option of saving for their own retirement, and buy their own private life and disability insurance.

I have included a legislative outline, and will take a minute to read a summary of the Family Security program.

All workers would be covered by either social security or Family Security. It would be mandatory. Employers of members of the Family Security program would send at least 15 percent of the employees' wages to a financial institution of the employee's choice instead of to social security. Seven and one-half percent would go into a retirement account similar to an IRA, which would be available when the member reached age 60. Seven and one-half percent to 17½ percent would be put in a worker's savings and insurance account. Part of that fund would be used to buy life and disability insurance.

Any person who joins the Family Security program will get any social security benefits earned up until the time he or she opted to join Family Security. A newly created catastrophic medicare coverage would cover over and above a certain minimum deductible, similar to what MediGap is today.

Social security bonds would be used to fund the shortfall in social security as people opt to join the Family Security program. Those bonds would be paid back as the economy grows to a point where the percentage of the economy involved would be much smaller.

I would like now to turn to the appendix to the testimony and those curves that you referred to, Senator. The unfortunate thing is that they are all going in the wrong direction. I know that a lot of people do not like to call this a "chain letter," but when you look at that first graph that shows the ratio of taxes paid in to benefits received has plummeted to the point where around the year 2000 many people will be getting less back in benefits than the taxes they paid.

I would like to turn to the final page, which is the table that shows how much you can earn if you put your money in an IRA. If you only put 7½ percent of your earnings in an IRA, and keep it there for the period that you work, you will at 6-percent interest, receive 103 percent of your salary back when you retire. And that's only half of what we are going to be asking people to put into social security.

Social security provides for the person earning $8,000, 59 percent of what he was earning. The average earner gets about 40 percent. And the person who is in the high-income bracket gets only 27 percent.

I would like to say to the committee today that I know this is radical, and I know it is way outside of what you all are considering, but it's coming. And if you all aren't aware that the American people have figured out that they can get a higher return from their money in investing it in the private sector than they are getting from social security then you are going to be left at the gate when this thing gets out of the barn.

Thank you very much.

Senator WALLOP. Thank you very much, Mr. Wootton.

Senator Moynihan?

Senator MOYNIHAN. First, I would like to thank you particularly for bringing us this data. We have Mr. Myers and other persons brought on specifically to look at this question and go over it. At this point, since I really don't have direct answers to your proposition—I don't know enough about it to be intelligent in questions—I would like to thank you and say we are not going to put this at the back of the testimony we have taken. We are going to ask Dr. Hambor over there to say, "Maybe he's right." We will take a good hard look at it. I promise you.

Mr. WOOTTON. Senator, I appreciate that.

Senator WALLOP. Senator Dole.

The CHAIRMAN. I have no questions. You are not without support for what you have suggested. Earlier, Senator Helms testified on somewhat the same approach. Other members of this committee have expressed the same ideas. We are looking at a way to expand the IRA's.

Mr. WOOTTON. Well, Senator, a problem that people have is that the lower income people don't have enough money to put into an IRA. You are taking 15 percent off the top for social security, and because it is not creating wealth, because it is not invested in the economy, what you can pay back is limited by the growth of the wage base. And, unfortunately, the wage base is shrinking. All the things that would make social security a good deal and has made it a good deal in the past are going against social security now. And the things that have always made investment in the private sector a good deal are becoming more and more apparent to the electorate. And as that becomes more and more apparent, I think that there is going to have to be some sensitivity on the part of Congress to this possibility.

Senator WALLOP. I, too, am interested in what you say. The one answer that I will be seeking out of this is what you do for the security of those accounts wherever they may rest because it strikes me that the ultimate liability of the Federal Government is probably not substantially reduced by a program such as this because for everyone that fails, we are going to have to pick up just as we are picking them up now. The welfare payment or some means to contributing to the livelihood of people whose investment accounts have been bilked or defrauded or simply failed by a collapsed moment in the economy when their time to retire comes or for a variety of other things.

So that's where I think most of us will be looking because it is fine on paper to make these splendid guarantees if you only get 6½ percent. Well, what if you get a minus 6½ percent?

Mr. WOOTTON. Well, interestingly enough, Senator, the studies show that from 1926 to 1982 there was, in fact, 6.9-percent return on equity, including the period of the Great Depression, and including companies that went bankrupt.

Senator WALLOP. But you are supposing that everybody does something responsible all the way through. And that's a big presupposition.

Mr. WOOTTON. No, sir. This is a mandatory program. They never see this money.

Senator WALLOP. Even so, you are attaching a lot of good faith to a lot of performances for taxpaying. If you can demonstrate it, that's fine with me. I'm not saying you cannot. I just think that that is one of the things that Congress has to look at.

Mr. WOOTTON. Well, that particular problem sometimes comes down to philosophy and ideology, but I think that when you look at the performance of the creation of wealth over time——

Senator WALLOP. If you will forgive me. I am not going to argue because we have a lot of witnesses to follow you, but it does not become a question of philosophy and ideology. It really comes down to the question of responsibility and accountability. And I would like nothing better than to make a sure guarantee that everybody could do everything to protect the security of elderly Americans, young Americans, and middle-aged Americans outside the Federal Government all the time. If we could do that, we wouldn't have to spend much time here. But the fact is we don't seem to be able consistently to do that. And so I don't think it is philosophical or an ideological argument. It's really just one that the ultimate accountability, whether we like it or not—if it doesn't work out there, we have to pick it up anyway is what I am saying.

Mr. WOOTTON. I understand the observation. Thank you very much.

Senator WALLOP. I appreciate it.

Next is Mr. Moe Biller, president of the American Postal Workers.

STATEMENT OF MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS, AFL-CIO, WASHINGTON, D.C.

Senator MOYNIHAN. Mr. Chairman, may I have the privilege to especially welcome Mr. Biller, my friend and fellow New Yorker, to this council. I see you are accompanied by colleagues. Perhaps you could introduce them so they will be recorded.

Mr. BILLER. Thank you very much, Senator.

Mr. Chairman, I am Moe Biller. At my left is our legislative director, Patrick Nilan. On my right is the executive vice president, William Burrus. And at his right is the legislative aide, Roy Braunstein.

I will attempt to consolidate the testimony. You have all the formal copy before you.

Thank you very much for the introduction, Senator. I am Moe Biller, president of the American Postal Workers Union, 320,000 members. And I appreciate the opportunity to express our union's views and concerns on this critical issue.

The social security system is central to our national well-being and of fundamental importance to all retired persons. Members of our union, like most Americans, strongly support efforts to solve the social security funding problems. Every one of our members has family members, relatives, or friends who must rely on the social security system. That gives us a vested interest in saving the system just like everyone else.

However, we are most distressed by recent suggestions that part of the social security problem be solved at the expense of Federal and postal workers. The proposal of the National Commission on Social Security Reform to mandate the inclusion of new Federal and postal workers in social security has been made with little or no regard to the effects that such a move would have on the civil service retirement system, and the millions of workers who have contributed to and depend on their civil service retirement annuities.

Extension of social security coverage to include new Federal and postal workers threatens the financial stability of the Federal retirement system and jeopardizes the retirement benefits of our current and future workers. The Social Security Commission paid little attention to the effects of their proposal on the civil service retirement system, a system which has been around since 1920. They did not concern themselves with the promised retirement rights of current Federal and postal workers and retirees. They did not consider the need for a supplemental pension for workers they propose to bring under social security.

The Commission also did not examine the impact of its actions on the Federal budget. I was most gratified to see members of this committee pursue the budget issues with the Commission in last week's hearings. At those hearings, Mr. Greenspan admitted that social security coverage for new Federal and postal workers will not improve the unified budget and would in fact, be "neutral."

From a budget perspective this verifies what APWU and the other unions have been contending all along: That the Commission's proposal will rob Peter—the civil service retirement system—to pay Paul—the social security system—with little or no net budget savings.

Mr. Chairman, I understand very well that this committee wants to solve the social security problem as quickly as possible. We share that desire. However, I am at a loss to understand how any responsible member can advocate acting so precipitously and unwisely with regard to civil service when the proposal to place new Federal and postal workers under social security will do little or nothing to solve the problem.

In November of 1982, the Commission published a document saying that the savings to social security over the next 5 years from coverage of new Federal and postal employees and nonprofit employees would be $21 billion. That figure has been pared down a number of times, and now they are talking about $12 billion savings.

When the Commission issued its report in January, a separate figure for Federal and postal workers was still not published, but we were told that a total of $20 billion would be saved. Again, we tried to get a breakdown, and this time we were told it was $11.7 billion that would be attributable to new and Federal postal workers.

More recently, Chairman Greenspan himself used an estimate of 12.5 billion in his testimony before your committee.

I don't know why, Mr. Chairman, the Commission has based such a momentous decision on fast and loose estimating. Because of the disparity in these figures, we asked our consultants to analyze the issue independently in order to give us a cost estimate. Our analysis, using data from OPM and assuming fairly large numbers of new Federal hires and 6½ percent annual wage increases, projects that the total revenue to the social security trust fund for new Federal and postal employees would pay, over the 6-year period, no more than $2.3 billion. A matching amount by the Government brings the total up to $4.6, plus the possible interest added on to those taxes would bring it up to approximately $5.4 billion. With a 6-year shortfall in social security of $150 to $200 billion, we are being asked to disrupt the civil service retirement system for $5.4 billion in social security funding, hardly 3 percent of the Commission's recommended package.

I want to call your attention to table 1 of my written statement. This table provides the assumptions for our conclusion concerning the contribution. My written testimony, which I have submitted along with supporting materials, goes into considerable detail on this question.

The civil serviee retirement system, unlike social security, is sound according to the actuarial reports issued by the Office of Personnel Management. The civil service system is a pay as you go system similar to social security. So removing new entrants from the system will change the nature of CSRS from a pay as you go plan to one that is fully funded.

I note that staff of the Social Security Commission has presented testimony disputing the need to fully fund the civil service retirement system if it becomes a closed system. I found these arguments lacking in objectivity, and am concerned for the well-being of Federal and postal employee retirees.

I want to submit, Mr. Chairman, for the committee and the hearing record a point by point rebuttal of the advisory memorandum that I have dated January 31. This was circulated by the Commission staff.

Our rebuttal, which I will now send up to the chair, was prepared by our consultants—Chamber Associates—and Mr. Jim Story specifically who has done a considerable amount of work on that.

[The rebuttal of Mr. Biller follows:]

American Postal Workers Union, AFL-CIO
817 14TH STREET, N. W., WASHINGTON, D. C. 20005

MEMORANDUM

TO: Moe Biller, President
American Postal Workers Union

FROM: James R. Storey, Consultant
Chambers Associates, Inc.

SUBJECT: Robert Myers' Memorandum on Social Security Coverage for New Federal Employment

On January 31, 1983, Robert Myers submitted a memorandum to the members of the National Commission on Social Security Reform entitled "Controversy Over Our Recommendation to Cover New Federal Hires." In his memorandum, Myers rebuts several of the arguments that have been raised against that particular recommendation. Following are my comments on the Myers rebuttal.

Nature of an Integrated Civil Service Retirement Plan

Myers bases his views on the premise that the Civil Service Retirement System (CSRS) would be modified for new hires in such a way that the combined benefits from CSRS and Social Security would closely parallel present CSRS benefits and that the financing of CSRS would be continued on a pay-as-you-go basis. While such intentions have been expressed by Commission members, the simple fact is that the Commission did not devise a new supplementary pension or a new financing mechanism. The design of such a new plan raises many complex issues as a subsequent Myers memorandum illustrates ("Possible Method of Modifying Civil Service Retirement System for New Hires if They Are Provided Social Security Coverage"--dated February 1, 1983.)

Unfortunately for Myers' argument, the only serious legislation that proposes integrating CSRS with Social Security is the Stevens bill. That bill, which reflects the views of the Chairman of the Senate Subcommittee having legislative jurisdiction, would yield results exactly opposite to the Myers presumptions. Stevens would end the pay-as-you-go funding approach for those in his new pension system, and his system would not guarantee benefit levels similar to the present CSRS for new federal and postal workers.

Long-Run Social Security Savings Due to Coverage of Federal Workers

Myers correctly points out that coverage of new federal hires is projected to improve the financial status of Social Security over the next 75 years by 0.3 percent of payroll. However, his memo does not state that this estimate is for the II-B intermediate series of actuarial projections. He does not indicate the estimate for the more pessimistic Series III projections, but it would be certain to show a much smaller benefit to the Social Security system.

Arguments Against Coverage of Federal Workers That Myers Accepts

The Myers memo acknowledges that coverage of new federal workers under Social Security will lead to an erosion of the tax base for federal, state and local income taxes due to the differences in tax treatment of Social Security and pension benefits. His criticism that federal workers have in the past advocated a different tax treatment for CSRS pensions is beside the point. He does not dispute the fact that the Commission proposal will narrow the tax base at a time when governments at all levels are seeking to broaden it.

Myers fails to address the most telling criticism against coverage of federal workers--that it is, financially speaking, an unnecessary part of the Social Security rescue plan. Coverage of new federal hires will improve Social Security funding by $12 billion during the 1980s according to the Commission's estimates. However, the rest of the Commission's proposals will bring in $157 billion, well over the $150 billion the Commission set as its minimum goal. The failure of the Myers memo to respond to this point continues a pattern of limiting information to the Commission members on this subject. For instance, the $12 billion figure was never separately identified in the 53 pages of options the Commission used in its deliberations. There has been no "official" estimate from the Commission, and preliminary investigations raise the question that $12 billion may substantially overstate the savings.

Conclusion

The Myers memo illustrates beautifully what is basically wrong with the Commission recommendation. The solutions to the problems that will be created for CSRS and the federal workforce were never thought through by the Commission members. The staff estimates provided little data on the options recommended. The approach taken by the Commission has been to force immediate action that, in effect, is a major reform of CSRS based on a vague concept not yet defined in legislation. Options that have been developed and studied for years have been ignored. Thus, regardless of the views of Members of Congress on the desirability of including federal workers under Social Security, they are being asked to rubber stamp one approach without any detailed idea of its implications. This proposal is made to save less than $12 billion over the next seven years for a Social Security system that will be adequately funded without any coverage extension to federal workers, given the Commission's other recommendations.

Senator WALLOP. If you would, summarize your statement.

Mr. BILLER. Yes, I will. Sorry.

To summarize the statement, Senator, trying to patch up the financial problems of the social security system by forcing all new Federal employees to pay into social security is nothing more than a fiscal sleight of hand. As I have explained before, it is robbing Peter to pay Paul. It seems extremely unfair that there is no supplemental plan in place that anybody can look at to see what they will be getting. And as described very well by Mr. Lane Kirkland, this situation is like buying a pig in a poke. I do not think the Congress of the United States would want to do that without really looking into the matter thoroughly.

Finally, the additional cost to the Government to amortize the civil service retirement system's unfunded liability is substantial. Social security coverage for new Federal and postal workers simply isn't worth the cost.

The real solution to the social security crisis is to put America back to work. It is clear that much of the current shortfall has been caused by the Reagan recession. For every 1 percent increase in unemployment, the social security trust fund is decreased by more than $2 billion per year. The way to increase social security revenue is to increase employment.

I thank you.

Senator WALLOP. Thank you, Mr. Biller.

[The prepared statement of Moe Biller follows:]

PREPARED STATEMENT OF MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS UNION

Mr. Chairman, I am Moe Biller, President of the American Postal Workers Union, the largest postal workers union in the world. I appreciate the opportunity to express the views and concerns of the 320,000 members of the American Postal Workers Union on this critical issue.

The Social Security system is central to our national well-being and of fundamental importance to retired persons. Members of the American Postal Workers Union, like most Americans, strongly support efforts to solve the Social Security funding problem. Every one of our members has family members, relatives, or friends who must rely on the Social Security system. That gives us a vested interest in saving the Social Security system.

We are, however, most distressed by recent suggestions that part of the Social Security problem be solved at the expense of federal and postal workers. The National Commission on Social Security Reform's proposal to mandate the inclusion of new federal and postal workers in Social Security has been made with little or no regard to the effects such a move would have on the Civil Service Retirement System (CSRS) and the millions of workers who have contributed to and depend on their CSRS annuities.

Any extension of Social Security coverage to include new federal and postal workers threatens the financial stability of CSRS and jeopardizes the retirement benefits of our current and future workers. The Social Security Commission paid little attention to the effects of their proposal on the Civil Service Retirement System, a program which has been around since 1920. They did not examine the impact of their actions on the federal budget. They did not concern themselves with the promised retirement rights of current federal and postal workers and retirees. They did not consider the need for supplemental pensions for workers they propose to bring under Social Security.

In short, the Commission has made a proposal without any knowledge of what their recommendation would do to the unifed federal budget or the retirement benefits of current Civil Service retirees, current federal and postal workers, and future employees of the federal government and the Postal Service.

Rightly, or wrongly, the Social Security Reform Commission did not consider these issues to be their "business." Now we are presented with a Commission "package" and told that this Committee intends to move the package as is. Mr. Chairman, the Commission may not have considered the impact on the Civil Service Retirement System its business, but this Committee and this Congress must consider it their business.

I submit to you that it is the business of the Congress to fully consider the impact of its actions before it passes legislation. I am appalled that the leadership of this Congress and the members of this Committee are so anxious to railroad this package through without any change that you are willing to ignore the impact of your actions on the five million workers, retirees, and survivors who are depending upon the Civil Service Retirement System for their livelihood in old age. To take this action without fully understanding its ramifications is irresponsible and a violation of the trust that voters place in their Representatives to educate themselves and to know what they are doing when legislation is passed.

Mr. Chairman, I understand that this Committee wants to solve the Social Security problem as quickly as possible. I share that desire. However, I am at a loss to understand why you are so willing to act so precipitously and unwisely with regard to Civil Service, when the proposal to place new federal and postal workers under Social Security will do little or nothing to solve the Social Security problem.

Short Term Savings to Social Security

In November of 1982, the Commission published a document saying that the "savings" to Social Security over the period from 1984-1989, from coverage of new federal and postal employees and non-profit employees would be $21 billion. My staff called the Commission to find out how much of that total was derived from coverage of new federal and postal workers. We were told that no separate breakdown of these figures existed, but that the staff estimated that $18 billion would come from federal and postal workers and $3 billion from non-profit workers.

When the Commission issued its report in January, a separate figure for federal and postal workers was still not published, but we were told a total of $20 billion would be "saved" from new federal and postal, and non-profit workers. Again, we tried to get a breakdown of the effect. This time we were told that $11.7 billion was attributable to new federal and postal workers. More recently, Chairman Greenspan used an estimate of $12.5 billion in his testimony before your Committee. Mr. Chairman, I don't know why the Commission has based this momentous decision on such fast and loose estimating.

Because of the fluctuations in the Commission's figures, we asked our consultants to analyze the issue independently and give us a cost estimate. Our analysts, using data from the Office of Personnel Management, have projected the impact on Social Security revenues using generous assumptions about the trends in new federal hires and federal wage growth. They found that the total payroll tax revenue to the Social Security Trust Fund new federal and postal employees would pay over the six-year period from 1984 to 1989 is like to be no more than $2.3 billion. The government match as the employing agency would produce at most another $2.3 billion for a total increase in payroll taxes of only $4.6 billion. Interest on these added taxes might earn the Social Security Trust Fund another $0.8 billion. With a six-year shortfall in Social Security of $150-200 billion, you are being asked to disrupt the Civil Service Retirement System for no more than $5.4 billion in Social Security savings, which is only about three percent of the Commission's total recommended savings.

Table 1.

INCREASED OASDI REVENUE DUE TO SOCIAL SECURITY FOR NEW FEDERAL AND POSTAL EMPLOYEES, FY 1984-89
(dollars in millions)

	FY84	FY85	FY86	FY87	FY88	FY89	FY84-89 Total
Employee Contribution	$42	$179	$304	$437	$583	$736	$2,281
Government Agency Contribution	$42	$179	$304	$437	$583	$736	$2,281
Total Additional Payroll Tax to Social Security Trust Fund	$84	$358	$608	$874	$1,166	$1,472	$4,562
Interest on Additional Payroll Tax	$4	$25	$68	$131	$222	$334	$784
Total Increase in Social Seourity Funds	$88	$383	$676	$1,005	$1,388	$1,806	$5,346

Note: These estimates are based upon the following assumptions: (1) wages will increase by 6.5 percent per year; (2) approximately 153,000 workers will be hired each year which is average of actual new hires of 169,000 in 1981 and 137,000 in 1982; (3) all federal and postal workers hired after January 1, 1984 will be covered by Social Security; and (4) interest rates will follow the Series III path used by the Social Security Actuary, declining from 10.5 percent in 1984 to 7.8 percent in 1989.

Mr. Chairman, the real solution to the Social Security crisis is to put Americans back to work. It is clear that much of the current shortfall has been caused by the Reagan recession. For every one percent increase in unemployment, the Social Security trust funds are diminished by more than $2 billion per year. The way to increase Social Security revenue is not by dismantling other retirement systems but by increasing employment.

__Costs To Civil Service Retirement System of Covering New Employees__

Coverage of federal and postal retirees is clearly not a major factor in solving the Social Security shortfall. Moreover, the Commission's data showing savings to the Social Security system are misleading because costs of dismantling the Civil Service Retirement System are not reflected in the data.

The Civil Service Retirement System is a financially sound plan for our workers -- the type of plan we intend to keep. Federal and postal employees have paid into the Civil Service Retirement fund since its inception in 1920, well before Social Security came into being. Together, the employee and employer contributions (along with an additional yearly employer contribution to make up for past liabilities) have created a healthy reserve of $98 billion in the Civil Service Retirement System Trust Fund, enough to fund the system for five years. I have attached to my testimony a detailed description of the current Civil Service Retirement System including a history of government funding policy over the past 63 years.

The federal retirement system is a pay-as-you-go system, like Social Security, with current workers contributing to the retirement benefits of current retirees. Actuarial projections over the next 100 years show CSRS to be a healthy system with Trust Fund revenues adequate to pay all projected benefits.

In a pay-as-you-go system like Social Security and CSRS, "unfunded liability" is not a useful concept since the very essence of the system is to defer to future years, and new generations of workers, the payment of benefits which current workers are presently accuring. Pay-as-you-go systems make sense for government pension programs, unlike private sector plans, because they are based on the assumption government will be around in 75 or 100 years.

If a pay-as-you-go system were to be closed, with new entrants removed from the system, the unfunded liability would become a debt which must-be paid. If you removed new employees from the Civil Service Retirement System and left the funding mechanism as is, the Civil Service Trust Fund eventually would not have sufficient funds to pay the benefits due retirees each year. By the year 2004, according to actuarial projections prepared by Ed Hustead, former Chief Actuary of CSRS and now of Hay Associates, the fund would be insufficient and large transfers from general revenues would be necessary to pay benefits. At that point, Civil Service retirees would be very vulnerable to major benefit reductions in order to reduce the amount of general revenue needed. Anticipating the massive shortfall which would occur in CSRS from removing new entrants, the only way to guarantee the future benefits promised by the current system is to amortize, through annual transfers into the Trust Fund, the dynamic unfunded liability of $538 billion, which must be done if the Civil Service Retirement System is changed from a pay-as-you-go to a closed system.

Table 2 is an amortization schedule for the unfunded liability assuming equal installments over 40 years. The $36 billion payment per year includes the principle of $538 billion and all interest due. The current CSRS funding formula provides for government payment of interest on the unfunded liability, so Table 2 represents some of the current costs plus additional costs.

Table 3 compares current costs to fully amortized costs in order to separately identify just the additional amount to be paid from the general revenue if the unfunded liability is amortized over 40 years. This table compares the cost to the government of maintaining CSRS for those now in the system under current financing, to the cost needed to make the currently required government payment plus the amount needed to amortize the unfunded liability over the next 40 years. Under the amortization schedule, Congress would have to appropriate to the Civil Service Retirement System Trust Fund an additional $640 billion to fully fund the benefits of current workers and retires.

Table 2

Amortization Schedule for CSRS Unfunded Liability*
Initial Unfunded Liability = $536.0

Year	Payment	Unfunded Liability
1983	36.1	$532.6
1984	36.1	529.0
1985	36.1	525.2
1986	36.1	521.2
1987	36.1	516.9
1988	36.1	512.4
1989	36.1	507.6
1990	36.1	502.5
1991	36.1	497.0
1992	36.1	491.3
1993	36.1	485.7
1994	36.1	478.7
1995	36.1	471.8
1996	36.1	464.5
1997	36.1	456.8
1998	36.1	448.6
1999	36.1	439.9
2000	36.1	430.6
2001	36.1	420.8
2002	36.1	410.4
2003	36.1	399.4
2004	36.1	387.7
2005	36.1	375.2
2006	36.1	362.1
2007	36.1	348.1
2008	36.1	333.2
2009	36.1	317.5
2010	36.1	300.8
2011	36.1	283.1
2012	36.1	264.2
2013	36.1	244.3
2014	36.1	223.1
2015	36.1	200.7
2016	36.1	176.8
2017	36.1	151.5
2018	36.1	124.7
2019	36.1	96.2
2020	36.1	66.0
2021	36.1	34.0
2022	36.1	0.0

* Assumes the amortization is made in 40 equal installments. This schedule for amortizing the unfunded liability in the Civil Service Retirement System, which would become necessary to meet obligations if new entrants were excluded from the system, was prepared by Edwin Hustead of Hay Associates.

Table 3

COST TO GOVERNMENT OF EXCLUDING NEW ENTRANTS TO CSRS

If new entrants are excluded from the Civil Service Retirement System, it will become necessary to transfer federal income tax revenue into the CSRS Trust fund in order to fully fund the benefits of current workers. Column 1 of the following table shows the government cost to maintain CSRS under current financing for those now in the system. Column 2 shows the payment required to meet current law plus the additional amount to amortize over 40 years, the unfunded liability needed if the CSRS system is closed to new entrants. The difference between Column 1 and Column 2 is the additional amount the taxpayers will have to pay to CSRS if new federal and postal workers are removed from the system.

($ billions)

Year	1	2	2-1
1983	20.50	29.31	8.81
1984	21.86	30.36	8.50
1985	22.88	31.27	8.39
1986	24.33	32.18	7.85
1987	25.43	32.89	7.46
1988	26.45	33.77	7.32
1989	27.30	34.65	7.35
1990	28.07	35.27	7.20
1991	28.92	35.85	6.93
1992	29.77	36.63	6.86
1993	30.62	37.10	6.48
1994	31.47	37.50	6.03
1995	32.32	37.51	5.19
1996	33.42	38.67	5.25
1997	34.61	40.18	5.57
1998	35.72	41.37	5.65
1999	36.91	42.56	5.65
2000	38.01	44.15	6.14
2001	39.46	46.21	6.75
2002	40.90	48.36	7.46
2003	42.43	50.60	8.17
2004	43.88	53.20	9.32
2005	45.32	55.92	10.60
2006	46.85	58.49	11.64
2007	48.47	61.48	13.01
2008	50.00	64.61	14.61
2009	51.53	67.90	16.37
2010	53.14	71.36	18.22
2011	55.18	74.98	19.80
2012	57.14	78.78	21.64
2013	59.18	82.77	23.59
2014	61.13	86.96	25.83
2015	63.17	91.35	28.18
2016	65.30	95.96	30.66
2017	67.42	100.80	33.38
2018	69.46	105.87	36.41
2019	71.08	111.18	40.10
2020	73.71	116.76	43.05
2021	75.75	123.30	47.55
2022	77.79	130.20	52.41
40 Year Total	1786.88	2428.26	641.38

Additional cost to the taxpayer of closing CSRS is more than $640 billion over the 40 year period.

Source of table: Edwin Hustead, former Chief Actuary, Civil Service Retirement Trust Fund, now of Hay Associates.

Members of Congress should understand that removing new federal and postal workers from CSRS will set in motion a process which will destroy the system. This destruction comes in the guise of saving Social Security, yet over the next six years, the net reduction in the Social Security shortfall gained by diverting new postal and federal employee taxes into the Social Security Trust Fund is actually exceeded by the loss of revenue to the Civil Service Retirement System. In addition, the need to amortize the unfunded liability in CSRS, which becomes necessary when new entrants are removed, will cost the general revenue coffers an additional $640 billion.

Clearly, the savings to the Social Security system in the short run from covering new federal and postal employees are simply not worth the cost of dismantling the Civil Service Retirement System. The same is true in the long run.

The National Commission on Social Security Reform's final proposal claims there will be long term savings in Social Security resulting from the coverage of federal and postal workers. Given the massive long term imbalance of the Social Security Trust Fund under either moderate (II-B) economic assumptions or pessimistic (III) asssumptions, it is stretching way beyond the margin of error to state that extended coverage will have any signficant impact at all.

Coverage of new workers early in their careers provides a positive, though minimal, flow of revenues into the Social Security System. Upon retirement, however, the benefit payments to the same workers will greatly exceed their previous tax payments. In the long run, Social Security benefits paid to federal and postal employees can be expected to exceed the amount that federal and postal employees pay into the system.

Therefore, the alleged long run cost savings to the Social Security Administration from inclusion of new federal workers simply derives from the fact that any pension system incurs lower costs initially while there are few beneficiaries. Over the course of the 75 year period in which the Reform Commission based their long term economic assumptions, the Commission claimed savings to the system of 0.28 percent of payroll. They do not publish that this percentage is an average over the 75 year period which begins small, reaches 0.24 percent in 1992, climbs to 0.42 percent of payroll in 2025, and then begins to drop rapidly. (These figures are drawn from the January, 1982 Congressional Research Service report entitled, "Restructing CSRS: Analysis of Options to Control Costs and Maintain Retirement Income Security"). Once a full cohort of workers paying into the system retires, then the savings disappear and in fact, depending on the performance of the economy, coverage for new federal and postal workers may ultimately increase Social Security costs.

To tell the truth, I'm not sure I even trust the Commission's •figures of an average savings of 0.28 percent of payroll. They don't publish their assumptions concerning the number of new federal workers, the growth in the federal labor force, or the average wage rates at which new workers are hired. Since short term savings are less than they have said, the 75 year savings may be overstated as well.

Arguments Against Coverage for New Hires

Mr. Chairman, the financial data argues strongly against placing new federal and postal employees under Social Security. In the next six years, the revenue to Social Security collected from new federal and postal workers is only $2.3 billion, not enough to even make a dent in the shortfall. The loss of revenue to the Civil Service Retirement System from lost employee contributions over the same time period will be $2.5 billion.

Trying to patch over the financial problems of the Social Security system by forcing all new federal and postal employees to pay into it is nothing more than a fiscal sleight of hand. Money is simply being transfered between budgetary accounts. It is actually "robbing Peter (CSRS) to pay Paul (Social Security)."

Short term gains for Social Security will ultimately mean huge pressures on the Civil Service Retirement System. The cost to the federal treasury of closing out the Civil Service Retirement System over the next 40 years will be $640 billion, an impossibly high price to pay for so little gain in the Social Security system. Federal general revenues, funds from taxpayers, will have to make up this difference or our benefits will be drastically reduced.

Over the next 75 years, there probably will be some gain to the Social Security system from covering federal and postal workers. The Social Security Actuary estimates an average of 28/100 of 1 percent of payroll under one set of economic assumptions. In any case, the gains that occur may be wiped out once all federal workers are in the Social Security system and all federal and postal retirees are drawing benefits.

The Social Security Reform Commission by its recommendation has threatened the retirement security of retired, active and future postal employees. Mr. Chairman, American postal workers deliver more mail, more efficiently, for less money than any nation on earth. We move 110 billion pieces of mail per year, or some 161,879 pieces per employee -- a productivity per worker rate that is 44 percent above that of our closest competitor, Japan.

We are able to attract and maintain a qualified work force by offering a respectable wage plus a strong retirement plan. If you take those incentives away, you will see our workforce become less productive as good people move to the more lucrative private sector.

The Civil Service Retirement System is a good system. It is comparable to retirement plans of large private sector employers. The American Postal Workers Union commissioned a study to compare CSRS, the largest pension plan in the country, with other large plans. At most ages after retirement, CSRS is less generous than the largest private sector plan, that of General Motors, and is either comparable to or less generous at most ages than the second largest program, which is sponsored by AT&T. I will submit the study, conducted by ICF Incorporated, for the hearing record of the Committee.

The Civil Service Retirement System is a good system. It is not overly generous compared to large private sector plans, but it is an attractive plan to our workers. The Civil Service Retirement System, as I have stated earlier, is an actuarially sound plan. For that we thank the members of the House Post Office and Civil Service Committee and the Senate Governmental Affairs Committee. There is simply no justifiable rationale for destroying the Civil Service Retirement System.

I urge the members of this Committee to protect the retirement rights of past, current, and future postal and federal workers by deleting from the amendments under consideration the Social Security coverage extended to new federal and postal workers.

Senator WALLOP. Senator Moynihan.

Senator MOYNIHAN. We thank you, Mr. Biller, for this study by Chamber Associates. This, I would take it, would be in response to Mr. Myers' memorandum.

Mr. BILLER. Yes, indeed.

Senator MOYNIHAN. We are very conscious of the facts that you have rasied. We had a panel of your colleagues of Federal employees in yesterday, and spent a long time on this.

First of all, you might want to know that a fellow New Yorker, Sister Serena, testified on behalf of Catholic Charities earlier this afternoon. They had two things they wanted to insist on. They supported the report, but they said there must be a supplemental retirement system combined with social security. I am aware that that might not be what you want, but I assure you that whatever else happens, if this goes through, there will be a supplemental insurance system, and your future workers will be made whole.

What we are concerned with is that we have heard—the chairman over there has heard it—that the full faith and credit of the U.S. Government is behind that civil service retirement. And, Moe, I see what you are going to say, but who is going to be here in 5 years', 10 or 20 years' time? And that's true, too. And we don't have an answer to that except that the Government has been around a long time, and means to be around a long time. The U.S. Government has been around almost twice as long as unions. We are very stable institutions, both of us. And we will take a very hard look at your numbers. We know we have an absolute responsibility to, first of all, maintain the integrity of the present civil service retirement systems, of which your present employees and retirees are a part, and also to see that those who come along behind them have as good as, or even a better system—because there are aspects of social security which are, in truth, better than the Federal retirement system, because of some of the disability provisions and so forth.

Mr. BILLER. I would like, if I may, to spend a few minutes responding to your comments. I understand what you say but I think before a decision is made to include new Federal and postal hires in social security—in the interest of fairness—people should see what type of a supplemental system they are going to get. They should also be able to have some input into developing a new supplemental plan.

Congress is a deliberative body. Even though the National Commission on Social Security Reform has developed a package that they say is fragile, there is still time to make it right.

I would also like to remind you gentlemen—and I know that you don't have to be reminded—that if you speak to railroad workers who were given the same assurances, you would find a disillusioned group of workers. I wish we could get some testimony from them. They tell me some of them were left with as little as $5 a month, and protecting people who allegedly were grandfathered into the windfall bit in 1974. Appropriations, made in a flat amount, ran short and the people didn't receive the benefits they were promised.

I'm not arguing that anybody is going to renege on our benefits, but similar promises are being made elsewhere. To us these promises don't represent anything at this time. And, at the very least, before you wipe the new people from the civil service retirement system, you should let us have some input into developing a supplemental plan. The ultimate decision is, of course, up to the Congress of the United States.

Senator MOYNIHAN. Well, may I say that I think that is a perfectly fair comment. And I think you do not just participate. You are, after all, recognized. You are representing 380,000 Federal employees. You have a right to be part of the deliberations. And we have a responsibility to see that you are. I think that's the chairman's view. I know it is mine.

Mr. BILLER. Slow the chairman down for us.

Senator WALLOP. Chairman Dole.

The CHAIRMAN. Well, my time is up. [Laughter.]

As you know, we had a panel yesterday.

Mr. BILLER. Yes.

The CHAIRMAN. We are aware of the concerns. Everybody has got a concern. A lot of the people would like to delay the 6-month COLA delay, and others would like to delay other things. We have until January 1, 1984 to develop a supplemental plan. Plus it's 5 years before any new employees would vest anyway so we have got considerable time to put together the supplemental package. However, I'm not suggesting that we should not try to have something available to look at in the next 2 or 3 weeks.

According to Senator Moynihan, we have gotten signals from people who should be involved that they are hard at work on a supplemental package right now. Now I haven't seen it. Mr. Devine didn't indicate that it was yet put together when he was here yesterday.

We have some flexibility but not very much in this compromise. You indicate that the fact that the Commission made a recommendation shouldn't necessarily bind the Congress. But I find a lot of support for what we did in the Commission.

Mr. BILLER. I'm sure there is because there is great concern for the system. And I don't think that we are seeking any special privilege or right. But when Mr. Devine tells us he can get something in place in 2 to 3 weeks, it had better be a lot better than what he has done for the Federal employee health benefit program and so on.

I think there is a real obligation to reconsider this and to give some time and attention to at least this aspect of it. And I don't think it is going to cost the Government a nickel. Just all we are asking is to be fair. And I think it is only right.

The CHAIRMAN. Again, we appreciate your testimony. Having been on the Commission and having worked to put the package together, that doesn't prejudice us. I hope we still have somewhat open minds if, in fact, this is a concern we should address. We are going to start to work after we finish our public hearings today at the staff level to go back through all the testimony and all the flags that have been raised to see what we can do before we start a markup about a week from Monday.

Mr. BILLER. You know, gentlemen, the Federal employees—and it's not a matter of tiers; it's a matter of record—have been hit heavy. They have included now the medicare. There used to be a kicker and that was wiped out. And then they had a twice-a-year

COLA and that has been wiped out. And I don't intend to take your time with the budget proposals in terms of Federal workers. So if we feel that we are singled out, I don't think we are feeling self-conscious. Admittedly, as a matter of fact, whether I am for or against the 6-month freeze, the way the CPI is going now, it appears that hopefully that is not going to hurt them either. So, again, we seem to be the only group that has come out of this thing with—really, I think it behooves you, again to think in terms of fairness so that we will know in advance what our retirement plan will be and have input into developing that plan. And that's what we would appreciate.

The CHAIRMAN. How do you feel about the windfalls that accrue to Government workers? About 70-80 percent get social security benefits. Do you support the elimination of those windfalls?

Mr. BILLER. Let me say this. People have talked about windfall as it relates to people who fall into social security for a short period of time. There are also many people who have worked in both systems for very long periods of time. Many Federal employees come in after they have worked in the private sector. However, if there is a problem there, I think that problem should be addressed rather than a buckshot approach to the entire thing.

The CHAIRMAN. Well, we do address that separately, at least we think we do.

Thank you.

Senator WALLOP. I give my thanks to Mr. Biller. Senator Dole and Senator Moynihan said the Commission isn't bound by their findings, but I find that this Senator feels relatively bound by what the Commission found. They were the ones who spent all the time on it. And if those Commission members change, I am willing to follow that dog, but I'm not willing to jump out in front of him. I'm afraid he would bite me.

I just figure that those who have spent so much time on that Commission in other studies studying and crafting this compromise have a good deal of my respect, and my admiration for the way they are traveling. And I will be really looking to them in many respects for leadership on this issue.

I appreciate what you have done here. I appreciate what both Senators Dole and Moynihan said by understanding your desire to be heard.

Thank you, sir.

Mr. BILLER. Thank you.

Senator MOYNIHAN. Thank you, gentlemen.

Senator WALLOP. Now the next witness was scheduled to be Mr. Robert Myers, but I understand that he has been asked to agree to hold off until the next panel presents their testimony.

And that's a panel consisting of Mr. Thomas E. Brennan, president, Cooley Law School, Lansing, Mich.; Ms. Judy Goshy, personnel manager, Society of Automotive Engineers, Pittsburgh, Pa.

STATEMENT OF THOMAS E. BRENNAN, PRESIDENT, COOLEY LAW SCHOOL, LANSING, MICH.

Senator WALLOP. Please proceed, Mr. Brennan.

Mr. BRENNAN. Mr. Chairman, and Senators, I appreciate the opportunity to appear here this afternoon and offer my point of view on the amendment of the social security laws.

My concern is with that portion of the amendment which will require nonprofit, tax-exempt schools, colleges and universities and their employees to pay social security taxes.

I am the president of the Thomas M. Cooley Law School in Lansing, Mich. It is an independent, nonprofit, tax-exempt professional graduate school. Along with some other interested lawyers and judges, I was privileged to be a founder of Cooley Law School just 10 years ago when I was still a Justice of the Michigan Supreme Court.

The law school has flourished in its brief history. Fully accredited by the American Bar Association, it now boasts more than 1,100 students, nearly 2,000 alumni, and over $5 million in assets, buildings, books and furnishings.

Most of this has been accomplished, I am proud to say, by the generosity and hard work of private benefactors. The governmental contribution to Cooley Law School has consisted of a modest State subsidy and, of course, the real property income tax and social security tax exemptions which have permitted the school to accumulate its surplus, pay off the mortgage, modernize its buildings and acquire its library.

It is our historic public policy both at the State and Federal level to encourage and support educational institutions. I'm sure I need not dwell on the importance of education in our society or the contribution which privately supported colleges make to the public welfare. But I must tell you, Mr. Chairman, that this social security tax amendment is going to impact Cooley Law School most severely. It will cost the school and its employees over $330,000 per year.

The current national focus on social security has had one important and useful effect. We are finally beginning in America to recognize the social security tax for what it really is. A tax, plain and simple. It is not an insurance premium. It is not a retirement account. It is not a savings plan for our twilight years.

The social security tax is actually two taxes. A payroll tax and an income tax. The income tax portion of that tax is the most regressive and burdensome form of taxation. A flat rate income tax with a ceiling to exempt the rich, and no exemptions to help the poor.

It is proposed in this Congress by this legislation that an annual tax of nearly $1,000 be levied against the secretary of our school who supports herself and her family on $13,000 a year. How am I supposed to explain to her when she comes into my office in tears to tell me what $20 a week means to a 30-year-old working mother of two young children? Do you think that she will be comforted to hear that this crushing blow to her personal finances is being forced upon her by a benign Federal Congress that promises in return to take care of her in her old age?

Of course not. She will say, "Don't do me any favors. It's all I can do to put shoes on my kids' feet and put food on my table."

Make no mistake about it, the social security tax is a tax on the working poor. But I suppose that some Senators will argue that actually payroll taxes and income taxes become sales taxes when they are added to the tax of goods and services so that in the long run those who spend money rather those who earn it are the real taxpayers.

On this theory some will suggest that Cooley Law School merely increase its tuition; pass the cost of taxation along to the consumer. I certainly expect to hear that suggestion from our faculty and our staff.

But in the case of Cooley Law School, our consumers are students, 24, 25, 26, 30, 35 year old men and women struggling to advance their education while juggling jobs and family responsibilities. Typically, they are trying to live on $3,000 to $6,000 a year after paying tuition, which is already more than $4,000 a year.

If we pass the social security tax through to our students, it will cost them $10 a credit hour, or approximately $300 a year. These students can ill afford another $300 a year. They are already being burdened with mountainous debts which will haunt them for decades after graduation.

What am I to tell the students? That a wise and kindly Federal Congress has determined that all of our citizens of working age, regardless of their ability to pay, must be taxed for redistribution to all of our citizens beyond working age regardless of their need. You can well imagine that 1,200 law students will not be easily convinced by the wisdom or fairness of that policy.

I urge the committee and the Senators to consider these equities as they struggle with the proposed social security tax amendments. I urge that the optional exemption for nonprofit schools and colleges be left intact, if only as a window on a private sector alternative to see if Mr. Wootton, who testified here earlier, is correct.

[The prepared statement of Thomas Brennan follows:]

Prepared Statement of Thomas Brennan, President, the Thomas M. Cooley Law School

I appreciate the opportunity to appear here this afternoon to offer my point of view on the amendment of the Social Security laws.

My concern is that portion of the amendment which will require non-profit, tax-exempt schools, colleges and universities, and their employees to pay Social Security taxes.

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The Law School has flourished in its brief history. Fully accredited by the American Bar Association, it now boasts more than 1,100 students; nearly 2,000 alumni, and over 5 million dollars in assets, buildings, books and furnishings. Most of this has been accomplished, I am proud to say, by the generosity and hard work of private benefactors.

The governmental contribution to Cooley Law School has consisted of a modest state subsidy -- and, of course, the real property, income tax and social security tax exemptions which have permitted the school to accumulate its surplus, pay off the mortgage, modernize its buildings and acquire its library.

Those tax exemptions have reflected an historic public policy, both at the state and federal level, to encourage and support educational institutions.

I'm sure I need not dwell on the importance of education in our society, or the contribution which privately supported colleges make to the public welfare. But I must tell you that this social security tax amendment is going to impact Cooley Law School most severely. It will cost the school and its employees a total of over $330,000 per year.

The current national focus on Social Security has had one important and useful effect. We are finally beginning, in America, to recognize the social security tax for what it really is -- a tax, plain and simple.

It is not an insurance premium, it is not a retirement account, it is not a savings plan for our twilight years. The Social Security tax is actually two taxes -- a payroll tax and an income tax.

The income tax portion of that tax is the most regressive and burdensome form of taxation -- a flat rate income tax, with a ceiling to exempt the rich and no exemptions to help the poor.

It is proposed in this Congress by this legislation, that a tax of nearly one thousand dollars be levied upon a secretary in our school who supports herself and her family on $13,000 per year.

How am I supposed to explain that to her, when she comes into my office in tears to tell me what $20 a week means to a thirty-year old working mother of two young children?

Do you think that she will be comforted to hear that this crushing blow to her personal finances is being forced upon her by a benign Federal Congress that promises in return to take care fo her in her old age?

Of course not. She will say, "Don't do me any favors. It's all I can do to put shoes on my kids feet and food on my table."

Make no mistake about it. The Social Security tax is a tax on the working poor.

But I suppose that some Senators will argue that, actually, payroll taxes and income taxes become sales taxes when they are added to the cost of goods and services - so that in the long run, those who spend money, rather than those who earn it, are the real taxpayers. On this theory, some will suggest that Cooley Law School merely increase its tuition -- pass the cost of taxation along to the consumer.

I will certainly expect to hear that suggestion from our faculty and staff.

But in the case of Cooley Law School - our consumers are students - 24, 26, 30, 35 year old men and women, struggling to advance their education while juggling jobs and family responsibilities.

Typically, they are trying to live on 3 to 6 thousand dollars a year, after paying tuition which is already more than 4 thousand dollars per year.

If we pass the Social Security tax through to our students, it will cost them ten dollars a credit hour or $300 per year. These students can ill afford another $300 per year. They are already being burdened with mountainous debts which will haunt them for decades after graduation.

What am I to tell our students?

That a wise and kindly Federal Congress has determined that all of our citizens of working age regardless of their ability to pay must be taxed for redistribution to all of our citizens beyond working age, regardless of their need?

You can well imagine that 1,100 law school students will not be easily convinced of the wisdom and fairness of that policy.

I urge the Committee and the Senators to consider these equities as they struggle with the proposed Social Security tax amendments.

I urge that the optional exemption for non-profit schools and colleges be left intact.

STATEMENT OF JUDY GOSHY, PERSONNEL MANAGER, SOCIETY OF AUTOMOTIVE ENGINEERS, PITTSBURGH, PA.

Senator WALLOP. Ms. Goshy.

Ms. GOSHY. Thank you for giving me the opportunity to testify today. I am Judy Goshy, personnel manager of the Society of Automotive Engineers, a nonprofit, section 501(c)(3) organization.

SAE is a scientific educational organization of over 40,000 members who work in all phases of automotive engineering in such diverse areas as automobiles, trucking, railroad, shipping and aerospace.

SAE is headquartered in Warrendale, Pa., and currently employs approximately 150 people. I am testifying today on behalf of SAE and its employees in regard to the National Commission's recommendation that social security coverage should be extended on a mandatory basis as of January 1, 1984 to all employees of nonprofit organizations not currently covered by this social security system. This recommendation, if adopted by Congress, would affect approximately 1 million nonprofit employees not presently covered by the social security system.

SAE and its employees oppose the National Commission's recommendation for two reasons. First, this recommendation unfairly discriminates against nonprofit employees as compared to both State and local employees and Federal employees. It perpetrates an inequity for all nonprofit organizations who are not now covered by social security.

Second, adoption of this recommendation would have an adverse impact on nonprofit employees and their current employee benefit programs. As an example, allow me to very briefly describe SAE's situation.

After an intensive 3-year study of the feasibility and practicality of withdrawing from social security coverage, SAE developed an alternative packet of benefits considered by both SAE and the employees as superior to social security. We revised our noncontributory, fully funded, defined benefit pension plan to include a cost of living adjustment, and disability provisions. We added a new tax deferred 403(b) employee savings plan with partial matching employer contributions, and a provision allowing supplemental unmatched employee contributions.

We also greatly increased our existing term life insurance program for our employees. SAE did not withdraw from social security to save money. Withdrawal enables us to efficiently and actively manage our total benefit package, rather than be at the mercy of Government actions.

Also, since benefit program costs are paid as they accrue, we have increased assurance that assets will be on hand to pay the benefits promised to employees. If we are forced back into social security, SAE will have to reduce severely or possibly eliminate certain benefits. This would destroy certain employee expectations, and create significant employee morale problems.

In lieu of the National Commission's recommendation, SAE asks that nonprofit organizations presently not in the social security system be accorded the same and equal treatment as State and local employees. That is, be allowed to remain out of the system.

Failing that, social security coverage should at the very least be extended only to newly hired nonprofit employees in a manner consistent with the treatment of Federal employees.

Again, SAE and its employees thank you for giving me this opportunity to testify today. And we request that you take a few moments to review the written statement that we submitted earlier last week.

Senator MOYNIHAN. That's why we don't have it here.

Ms. GOSHY. It was submitted last Friday.

Senator MOYNIHAN. That's called efficiency in Government.

Senator WALLOP. Senator Moynihan, did you have any questions?

Senator MOYNIHAN. Thank you.

These are views of which we are aware. There are many persons, in addition to yourself, who would like the changes you are requesting. We don't want to do anybody any harm. We have a commitment, however, to the social security system. Nonprofit hospitals have said that they have much the same problem, but larger. Well, it doesn't matter how big you are, if you have the problem, the problem is big to you.

I would like to thank you for your testimony. How did you get a law school from zero to 11,000 people in 10 years.

Mr. BRENNAN. It's only 1,100, Senator.

Senator MOYNIHAN. Eleven hundred.

Mr. BRENNAN. But I say that 1,100 lawyers cross-examining you on a subject that is near and dear to their hearts is a very difficult group of people to talk to. I would invite the Senator to come and speak at one of our graduations and have a shot at all those people who are going to have to pay higher tuitions.

Senator MOYNIHAN. I think Senator Levin and Senator Riegle are probably more likely to be near at hand, but I appreciate the invitation. It might be worth while to see if I have enough wit left to match them. I doubt it.

Mr. BRENNAN. I'm sure you would enjoy it, Senator. Thank you.

Senator WALLOP. Well, I would just add my own observation to that.

I hear what you and the hospitals and others have said, but I have to tell you that I hear even more clearly what I believe to be the most potent political cry in this country, and that is the structure of the social security system so that those who are on it and approaching it can have confidence in it. I would say that in my experience at least with the elderly people in Wyoming that they have a good deal more confidence in it than do the young people. They have lived with it and have seen it raise their benefits right along. And it's the young who are not objecting to contributing to it. They are objecting to contributing to something that they are not certain is going to exist. And this is a very, very potent political cry. Make no mistake about it. It is something that is very much on the minds of young people who feel that their parents who may be emerging into retired status are going to become their wards and not be able to exist and live on a social security check. And they are damn close to right given the status of that system now. They really are.

And they are frank to tell you, I think, that they are less willing to—though obliged to and obviously will—shoulder the burden of supporting parents from a social security system that doesn't work than your students who may be concerned about an increase in their tuition. Those are balancing, competing judgments that this Congress has to make.

But I understand what you are saying. It's difficult for somebody to pay an increased tuition. It's very difficult also to contemplate supporting an elderly parent or pair of parents or a disabled child with a system that can no longer function. That's kind of what the Congress is up to. And it may be that you are saying that we are trying to do somebody a favor by putting them into this system, and in point of fact, we are, because we are answering another need that is clearly every bit as much there as the one you described.

Mr. BRENNAN. Does the Senator ever wonder whether the crisis in confidence is not with the social security system but with the full faith and credit of the U.S. Government?

Senator WALLOP. That may well be. Of course, I wonder that. But I have yet to see anybody demonstrate that this Government does not live up to its obligations. We, at least, have not. I guess the State of California has gone to issuing IOU's and other things.

I would think to tell you that I would be willing to state that the full faith and credit of this Government is perhaps the most reliable.

Mr. BRENNAN. Unlike California, the United States of America doesn't have to use script because their greenbacks are adjustable.

Senator WALLOP. Clear enough. And one of the reasons why it's adjustable is because everybody says, well, there is only going to be 2 percent of the social security problem solved by putting us in under it or 6 percent of it or 9 percent of it or anything else. And what you do is percent yourself out of a solution, and maintain the circumstance where we have these enormous deficits anyway.

That's the complication that we face. And it's not a lack of understanding of the problems that both of you bring up. And I think by my statement here I am not saying that I reject the arguments that you brought here, and clearly we will look at them as Senator Moynihan and Senator Dole have stated. But we have other arguments to look at at the same time. I guess that's the explanation that I am making.

Ms. GOSHY. Our organization fully appreciates the financial difficulties that the system is having, but we, as an organization, are having great difficulties explaining to our employee group as well as I think other nonprofit organizations are having difficulty explaining why the nonprofit group is being treated differently than the Federal employee group. You know, we are having a terrible time explaining it. We, ourselves, don't understand why we are being treated differently than the Federal employees. Why as far as equity and fairness is concerned are we not being treated the same at least as the Federal employee group?

Senator WALLOP. I will leave that to the Commission members. I think I know the answer, and I think it sits right behind you. They have a very effective political organization.

But it is, in effect, though—I would just say this and let Senator Moynihan speak for himself, that the Federal employees are already in a contributing mode to a Federal retirement program which undergirds their elderly years.

Senator MOYNIHAN. That is the answer. Thank you very much.

Senator WALLOP. And now we arrive at Mr. Robert Myers.

STATEMENT OF ROBERT J. MYERS, EXECUTIVE DIRECTOR, NATIONAL COMMISSION ON SOCIAL SECURITY REFORM, WASHINGTON, D.C.

Senator WALLOP. Welcome, Mr. Myers, and thank you for accommodating Senator Dole's request.

Mr. MYERS. Mr. Chairman, and members of the committee, I will just summarize my statement. I hope that the statement and the several attachments that I mentioned will be put in the record.

[The prepared statement and attachments of Robert J. Myers follow:]

PREPARED STATEMENT OF ROBERT J. MYERS, EXECUTIVE DIRECTOR, NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Mr. Chairman and Members of the Committee: my name is Robert J. Myers, and I have been Executive Director of the National Commission on Social Security Reform, whose operations terminated on February 19. I held various actuarial positions with the Social Security Administration and its predecessors during 1934-70, and was Chief Actuary during 1947-70. I was Deputy Commissioner of Social Security during 1981-82.

The views that I am expressing today are entirely my own and are not necessarily those of any of the organizations with which I have been affiliated recently. I wish to stress, however, that I fully support the recommendations of the National Commission, although there are certain of them that I do not like. Nonetheless, as is the case for many other persons and organizations, I believe that this is the best feasible package to resolve the short-range and long-range financing problems of the Old-Age, Survivors, and Disability Insurance system. As I will discuss later, there are a few elements for which change is desirable, but in no instance would these remove any of the basic elements of the consensus agreement.

I shall devote my remarks primarily to the recommendation as to coverage of new federal hires. I do this because there has been so much erroneous information disseminated on this matter by certain organizations. As you will recall, Mr. Alexander Trowbridge, a member of the National Commission, at your hearings on February 15 inserted in the record a detailed analysis of these erroneous statements, which I had prepared. I shall now briefly review my major points.

It has been claimed that covering all new hires under Social Security will bankrupt the Civil Service Retirement system, because there will be a decreasing group of active workers on whose salaries contributions will be paid by them and by the Government. This is not correct, because the CSR Fund really includes a considerable number of different pension plans, and they are funded in the aggregate on the basis of the total payroll of all active employees in all of the plans combined. In other words, the entire liabilities of all of the plans are considered, and an average Government contribution rate is determined and is levied against the total payroll of the then active employees.

It has been asserted that the Social Security system will have only short-term cash-flow gains, and the additional benefit liabilities created will put it in a worse position in the long run. This is not correct, because the actuaries of the Social Security Administration have always estimated that extension of coverage to federal employees would result in a long-range savings to the OASDI program. This results primarily because of the elimination of the windfall benefits under OASDI that approximately 80% of CSR retirees obtain through outside covered employment.

Some allege that high costs will arise for the Federal Government and thus for taxpayers because the unfunded accrued liability of CSR, which is at least $200 billion, and can be as much as $500 billion under some funded bases, must be paid off immediately or in the next few years. This is not correct, because -- just as under the present CSR program -- interest on the unfunded accrued liability can be paid in all future years and can be properly levied on the total payroll of all active workers, whether they are in the present CSR system or in the modified one which would apply to new hires.

It is also asserted that the Federal Government will have reduced income-tax receipts because a larger proportion of CSR pensions is taxable than is the case for OASDI benefits. This is a rather strange argument, because the employee organizations have for many years complained about this inequity -- which really only applies for the small proportion of CSR pensioners who do not also receive OASDI benefits. Now they seem to be arguing that this inequity is great! Some employee organizations contend that the total cost to the taxpayers for this recommendation plus a suitable supplementary plan will be far more than the present CSR program. If such is the case -- and I do not believe that it is -- this would mean that federal retirees would be receiving much larger benefits. And if so, why are the employee organizations arguing so vehemently against it?

Finally, the question has been raised as to whether a satisfactory supplementary plan can be designed quickly enough to be available next January 1. Private employers, with the assistance of pension consultants, can develop suitable arrangements in a few months, and certainly the Federal Government should be able to move as rapidly.

In testimony before the Committee on Ways and Means of the House of Representatives on February 2, I submitted one possible supplementary CSR program for new hires in a memorandum dated February 1 (copy attached hereto). The approach taken there, which dealt only with CSR, was to have a completely separate revised CSR plan which would supplement OASDI. I have since then developed another approach which I believe is better because it can be applicable equally to all of the various federal employee retirement systems, including the congressional one (and even if it applied to present employees, as some people have proposed). The approach of this method is merely to offset the benefit developing under the present plan by the proportionate amount of the OASDI benefit based on the federal service covered by the supplemental plan. This proposal is described in detail in the attached memorandum of February 18.

I suggest two changes in the consensus package of the National Commission. First, the notch in the proposal to make 50% of Social Security benefits by subject to income tax for persons with high other income must be eliminated. Otherwise, inequities and manipulations will occur. For example, an individual with a pension slightly above the trigger amount would have part of it commuted into a lump sum so as to be below the trigger and would invest the lump sum in tax-free municipal bonds.

The other problem is that the financing of the OASDI program under the consensus package is very thin in 1985-87 if economic conditions are not as favorable as the moderately pessimistic ones assumed in the actuarial cost estimates.

This is despite the fact that there seems to be adequate financing in 1983-84 and in 1988-89 (when the tax rate is significantly increased). I believe that the consensus package should be strengthened by having in addition both a stabilizing device and a fail-safe provision (especially the latter) available in 1984 and after. Desirably, the stabilizing device of indexing by the lesser of wage and price increases, which is contained in the consensus package but is not effective until January 1989, should be available in all years. It is likely that such a device would not be necessary in the next few years, but if it were needed, then it would be most essential to avoid or at least to lessen a financial catastrophe.

Various fail-safe devices are possible, such as temporary loans from the General Fund with prescribed repayment provisions and automatic increases in tax rates or reductions in cost-of-living adjustments becoming effective if repayments are not made promptly. My preference would be that loans from the General Fund should not be used, except possibly for periods of less than one month, and that any shortages in the Trust Fund balances should be met equally by automatic increases in the tax rates and reductions in the cost-of-living adjustments.

NATIONAL COMMISSION ON SOCIAL SECURITY REFORM
736 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20503

February 1, 1983

GENERAL MEMORANDUM

FROM: Robert J. Myers
Executive Director

SUBJECT: Possible Method of Modifying Civil Service Retirement System for New Hires if They Are Provided Social Security Coverage

This memorandum will present a possible method for revising the CSR system for new hires if OASDI coverage were extended to them, effective January 1, 1984. The objectives underlying this proposal are to have as simple an arrangement as possible, to provide equitable treatment to the employees affected, and to have approximately the same overall cost to both employees and the Federal Government. (It should be noted that, beginning in 1983, all Federal employees are covered under HI, and the tax rates therefor are payable both by the employees and the Federal Government.)

Although this memorandum refers only to the CSR system, the same general procedure could apply to other Federal-employee retirement systems (for example, the plans for Members of Congress and employees of the Legislative Branch).

No changes would be made in the early-retirement ages currently applicable under CSR. The only changes in benefit amounts for new hires would be for months when the individual is also eligible for OASDI benefits. Thus, for example, considering retirement benefits, exactly the same CSR amount would be payable (and under the same conditions) as at present for persons who retire before age 65, during the period before that age. Then, at age 65 and over, if the individual is then eligible for OASDI benefits (on the basis of covered earnings from Federal service and other employment combined), the amount payable under CSR will be lower than at present.

Specifically, for new entrants after 1983, the CSR amount after age 65 under the foregoing circumstances would be determined from two average salaries -- (1) the high-3-year average salary determined from the OASDI covered earnings (i.e., not counting any salary above the maximum taxable earnings base) and (2) the high-3-year average salary based only on amounts above the OASDI maximum taxable earnings base. (It is very likely that the former average salary will be that for the last 3 years of service, but the latter average salary might be based on earlier periods of service -- in particular, for persons whose total salary does not rise as rapidly as the general wage level, and thus not as rapidly as the OASDI earnings base rises.) The benefit factors applicable to the first type of average salary would be .75% for each of the first 5 years of service, .875% for the next 5 years of service, and 1% for years of service in excess of 10 years -- i.e., half of those currently used for present employees (namely, 1.5% for the first 5 years of service, 1.75% for the next 5 years of service, and 2% for years of service in excess of 10).

These benefit formulas are intended to produce the same aggregate benefits (and thus cost) as the present system. However, the distribution of benefit amounts among employees (particularly those at different earnings levels) would eventually be somewhat different.

The same general procedure would apply to disability benefits. The full present CSR benefits would be payable for all months when the individual was not eligible for receipt of OASDI disability benefits (e.g., for disabilities which meet the CSR definition, but not the OASDI one and for disabilities during the OASDI 5-month waiting period even though the disability met the OASDI definition). When the individual would be eligible for disability benefits under both systems, the revised method of computation of CSR benefits would be applicable.

The same general procedure would also be followed for widow's benefits under CSR, by being applicable only in months when eligibility exists for both CSR and OASDI benefits and then applying the revised benefit computation method for the primary benefit described previously. Child's benefits under CSR would be eliminated for new hires (because the OASDI benefits would generally be larger).

As to employee contribution rates, the present basis of a 7% rate, plus the HI rate (up to the earnings base) would be continued. Part of the 7% rate would be allocated to the OASDI Trust Funds (with the amount being equal to the OASDI tax rate at the time multiplied by earnings up to the earnings base), with the remainder going to the CSR Fund. The Federal Government would continue to meet the remainder of the cost of the independent, supplemental CSR program for new hires, plus the employer share of the OASDI-HI tax rate.

Robert J. Myers

RJM:ejd

February 18, 1983

GENERAL MEMORANDUM

FROM: Robert J. Myers

SUBJECT: Possible Method of Modifying Civil Service Retirement System by an Offset Procedure for New Hires if they are Provided Social Security Coverage

This memorandum will present a possible method for revising the CSR system for new hires if OASDI coverage were extended to them, effective January 1, 1984. The general approach used is to offset the proportionate amount of the primary OASDI benefit in the case of retired or disabled workers (and the entire family survivor benefit, when applicable) due to the newly covered Federal salary of those to be covered under the proposal. Such salary will be termed here as "Federal-pension-coverage" salary (or, for short, FPC salary).1/ The approach described in this memorandum is commonly described as the offset procedure.

This approach differs from that described in my memorandum of February 1 on this general subject, which had the general basis of establishing an add-on procedure, so that the revised CSR annuity

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1/ If an individual has both FPC salary and other covered earnings in a year, and if the total exceeds the maximum taxable earnings base, then the FPC salary will be considered to be the actual FPC multiplied by the ratio of the earnings base to the total of the FPC salary and the other earnings.

would be computed independently of the OASDI benefit. Such an approach -- although feasible and simple -- would have the disadvantage that different bases would have to be used for each of the various Federal-employee retirement systems.

The objectives underlying the proposal described in this memorandum are to have as simple an arrangement as possible, to provide equitable treatment to the employees affected, and to have approximately the same overall cost to both employees and the Federal Government. (It should be noted that, beginning in 1983, all Federal employees are covered under HI, and the tax rates therefor are payable both by the employees and the Federal Government.)

Although this memorandum refers only to the CSR system, exactly the same procedure could apply to other Federal-employee retirement systems (for example, the plans for Members of Congress, employees of the Legislative Branch, and the Foreign Service Retirment system). The procedure would not apply to Federal employees who are currently covered by the OASDI program -- those in the armed forces, temporary civilian employees, and employees of the Tennessee Valley Authority and the Board of Governors of the Federal Reserve Board. (It may be noted that the exact same procedure could be used for current Members of Congress if coverage were extended to them -- as some people have proposed, even though the consensus package of the National Commission on Social Security Reform did not propose this.)

No changes would be made in the early-retirement ages currently applicable under CSR. The only changes in benefit amounts for new hires would be for months when the individual is also eligible for OASDI benefits (whether or not actually receiving them), except that this would not be applicalbe for early-retirement OASDI benefits payable at ages 62-64. Thus, for example, considering retirement benefits, exactly the same CSR amount would be payable (and under the same conditions) as at present for persons who retire before age 65, during the period before that age. Then, at age 65 and over, if the individual is then eligible for OASDI benefits (on the basis of FPC earnings and of earnings from other employment combined), the amount payable under CSR will be lower than at present.

Specifically, for new entrants after 1983, the CSR amount after age 65 would be the amount under present law <u>minus</u> an offset equal to the OASDI primary benefit (PIA) based on FPC salary. Such FPC PIA would be the product of (a) the PIA based on all covered earnings (including FPC salaries for 1984 and after) and (b) the ratio of (1) total <u>indexed</u> FPC salaries (for 1984 and after) to (2) total <u>indexed</u> covered earnings (including FPC salaries for 1984 and after, and all other covered earnings for 1951 and after). The deduction would apply only against the worker's benefit, and not against any auxiliary benefits for the spouse or children.

As an example, consider a new hire in 1984 who has 10 years of Federal service and who has 30 years of other covered service (either before 1984 or after cessation of Federal service). Assume that his or her salary was the same in all 40 years (after taking into account the indexing of the earnings record). Then, the PIA would be computed on the basis of the entire 40-year earnings record. The deduction from the

CSR annuity, beginning at age 65 (the FPC PIA) would then be 25% of the PIA (i.e., 10 years divided by 40 years).

This procedure is intended to produce the same aggregate benefits for persons who have retired (and thus the same cost) as the present system. However, the distribution of benefit amounts among employees (particularly those at different earnings levels) would eventually be somewhat different.

The same general procedure would apply to disability benefits. The full present CSR benefits would be payable for all months when the individual was not eligible for receipt of OASDI disability benefits (e.g., for disabilities which meet the CSR definition, but not the OASDI one and for disabilities during the OASDI 5-month waiting period even though the disability met the OASDI definition). When the individual would be eligible for disability benefits under both systems, the revised method of computation of CSR benefits would be applicable.

The same general procedure would also be followed for survivor benefits under CSR, applicable only in months when eligibility exists for both CSR and OASDI benefits; the revised benefit computation method for the primary benefit would be applied as described previously. However, the offset would be based on the total family CSR benefit and on the proportionate OASDI benefit for the entire family which arisesfrom the FPC salaries. For example, if the FPC PIA is 25% of the PIA based on all covered earnings (as in the previous example), then -- except for widow(er)'s benefits when no child is present -- the deduction from the CSR total family benefit would be 25% of the OASDI family benefit (after account is taken of the maximum family benefit, but before account is taken of the earnings test or the anti-duplication provision). For widow(er)'s benefits when no child is present, no deduction against the CSR benefit would be made until the beneficiary attained age 65; then, the deduction would be computed in the same way as is done for retired workers.

As to employee contribution rates, the present basis of a 7% rate, plus the HI rate (up to the earnings base) would be continued. Part of the 7% rate would be allocated to the OASDI Trust Funds (with the amount being equal to tne OASDI tax rate at the time multiplied by earnings up to the earnings base), with the remainder going to the CSR Fund. The Federal Government would continue to meet the remainder of the cost of the independent, supplemental CSR program for new hires, plus the employer share of the OASDI-HI tax rate.

Robert J. Myers

Mr. MYERS. I have been Executive Director of the National Commission on Social Security Reform, whose operation terminated on February 19. The views that I am expressing today are entirely my own.

Senator MOYNIHAN. My God, free at last.

Mr. MYERS. Yes, Senator.

I wish to stress, however, that I fully support the recommendations of the National Commission although there are certain of them that I do not like. Nonetheless, as is the case for many other persons, I believe that this is the best feasible package to resolve the short-range and long-range financial problems of the program.

There are a few elements for which change is desirable, but in no instance would these remove any of the basic elements of the consensus agreement.

I shall devote my remarks primarily to the recommendation as to coverage of new Federal hires. I do this because there has been so much erroneous information disseminated on this matter. As you will recall, Mr. Alexander Trowbridge, a member of the National Commission, at your hearings on February 15, inserted in the record a detailed analysis of these erroneous statements which I had prepared. I shall briefly review my major points.

It has been claimed that covering all new hires under social security will bankrupt the civil service retirement system because there will be a decreasing group of active workers on whose salaries contributions will be paid by them and by the Government. This is not correct because the civil service retirement fund really includes several different pension plans, and they are funded in the aggregate on the basis of the total payroll of all active employees in all the plans combined.

In other words, the entire liabilities of all the plans are considered, and an average Government contribution rate is determined and is levied against the total payroll of the then-active employees.

It has been asserted that the social security system will have only short-term cash-flow gains, and the additional benefit liabilities created will put it in a worse position in the long run by covering new Federal employees. This is not correct. The actuaries of the Social Security Administration have always estimated that extension of coverage to Federal workers would result in a long-range savings to OASDI. This results primarily because of the elimination of the windfall benefits under OASDI that approximately 80 percent of civil service employees obtain at age 62 or over through outside covered employment.

Some allege that high costs will arise for the Federal Government, and thus for the taxpayers because the unfunded accrued liabilities of CSR, which are at least $200 billion, and can be as much as $500 billion under some funding bases, must be paid off immediately. This is not correct. Just as under the present CSR program, interest on this liability can be paid in all future years, and can be properly levied on the total payroll of all active workers, whether they are in the present CSR system or in the modified one which would apply to new hires.

It is also asserted that the Federal Government will have reduced income tax receipts because a larger proportion of CSR pensions is taxable than is the case for OASDI benefits. This is a rather strange argument, because the employee organizations have for many years complained about this inequity, which really only applies for the small proportion of CSR pensioners who do not also receive OASDI benefits. Now, they seem to be arguing that this inequity is desirable.

Some contend that the total cost to the taxpayers for this recommendation plus a suitable supplementary plan will be far more than the present CSR program. If such is the case—and I do not believe that it is—this would mean that Federal retirees would be receiving much larger benefits. If so, why are the employee organizations arguing so vehemently against it?

Finally, question has been raised as to whether a satisfactory supplementary plan can be designed quickly enough to be available next January 1. Private employers can develop suitable arrangements in a few months. Certainly the Federal Government should be able to move as quickly.

In testimony before the House Ways and Means Committee, I submitted one possible supplementary CSR plan for new hires, in a memorandum dated February 1, which I would like to submit for the record.

Senator MOYNIHAN. It will be made part of the record.

Mr. MYERS. Thank you.

The approach taken, which dealt only with CSR, was to have a completely separate revised plan which would supplement OASDI. I have since then developed another approach which I believe is better, because it can be applicable equally to all of the various Federal employee retirement systems. The approach is merely to offset the benefit developing under the present plan by the proportionate amount of the OASDI benefit based on the Federal service covered by the supplementary plan, and similarly to offset the OASDI contribution rate against the Government and employee contributions.

Senator MOYNIHAN. Since I have you here, would you walk us through that once more.

Mr. MYERS. As to my revised new supplementary plan, which I would like to have included in the record I would like to describe it briefly as to the contributions. Let's just consider civil service retirement, where the employees now pay 7 percent of their total salary.

They would continue to pay the same amount, but the OASDI part of that 7 percent would go into the social security system. The rest would go into the civil service retirement system. In the same way, the Government, which is now contributing somewhere over 30 percent of payroll for civil service retirement, would continue contributing that 30 percent, but the social security (OASDI) tax would be taken out of it, and the remainder—some 24 or 25 percent—would go into the civil service retirement fund. So, unlike what some of the employee organizations say, the civil service retirement fund would not dry up.

Senator MOYNIHAN. But it would also mean that contributions into the OASDI would be somewhat less. They would be less by that portion of the employee contribution that goes to the civil service retirement system.

Mr. MYERS. No, Senator. The entire OASDI contribution would go to social security, just as for any other employee in the country. And the difference between that amount and the 7 percent that the employees pay would go into the civil service retirement fund, so the 7 percent would more than meet the OASDI contribution rate.

Senator MOYNIHAN. Oh, I'm sorry. I'm thinking of disability. Social security is 5.7 percent.

Mr. MYERS. Yes.

Senator MOYNIHAN. I'm thinking that the total goes up to about 7 percent.

Mr. MYERS. That's correct, because now the hospital insurance part of the FICA tax is paid anyhow by Federal employees.

Senator MOYNIHAN. And there would be an additional 1.3 percent that would go into the fund?

Mr. MYERS. That's right.

Senator MOYNIHAN. I've got it.

Mr. MYERS. On the benefit side, the civil service retirement benefits, for example, would be paid just as they are now before age 65 is reached. I would not touch the eligibility ages or anything like that. But when the employee reaches age 65, the civil service retirement annuity would be reduced by an amount equal to the proportion of the social security benefit that came from Federal service.

Senator MOYNIHAN. And so in that respect there would be no change in the experience of a person who spent the better part of his career in the Federal service?

Mr. MYERS. Yes, that is correct. For somebody who is only a career Federal worker, it would not make any difference. What this would do, and where the savings comes, is that it would prevent the windfall benefits.

In my memorandum of February 18, which is attached to my statement, I described this proposal in more detail. But that is the broad principle of it. It is an offset-type plan, offsetting both the contributions and the benefits.

Now turning away from Government employees, I suggest two changes in the consensus package of the National Commission. First, the notch in the proposal to make 50 percent of social security benefits be subject to income tax for persons with high other income must be eliminated. The Commission realized this. As you know, the Social Security Subcommittee of the House Ways and Means Committee has taken action to do this. Their approach is one of many ways. Whether this committee will want to do it that way or some other way, that notch must be eliminated.

The CHAIRMAN. You have been following the subcommittee's markup?

Mr. MYERS. Yes, I have, Mr. Chairman.

The other problem is that the financing of the OASDI program under the consensus package is very thin in 1985 to 1987 if economic conditions are not as favorable as the moderately pessimistic ones assumed in the actuarial cost estimates. There seems to be adequate financing in 1983 and 1984 and in 1988 and 1989, when most of the 1990 tax rate is brought forward.

I believe that the consensus package should be strengthened by having, in addition, both a stabilizing device and a fail-safe provision, especially the latter, available in 1984 and after. Desirably, the stabilizing device of indexing by the lesser of wage and price increases, which is contained in the consensus package but is not effective until January 1989, should be available in all years. It is likely that such a device would not be necessary in the next few years. But if it were needed, then it would be most essential to avoid, or at least lessen, a financial catastrophe.

Various fail-safe devices are possible, such as temporary loans from the general fund with prescribed repayment provisions and with automatic increases in tax rates or reductions in COLA's becoming effective if repayments are not made promptly. My preference would be that loans from the general fund should not be used, except possibly for periods of less than 1 month, and that any shortages in the trust fund balances should be met equally by automatic increases in the tax rates and reductions in the cost-of-living adjustments, possibly sharing the burden equally between increased taxes and decreased COLA's.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Myers, have you had an opportunity to review all the testimony that we have had or most of it?

Mr. MYERS. Yes, I'm familiar with most of the testimony that has occurred. I have either been here, or I have seen the statements, or I have heard accounts of them.

The CHAIRMAN. Have you had a chance to review the response to your earlier memo that Mr. Biller just presented the committee?

Mr. MYERS. No, unfortunately, I have not seen his response. I will be most anxious to see it. I was here for his verbal testimony, and some of the points there I would take some issue with.

The CHAIRMAN. Right. We hope you would take a look at that and then provide us with a response that we could place in the record.

Mr. MYERS. Yes. I would be glad to do that, Mr. Chairman.

[The response from Mr. Myers follows:]

ROBERT J. MYERS
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SILVER SPRING, MARYLAND 20901

March 4, 1983

MEMORANDUM

Subject: Criticism of Cost Estimates of National Commission by American Postal Workers Union

On February 24, Mr. Moe Biller, President of the American Postal Workers, Inc., testified before the Senate Committee on Finance and criticized the cost estimates of the National Commission on Social Security Reform with regard to coverage of new federal hires.

He asserted that his staff called the National Commission and was told that no separate breakdown of the figures as between federal employees and non-profit employees existed, but that it was estimated that $18 billion of additional income would come from federal workers and $3 billion from non-profit workers. Certainly, I was not consulted on this matter as I should have been when the request from such an important organization came in. In any event, the foregoing figures had never been used within the National Commission, but rather figures of $13 billion for federal workers and $7 billion for non-profit workers. The foregoing figures were what we had been supplied by the Office of the Actuary, SSA, and used in a number of instances.

Subsequently, the Office of the Actuary re-estimated these figures (with the assistance of the actuaries of the Civil Service Retirement system) and presented them as $9 billion for federal workers and $12 billion for non-profit employees.

Mr. Biller testified that his analysts believed that the figure for new federal hires should be much lower than the $9 billion which the SSA actuaries are currently estimating -- and should instead be only $4.6 billion. I am convinced that the latter figure is far too low, and that the actual figure for 1984-89 will be about $9 billion. Time alone will tell, and I intend to keep track of the experience.

Robert J. Myers

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The CHAIRMAN. There is the obvious problem of the notch and that is one that the House has addressed in one way. As you indicate, there are a number of ways to look at that.

What other areas do you believe we must address between now and the time we report this bill out of this committee?

Mr. MYERS. The only other area, Mr. Chairman, is that there must be available some additional source of financing in case economic conditions get very bad. I don't mean that you should put provisions in that will definitely raise taxes or slow down the growth of benefits, but rather some sort of provision that will trigger in if there is some sort of economic catastrophe ahead that we can't possibly foresee now—that is, a fail-safe device.

The CHAIRMAN. Many people representing Federal employees have testified—we had the postal workers' testimony today—that they should not buy a pig in a poke. They believe that the newly hired people who come into the system January 1 of 1984 shouldn't be required to be covered by social security until they have had a chance to see the supplemental program. What are your views on this?

Mr. MYERS. I believe that a good, fair, and equitable supplemental program can be developed and passed by this Congress long before January 1 so the people who come in then will know what the plan is. If they don't like it, they don't have to come to work for the Federal Government. The present employees, who these various union officials represent, are not affected by the package, except for the windfall provision. I think that the recent witness said that, if there is anything wrong with the method of computing social security benefits in such cases, then it is all right with them to fix it up.

So, new employees would be treated fairly. They would see the package before entering services. I would hope and expect that the supplemental plan would be a fair one. In many ways, as one of the members of the committee said, there are things about social security that are better for Federal employees than the present system. Certainly, for new entrants, social security coverage will be valuable, because if a Federal employee does not stay in service for 5 years, he or she has no disability protection, and when they leave they have a gap in their social security record, so that they may lose their disability and survivor benefits if they are disabled or die soon after leaving Federal service.

So there is much in a coordinated system that is of advantage to Federal employees—certainly, to the new employees.

The CHAIRMAN. Have you had a chance to participate in any efforts to put together this supplemental program?

Senator MOYNIHAN. Mr. Chairman, may I say that Dr. Myers' findings—I wonder if you would yield?

The CHAIRMAN. Sure. I think he may have mentioned that to me earlier but I missed that part of his statement. I was meeting with some natural gas people next door—trying to get gas prices down, at least in Kansas.

Please proceed.

Mr. MYERS. When I testified before the House Ways and Means Committee a week or two ago, I did recognize this criticism by the Federal employee groups. They had never seen a supplemental plan and raised the question whether one is possible? So, as it so happened, while I was working at the Commission, I did some thinking about this, and developed a plan, which I put in the record there. That was the type of plan that is common in industry, where the private plans and social security are completely independent. In other words, social security is added on top of the private plan.

As I thought about it, I saw certain difficulties that if you had to do this approach for each of the some 40 different Federal employee retirement systems, it would be quite a job. So, I thought is there not some way of developing a supplemental plan that will work for all the types of retirement systems—that is, say, for the retirement systems for Members of Congress or for the foreign service, as well as the general employees.

In the memorandum of February 18 that I have submitted for the record (attached to my statement), I have given some details. But let me describe to you briefly what the proposed plan is.

It is what is called an offset plan. The contributions of the employees and the employer (the OASDI contributions) are offset against the existing ones, so that the employees pay no more than now. Then, as to the retirement benefits—I am taking the civil service retirement system as an example—they would be exactly the same as they now are, in amount and in age—eligibility conditions, until the person reaches age 65. At age 65, the civil service retirement benefit would be reduced by the proportionate part of the social security benefit that came from Federal service. So, for a career employee, he or she would be back in the same place where he or she started from.

Senator MOYNIHAN. Dr. Myers, in other words if you only work in the Federal Government for a 30- or 35-year period under this arrangement, the outcome would be identical?

Mr. MYERS. Identical. That is correct, Senator.

The CHAIRMAN. Have you talked to Moe about this?

Mr. MYERS. No, I have not.

The CHAIRMAN. You ought to get together. He is fairly close to you. [Laughter.]

Mr. MYERS. I would hope the Federal employee groups would look at this plan that I submitted here today. Certainly, as a career Federal employee with some 38 years of service, I am not anti-Federal employee. I want to see the Federal employee get a square deal.

The CHAIRMAN. Well, it makes sense. Maybe that's why it may not work. Maybe you can visit informally after we finish.

Mr. MYERS. I would very much like to do so.

The CHAIRMAN. We have heard a lot of criticism from the nonprofits. In fact, you were here today for part of their testimony. They claim that they have pension plans that have more difficulty adjusting to social security coverage than other private employee that we have covered in the past.

Mr. MYERS. I do not think so, Mr. Chairman. I think that the point that was made by one of the witnesses as to why don't you treat us the same as you are treating Federal employees, by covering only new hires, can be answered.

The Federal civil service retirement system has been in place for many years. The pension plans of nonprofit organizations who are not covered by social security have by and large, been started only a year or two ago. I have been active in this area before I came back as Deputy Commissioner of Social Security 2 years ago. I was very active in combating some of these folks, because there were several organizations who were selling these replacement or substitute pension plans, and they misinformed people. Although they may think they have better pension plans, this is so in some ways, but not in others.

For example, all of these plans assume that they will earn 9 or 10 percent interest on their assets. But then the benefits are not indexed for changes in the cost of living. And that is a big cost feature in a pension plan. If the benefits are indexed, it is a very expensive feature. And it really has to be paid for by those high interest rates that are earned.

Another thing many of these proposed plans forget is certain elements of the social security system such as disability and survivor benefits, transferability of earnings credits, and nontaxability of benefits. I think that a number of nonprofit organizations have been badly misled in going out of social security.

But at any rate, their plans have just been set up, and they are the type of plans that can be either adjusted or coordinated with social security if they came back in again.

The CHAIRMAN. Well, we had testimony yesterday from the NOW organization, Women's Equity Action League and the Women's Law Center. They support the changes we have made that correct provisions of the law that were discriminating against certain classes of women. There are other broader issues that we did not agree to put into the package because of the cost.

Senator Moynihan and I have just been wondering together if there might be some way to address some of those broader concerns. Perhaps they would not take effect until the funds are in a little better shape somewhere in the early 1990's.

Mr. MYERS. I have studied, over the years, the proposals of a number of groups that involve the so-called earnings sharing approach. In principle, I am very much in favor of that. I believe in such sharing in all aspects of marital life. But the problems with it that I see is that we have gone so far down the road on the current approach, which I think is not unfair to women, especially after some of the changes that the Commission has recommended, that I can see no way of changing drastically the nature of the system and then guaranteeing that nobody loses, without having very large costs.

One criticism that some of the women's groups make is that a married woman in the paid labor market pays into social security and gets perhaps nothing out of it, because she is going to draw retirement benefits on her husband's earnings record since he is a higher earner. I think that this argument forgets two things.

First, the woman worker has had certain benefit protections in the past, for disability and survivor benefits, even though she may not for retirement benefits.

Second, I think that this argument stresses too much the individual equity aspects of the situation. As the committee well knows social security is not based on everybody getting exactly their money's worth, but rather there is a certain pooling between individuals. There is a pooling between high-income people and low-income people. There is pooling between young people and older people. And, in the same way, there is a social adequacy element. There is a pooling between married couples where they both worked in the paid labor market, single persons, and married couples where one of them chooses to be a full-time homemaker. So, I think the present system isn't unfair. I think that any apparent inequities can be fixed up within the present benefit structure.

I prefer the incremental approach that the Commission adopted, rather than saying let us completely change the nature of the system.

Senator MOYNIHAN. But there might be approaches we haven't mentioned.

Mr. MYERS. Yes.

The CHAIRMAN. There were some that we decided not to do that didn't have that much of a revenue impact.

Mr. MYERS. Yes. There are a number of things as you say, Mr. Chairman, that involve some money, but a little more money than we felt like spending at this time. Some things that I think are desirable.

If I might say immodestly, I have been fighting for equal treatment of men and women under social security for many years. I have been glad to have worked with both this committee and the House Ways and Means Committee on such matters. For example, in the early days of the program, if a woman worker died, there were generally no child survivor benefits paid. Now, if either member of a married couple dies, child survivor benefits are paid in the same manner. Virtually all the sex discriminatory treatment has been removed from the system.

I might mention that, in the past, there have also been provisions in the system that discriminated against men. It used to be that, in the case of a man and a woman with the same earnings record reaching age 65 at the same time, the women got larger benefits by about $10 to $15 a month, through a quirk in the law. That was remedied in the 1972 amendments.

So, over the years, these different treatments by sex have been eliminated. But there still is a question: Can't there be fairer treatment? Should we have more child care years, and so forth?

The CHAIRMAN. We had the Foreign Service officer's group testify yesterday. They say they are in hazardous duty and far away from home.

Senator MOYNIHAN. Mr. Chairman, I think the point that they were making is that they have a promotion system where if you have spent more than a certain amount of time in, it is up or out. And so they have people retiring at earlier ages. Is that your understanding?

Mr. MYERS. That is correct.

The CHAIRMAN. Does that present a problem?

Mr. MYERS. Under the offset plan that I just described they would not be adversely affected, because the same benefits would be paid under whatever Government employee retirement system it is until they reach age 65. So, if they had to retire at age 50, they would get exactly the same between ages 50 and 65 as they get now. Then at age 65, there would be this offset, because social security benefits, as you know, are then paid in full.

The CHAIRMAN. The same would be true of Federal judges.

Mr. MYERS. The same thing. Yes.

The CHAIRMAN. They are going to be included, right?

Mr. MYERS. That is the way that I understand it. I am not certain whether there is any problem as to such offset in that the Constitution says they will get full salary for their lifetime. But I would hope that such offset would be possible, in the name of reasonableness, because after all their pensions are very sizable.

Senator MOYNIHAN. Federal judges don't have pensions. They have a lifetime salary. I think the Constitution says you may not reduce their income.

Mr. MYERS. I know that under present law this question has been raised. Let us consider a Federal judge who reaches age 65 and retires from active service on the bench. He or she may have been a lawyer before becoming a judge and is eligible for social security benefits. The ruling is that, after 65, even though he or she is getting this so-called salary—as long as services are not being performed in a substantial manner, social security benefits are paid.

Senator MOYNIHAN. Right.

Now could you tell us a little bit more about this wonderful retirement system that has two people in it? The Director of the General Accounting Office and his Deputy——

Mr. MYERS. The Comptroller General's?

Senator MOYNIHAN. Yes, the Comptroller General's.

Mr. MYERS. I just know that there is such a system. It is more or less modeled after the judiciary system. Again, this proposed offset plan of mine would work, because they would be paying into social security and would have social security benefits. Then, up to age 65 the benefits under the other plan would be the same as at present, and after age 65, they would have this offset of the social security benefit earned while they were in that system.

Senator MOYNIHAN. The Comptroller General also has a lifetime salary. If he doesn't like it, he can write a report.

The CHAIRMAN. The only other question is on the House action yesterday on a fail-safe mechanism—general revenue funding. What are your views on that?

Mr. MYERS. I was not at that session, but I did talk to people, and I think I understand what they did.

That is not the approach that I would like to take. I would prefer that a fail-safe device would apply, both so that it would bring some increased income from the active workers and so that it would reduce the COLA's. However, I understand that the fail-safe provision that they adopted, which is just to give notice to the Congress, had no triggers in it to prevent any financial problem or crisis from continuing indefinitely. If there were any borrowing from the general fund of the Treasury—and I do not favor this—I would like to see it either be repaid very promptly or else have something automatically triggered so that the loan would be able to be repaid from increased taxes or reduced COLA's or a balance of the two.

Senator MOYNIHAN. That's in your testimony.

Mr. MYERS. Yes.

Senator MOYNIHAN. Senator Wallop has five questions that he asked us to submit to you for answers at your convenience.

Mr. MYERS. I would be glad to do so.

[The questions of Senators Wallop and Bentsen and answers from Mr. Myers follow:]

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March 4, 1983

MEMORANDUM

Subject: Answers to Questions Raised by Senator Wallop

(1) Dr. Greenspan testified that the changes in the benefit structure included in the reform package would lower the Wage Replacement Retirement. In other words, future benefit levels, in relation to wages, would drop. Could you explain what the average Wage Replacement will be down the road?

The consensus package did not contain any proposal to lower the benefit replacement rates. The National Commission considered several proposals along these lines and several members were very much in favor of this general approach. There are a number of different ways in which replacement rates could be reduced, and these are described on pages 27-29 of Appendix K of the Report of the National Commission. In the first five options considered there, the Average Replacement Rate would be reduced eventually by about 10% relatively (i.e., from about 42% to about 38%).

(2) You had recommended that the formula for calculating benefits be altered. Specifically, you have argued that the Bend Points be increased by 75%, rather than 100%, of the increase in wages. This would lower the Wage Replacement Rate. Could you explain the impact of such a change if it were started in the year 2000.

As indicated in the previous response, the National Commission considered but did not recommend increasing the Bend Points by 75% of wage increases rather than the 100% basis in present law. If this procedure were started in 2000, it would probably take about 15 years before the replacement rates would decrease to the ultimate level of about 10% below those envisaged in present law. The long-term savings (over the 75-year period) are estimated at .8% of taxable payroll.

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(3) If the Bend Points are increased at a 75% rate, would this be a sensible means for implementing a long range "Fail Safe" mechanism to maintain program solvency? It appears to be a more sensible approach than relying on borrowing from the federal treasury if there is an unexpected shortfall in funds.

The procedure of increasing the Bend Points by 75% of wage increases until the replacement rates are reduced by 10% would be a cost-controlling device, rather than a long-range stabilizing or "Fail Safe" mechanism. The latter has the purpose of maintaining the payments of benefits under cyclical adverse economic conditions, and could be used in addition to any cost-reduction changes or even any stabilizing mechanism (which would be used to offset long-range unfavorable economic conditions).

(4) I have sponsored legislation to increase the retirement age to 66 in the next century. Doesn't it make sense to provide for an automatic increase in the retirement age as longevity increases?

In my opinion, raising the normal retirement age (i.e., the age at which unreduced benefits are first available) on an automatic-adjustment basis in order to reflect increases in longevity during the retirement years is highly desirable. Such a procedure serves as a stabilizing mechanism, because if longevity improves, the cost of the program will increase substantially unless the normal retirement age is kept up to date.

(5) Witnesses, such as the NFIB, have argued for a new two-tier system. One tier would comprise the welfare element in Social Security. The second would be the insurance component. Do you feel it is possible to construct such a system?

I believe that it would be possible to construct such a two-tier system if we were just now starting the Social Security program. However, I believe that it is really impossible to do so now, because the necessary phasing out of the present program would involve many complexities of benefit design and would also involve huge general-revenues costs which would have to be met from unspecified sources (and which would be very difficult to bear). In addition, I believe that such a two-tier system is not desirable because it is a very difficult, if not impossible procedure to separate out the welfare (social adequacy) element from the insurance (individual equity) component. It should be recognized that the vast majority of private pension plans also contain a mixture of the so-called welfare and insurance components (although containing a higher proportion of the latter than does the Social Security program).

Robert J. Myers

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March 7, 1983

MEMORANDUM

Subject: Answers to Questions Raised by Senator Bentsen

(1) Did the Social Security Commission staff work with actuaries with the Civil Service Retirement System in arriving at projections on the effects of extending Social Security coverage to newly hired federal employees? If not, why not. If so, are the CSRS and Commission staff projections identical, similar, or contradictory? Explain fully.

The National Commission on Social Security Reform did not prepare the actuarial cost estimates underlying its recommendations; the actuaries of the Social Security Administration made all of the cost estimates, including the one on the effect of extending Social Security coverage to new federal hires. The original estimate (as contained in the Final Report) has subsequently been revised downward somewhat, after the SSA actuaries conferred with the CSR actuaries, who are in complete agreement with the final result, namely, that such extension of coverage will result in additional financial resources to the Social Security system amounting to $9 billion in 1984-89.

(2) Have any projections been made by the Commission for additional general revenue that would be needed to implement a dual retirement system for newly hired federal employees? Please provide information if it is available.

The National Commission did not propose a specific supplemental retirement system for new federal hires -- because this was beyond its responsibility. It should be noted that the present CSR program has a general-revenues cost of about 33% of payroll, and that a substantial amount would be left over for a supplementary plan for new federal hires after considering the employer cost for OASDI.

(3) Given that the OASI Trust Fund has already missed one interest payment to the Hospitalization Trust Fund and that most forecasts show the HI fund to be in jeopardy for the latter part of the decade, why did the Commission recommend continuation of interfund borrowing from HI until 1987?

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In my opinion, it was completely wrong that the OASI Trust Fund did not make a monthly interest payment to the Hospital Insurance Trust Fund in the first applicable month. Such a procedure should be followed on a current and timely basis in the future, especially if the interfund borrowing is extended until 1987.

(4) With respect to the "notch" effect created when Social Security benefits are taxed for individuals earning $20,000 or more and/or couples with an income of $25,000 or more, did the Commission give any consideration to a graduated tax? If so, what options were considered and what was their revenue impact on the overall package?

As the Report mentioned, it was known that this notch existed and should be remedied, but there was insufficient time to do so when the consensus agreement was developed. Pages 49 - 52 of Appendix K of the Report contain several different options as to taxing Social Security benefits which do not have a notch problem.

(5) Under the Commission's recommendations, non-profit organizations would be covered by Social Security, but State and local governments would be permitted to remain outside the system. In some parts of the country, States and local governments operate non-profit hospitals. Under the Commission's recommendations, would such a non-profit hospital be exempt from coverage as a State/local entity or would it be classified a non-profit institution and therefore subject to coverage?

With regard to the matter of non-profit hospitals which are operated by State and local governments, this situation has been faced under present law. The decision as to whether a particular hospital in this category is considered as a governmental organization or as a non-profit organization depends upon the specific organizational set-up and on State laws. In other words, some such hospitals are in one category and others are in the other category. However, it is very clear in each case what procedure is followed.

(6) What was the Commission's rationale for extending coverage of Social Security to all non-profit employees (including those that have never participated in the program or have opted out) while confining federal employee coverage to "new hires" only?

All non-profit employees were recommended to be covered because those now not covered frequently have no pension plan at all, although in other cases the plans have just recently been developed and are of the nature that they can readily be modified if Social Security coverage is applicable. On the other hand, CSR has been operating for more than 60 years, and many employees have built up substantial accrued rights and expectations.

(7) Generally, when Federal policy changes are made that affect parties who have been acting in good faith in reliance on past Federal policies -- we permit a reasonable transition period for those affected. In the case of non-profit organizations, the Commission recommends speedy (1-1-84) and full coverage. Did the Commission have at its disposal information about the capacity of non-profit entities to adjust to the recommended change? What do we know about the non-profit organizations now outside the Social Security system -- specifically type of organization, number of employees, fiscal capacity to pay the additional tax, etc.? What would be the revenue impact on the Compromise Package of a more lengthy transition period? ("new hires" only, effective date 1-1-85, or a 5-year transition)?

Information about the financial capacity of many non-profit organizations cannot be readily obtained. However, those non-profit organizations who were in Social Security and opted out for other plans at about the same financial cost can quite obviously bear the financial cost of coming back into Social Security. As mentioned, information about many non-profit organizations -- particularly those which are small or of a temporary nature -- is not readily available, but we do know reliably that about 15% of the total employees in this category are not covered. A 1-year delay in the coverage of this group would result in a revenue loss during 1984-89 of about $1.3 billion. A 5-year transition, depending upon how it were done, would result in a revenue loss of perhaps $5 billion. If only new hires were to be covered, the revenue loss would probably be on the order of about $9 billion.

(8) To what extent have the Commission and the Administration considered the combined impact of Social Security coverage on the capacity of non-profit hospitals to continue to provide care for the indigent? Will the difference between the cost of adding Social Security coverage and current costs be chargeable to Medicare?

I believe that Social Security coverage of non-profit hospitals would not have a significant effect on their providing care for the indigent, because most of the cost of such care is met from public funds (such as Medicaid), or by passing the cost on to private payors. Then, too, any increase in cost for Social Security coverage over present pension-plan costs would be considered a reasonable charge for Medicare program purposes.

Senator MOYNIHAN. With respect to the supplemental retirement system, I wonder if you could tell us how you would define "disability" under that system. Would it conform to the social security or the Federal system definition? Second, how would you define survivor benefits?

Mr. MYERS. Yes. This is treated in my memorandum, but I would be glad to tell you briefly now.

As to the disability benefits, what I would do is to say that, if there is any month that the person is eligible for social security disability benefits, then the CSR pension would be offset. And if the person were not eligible for social security benefits, then present CSR law would prevail.

As you know, under civil service retirement, there is a more lenient definition of disability than under OASDI. So if somebody who is disabled would meet that type of occupational definition and did not meet the social security definition, he or she would continue getting civil service retirement benefits until age 65 and went over to the old-age benefits.

On the other hand, let us suppose that there is somebody who is severely disabled. Under civil service retirement, there is no waiting period. So, for the first 6 months, they would draw the full civil service retirement disability pension. In the seventh month, when they became eligible for social security disability benefits, the civil service retirement disability pension would be reduced by the offset. Thus, at any point where there was not comparability, there would be no change in the present CSR benefits.

Now as to survivor benefits, what I worked out—which I thought was equitable—was to say that again it is only in months when the person is eligible for social security that the offset would apply. For example, under civil service retirement, if a male worker dies and leaves a widow 45 years old and no children, civil service retirement pays an immediate survivor benefit; social security does not. Under what I am suggesting, the civil service retirement benefit would continue unchanged until this woman reached age 65, at which time the offset would come in.

The CHAIRMAN. Is there anything else, Mr. Myers?

Mr. MYERS. No, Mr. Chairman, except to say, as in accordance with the views of the two members of the Commission who are here, I certainly hope that this package can be moved on expeditiously. I think that it is the best that could have come out. As to the long-range solution and the two paths for meeting it, I must say that I prefer the one increasing the retirement age as compared with increasing the tax rates. The reason that I believe in increasing the retirement age is that I think the system should be kept up to date with changes in the economy and the demography of the country. That is why I believe in the COLA adjustments. I also believe that the system should be kept up to date with demography. If people live longer, there should be a higher retirement age.

The CHAIRMAN. Well, let me say that we certainly appreciated your assistance as Executive Director of the Commission. I think it's fitting that you would be the last public witness. As I am certain that Senator Moynihan knows, Mr. Myers has agreed to be a consultant to the committee and to the Ways and Means Committee as we try to put all the legislative language together and work out any other details.

Thank you very much.

Senator MOYNIHAN. Thank you.

Mr. MYERS. Thank you. I appreciate this opportunity. And I appreciate all your kindnesses when the Commission terminated its activities.

[Whereupon, at 4:05 p.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

[Also attached are answers to questions from Senator Bentsen.]

TESIMONY TO BE SUBMITTED FOR SENATOR PRESSLER
to the Senate Finance Committee
for hearings on Social Security, 2/24/83

MR. CHAIRMAN, many of my constituents in South Dakota are concerned about recent proposals to alter the Social Security system, as are many older people across the nation. In South Dakota, one in five people receives a monthly Social Security check. These people, as well as many others approaching retirement, fear that their benefits are in jeopardy.

I know that we can restore the stability of the system, and I am confident that we will do so. We will have some difficult decisions to make in coming months, however. At a time when we are considering major changes in retirement benefits for our own citizens, I believe we must reconsider the payment of millions of dollars to non-citizens living abroad.

Each year, approximately $700 million is sent to aliens with no formal relationship or allegiance to this country. For every dollar these people have paid into the system, they receive about $23 in benefits. By comparison, most Americans earn about $5 for each dollar they contributed to Social Security.

I believe we must take action to limit the receipt of Social Security benefits by non-resident aliens to the amount of their contributions to the system. Although this legislation will not solve all the problems faced by Social Security, I think it sends an important message to the people of this country. We must reassure those who rely on the system that we are preserving it for those whose tax dollars have gone to support it.

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STATEMENT OF THE AMERICAN HOSPITAL ASSOCIATION
TO THE
SENATE FINANCE COMMITTEE
ON SOCIAL SECURITY FINANCING

March 1983

Mr. Chairman, I am Jack W. Owen, Executive Vice President of the American Hospital Association and Director of the Association's Washington Office. AHA is the principal national organization of hospitals, representing 6,300 institutions and 35,000 personal members in an industry employing 3.3 million individuals.

I am pleased to have this opportunity to present some of our concerns in regard to the current Social Security reform debate. I also want to commend you and your colleagues on the committee for the expeditious manner in which you are attempting to address some difficult problems confronting a program that affects every citizen of this country.

The AHA views Social Security issues from a dual perspective as an association representing both major employers as well as major health care providers. As employers in a highly labor-intensive industry, we are concerned about increased costs to employees and employers that will result from the recommendation of the National Commission on Social Security Reform to revise and accelerate increases in the payroll tax schedule. As you know, hospitals are under great pressure to contain costs, and labor and labor-related costs account for over 50 percent of all hospital expenditures.

As health care providers, we are concerned about the current and future stability of the Hospital Insurance (HI) trust fund and the commission's recommendation to extend interfund borrowing through 1987. While the commission's recommendations generally may form the basis for a workable short-term solution to the Social Security problem, it would be unfortunate if part of this solution would exacerbate the crisis that looms in Medicare financing.

HI Structural Problems

At the start, it is critical to recognize that HI finds itself in the same dilemma as the Social Security system. It is confronted with problems such as profound demographic changes, increasing benefit expectations, advances in medicine, economic growth, and inflation. Perhaps most significant of these factors is that our elderly population represents the fastest growing segment of our population.

Consider these projections:

- The number of persons covered by Medicare has grown from 19 million in 1967 to 25 million in 1982 and is expected to reach 32 million by the turn of the century;

- The total population age 65 and over stood at 24.9 million persons in 1980 and will increase to 31.8 million by the end of the century--an increase of 27 percent;

- The growth of the elderly population will begin to rise dramatically around 2015 and continue to increase, peaking in 2030, when the effect of the "baby boom" will be fully realized and the elderly will comprise approximately 18 percent of the total population;

- Another significant factor is the "graying" of the population age 65 and over. Between 1980 and 1999, the population aged 75-84 will increase by nearly 50 percent. During the same period, the population aged 85 and over is projected to increase 61 percent; and

- The average male life expectancy increased from 66.8 years in 1965 to 69.9 in 1979. For females, it increased from 73.7 to 77.8 years.

Effects of Aging Population

The aging of the population already has, and will continue to result in increased utilization of health care at higher levels of intensity. Persons aged 65 and over account for nearly 30 percent of all personal health care expenditures and 43 percent of all hospital expenditures.

AHA utilization projections indicate that hospital use by the elderly will account for approximately 35.2 million more days of hospital care in 1989 than in 1980. Fifty-two percent or 18.4 million days will be due to population growth, and 48 percent or 16.8 million days will be due to the increase in the inpatient day use rate.

Hospital expenditures per capita also increase with age. For those over age 65 it is $869 per capita, compared with $370 per capita for those between 19 and 64. Moreover, the percentage of the population suffering from chronic conditions increases from 8.9 percent in the 17 to 44 age group, to 24.1 percent in the 45 to 64 age group, to 46.4 percent for those over 65.

Impact of Economy

Economic conditions such as high unemployment have also contributed to the financial problems of HI as well as the entire Social Security system. According to some estimates, a 1-percent increase in the unemployment rate reduces HI income by about $1 billion.

HI Outlook

These circumstances have led many to conclude that HI will be depleted by the end of the decade. If interfund borrowing from HI is used again in 1983 to shore up the other funds, actuaries predict that HI could be bankrupt even sooner.

There is ample evidence to support these views. For instance, some estimates indicate that the HI tax rate, currently 1.30 percent and scheduled to rise to 1.35 percent in 1985 and 1.45 percent in 1986 will be inadequate to support future obligations by 1989. By 1995, it is predicted that the HI tax rate would have to be over 2.0 percent to ensure adequate revenues.

Again, one cannot overlook the structural nature of this problem. During the next 75 years it is estimated that the average annual deficit in HI will be about 5.0 percent of taxable payroll. It is also predicted that the Supplementary Medicare Insurance (SMI) portion of Medicare which is financed by general revenues and the premiums of participants will also face serious financial problems.

Interfund Borrowing

While these problems are serious and require Congressional attention, as a practical matter we recognize that the most immediate issue facing the committee in regard to HI is the commission's recommendation to continue interfund borrowing through 1987.

The AHA understands that it was expedient to draw upon Medicare funds in the current crisis to permit monthly Social Security payments to be made without interruption. However, we would recommend against a continuation of this policy because it will further aggravate the financial problems of HI. Moreover, we urge that the nearly $17 billion that has already been borrowed be repaid in a timely and specified manner.

The Advisory Council on Social Security of the Department of Health and Human Services (HHS) which is examining Medicare issues also recognized the importance of this matter and recently wrote former Secretary Richard Schweiker to express concerns about continued interfund borrowing.

Suggestions to Stabilize HI

We are also aware of the impact of rising hospital and health care costs on the HI equation. In fact, hospitals have already played a large role in containing costs.

As you know, this past summer Congress made sweeping changes in the Medicare program to limit payments to hospitals under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). TEFRA modified and expanded Section 223 limits to cover inpatient costs per admission on a cost-per-case rather than on the previous per-diem basis. In addition, hospitals for the first time were placed under an "incentive" target rate equal to the hospital market basket plus 1 percent for technology. The target rate permits hospitals to collect a "bonus" if costs are below that rate, and penalizes them 75 percent of costs above the target rate for the first two years of the program and 100 percent in the third year. Estimated savings to the federal government are about $6 billion through Fiscal Year 1985 under both the Section 223 and target rate provisions.

One effective approach to help ensure HI stability on the hospital expenditure side would be to end narrowly focused tinkering with the Medicare reimbursement system and adopt a prospective payment system under Medicare that provides the proper incentives to encourage efficiency. In April of 1982, AHA took the initiative in proposing a Medicare prospective payment plan to make hospital payments more predictable and to control the increase in hospital costs. While the Congress did not enact our proposal, it did require the HHS Secretary to develop a Medicare prospective payment proposal, which was forwarded to you this past December. According to the Congressional Budget Office, a Medicare-only prospective payment system would have a "profound impact" on hospital decisions and would result in Medicare cost reductions.

But it is also important to realize that prospective payment, along with other demand-side initiatives such as ceilings on tax-free employer purchased health benefits, introducing competition into the health care system, and benefit design changes are only short-term solutions that yield moderate savings in the context of the overall HI problem.

If the Medicare program is to continue to provide the high quality health care services that our nation's senior citizens deserve, it will require more than the short-term solutions just suggested. It will also require a mix of additional reforms that will increase HI revenues in the long run. This could be accomplished through earmarking certain excise taxes for HI or increasing HI payroll tax rates to levels able to support the system.

The AHA looks forward to working with you and the committee in developing a balanced approach that will ensure the long-term solvency of HI.

Opt-Out

There has also been considerable controversy concerning the filing of notices by non profit hospitals and other non profit organizations to withdraw from the Social Security system. While AHA does not encourage hospitals to leave the system, until Social Security becomes universal we favor that option.

We do recognize, however, the widespread support on the part of the National Commission on Social Security Reform and the Congress to take a more universal approach, and we support efforts that move the system in this direction.

It is also important to note that most hospitals that have withdrawn from the Social Security system have provided alternative benefit plans to their employees. Many hospitals have implemented such plans with the support and cooperation of their employees, and where appropriate, the unions representing those employees. Reentering the Social Security system will require that these hospitals again restructure their benefit and retirement programs and renegotiate contractual obligations made to employees and others. Therefore, AHA recommends that hospitals and other non profit organizations that are currently outside the Social Security system be allowed a phase-in period so that they may make the necessary changes to their benefit programs or contractual obligations.

Summary

In summary, AHA believes that the recommendations of the National Commission on Social Security Reform may form the basis for a workable short-term solution to the problems faced by the Social Security system.

However, AHA believes that the recommendation by the commission to continue interfund borrowing from HI is seriously flawed because of its potential impact on Medicare. AHA also urges that any funds previously borrowed should be repaid in a timely and specified manner.

The AHA is also concerned about the future stability of HI and recognizes that it suffers from the same demographic problems faced by the Social Security system as a whole. These problems include a rapidly expanding elderly population and its increased utilization of health care services at higher levels of intensity. Other factors contributing to HI's financial instability are poor economic conditions, the high cost of medical technology, and inadequate HI payroll tax rates needed to support the system.

The AHA supports prospective payment under Medicare as a method of making hospital payments more predictable and restraining the rate of increase in hospital costs. However, prospective payment and other demand-side initiatives provide only short-term solutions. Long-term answers involve the need to provide HI with increased revenues.

Mr. Chairman, we appreciate the opportunity to present our views and look forward to working with you and the committee on addressing some of these difficult problems.

Thank you very much.

OFFICE OF THE GENERAL SECRETARY ■ ABC
Valley Forge, Pennsylvania 19481

american baptist churches USA

February 25, 1983

Honorable Robert J. Dole
Chairman
Senate Committee on Finance
United States Senate
Washington, D.C. 20510

Statement of American Baptist Churches in the U.S.A. on Contemplated Changes in the Self-Employment Tax Affecting Ministers (Senate Committee on Finance Hearings on Recommendations of the National Commission on Social Security Reform, February 15, 22-24, 1983)

Dear Senator Dole:

The substantial increase in the self-employment tax that has been proposed by the National Commission on Social Security Reform ("National Commission") is of great concern to the American Baptist Churches in the U.S.A. Our denomination consists of approximately 6,000 churches with an estimated 1.6 million members and some 200 associated institutions and organizations. There are over 4,000 ordained ministers of the denomination, practically all of whom participate in the Social Security System.

If the tax proposals of the National Commission become law, the ministers of our denomination will be subjected to a percentage increase in their taxes that is completely disproportionate to the increase that will be imposed upon employees and high-bracket self-employed individuals. The impact of the higher taxes would be very severe because ministers as a rule have low incomes and the great majority of them are already having difficulty supporting themselves and their families. We are writing to urge that this inequitable tax burden upon ministers and other low income self-employed persons be alleviated before the proposals of the National Commission are enacted.

For purposes of the Social Security System, ministers contribute at the rates established for self-employed individuals. Proposed legislation (S.1, 98th Cong., 1st Sess.) based on the National Commission report would increase the tax on self-employed individuals from its present level of 9.35% of the earnings base to 12.70% in 1984 and upward to 13.85% in 1990. To partially offset this increase, the National Commission recommends, and the proposed legislation provides, a deduction in computing adjusted gross income for federal income tax purposes of 50% of the OASDI portion of the self-employment tax. Because income tax rates are progressive, higher income self-employed individuals will receive the greatest relief from this deduction, while lower income self-employed individuals, such as ministers, will receive the least relief.

We believe that the proposed deduction not only is regressive in effect but fails to recognize the financial difficulties faced by low paid ministers. The present median compensation of American Baptist pastoral ministers, including the value of housing and utilities (usually received in kind), is $17,900. Thus, the median cash income out of which the self-employment tax will be paid falls within the lower family budget ($15,323) determined by the Bureau of Labor Statistics for an urban family of four in autumn, 1981. The median total cash and non-cash compensation falls well below the intermediate family budget ($25,407).

The financial burden which the increased Social Security taxes will place on an American Baptist minister earning median compensation may be illustrated as follows:

1.	Total compensation		
	a. Cash salary	$14,320	
	b. Housing and utilities	3,580	
	c. Total (a. plus b.)		17,900
2.	Current Social Security tax at 9.35%		1,674
3.	Proposed Social Security tax (1984)		
	a. OASDI at 11.40%	2,040	
	b. HI at 1.30%	233	
	c. Total tax (a. plus b.)		2,273
4.	Increase (3c. minus 2.)		599
5.	Proposed deduction (50% of 3a.)		1,020
6.	Income tax reduction effect of deduction (16% of 5.)		163
7.	Out-of-pocket increase to minister (4. minus 6.)		$ 436

By comparison, the out-of-pocket cost for a self-employed individual in the 50% income tax bracket is substantially less:

1.	Current Social Security tax at 9.35% of $35,700		$ 3,338
2.	Proposed Social Security tax (1984)		
	a. OASDI at 11.40%	4,070	
	b. HI at 1.30%	464	
	c. Total tax (a. plus b.)		4,534
3.	Increase (2c. minus 1.)		1,196
4.	Proposed deduction (50% of 2a.)		2,035
5.	Income tax reduction effect of deduction (50% of 4.)		1,017
6.	Out-of-pocket increase to taxpayer (3. minus 5.)		$ 179

Accordingly, in the case of an American Baptist minister earning median compensation the out-of-pocket cost of the Social Security tax increase is $436, or 26.05% of the present tax, while in the case of a high-bracket self-employed individual the out-of-pocket cost is $179, or 5.36% of the present tax. The disparity is even greater between ministers and persons who are treated as employees for purposes of Social Security tax. In the case of employees, there would be no effective tax increase in 1984 (due to a refundable credit proposed by the National Commission), and in later years the out-of-pocket cost for employees will be much less than that for similarly compensated ministers. Thus, the burden of the Social Security tax increase falls most heavily upon ministers and other low income self-employed people who are least able to pay.

To alleviate this situation, we suggest that your Committee delete the 50% deduction proposed by the National Commission and substitute in lieu thereof a refundable income tax credit equal to 25% of the OASDI self-employment tax. Such a credit would cause the percentage increase in out-of-pocket cost to be the same for all self-employed individuals, thereby rectifying the inequity described above. Accordingly, in the above examples, the out-of-pocket cost for the minister would be reduced from $436 to $89, and the out-of-pocket cost for the self-employed individual in the 50% income tax bracket would be the same as in the example ($179).

Further, we believe that such credit should be refundable. A significant number of ministers have total compensation below $10,000. Numerous low income self-employed individuals, it is believed, also earn less than $10,000. These low income ministers and self-employed individuals would derive no benefit, or meager benefit, from the proposed deduction or even from a nonrefundable credit. These individuals would, therefore, bear fully, and disproportionately, the burden of the self-employment tax increases. Thus, a minister with $10,000 total compensation will pay, as proposed, $335 more in self-employment taxes in 1984, or 35.8% over the present 1983 tax. Without relief in the form of a refundable credit, the economic position of such ministers and low income self-employed individuals, already precarious, will worsen.

We respectfully urge that the refundable 25% credit, rather than the proposed deduction, be made a part of any bill that is reported out of your Committee.

Very truly yours,

AMERICAN BAPTIST CHURCHES
IN THE U.S.A.

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American Society of Local Officials

Mr. Chairman, The American Society of Local Officials has two major concerns under the Commission's plan for Social Security reform. First, social security coverage will be extended to nonprofit groups now outside the system, and second it would end the right of state and local governments to withdraw from the system.

We all realize the social security system is in trouble. It is losing $20,000 a minute and, without corrective action, will be unable to meet its benefit obligations by July 1983. However, forcing new participants into the system only postpones the day of reckoning since the additional revenue will be offset eventually by the liabilities imposed by a larger pool of beneficiaries.

Nonprofit organizations will have to spend more of their limited funds in employment costs and less toward accomplishing their purposes. The additional payroll costs will result in fewer positions being available or a reduction in staff. This, along with the effect increased payroll taxes will have on other employers, leads to longer unemployment lines.

To force the localities, states and new government employees into the system increases the cost of running the government which will increase the tax burden on the taxpayer since the taxpayer pays the employers share.

In looking at these two elements, along with the balance of the social security package, almost 60 billion dollars will come out of general revenue. Hiding the spiraling costs by taking out of general revenue only masks the problem...it does not solve it. Cities and states are already working with reduced funding. Diverting funds to Social Security from general revenue further reduces the amount of funds available to be returned to the states.

It is time to accept the problems the social security system has. It was sold to the American people as an insurance program. Instead it is a pay-as-you-go system. This went relatively unnoticed when there were 42 people paying in for each recipient in 1945. Today it is 3.2:1 and the projection is for less than 2:1 in the future. The social security system has become a welfare system. It needs to be called what it is and dealt with accordingly through separating the system's welfare and insurance components, privatizing the latter and paying out the former under general revenue. By phasing out of public funding over several years, younger workers can be confident of receiving much better benefits through private retirement plans and the current obligations to the elderly and older workers can be met directly by the federal government.

Renee M. Weeks
Director of Research

AMERICAN FOUNDATION FOR THE BLIND, INC.

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STATEMENT OF
THE AMERICAN FOUNDATION FOR THE BLIND

By

GLENN M. PLUNKETT
SPECIALIST IN GOVERNMENTAL RELATIONS

TO THE

COMMITTEE ON FINANCE

FEBRUARY 22-24, 1983

THE AMERICAN FOUNDATION FOR THE BLIND WELCOMES THIS OPPORTUNITY TO PRESENT ITS VIEWS ON PROPOSALS FOR CORRECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM. THE AMERICAN FOUNDATION FOR THE BLIND WAS ESTABLISHED IN 1921 TO SERVE AS THE NATIONAL PARTNER OF LOCAL SERVICES FOR BLIND AND VISUALLY IMPAIRED PERSONS. THE FOUNDATION IS A NON-PROFIT AGENCY AND ITS REVENUES ARE USED TO PROVIDE SERVICES TO BLIND AND VISUALLY IMPAIRED PERSONS, AND TO MORE THAN 700 LOCAL, STATE, REGIONAL AND NATIONAL PROGRAMS AND ORGANIZATIONS SERVING THEIR NEEDS.

IN PRESENTING OUR VIEWS ON THE FINANCING PROBLEMS OF THE SOCIAL SECURITY SYSTEM, WE EXPRESS OUR CONCERNS NOT ONLY FOR THOSE WHO ARE BLIND OR VISUALLY IMPAIRED BUT FOR THE POPULACE AS A WHOLE SINCE THE

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SOCIAL SECURITY SYSTEM HAS BECOME A MAJOR SUPPORT OF OUR SOCIAL SYSTEM. THE PROBLEM HAS BECOME TOO LARGE FOR EXPRESSION OF ESOTERIC CONCERN. THE ACTIONS TAKEN BY THIS COMMITTEE AND THE CONGRESS AS A WHOLE THIS YEAR WILL DETERMINE WHETHER THOSE WHO RELY ON THE SYSTEM NOW AND THOSE WHO MUST PLAN FOR THE DISTANT FUTURE CAN CONTINUE TO HAVE CONFIDENCE IN THE SYSTEM, AND CONFIDENCE IN THOSE WHO HAVE THE POWER TO MAINTAIN IT. THE PROPOSALS YOU HAVE BEFORE YOU REPRESENT A STRUCTURE WHICH CAN BE USED TO ENSURE CONTINUED FINANCING FOR SOCIAL SECURITY. INASMUCH AS THE REPORT FROM THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM REPRESENTS A COMPROMISE POSITION WHICH SPREADS THE SACRIFICES NECESSARY TO "RESCUE" SOCIAL SECURITY, THE FOUNDATION SUPPORTS IT IN PRINCIPLE. HOWEVER, SINCE THE PROPOSALS ARE BOTH POLITICAL AND PRACTICAL COMPROMISE, WE SEE AREAS IN WHICH MODIFICATIONS COULD BE MADE TO MAKE THE OUTCOME MORE EQUITABLE. GENERALLY, OUR PROPOSED MODIFICATIONS WOULD PROVIDE MORE RELIEF TO THE OASI TRUST FUND AND THEY DO NOT UNDERMINE THE STRUCTURE OF THE REFORM PROPOSAL. OUR SUGGESTED MODIFICATIONS ARE IDENTIFIED BY NAME AND NUMBER RELATIVE TO THE PROPOSALS SUBMITTED BY THE NCSSR IN ITS FINAL REPORT OF JANUARY 20, 1983. THEY ARE:

(4) MANDATORY COVERAGE OF ALL NEWLY HIRED CIVILIAN EMPLOYEES OF THE FEDERAL GOVERNMENT, AND FOR ALL EMPLOYEES OF NON-PROFIT ORGANIZATIONS AS OF JANUARY 1, 1984.

WE SUGGEST THAT THE LEGISLATION EXTEND COVERAGE TO ALL NEWLY HIRED CIVILIAN GOVERNMENT EMPLOYEES <u>AS WELL AS ALL CIVILIAN GOVERNMENT EMPLOYEES WHO HAVE NOT REACHED AGE 50 AS OF ENACTMENT OR JANUARY 1, 1984 WHICHEVER IS LATER</u>.

THE SYSTEM SHOULD BE A UNIVERSAL SYSTEM AND CIVILIAN GOVERNMENT EMPLOYEES SHOULD HAVE BEEN BROUGHT IN SOONER. THERE IS NO NEED TO DELAY ANY LONGER. IF COVERAGE IS EXTENDED TO THOSE AGE 50 AND UNDER IT WILL GIVE THOSE WHO ARE NEAR AGE 50 SUFFICIENT TIME TO BECOME FULLY INSURED BEFORE RETIREMENT. IT WILL ALSO PERMIT THOSE OVER AGE 50 TO OPT FOR EARLY RETIREMENT UNDER THE CIVIL SERVICE SYSTEM, IF THEY WISH, AND NOT BE CONCERNED ABOUT SOCIAL SECURITY ASPECTS OF A NEW SYSTEM. THIS MODIFICATION WOULD BRING INTO THE OASIDI TRUST FUNDS A SIGNIFICANTLY INCREASED AMOUNT OF MONEY AND WOULD DELAY ANY NOTICEABLE OUTLAYS FOR RETIREMENTS FOR A RELATIVELY LONG PERIOD. THIS WOULD MORE THAN OFFSET SOME OF THE PROPOSALS THAT WILL CAUSE SOME MINOR OUTLAYS FROM THE FUNDS.

(5) DENY PERMISSION FOR STATE/LOCAL GOVERNMENT COVERAGE GROUPS TO WITHDRAW FROM THE SYSTEM.

THE PROPOSAL DOES NOT GO FAR ENOUGH. LEGISLATION SHOULD MANDATE COVERAGE. AGAIN, THE SYSTEM SHOULD BE UNIVERSAL. RECOGNIZING THE CONCERN WITH THE CONSTITUTIONAL QUESTION, WE COMMENT THAT THE QUESTION SHOULD BE SETTLED AND LEGISLATION MANDATING COVERAGE COULD BEGIN THAT PROCESS. ALSO, EVEN THOUGH THE QUESTION OF COLLECTING THE EMPLOYERS' SHARE FROM THE STATE/LOCAL ENTITY MAY BE IN QUESTION, THERE SHOULD BE NO PROBLEM WITH COLLECTING THE EMPLOYEES' SHARE AND FUNDING THE OTHER OUT OF GENERAL TREASURY UNTIL THE QUESTION IS SETTLED.

(6) ELIMINATE "WINDFALLS" FOR THOSE WHO SPEND MOST OF THEIR WORKING YEARS IN NON-COVERED EMPLOYMENT.

THIS RECOMMENDATION, EVEN THOUGH AIMED AT FEDERAL EMPLOYEES WHO WORKED AT ADDITIONAL JOBS TO OBTAIN COVERAGE IN AN EFFORT TO PROVIDE ADDITIONAL RETIREMENT BENEFITS, IT WILL AFFECT THOSE WHO WORKED IN OTHER NON-COVERED EMPLOYMENT, SUCH AS CHURCHES, AND NON-PROFIT ORGANI-

ZATIONS AND FOUND IT NECESSARY TO WORK AT MORE THAN ONE JOB TO LIVE. IT WILL CERTAINLY AFFECT THOSE WHOSE INCOMES ARE GENERALLY LOW, BOTH GOVERNMENT AND OTHER TYPES OF EMPLOYEES, RATHER THAN THOSE WHO HAD HIGHER SALARIES AND WERE ABLE TO BUILD HIGHER RETIREMENT SYSTEMS. SINCE THIS WOULD AFFECT THE LOW INCOME, THE ACTION DOES NOT SEEM NECESSARY SINCE THE PROPOSAL IS TO TAX ONE-HALF THE SOCIAL SECURITY BENEFIT FOR THOSE WITH HIGH RETIREMENT INCOMES. ALSO, WITH COVERAGE OF CIVILIAN GOVERNMENT EMPLOYEES AND NON-PROFIT EMPLOYEES THE ENTIRE "PROBLEM" SHOULD WASH OUT SOON.

IN EFFECT, THE PROPOSAL SEEMS SOMEWHAT PUNITIVE AGAINST THOSE WITH LOW INCOMES. IF A FEDERAL OR OTHER NON-COVERED EMPLOYEE HAD WORKED AT ANOTHER JOB OR AS SELF EMPLOYED WITH WAGES HIGH ENOUGH TO ESCAPE THE SO-CALLED WINDFALL DESIGNATION, AND YET HIS OTHER RETIREMENT INCOME WAS UNDER THE TAXING PROPOSAL'S BENCH MARK, HE OR SHE IS FINE. IN ANY EVENT, TO CARRY OUT THIS PROPOSAL ADDS TO THE SYSTEM AND ADMINISTRATIVE PROBLEMS OF OBTAINING INFORMATION TO MAKE IT WORK AND PAYMENT TRACKING RECORD SEPARATE FROM THE OASIDI PROGRAM.

(7) CONSIDER OASIDI BENEFITS AS TAXABLE INCOME FOR THOSE WITH ADJUSTED GROSS INCOME OVER $20/25,000.

THIS IS THE FIRST STEP TOWARD USE OF THE GENERAL TREASURY AS SUPPORT FOR THE SOCIAL SECURITY SYSTEM. ALSO, IT WILL AFFECT ONLY THOSE WHO CANNOT ADJUST THEIR RETIREMENT INCOME THROUGH NON-TAXABLE INVESTMENTS AND OTHER DEVICES. HOWEVER, IF IT IS ABSOLUTELY NECESSARY TO RETAIN THIS AS A FUNDING DEVICE, THEN IT SHOULD BE OPEN AND ABOVE ABOARD BY TREATING ONE-HALF THE SOCIAL SECURITY BENEFIT AS "INCOME" IN DETERMINING TAX LIABILITY. THIS WOULD NOT BE NECESSARY IF MODIFICATION WERE MADE AS SUGGESTED FOR COVERAGE OF CIVILIAN GOVERNMENT EMPLOYEES.

(8) DELAY COST OF LIVING INCREASES TO JANUARY 1, 1984.

THIS PROPOSAL REALLY IS A DOUBLE REDUCTION IN BENEFITS. THE BENEFICIARY HAS JUST SEEN AN INCREASE IN MEDICARE DEDUCTIBLES AND CO-PAYMENTS WHICH REDUCES THE AMOUNT AVAILABLE FOR FOOD, CLOTHING AND SHELTER. FOR MANY OF THEM, IT WILL MEAN FOREGOING ONE OF THE NECESSITIES OF LIFE. THIS PROPOSAL DOES NOT TAKE INTO CONSIDERATION THE VERY COSTLY (TO THE CONSUMER) CHANGES BEING PROPOSED FOR MEDICARE.

THIS PROPOSAL INDICATES A CONCERN FOR THE VERY POOR BY PROVIDING AN ADDITIONAL DISREGARD (OF $30 PER MONTH) FROM OASI BENEFITS TO THOSE WHO ARE ELIGIBLE FOR SUPPLEMENTAL SECURITY INCOME (SSI) AND FOR THOSE WHO WILL BECOME ELIGIBLE WITH THE DISREGARD (SINCE THIS ADDITIONAL DISREGARD IS ONLY FROM OASIDI, IT WILL NOT BENEFIT THOSE ON SSI WHO DO NOT HAVE OASIDI INCOME). IN PROTECTING THE "POOREST OF THE POOR", THE PROPOSAL DOES NOT GIVE ANY ASSISTANCE TO THE INDIVIDUAL WHO IS ACTUALLY ONLY ONE DOLLAR ($1.00) OVER THE LIMIT FOR SSI. AN INDIVIDUAL WITH OASIDI AND THE ADDITIONAL DISREGARD, WILL BE ELIGIBLE WITH AN SSI COUNTABLE INCOME LEVEL OF $334 PER MONTH: THIS INCLUDES MEDICAID COVERAGE IN MOST STATES. ON THE OTHER HAND, AN INDIVIDUAL WITH $335 SSI COUNTABLE INCOME CANNOT RECEIVE SSI AND MUST BEAR HIS OWN MEDICAL COSTS NOT COVERED BY MEDICARE (UNLESS HE CAN GET MEDICAID AS A MEDICAL INDIGENT IN SOME STATES). THIS INDIVIDUAL, AND THERE ARE GREAT NUMBERS OF THEM SINCE THE AVERAGE OASIDI PAYMENT IS ONLY $404.00 PER MONTH, ENDS UP WITH LESS TO LIVE ON THAN THE SSI RECIPIENT. SUCH AN INDIVIDUAL CANNOT "SPEND DOWN" TO BE ELIGIBLE FOR SSI. ALL OF THIS IS APPLICABLE IN THE SAME WAY AT THE SSI LEVEL OF ELIGIBILITY FOR A COUPLE.

WE SUGGEST THAT THE DELAY IN COST OF LIVING BE TIED TO A ROLL BACK OF MEDICARE INCREASES, AND THAT THE SSI ELIGIBILITY LEVEL BE ESTABLISHED AT THE POVERTY LEVEL FOR INDIVIDUALS AND COUPLES. OTHERWISE, THE COLA

SHOULD NOT BE DELAYED AND FUNDS OBTAINED FROM ANOTHER SOURCE.

(10-11) REFUNDABLE TAX CREDITS FOR 1984 (AND FOR THE SELF EMPLOYED IN 1984 AND THEREAFTER).

THIS IS ANOTHER BACK DOOR MECHANISM TO THE GENERAL TREASURY. WE WOULD PREFER TO SEE THE TAX WRITE OFF FOR 1984 BE DELETED AND THE FUNDS USED TO FINANCE THE "LOSSES" WHICH WOULD OCCUR FROM RETAINING THE COLA. HOWEVER, WE CAN UNDERSTAND THE EQUITY OF A TAX WRITE OFF FOR HALF THE FICA FOR SELF EMPLOYED AFTER 1984 AND WOULD SUPPORT THAT PART OF THE RECOMMENDATION IF EQUITY IS PERMITTED TO THE EMPLOYEE UNDER THE INTERNAL REVENUE CODE. CURRENTLY, AN EMPLOYEE MAY SET ASIDE ONLY $2,000 (2,250 PER COUPLE) IN AN INDIVIDUAL RETIREMENT ACCOUNT (IRA), WHEREAS THE SELF EMPLOYED INDIVIDUAL MAY SET ASIDE AS MUCH AS $15,000 IN A KEOGH PLAN, OR THE SELF EMPLOYED MAY SELECT A "DEFINED-CONTRIBUTION PLAN" TO SET ASIDE INVESTMENTS TO FUND A SPECIFIC RETIREMENT BENEFIT. EQUITY WOULD DEMAND THE SAME OPPORTUNITY FOR AN "EMPLOYEE".

(15) A TRIGGER MECHANISM TO CAUSE COLAS BE BASED ON THE CONSUMER PRICE INDEX (CPI) OR A WAGE INDEX BEGINNING IN 1988.

WE SUGGEST THAT THE COLAS BE TIED TO THE WAGE INDEX IN 1984 AND THE MECHANISM BE EFFECTIVE THEREAFTER.

(16) INCREASE IN DELAYED RETIREMENT TAX CREDITS.

WE SUGGEST THAT THE DELAYED RETIREMENT TAX CREDIT BE ADJUSTED TO COVER THE SAME TOTAL PERCENTAGE OVER A PERIOD OF SEVEN INSTEAD OF FIVE YEARS. THIS SUGGESTION INCLUDES A RETURN TO AGE 72 FOR RETIREMENT WITH PAYMENT OF BENEFITS REGARDLESS OF EARNINGS RATHER THAN AGE 70 EFFECTIVE THIS YEAR. THE PROPOSAL MADE BY NCSSR SHOWS NO SHORT RUN GAIN OR LOSS TO THE OASI FUNDS BUT INDICATES A LONG RUN LOSS. SINCE IT IS ANTICIPATED THAT SOME WORKERS WILL LEAD LONGER AND HEALTHIER LIVES, FULL PAYMENT AT AGE 70 IS NOT REALLY JUSTIFIED.

WE BELIEVE THE SUGGESTED MODIFICATIONS ARE FINANCIALLY SOUND AND DO NOT DAMAGE THE STRUCTURAL BALANCE BETWEEN INCOME AND OUTGO DETERMINED TO BE NECESSARY BY THE NCSSR. WE ALSO BELIEVE THE MODIFICATIONS ARE MORE EQUITABLE THAN THOSE PRESENTED BY NCSSR AND WOULD BE BENEFICIAL TO THE SYSTEM OVER THE SHORT AND LONG RUN.

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THE AMERICAN SOCIETY OF PENSION ACTUARIES

BASIC POSITION

ON THE PHILOSOPHY AND FINANCING OF SOCIAL SECURITY

IN RESPONSE TO THE REPORT ' THE

NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

DATED JANUARY, 1983

Presented To:

The Senate Finance Committee

February 23, 1983

The American Society of Pension Actuaries (ASPA) is a national professional society whose 2,000 members provide actuarial, consulting and administrative services to approximately 30% of the qualified retirement plans in the United States.

The following analysis details the basic position of The American Society of Pension Actuaries with regard to the philosophy and financing of OASDI benefits. Only a passing reference is made to HI benefits, since the report of the National Commission on Social Security Reform did not focus on this component of the Social Security system. Our comments regarding HI benefits are meant to focus attention on that component of Social Security which we feel requires considerably more attention, due to the potential destructive power of this component going out of control.

With regard to the National Commission's report, and our reaction to the basic findings and recommendations contained therein, our basic position is self-explanatory. We have structured our position to highlight the following major areas:

I. OVERALL PHILOSOPHY--The Social Security system should be gradually restored to its original purpose of providing a basic floor of retirement income.

II. FINANCING--Funding Social Security retirement benefits from general revenues, interfund borrowing, or borrowing from the Treasury, does not solve the basic problem of Social Security. General revenue financing, interfund borrowing, or borrowing from the Treasury <u>under the present Social Security system</u> simply masks the long-term funding problem.

III. ENCOURAGING LATER RETIREMENT--People should be encouraged to retire later. One way of doing so is through a reduction of the early retirement benefits payable; another approach would be to continue the early retirement benefit either as it is currently constituted or otherwise reduced, but to allow smaller COLA increases until Normal Retirement Age.

IV. COST OF LIVING ADJUSTMENTS (COLA)--The Social Security COLA increase formula should be modified. This can be done in the following way: Establishing a new Consumer Price Index (CPI) for retirees only; and using the lesser of the annual increase in this retiree CPI to some stated maximum annual adjustment or some appropriate percentage of this retiree price index.

V. DOUBLE DIPPING AND UNIVERSAL COVERAGE--Double dipping as it now exists should be eliminated through modification of the Social Security benefit formula. Universal coverage of all employees should be mandated.

ASPA's oral testimony will focus on proposed structural changes which could be made to ensure the long-term solvency of the Social Security system. By the Commission's own admission, based upon assumptions utilized developing final numbers in its report, a long-range funding deficiency of .58% of payroll still exists. Therefore, to this extent the Commission has failed to develop "potential solutions" appropriate to resolve the long-term funding problem of Social Security, as mandated in Executive Order 12335. Furthermore, basic to this premise is our assertion that for the most part the report of the National Commission contains little in the way of structural change to the system. That is, short-term tax increases and modest long-term benefit reductions fail to address some fundamental structural systemic flaws which have developed over time. The development of such flaws is certainly not in and of itself surprising, since all institutions or systems change with time. It is now the duty of the Congress to bring structural change to the system in order to safeguard not only current beneficiaries, but also future beneficiaries. Our basic position paper reflects the general structural changes which should be made to the system, and our oral testimony will focus on the two most important structural changes which can be made at this time--changes in cost of living and increasing the normal retirement age at which benefits would commence.

ASPA would welcome any questions about the enclosed report, and it should be noted to the Senate Finance Committee that substantive input has already been given by ASPA to the Social Security Administration regarding the Commission's report. The American Society of Pension Actuaries is prepared to assist the Committee in any way it desires.

19-467 O—83——29

AMERICAN SOCIETY OF PENSION ACTUARIES

BASIC POSITION

ON THE

PHILOSOPHY AND FINANCING OF SOCIAL SECURITY

I. OVERALL PHILOSOPHY--The Social Security system should be gradually restored to its original purpose of providing a basic floor of retirement income.

Social Security benefits have quadrupled since 1960.[1] America's resources devoted to OASDI benefits have increased from about 2% of GNP in 1950 to about 6% of GNP by 1979.[2] Unquestionably, Social Security has retarded capital formation in the United States, since pay-as-you-go financing prevents the development of a real trust fund which promotes capital formation.[3]

Studies indicate that Social Security, as a percentage of net pre-retirement disposable income, form the following percentages for the years listed below:[4]

YEARS	MINIMUM WORKER	AVERAGE WORKER	MAXIMUM WORKER
1966	49.0%	43.9%	44.3%
1981	78.2%	72.0%	62.9%

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(1) President's Commission on Pension Policy and Special Study on Economic Change, Volume 8, "Social Security and Pensions: Programs of Equity and Security" from studies prepared for the use of the Joint Economic Committee, Congress of the United States.

(2) Social Security and Pensions: Programs of Equity and Security, Joint Economic Committee, October, 1980 Staff Study, page 1.

(3) President's Commission on Pension Policy and Special Study on Economic Change, Volume 8, "Social Security and Pensions: Programs of Equity and Security" from studies prepared for the use of the Joint Economic Committee, Congress of the United States.

(4) Based upon various assumptions, including savings' rates and work-related expense assumptions derived from a study entitled "Public Pension Plans: Fundamentals of Design, Funding, and Reporting," Howard E. Winklevoss and Dan M. McGill.

Additionally, a low wage earner will receive more in Social Security benefits in his first year of receipt of benefits than he will have ever paid in lifetime Social Security taxes; an average wage earner will recover his lifetime contributions in the first one and one-half years of receipt of Social Security retirement benefit.(5)

Since its inception one of the principal problems with the Social Security system has been the gradual change in the public's perception of the program. This perception has changed from one which viewed the system as a means to provide a minimum basic income to one that viewed the system as the primary, if not only, means of support after one's productive working lifetime. As one Joint Economic Committee staff study indicates: "Retirement income policies should be considered as an integral part of overall economic policy. The Federal Government should encourage investment-based growth policies, basic to combating inflation, as a foundation for secure pensions in the future. To this end, Congress should emphasize pension policies that provide a balance between sources of retirement income. These sources of income could include post-retirement earned income, Social Security, public pensions, private pensions, and individual savings. This staff study recommends greater emphasis on private pensions, earnings and individual savings to alleviate the burden and dependency on Social Security."(6)

The idea of providing a basic retirement benefit from Social Security is desireable, but the present system provides more than that. The question facing the American people does not revolve around whether or not a basic benefit should be provided, but rather how much of a benefit we are willing and able to pay for.

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(5) Report to the Congress by the Comptroller General of the United States, "Revising Social Security Benefit Formula Which Favors Short-Term Workers Can Save Billions". April 14, 1981, page 2.

(6) Social Security and Pensions: Programs of Equity and Security, Joint Economic Committee, October, 1980 Staff Study, page 31.

II. FINANCING-- Funding Social Security retirement benefits from general revenues, interfund borrowing, or borrowing from the Treasury, does not solve the basic problem of Social Security. General revenue financing, interfund borrowing, or borrowing from the Treasury under the present Social Security system simply masks the long-term funding problem.

An area of considerable debate is whether or not general revenues, interfund borrowing, or borrowing from the Treasury should be used as primary or secondary methods to finance Social Security retirement benefits. Some Congressmen imply this method of financing will "solve" the Social Security System's impending financial problems. It is apparent this action would do no more than mask the long-term funding problems by providing an expedient way in which to resolve short-term funding problems.

Financing Social Security benefits through general revenues, interfund borrowing, or borrowing from the Treasury would also provide a greater temptation for politicians to increase and hide the cost of those benefits. The concept of raising benefits is "good" and raising taxes is "bad". To the extent politicians and the public allow benefit increases which hide cost through back door methods, they will do so. The rapid rise in Social Security taxes over the last few years has focused public attention on the System's current and future problems and has acted in a positive way as an early warning system.

NOTE: General revenue financing of Social Security makes sense only if the System is restructured in such a way that general revenue financing funds the welfare portion of Social Security. Various proposals have been made (e.g., AICPA Social Security Report and NFIB Social Security Report) to reduce the payroll tax and directly translate a worker's payroll tax contributions into actuarially earned benefits; under this scenario the cost to provide actuarially unearned benefits (i.e., welfare) would be borne by all citizens through the general budget process rather than through what has evolved into an uneven and unfair system of excessive payroll taxes. ASPA supports this approach in concept and would be happy to join with other actuarial organizations, the accounting profession, and the Social Security Administration in developing details to such an approach.

III. ENCOURAGING LATER RETIREMENT--People should be encouraged to retire later. One way of doing so is through a reduction of the early retirement benefits payable; another approach would be to continue the early retirement benefit either as it is currently constituted or otherwise reduced, but to allow smaller COLA increases until Normal Retirement Age.

The average life expectancy for a male age 65 in 1935 was 12.0 years; today it is 14.5 years. The average life expectancy for a female age 65 in 1935 was 13.5 years; today it is 18.5 years.(7)

Additionally, reports indicate that in 1977, 77% of men and 79% of women took reduced early retirement benefits.(8) Also a Joint Economic Committee Staff Study indicates that in 1978 almost 9 out of 10 persons who received Social Security benefits retired early.(9) These reports lend credence to the concept of encouraging later retirement and providing for an older age at which full Social Security benefits should be received. We recommend adoption of a system whereby the current Normal Retirement Age of 65 is increased two to three months per year, starting around 1986, and that this approach be continued indefinitely, with no specific retirement age objective in the future. Continuing genetic and health care improvements provide the impetus for this approach.

Additionally, a system of incentive such as: (1) removal of the earnings test, and (2) annual benefit increment credits should be adopted. There should be direct obvious advantages readily apparent to continue in active employment.

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(7) "The Expensive Myth of 'Uncontrollable' Spending", Journal of Contemporary Studies (Winter, 1981), Eric Hemel, White House Office of Policy Development.

(8) President's Commission on Pension Policy.

(9) Social Security and Pensions: Programs of Equity and Security, Joint Economic Committee, October, 1980 Staff Study, page 9.

IV. **COST OF LIVING ADJUSTMENTS (COLA)--The Social Security COLA increase formula should be modified. This can be done in the following way: Establishing a new Consumer Price Index (CPI) for retirees only; and using the lesser of the annual increase in this retiree CPI to some stated maximum annual adjustment or some appropriate percentage of this retiree price index.**

Cost of living adjustments account for approximately one-third of the cost of Social Security. With approximately 15% of the total population currently receiving Social Security benefits increasing to approximately 25% by the year 2050; and with the decrease in the number of workers supporting each beneficiary (which by some estimates could drop to a one-to-one worker/beneficiary ratio by the year 2050), the great design error of cost of living adjustments is readily apparent.

The OASI tax on taxable payroll was 9.1% in 1977 and is expected to grow to 18.0% by 2050. (Note: these percentages exclude any DI and HI benefits. Currently the total tax on taxable payroll is 13.4% (6.70% employer and 6.70% employee taxes). It is reasonable to assume DI and HI costs will double by the year 2050 and, therefore, the 13.4% combined rate should increase to around 26% by 2050.) Government actuarial estimates predict OASDHI benefit costs ranging from 20% - 36% of payroll by the year 2030.(10)

High inflation, low economic growth, and unemployment have worsened the financial condition of Social Security. Additionally, if all wages and prices in an economy were fully indexed to the cost of living, this would be a contributing factor to classic, out-of-control inflation. Thus, to the extent prices or costs in any economy are indexed to the cost of living, spiraling inflation is being promoted. The best possible means of protecting the spending power of retirement income is to control inflation. Yet, as the percentage of the population entitled to Social Security increases, the indexing of Social Security benefits will have a greater effect on increasing inflation. It is for this reason the use of the CPI as currently constructed is counter-productive to all American citizens.

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(10) President's Commission on Pension Policy and Special Study on Economic Change, Volume 8, "Social Security and Pensions: Programs of Equity and Security" from studies prepared for the use of the Joint Economic Committee, Congress of the United States.

Additionally, the use for retirees of the CPI, as presently constituted, is highly questionable. We recommend an appropriate retiree index be determined by an independent source, without a vested interest in the results of the findings.

The question of intergenerational equity also arises. Since the Social Security system is merely a transfer of income from the working generation to the retired generation, it would appear inequitable to increase the income of retirees at a more rapid rate than the rate of increase in workers' incomes. It is inconceivable the Social Security system should endeavor to "fully" protect against inflation the benefits it pays.

As mentioned earlier, Social Security as a percentage of net pre-retirement disposable income has been increasing dramatically over the years. A recent report prepared for the National Bureau of Economic Research indicates that over age 65 Social Security recipients are "about as well off as the non-elderly on a per capita basis." Although this is a lofty goal to have been realized, we question whether it can and should continue to be realized.

V. DOUBLE DIPPING AND UNIVERSAL COVERAGE--Double dipping as it now exists should be eliminated through modification of the Social Security benefit formula. Universal coverage of all employees should be mandated.

The Social Security formula has always been a compromise between the two principles of individual equity and social adequacy. The American social gospel concludes that in order to provide a certain minimum level of sustenance for very low-paid workers, the Social Security system must provide a benefit which is disproportionately high in relation to the taxes paid by such low wage earning individuals. (An example of this type of worker would be a migrant farm worker who might have met eligibility requirements for benefits but has little if any retirement income from other sources.) However, for other workers who are receiving retirement income from government sponsored plans, the rationale for a disproportionately high Social Security benefit disappears. The most effective short-term solution to the problem of double-dipping would be adoption of some type of "continuation factor" approach as that proposed in the Report to the Congress by the Comptroller General of the United States. Such an approach would automatically reduce the level of benefits received by short-term workers.(11)

The only effective long-term approach is a gradual phase-out of government sponsored retirement programs, as they now exist, with universal coverage of all workers under the Social Security system. Obviously, some level of benefits from the government sector should be provided; however, it is reasonable to assume the level of benefits would be less than is currently provided. The System should cover all Federal and non-Federal governmental units. Ideally the system should not differentiate between prospective and current participants, but rather should include all employees under the same set of rules. This is because as time goes on pressure will increase from the otherwise prospective group, (which will in time grow larger than the current

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(11) Report to the Congress by the Comptroller General of the United States, "Revising Social Security Benefit Formula Which Favors Short-Term Workers Can Save Billions", April 14, 1981.

group) to increase benefits, and if this pressure is translated into overly-generous future benefit increases, inflation will be fueled even further. Thus, present government employees should share in the solution with future generations of government employees.

Finally, the ability of local governments and non-profit emoloyers to withdraw from the Social Security system should be eliminated. Social Security is a national problem requiring national participation, not abdication.

VI. Actuarial Assumptions used to develop long-range cost projections should be monitored by competent private-sector economists and actuaries in order to certify validity of Social Security's future cost inpact. Additionally, 75 Year HI projections should be published with 75 year OASDI projections.

We agree with Haeworth Robertson that in developing cost estimates for the hospital insurance component of Social Security there is "no valid justification for limiting the projection period" to 25 rather than 75 years, the same number of years used to determine the actuarial balance of the OASDI program.(12)

In his pamphlet entitled "What Really Lies Ahead", Geoffrey N. Calvert sets forth a long-term financial prognosis for Social Security, based on a set of actuarial assumptions many feel are more reasonable than any of the current projection bases. Some of his conclusions are:

> "As compared with the currently published figures of a prospective 75-year deficiency in the area of 1% - 2% of payroll, a more realistic range would be 4% of payroll for OASDI alone, or 9% of payroll when the HI program is included."

> "In the first 25 years, these is no real prospect at all of a surplus emerging, on average, once the immediate short-term problems are disposed of. Rather, the outlook is for a combined deficiency, on average, of about <u>1-1/2% of payroll</u>."

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(12) A. Haeworth Robertson, The Coming Revolution in Social Security, (May 1981), page 86.

"In the second 25 years, the prospective small deficit, as presented in the IIA and IIB projections, is more likely to turn out to be more than twice as great as the (worse) IIB projection, arising from OASDI alone, and almost six times as great when the whole picture is presented. At that stage, the tax rates will not pay for two-thirds of benefit costs."

"It is in the third 25 years, however, that the system really seems to fall apart. With tax rates not even one-half of projected benefit outflows, and benefit costs soaring to almost one-third of the nation's payroll, it is clear that major changes in the system will have to have taken place."

"The basic benefit formula, the whole concept of indexing benefits, and the type of index used, are prime candidates for consideration. A limitation on the size of benefits governed by the capacity of the active payroll of the nation is obviously called for. The unavoidable role of Congress in periodically adjusting benefit levels in the light of emerging realities may have to be restored".

aspa
Managing Human Resources

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March 1, 1983

Honorable Robert Dole, Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Dear Senator Dole:

This letter presents the views of the American Society for Personnel Administration on Social Security funding issues currently under review by your Committee.

The American Society for Personnel Administration is the world's largest association of personnel and industrial relations professionals representing nearly 32 thousand practitioners in business, government, and education dedicated to the furtherance of personnel and industrial relations management. ASPA members are involved in all aspects of personnel policy. While ASPA members come from every level of business and government and hold positions at every level within their organizations, ASPA represents the operating personnel practitioner of the small to medium-sized company or operating facility within a larger company.

We believe that the system for providing human dignity in retirement through adequate retirement income must be viewed as a unified whole, with Social Security, public retirement plans, private retirement plans, and the financial resources of individuals, each serving an important role in meeting the needs of our reitrees.

The 1977 amendments to the Social Security Act did much to strengthen the Social Security System and to correct prior design mistakes. We agreed in concept with several of the changes made at that time, and were encouraged by the effort to correct both short and long term problems and were only disappointed that more complete solutions were not adopted. We have also been supportive of the several Congressional review commissions that have studied the Social Security System in recent years. The results of those studies, combined with input from other interested groups, should have fully identified both the problems associated with the present Social Security System and alternative solutions that would protect the rights of all citizens.

Unfortunately, we are not convinced that present proposed changes will solve the serious problems associated with the Social Security System so much as those proposed changes will merely postpone taking necessary actions. We do not feel that further postponement of the permanent resolution of the problems inherent in the present Social Security System is in the best interests of our citizens.

American Society for Personnel Administration
National Headquarters • 30 Park Drive • Berea, Ohio 44017 • Phone: 216/826-4790

Senator Dole, Senate Finance Committee, 3/1/83 - 2

RECOMMENDATIONS

The following recommendations should be viewed as a series of changes which can be implemented over varying periods of time. These recommendations are approximately the same as those we submitted to the Subcommittee on Social Security and Income Maintenance Programs of the Senate Finance Committee in 1981. The first changes are those that we feel should be acted upon immediately and the last recommendations are those we feel can be phased in over a longer period of time. Our primary concern is to assure the continuation of the basic Social Security System and to guarantee its fiscal soundness for future generations.

1. Interfund borrowing should be allowed with an appropriate interest rate paid for borrowed funds.

2. The annual inflationary adjustment should be indexed to the lower of the CPI change or wage increases. Efforts should also be made to develop an accurate measure of inflationary impact upon retirees as an alternative means of indexing benefits.

3. The cost of the Social Security System should continue to be borne equally by employers and employees. General revenues (deficits) should not be utilized.

4. Publicize the general policy that it is the intent of the Social Security System to only supply a portion of the income necessary for a comfortable post-retirement standard of living. Make the public aware of this policy and stress the importance of their making their own provisions for the accumulation of the additional funds necessary to provide for the desired standard of living during retirement.

5. Transfer the non-retirement benefits out of the Social Security System. This would include disability, survivor, Medicare, Medicaid and supplemental income benefits which would more properly fall into a welfare classification.

6. Universal coverage should be required. This could be on a prospective basis and would eliminate the potential windfall benefits which certain non-covered groups of employees can presently achieve.

7. Establish a replacement of earnings ratio that would limit the replacement of earnings ratio for low income levels to not more than twice the replacement ratio for high income levels. This assures some relationship between contributions and benefits.

8. Raise the normal retirement age to 67 or 68.

9. Do not extend or make improvements in the existing Social Security System. There are enough inherent serious problems with the present Social Security System that it would be

inappropriate to view further expansion of the system until we have firm recommendations concerning existing problems. The general direction for Social Security should be centered on post-retirement income; other types of wage replacement protection should be handled by the appropriate welfare programs.

Based on actuarial cost estimate date made available to the National Commission on Social Security Reform in November, 1982, the adoption of certain of our recommendations would have the following cost impact:

Recommendations:	OASDI* Cost Savings 1983-1989 in Billions	OASDI* Cost Savings 1987-2956 % of Taxable Payroll
# 2	4	.43
# 6	110	.53
# 8 increase "normal" retirement age to 66 in 2002 and adjust according to longevity thereafter .		1.81

* These cost estimates assume the intermediate economic assumptions (Alternative 11-8) of the 1983 OASDI Trustees Report.

The increase in the "normal" retirement age alone would provide a long term cost savings of a magnitude large enough to solve the financial "shortfall" as defined by the Commission.

COMMENTS ON RECOMMENDATIONS MADE BY

THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Although the recommendations proposed by the Commission indicate a thorough understanding of the immediate problems confronting the Social Security System and a fair degree of "political" courage in recommending needed changes, we felt that the recommended changes were inadequate in several respects.

1. Social Security reform has become a "political football" with all parties involved playing a dangerous game of "brinkmanship". As our elected political representatives, it is the responsibility of congressional members of both parties to permanently resolve the Social Security issue and relieve the anxiety of both present and future beneficiaries of the system.

2. Efforts seem to be directed predominantly toward funding the existing system and problems are generally defined as "financial" in nature. Perhaps the total design of the system should be reviewed in that our national demographs, life style, social and economic environment have all changed radically since the beginning of the Social Security System and will probably change again before the post-World War II baby boom group reaches retirement age.

3. The proposed changes are actually a continuation of the "bandaid" approach toward solving problems that seems to be so politically popular today. The commission defined the short term problem to be a financial "shortfall" of between $150-$200 billion and the long term problem to be approximately 1.8 percent of taxable payroll.

   These cost estimates were based on the intermediate actuarial assumptions and over the last 15 years the intermediate actuarial assumptions have consistently grossly underrated cost. An example would be the fertility rate which is projected to rise about 12 percent above the present rate while simultaneously projections by the Bureau of the Census recommend using existing rates for planning purposes.

   Another problem that was ignored and thus left for another study group at a future time of crisis is the fact that by including the H.I. (Health Insurance) cost projections in with the OASDI long term cost projections the "shortfall" becomes approximately 7 percent of taxable payroll instead of 1.8 percent. This means that "trillions" of dollars of "shortfall" were ignored.

4. Last, but not least, is our concern with the massive tax increases which could seriously jeopardize any chances of an economic recovery in the near future. These tax increases would undoubtedly add to an already intolerable unemployment problem and also increase prices which would jeopardize the fine progress already made toward controlling inflation.

RECOMMENDATIONS FOR CHANGES TO COMMISSION PROPOSALS

Following are our specific recommendations for adjustments to the proposed changes submitted by the Commission. These are ranked in priority order.

1. Increase the "normal" retirement age to 66 in 2002, beginning phase-in in 1995, and thereafter, adjust according to changes in longevity. This would reduce long term costs by 1.81 percent of taxable payroll.

2. Include all Federal, State and local government employees and non-profit employees. This would save $110 billion in the short run and .53 percent of taxable payroll in the long

term. If a phase-in period was considered necessary for existing employees, then a five or ten year period should be adequate.

3. Immediately prohibit withdrawal from coverage by any group.

4. All future COLA adjustments be based on the lower of the CPI increase or the increase in wages with no "catch-up" in future years regardless of fund level. This would save $4 billion in the short run and .43 percent of taxable payroll in the long term.

The aforementioned changes would still not answer the question of the appropriateness of the total design of the System, nor of the projected H.I. cost problem, but they would greatly improve the recommendations presently under review. The total short term cost impact of our recommendations and the other changes recommended by the commission would exceed the $170 billion and the long term cost savings would be 2.88 percent of covered payroll.

If ASPA can be of service to you and your Committee in your work on this issue please do not hesitate to call on us.

Very truly yours,

Ronald C. Pilenzo
President

V I E W S   O N:

S O C I A L   S E C U R I T Y

A N D

C I V I L   S E R V I C E

R   E   T   I   R   E   M   E   N   T

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19-467 O—83——30

THE SOCIAL SECURITY PROBLEM

I am James W. Leonardi, a member of the American Postal Workers Union(APWU). I have also been an employee of the Postal Service in Des Moines, Iowa since October 1961. I have served nine years with the U.S. Army, and have two Honorable Discharges(June 1953 and June 1959). I have been active with the Iowa Postal Workers Union(IPWU) since 1978 as State Legislative Director and the Des Moines, Iowa(DMI Local) as Legislative Director and served two years as the DMI Local President. I am presently serving as Legislative Director of the DMI Local and the IPWU's Legislative Director for the fourth Congressional District in Iowa.

My goals during this time have been to help our Congressmen/women, especially through our Iowa Congressmen, with legislation pertaining to our Postal Service, Postal employees(both labor and managers), and to try to establish a Quality of Work Life Program(QWL) in Des Moines so Postal Managers and employees may work together to improve the Postal Service for our customers.

The DMI Local is the largest in Iowa with almost 1000 members. Since I am in Des Moines and there are so many Postal Union members here, I have decided to concentrate 99.9% of my effort in Des Moines to fulfill the above mentioned goals.

I am meeting with three groups of concerned Des Moines Postal Employees. Although their initial reason for meeting has been the Social Security Issue, I am trying to help them become aware of the following:

1. That nothing is free.
2. That our Congressmen/women are interested in what we think on issues.
3. How to properly share their ideas, feelings, and how they can give their feedback.
4. I am trying to show them how we can continue to meet after the Social Security Problem is solved, and share our ideas with Congress on how to improve the Postal Service and make it more efficient.
5. How we can and why we should work toward having a QWL Program in Des Moines,
6. That we should not elect Congressmen/women and then not share our ideas with them.
7. That once the election is over, we must work politely with whoever is elected as they were the choice of the majority.
8. That Congressmen/women do not carry magic wands and that they do not know all the answers, but that they are human beings with feelings like ourselves.

It is through the effort of these groups of concerned Des Moines, Iowa

Postal Employees that we share our views on Social Security below. These views are not necessarily the views of our National, State, or Local Officers. We do believe that Unions are extremely important, especially in bad economic times.

IMMIGRANTS

I want to address an area of created unfunded liabilities. Let's look at the Table of Immigration by Countries.

Population — Immigration by Country [illegible]

Immigration by Country of Last Residence 1820-1979

[illegible]

Country	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
All countries*	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Poland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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India	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Iran	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Israel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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Dominican Rep.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecuador	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
El Salvador	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Guatemala	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Haiti	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Honduras	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Panama	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Peru	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
West Indies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other America	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Africa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australia and New Zealand	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other Oceania	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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We are not concerned with who caused this problem, nor are we saying that all or any particular percentage of the countries named are bad people. We are only trying to show a place not only where we can save wasted welfare money, but where there is one place we can get some money to help the Social Security Fund while hurting the American taxpayers least.

Let's look at the table under Europe for those countries with 10,000 or more immigrants.

Great Britian(1977,78,79): These figures are understandable since they are our mother country. I doubt if many of these people(if any) are on welfare.

Portugal: I don't know why Portugal is above 10,000 for the years 1975-1978, but usually the people from Europe are workers.

Italy: Only in 1975 were they above 10,000. Most of these people have pride and are good workers.

UNDER AMERICA

Canada: These people have always been a good neighbor and are good workers.

Mexico: Another potential good neighbor with whom we haven't been real friendly. I believe this number is high because the little people are able to get along better than the governments.

Dominican Republic: I don't know much about these people.

West Indies: A large number from Haiti have ended up on our welfare programs, at least this is our understanding.

Cuba: Not only have many of these people ended up on our welfare programs, but there is good reason to believe the Cuban government has sent us many of their worst people.

UNDER ASIA

India: Although this country has many, many poor people, I don't know about those who come to America.

China: I hope most of these have come from Taiwan who is at least an ally.

Hong Kong: There are many poor people in Hong Kong. How many are we getting.

Korea: Has many poor people. I don't know how many we are getting, but at least they are an ally.

Phillippines: An ally with many poor people and a government who has been questioned on it's justice to some of it's people. Are we getting rebels or people with a just cause?

Vietnam: Jumped from approximately 3,400(1977) to approximately 87,600(1978). A great many of these people are on some kind of welfare and have paid nothing into our system.

POINT #1: In 1977, most of the little people of this country started realising that Social Security was in trouble. At the same time most of Congress was hiding from the problem or blaming everything else for the problem. In March 1979, I appeared before the Universal Social Security Study Group in Kansas City and on October 12, 1979 I appeared before the National Commission on Social Security in Milwaukee. Both of these groups while living on taxpayers' money supposedly were out with an open mind to gather facts and solutions. Both these groups at that time were for putting the federal employees under Social Security, and they wouldn't hear of any other possible solutions. They even went so far as to say that it was the CSRS that was in trouble and not Social Security. I presented an actuary report which showed that the CSRS was solvent.

POINT #2: In 1977, the immigrants from Cuba more than doubled from 28,400 to 66,100. In 1978, the immigrants from Vietnam increased by more than 25 times from 3,400 to 87,600. During this same time the immigrants from Mexico more than doubled from 44,600 to 92,700 and the West Indies increased by more than 7,000. How were these people supported?

POINT #3: A lot of people from the West Indies, in particular Haiti, Cuba, and Vietnam ended up on welfare. If we had so much money to spend on welfare for foreigners, then why didn't we bail out Social Security which is mostly for Americans who have paid taxes all their lives. I am sure we wasted enough money in this area that we wouldn't have had to take the COLAs from the Social Security recipients.

The concerned Des Moines, Iowa Postal Workers suggest that Congress make a study to determine how much we have spent on these immigrants (by country) and how many are still receiving some form of government aid, and how much this amount is. We should also be able to determine how long they have been receiving some form of government aid.

Congress should then pass a law that any immigrant receiving any kind of government aid after being in this country for two years should be deported to the country from which they came and should not be allowed to reenter this country as an immigrant for ten years.

After two years, sponsors(i.e. a person or persons, churches, or any other organization) may completely or partially(if the immigrant makes up the difference) take care of all the needs of their immigrant up to another two years. If the sponsor(s) fails any time during this time, the immigrant shall be deported to the country from which they came.

If the immigrant(s) enters this country because someone or some organization sponsors him/her and the sponsor(s) fails to completely take care of the immigrant(s)-at least above the poverty level - the immigrant will be given 30 days in which to become independent of all government aid or face deportment.

Any country who the previous year has more than 10% of it's immigrants remaining on some form of government aid, that country's quota will be cut in half. If 10% remain on some form of government aid for two years in a row, then the quota from that country shall be reduced to zero until less than 10% are remaining on some form of government aid.

All money(from immigrants being on welfare or some form of government aid) that is saved during the first 5 years after this becomes law will be transferred to the Social Security Fund.

Congress and their constituents must learn to take care of America first so America can take care of others.

RETIREMENT CHECK

CONTRIBUTION

The federal employees have always paid more into their retirement fund than those paying into Social Security. We have been paying 7% for a long time. The concerned Des Moines, Iowa Postal Workers feel that those who pay into Social Security should pay on their full gross wage at least until the Social Security System is once again solvent.

TAX

The federal employees pay income tax on their retirement checks after they have used up their contribution and start using the government's share. The Joint Congressional Committee on Taxation estimates that the average federal retiree returns 17 percent of annuity in federal income taxes. This estimate means the federal civilian retirees paid $2.55 billion in federal income taxes in 1980. This is fair because the government's share is new income on which taxes has yet to be paid.

Once the Social Security recipients have used up what they have contributed, they should pay income tax on the government's share. This should at least be done until Social Security is again solvent.

A good alternative for the Social Security recipient is the below recommendation which appeared in the Des Moines Register January 21, 1983. This would still get some from the rich while making the burden less for the middle class and the poor. In a six year period, this is estimated to bring in a little over 30 billion dollars. I specifically refer to item #2 of the recommended bipartisan solution on Social Security quoted below:

"2. Add 50 percent of old-age benefits to adjusted gross income for federal income tax, if, under current law, taxpayers have other income of $20,000 or more for a single taxpayer, or of $25,000 or more for joint returns. Based on Treasury estimates, the proceeds of this provision would be credited to the old age and disability trust funds under a permanent appropriation..........+30.0"

SPECIAL SOCIAL SECURITY TAXES

The concerned Des Moines, Iowa Postal Workers believe that our government is in serious financial trouble---not just the Social Security System. When our country or any part of it is in trouble, we believe that everyone should chip in to help - not just the federal workers. By everyone, we mean the President and his cabinet, the members of Congress, all businesses, stockholders, and laborers. The race, creed, nationality, the rich, middle class, or poor, whether they work for the government or the private sector, everyone should help.

The concerned Des Moines, Iowa Postal Workers propose that the following taxes be temporarily established(January 1, 1984 through December 31, 1989) and be earmarked only for the Social Security Fund. The below proposed taxes can not be automatically extended. They must be ended on December 31, 1989 and there must be at least a one year interval before being established again.

During this year, Congress must establish a study group to see if these taxes should be established again for a stated period of time only. Also this study group must consist of people(at least three) from the grcup whom Congress is proposeing to tax. We should not have all rich people, business people, other professionals, or labor leaders; we should have at least two average persons from the street.

When the taxes(either in part or in whole) are established, the same Congressional Bill should state that no new programs may be added to Social Security or any other welfare programs. This does not mean that old programs can not be stopped.

The proposals are listed on the following pages numbered 9 through 20.

The following article appeared in the Des Moines Register on January 21, 1983. If you take items #2,3,4,6, & 7, you will have $146 billion.

The first paragraph of #1 is asking only the federal employees to pay for the mess Congress has made out of the Social Security System by not properly funding new programs added to the system.

The second part of #1 shows how good the word of the government is. The government made a deal with these people that if they would try the Social Security System, they could withdraw with a two year notice. We just witnessed a government suppressing it's people in Poland.

Recommended bipartisan solution on Social Security

See editorials at left

Following are the elements of a financing package proposed by the National Commission on Social Security Reform. Figures, in billions of dollars, represent gain or loss to old age and disability funds from 1983 to 1989.

1. As of Jan. 1, 1984, cover newly hired federal employees and the 15 percent of employees of non-profit organizations now outside the system .... +20.0

Ban withdrawal from the system by state and local employers, unless the process of termination is completed by the enactment date of the new legislation .... +3.0

2. Add 50 percent of old-age benefits to adjusted gross income for federal income tax, if, under current law, taxpayers have other income of $20,000 or more for a single taxpayer, or of $25,000 or more for joint returns. Based on Treasury estimates, the proceeds of this provision would be credited to the old age and disability trust funds under a permanent appropriation .... +30.0

3. Shift the automatic increase in benefits to a calendar-year basis, making the increase payable in January instead of July; and, except for 1983, shift the annual computation period from the first quarter to the third quarter (to be accompanied by an increase in the $20-a-month disregard of Social Security benefits under Supplemental Security Income to $50) .... +40.0

4. Increase the Social Security tax rate, now 6.7 percent, to 7.0 percent in 1984. Keep the plan to raise payroll taxes to 7.05 percent in 1985 and 7.15 percent in 1986 but add an increase to 7.51 percent in 1988. The tax would reach 7.65 percent, as scheduled, in 1990. There would be a refundable tax credit for 1984 for the part of the employee rate that has been rescheduled .... +40

5. Continue to pay benefits to certain widows or widowers after remarriage .... -0.1

Provide indexing of earnings records for purposes of deferred survivor benefits by wages instead of prices .... -0.2

Permit a divorced spouse to receive benefits regardless of whether the insured former spouse has retired .... -0.1

Raise benefits for disabled widow(er)s to the level payable to all widow(er)s to age 60 (71.5 percent of retired worker's benefit). The benefit now starts at 50 percent of the retired worker's benefit for widow(er)s who apply at 50, the youngest age for eligibility .... -0.1

Reduce benefits for retired federal civil servants who have worked only a few years under Social Security jobs .... +0.2

6. Make the self-employment Social Security tax rate comparable to the combined employer-employee rate, effective Jan. 1, 1984. Allow one-half of the combined rate to be deducted as a business expense .... +18.0

7. Credit to the old-age trust funds, in a lump sum, the present value of future benefits attributed to military service before 1957, because armed-forces personnel did not pay Social Security tax then, plus the equivalent of employer-employee taxes on free credits based on allowances (less past reimbursements) for military service from 1957 to 1983 .... +18.0

8. From 1990 to 2010, gradually increase the delayed retirement credit for individuals between 65 and 70 from 3 percent to 8 percent per year .... —

9. Provide for a permanent reallocation of the tax rates between the old-age and the disability funds and for interfund borrowing from 1983 to 1987 .... —

10. Beginning in 1988, if the combined old-age- and survivors-fund ratio falls below 20 percent of the annual outgo, the lesser of wages or prices would be paid as cost-of-living increases until that ratio returns to 20 percent; when the cost-of-living increase based on the Consumer Price Index would again be paid. When the fund ratio reaches 32 percent, additional benefits would be paid from available funds, making up for any previous payments that were less than the Consumer Price Index .... —

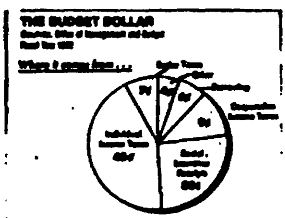
11. Additional long-term deficit-reduction measures equal to 0.58 percent of payroll will be implemented as part of the overall solution. Alternate means for achieving this objective are specified in the supplemental statements .... —

TOTAL GAIN: $168.7

<u>CORPORATION INCOME TAX:</u>

The concerned Des Moines, Iowa Postal Workers believe that everyone must help our government out of this financial mess. We realize corporations have been given some tax breaks hoping they would expand and hire some of the unemployed. We also realized, even though our government did not, that corporations were not going to spend their tax break money because they were just as uncertain of the economy as the individual. This is a universal problem--the financial disaster of our country, and it is going to take all of us reaching down deep in our pockets. This includes corporation.

Therefore the concerned Des Moines, Iowa Postal Workers recommend that starting January 1, 1984 all corporation Income Tax be raised to an equivalency of $0.10 of the Incoming U.S. Budget Dollar. On December 31, 1989, this tax would automatically end and there would have to be at least a one year interval before it could be established again for a stated period of time. During this year or whatever year Congress decides to consider establishing this tax again, it would have to have it studied by a Congressionally appointed group which must include two or three people from corporations. This will assure that the study group will have immediate feedback and possibly prevent the group from going off the deep end.



Receipts and Outlays Chart
(See Next Page)

The concerned Des Moines, Iowa Postal Workers wish to point out that our "pie" graph is for 1982 and our latest Receipts and Outlays chart is for 1981. This will be close enough to put our estimate in the ball park.

We used a ratio and the data below to estimate how much we would gain.
1982 Corporation Income Tax is $0.09 of Incoming U.S. Budget Dollar.
1981 Corporation Income Tax Receipts were $61,137,136,000.
Proposed new corporation tax rate is $0.10 so it will bring in an equivalent .10 of Incoming U.S. Budget Dollar.
We changed the newspaper's time period to January 1, 1984 to December 31, 1989.
X=estimated new Corporation Income Tax for one year.
6 years is equivalent to the time period in the newspaper.

$$\frac{.09}{\$61,137,136,000} \; . \; . \; \frac{.10}{x}$$

$$x = .1 \times \frac{\$61,137,136,000}{.09} = \$67,930,151,111$$

$67,930,151,111 - 61,137,136,000 = 6,793,015,111 say 6.7 billion approximate amount for one year of additional Corporation Income Tax.

6.7 billion x 6 years = 40.2 billion estimated additional Corporation Income Tax for a 6 year period.

ECONOMICS

U.S. Budget Receipts and Outlays—1978-1981

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net Receipts				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	61,137,136
[illegible]				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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Net Outlays				
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11.

INDIVIDUAL INCOME TAX:

The concerned Des Moines, Iowa Postal Workers realize that the American corporations should not be the only ones to bail out Social Security or be held solely responsible for the economic mess of our country. We realize the individuals of the country must join the corporations and put our shoulders to the wheel.

While using the same ratio system as we used for figuring a special corporation tax in order that we can obtain a ballpark figure, we will use the following data:

1982 Individual Income Tax is $0.43 of the Incoming U.S. Budget Dollar.
1981 Individual Income Tax Receipts were $285,550,802,000

We propose that the new Individual Income Tax rate be raised so that it will bring in an equivalent $0.44 of Incoming U.S. Budget Dollar.

We changed the newspaper's time period to January 1, 1984 to December 31, 1989. The 6 years is equivalent to the time period in the newspaper.

Y = estimated new Individual Income Tax for one year.

$$\frac{.43}{\$285,550,802,000} :: \frac{.44}{Y}$$

$Y = .44 \times \frac{\$285,550,802,000}{.43}$ = $292,191,518,326 Estimated Individual Income Tax Receipts for one year at the new rate.

$292,191,518,326 - $285,550,802,000 = $6,640,716,326 This is an estimated additional income for one year at the new rate. Let's round it off to $6.6 billion.

$6.6 billion x 6 years = $39.6 billion-estimated additional Individual Income Tax for a 6 year period.

This special tax, like the special corporation tax, will begin on January 1, 1984 and automatically end on December 31, 1989 and there would be at least a one year interval before it could be established again for a stated period of time. During this year, or whatever year Congress decides to consider establishing this tax again, it would have to have it studied by a Congressionally appointed group which must include two or three people who are considered small individual taxpayers. This will assure that the study group will have immediate feedback and possibly prevent the group from going off the deep end.

GASOLINE TAX:

The concerned Des Moines, Iowa Postal Employees have asked the corporations and the individuals to put their shoulders to the wheel according to the wealth they have taken out of this country. Since we feel that this will not be enough to make Social Security solvent in the future, we ask that we place a special tax on gasoline which will be paid by both corporations and individuals.

Gasoline prices should be dropping. Although this may not be permanent(some estimate two years), we should take advantage of this. We are not asking that we tax enough to prevent the corporations and individuals from realizing some reduction in gas prices. We are suggesting that we have a 10¢ per gallon Social Security Tax which would be effective from January 1, 1984 to December 31, 1989. This tax could not be extended.

U.S. Motor Vehicle Fuel Consumption
(1980 estimate)

Type of vehicle	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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Source: Department of Transportation, Federal Highway Administration.

Using the above table, we have:

114,959,854,000 estimated gallons used in 1980
.10 Special Social Security Tax per/gal.
$11,495,985,400 estimated tax for one year. Let's round it off to $11.4 billion.

$11.4 billion x 6 years = $68.4 billion

As for cost per vehicle:

711 gallons - average fuel consumption per vehicle
.10 Special tax per/gal.
$71.10 per vehicle per year

I forgot to include it. Basic idea: 25¢ tax per gallon - conserve oil usuage

This is not unreasonable. The attached article by Lee A. Iacocca shows not only would we get additional money to balance the budget, but we will be protecting ourselves through conservation of energy from letting ourselves get caught in the oil price war again. If the oil producing nations do get their acts together again, we will be needing less oil because of our encouragement of conservation by our high taxes.

CIGARETTES AND ALCOHOL TAX

How Consumers Spend Their Dollar

[illegible]

[illegible]

The concerned Des Moines, Iowa Postal Workers are not trying to pick on any one industry to hit for extra taxes, but we believe it is better to tax those industries which play on human weaknesses. These industries actually destroy human beings who become addicted to their products. We believe it is better to tax these industries rather than placing additional taxes on any group of individuals. We could add 10% on the money spent for cigarettes and alcohol.

For example:

<u>Cigarettes:</u>

$\$23.1 \times 10^{9}$ = \$23.1 billion spent by consumers in 1981 on cigarettes

1×10^{-1} = 10% represents special tax which is recommended

6×10^{0} = The six year period(Jan. 1, 1984 to Dec. 31, 1989)

$(\$23.1 \times 10^{9})\ (1 \times 10^{-1}) = \$23.1 \times 10^{8}$ (\$2.31 billion) 1 year additional tax

$(\$23.1 \times 10^{8})\ (6 \times 10^{0}) = 138.6 \times 10^{8}$ (\$13.86 billion) 6 Yrs.additional tax

$= 1386 \times 10^{7}$

<u>Alcohol:</u>

$\$46.2 \times 10^{9}$ = \$46.2 billion spent by consumers in 1981 on alcohol

1×10^{-1} = 10% represents special tax which is recommended

6×10^{0} = The six year period(Jan.1, 1984 to Dec. 31, 1989)

$(\$46.2 \times 10^{9})\ (1 \times 10^{-1}) = \$46.2 \times 10^{8}$ (4.62 billion) 1 Yr. additional tax

$(\$46.2 \times 10^{8})\ (6 \times 10^{0}) = \$277.2 \times 10^{8}$ (\$27.72 billion) 6 Yrs.additional tax

$= \$2772 \times 10^{7}$

<u>ADDITIONAL TAXES FOR THE SIX YEAR PERIOD:</u>

$\$1386 \times 10^{7}$

$\underline{\$2772 \times 10^{7}}$

$\$4158 \times 10^{7} = \$4.158 \times 10^{10}$ (\$41.58 billion)

Some additional information on cigarettes and alcohol:

CIGARETTES ARE A FIRE HAZARD: Fires that result from smoldering cigarettes account for nearly one third of the deaths and injuries in residential fires. The annual toll nationwide is at least 2,300 dead and 5,800 injured. According to Andrew McGuire, executive director of the nonprofit Burn Council in San Francisco, the cigarette is the number one issue in the prevention of fires. Source: "Informatior Please Almanac 1983"

SOME EASILY UNDERSTOOD ALCOHOLISM STATISTICS:

50% of the deaths caused by auto accidents annually are alcohol-related. This means 26,000 people killed, plus millions injured.
In some states, 50% of the mental patients are there for alcohol-related problems.
In prisons, a majority of the inmates are there because of alcohol-related problems.
Over 2,000,000 arrests result annually from drunkenness.
Only 10% of these alcoholics received treatment.

In the Postal Service, it is estimated there are some 58,000 indulging alcoholics.

SOURCE: "Alcoholism Is Treatable" published by the American Postal Workers Union, AFL-CIO.

As for the individual, corporation, and taxes on alcoholic beverages or cigarettes which we have recommended, we submit the following information received from a questionnaire sent out by Senator Charles E. Grassley (Republican, Iowa).

"3. Do you think that any of the following tax increases are necessary:

A. Tax increases for corporations?
Yes 62.3% No 22.6% Not Sure 15.1%

B. Tax increases for individuals?
Yes 11.2% No 78.5% Not Sure 10.3%

C. Excise taxes on alcoholic beverages or cigarettes?
Yes 77.7% No 14.6% Not Sure 7.7%

It appears that the concerned Des Moines, Iowa Postal Employees are more in touch with the people than this bipartisan committee or Congress.

If you take the Bipartisan Committee's recommendations which appear on page 9 and subtract Item #1(which is #23 billion), that will leave $145.7 billion. Take this last figure and add it to our recommended taxes above which are:

$40.2	billion Special Corporation Tax for six years
39.6	billion Special Individual Tax for six years
68.4	billion Special Gasoline Tax for six years
41.58	billion Special Cigarette & Alcohol Tax for six years
$189.78	billion Total from Special Taxes
145.70	billion from page 9
$335.48	billion Total additional taxes

Even if we allowed for a loss of $34.78 billion for a bad economy for the next six years, we still have $300.7 billion left which is

$132 billion more than recommended by the Bipartisan Committee. We did this because we asked everyone to pay a little instead of forcing the new federal and postal employees into Social Security which is bankrupt.

We did not give any estimates on "Excessive Income" Tax because we didn't have the appropriate figures.

"EXCESSIVE INCOME" TAX

Oil and Utility Companies:

The concerned Des Moines, Iowa Postal Workers believe that Congress has turned it's head and allowed the oil corporations and the utility companies to rip off the consumer. We are recommending that a special tax be assessed on all oil companies and utility companies of 1% on their income for a six year period(Jan. 1, 1984 to Dec. 31, 1989). This tax monies must be placed in the Social Security Fund.

Medical Income Tax:

The concerned Des Moines, Iowa Postal Workers feel that physicians and hospitals are the main reasons for the poor economic shape of the Medicare and Medicaid programs. We realize that it cost a lot to go to medical school and it cost a lot for medical equipment in doctors offices and in hospitals, but we do not believe that it has to be paid for in the first few years out of medical schools. Most doctors and hospitals have paid for their education and equipment several times over.

One of the excuses often given is that doctors and hospitals are sued so easily. We have to agree with this. We recommend that there should be some limit put on the amount unless the doctor and/or hospital staff member was under the influence of alcohol or drugs. We believe doctors and hospital staff are human beings and will make mistakes just like other human beings. Something must be done about this situation before we can put any special tax on the medical profession.

Another problem for the medical profession is the slow paying of Insurance Companies. We believe they should not question every claim. Insurance companies could pay these bills faster, unless there is something that stands out, and have a staff that reviews doctor and hospital statements in more detail during the slow time for the company. All doctors and hospitals who have received payments from the insurance company past a certain amount within the year should be reviewed immediately. The information of the insurance companies are usually kept on computers and could be programmed to kick out the doctor's name or the name of the hospital if certain things occur(i.e. reached a certain amount of payments for a certain period of time, a certain number for each kind of surgery, a certain amount for medicine, when the doctor or hospital's is a certain percentage above what the company ordinarily pays).

We should place an indexed tax on hospitals and physician's incomes according to the percentage of the rise of medical costs as compared to

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the percentage of rise in inflation.

For example:

Column #1 Medical cost exceeds the inflation percentage rise by:	Column #2 The additional percentage of taxes on gross income. This is over their regular tax rate.
2 - 5%	1%
6 -10%	2%
11 -15%	10%
16 -20%	15%
21 -25%	20%
26% and up	equal to percentage in Column #1

This could be done on a State by State basis thereby not penalizing those States who are really trying to keep cost down. Physician and Hospital costs should be judged separately.

This proposal still leaves the physicians and hospitals each a possible increase of 1 to 5% in additional profits each year. If medical costs of the physician and/or hospital raise more than 26% or more above the inflation rate, all their profits would be wiped out. This may indeed help curtail the seemingly uncontrollable medical costs and help the ailing Medicare program.

Congress should go to the medical profession and tell them they can cut the cost of rising medical cost more closely to the inflation rate or Congress will have to do it themselves. Prices must at least be greatly reduced for those on medicare and medicaid and the deductible must be greatly reduced for those on medicare and medicaid. All monies from this tax should go into the Medicare Fund.

Lawyers Income Tax:

Since lawyers are a big cause of high medical cost because of their excessively high lawsuits, the concerned Des Moines, Iowa Postal Employees believe the lawyer should pay an additional 10% tax on his fee received for each $100,000 suit he handles. If he/she takes the case on a contingency and they didn't win, they would not have to pay the additional tax. These cases would involve suing a doctor and/or a hospital only. For example if a lawyer sued a doctor and/or hospital and won for $100,000 to $199,999.99 the lawyer would pay an additional 10% tax on the fee received; between $200,000 and $299,999.99 the lawyer would pay an additional 20% tax on the fee received; etc.

We feel this will discourage lawyers from suing for some ridiculous amount if they know they are going to have to give up a big part of it, yet it allows the client to collect. We also believe that Congress should go to the lawyers association and ask them to show some restraints or Congress will for them. All monies from this tax should go into the Medicare Fund.

We have tried to have everyone pay something to help bail out the Social Security System, but we have gone one step further--we have tried to make people pay according to the advantage they have taken of the Social Security System and our tax system in general. The above is not presented as a final plan. It includes everyone - not just federal people.

FLAT TAX:

There is an alternative to the above special tax recommendations--a real tax reform--a flat tax. The concerned Des Moines Postal Workers believe that the "flat tax" presents a good base from which to start. The following ideas are not a complete or final tax reform. None of the individual ideas are carved in granite.

We feel the base for a possible "flat tax" system is that a certain percentage be placed on all individual's gross wages and corporations' or companies' gross income. There should be no deductions. There should not be all these income tax forms. The employer takes the individual's income tax out of his/her gross wages and turns it into the IRS. All corporations(or companies) pay as their income comes in. The self employed pay on their income as it comes in. Definition of "as their income comes in": When they sell their product, they pay tax on the full amount of the sale.

Instead of laying off all the excess people in IRS, we should train many of them to be investigators. They would be trained to investigate corporations and companies or individuals. If anyone is caught cheating on their tax(not an honest mistake which will be judged by a jury), they would receive a sentence(without parole) from one year(at the least) up to say 10 or 15 years according to the monetary size of their cheating for which they were convicted. After serving the sentence, they must repay at least a certain percentage of the tax which they were convicted for not paying. For example: they would be given six months to repay any tax discrepancy before being sentenced to the minimum time and having to repay it all plus interest if the tax owed is less than $500.; if tax owed is $500. to $999.99, you receive a minimum sentence of one year and must repay at least $499.99 plus 10% of the tax owed between $500. and $999.99; if tax owed is $1000. to $1999.99, you must pay at least $999.99 plus 25% of the amount between $1000. and $1999.99; etc. As for companies or corporations, the person(s) held responsible would be the official who is directly involved in figuring up and/or paying the taxes, plus the Executive Boards or Presidents of smaller companies if not directly involved should receive fines of $500. to $1000.

A flat tax system will save the individual, corporation, smaller companies, and the self-employed from hiring someone or some firm to figure out their income tax. This means large corporations and companie. would not need all those high priced tax lawyers.

A self employed person, company, or corporation would be allowed some kind of compensation for it's direct investment in itself(this does not include buying out another firm). We believe this should only include buying machinery which is used at least 60% of the working hours and/or building(s) housing the company and it's products. If they sold any of their buildings or machinery(regardless of capital gains), they would have to pay taxes on the money received. If they traded a building or machinery in on another building or machinery, they would have to pay taxes on the amount they received for a trade-in. These last two stipulations is to prevent someone from tying up their money in buildings or machinery in order to reduce their share of taxes.

The following is a recommended tax rate for the flat tax system(this is not carved in granite):

6% Federal Budget

2% Returned to States for their budget(taxpayer's residence)

1% Returned to County for their budget(taxpayer's residence)

1% Returned to Town(taxpayer's residence)

2% Special Social Security Tax which would be done away with when Social Security became solvent again. It could be established again anytime Social Security's deficit reached a certain point.

2% To balance the budget. Could be established anytime the deficit reached a certain point at which time all government spending would be frozen.

14% Total Tax*

*If Congress declares war, at that time they will establish a percentage of tax to be added which will cover the cost of the war.

All present government programs would have to be frozen until we can make a serious dent in our budget's deficit. While we are trying to reduce the deficit, we could eliminate some or parts of the government; but we can not extend them or add new ones. The above suggested tax rates(or whatever is finally decided on) could not be raised or new ones added without a referendum vote of the people. This could be done at election time or Congress by a 2/3 vote of the House voted to call a special election to address the tax issue only. The only tax Congress would not have to go to the people for approval would be the war tax.

The concerned Des Moines, Iowa Postal Employees are not saying this is a final form. We are saying, let's start here and improve this vasic flat tax plan. We realize there are many obstacles to overcome which are not mentioned here. There should be a study group appointed immediately by Congress to study tax reform. This group should have people from different walks of life. If there is differences of opinions, rather than haggle over that part forever, each group will be given the time right then and there to write up their opinion which will become part of the final report to Congress. Congress will make the final decision.

We are aware that this will be a cut for individual's tax rate while raising the corporations' tax rate to an equivalent rate of the individual. From the chart below, you can see the individual is not going to get any relief from 1982-1984.

WIDENING THE GAP

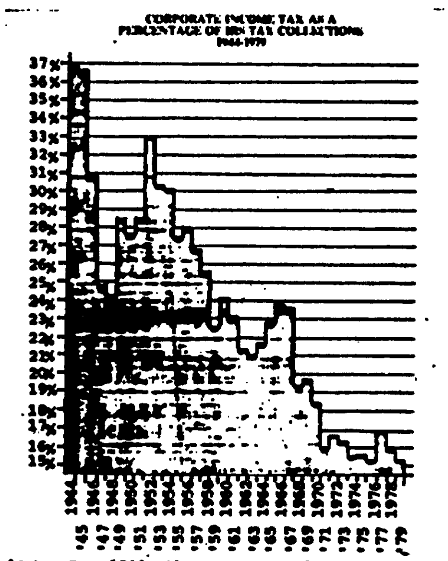
If you earn	Your taxes, 1982-84 will rise by	If you earn	Your taxes, 1982-84 will drop by
Under $10,000	$331	$50,000-$100,000	$732
$10,000-$15,000	$483	$100,000-$200,000	$7,346
$15,000-$20,000	$340	$200,000 and over	$58,250
$20,000-$30,000	$286		
$30,000-$50,000	$38		

(Figures show the 1984 effect of Reagan's three-year-tax plan after accounting for the impact of inflation and Social Security increases.)

Source: Joint Committee on Taxation, Congressional Budget Office, Citizens for Tax Justice, Americans for Democratic Action

From the chart below, we see Corporations' Income Tax has generally been declining. It has averaged, for the 34 years shown, about 23.47%. As you can see, Corporation taxes are at their lowest level since WW II while individual taxes are at their highest level. In 1981, the U.S. Budget dollar received 43¢ from individual taxes while the corporations tax contributed only 9¢(see pie chart below).

We are having a hard time finding any sympathy for those who have taken the most out of this country. Let's pay taxes according to what we earn in this country and let all of us pay for taking care of the less fortunate.



(Note: Pre-1944, the percentage hovers near 50%)

HATCH ACT

The concerned Des Moines, Iowa Postal Employees find it hard to believe that some managers and/or employees in the Social Security System didn't know about that programs poor financial situation before it became almost bankrupt.

We feel the Hatch Act has discouraged managers and/or employees of Social Security from coming to Congress with this information.

We also realize that many in Congress are saying that the poor dumb federal and postal employees need protection from ruthless federal and postal managers. Nothing could be further from the truth. We have postal unions which are much stronger than they were in 1939 when the Hatch Act was passed. We don't feel the union is having any trouble with management on problems at this level.

We do not believe the Hatch Act should be repealed. The consensus was that we should amend the Act a little at a time. We recommend that all federal(except those on the cabinet or executive level) and postal employees be allowed to participate in the political system(including running for office). All political activity must be done while off duty, off federal and postal properties, and while wearing nothing which would indicate where the individual works(this includes the wearing of any uniform or an identification badge).

With this new freedom, federal and postal employees would be of equal value to Congressmen/women as those in the private sector. Federal and postal employees would become familiar with their Congressman/woman because they would be working for their election. It is natural for a Congressman/woman to listen more closely to someone who is helping them be elected.

The concerned Des Moines, Iowa Postal Employees believe there are managers and employees in government agencies who could be a big help to Congress in showing how waste can be reduced within their agency. It is not just Social Security that is in trouble, our whole country is in financial trouble.

There are two ways to relieve your financial problems---(1) find more revenue, and (2) cut expenses. By freeing the federal and postal employees, they can get involved with Congressmen/women and help Congress cut agency expenses by reducing waste. These savings could help bail out Social Security and also help Congress balance our budget.

We realize this probably won't help Social Security, but it should prevent another bombshell from being dropped on us in the future.

CIVIL SERVICE RETIREMENT SYSTEM

SOLVENCY FACTS:

I appeared in Kansas City before the Universal Social Security Coverage Study in March 1979 and the National Commission on Social Security in Milwaukee in October 1979. These two groups plus a few others held hearings around the country. They were to find as many alternatives as possible and make their recommendations. Neither of these groups came out with an open mind. They had already made up their minds to put the federal and postal employees under Social Security.

In 1979, both these groups were telling federal and postal people who appeared before them that the federal and postal people would be better off under Social Security. Both study groups were ridiculous enough to tell us that Social Security was solvent; it was the CSRS that wasn't solvent. When I appeared before the National Commission on Social Security in October, 1979, I presented an Actuary Report by the Office of Personnel Management. It was dated April 29, 1977. This report showed beyond a shadow of doubt that the CSRS was solvent.

Enclosure #1 is the latest annual report on the U.S. Civil Service Retirement System from the Office of Personnel Management. This report should end the useless discussion on the solvency of the CSRS.

The concerned Des Moines, Iowa Postal Employees see one of the main problems with Social Security is Congress' inability to decide whether the Social Security is a retirement plan or a supplemental income during retirement.

If Social Security is going to be a retirement system, then we suggest we model it after a successful system like CSRS or some IRA. The CSRS is working and Social Security is not. You don't take something working and put it into something that isn't because you will have two systems that are not working.

If Social Security is going to be a supplemental income during retirement than model it after a successful program which is a supplemental income---not a retirement system. Supplemental income programs are not the same as retirement systems and each must remain separate.

Congress must stop calling Social Security a supplemental income while trying to use it as a retirement system. Congress must make this decision before it can take any meaningful action.

DOUBLE DIPPING:

By federal and postal employees:

There is a lot of talk about federal and postal employees "double dipping". There are insinuations that the federal and postal employees are doing wrong even though they have qualified for Civil Service Retirement and Social Security.

When I started working for the Postal Service in 1961, I was making $1.95 an hour while the private sector was aroung $3 an hour and as high as $4 an hour. I had a wife and six children.

I worked many extra hours(there was no overtime for us in those days). There were a few times I worked 14 straight days. There were many, many times I worked 12 days straight. There were more times than I care to remember that I got home around 12:30 AM on Sunday(after being gone all week), sat down to have a cup of coffee with the wife, and I received a phone call to immediately report to the train depot to leave for Kansas City or Minneapolis. There were many days that I put in twelve to eighteen hours. BUT, I never got food stamps; I was never on welfare; I was never on any government aid program. My wife and I worked hard.

There are many postal employees who have worked another job for years so they could have a nice home, put their children through college, and etc. While we worked other jobs, we had to pay Social Security. We didn't ask to pay Social Security. Now that we have qualified, we are something rotten. What happened to those days when persons, who worked hard and didn't take handouts, were great Americans?

BASE YEAR:

I submitted an idea when I testified in Kansas City in March 1979 before the Universal Social Security Coverage Study Group. This idea lessened the effect of "double dipping". I am going into a little more detail here.

I used a person 18 years old as being the median age for entering the workforce. I used 65 years old for retirement from being fulltime in the workforce. I subtracted 18 from 65 and said this is usually the most years anyone would pay into Social Security. I called this 47 years the "base year". No matter how many years you paid into Social Security, I took the rate you were paying in and projected it as if you had paid that rate in for 47 years. This would have made me eligible to receive a Social Security check for a certain amount if I had payed into Social Security for 47 years; I called this figure "Possible Social Security Check" (PSSC). I called the check I would get from using the formula below the "Real Social Security Check"(RSSC). X = number years a person actually pays into Social Security. I used the following percentage table:

*5/47 = 10.63%	20/47 = 42.55%	35/47 = 74.47%	46/47 = 97.87%
10/47 = 21.27%	25/47 = 53.19%	40/47 = 85.11%	47/47 =100.00%
15/47 = 31.91%	30/47 = 63.83%	45/47 = 95.74%	

*The numerator doesn't have to be a whole number i.e. it could be 5.25, 5.5, 5.75, etc.

For an example:

Say I worked 10 years paying into Social Security while earning a retirement some place else. If I had continued to pay into Social Security at the same rate as I payed in during the 10 years mentioned above and I had done this for 47 years, I would have earned a Social Security Check for say $500. Now using the following formula:

RSSC = (x/47)PSSC
= (.2127)($500)
= $106.35 The check I would really receive from Social Security.

This way we have not jeopardized anyone's retirement plan, yet we have taken out of the Social Security only prorated portion according to what they have paid in for those who have a retirement plan. This doesn't hurt the private sector as it doesn't matter what the size of their retirement is; their Social Security check is proportional to the time and amount they put into Social Security. The amount we save this way, we could use to beef up the Social Security checks of those people who couldn't contribute much to Social Security -- the poor.

Compromise:

While discussing the above plan with groups of managers, groups of employees, and some mixed groups, one person said they would give up everything they had in Social Security (19 years) if they could keep their CSRS as it is now.

A few others said they were not going to give up their Social Security contributions. They said they didn't care what happened.

I presented a compromise. Let's say I retire from the Post Office with 30 years or more, and for this example let's say I retired at 55 years of age. When I become 65 years old, the Social Security Administration would return all the money(in a lump sum) that is in the Social Security Fund under my account plus a small percent for interest(i.e 3-5%); I would not get a monthly Social Security check. Since I wouldn't be receiving a Social Security check monthly, and I understand that you have to pay Medicare out of your Social Security check, they could take it out of my retirement check. Alternatives to taking Medicare out of my retirement check are:

(1) Leave my lump sum in the S.S. Fund and let this money pay my Medicare
(2) I could invest my lump sum and use the dividends to replace what was taken out of my retirement check for Medicare.

There are some advantages for the Social Security System while leaving the CSRS intact:

1. Cuts the long term outlay which comes out of taxpayers' money.
2. Returns only the amount in the individual's account--one time Paymen
3. Government would pay only 3-5% interest on lump sum which is way less than U.S. Savings Bonds or Treasury Bonds' return while using the individual's money until he/she becomes 65 years old.

LOOPHOLES:

The following is not a final plan. It's only purpose is to give us a place to start a serious discussion on closing loopholes which benefit the rich.

LOOPHOLES (continued)

Let's look at some real double dippers. Below is a list of earnings which do not affect the amount of your Social Security check after retirement. According to a pamphlet of the U.S. Department of Health, Education, and Welfare Social Security Administration HEW Publication No. (SSA) 78-10069 February 1978 U.S. Government Printing Office 1978:720-441/68 under the heading "What doesn't count as earnings" the following items were listed: (Those remarks within quotation marks shall be direct quotes from the pamphlet, all other remarks shall be our views)

"What doesn't count as earnings"

"Generally, only income from a job or self-employment counts as earnings for social security purposes. The following types of income don't count as earnings:"

1. "Investment income in the form of dividends from stock you own, unless you are a dealer in securities."

Whether I put forth manual labor or use my brain and let my money work for me, it is still income. The definition of income according to the dictionary is: 'the amount of money or its equivalent received during a period of time in exchange for labor or services, from the sale of goods or property, or as profit from financial investments.'

I invested my labor for a period of time in return for a pay check and a promised retirement through the CSRS. These investors invested their money to get dividends. Because the CSRS always pays and their stock doesn't, maybe they should give up investing in stocks and become a federal or postal employee. Just because they have a chance to lose money and my investment doesn't that doesn't make their dividends any less of an income. I am sure we will all agree that we don't feel too sorry for a person who continually makes poor investments.

2. "Interest on savings accounts."

Is not the interest on a savings account about the same as investing in stocks, except it is safer?

3. "Income from social security benefits, pensions, other retirement pay, or Veterans Administration benefits."

We basically agree everyone should be allowed one retirement which doesn't count against their social security check, but you should not have several loopholes.

4. "Income from annuities."

Definition of Annuity: '1. The annual payment of an allowance or income. 2. The right to receive this payment or the obligation to make this payment. 3a. The interest or dividends paid annually on an investment of money. b. The investment made.'

ANNUITY IS AN INCOME. ANNUITY IS AN INVESTMENT. ANNUITY MAY BE A RETIREMENT PLAN. But you should have one set up for your retirement and the rest counts as income.

5. "Gain(or loss) from the sale of capital assets."

If the money from these sales are used to live on, then they should be counted as income.

LOOPHOLES (continued)

6. "Gifts or inheritances."
An inheritance has already had taxes paid on it when it was earned. If this inheritance money had been is some hidden tax 'loophole" fund(no taxes were paid on this when it was earned), then it should also be counted as income.

If gifts are worth more than $500, then everything over $500 should be counted as income. This way the rich could not circumvent the intent of the law by hiding income under the guise of a gift.

7. "Rental income from real estate you own unless:
----you are a real estate dealer, or
----you rent out a farm and under your rental arrangement you participate materially in the production, or management of production, of farm commodities on your land. (For more information about this, ask at any social security office for the leaflet, 'Farm rental income... does it count for social security?'.)"

INCOME IS INCOME, unless you are using this as your only source for your retirement.

8. "Royalties you receive in or after the year you become 65 from patents or copyrights that year."

INCOME IS INCOME, unless you are using this as your only source for your retirement.

9. "If you're a retired partner, retirement payments to you from the partnership don't count if:
---the retirement payments are to continue for life under a written agreement which provides for payments to all the partners(or to a class or classes of them), and
---your share of the partnership capital was paid to you in full before the end of the partnership's taxabe year, and there is no obligation from the partnership to you except to make retirement payments.
---you have income from a limited partnership. Starting in 1978, this is considered investment income rather than self-employment income and won't affect your social security checks."

INCOME IS INCOME, unless you are using this as your only source for your retirement.

I agree that everyone has a right to a retirement. Therefore for those who are living off Social Security and the above loopholes, we suggest that by the time they are 30 years old they should be able to declare which source is for their retirement. Only one source of retirement should be excluded from being counted as income for social security purposes. A person may wait until the day they retire to declare to the Social Security Administration their source of retirement as "A thru D" below will minimize cheating in this area.

We realize there are rich people who will try to circumvent the intent and at retirement sell everything and/or transfer their wealth into whatever source they are going to use for their retirement. To control these people we offer the following possible solution:

LOOPHOLES (continued)

A. The day a person retires, who has declared his/her source of retirement, we go back ten years to the day and find the amount he/she had contributed to the declared source of retirement during that time. i.e. if I retired on October 5, 1990, we would go back to Oct. 5, 1980. If you have only invested in your retirement for the last ten years, it shall be considered an income for social security purposes.

B. Next, take his/her age on retirement day and subtract 30 years from it. By always subtracting 30, we will equalize it for everyone and it will minimize the effects of cheating. i.e. I retire at 65, I would subtract 30 which leaves 25 years.

C. Then I would divide 25 into what I had contributed into my declared tax fund up to Oct. 5, 1980 which will give me a yearly average. i.e. on Oct. 5, 1980 my contributions totaled $50,000(not including interest) and I divided this by 25, I would have a yearly average of $2,000.

D. I look at my contributions to my declared retirement system during the period Oct. 5, 1980 amd Oct. 5, 1990(day I retired). If my contribution(for any one year during this ten year period) exceeds my yearly average in "C" above by more than 25%, then that part above 25% will always be considered income that counts for social security purposes. This would prevent anyone from dumping a big amount into their system in the last year or two.

The above system allows me to choose my retirement system and the amount I want to invest in it. This system also encourages a person to build a big retirement system which means later we could possibly cut social security benefits.

It also cuts down on the loopholes of "What doesn't count as earnings" for social security purposes. This means I will be paying out less in social security funds to people who need it the least.

I would still pay taxes on that portion of my retirement which I would receive after my contributions were used up. This would be the same as the federal and postal employees.

All taxes from retirement annuities could be dumped into the Social Security Fund until it became solvent again.

HIGH COST:

Some are saying that it is costing the taxpayers too much for the CSRS. When Congress amended the Retirement Act of 1969 to assure the continued health of the retirement fund, it made the government responsible for:

Amortizing, in 30 equal annual payments, the cost of any increase in retirement benefits resulting from legislation enacted in or after 1969.

Paying interest(not principal) on the unfunded liability, which began at 10% per year in 1971 and reached 100% in 1980.

The government is entirely responsible for the unfunded liability on which it is now paying interest. In most of the years from 1920 to 1957, the government failed to match employee contributions with the

LOOPHOLES (continued)

result that employees contributed an aggregate of $2 billion more than the government contributed during 40 of the first 60 years of the system.

From the beginning, the government has obligated itself to pay all retirement costs not met by employee contributions, but it has failed to pay enough into the fund to meet costs as they accrued. Rather, it has deferred making the necessary payments until some date in the indefinite future. Since 1969, the government is now making the payments which were deferred for so many years.

In 1980, it is estimated that federal annuitants returned $1.5 billion to the federal treasury and $900 million was returned to state treasuries from income tax. There is no income tax paid on social security checks.

Receipts for the CSRS have always exceeded disbursements for the 60 years of the funds existence. It is projected that this will continue for at least 100 years. Social Security can't say this.

SOME OF OUR RELATED OPINIONS

Unemployment:

The concerned Des Moines, Iowa Postal Employees realize that the working man is paying most of the taxes as the table below shows:

	1959	1969	%#	1979	%	1980	%	(estimate 1981	%
Individual Income Tax	36.7*	87.2	137.6	217.8	250	244.1	12.1	284	16.
Corporate Income Tax	17.3	36.7	112.1	65.7	79	64.6	-1.7	66	2.1

*in billions of dollars # percentage change from previous column
Source: Tax Foundation, Inc. Based on official U.S. Government figures (page 190---"The Hammond Almanac" 1982 Edition)

We also realize that the Administration and Congress is passing a job bill. There has been concern for repairing roads and bridges along with possibly some completion of some road construction.

We would like for you to consider building America a railroad system which includes better roadbeds, service to more communities, and some high speed passenger trains like in Japan and Europe.

Serving more communities is costly, but possibly we could use a combination train of freight, mail, and passengers to feed the mainlines.

Retirement Age:

We are not saying that the retirement age will not have to be raised in the future, but not now.

Our young people have house payments ranging from $450 to $750 per month. Those of us who have our homes paid off could live on a minimum wage job plus our retirement. Our Children can not afford these large house payments while on unemployment. Our retirement would create a job opening.

SOME OF OUR RELATED OPINIONS (continued)

Retirement Age:

We understand that banks are charging $500 to $600 for closing costs when a person buys a home. THERE IS NO WAY IT COSTS THE BANK THAT MUCH! For at least the next few years, banks should not be allowed to charge more than $300 to $350 for closing costs. Better yet, the bank should have to itemize the closing cost and if the buyer can get it done cheaper they should be allowed to do it.

When we do decide to consider changing the retirement age, let's not punish the people only. We suggest the following:

1. We take a census every ten years. That year let's determine the life expectancy for those years.
2. Let's subtract the latest life expectancy from the one taken at the previous census.

For example:

1990's Life expectancy is 78 (example only)
1980's Life expectance is <u>74</u> (example only)
Difference 4

3. Divide this example difference by 2 and our answer is 2.
4. On January 1, 1991(need time to get the census figures), we would raise the retirement age 2 years. This would be good until January 1, 2001.

Advantages: (1) People will get to reap part of the benefits from modern medicine and technology.
(2) If life expectancy should drop, the people wouldn't be punished as we would reduce the age for retirement.
(3) By doing this every ten years, we won't have a lot of changes.

<u>U.S. Saving Bonds</u>:

Many people feel that the government doesn't care about federal and postal employees. Most of us have bonds; some as much as $3,000 to $4,000. They feel we should cash these in and cancel our bond allotment which we have taken out of our paycheck.

I have a $100 bond taken out each month and I was planning on raising it to $150 or $200 bond a month. There are several investments(see Encl #2a & b) which will pay us a lot more.

The people's anger is understandable, but I have suggested a compromise which has caught their attention.

1. Leave our retirement intact.
2. Let's ask federal and postal employees to raise their bond deduction to the next level. If they aren't buying bonds through payroll deduction, they could sign up for a $25 bond per mo.
3. The money raised from these additional bond purchases could be put into the Social Security System until it became solvent again.

YES, I WOULD BE WILLING TO HELP SELL THIS IDEA AND BONDS TO FEDERAL AND POSTAL EMPLOYEES.

SOME OF OUR RELATED OPINIONS (continued)

U.S. Saving Bonds:

We could start on this immediately and it would not be taxing anyone. Let's sell more U.S. Saving Bonds and leave the CSRS intact.

Foreign Assistance:

The concerned Des Moines, Iowa Postal Employees believe that we should cut foreign assistance by at least 10%. We also believe that we should cut all foreign military aid by at least 10%.

This foreign assistance is worthless if we don't remain strong so we can help these other countries. As for the military aid, maybe Japan wouldn't be able to undersell our American made products if they had to contribute some of their wealth to their defense. They will make a good ally if we don't allow them to continue to be a leech on our American economy.

Defense Budget:

All of us realize that we must defend America. Some believe we need more money for defense. Some believe we don't need any more money for defense. Some believe somewhere in between. One thing we all agree on is that there is a lot of waste in all government agencies, and the Defense Department is no exception. Before Congress raises any agency's budget, they should encourage both managers and employees to come forward with ideas where they can save their agency money. Congress only listens to the agency heads in Washington. Congress must listen to managers and employees in the field. These people may not always bring you a polished finished plan, but they will usually show you where to start looking so you can come up with some meaningful legislation.

<u>Sick Leave:</u>

I, Jim Leonardi, have a paper in my possession titled, "STATEMENT OF SENATOR TED STEVENS". On page 4 and 5, there appears the following item:

"10. A new sick leave and disability system is established. Each employee will be granted seven days of non-accumulating annual sick leave. Illnesses or injuries necessitating longer leave will trigger short-term accident and illness insurance. Such insurance will be preceded by a short waiting period and application for such payment must be accompanied by medical documentation. Depending upon one's length of service and the duration of his absence, an employee will receive 100%, 80%, and 60% of his gross pay."

The Union and management in Des Moines have spent a lot of money on several grievances over a period of time, but I believe we have reduced our sick leave usage to 3.+ days per employee per year. If you give people seven days a year, and you can't save it up from year to year, I am afraid our usage may go back up to seven days per employee per year. We don't want that.

We already have it that you must bring in medical certification if you are gone 3 days or more. Also if you are on the "restrictive sick leave" list for abusing your sick leave, you must bring in medical certification. If the foreman has reason to believe that I am not really sick, he can request me to bring in medical certification. i.e. I ask for annual leave(vacation time) to get off tomarrow night and my foreman turns me down, then I call in sick, he/she can request that I bring in medical certification. Since we must talk to our foreman to get sick leave or annual leave, they have control over it. DON'T PUNISH ALL OF US BECAUSE A FEW(less than 3%) ABUSE SICK LEAVE. FIRE THE 3% AND LEAVE THE REST OF US ALONE.

The concerned Des Moines, Iowa Postal Employees agree that people who have qualified for disability should not have to or be allowed to use up all their sick leave.

There are many companies who give you a personal day if you don't miss work say for 3 months. We get some credit for our sick leave for our retirement. The private sector realizes that you must reward those who are faithful employees. What are we going to do with those employees who have saved better than 2000 hours sick leave?

Let's talk about disability. Let's study why we have disabilities. The Post Office is trying to correct some of the causes. I suggested when I went before the Universal Social Security Coverage Study Group, the National Commission of Social Security, and I have been informing our Iowa Congressmen and Postal Management that many people on disability can work at least part-time. That will pay for part of their disability check. The Post Office is calling in people who have been on disability for a long time and finding 2 to 4 hours work for them. Do what we at the Post Office are trying to do---put the disable back to work even if it is only part-time. Leave our disability program as it is.

<u>Welfare:</u>

Almost every concerned Des Moines, Iowa Postal Employee spoke against some of the ADC mothers. We recognize that there are ADC mothers who

__Welfare__ (continued)

have legitimate children or through no fault of their own have children (i.e. rape cases). Almost all of us believe these mothers should be helped.

Almost all of us had sympathy for the mother who had one illegitimate child; anyone can make a mistake. There was still a considerable amount of sympathy for even the mother who had two illegitimate children, although it was less. For three or more illegitimate children, there was almost no sympathy.

One solution was to encourage or insist the woman have her tubes tied after two illegitimate children (in such a way that it could be reversed later on if the woman married). This was suggested it be done at the woman's expense.

Another solution was to get five mothers with ADC children who live close together and have a different mother babysit each day while the other four mothers worked. They could work for the agency giving them the ADC. People could call into this agency and hire these mothers for short term employment. The pay would be given to the ADC agency to help offset the ADC check these mothers received.

The one thing almost all of us agreed on is that something has to be done about the women who continue to have illegitimate children. The rest of us should not have to continue to pay for their weakness.

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SOLUTION

Almost all Postal employees in Des Moines with whom I have talked said if we are put under Social Security, they would like to have all they have paid into the CSRS plus the matching funds and any interest, also anything they have in Social Security . Since the government says the employees are costing them too much, these employees say give us our money and we will invest it ourselves -- the government won't have to give us a retirement check or a Social Security check.

Enclosures #2A thru 2D were figured for me by a local office of Roosevelt National Life Insurance Co. of America.

Encl #2A shows what our monthly retirement check would be if we retired at ages 65, 55, or 50 if we paid the biweekly amount at our current age. With matching funds, I would only be paying half the amount of those biweekly figures. In reality, I pay about $62.06 biweekly into my retirement. When matched, this becomes $124.12 which means I would add the $75 and the $50 biweekly figures together to get my retirement.

Encl. 2B shows what I would get by making an initial lump sum deposit. This would happened if the government gave me all my retirement money and let me invest it. You would add the appropriate figures from Encls. 2A and 2B to arrive at my monthly retirement check.

Encl. 2C shows what amount my retirement check would be at ages 50, 55, and 65 at a certain annual rate(my annual contribution now is $1612.24) while having a whole life insurance policy and a term policy which gives me extra protection when deep in debt.

Encl. 2D shows what will happened if we go into a real depression. That is the worst I can do.

Encls. #2E, 2F, and 2G are from a large insurance company in Des Moines who preferred I did not disclose the name of their Company, but who agreed to run some figures for me. If you need more workup on this, I can contact them and have them contact you.

Encls. 2E and 2F are $2,000 annual deposits for a certain number of years. They show the worst I can do and they project at the current rate what I would get. Encls. 2E and 2F are figured at different rates.

Encl. 2G is about the same except it is a $900 annual deposit figured at 11% interest rate.

It is obvious that the federal and postal employees can do better if they were out from under the government which claims the federal and postal employees are too expensive. Give us our money; we will cash in our U.S. Savings Bonds and we will invest our money with someone who doesn't think we are too expensive.

The concerned Des Moines, Iowa Postal Employees believe that the Social Security System could possibly be handled better by the private sector.

1. Social Security has an account for each individual.

SOLUTION

(continued)

2. Each individual would name, from a list of government approved investors, with whom they want their Social Security money invested.

3. The government could have an agreement with these investors that the individual can not draw his/her money until they are 65 years old---even if the individual doesn't pay in for certain periods of time.

The government should get out of all retirement systems and Social Security since they have proven they can't fund them properly. We should leave matters like this for those who can handle them -- the private sector. The private sector won't be threatening to take away our retirement every year.

There should be a Congressional Committee appointed to study having the private sector take over government retirement systems and Social Security. There should be at least these representatives on this committee:

1. Investors from the private sector.
2. A government and a private sector actuary.
3. Union Official
4. At least one average man/woman from the private sector.
5. At least one average man/woman from the federal or postal service.
6. A leading businessman/woman or maybe two
7. At least one manager from the federal workforce.
8. At least one manager from the postal service.
9. One or two good secretaries.

This study should begin a soon as possible. They should give a report to Congress in January 1984. Congress would then decide if it is worth pursuing further.

WHY WE SHOULDN'T BE UNDER SOCIAL SECURITY

1. Social Security's problem is that Congress didn't properly fund it--not the federal and postal employees.
2. Congress will be discriminating against federal and postal employees:
   a. Asking only federal and postal employees to bail out Social Security -- what did Congress ask the private sector to do?
   b. Not taking away any private sector's retirement system.
   c. Congress wants universal coverage, but to our knowledge they aren't putting new Congressmen/women and Presidents under Social Security.
   d. The CSRS is solvent because we pay on our gross wages. Social Security is not solvent, but Congress doesn't ask those people to pay on their gross wages even temporarily.
3. Congress takes a big pay raise while taking the COLA away from annuitants and telling people the trouble with Social Security is that federal and postal employees are not under the system.
4. Congress has failed to inact a tax reform that will make everyone pay equally so we will have enough to properly fund government programs.
5. None of these study groups had a "little" man/woman from the federal and postal service on it so we could have immediate and meaningful input.
6. Congress has money to put foreigners on welfare programs, but no money to bail out Social Security for the Americans.
7. Congress has billions for foreign aid and foreign military aid, but no money for Americans on Social Security.
8. Congress has done very little to encourage business to hire the unemployed so we would have more revenue from Social Security tax.
9. Congress continues to attack and frustrate the federal and postal employees so much that they are threatening to cash in their U.S. Saving Bonds and stop buying them.
10. Congress has not made a proper study to see if the private sector can help the government with it's retirement systems and Social Security.
11. THE PRIVATE SECTOR SAYS THEY CAN GIVE THE FEDERAL AND POSTAL EMPLOYEES A BETTER RETIREMENT PLAN AND THEY DON'T THINK WE ARE TOO EXPENSIVE.

U.S. CIVIL SERVICE RETIREMENT SYSTEM
SEPTEMBER 30, 1981 ANNUAL REPORT

AUG 20 1982

Public Law (95-595) approved November 9, 1978 (92 Stat. 2541), requires Federal Government pension plans to file annual financial and actuarial reports with the Comptroller General and the Congress. The attached annual report of the U.S. Civil Service Retirement System is filed pursuant to the provisions of that law. The report is prepared in accordance with instructions specified by the Office of Management and Budget (OMB) and the General Accounting Office (GAO) and consists of the following parts:

- General Information Sheet (G1-3)
- Opinion of Enrolled Actuary (E-1)
- Comparative Financial and Actuarial Statements, including footnote disclosures (F1-13)
- Actuarial Tables (A1-7)

Because the instructions for preparing this report differ from instructions the Office of Personnel Management (OPM) follows in satisfying other reporting requirements, financial and actuarial amounts differ from data presented in other published materials. In order to foster a better understanding of the information presented, and to clarify its relationship to other published data, OPM has prepared the following remarks concerning the statements and actuarial tables.

I. STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (F-1&2)

Net assets available for benefits ($83.4 billion) is the difference between the fund's assets ($84.9 billion) and its liabilities ($1.5 billion). For the purposes of this statement, the fund's liabilities do not include participants' accumulated plan benefits.

This statement is similar in content to the Statement of Financial Condition (Treasury Report) prepared for the fund except that investments are presented at their fair value at September 30 instead of cost. Presentation of investments at fair value is required by the instructions for preparing the report and is not requested or required by the U.S. Department of Treasury for the preparation of its reports.

II. STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS (F-3&4)

This statement is similar in content to the Statement of Income and Retained Earnings (Treasury Report) prepared for the fund except that investment income is net of depreciation in the fair value of the fund's investments ($349 million in FY 81). Offsetting net depreciation in the fair value of investments against investment income is required by the instructions for preparing the report.

This statement is also prepared under the accrual basis of accounting and differs in certain respects from information shown in the President's budget which presents information on both a cash and accrual basis.

The statement reflects a continued growth in the Fund's net assets as shown below:

	Billions of Dollars
Net assets available for benefits 9/30/80	$ 73.0
Additions	28.2
Deductions	(17.8)
Net assets available for benefits 9/30/81	$ 83.4

III. STATEMENT OF ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS (F-5)

This statement reflects the fund's liability for future benefit payments that are attributable to employees' service rendered to September 30, 1981. For the purpose of preparing this statement, eligibility for these benefits is based on projected service and the fund's liability for the amount of benefits is based only on actual service and pay to date.

The actuarial present value of accumulated plan benefits is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The actuarial assumptions are based on the presumption that the Plan will continue for current participants only. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

The total actuarial present value of accumulated plan benefits increased from $430.3 billion as of September 30, 1980 to $464.4 billion as of September 30, 1981.

IV. STATEMENT OF CHANGES IN ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS (F-6)

This statement presents the changes in accumulated plan benefits during FY 81. It reflects the impact of two laws proposed by OPM and enacted by Congress which decreased accumulated plan benefits by $7.2 billion. The two laws were a change from twice-a-year cost-of-living increases for annuitants to once-a-year increases (P.L. 97-35, effective date 8/13/81) and the adoption of a pro-rata calculation of the cost-of-living adjustment for the initial annuity (P.L. 96-499, effective date 12/4/80).

The statement also reflects an increase of $39.6 billion in benefits accumulated in FY 81 as the result of including the combined effect of the 9.1% salary increase for Federal employees on October 1, 1980 and the 4.4% annuity cost-of-living increase March 1, 1980 in this computation.

V. <u>ACTUARIAL STATUS INFORMATION AS OF END OF THE PLAN YEAR - TABLE 1</u> (A-1)

This table presents a variety of actuarial information calculated per OMB/GAO instructions. In order to properly comprehend the data an understanding of the following two terms is necessary:

- <u>Normal Costs</u> - This term is defined as the level percentage of pay that would have to be contributed for a typical group of new employees over their entire working careers in order to pay for all of their retirement benefits.

- <u>Unfunded actuarial accrued Liability</u> - This term is defined as the additional amount, which, if deposited in the fund on September 30, 1981, would be sufficient to fully finance the total cost of the retirement benefits for the current closed group of employees and annuitants (i.e., assuming no new employees). It represents the difference between the actual balance in the retirement fund ($83.4 billion) and what the balance would be if the normal cost contributions had always been contributed over the entire working careers of all current employees and annuitants.

The unfunded liability of $498.9 billion shown on this table is computed using different assumptions from those used to calculate the unfunded liability ($184.9 billion) in accordance with the U.S. Civil Service Retirement Law (5 U.S.C. 8331). The latter calculation is presented in the Statement of Financial Condition (Treasury Report) prepared for the fund.

The instructions for preparing this table specify a 5% inflationary increase in the value of benefits and require that a set of reasonable economic assumptions be used which explicitly recognize future rates of interest, rates of salary increases, and annuity cost-of-living adjustments. A study of economic trends by the Board of Actuaries of the System supports the assumption that, over time, the real annual interest rate on Federal securities will be one percent and the real annual scale increase will be 0.5 percent. Therefore, for the purposes of this report future general pay increases are assumed to be 5.5% annually, future annuity adjustments are assumed to be 5% annually, and interest is assumed to be 6% annually.

The use of these "dynamic" economic assumptions results in the anticipation of future inflation in benefits and contributions which increases the normal cost to 35.82% versus approximately 14% computed under "static" economic assumptions mandated by the U.S. Civil Service Retirement Law (see footnote C to the Financial Statements).

VI. COMPARISON OF ACTUARIAL FUNDING WITH ACTUAL CONTRIBUTIONS - TABLE 2 (A-3&4)

In accordance with OMB/GAO guidelines, this Table presents the level of contributions that would be necessary to fully finance the retirement benefits for all current employees and annuitants. The total contribution is $51.2 billion for fiscal year 1981, which is 92.1% of payroll. These contributions would be sufficient to pay for the benefits of all current employees and annuitants even if no new employees were covered under the system, and thus there were no additional contributions for new employees. The total contribution includes a level amortization over 40 years of the unfunded liability amounting to $31.3 billion and normal cost contributions of $19.9 billion.

These contributions are based on "dynamic" economic assumptions which anticipate the effect of future inflation. The level of the costs depend primarily on the differences among the interest rate, the rate of inflation and salary increases. As long as the same relationship among these three rates holds, the overall costs will be about the same.

VII. PAST AND PROJECTED FLOW OF PLAN ASSETS - TABLE 3 (A-5&6)

In contrast to Tables 1 and 2, the contributions shown in this table are calculated under the current statutory funding method, but in an environment of expected future inflation. (The current statutory funding method was established under Public Law 91-93, which was passed by Congress in 1969. A general description of this method is contained in footnote C to the Financial Statements.) Disbursements and the total payroll are also projected over a 75 year period assuming annuity cost-of-living adjustments and employee salary increases as specified in the footnotes to Table 3 (A-7).

This projection also assumes that new employees are hired each year so that the total employee population remains constant. One effect of this assumption is that contributions made on behalf of new employees can be used to help pay benefits to current annuitants in the year the contribution is made, as well as to partially finance benefits for future annuitants.

The projection shows a total contribution of about 40% of payroll, including the employee contributions of 7% of pay, but excluding investment income. This contribution remains approximately level as a percent of pay throughout the term of the projection. Fund disbursements eventually level off at about 41% of payroll, and the balance in the fund levels off at about 2 times the annual payroll, or 5 times annual fund disbursements.

U.S. CIVIL SERVICE RETIREMENT SYSTEM
GENERAL INFORMATION SHEET

Report for plan year ending
September 30, 1981

1. Name of plan: U.S. Civil Service Retirement System

2. Name and address of plan sponsor:

U.S. Office of Personnel Management
1900 E Street., N.W.
Washington, D.C. 20415

3. Name and phone number of plan administrator:

James W. Morrison, Jr.
Associate Director for Compensation
202-632-1854

4. Type of plan entity: Single-employer plan

5. Date plan established: 5/22/1920

6. Plan participants at end of plan year:
Active employees 2,700,000 plus an additional 55,000 on leave without pay who retain coverage

Separated employees entitled to deferred benefits	180,000
Retiree annuitants	1,350,000
Survivor annuitants	471,000
Total annuitants	1,821,000 *

* This figure varies slightly from the number (1,814,000) included in the President's budget submitted to Congress in January 1982 as a result of later, more accurate, information being available.

7. Type of Plan: Defined benefit

8. Administrative Costs:

(a) Are administrative costs borne by the plan? - Yes
See footnote H to financial statements

9. (a) In this plan year, was the plan merged or consolidated into another plan or were assets or liabilities transferred to another plan? - No

10. Indicate funding arrangement: Trust

11. Date of most recent actuarial valuation: 9/30/81 for this report and 9/30/77 for Board of Actuaries' report

12. Actuarial cost method used in completing tables in attachment 3:

Actuarial valuations are performed by the Board of Actuaries, established by Section 8347(f) of Title 5, U.S. Code, using an entry-age-normal-cost method. A copy of the Board's latest valuation as of September 30, 1977 is attached. The Board's valuation method and assumed decrements were used in developing the values shown in the enrolled actuaries' report.

13. Actuarial assumptions

a. Economic:

(1) Rate of return on plan investments 6%

(2) Ratio of salary expected at normal retirement to salary at:

	Men	Women
Age 25	18.7	18.7
Age 40	4.6	4.6
Age 55	1.5	1.5

The above amounts assume general salary increases of 5.5% per annum plus individual merit increases based on plan experience.

(3) Inflation rate - 5%

b. Decrements (see Board of Actuaries Report for more details):

(1) Basis of mortality assumptions: Plan experience

(2) (a) Normal retirement age 55 with 30 years service
60 with 20 years service
62 with 5 years service

(b) Lowest age at which employee may voluntarily retire with full benefits 55

(3) Basis of withdrawal assumption: Plan experience

(4) Basis of disability assumption: Plan experience

14. Attach a brief description of the plan provisions, including a summary of the principal eligibility and benefit provisions for employee and employer contributions. See Footnote A of the financial statements (F-7) and the attached copy of the Board of Actuaries Report.

* * * * * * * * * * *

I declare that I have examined this report, including accompanying tables and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signature of plan administrator James W. Morrison, Jr.
James W. Morrison, Jr.
Associate Director
for Compensation

Date: April 20, 1982

Opinion of the Enrolled Actuary

Actuarial Valuation of the Civil Service Retirement System as of September 30, 1981

I have reviewed the results of the actuarial valuation of the Civil Service Retirement System as of September 30, 1981 which was prepared by the actuarial staff of the Office of Personnel Management. Based on the information provided to me, in my opinion the actuarial valuation was conducted using accepted actuarial valuation methods and techniques. My review did not attempt to verify the accuracy of the computer program in making the required calculations. That would have entailed a substantially greater amount of work and was not within the scope of the assignment.

The actuarial assumptions used in making the determinations are the same as those selected by the Board of Actuaries (of which I am a member) for its last valuation of the System as of September 30, 1977, except for certain economic assumptions, as follows. The present values shown herein have been determined using a 5.0 percent rate of inflation assumption set by the Office of Management and Budget to meet the P.L. 95-595 requirement for consistency among the enrolled actuary reports for federal retirement systems, instead of the 6.0 percent rate adopted by the Board. However, consistent with the approach used by the Board, this current valuation assumes general salary increases averaging 0.5% higher (5.5%) than the assumed inflation rate, and investment earnings 1.0% higher (6.0%) than the inflation rate. Since the Civil Service Retirement System is fully indexed, the liabilities vary only slightly for sets of economic assumptions with the same differentials between these economic assumptions, so the results would be almost the same using either the assumptions established by the Board or the variations therein established by the Office of Management and Budget.

In my opinion, the present values included in the report have been estimated on the basis of actuarial assumptions which are reasonable in the aggregate, and reflect my best estimate of the anticipated experience under the plan. To the best of my knowledge, the report is complete and accurate, subject to the previous comment that the scope of the assignment did not include verification of the accuracy of the computer program.

BY: Edwin F. Boynton

Edwin F. Boynton
Enrolled Actuary #10

July 21, 1982

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
SEPTEMBER 30, 1981 AND 1980

Assets	SEPTEMBER 30, 1981	SEPTEMBER 30, 1980
Investments, at fair value: (Notes B(1) and D)		
United States gov't securities	$82,938,686,008.75	$ 72,808,712,709.37
Receivables:		
Employees' contributions	148,417,923.29	126,632,571.40
Gov't contributions	144,710,034.92	129,275,198.74
Accrued interest and dividends	1,581,310,981.28	1,274,340,719.37
Overpayments of annuities and refunds	40,541,992.30	26,519,646.35
Allowances for waivers and bad debts (Notes B(4) and I)	<7,693,181.58>	-0-
Advances for administrative expenses	212,697.00	935,061.00
Total receivables	1,907,500,447.21	1,557,703,196.86
Operations assets:		
Capital property (Less accumulated depreciation of $539,603.97 in 1981 and $505,414.82 in 1980)	161,024.74	187,802.89
Cash	63,531,787.16	65,884,424.21
Total assets	84,909,879,267.86	74,432,488,133.33
Liabilities		
Accounts payable:		
Taxes withheld from annuitants	93,854,312.52	69,078,219.77
Union allotments withheld from annuitants	72,714.92	47,245.50
Insurance premiums withheld from annuitants	51,696,342.41	46,204,949.86
Other	-0-	104,699.94
Total accounts payable	$ 145,623,369.85	$ 115,435,115.07

The accompanying notes are an integral part of the financial statements.

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF NET ASSETS AVAILABLE
FOR BENEFITS—CONTINUED
SEPTEMBER 30, 1981 AND 1980

	SEPTEMBER 30, 1981	SEPTEMBER 30, 1980
Accrued expenses:		
Annuity payments	$ 1,359,013,406.70	$ 1,302,370,660.74
Refund of retirement deductions, lump sums, and voluntary contributions	18,357,935.79	32,265,260.48
Interest on refunds	132,052.76	128,743.68
Accrued annual leave for trust fund employees	1,519,255.00	1,223,165.00
Accrued administrative expense	3,187,158.00	324,168.00
Total accrued expenses	1,382,209,808.25	1,336,311,997.90
Total liabilities	1,527,833,178.10	1,451,747,112.97
Net assets available for benefits	$ 83,382,046,089.76	$ 72,980,741,020.36

The accompanying notes are an integral part of the financial statements.

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS
SEPTEMBER 30, 1981 AND 1980

	FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1981	SEPTEMBER 30, 1980
Net assets available for benefits at beginning of plan year	$ 72,980,741,020.36	$ 63,865,116,364.73
Investment income:		
Net depreciation in fair value of investments (Note D)	<348,629,107.64>	<295,363,862.38>
Interest	6,330,095,613.20	5,141,193,268.12
Total investment income	5,981,466,505.56	4,845,829,405.74
Contributions (Note C):		
Employees	4,006,632,044.86	3,686,429,271.08
Employing Agencies	3,900,035,215.49	3,616,370,663.23
Government		
1. New and increased annuities	3,296,778,000.00	2,786,886,000.00
2. Annuities under special acts	996,000.00	972,000.00
3. Interest on unfunded cost	8,920,000,000.00	7,350,000,000.00
4. Benefits attributable to Military Service	1,336,000,000.00	1,094,000,000.00
From U.S. Postal Service for unfunded retirement expense	722,213,000.00	697,079,000.00
From Panama Canal Commission	16,700,000.00	16,700,000.00
Total Contributions	22,199,354,260.35	19,248,436,934.31
Other	-0-	1,359.41
Total additions	$ 28,180,820,765.91	$ 24,094,267,699.46

The accompanying notes are an integral part of the financial statements.

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS-CONTINUED
SEPTEMBER 30, 1981 AND 1980

	FOR THE FISCAL YEAR ENDED	
	SEPTEMBER 30, 1981	SEPTEMBER 30, 1980
Annuity and Death Benefits paid directly to participants (Note J)	$ 17,275,357,390.24	$ 14,550,758,940.74
Administrative expense (Note H)	44,869,730.32	29,739,913.19
Refunds of prior year contributions (Note J)	459,288,575.95	398,144,189.90
Total deductions	17,779,515,696.51	14,978,643,043.83
Net additions (deductions)	10,401,305,069.40	9,115,624,655.63
Net assets available for benefits at end of plan year	$ 83,382,046,089.76	$ 72,980,741,020.36

The accompanying notes are an integral part of the financial statements.

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS
SEPTEMBER 30, 1981 AND 1980

	September 30, 1981	September 30, 198
ACCUMULATED PLAN BENEFITS (Note B(2))		
Actuarial present value of vested benefits:		
Participants currently receiving payments	$283,300,000,000.00	$266,300,000,000.0
Participants not currently receiving payments	137,000,000,000.00	124,000,000,000.0
	$420,300,000,000.00	$390,300,000,000.0
Actuarial present value of nonvested benefits	44,100,000,000.00	40,000,000,000.0
Total actuarial present value of accumulated plan benefits	$464,400,000,000.00	$430,300,000,000.0

The accompanying notes are an integral part of the financial statements.

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS
SEPTEMBER 30, 1981 AND 1980

	FOR THE FISCAL YEAR ENDED Sept. 30, 1981	Sept. 30, 1980
1. Actuarial present value of accumulated plan benefits at beginning of plan year	$430.3 billion	$368.7 billion
2. Increase (decrease) during the year attributable to:		
(a) Benefits accumulated	39.6	61.6
(b) Plan amendments (Note E)	(7.2)	0
(c) Changes in actuarial assumptions	0	0
(d) Allocated insurance contracts transferred to or from insurance companies	0	0
(e) All other changes (Note G)	1.7	0
3. Net increase	34.1	61.6
4. Actuarial present value of accumulated plan benefits at end of year. (Note G)	$464.4	$430.3

The accompanying notes are an integral part of the financial statements

U.S. CIVIL SERVICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1981 AND 1980

A. DESCRIPTION OF PLAN

The following brief description of the U.S. Civil Service Retirement System is provided for general information purposes only.

1. General

The plan is a defined benefit single-employer plan which was established by Public Law 66-125 signed May 22, 1920. The plan is funded through the U.S. Civil Service Retirement and Disability Trust fund. Members of the system include appointive and elective officers and employees in or under the executive, judicial, and legislative branches of the U.S. Government, and in the District of Columbia Government, except those excluded by law or by regulation.

2. Annuity and Disability Benefits

The retirement law provides optional retirement on full annuity at age 55 with 30 years service, age 60 with 20 years service, or age 62 with 5 years service; disability retirement is permitted at any age with 5 years service; involuntary retirement at any age after 25 years service or at age 50 with 20 years service. Deferred annuities are payable at age 62 with 5 years service. There is no general mandatory retirement provision. The average salary is based on the highest three years of salary. The annuity formula provides 1 1/2% of average salary for the first 5 years service, 1 3/4% for the next 5 years and 2% for any remaining service, up to a maximum of 80% of average salary. Disability annuitants receive the greater of the preceding computation or a guaranteed minimum of the lesser of 40% of average salary or regular formula using service projected to age 60. The law also contains special eligibility and computation requirements for certain law enforcement officers, firefighters, Air Traffic Controllers, bankruptcy judges, Congressional employees, and Members of Congress.

3. Death Benefits

Widows and widowers of those who die in service receive 55% of the disability formula as a benefit. Generally this is 22% of average salary. Widows and widowers of deceased annuitants receive 55% of the annuity base on which the annuitant chose to take deductions. Since the deduction (2 1/2% of annuity below $3600 a year and 10% above) is much less than the equivalent actuarial value of the widow's annuity, most married annuitants elect the full benefit. Children of deceased annuitants and and employees receive a flat monthly amount.

4. Refund of Employee Contributions

Employees who are separated from Government service or who are transferred to a position which is not under the retirement system are eligible for a refund of the deductions taken from their pay.

B. SUMMARY OF ACCOUNTING POLICIES

The following are the significant accounting policies followed by the plan:

1. Valuation of Investments

The fund's investments consists solely of United States Government Securities. These investments represents 98% of the plan's net assets. The fair values of these securities were determined as follows. The fair value of the Special Treasury Bonds and Certificates of indebtedness equal the Par Value. The Securities are always redeemed at par value regardless of the date of redemption and the rate of interest is specified by 5 U.S.C 8348(d). The fair value of the U.S. Treasury Bonds was determined by the over-the-counter quotations for Wednesday, September 30, 1981, reported in the Wall Street Journal. The fair value of the Government National Mortgage Association Participation Certificates was determined by using quotations obtained from Merrill-Lynch & Co.

2. Actuarial Present Value of Accumulated Plan Benefits

The accumulated plan benefits are those future benefit payments that are attributable to employees' service rendered prior to the valuation date of September 30, 1981. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees and their beneficiaries, (b) beneficiaries of deceased employees, and (c) present employees or their beneficiaries, including refunds of employee contributions. Total projected service is used to determine eligibility for retirement benefits. The value of voluntary, involuntary, and deferred retirement benefits is based on the regular formula using service to the valuation date. The value of disability benefits and benefits for survivors of employees is determined by multiplying the benefit the employee would receive on date of disability or date of death by a ratio of service at the valuation date to projected service at time of disablement or death. Employees are assumed to continue to earn their final salary as of the valuation date, with no future increases. For employees retiring after 1984, the projected high three-year-average salary would be the same as the final salary in 1981. The annuity benefits are assumed to increase at the assumed inflation rate of 5 percent per year after retirement, and are discounted to the valuation date assuming a 6 percent rate of interest.

3. Depreciation

Property of a durable nature acquired by the program with an acquisition cost of $200.00 or more, and an expected life of two years or more is capitalized and its cost is depreciated over its anticipated life. Depreciation is based on the straight line method without regard to salvage value. With the exception of Automatic Data Processing (ADP) equipment, property is assumed to have an useful life of ten years. The useful life for ADP equipment is determined on a per item basis as the equipment is acquired.

4. Allowance for Waivers and Bad Debts

The Allowance for Bad Debts is experienced based using an aging schedule of accounts receivable. The allowance for waivers is based on the assumption, using past experience, that 25% of the suspended accounts pending reconsideration will be waived.

C. FUNDING POLICY

The funding policy for the U.S. Civil Service Retirement System consists of the following elements:

1. Employee/Employing Agency Contributions - In general, employees contribute 7 percent of basic pay to the Civil Service Retirement and Disability Fund. However, employees in hazardous duty positions and Congressional employees contribute 7 1/2 percent of basic pay, while Members of Congress contribute 8 percent. Each employing agency also matches the employee's contribution. The employee and employing agency contribution is based on a "static" normal cost of approximately 14%.

2. Public Law 91-93 - Under Public Law 91-93, which was passed by Congress in 1969, the Treasury makes the following three payments to the Retirement Fund: (1) payments to amortize, over a thirty year period, any increase in unfunded liability resulting from new or liberalized benefits, including benefit increases that result from increases in salaries, but excluding cost-of-living increases in annuities; (2) a payment of 5% interest on the "static" unfunded liability; and (3) a payment of the estimated cost of benefits attributable to military service.

The unfunded liability which is used in determining the amount of the contributions by the Treasury is defined in Section 8331 of Title 5 of the U.S. Code to be the estimated excess of the present value of all benefits payable from the fund to employees, former employees and to their survivors, over the sum of: (A) The present value of deductions to be withheld from the future basic pay of employees, and of future agency contributions to be made in their behalf; plus (B) the present value of the remaining thirty year amortization payments which had previously been scheduled; plus (C) the fund balance as of the date the unfunded liability is determined. This "static" unfunded liability was estimated at $184.9 billion as of September 30, 1981.

The present value of benefits determined under the provisions of the Civil Service Retirement Law excludes benefits attributable to military service, since these benefits are paid directly by the Treasury. Also the present value of benefits and the present value of contributions are determined under "static" economic assumptions which call for a 5 percent annual interest rate and no inflationary future salary or cost-of-living increases in annuities.

This is a different method of calculation of the unfunded liability than was used in preparing Table 1 of this report which is based on "dynamic" assumptions and assumes future cost-of-living increases in annuities of 5 percent per year, future salary increases of 5.5 percent, and a 6 percent interest rate. OMB/GAO instructions for completion of annual reports of Federal Pension Plans under Public Law 95-595 specifies the 5% inflation rate.

3. U.S. Postal Service - Under Public Law 93-349, the Postal Service is required to make contributions to amortize, over a thirty year period, any increase in unfunded liability resulting from an increase in pay on which retirement benefits are computed.

4. Panama Canal Commission - Under the Panama Canal Act of 1979 (i.e., the Panama Canal Treaty) the Panama Canal Commission is also required to make contributions to pay for the additional cost of the liberalized retirement benefits that are provided by the Treaty. However, in this case, the additional cost was determined assuming future salary and cost-of-living increases in order to provide a more accurate measure of the ultimate or true costs, and to insure that the Treaty would not result in any additional costs to the taxpayer.

D. INVESTMENTS

The Plan's investments are held in a U.S. Government Trust Fund managed by the U.S. Department of Treasury. The following tables present the fair values of those investments.

	September 30, 1981	
	Principal Amount	Fair Value
Investments at Fair Value as determined by Quoted Market Price (Note B(1))		
Special Treasury Bonds	$ 64,495,759,000.00	$ 64,495,759,000.00
U.S. Treasury Bonds	2,842,917,000.00	1,842,949,758.75
Certificates of Indebtedness	16,392,596,000.00	16,392,596,000.00
Government National Mortgage Association Participation Certificates	275,000,000.00	207,381,250.00
	$ 84,006,272,000.00	$ 82,938,686,008.75

	September 30, 1980	
	Principal Amount	Fair Value
Investments at Fair Value as determined by Quoted Market Price (Note B(1))		
Special Treasury Bonds	$ 56,910,542,000.00	$ 56,910,542,000.00
U.S. Treasury Bonds	2,858,617,000.00	2,197,947,334.37
Certificates of Indebtedness	13,484,789,000.00	13,484,789,000.00
Government National Mortgage Association Participation Certificates	275,000,000.00	215,434,375.00
	$ 73,528,948,000.00	$ 72,808,712,709.37

During FY 1981 and FY 1980 the plan's investments (including investments bought, sold, held during the year) depreciated in value by $348,629,107.64 and $295,363,862.38 respectively, as follows:

Net Depreciation in Fair Value

	Year Ended September 30, 1981	Year Ended September 30, 1980
Investment at Fair Value as as determined by Quoted Market Price		
Special Treasury Bonds	$ -0-	$ -0-
U.S. Treasury Bonds	<339,297,575.62>	<280,341,019.39>
Certificates of Indebtedness	-0-	-0-
Government National Mortgage Association Participation Certificates	<8,053,125.00>	<14,496,875.00>
Unamortized Premium & Discount	<1,278,407.02>	<525,967.99>
	$<348,629,107.64>	$<295,363,862.38>

E. PLAN AMENDMENTS

The decrease in the actuarial present value of accumulated plan benefits shown on the Statement of Changes in Actuarial Present Value of Accumulated Plan Benefits of $7.2 billion is due to the change from twice-a-year cost-of-living (COLA) increases for annuitants to once-a-year increases (P.L. 97-35, effective date August 13, 1981) and to the adoption of a pro-rata calculation of the initial annuity COLA (P.L. 96-499, effective date December 4, 1980).

F. SUBSEQUENT EVENT

On February 8, 1982 the Director, Office of Personnel Management notified the Postmaster General of the U.S. Postal Service that the treatment of pay raises granted under the 1981-1984 employee-management agreement between the Postal Service and its employees required changes in the amount of monies due the Fund. Specifically, the Director indicated that beginning November 14, 1981, deductions from employee pay and matching agency contributions must be based on each employee's full basic pay, including any cost-of-living adjustments (COLA) paid to employees. Beginning with fiscal year 1982, the unfunded liability payments owed by the Postal Service will also be calculated to include the effect of COLAs on that liability from the time they are actually paid, rather than from the time that they are said to be included in basic pay by an employee-management agreement.

The monetary impact of this subsequent event has not been finally determined, but it has been calculated that the fund could receive substantial additional income for each of the next three years.

G. ACTUARIAL CHANGES

The increase in the present value of accumulated plan benefits of $1.7 billion represents an adjustment for the extra value of benefits attributable to special groups (e.g. law enforcement, air-traffic controllers, and legislative employees) which was inadvertently left out in previous computations.

The accumulated plan benefits for each year are based on actual employee and annuitant population models as of the end of the respective years, but the decrement rates and economic assumptions were not changed from 1980 to 1981.

The value of the accumulated plan benefits for participants not currently receiving benefits assumes no future salary increases and thus assumes no salary increase at the beginning of the next fiscal year. The accumulated plan benefits as of September 30, 1981, include the effect of the 9.1% salary increase on October 1, 1980, but not the 4.8% salary increase effective on October 1, 1981.

H. ADMINISTRATIVE EXPENSES

Administrative expenses for FY 1981 consist of the following elements:

Personnel Compensation	$24,497,638
Personnel Benefits	2,328,353
Travel	304,778
Transportation of Things	106,631
Rents	4,343,214
Printing	642,056
Other Services	2,397,392
Supplies	340,113
Equipment	77,177
Insurance Claims	2,534
Depreciation	34,189
Waiver and Bad Debt Expense (Note I)	9,795,379
Other Expense	76
	$44,869,730

I. ACCOUNTING CHANGES

On June 24, 1981, the Department of Treasury issued Treasury Fiscal Requirement Manual bulletin 81-08 that specified the use of the allowance method in valuing accounts receivable.

To comply with this requirement, the Fund changed its accounting procedures in FY 81 to report allowances for uncollectible and waived accounts. Prior to this, the Fund used the direct write-off method. This change resulted in an increase in Administrative expenses of $7,693,182 in Fiscal Year 1981.

J. REFUNDS

Employees who are separated from Government Service or transferred to a position which is not covered by the U.S. Civil Service Retirement System may be granted a refund of their accumulative retirement deductions. Employees with more than 5 years of service may leave their accumulative retirement deduction in the Fund thereby entitling them to a deferred annuity at age 62. Refunds of retirement contributions are not classified on a current or prior year basis. Therefore, all refunds were considered refunds of prior year contributions. Previously reported financial information pertaining to 1980 has been restated to present 1980 refunds as refunds of prior year contributions rather than as benefits paid directly to participants.

K. LITIGATION

Litigation involving significant financial implications is currently pending. The issues with the most significant financial implication are:

1. Whether misleading information was presented on retirement application forms concerning the election of survivor benefits that may have prompted retirees to not elect this benefit. All non-survivor annuity election and limited survivor annuity election cases are involved (approximately 80,000). A.F.G.E v. Devine, No. 81-2527 (D.D.C. filed October 19, 1981).

2. Whether administrative due process procedures were applied correctly with respect to withholds of Government claims from annuity payments since December 1972. Rhinehart v. Seneca, No. 78-2472 (D.D.C.; filed December 28, 1978). A summary judgement for the Government was received on April 30, 1982, however, it is unknown whether the plantiff will appeal.

OPM is not in a position to predict with any certainty the ultimate outcome of these matters.

TABLE 1
U.S. CIVIL SERVICE RETIREMENT SYSTEM
ACTUARIAL STATUS INFORMATION
AS OF END OF PLAN YEAR

	Sept. 30, 1981	Sept. 30, 1980
1. Present value of future benefits:		
(a) Annuitants now on roll	$283.3 billion	$266.3 billion
(b) Separated employees	3.5	3.4
(c) Active employees	586.3	544.6
TOTAL	$873.1	$814.3
2. Less: Present value of future employer/employee normal cost contributions	$290.8	$271.8
3. Actuarial accrued liability	582.3	542.5
4. Less: Assets in fund	83.4	73.0
5. Unfunded actuarial accrued liability	$498.9	$469.5
6. Normal cost as a percentage of covered payroll:		
(a) Employee	7.00%	7.00%
(b) Employer	28.82	29.67
(c) TOTAL	35.82%	36.67%

7. Ratio of assets in fund to present value of future benefits for annuitants now on roll plus accumulated employee contributions.

(a)	(b)	(c)	(d)
Value in line 1 (a) plus accumulated employee contributions	Assets in fund divided by col. (a)	Col. (b) ratio last year	Col. (b) ratio 2 years ago
$306.8 billion	.272	.253	.274

FOOTNOTES TO TABLE 1

The present value of benefits and contributions for each year are based on actual employee and annuitant population models as of the end of the respective years, but the decrement rates and economic assumptions were not changed from 1980 to 1981.

The present value of future benefits and contributions for active employees as of September 30, 1981, includes the effect of the 4.8% salary increase effective on October 1, 1981, although the value of the accumulated plan benefits does not.

The normal cost is determined for a typical group of new entrants based on actual experience for the years 1973 through 1976. The new entrant model did not change from 1980 to 1981. The normal cost declined because of the adoption of a pro-rata calculation of the initial annuity (P.L. 96-499, Dec. 5, 1980).

TABLE 2
U.S. SERVICE RETIREMENT SYSTEM
COMPARISON OF ACTUARIAL FUNDING
WITH ACTUAL CONTRIBUTIONS
(in billions of dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Plan Year	Normal Cost	40-year level Amortization of Unfunded Liability	Total Actuarial Contribution (Col. 2 plus Col. 3)	Actual Contributions To Plan From All Sources	Difference Between Total Actuarial Contribution (Col.4) and Actual Contributions (Col.5)	Actual Contributions as a Percentage of Total Actuarial Contribution (Col. 5 Divided by Col. 4)
1979	$17.4	$25.3	$42.7	$16.3	$26.4	.382%
1980	18.8	29.4	48.2	19.2	29.0	.398%
1981	19.9	31.3	51.2	22.2	29.0	.434%

TABLE 2(A)
U.S. CIVIL SERVICE RETIREMENT SYSTEM
COMPARISON OF ACTUARIAL FUNDING
WITH ACTUAL CONTRIBUTIONS
(as a percentage of payroll)

(1) Plan Year	(2) Normal Cost	(3) 40 year level Amortization of Unfunded Liability	(4) Total Actuarial Contribution (Col. 2 plus Col. 3)	(5) Actual Contributions To Plan From All Sources	(6) Total Actuarial Contribution (Col. 4) less Actual Contributions (Col. 5) as percentage of payroll
1979	36.8%	53.3%	90.1%	34.4%	55.7%
1980	36.7%	57.4%	94.1%	37.7%	56.4%
1981	35.8%	56.3%	92.1%	39.9%	52.2%

TABLE 3
U.S. CIVIL SERVICE RETIREMENT SYSTEM
PAST AND PROJECTED FLOW OF PLAN ASSETS
(in billions of dollars)

Fiscal Year	Fund Balance Beginning of Year	Employee Contributions	Employer Contributions	Investment Income	Fund Disbursements	Fund Balance End of Year	Total Covered Payroll
1979	$56.3	$3.4	$12.9	$4.2	$12.6	$63.9	$47.4
1980	63.9	3.7	15.6	5.1	15.0	73.0	51.2
1981	73.0	4.0	18.2	5.9	17.8	83.4	55.6
1982	83.4	4.3	19.9	8.3	19.6	96.1	61.4
1983	96.1	4.5	21.0	10.0	21.8	109.7	64.6
1984	109.7	4.8	22.2	11.5	23.7	124.2	68.0
1985	124.2	5.0	23.2	13.0	25.5	139.8	71.6
1986	139.8	5.3	24.3	14.1	27.4	156.9	75.4
1987	156.9	5.6	25.3	14.9	29.3	173.2	79.4
1988	173.2	5.9	26.5	15.5	31.4	189.5	84.0
1989	189.5	6.2	27.9	16.1	33.6	206.0	88.8
1990	206.0	6.6	29.4	16.6	35.8	222.6	93.8
1991	222.6	6.9	31.1	17.2	38.2	239.5	99.2
1992	239.5	7.3	32.9	17.9	40.7	256.7	104.8
1993	256.7	7.8	34.8	18.5	43.3	274.2	110.8
1994	274.2	8.2	36.8	19.0	45.9	292.1	117.1
1995	292.1	8.7	38.9	19.6	48.6	310.5	123.7
1996	310.5	9.1	41.2	20.1	51.5	329.2	130.7
1997	329.2	9.7	43.7	20.6	54.5	348.5	138.0
1998	348.5	10.2	46.4	21.2	57.6	368.4	145.7
1999	368.4	10.8	49.2	21.9	60.9	389.2	153.8
2000	389.2	11.4	51.9	22.8	64.3	410.7	162.2
2001	410.7	12.0	54.9	23.9	67.9	433.3	171.1
2005	507.9	14.8	68.2	29.4	84.8	534.9	210.8
2010	655.5	19.1	89.2	37.8	112.1	689.1	273.1
2015	838.9	24.8	116.9	48.3	147.3	881.0	354.6
2020	1072.1	32.3	154.2	61.6	193.8	1125.7	461.7
2025	1358.0	42.2	198.9	77.9	254.3	1421.6	602.7
2030	1712.5	55.2	263.9	98.1	331.8	1796.6	788.1
2035	2186.5	72.1	346.4	125.2	430.5	2298.2	1030.7
2040	2813.8	94.3	452.2	161.2	557.3	2962.0	1347.5
2045	3648.2	123.3	590.4	209.1	722.4	3845.7	1760.9
2050	4757.0	161.1	771.1	272.7	939.9	5018.3	2300.9
2055	6219.1	210.5	1007.1	356.6	1226.2	6562.3	3006.6
2060	8136.3	275.1	1315.9	466.5	1601.8	8585.8	3929.6

TABLE 3(A)

U.S. CIVIL SERVICE RETIREMENT SYSTEM

PAST AND PROJECTED FLOW OF PLAN ASSETS

(as a percentage of payroll)

Fiscal Year	Fund Balance Beginning of Year	Employee Contributions	Employer Contributions	Investment Income	Fund Disbursements	Fund Balance End of Year
1979	118.8%	7.2%	27.2%	8.9%	26.6%	134.8%
1980	124.8	7.2	30.5	10.0	29.3	142.6
1981	131.3	7.2	32.7	10.6	32.0	149.8
1982	135.8	7.0	32.4	13.6	32.0	156.5
1983	148.7	7.0	32.5	15.5	33.7	169.7
1984	161.2	7.0	32.6	16.9	34.9	182.6
1985	173.4	7.0	32.4	18.1	35.6	195.1
1986	185.3	7.0	32.2	18.7	36.3	208.0
1987	197.6	7.0	31.8	18.8	36.9	218.2
1988	206.3	7.0	31.5	18.5	37.4	225.8
1989	213.6	7.0	31.4	18.1	37.8	232.1
1990	219.5	7.0	31.4	17.7	38.2	237.3
1991	224.5	7.0	31.4	17.4	38.5	241.5
1992	228.5	7.0	31.4	17.0	38.8	244.9
1993	231.7	7.0	31.4	16.7	39.0	247.6
1994	234.3	7.0	31.4	16.3	39.2	249.6
1995	236.2	7.0	31.5	15.8	39.3	251.0
1996	237.6	7.0	31.6	15.4	39.4	252.0
1997	238.6	7.0	31.7	14.9	39.5	252.5
1998	239.2	7.0	31.8	14.5	39.5	252.9
1999	239.6	7.0	32.0	14.3	39.6	253.1
2000	239.9	7.0	32.0	14.1	39.6	253.2
2001	240.0	7.0	32.1	13.9	39.7	253.2
2005	240.9	7.0	32.3	13.9	40.3	253.8
2010	240.1	7.0	32.7	13.8	41.1	252.4
2015	236.6	7.0	33.0	13.6	41.5	248.4
2020	232.2	7.0	33.4	13.3	42.0	243.8
2025	225.3	7.0	33.0	12.9	42.2	235.9
2030	217.3	7.0	33.5	12.5	42.1	228.0
2035	212.1	7.0	33.6	12.2	41.8	223.0
2040	208.8	7.0	33.6	12.0	41.4	219.8
2045	207.2	7.0	33.5	11.9	41.0	218.4
2050	206.7	7.0	33.5	11.9	40.8	218.1
2055	206.8	7.0	33.5	11.9	40.8	218.3
2060	207.1	7.0	33.5	11.9	40.8	218.5

Footnotes to Table 3 and 3(A)

The projections in Tables 3 and 3(A) are based on the following economic assumptions:

Cost-of-Living Increase		General Schedule Increase		Interest Rate for New Issues	
3/82	8.7%	10/82	5.0%	6/82	13.9%
3/83	6.6	10/83	5.0	6/83	12.7
3/84	4.9	10/84	5.0	6/84	10.9
3/85	4.8	10/85	5.0	6/85	10.2
3/86	4.5	10/86	5.0	6/86	8.6
3/87	4.6	10/87	5.0	6/87	6.8
3/88 and future years	5.0	10/88 and future years	5.5	6/88 and future years	6.0

The projected investment income shown in this report is higher than in the report for F.Y. 1980 because of a correction to more accurately reflect higher interest rates for new issues that are assumed for the first six years of the projection. This higher investment income results in a higher balance in the fund, which in turn decreases the amount of future government contributions.

The total covered payroll for F.Y. 1982 includes the cost-of-living increases in Postal salaries that were granted under the 1978-1981 Agreement between the U.S. Postal Service and the Postal Unions. These increases were not included in the 1981 payroll.

19-467 O-83--34

Incl. #2B

ROOSEVELT NATIONAL LIFE INSURANCE CO. OF AMERICA

U.S. POSTAL EMPLOYEES

ILLUSTRATION OF SPECIAL DEPOSIT FEATURE
(Add amount shown to corresponding figure on A-1200 chart)

monthly income projection assuming retirement at age 65: *

1st yr deposit	5 yrs	10 yrs	15yrs	20 yrs
$50,000.	$1105.	$1946.	$3429.	$6043.
35,000.	773.	1362.	2401.	4230.
20,000.	442.	778.	1372.	2417.
10,000.	221.	389.	686.	1209.

monthly income projection assuming retirement at age 55: *

1st yr deposit	5 yrs	10 yrs	15yrs	20 yrs
$50,000.	$991.	$1746.	$3076.	$5421.
35,000.	694.	1222.	2153.	3795.
20,000.	396.	698.	1231.	2168.
10,000.	198.	349.	615.	1084.

monthly income projection assuming retirement at age 50: *

1st yr deposit	5 yrs	10 yrs	15yrs	20 yrs
$50,000.	$956.	$1683.	$2967.	$5228.
35,000.	669.	1178.	2077.	3660.
20,000.	382.	673.	1182.	2091.
10,000.	191.	337.	591.	1046.

* Projected at 12% based on Company's current excess interest rate which is not guaranteed.

Interest on deposits is guaranteed at 4% all years.

Encl. #28

ROOSEVELT NATIONAL LIFE INSURANCE CO. OF AMERICA

U.S. POSTAL EMPLOYEES

ILLUSTRATION OF SPECIAL DEPOSIT FEATURE
(Add amount shown to corresponding figure on A-1200 chart)

monthly income projection assuming retirement at age 65: *

1st yr deposit	5 yrs	10 yrs	15yrs	20 yrs
$50,000.	$1105.	$1946.	$3429.	$6043.
35,000.	773.	1362.	2401.	4230.
20,000.	442.	778.	1372.	2417.
10,000.	221.	389.	686.	1209.

monthly income projection assuming retirement at age 55: *

$50,000.	$991.	$1746.	$3076.	$5421.
35,000.	694.	1222.	2153.	3795.
20,000.	396.	698.	1231.	2168.
10,000.	198.	349.	615.	1084.

monthly income projection assuming retirement at age 50: *

$50,000.	$956.	$1683.	$2967.	$5228.
35,000.	669.	1178.	2077.	3660.
20,000.	382.	673.	1182.	2091.
10,000.	191.	337.	591.	1046.

* Projected at 12% based on Company's current excess interest rate which is not guaranteed.

Interest on deposits is guaranteed at 4% all years.

524

Incl. 2C

ROOSEVELT NATIONAL LIFE INSURANCE CO. OF AMERICA

U.S. POSTAL EMPLOYEES

PASSPORT / 6 UNITS

issue age	COVERAGE whole life + term	annual rate	age 50	age 55	age 65
20	$28,200 + 84,600	$ 1040.	$1126.	$2064.	$7145.
25	24,000 + 72,000	1022.	639.	1171.	4054.
30	20,400 + 61,200	1013.	364.	664.	2301.
35	16,200 + 48,600	1009.	184.	377.	1305.
40	12,000 + 36,000	1015.	86.	193.	741.
45	9,000 + 27,000	1022.	25.	89.	420.

PASSPORT / 8 UNITS

issue age	COVERAGE whole life + term	annual rate	age 50	age 55	age 65
20	$37,600 + 112,800	$ 1388.	$1506.	$2791.	$9527.
25	32,000 + 96,000	1363.	654.	1561.	5406.
30	27,200 + 81,600	1351.	485.	886.	3067.
35	21,600 + 64,800	1345.	248.	503.	1740.
40	16,000 + 48,000	1354.	114.	258.	988.
45	12,000 + 36,000	1363.	33.	119.	560.

Projections at 12% based on Company's current excess interest rate which is not guaranteed.

Interest on deposits is guaranteed at 4% all years.

Incl. 2D

ROOSEVELT NATIONAL LIFE INSURANCE CO OF AMERICA

U.S. POSTAL EMPLOYEES   A-1200 flexible premium annuity

Projected at minimum guaranteed interest rate of 4% *

issue age	$25 biweekly	$50 biweekly	$75 biweekly
Projected monthly income beginning at age 65:			
25	$ 341.	$ 681.	$ 1022.
35	260.	520.	780.
45	138.	276.	414.
55	55.	110.	165.
Projected monthly income beginning at age 55:			
25	$ 202.	404.	606.
35	107.	214.	321.
45	43.	86.	129.
55	0.	0.	0.
Projected monthly income beginning at age 50:			
25	$ 137.	$274.	$411.
35	66.	132.	198.
45	18.	36.	54.
55	0.	0.	0.

During the Depression only 1% of the Insurance Industry became insolvent, and even they were bought out to allow the insurance guarantee to be backed up so few insureds lost their guarantee.

ELECTRONIC FOR QUOTE 1

PROPOSAL SERVICE

ENCL. 7 2 E

PLAN CYA PENSION BUILDER
EMPLOYEE AMOUNT

ANNUAL DEPOSIT 2,000.00

INDIVIDUAL RETIREMENT
ANNUITY ILLUSTRATION
DATE 02/07/83

IA

TOTAL 2,000.00

YEAR	VALUE AT DEATH, DISABILITY, OR ANNUITIZATION GUARANTEED	CURRENT @ 10.55% (A)	CASH VALUE GUARANTEED	CURRENT @ 10.55% (A)
1	2,060	2,174	1,925	2,032
2	4,196	4,567	3,921	4,266
3	6,417	7,198	5,998	6,727
4	8,727	10,093	8,156	9,433
5	11,129	13,277	10,401	12,408
6	13,626	16,779	12,735	15,682
7	16,223	20,632	15,161	19,282
8	18,923	24,869	17,685	23,242
9	21,730	29,531	20,306	27,599
10	24,649	34,658	23,036	32,391
11	27,448	40,298	25,652	37,661
12	30,332	46,501	28,347	43,459
13	33,302	53,343	31,123	49,854
14	36,361	60,907	33,982	56,923
15	39,511	69,269	36,927	64,737
20	56,742	126,325	53,026	118,061
25	76,716	220,535	71,697	206,106
065	99,872	376,093	93,338	351,488

MONTHLY LIFE INCOME AT AGE 65 - TEN YEAR PERIOD CERTAIN

GUARANTEED RATE	CURRENT RATE(X)
624	3,581

A) CURRENT INTEREST RATES AND ANNUITY RATES ILLUSTRATED ARE BASED ON OUR CURRENT SCALE AND ARE NOT GUARANTEED. VALUES AND MONTHLY INCOME MAY BE HIGHER OR LOWER IN THE FUTURE.
X) MONTHLY INCOME FOR LIFE WITH 10 YEARS CERTAIN, BASED ON TOTAL CASH VALUE AND CURRENT ANNUITY RATES. VALUE AND RATES ARE NOT GUARANTEED.

PLEASE SEE REFERENCE ITEMS-- RF[illegible],RF268,RF270

000049

ELECTRONIC FOR QUOTE 2

PROPOSAL SERVICE

ENCL. #2F

PLAN BANKERS FLEXIBLE ANNUITY
EMPLOYEE AMOUNT

ANNUAL DEPOSIT
2,000.00

INDIVIDUAL RETIREMENT
ANNUITY ILLUSTRATION
DATE 02/07/83

TOTAL 2,000.00

IA

YEAR	GUARANTEED 3% ACCUMULATION FROM EE DEPOSITS	ACCUMULATION @ 11.00% INTEREST FROM EE DEPOSITS
1	1,907	2,056
2	3,872	4,339
3	5,896	6,872
4	7,981	9,685
5	10,128	12,807
6	12,340	16,272
7	14,618	20,119
8	16,964	24,388
9	19,381	29,128
10	21,870	34,382
11	24,434	40,227
12	27,075	46,709
13	29,795	53,603
14	32,596	61,689
15	35,482	70,754
20	51,262	132,032
25	69,555	235,289
065	90,762	409,284

MONTHLY LIFE INCOME AT AGE 65 - TEN YEAR PERIOD CERTAIN

GUARANTEED RATES	CURRENT RATES (X)
567	4,383

(X) MONTHLY INCOME FOR LIFE WITH 10 YEARS CERTAIN, BASED ON TOTAL CASH VALUE AND CURRENT ANNUITY RATES. VALUE AND RATES ARE NOT GUARANTEED.

PLEASE SEE REFERENCE ITEMS-- RF01,RF268,RF233 000040

528

ELECTRONIC PROPOSAL SERVICE — FOR QUOTE — AGE 25 — ENCL. #26

PLAN BANKERS FLEXIBLE ANNUITY
EMPLOYEE AMOUNT

ANNUAL DEPOSIT
900.00

INDIVIDUAL RETIREMENT
ANNUITY ILLUSTRATION
DATE 01/31/83

TOTAL 900.00

IA

YEAR	GUARANTEED (3%) ACCUMULATION FROM EE DEPOSITS	ACCUMULATION @ 11.00% INTEREST FROM EE DEPOSITS
1	854	920
2	1,733	1,943
3	2,639	3,077
4	3,573	4,337
5	4,534	5,735
6	5,524	7,287
7	6,544	9,010
8	7,594	10,922
9	8,676	13,044
10	9,791	15,400
11	10,938	18,015
12	12,121	20,917
13	13,338	24,139
14	14,593	27,716
15	15,884	31,685
20	22,949	59,128
25	31,139	105,370
065	64,398	535,038

MONTHLY LIFE INCOME AT AGE 65 - TEN YEAR PERIOD CERTAIN

GUARANTEED RATES	CURRENT RATES (X)
402	5,738

(X) MONTHLY INCOME FOR LIFE WITH 10 YEARS CERTAIN, BASED ON TOTAL CASH VALUE AND CURRENT ANNUITY RATES. VALUE AND RATES ARE NOT GUARANTEED.

PLEASE SEE REFERENCE ITEMS-- RF91,RF268,RF233 200049

529

Better THAN MONEY CORPORATION

TESTIMONY FOR
THE UNITED STATES SENATE
ON
SOCIAL SECURITY

By: John Tschohl, President
Better Than Money Corporation

Mr. Chairman, my name is John Tschohl. I am President of Better Than Money Corporation, a small training and development consulting firm based in Minneapolis. We have 13 employees and 150 Certified Consultants and Representatives scattered throughout the country who market our programs. During 1983 we expect to increase this to 500 Certified Consultants. All are independent contractors and self-employed representatives.

I am also Chairman of the Minnesota Coalition on Small Business. A statewide group of almost every major small business association or group in Minnesota. The major objective of this group is to ensure implementation of the 1980 Recommendations from the White House Conference on Small Business. In addition, I am Chairman of the Minnesota Delegation to the White House Conference on Small Business. I am also a member of SBA's Small Business Task Force on Social Security Reform.

In January of 1980, we included Social Security Reform as one of our top 15 White House Conference Small Business Recommendations. It was a major issue among small business in its efforts to control inflation and Government spending. The White House Conference on Small Business strongly recommended to:

"Reform the Social Security System by including, where constitutionally possible, all public and private sector employees as contributors and more closely tie benefits to contributions to move the system toward acturial soundness. Limit benefits to the original old age and survivor benefits. Freeze the tax base and tax rate at the January 1980 level. Eliminate double dipping."

Since January of 1980, Congress has virtually ignored this Recommendation. Its impact would reduce inflation, the deficit and provide an opportunity for small business to survive and grow. Most importantly, it would save the Social Security system.

This last year has been tough on small business. My company no longer can afford to pay salaries and Social Security Benefits. Now only three people receive company paid Social Security Benefits. One of these is myself, but I personally didn't pay any Social Security taxes in 1982 because I used my salary to keep the business afloat. I lived off my investments. Only Government seems to be able to afford fat salaries and fringe benefits.

In my company, we cut expenses extensively and terminated salaried employees who couldn't afford to be self-employed independent contractors. Every small business person that I know took a beating in 1982 and most of us barely made it to 1983. The 45% tax increase on self-employed and independent contractors is intolerable. It will seriously jeopardize my ability to reach our increased hiring objectives in 1983.

The President's Commission on Social Security Reform has ignored our 1980 Small Business Recommendation. Its feeble attempt to include only new Government employees as contributors was the only portion of our 1980 Recommendations that it addressed. Small business is still committed to passage of legislation that:

1. Includes all public and private sector employees as contributors.

2. More closely ties benefits to contributors to move the system toward acturial soundness.

3. Limits benefits to the original old age and survivor benefits.

4. Elminates double dipping.

5. Freezes the tax base and tax rate at the present rate with no increases.

Virtually no one 30 years or younger expects to receive Social Security; I am 35 years old and I'm not sure even I will receive Social Security. The level of trust and confidence in the Social Security system is non-existant.

The average age of themembers of the Greenspan Commission is 59 years. **They do not represent small business or those 40 years and younger.** The commission took from the halves, mortgaged the futures of my family, my three year old daughter and my one year old son to satisfy their own political ambitions and constituencies. The entire program is based on tax increases and no permanent reduction in benefits. The Congressional members of the Greenspan Commission didn't even have the courage to include themselves in these outrageous tax increases. Congress can not afford to keep spending like drunken sailors.

Small business cares about Social Security and wants it to survive. The Greenspan Recommendations are not a permanent solution. They are designed to only save the political futures of those in Congress and the Commission. Unfortunately, those 40 years and younger were not represented on the Commission and yet we have to pay for Recommendations that significantly increase our taxes for a plan we will never collect because of the poor judgement to continue spending more money than is available in the system. At some time Congress must place the future of this country, jobs, your children and grandchildren above your own political ambitions.

Senator Boschwitz has provided 19 ways of slowing the growth of Social Security. None are drastic or tough to implement. They all require Congress to be honest with themselves and to move the system toward acturial soundness. Not all 19 are required. Regardless of whether you agree with all of Senator Boschwitz's numbers or projected savings, the point is that specific, measurable, reasonable and realistic savings worth billions of dollars can be achieved with retired people on Social Security largely uneffected.

A copy of Senator Boschwitz's Recommendations are enclosed.

Yes, Congress can save Social Security. No, it doesn't have to sell or mortgage our futures, our children and grandchildren's futures by enacting any increases in the tax rate or base. Social Security is a non-partisian issue. It's simply a question of who has guts and who doesn't, of who can make hard decisions and who can't.

Economic recovery is just beginning. New job creation comes primarily from small business. Don't cut off the legs of small business by increasing the tax on labor-on jobs. Whatever you tax you will get less of and whatever you subsidize you'll get more of. During the last five years Congress has subsidized retirement and taxed labor. Let's get America back to work - **now!!**

Small business has little cash and no profits and hugh debts. We barely survived 1982. Mr. Chairman, small business, farmers and those 40 years and younger need your help. When you vote on Social Security, think first of your children and grandchildren. It's their future you are really voting on.

Thank you.

A Report to Minnesota: The Economy

from

Senator Rudy Boschwitz

Spring 1982

SAVING SOCIAL SECURITY

or. . . How to make sure our children and grandchildren also collect Social Security

or. . . Watch out, Rudy. Fooling with Social Security is political dynamite. . . (but it must be done!).

In my first budget newsletter (Budget I) I showed that by slowing the growth of all government programs, the budget could be balanced by 1986 – perhaps 1985. No part of the budget would be cut. Every part would grow slowly for a 4-5 year period.

With the sole exception of defense, no judgments were made that one program should grow more quickly than another. If we get into those arguments, they will never cease and the budget will never be balanced. If we want to lower interest rates, the best tool we have is to balance the federal budget and get the government out of the money market, where it is borrowing 50 percent of the available funds.

I noted in "Budget I" that the 1982 Federal Budget consists of 4 parts, and that each part had the following percentage and dollar amount (in billions) in total budget outlays:

The 1982 Budget — it's 4 parts (in billions)

Defense	Interest	Entitlements	Appropriated	Total:
24 %*	11 %	47 %*	18 %	= 100 %
$172	$83	$343	$130	= $728

*military pension included in Entitlements, not Defense

Through re-estimates, some of the figures I have shown above have changed a bit, but for consistency, I'll use them again as a "baseline."

Appropriated programs are not directed at individuals, but at policy goals: education, good roads, clean air, housing, etc. They require annual appropriations and so lowering the growth rate is comparatively easy to achieve.

Entitlements are programs where payments are made to a specific individual (Social Security, unemployment, AFDC) or payment is made to a hospital, nursing home, or doctor for care given a specific individual (Medicare, Medicaid). Entitlement programs pay out automatically. If you are "entitled," you get paid without regard to the cost to the government. There is no annual appropriation so control of spending is difficult.

Total entitlements that cost $28 billion in 1961 zoomed to $343 billion in 1982 (a 1,225% growth). I don't criticize the existence of these programs at all. The needs they fill are vital. But if we're ever going to get a hold of our government's affairs, we have to slow their growth.

During the 4 budget years of 1983, 1984, 1985 and 1986, the entitlement programs are projected to cost $1,673,000,000,000 (one trillion 673 billion). Of this amount $301 billion is the total 4-year increase over the 1982 level. It is my goal to reduce this 4-year increase by $195 billion, still allowing growth of $106 billion.

It is considered close to political suicide to fool with entitlements or their growth rate. . . but we must. It is the purpose of this budget newsletter to discuss options of how and where to change the largest entitlement of all: Social Security.

Social Security is nearly half of all the entitlements combined, so we should seek to slow the growth of Social Security by nearly $100 billion over these 4 years. I am presenting here 19 ways of slowing the growth of Social Security. They total $167 billion in savings, so to achieve the objective of slowing the growth, all need not be adopted. Other than the 4-year COLA (cost-of-living adjustment) change, the retired people on Social Security are largely unaffected by these proposals.

I hope you'll agree after reading this that government growth can be slowed without unduly affecting the lives of those who rely on Social Security.

Thirty-six million people rely on Social Security. Most are elderly. Most vote. The cautious politician won't touch this, so pardon me for being incautious. But, if we don't do something, Social Security won't be around for the children and grand-

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69 an extra 26 percent (5+6+7+8 percent) and if the worker retires at 70 an extra 35 percent (5+6+7+8+9 percent). In other words a person retiring at 70 would get an extra 35 percent on his Social Security check every month. If even ½ of 1 percent of the people delayed retiring, savings in 1983 would be $700 million and in the 1983-86 period would total $5.5 billion. In addition, not only would there be savings in Social Security payouts, the system would receive $200 million more in income in 1983 and $1.5 billion for the 1983-86 period. Would this cost the Social Security System money in the long run? Only if the recipient lives past 90.

8. Currently people over 72 who keep working (going down to 70 in a couple of years) receive benefits no matter how much they earn. People under 72 lose $1 of Social Security benefits for each $2 of income they earn over $6,000. Raise the age to 75 and leave it there. This would save $815 million in 1983, and $4.7 billion in the 1983-86 time period.

9. Tax Social Security payments if the Social Security recipient has income exceeding $20,000 besides Social Security ($25,000 for couples). Additional revenues in 1983 would be $3.2 billion and in the 1983-86 time period would total $17 billion.

10. The 65-year-old retirement age was established in 1937 when average life expectancy was 64 (it's no wonder the Social Security fund had surpluses in those days!). People live longer and healthier lives today. Raise the 65-year-old age to 65 + 3 months (and the 62 year early retirement age to 62 years + 3 months). The savings in 1983 would be $2.7 billion and $11.7 billion for the 4 years 1983-1986.

11. Raise the retirement age to 65 years + 6 months (probably politically impossible and perhaps not necessary as adequate savings can be found elsewhere). The savings in 1983 would be $5.4 billion and $23.2 billion for the 4 years 1983-86.

12. The COLA is the annual cost-of-living adjustment. This means the Social Security benefits are raised each year for inflation. There has been much talk by senior Republicans and Democrats to eliminate the COLA altogether for one or more years or otherwise drastically reduce the COLA. Such drastic surgery isn't necessary.

My approach on the cost-of-living adjustment (COLA) is to lower it for a 4-year period only. However, continue the full COLA for the lowest 25 percent of Social Security recipients. The COLA on Social Security is a recent addition (1975) and gives Social Security recipients a boost each year to keep up with inflation. It was not a part of the original Social Security system and very few private pension plans have any COLA at all. In recent years Social Security benefits have gone up faster than wages, though no one could maintain that Social Security recipients are getting rich. The COLA is now the inflation rate. Lowering the COLA to 3 percent in 1982 (and it looks like inflation will be only 5

Controlling, not cutting Social Security
Minnesotans visiting in Washington often ask me if Social Security will be around when they or their children retire. I tell them yes, but some changes will be necessary to keep the costs of the program under control.

percent) and then by 3 percent less than the inflation rate for the 3 following years would save $7.5 billion in 1983 and (an amazing) $72 billion over the 4 years 1983-86.

13. The COLA now comes on July 1. This goes back to the time when the government's financial year began on July 1. The government's financial year now begins on October 1. If the COLA adjustment is given on October 1 each year (not July 1), the savings in 1983 would be $2.8 billion and for the 5-year period 1982-86 a total of $12.9 billion ($3.4 comes in 1982).

14. For a 4-year period only index "bendpoints" by one-half of the wage index (bendpoints now go up by the entire wage index). Social Security monthly benefits are based on a schedule of percentages of the worker's average monthly earnings. The schedule is:

- 90% of the first $230;
- 32% from $230 through $1,388;
- 15% over $1,388.

$230 and $1,388 are the "bendpoints" and the bendpoints go up every year the same percentage that average national wages go up. This will do more to balance out the Social Security system in the long run than anything mentioned so far. However, it saves nothing in 1983, but in 1984-86 it saves a total of $2.1 billion.

15. If one parent dies, and the remaining parent has an income exceeding $25,000, or eventually marries someone with an income exceeding $25,000, then minor children do not receive survivor benefits. This would save $500 million in 1983, and $2.5 billion in the 4-year period 1983-86.

16. Lengthen the benefit computation period by 3 years. Benefits are determined by applying a formula to a worker's average monthly earnings over a certain time period. In most retirement cases, the averaging period is the number of years after 1950 up until the year the person reaches 62, less the 5 lowest years. Instead of subtrac[illegible] 5 years from the computation of average earnings, we should drop only 2 years. This would still allow some adjustment for low earnings, but would tie benefits more closely to actual earnings. Savings are $10 million in 1983, and $610 million in the 4-year period 1983-86.

17. Eliminate parents' benefit when the youngest child is age 6. If a worker covered by Social Security dies and leaves a child (or children) each one of the children gets "survivors benefits" until they're 18. If the youngest child is under 16, the surviving parent also gets separate "survivors benefits." This would eliminate the surviving parent's benefits after the youngest child reaches 6 -- not 16. Restricting the parent's benefit to those with children under age 6 would reduce spending by $50 million in 1983, and $930 million over the next 4 years. The child's benefits would not be changed. This proposal acknowledges the major increase in the number of women working in outside jobs over the past decade. When these benefits were first added to the Social Security system most mothers were not employed. This might be considered a pretty "hard hearted" change, and I may be wrong. But I do believe it should be considered. I have had many women employees who returned to work within 90 days of having a baby because her family needed two incomes. Should someone on Social Security be treated better. . . by 16 years? Perhaps, when there is only one parent.

18. Expand workers' compensation offset. About 165,000 people now receiving Social Security disability benefits also receive payments from other federal programs -- veterans compensation, civil service and military disability retirement benefits and blacklung benefits. All these benefits are calculated without regard to what other benefits the person is receiving. However, people eligible for Social Security disability after February, 1981, have a "cap" on their total combined benefits equal to 80 percent of their average predisability earnings. Extending this provision to all recipients (not just

SOCIAL SECURITY SAVINGS TABLE

(In billions. Example: 3.400 is $3 billion 400 million and .700 is $700 million)

Item number corresponds with number in text	1983	1984	1985	1986	TOTAL
1. (eliminate foreigners)	.700	.800[e]	.900[e]	1.000[e]	3.400
2. (raise to 120 qtrs)	.500	2.000	3.500	4.200[e]	10.200
3. (earn 1 credit per quarter)	.005[e]	.020[e]	.035[e]	.050[e]	.155
4. (cover new government workers)	.300	1.100	2.000	3.000	6.400
5. (no children's benefits in early retirement)	.030	.200	.400	.500	1.130
6. (increase self-employment tax)	.800	1.900	2.000	2.700[e]	7.100
7. (increase work incentives)	.900[e]	1.400[e]	2.000[e]	2.700[e]	7.000
8. (raise offset age)	.815	1.170	1.245	1.500[e]	4.730
9. (tax Social Security if there is large outside income)	3.200	3.800	4.600	5.400	17.000
10. (raise age to 65 + 3 months)	2.700[e]	3.000[e]	3.000[e]	3.000[e]	11.700
11. (raise age to 65 + 6 months)	5.400[e]	6.000[e]	6.000[e]	6.000[e]	23.400
12. (COLA 3% except lowest 25% of recipients)	7.500	13.600	20.800	30.000	71.900
13. (3 month COLA delay)	2.800	3.400	3.300	3.400	12.900
14. (½ index for bendpoints)	.025	.200	.500	1.000	1.725
15. (eliminate children's benefit if parents' income $25,000)	.500[e]	.700[e]	1.000[e]	1.200[e]	2.500
16. (increase benefit computation by 3 years)	.010	.100	.200	.300	.610
17. (eliminate parents' benefit if child is below age 6)	.050	.170	.300	.410	.930
18. (cap disability benefits)	.400	.400	.450	.450	1.700
19. (increase quarters needed for disability)	.200	.800	1.700	3.300[e]	6.000
					167.080*

e = office estimate * = item 11 not included in total

children of those people receiving Social Security today.

Some facts: (1) the average Social Security recipient now gets back $5.60 for every $1.00 they put in; (2) there are 3 people working for every one drawing Social Security (in 1945 there was a 42:1 ratio; in the year 2020 the ratio will be close to 2:1); (3) despite all the scare stories you might hear, Social Security is not going to go broke but it does need some repairs. Here's a list of 19 repairs and what each one would save every year.

1. Limit Social Security benefits paid to foreigners not living in the United States (this limitation would not apply to Americans living abroad). From now on they receive no more in benefits than they paid in. In one case a foreigner living in his country paid in $25 and collected more than $11,000 in benefits; another paid $397 into Social Security and collected $42,000 in benefits. Annual savings of this limitation: $700 million. Over 4 years the savings total $3.4 billion.

2. Increase immediately the number of quarters (3-month periods) one has to work to qualify for full Social Security. Currently a person has to work only 31 quarters (7 3/4 years) to qualify for maximum benefits. That's what causes the so-called double and triple dipping and allows a government worker to earn one (sometimes two) pensions and then work for less than 8 years and get Social Security. Meanwhile a person who works a lifetime of 40-45 years in the private sector may get only Social Security. While making exceptions for self-employed people only recently included within the Social Security system, raise the number of quarters one has to work to receive full Social Security from 31 (7 3/4 years) to 120 (30 years), except women for whom the number of quarters would be raised to 60, if they spent 60 or more quarters raising a family. Savings from this would be $500 million in 1983, and total savings of $10.2 billion over the next 4 years (1983-86).

3. As stated, currently you only have to work 31 quarters to get full Social Security benefits. A quarter is a 3-month period during which a worker earns more than $340 (that's less than $30 a week). Suppose a worker earns $1,360 (4 times $340) in that quarter. Under present rules a worker gets credit for 4 quarters, even if he doesn't work at all the rest of the year. Change this rule. One quarter's work should only get one quarter's credit. The savings would be $5 million in 1983 and $155 million over the next 4 years.

4. Require all new government employees (federal, state and local) to pay into Social Security. This would bring about $2 billion in new revenues into the trust fund in 1984, and over $19 billion over the next 5 years. Net income to the government would be $300 million in 1983 and $6.4 billion in 1983-86. This is less than the $19 billion that would go to the Social Security trust fund because some of those affected would stop paying civil service retirement taxes.

5. If a worker takes early retirement at 62 and has children under 18, the worker receives benefits and the kids receive separate benefits as well. If a worker retires early (at age 62) and has young children under 18, the kids should not get benefits until the retiree is 65 (unless he retired early for health reasons). Savings in 1983 are $30 million, and a total savings of $1,300,000,000 over the next 4 years.

6. Self-employed people withhold less Social Security tax on their wages than a worker and his employer combined by quite a bit (their tax rate is 70 percent of the rate paid by workers and employers together). Increase the self-employed person's withholdings by 2 percent. Additional revenue in 1983 is $800 million and in the 1983-86 period a total of $7.1 billion.

7. Give incentives to keep working beyond 65. Some people don't want to retire anyway, and shouldn't. If a person retires at 66, the worker should receive an extra 5 percent (105 percent of the regular Social Security benefit); at 67 an extra 11 percent (5 percent plus 6 percent); at 68 an extra 18 percent (5 + 6 + 7 percent); at

those after February 1981) would save $400 million in 1983 and about $1.7 billion over the next 5 years.

19. Increase disability-insured status to 30 out of 40 quarters. To receive disability benefits, a person must have worked at least one quarter (3 months) for each year of age above 21 and have worked a total of at least 20 quarters of the last 40 quarters. Requiring a person to have worked at least 30 of the last 40 quarters would save $200 million in 1983 and $1.7 billion by 1985. There is some offset here, because there are other programs (less generous than Social Security where a person is deemed to have earned the benefit) that would cover any disabled person.

Not all these changes have to be adopted to put Social Security in good repair. But it was the purpose of this newsletter to outline many possible changes and shows that basic solid coverage remains even with changes that insure the integrity of Social Security for future generations.

RUDY'S SOCIAL SECURITY SURVEY

Of the 19 possible changes discussed, which ones do you agree with?

Item number corresponds with number in text	Agree	Disagree	No Opinion
1. eliminate foreigners	____	____	____
2. raise to 120 qtrs	____	____	____
3. earn 1 credit per quarter	____	____	____
4. cover new government workers	____	____	____
5. no children's benefits in early retirement	____	____	____
6. increase self-employment tax	____	____	____
7. increase work incentives	____	____	____
8. raise offset age	____	____	____
9. tax Social Security	____	____	____
10. raise age to 65 + 3 months	____	____	____
11. raise age to 65 + 6 months	____	____	____
12. COLA 3% except lowest 25% of recipients	____	____	____
13. 3 month COLA delay	____	____	____
14. ½ index for bendpoints	____	____	____
15. eliminate children's benefit if parents' income $25,000	____	____	____
16. increase benefit computation by 3 years	____	____	____
17. eliminate parents' benefit if child below age 6	____	____	____
18. cap disability benefits	____	____	____
19. increase quarters needed for disability	____	____	____

Please send this form to: Office of Senator Rudy Boschwitz, U.S. Senate, Washington, D.C. 20510

STATEMENT
OF
BAKER INTERNATIONAL CORPORATION

REGARDING

The recommendation of the National Commission on Social Security Reform that employee contributions to 401(k) plans be subject to OASDI-HI taxes.

February 15, 1983

Baker International Corporation of Orange, California appreciates this opportunity to comment on the recommendations of the National Commission on Social Security Reform. In particular, we wish to advise you of our concerns over the Commission's recommendation that employee contributions to cash or deferred profit-sharing plans under section 401(k) of the Internal Revenue Code be subject to Old-Age, Survivors, and Disability Insurnace (OASDI) and Hospital Insurance (HI) taxes. Currently, these contributions are excluded from the tax and are not deemed covered earnings for purposes of social security.

Baker International was founded in 1913 and enjoys a fine reputation in the oil service and mining equipment industries. Employing more than 24,000 people in 32 states and around the world, Baker's revenues are in excess of $2 billion.

In 1981 Baker adopted a thrift plan, pursuant to section 401(k) of the Code. The Baker Plan, which was one of the first such plans in the United States, has been enthusiastically received by Baker's employees at all wage levels. The Plan provides that the Company will contribute 50¢ for each dollar contributed by participating employees, with an advantageous two year vesting provision. Participants are only permitted to withdraw funds from the Plan upon retirement, death, or termination. This limited withdrawal feature was intended to encourage employees to look to the Plan as a long-term investment to provide financial security during their retirement, rather than as a short term investment vehicle.

Recognizing that many younger employees might hesitate to participate in such a long-term plan, a loan feature was included. Our surveys of employees show that the loan provision is a critical consideration for younger employees. However, there has been almost no actual use of the loan provision. The loan feature requires that any loan from the Plan be paid back by equal payroll deductions over not more than 3 years. The interest rate charged on these loans is prime plus 1%. Our loan terms are overall more stringent than the general limitations contained in the pension provisions of the Tax Equity and Fiscal Responsibility Act of 1982.

Under the Baker Thrift Plan, participants have a choice of three investment options: they may invest in a Guaranteed Fund which guarantees principal plus a stated interest rate each year, they may invest in a Common Stock Fund, or they may invest half in the Guaranteed Fund and half in the Common Stock Fund. About 60% of our participating employees select the Guaranteed Fund, about 26% select the Common Stock Fund, and about 14% select the half-and-half fund. During calendar year 1983, the interest rate for the Guaranteed Fund is 11%, and during the Plan year ending December 31, 1982 the annualized rate of return on the equity fund was about 30%.

The Baker Thrift Plan, as is the case with most similar plans, is expensive to administer. Detailed and precise records must be carefully maintained for each participating employee. The records must show the investment elections and the rates of return for each employee's account. These choices and election opportunities must be communicated to employees each year. All of this administrative effort is costly and should give any employer considering adoption of a 401(k) plan cause for concern. Our own experience at Baker is that good communications and good record keeping are the heart of the success we have had with our 401(k) Thrift Plan.

In spite of the administrative costs involved, we at Baker established a section 401(k) plan because of our belief that employees should be encouraged to provide for their retirement needs. Furthermore, we, as other corporations with existing section 401(k) plans, undertook this costly endeavor in reliance upon the fact that the participating employee's contributions would not be considered "compensation" for FICA tax purposes. Baker, as the employer, is not paying FICA taxes on these employee contributions, and we calculate that this saving pays a substantial portion of our administrative costs. Of course, the saving does not pay any of the costs of the employer's matching contribution.

It is our understanding that one of the justifications for subjecting employee contributions in existing section (401(k) plans to FICA taxes is the concern that employees are being denied benefit credits to the trust funds thus reducing their future benefits. However, our experience with the Baker Plan indicates that this loss by participants of FICA contributions will have only a minimally adverse effect on their social security benefits. This minimal loss is far outweighed by the increased retirement protection they will experience through their 401(k) Thrift Plan.

The proposal to apply FICA taxes to employee 401(k) contributions would undermine the Congressional intent. Such FICA taxes would discriminate against lower paid employees and would reduce personal savings. The discrimination would occur because most higher paid executives exceed the $35,100 FICA wage base, so the proposal being considered wouldn't affect them. However, for the vast majority of plan participants, the additional FICA taxes would be burdensome and in many instances might cause them to lessen their savings, which is contrary to the economic objectives of our nation's recovery plan.

Furthermore, we are concerned why section 401(k) plans have been pulled out for discriminatory treatment while other qualified profit sharing and pension plans would continue to be exempt from FICA taxes.

For all of these reasons, we at Baker believe that the recommendation by the National Commission to subject employee contributions to existing section 401(k) thrift plans to social security taxes is unwarranted. Therefore, we would urge the Committee to not include in its social security reform legislation any provision which would treat section 401(k) plan deferrals as "compensation" for OASDI-HI taxes.

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TESTIMONY BEFORE THE SUBCOMMITTEE FOR

SOCIAL SECURITY AND

INCOME MAINTENANCE PROGRAMS OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

BY

HERBERT W. TITUS

My name is Herbert W. Titus. I am Vice President for Academic Affairs and Dean and Professor of Law in the School of Public Policy, CBN University, Virginia Beach, Virginia.

Throughout this nation's 206-year history, non-profit corporations dedicated to religious, educational, scientific, charitable, and other eleemosynary purposes have enjoyed a wide variety of tax exemptions at the local, state, and national levels. The social security law has been no exception. Since its enactment in 1935, Congress has consistently exempted such non-profit organizations from the social security tax burden.

Now, after almost fifty years under the social security system, the President's Commission on Social Security urges Congress to repeal this historic tax exemption and, thereby, to depart abruptly from its commitment to encourage private charitable activities by relieving them from onerous tax burdens. We do not believe that Congress will follow the Commission's recommendation because to do so would be both unjust and unconstitutional.

<u>It is unjust to tax the activities of non-profit corporations dedicated to eleemosynary purposes</u>. According to America's Declaration of Independence, these United States of America were founded upon the Laws of Nature and of Nature's God and, as such, were instituted to secure, not to deny, men's

God-given rights. One of the great rights that we Americans have enjoyed throughout our history is to give of our wealth to private charity without the recipient's having to pay taxes. Because of this freedom from taxes, Americans have been and continue to be one of the most caring and loving peoples in the world.

If the Social Security tax is imposed on all non-profit corporations, we can expect the following adverse consequences: private charity will be discouraged; the costs of administering charitable gifts will rise; and less money that is given will go to those who are to benefit from those gifts. In short, those non-profit corporations that have chosen alternative retirement plans for their employees at less cost than social security will be forced to pay more money and to afford less benefits to their employees who have already sacrificed by choosing to work for non-profit organizations.

In our pluralistic society, we ought to encourage freedom of choice to meet the needs of all peoples. That is the American way. Expansion of social security to mandate coverage of all non-profit organizations would unjustly take gifts designated by the giver for one purpose and transfer them to recipients that are chosen by the government.

The Commission's recommendation that the traditional exemptions for non-profit corporations should, therefore, be rejected.

<u>It is unconstitutional to tax the activities of non-profit corporations dedicated to eleemosynary purposes</u>. Tax-exempt non-profit organizations engage in a wide variety of First Amendment activities. They promote by the printed and spoken word religious beliefs through preaching and evangelism via personal contact and the mass media. They further the interchange of ideas through teaching and research in the educational and public market places. Indeed, the very purpose of most, if not all, tax exempt non-profit

corporations in America is to sponsor First Amendment activities. Their success has become to the world a living testimony that the United States of America is truly a free society.

This record of freedom has not been accidental. Rather, it has been the result of this country's conscious choice to take the risks that are necessary to promote free trade in ideas. It has been the product of our persistent commitment, no matter what the cost, to the great principles of the First Amendment of the United States Constitution:

> "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof, or abridging the freedom of speech, or of the press..."

Unfortunately, legislative bodies have from time to time strayed from this commitment. But those times have been the exception, not the rule. One temptation that has not always been resisted is the desire to tax the constitutional privileges of religious, speech, and press freedoms. On those occasions, the United States Supreme Court has called the nation's legislators back to their constitutional heritage.

In two cases from the 1940's, the Court rebuffed the attempts of state and local legislative bodies to tax First Amendment privileges. In Murdock v. Pennsylvania, 319 U.S. 105, 63 S. Ct. 870 (1943), the Court held unconstitutional a license tax on the solicitation of the sales of goods as applied to an itinerant evangelist who was selling religious tracts. In Follett v. Town of McCormack, 321 U. S. 573, 64 S. Ct. 717 (1944), the Court rejected a similar effort to levy a business tax on a religious worker who made his living by selling religious literature. In explanation of these two rulings, the Supreme Court stated that the Constitution guards freedom of speech, freedom of press, and freedom of religion in such a way that those liberties "are available to all, not merely to those who can pay their own way." Ibid.

The social security tax is an excise tax or duty that is levied upon the privilege of employment. It is not a tax on income or on property. If levied on a non-profit corporation engaged in First Amendment activities, it would be a direct tax on the privilege of engaging the employment of others in those activities. Therefore, it would be a tax or First Amendment activities, themselves, the payment of which would be a condition to the pursuit of those activities. As such, it would be unconstitutional. Cf. Murdock v. Pennsylvania, supra; Follett v. Town of McCormack, supra. See Grosjean v. American Press Co., 297 U.S. 233, 56 S. Ct. 444 (1936).

The recent case of United States v. Lee, ___U.S. ___, 102 S. Ct. 105 (1982) does not apply to the proposed repeal of the social security tax exemption for non-profit corporations. In that case, the Court refused to sustain an Amish farmer-carpenter's claim that imposition of the social security tax on him for his farm and carpentry employees violated his religious freedom. The Court pointed out that a member of a religious sect could not choose to enter into commercial activity and at the same superimpose his conscience and faith "on the statutory schemes which are binding on others in that activity." (102 S. Ct. at 1057)

Tax exempt non-profit corporations are, by definition, not engaged in commercial activity. To extend the social security tax to them would be to tax their privilege to engage in First Amendment activities. Such a tax is forbidden by the Constitution.

CONCLUSION

The 50-year old exemption from social security taxes that is currently enjoyed by tax-exempt non-profit corporations should be continued. The Social Security Commission's recommendation to repeal the exemption should be rejected.

Date: March 1, 1983

STATEMENT OF COUNCIL OF STATE CHAMBERS OF COMMERCE
EMPLOYEE BENEFITS AND RELATIONS COMMITTEE ON THE
REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

We welcome the opportunity to express our viewpoints on the Report of the National Commission on Social Security Reform. One of the most admirable achievements of the Commission was their agreement that there is a financing problem for the OASDI program for both the short run and the long range and that Congress should not alter the fundamental structure of the Social Security program or undermine its fundamental principles.

Since President Reagan has endorsed the bi-partisan solution and from the practical standpoint that this is the best that can be achieved, the Council of State Chambers of Commerce endorses the Commission's recommendations even though we have serious disagreements with certain of them. If Congress decides to adopt its own plan for Social Security, then it would be appropriate to express serious concern along the following lines:

1. In general, we believe that the recommended solution is far too harsh on taxpayers and far too easy on present and future beneficiaries (except those who would have Social Security benefits taxed). Tax increases constitute about 3/4 of the Commission's total recommendation. During the 1970's, payroll tax rates quadrupled and are scheduled to triple again during the 1980's even without the Commission's recommendations. For 25% of all workers, Social Security taxes are higher than for federal income taxes, and for small businesses that employ the majority of American worker, the Social Security tax is the biggest federal tax. Raising taxes is likely to mean less employment, which is not appropriate when American industry is trying to recover from a severe recession.

2. One major concern about the Commission's Report is based on the fact that the cause of the present Social Security problem has been that COLA increases since 1977 have been based on price increases rather than on the lesser of wage increases or price increases. As a result, Social Security recipients since 1977 have fared far better than the general working population whose taxes support Social Security payments.

In light of this, it doesn't seem that there is nearly enough belt-tightening on the benefit side. The only belt-tightening for this factor begins in 1988 and then only if the combined OASDI fund rate falls below 20% of the annual outgo. If present recipients are being paid too liberally, then there should be belt-tightening at once. We would thus strongly prefer that beginning in 1983 the COLA adjustment be based on the lesser of wage increases or price increases.

3. Another major concern involves taxing of 50% of OASDI benefits for recipients having adjusted gross income of $20,000 or more (if single) or $25,000 or more (if joint return). These individuals for the most part paid the highest taxes during their working years and paid high rates of income tax on their Social Security taxes at the time such taxes were withheld. To subject these individuals to taxes on their Social Security benefits simply because they may have been provident and saved some of their money in earlier years so as to have an income from their savings after they retire is a very undesirable precedent. There are already enough impediments to capital formation without adding still another. A progressive tax will further reduce the return to the maximum Social Security participant. Further redistribution of income away from society's most productive and provident members is neither warranted nor equitable.

4. We oppose the introduction of federal general revenues for the financing of Social Security benefits. The proposal to allow a tax credit for the accelerated portion of the 1984 payroll tax would establish an undesirable precedent and is not consistent with the Commission's recommendation not to alter the fundamental structure of the program.

5. Finally, we are concerned that the recommendations do not contain enough about altering the retirement age; it would seem that this age could be gradually raised in the future. This would give individuals and employers a chance to plan, and it would not have the immediate impact that other of the recommendations would have (such as taxing Social Security benefits). Perhaps changing the retirement age could be the basis of the additional .58% of payroll needed over the next 75 years.

We feel that is is necessary for Congress to act and to act quickly in as much as change is urgently required. Congress must face up to both the short and long range issues in its deliberations, which is necessary to keep the program fiscally sound and to avoid future public apprehensions.

COUNCIL OF STATE CHAMBERS OF COMMERCE
EMPLOYEE BENEFITS AND RELATIONS COMMITTEE
POLICY RECOMMENDATIONS
OLD AGE, SURVIVORS, DISABILITY AND HEALTH INSURANCE
JANUARY 1, 1983

FINANCING

The objective in financing OASDHI should be the attainment of and adherence to the pay as you go basis through payroll tax financing, with the existing trust funds being retained as a contingency reserve against future financial emergencies, and with equal cost sharing between the employer and his employees. General revenue financing is not in the best interest of the Social Security program and is opposed. To accomplish this objective, rates could be adjusted when necessary to maintain an approximate balance between income and outgo. We support interfund borrowing if it is necessary to meet emergency short term financial conditions in one or more of the funds. We oppose the inclusion of Social Security benefits in the definition of adjusted gross income.

RETIREMENT TEST

Substantial retirement from active employment should be maintained as a basic condition of eligibility for all OASI benefits. To that end, the present allowable earnings limit should be reexamined at intervals in light of changing conditions.

BENEFITS, ELIGIBILITY AGES

The normal benefit eligibility age should be reviewed commensurate with changing conditions including the financial soundness of the program. We support the elimination of inappropriate benefits, i.e., student and death benefits.

TAXABLE WAGE BASE

There should be no further automatic increase in the taxable wage base for OASDHI purposes. The maximum taxable wage base should not be raised above the historical relationship of the national average of covered taxable wages to total wages. Any increase in costs of the program should be met primarily through increased tax rates rather than through the "hidden" avenue of an expanded wage base.

BENEFITS AMOUNTS AND FORMULA

Recognition should be given to the need for reexamination of the benefit formulas in the light of changing conditions. The bend point indexation should be limited to the lower of the Consumer Price Index (or some other appropriate price index) or the wage index. The Committee emphasizes the necessity of holding OASI benefits to a minimum layer of protection, with preservation of the principle of relating benefits to past wage history. We support benefit equity for women and for men.

AUTOMATIC ESCALATORS

Alternatives to the current method of escalating benefits, the taxable wage base and the retirement earnings test should be constantly reviewed. In the interim, benefit adjustments should be limited so that increases for beneficiaries will not be greater than increases realized by wage earners. Benefit indexation should therefore be limited to the lower of the Consumer Price Index (or some other appropriate price index) or the wage index.

COVERAGE

OASDHI coverage should be universal and should be extended to all workers including governmental employees. This coverage extension should be accompanied by proper integration of OASDHI benefit rights with those provided under other special pension plans.

Prepared Statement of Milton E. Smedsroud, Chairman and Founder, Communicating for Agriculture, Inc.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

THANK YOU FOR THE OPPORTUNITY TO TESTIFY ON PLANS DESIGNED TO RESTORE FINANCIAL SOLVENCY TO THE SOCIAL SECURITY SYSTEM. WE REQUEST THAT THIS STATEMENT AND EXHIBIT BE ENTERED INTO THE RECORD.

COMMUNICATING FOR AGRICULTURE, A NATIONAL, NONPROFIT, NONPARTISAN RURAL ADVOCACY ORGANIZATION, — OTHERWISE KNOWN AS "CA" — WORKS TOWARD SEVERAL SPECIFIC GOALS, BUT ITS GENERAL GOAL AND THE UNDERLYING PURPOSE IS THE PRESERVATION AND STRENGTHENING OF RURAL AMERICA.

THE NATIONAL FARM COALITION, MADE UP OF 25 DIVERSIFIED FARM, RURAL, AND COMMODITY ORGANIZATIONS, HAS VOTED TO SUPPORT OUR TESTIMONY. WE WISH THE RECORD TO REFLECT THEIR SUPPORT.

OUR MEMBERS ARE CONCERNED ABOUT POTENTIAL OR PROPOSED DEVELOPMENTS WHICH COULD IN ANY WAY BE HARMFUL TO RURAL AMERICA.

CA COMMENDS THE NATIONAL COMMISSION OF SOCIAL SECURITY REFORM FOR COMING UP WITH A GENERALLY GOOD SET OF PROPOSALS DESIGNED TO SAVE OUR NATION'S VITAL SOCIAL SECURITY SYSTEM.

FOR THE MOST PART, THEY ARE FAIR, WELL-THOUGHT OUT, WORKABLE PROPOSALS, AND CA ENDORSES TEN OUT OF THE ELEVEN WHICH ARE NOW BEING CONSIDERED.

HOWEVER, CA FEELS THE REMAINING PROPOSAL, WHICH WOULD RAISE THE SOCIAL SECURITY TAXES PAID BY SELF-EMPLOYED PERSONS FROM 9.35 PERCENT TO 14 PERCENT, WOULD, IF ADOPTED, BE HARMFUL TO RURAL AMERICA, WHICH, IN TODAY'S TROUBLED ECONOMY, IS ESPECIALLY VULNERABLE BECAUSE OF THE AGRICULTURAL COST-PRICE SQUEEZE.

A LARGE PERCENTAGE OF THE NATION'S SELF-EMPLOYED ARE FARMERS, RANCHERS AND RURAL SMALL BUSINESS PEOPLE, AND MANY OF THEM ARE STAYING IN BUSINESS BY A VERY THIN MARGIN. TO ADD ANOTHER 4 & 1/2 PERCENT TO THE SOCIAL SECURITY TAX RATE WOULD BE DETRIMENTAL TO ALL OF THEM AND FATAL TO MANY OF THEM.

WITH THE HELP OF A PROFESSIONAL ACCOUNTING FIRM, CA HAS DETERMINED THAT THE AVERAGE FARMER WHO IS MARRIED, HAS THREE CHILDREN AND A NET FARM INCOME OF $20,000.00, WOULD IF THE PROPOSAL IN QUESTION IS ADOPTED, HAVE TO PAY $930.00 IN EXTRA SOCIAL SECURITY TAXES DURING THE FIRST YEAR AND COMBINED NET TAX OF $510.00 EACH SUBSEQUENT YEAR. (THE WAY IN WHICH THESE FIGURES WERE DETERMINED IS SHOWN IN A FINANCIAL ANALYSIS ACCOMPANYING THIS TESTIMONY.)

THE COMMISSION RECOMMENDS A 50% BUSINESS EXPENSE DEDUCTION ON PAYMENT OF SOCIAL SECURITY TAX BY THE SELF EMPLOYED. THE MAJORITY OF FARMERS AND SMALL BUSINESSES HAVE MORE DEDUCTIONS THAN THEY HAVE INCOME. IF SOCIAL SECURITY TAX COULD BE TREATED AS AN INVESTMENT OR TAX CREDIT IT WOULD BE ACCEPTABLE TO OUR FARMERS AND SMALL BUSINESSPEOPLE. MANY FARMERS, RANCHERS AND SMALL BUSINESS PEOPLE JUST COULD NOT HANDLE THIS EXTRA EXPENSE. FOR SOME, IT COULD MEAN THE DIFFERENCE BETWEEN THE CONTINUATION OR THE TERMINATION OF THEIR OPERATIONS. CA UNDERSTANDS AND AGREES THAT WE ALL MUST BITE THE BULLET ON SOCIAL SECURITY, BUT IF THE COMMISSION'S PROPOSAL ON SELF-EMPLOYED IS ACCEPTED, RURAL AMERICA WILL BE BITING THE BULLET 5-10 TIMES HARDER THAN THE REST OF THE POPULATION.

IT WOULD CERTAINLY AGRAVATE THE ECONOMIC CRISIS IN RURAL AMERICA, AND WOULD DIRECTLY CONTRIBUTE TO THE NATION'S OVERALL ECONOMIC CRISIS.

CA SALUTES THE MEMBERS OF THIS COMMITTEE FOR GIVING ITS ATTENTION TO THE COMPLEX BUT IMPORTANT MATTER OF SOCIAL SECURITY SOLVENCY, AND OFFERS ITS FULLEST COOPERATION.

HOWEVER, CA URGES THE COMMITTEE NOT TO APPROVE THE PROPOSAL TO RAISE SOCIAL SECURITY TAXES FOR SELF-EMPLOYED PERSONS. IT WOULD BE COUNTERPRODUCTIVE.

THANK YOU.

FURTHER INFORMATION ABOUT COMMUNICATING FOR AGRICULTURE CAN BE FOUND IN THE ACCOMPANYING BOOKLET, WORKING FOR RURAL AMERICA.

ANALYSIS OF PROPOSED SELF-EMPLOYMENT TAX INCREASE
FOR: C. A., INC.
FEBRUARY 1, 1983

C.S.		CASE #1 – SELF EMPLOYED TAXPAYER MARRIED WITH 3 DEPENDENT CHILDREN, NORMAL BUSINESS INCOME OF $20,000.					CASE #2 – SELF-EMPLOYED TAXPAYER, MARRIED WITH 3 DEPENDENT CHILDREN, NORMAL BUSINESS INCOME OF $80,000.				
		S-E INCOME	TAXABLE INCOME	INCOME TAX	S-E TAX	COMBINED TAX	S-E INCOME	TAXABLE INCOME	INCOME TAX	S-E TAX	COMBINED TAX
	RESULTS UNDER CURRENT LAW USING 1984 TAX RATES										
YEAR 1	NET S-E INCOME		$ 20000					$ 80000			
	LESS: PERSONAL EXEMPTIONS		5000					5000			
	TAXABLE INCOME		$ 15000					$ 75000			
	INCOME TAX-(MFJ)			$ 1581					$ 21468		
	SE TAX (9.35%, maximum $35,700)	$ 20000			$ 1870		$ 35700			$ 3338	
	COMBINED TAX					$ 3451					$ 24806
YEAR 2	- SAME										
	RESULTS UNDER PROPOSED LAW USING 1984 TAX RATES										
YEAR 1	NET S-E INCOME		$ 20000					$ 80000			
	LESS: PERSONAL EXEMPTIONS		5000					5000			
			$ 15000					$ 75000			
	INCOME TAX - MFJ			$ 1581					$ 21468		
	S-E TAX - 14%, maximum $35,700	$ 20000			$ 2800		$ 35700			$ 4998	
	COMBINED TAX					$ 4381					$ 26466
YEAR 2	NORMAL NET S-E INCOME	$ 20000	$ 20000				$ 80000	$ 80000			
	LESS: ½ YEAR 1 S-E TAX PAID EARLY IN YEAR 2	1400	1400				2499	2499			
	NET SE / ADJUSTED GROSS INCOME	$ 18600	$ 18600				$ 77501	$ 77501			
	LESS: PERSONAL EXEMPTIONS	N/A	5000				N/A	5000			
	TAXABLE INCOME		$ 13600				77501	$ 72501			
	INCOME TAX			$ 1357					$ 20418		
	SE TAX (14%, maximum $35,700)	$ 18600			$ 2604		$ 35700			$ 4998	
	COMBINED TAX					$ 3961					$ 25416
YEAR 2	DECREASE IN INCOME TAX			$ <224>					$ <1050>		
	INCREASE IN SE TAX				$ 734					$ 1160	
	INCREASE IN COMBINED TAX					$ 510					$ 610
	PERCENTAGE OF CHANGE			<14.17%>	39.25%	14.78%			<4.87%>	49.37%	2.46%

REMARKS ON ANALYSIS OF PROPOSED S-E TAX INCREASE

1. IN MANY CASES, PARTICULARLY AMONG FARMERS, THE ½ OF INCREASED SELF-EMPLOYMENT TAX WILL NOT BE DEDUCTIBLE UNTIL THE YEAR PAID, CAUSING A ONE YEAR LAG IN ANY INCOME TAX BENEFITS RESULTING FROM MAKING ½ OF S-E TAXES DEDUCTIBLE.

2. THE MARGINAL TAX RATE FOR THE TAXPAYER EARNING 20,000 PER YEAR IS 16%; FOR THE ONE EARNING 80,000 PER YEAR, 42%

3. THE ½ OF SE TAX WHICH MAY BE DEDUCTIBLE AS A BUSINESS EXPENSE REDUCES SELF EMPLOYMENT INCOME FOR TAXPAYERS EARNING LESS THAN THE MAXIMUM, A SAVINGS OF 14% S-E TAX FOR SUCH TAXPAYERS. FOR TAXPAYERS EARNING MORE THAN THE MAXIMUM, THE NEW PROPOSAL REDUCES INCOME TAX BY 42% BUT DOES NOT SAVE THEM ANY S-E TAX.

4. THE ABOVE ANALYSIS DOES NOT CONSIDER CREDITS BEFORE TAX (INVESTMENT, ENERGY, OR JOBS CREDITS) WHICH FREQUENTLY REDUCE THE INCOME TAX TO ZERO FOR SMALL TAXPAYERS, BUT OFFER NO RELIEF AGAINST SELF-EMPLOYMENT TAX

5. RATIO OF PERCENTAGE OF INCREASE - CASE 1 : CASE 2

6 : 1

55% 14.79% : 2.46%

STATEMENT BY
MARVIN A. LEVINS, SENIOR VICE PRESIDENT
CONNECTICUT GENERAL LIFE INSURANCE COMPANY
A CIGNA COMPANY
BEFORE THE COMMITTEE ON FINANCE, UNITED STATES SENATE
MARCH 1, 1983

My name is Marvin A. Levins. I am Senior Vice President of CIGNA Corporation and head of its Group Pension Operations. This statement is presented on behalf of CIGNA Corporation, the second largest stock insurance company which was formed last year by the merger of the Connecticut General Corporation and the INA Corporation. CIGNA currently manages over $12 billion in pension assets, has approximately 7000 pension plans in operation and over 1 million covered individuals. As part of our commitment to enhancing the retirement income system, CIGNA Corporation is eager to work constructively with the committee to seek cost effective solutions to the current problems of the Social Security system and to develop other proposals to expand retirement savings to assure every American an adequate post-retirement income.

Commission Recommendations

We support the consensus package of recommendations on the Social Security financing problem that was developed by the National Commission on Social Security Reform and urge that it be enacted promptly by the Congress. This bipartisan solution represents the best possible compromise given the urgency of the Social Security problem and a realistic assessment of the economic and political environment. We recognize that this bipartisan package includes some proposals which may not be consistent with positions we have held as a corporation or principles strongly advocated by others in the business community. However, no single group that has commented to date is totally happy with all the proposals developed by the Commission. Therefore, we believe the Commission's recommendations do, in fact, represent an appropriate compromise.

Closing the Balance of the Long-Term Gap

The consensus recommendations of the Commission would not close the entire long-term financing imbalance of Social Security. CIGNA Corporation supports the recommendation of a majority of Commissioners that the remainder of the long-term fiscal imbalance should be relieved through a gradual increase in the age of first eligibility for full benefits from 65 to 66 beginning after the year 2000. This proposal appropriately recognizes the realities of changing demographics, the greater ability to work of many of our senior citizens and also changing attitudes in the work place.

Currently, 3.2 workers are available to support each beneficiary. Once the "baby boom" generation retires in large numbers, the best estimate is that there will be no more than 2 workers to support each beneficiary.

In addition, the ability of senior citizens to continue working has increased. We recognize that the demands of certain occupations may continue to make earlier retirement both desirable and necessary in selected instances. Therefore, we do support the proposal of the Commission that special attention be paid to disability coverage provisions for those workers in their early-to-mid-60's. However, the current 65 year old will live longer and will be potentially far more productive than his or her parents. A similar relationship with his or her child's longevity and potential productivity may also hold.

Finally, attitudes toward senior citizens in the workplace have changed. The Appendix contains a recent survey of pension plan sponsors conducted by CIGNA Corporation and the Employee Benefit Research Institute. It shows that most plan sponsors support older workers staying active longer. A majority felt that a legislated increase in the normal retirement age was an appropriate mechanism to achieve this result. In the absence of any cost considerations, most would have preferred using positive incentives, but the survey responses demonstrate to us that increasing the normal retirement age is a positive and realistic approach to the long-term Social Security financing problem.

The Commission also examined, but did not include as a specific long-term solution, procedures to gradually reduce the initial benefit levels to be paid to future retirees. One means of achieving this would be through a modification of the bend points. We urge the Committee to keep this in mind as it seeks solutions to those areas not specifically addressed in the Commission's consensus report. It is critical that the Congress assure the public that under such a proposal future benefit levels will still grow as national productivity increases. The temporary bend point modification studied by the Commission would still permit future benefits to grow in terms of purchasing power, but at a more moderate and affordable rate. Such a change would restore the level of benefits approximately to the level which existed in 1972 before faulty indexing procedures unintentionally caused benefit levels to explode. Thus, the bend point modification could be viewed as an equity measure to complete the correction of those faulty indexing provisions. We do not support increases in payroll taxes beyond those included in the Commission's bipartisan recommendations.

<u>Fail-Safe Mechanism</u>

The National Commission also agreed that there was a need for, but did not specify, a fail-safe mechanism to guard against adverse economic conditions developing without adequate notice. We agree that such a mechanism is necessary in addition to the other changes recommended in the compromise plan. Even with those changes there can be no certainty that further financial problems will be avoided because of the extremely modest trust fund margins now available.

The Commission identified three basic fail-safe mechanisms which could be adopted singly or in some combination: (1) modification of future cost of living adjustments; (2) increases in payroll taxes beyond those originally scheduled; or (3) temporary or permanent transfers from the general treasury or other dedicated taxes. We strongly urge the Congress to enact a fail-safe mechanism of the first type, i.e., a modification of future cost of living adjustments as necessary to preserve the long-term financial viability of the Social Security system.

In the event a fail-safe mechanism was actually needed, the most likely cause of the financial problem of Social Security would be unexpected adverse economic conditions. In such a situation, working age Americans would be suffering from significant economic deterioration. We believe that an equitable sharing of burdens in such a national economic crisis would require that Social Security beneficiaries give up, prospectively and for as long as necessary, the additions to their retirement benefits which would have to be paid for from a shrinking economic pie available to all Americans. If Congress desired,those at the lowest income levels could be protected in some manner as was recommended under the Commission's plan with respect to increasing the SSI disregard from $20 to $50 to insulate beneficiaries from the effects of the 6-month delay in the 1983 COLA.

This proposal is responsible because it preserves a self-financing integrity of the Social Security system, and avoids the use of general revenues. The use of general revenues as a fail-safe mechanism would weaken confidence in the

Social Security system and ultimately could lead to a needs-tested program. Should it be necessary to implement a fail-safe mechanism, the use of general revenues would also increase deficits in the remainder of the federal government. This could have a disastrous effect on inflation and the economy when we would need to encourage economic recovery.

We would also like to comment on a number of other issues not specifically addressed by the Commission but which we feel are important for the committee to keep in mind as it develops legislation in this area.

Medicare Problem

The National Commission on Social Security Reform chose not to address the financing problems of the Medicare program directly in their deliberations. We concur with the wisdom of that decision. However, we also urge the Committee not to ignore the fact that the costs of solutions to those problems will have to be added to those legislated for OASDI.

CIGNA supports the efforts of this Committee, the Congress and the Administration to develop prospective payment systems, because these programs are an effective way to contain hospital costs while maintaining the quality of care. However, we believe that the proposal of the Department of Health and Human Services will not accomplish its cost containment objectives because it applies only to Medicare beneficiaries. A hospital payment system must apply to all patients so that hospitals face consistent incentives from all those who pay for care. A Medicare-only system encourages cost accounting manipulations rather than the development of an integrated cost containment strategy. As a result, it creates incentives to shift costs rather than to provide cost efficient care.

CIGNA also believes that the Congress should encourage the development of state-level prospective payment systems. This approach affords experimentation with innovative solutions to a complex problem and permits solutions to recognize regional differences in economics, hospitals, and medical practices. Furthermore, existing state programs have clearly demonstrated that they can reduce the rate of growth in hospital expenditures for all patients, including Medicare, while maintaining the quality of care.

Retirement Policy

Social Security is vital as the basic retirement plan available to all working Americans and their families. However, Congress must keep in mind that Social Security is only one of the three components of the national retirement income system, which also includes private pensions and private savings. The Tax Equity & Fiscal Responsibility Act of 1982 (TEFRA) has resulted in major changes to the private pension component which could weaken the system and cause termination of a number of plans. We believe that those changes could have serious long-term adverse effects on the retirement security of many Americans. We strongly urge that the Committee allow employers and working age Americans time to absorb these changes and reorient their retirement planning as necessary to accommodate TEFRA's changes.

In this year of serious efforts at federal deficit reductions and economic recovery, we also urge Congress to resist the temptation to look at the retirement income system for budget-motivated savings. We believe that the time has come to declare a moratorium on assaults against retirement savings and to allow the system time to adjust both administratively and financially. At the same time, we have already identified the need for additional private savings to bolster retirement income and to speed up the capital formation which is so vital to restoring America's competitiveness in world markets.

The private pension system is one of the most reliable means of achieving this objective. We urge the Committee to take positive steps in this direction.

Conclusion

In summary, we endorse the proposals of the National Commission on Social Security Reform and hope that the Congress will legislate solutions to close the remaining part of the long-term gap as recommended by a majority of Commission members and supported by CIGNA Corporation. We also observe that even if the Commission's recommendations are enacted, we still need to address the serious financial problems facing Medicare. Finally, we strongly urge the Congress to turn its attention to positive means of increasing retirement savings and resisting the temptation to look to the pension system for an infusion of funds to help reduce the anticipated fiscal 1984 federal deficit.

We believe that the actions taken by Congress to solve Social Security's current financial crisis will be an important signal of our national resolve to face the serious questions which must be addressed if our economy is to recover fully. A failure by Congress to enact the present recommendations will have serious implications for the viability of the Social Security program and for the nation's overall fiscal integrity as well.

Thank you for the opportunity to present our views on preserving Social Security. We look forward to working constructively with this Committee and the Congress on this and other critical issues affecting our nation's economic recovery.

APPENDIX

EBRI

Attitudes Towards Raising Social Security's Normal Retirement Age — A Survey of Connecticut General Pension Plan Clients

by
David Scheinerman*
EBRI Fellow

EMPLOYEE BENEFIT RESEARCH INSTITUTE

Attitudes Towards Raising Social Security's Normal Retirement Age — A Survey of Connecticut General Pension Plan Clients

by
David Scheinerman*
EBRI Fellow
Sponsored by
Connecticut General Life Insurance Company,
A Company of CIGNA

August 27, 1982

The views presented here are those of the author and do not necessarily reflect the views of the Employee Benefit Research Institute, its Trustee, members, staff, or Connecticut General, its officers or staff.

* The EBRI Fellows program offers an opportunity for graduate students to work on employee benefits subjects while employed by public and private employers. EBRI wants to thank Connecticut General Group Pension Operations for its generous support.

EXECUTIVE SUMMARY

The recommendation to raise the normal retirement age (NRA) under Social Security is receiving serious consideration in Washington. The impact of such a change in Social Security on private pension plans must be factored into the formulation of public policy. Also, an assessment of private plan sponsors' attitudes toward and anticipated responses to raising the NRA under Social Security is important because their actions could neutralize the effect of Social Security changes on the elderly's work decisions.

This study of a sample of Connecticut General defined benefit group pension plan clients found that 72 percent of the plan sponsors contacted favor encouraging the older worker to remain in the labor force. With 69 percent of the plans now recognizing post-NRA employment for pension accrual, it is evident that these plans already have in-force incentives for older employees to continue working. 48 percent of the plan sponsors surveyed think raising the NRA under Social Security would be a good way to encourage the older worker to remain in the labor force.

Raising the retirement age under Social Security reduces benefits by shortening the period of time over which benefits are paid to an individual retiree. Seventy percent of the respondents prefer raising the NRA to reduce Social Security benefits instead of cutting the general level of payments across-the-board. Seventy-seven percent, though, think other financial incentives would be preferable to raising the NRA.

Three-quarters of the respondents do not think raising the NRA in the late 1990's or early 2000's would cause their business particular problems. Respondents are basically split between making no changes in their pension plan's design in response to a raise in the NRA under Social Security and raising their plan's NRA to correspond with Social Security's NRA. The fact that many plans are now designed to give flexibility in retirement ages by giving credit for post-NRA employment may mean that pension plan sponsors could accommodate changes in the NRA without major plan redesign.

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I. INTRODUCTION

This paper presents the findings of a survey of 107 Connecticut General defined benefit group pension clients. The survey investigates their attitudes towards increasing the normal retirement age (NRA) under Social Security and their anticipated response to such an increase through changes in the design of their pension plans. Although there has been much discussion about raising the NRA under Social Security, there has been little research on how pension plan sponsors view such a change. While the responses of Connecticut General's clients may not be fully representative of the overall population of pension plan sponsors, policy implications and conclusions can be drawn from the data.

The retirement decision is based on many factors, especially the financial consequences of such a move. Commonly considered the first tier of resources for retirement, Social Security benefits play a significant role in determining retirement behavior patterns. Because private retirement plans tend to design their provisions around the NRA under Social Security, any change in this NRA will affect private pension plan benefits. Understanding plan sponsors' reactions to raising the Social Security NRA should help determine the extent to which plan sponsors might counteract or neutralize Social Security actions by maintaining early retirement incentives. In light of both the attention given in the political forum to this proposal and the interdependence of private pensions and Social Security, the effects on private pensions need consideration in forming Social Security retirement age policy.

This study considers the employers' perspective on encouraging the older worker to remain in the workforce without discussing the Social Security costs and tradeoffs of any such policy decision. However, it is primarily the long-term financial imbalance currently projected for Social Security which brings this issue into the political forum. A summary of background information on Social Security's NRA and the major demographic factors affecting Social Security's financial future is presented in Chapter II. A description of the methodology of the research and the characteristics of the client firms surveyed is contained in Chapters III and VII. The results, analysis, and implications of the survey are discussed in Chapters IV through VI.

II. SOCIAL SECURITY BACKGROUND

Changes in the demographic composition of the United States population resulting from changes in fertility, life expectancy, and social behavior have contributed to the serious financial outlook of the Social Security system. The favorable financial consequences of raising the NRA have focused substantial attention on this Social Security reform proposal. The analysis of these factors in the background information which follows provides the framework for considering the results of the survey of pension plan sponsor attitudes toward raising Social Security's NRA.

RETIREMENT AGE

Selection of the Original Retirement Age -- The founders of the Social Security system in 1935 established a NRA of 65 principally by feel:

> "The original selection of age 65 as the minimum retirement age for insured workers was, to a considerable extent, arbitrary and empirical. Age 70 seemed too far advanced... although many private pension plans...had such a minimum age in the mid-1930's. On the other hand, age 60 was too low an age both in view of general employment practices and costs. Accordingly, the compromise 'even quinquennial' age of 65 was selected." (1)

Actuarial or gerontological reasons do not seem to have been a major consideration in the original NRA selection. Retirement benefits were not available prior to age 65 in the original design of the Social Security System.

Change in Retirement Age -- In 1956, the retirement age for women under Social Security was lowered to make reduced benefits available at age 62; the primary reason for this change was that the average age of wives was three years less than their husbands. In 1961, men were also allowed to collect Social Security benefits at age 62 to reduce short-run unemployment.

CHANGING DEMOGRAPHICS AND IMPLICATIONS

Because Social Security is a pay-as-you-go system, its financial health is directly related to the number of workers in the labor force relative to the beneficiary population. Several factors have been causing the number of workers relative to the number of beneficiaries to drop. This has added to the system's serious financial outlook and led to the consideration of changing the NRA.

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(1) Robert Myers, Social Security, (1981), p. 191.

Fertility -- During the baby boom of the 1950's, the birth rate peaked at 3.7 births per woman. A current projection is that fertility rates will stabilize at approximately 2.1 births per woman; the 1977 rate was 1.8 births per woman. Because of the nation's return to historical fertility levels, the baby boom population will create difficulties as the nation's labor market and the Social Security system are asked to accommodate the boom-bust cycle.

Life Expectancies -- The Social Security Administration actuaries and Census Bureau demographers project a steady but slow decline in mortality rates over the next 70 years. (2) Life expectancy among males is projected to increase from 69.1 years in 1978 to 74.6 years in 2040; for females, the projected increase during this interval is from 77.0 to 83.3 years. (3) These projections are consistent with the overall life expectancy rates of the past.

Table I

Life Expectancy By Sex, Race, and Age

	White		Black and Other		Overall		
	Male	Female	Male	Female	Birth	65 Years	75 Years
1900-02	48.2	51.1	32.5	35.0	49.2	11.9	7.1
1939-41	62.1	66.6	51.5	54.8	63.6	12.8	7.6
1965	67.6	74.7	61.1	67.4	69.5	14.2	8.7
1976	69.7	77.3	64.1	72.6	72.8	16.0	10.7

Source: Life table published by the National Center for Health Statistics. Reprinted in Current Population Report U.S. Bureau of Census, Special Studies Series p. 23, No. 59 May 1976 and Statistical Abstract of the United States 1981.

Increases in life expectancy have been greater than past forecasts have projected. For example, Census Bureau projections issued in 1977 include a forecast of greater longevity than the projections issued in 1975. As a result, Social Security may face even longer retirement benefit payment periods than expected today. This could make a bad financial situation worse.

Changing Social Behavior -- The ratio of beneficiaries to contributors in retirement programs is affected by both entry into and exit of workers from the labor force. Current trends show that entry into the labor force is occurring at later ages primarily due to increased participation in education. As older workers retire earlier, the Social

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(2) U.S. Social Security Administration, 1977; U.S. Bureau of the Census, 1977.

(3) U.S. Population Projections for OASDI Cost Estimates (1980), Social Security Administration - Office of the Actuary, p. 35.

Security system faces increasing overall costs of benefits and decreasing payroll tax revenue. The combination of later entry into and earlier exit from the labor force aggrevates the financial crunch of Social Security. Table II illustrates past and projected older worker labor force participation.

Table II

Labor Force Participation Rates-Workers 60 and Over

	1960	1970	1980 (1) Est.	1990 Projected
60 and 64:				
Male	81.1	75.0	63.0	57.2
Female	31.4	36.1	33.4	33.4
65-69:				
Male	46.8	41.6	29.9	26.1
Female	17.6	17.3	14.4	13.9
70 and Over:				
Male	24.4	17.7	12.9	10.3
Female	6.8	5.7	4.4	4.1

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, Vol. 22, No. 7, January 1976.

(1) 1980 actual rates for males 65 and over, 19.6 percent; for females 65 and over, 8.3 percent. Actual 1980 data is not disaggregated for age 65-69 and age 70 and over.

LONG TERM PROSPECTS FOR SOCIAL SECURITY

Increasing longevity, a return to historical fertility rates, and the aging of those born in the baby boom will cause a major shift in the demographic composition of the United States population by the end of the century. Projections indicate that by the year 2030, 22 percent of the U.S. population will be age 65 or over, compared with 11 percent today. This will place an extreme strain on future workers and their employers who support the Social Security system's beneficiaries through their payroll taxes. Today each beneficiary depends on about three active workers for Social Security benefits. By the year 2025, the ratio is expected to drop -- one beneficiary will depend on only two active workers. The situation seems clear: the Social Security system will be financially strained; policymakers must consider alternatives to make it financially sound.

RAISING THE NORMAL RETIREMENT AGE

One option to balance Social Security financially, considered by many governmental organizations and commissions, is raising the NRA. A variety of ways have been recommended, each proposal suggesting different years for the change to start, the number of years to phase-in the increase, and the final NRA to reach. For example, in the final report of the National Commission on Social Security, the Commission recommended that "as the earliest age for full retirement benefits is increased from 65 to 68, the age at which reduced benefits are first available should be raised from 62 to 65. These changes should be made gradually, beginning at the turn of the century, by raising the ages over a 12-year period..." (4) The President's Commission on Pension Policy recommended that the NRA be raised from 65 to 68 with the age for reduced benefit raised from 62 to 65; their recommendation proposed phasing in the increase between 1980 and 1992. In addition, the 1979 Advisory Council on Social Security proposed raising the NRA to age 68 starting the phase-in after the year 2000.

The savings from these proposals are significant; although they would revive the long-term financial viability of the Social Security system, policymakers must consider the tangential consequences of changing the NRA.

This paper addresses this change from the perspective of pension plan sponsors to determine their views and the implications for public policy.

(4) Final Report of the National Commission on Social Security, March 1981, p. 122.

III. A STUDY OF CONNECTICUT GENERAL PENSION PLANS

As background for analyzing the results of this survey, a brief description of the research methodology follows. Also reported are characteristics of the respondent sample including information about the firms, their pension plans, and the plan sponsors contacted. Late retirement provisions of the sample firms are summarized in this section in order to determine the extent of current incentives for older workers to continue working.

METHOD

The sample of Connecticut General's group pension defined benefit plan clients was randomly selected from a group of plans stratified by size. Only those clients whose primary pension plans are defined benefit plans were included in the sample since changes in the NRA would most affect their plan designs.

In June and July of 1982, the clients were mailed a cover letter explaining the purpose of the project and the proposal to change the NRA, background information on Social Security, and a copy of a questionnaire. Approximately one week later, these clients were contacted for a telephone interview based upon the questionnaire. A total of 107 client responses comprise the final data sample - a response rate of 90 percent. The calculation of the response rate as well as other aspects of the method used are discussed in the Appendix.

CHARACTERISTICS OF THE SURVEYED FIRMS

The contacted representatives of firms from all over the country are, for the most part, administrators of their primary pension plans. The representatives consist of benefit managers, trustees, presidents, treasurers, and other high level management personnel. These managers' ages range from 24 to 76. Their responses to the survey combine their own views and those of their companies. An industry profile of the respondents is presented in Table III.

Table III

Profile of Firms Surveyed by Business Category

Construction/Manufacturing/Mining	53
Non-Profit (includes health care)*	12
Service Industries (includes communications, transportation, retailing, wholesaling, distributing, and financial institutions)	42
Total	107

*Although some non-profit firms do not have to participate in Social Security, all of these respondents have elected to do so.

Ninety-six percent of the plans have a NRA of 65; the other four percent have lower retirement ages to accommodate the need for earlier retirement because their workers are employed in stressful or heavy physical jobs. Sixty percent of the plans cover all classes of employees within the firm if they meet ERISA's hours, age, and service requirements. Roughly half the firms have more than one pension plan; about one-third have at least one defined contribution plan.

LATE RETIREMENT PLAN CHARACTERISTICS

While the survey primarily addresses attitudes towards the Social Security issue, the questionnaire also provides information on the plans' late retirement provisions. Seventy-nine percent of the surveyed firms do not pay pension benefits while an employee continues to work past NRA (5). Sixty-nine percent do give credit for service worked beyond NRA. This shows an already in-force incentive for older employees to continue working. At the same time, 21 percent of the plans surveyed neither give credit for service worked beyond 65 nor allow the employee to collect his/her pension between 65 and 68 or 70 if they continue in their employ; the participants of these plans would seemingly be hurt the most from an increase in the Social Security NRA if there were no compensating changes in their private plans.

The surveyed plans which are collectively bargained are less likely to allow workers to draw their pension while working past NRA as shown in Table IV. Also, collectively bargained plans are more likely to give credit for service past NRA.

Table IV

Comparison of Late Retirement Provisions for Surveyed Bargained and Non-Bargained Plans

		Bargained	Non-Bargained
Allow collection of pension while working past NRA?	Yes:	8%	24%
	No:	92%	74%
	No Answer:	0%	2%
Give credit for service past NRA?	Yes:	76%	67%
	No:	20%	33%
	No Answer:	4%	0%
Total number of responses		25	82

(5) A. William Mercer Study of Employer Attitudes in 1981 reports that 86 percent of the CEO's of 552 large industrial and service companies surveyed did not permit employees over NRA to begin receiving their pension while continuing in employment.

IV. ATTITUDES OF PENSION PLAN SPONSORS TOWARD INCREASING SOCIAL SECURITY'S NRA

This section analyzes plan sponsor attitudes towards increasing the normal retirement age under Social Security as a way to encourage older worker participation in the labor force. Also presented are respondent views on using alternative incentives to encourage older workers to remain in the labor force and on reducing Social Security benefits across-the-board instead of raising the NRA. The question of continued availability of early retirement benefits under Social Security if the NRA is raised is considered in this section.

ENCOURAGING PROLONGED WORK

Nearly three-quarters of the respondents favor encouraging the older worker to remain in the labor force. The responses from different industry categories are not very different (Table V). While there seems to be much more support from the non-profit firms for encouraging the older worker to remain in the labor force, the small size of the non-profit subsample prevents the determination of a true statistical difference. The collectively bargained plans seem to have similar views toward encouraging prolonged work as the non-bargained plans.

Table V

Attitudes of Surveyed Clients Towards Encouraging Prolonged Work

	Favor Encouraging Prolonged Work	Oppose Encouraging Prolonged Work	Total Number of Responses
Total Sample	72%	28%	107
Construction/Manufacturing/ Mining Sector	68%	32%	53
Non-Profit Sector	92%	8%	12
Other Service Sector	71%	29%	42
Bargained Plans	68%	32%	25
Non-Bargained Plans	73%	27%	82

The minority who opposed encouraging the older worker to remain in the work force generally see the decision as purely the employee's; also, some respondents think work at older ages should be discouraged either because employees should "not work until they die" or because such employees may be less productive and more costly. Nevertheless, respondents do, in general, favor encouraging the older worker to remain in the labor force.

INCREASING SOCIAL SECURITY NORMAL RETIREMENT AGE

Do the respondents view raising Social Security's NRA as a good way to encourage the older worker to remain in the labor force? Their views are divided rather evenly on this issue. The aggregate views of clients toward increasing the NRA and several subcategorizations of the responses are presented in Table VI. Almost one-half of all respondents favor raising NRA as a good way of encouraging continued labor force participation.

Table VI

Views Toward Raising the NRA - Aggregated and Subcategorized

	Favor Raising NRA	Do Not Favor Raising NRA	No Answer	Total Number of Responses
Total Sample	48%	51%	1%	107
Construction/Mining/ Manufacturing Sector	47%	51%	2%	53
Non Profit Sector	42%	58%	0%	12
Other Services Sector	50%	50%	0%	42
Those Favoring Encouraging Older Worker to Remain in Labor Force	54%	45%	1%	77
Those Opposing Encouraging Older Worker to Remain in Labor Force	33%	67%	0%	30

Of those clients who express agreement with raising the NRA under Social Security, the breakdown of when and how to phase it in is summarized in Table VII.

Table VII

Breakdown of Views on How to Raise the NRA for the 48% of the Clients Who Favor Such a Change

To what age would you raise Social Security's NRA?

		68	70	Other	Total
What period would you phase it in over?	1990-2000	53%	10%	2%	65%
	2000-2012	10%	4%	0%	14%
	Other	6%	15%	0%	21%
	Total	69%	29%	2%	100%

The clear majority of those favoring raising the NRA view 68 as preferable. Also, the vast majority of those favoring raising the NRA would like to see the change start in 1990 or earlier. (6)

i. MAKING ALTERNATIVE ADJUSTMENTS

Forty-five percent of those respondents who favor encouraging the older worker to remain in the labor force think that raising Social Security's NRA would not be a good way to accomplish that objective. Many respondents support a variety of other alternative adjustments to Social Security. In fact, 77 percent of the respondents view other inducements as preferable to encourage the older worker to remain in the labor force instead of changing the NRA for Social Security; 20 percent, though, do not think other alternatives are preferable. Table VIII shows the preferential alternatives supported.

Table VIII

Alternatives Favored by the 77% of Clients Preferring Adjustments Other Than Raising the NRA of Social Security

	1st choice	2nd choice
Increase the reduction in Social Security benefits when one retires early	12%	12%
Provide greater benefit increases under Social Security for those who work beyond age 65	44%	15%
Eliminate the retirement income test	26%	26%
Eliminate mandatory retirement age	12%	18%
Other	5%	2%

Respondents seem to view other incentives to encourage the older worker to remain in the labor force as preferable to raising the NRA. Since the cost tradeoffs involved were not presented to the clients, it is not surprising that providing greater benefit increases for post-65 retirement and eliminating the retirement income test have the most support. If the cost of these options were illustrated and companies or individuals made to pay the expenses, these choices might not be as popular. Nevertheless, those respondents who are concerned about employees being "forced" to work if the NRA is raised, find appeal to the concept of using incentives to encourage later retirement. (7)

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(6) The respondents choosing "other" as the period over which they would phase the increase in the NRA specified either starting "as soon as possible" or in 1985.

(7) Some of the concern expressed by employers about "forcing" older workers to work may have been derived from the questionnaire's not addressing the issue and role of disability insurance; disability claimants would probably increase with a rise in the NRA.

REDUCING BENEFITS INSTEAD

Respondents were asked to consider the alternative of a general cut in Social Security benefits as a way to reduce benefits instead of raising the NRA to shorten the period of time over which the benefits are paid. An across-the-board reduction in Social Security benefits instead of raising the Social Security's NRA is opposed by 70% of the respondents. This illustrates the political difficulty of an outright lowering of benefits as well as the potential support for raising the retirement age to cut Social Security costs. Responses subcategorized by size of firm, age of respondent, and whether or not the pension plan is integrated with Social Security are summarized in Table IX.

Table IX

Client Views on Across-the-Board Reductions in Benefits Instead of Raising the NRA

	Across-the-Board Reduction Instead			Total
	Favor	Oppose	No Answer	Number of Responses
Total Sample	25%	70%	5%	107
1-50 Employees in Firm	43%	57%	0%	23
51-100 Employees in Firm	16%	84%	0%	19
101-250 Employees in Firm	24%	67%	9%	21
251-500 Employees in Firm	25%	70%	5%	20
501 + Employees in Firm	17%	71%	12%	24
Respondents Age 50 and Over	14%	78%	8%	49
Respondents Under Age 50	33%	66%	1%	58
Plans Integrated with Social Security	28%	66%	6%	50
Plans Not Integrated with Social Security	23%	73%	4%	57

The smaller firms may favor an across-the-board reduction in benefits to a larger extent perhaps because they feel the effects of the payroll tax to a higher degree. The smaller firms' respondents were more often the owners of the firm as compared to the larger firms where the benefits administrators were often the respondents; their differing perceptions of the system's cost may cause some of the deviation in views.

Not surprisingly, those clients age 50 and over view an across-the-board reduction in benefits as less favorable than an increase in the NRA. Their personal proximity to retirement could easily influence their view of such an altenative.

The plans whose benefits are integrated with Social Security would experience higher plan costs if the Social Security retirement benefit is reduced across-the-board. (8) Because these plans would experience higher direct costs, it is surprising that a higher percentage of integrated plan respondents view an across-the-board reduction in benefits as desirable.

Availability of Early Retirement Social Security Benefits -- 91 percent of the respondents favor continuing the availability of reduced early Social Security retirement benefits if the NRA is raised. In fact, all 25 respondents representing firms whose primary plans are collectively bargained support early retirement benefits under Social Security. These views correspond to respondent comments advocating flexibility in individual employee retirement decision choices while maintaining incentives to continue working.

Almost two-thirds of the clients favoring availability of early Social Security benefits also favor maintaining availability starting at age 62; 33 percent favor starting at age 65. Moreover, for those respondents supporting these early benefits, 85 percent favor providing them on a basis which is actuarially equivalent to a benefit claimed at NRA; only 13 percent favor a subsidized basis for calculating the early benefits. These results show the support for maintaining early retirement benefits while at the same time encouraging the older worker to stay in the labor force.

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(8) There is reason to suspect that some respondents who have step-rate integrated pension plans responded that their plan is not integrated with Social Security because the actual calculation of their benefits are not explicitly related to Social Security benefits.

V. ANTICIPATED EFFECTS OF CHANGES IN THE NRA ON EMPLOYERS

This section analyzes respondents' perspectives on the potential effects of an increase in the NRA under Social Security with respect to anticipated business problems and pension plan design changes. The analysis leads to conclusions as to the ease with which private plans and firms could accommodate to such a change in Social Security.

POTENTIAL BUSINESS PROBLEMS

Asked to consider the effect of an increase in the NRA under Social Security in the late 1990's or early 2000's, nearly three-quarters of the surveyed clients think the change would cause no particular business problems. The responses are not very different between firms from the various industry segments (Chapter X). Raising the NRA does seem to cause more problems for companies with collectively bargained plans.

Table X
Percentages Anticipating Business Problems

	Problems	No Problems	No Answer	Number of Respondents
Total Sample	25%	73%	2%	107
Construction/Manufacturing/ Mining Firms	26%	70%	4%	53
Non-Profit Firms	33%	67%	0%	12
Other Services Firms	21%	79%	0%	42
Collectively Bargained Plans	32%	64%	4%	25
Non-Bargained Plans	23%	76%	1%	82
Respondents Favoring Encouraging Older Worker to Work	21%	78%	1%	77
Respondents Opposing Encouraging Older Worker to Work	37%	60%	3%	30
1 - 50 Employees in Firm	17%	78%	5%	23
51 - 100 Employees in Firm	16%	79%	5%	19
100 - 250 Employees in Firm	33%	67%	0%	21
251 - 500 Employees in Firm	25%	75%	0%	20
500 + Employees in Firm	33%	67%	0%	24

Because only 25 percent of the respondents believe raising the NRA would cause their business particular problems while 50 percent of the firms are against raising the NRA, it is clear that other factors besides business problems influence the respondent's views. Consequently, policymakers should take into account the fact that business does not look only at the problems changing the NRA would cause when forming their views about the proposal.

POTENTIAL RESPONSES IN PLAN DESIGN

The respondents were asked what action they would take regarding their corporate retirement plan if the NRA under Social Security were raised to 68 in the very near future. (9) Their responses are summarized in Table XI.

Table XI

Probable Plan Responses to Increasing the NRA

Make no changes	51%
Raise the NRA under the private plan to coincide with the Social Security NRA	38%
Retain present NRA and increase private plan benefits to make up for the cut in Social Security benefits available at that age	7%
Other	4%

Those respondents who do not want to encourage the older worker to remain in the labor force are very reluctant to make any changes in their pension plans (Table XII). By not making changes, an earlier retirement incentive is maintained and the Social Security influence is offset to a large degree. Alternatively, those respondents who are in favor of encouraging the older worker to remain in the labor force have a greater likelihood of raising their NRA to correspond with an increase in Social Security's NRA.

Respondents whose plans are integrated with Social Security would probably experience more direct effects from any changes in Social Security provisions. Because the benefit level of Social Security can directly or indirectly affect the costs and benefits of the private pension plan without making any adjustments to the plan, the reactions of integrated plans are examined separately. Integrated plans seem more responsive to changes in Social Security as they design their employees' overall retirement income package (Table XII).

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(9) In response to this question (#13, see Appendix) of the survey, respondents interpreted (a) and (c) of the question as equivalent. Choice (c), "freeze benefit at 65," was intended for those respondents who might maintain their age 65 benefit and keep it frozen if one retired later. Most respondents already have benefits which increase upon late retirement making this choice not applicable. As a result of the identical interpretation of choices (a) and (c), these responses are aggregated and considered as "make no changes" responses.

Table XII

Pension Plan Design Changes in Response to Raising Social Security's NRA

	Make No Changes	Raise Own NRA	Up Difference	Other	Number of Respondents
Those Favoring Encouraging Older Workers to Remain In the Work Force	39%	48%	8%	5%	77
Those Opposing Encouraging Older Workers to Remain In the Work Force	83%	13%	4%	0%	30
Plans Claiming Integration with Social Security	38%	50%	10%	2%	50
Plans Not Integrated with Social Security	63%	29%	3%	5%	57
Plans Giving Credit for Service Beyond NRA	53%	35%	8%	4%	74
Plans Not Giving Credit for Post-NRA Service	50%	44%	3%	3%	32

The plans which currently give credit for service beyond NRA are already set up to adjust automatically for later retirements. The respondents to the survey whose firms do credit post-NRA service do seem less likely to raise their NRA -- perhaps because the plans can already adapt to later retirement dates. It is probable, though, that the employees of these firms would be less severely affected if their plan did not change than the employees of firms whose benefits freeze at age 65.

Few respondents in the sample anticipate that their plan would make up the difference for benefits cut back by changes in the Social Security system. Many respondents did comment that any action they would take to change their plan would, of course, take into consideration the dollar cost involved. Policymakers should not expect uniform private pension plan action in response to raising the NRA.

Raising the NRA under Social Security would encourage the continued employment of older workers that a majority of plans already support. At the same time, private plans will not generally reinforce or add to the effect of Social Security's raising of the NRA; by making no changes, a large percentage of firms may partially offset the impact of Social Security.

VI. IMPLICATIONS

Plan sponsors do want to encourage older workers to remain in the work force. Many private plans already do this by providing post-65 benefit accruals. As a result, policymakers should consider following suit by encouraging the older worker to remain in the labor force by raising Social Security's NRA. Most plan sponsors would not have to make corresponding changes in their plans to reinforce such a change in Social Security since most already provide post-65 accruals or increased benefits.

The trend toward earlier retirement has been growing. Although it can be argued that pension plan provisions and Social Security may encourage earlier retirement, health may also be a contributing factor. Public policymakers need to be concerned about whether disability payments would increase if the NRA under Social Security was raised.

This survey showed that pension plan sponsors were divided on whether raising the NRA under Social Security was a good way to encourage older workers to remain in the labor force. The questions posed addressed this issue from a non-cost view point. A study analyzing plan sponsor views when presented with the cost tradeoffs involved could develop a better understanding of their priorities.

The concept of using other incentives to continue working appealed particularly to those respondents who were concerned that raising the NRA would "force" employees to work. These respondents seem to view incentives as allowing more individual choice regarding the retirement decision. If the Social Security system developed substantial incentives for working past NRA, the public policy objective of raising the average retirement age might be achieved while, at the same time, preserving more latitude for individual retirement decisions. Such incentives, however, would raise costs unless existing benefits were cut; yet respondents to this survey prefer raising the normal retirement age rather than reducing benefits across-the-board.

The division of employer views on changing the NRA under Social Security suggests the need for a carefully timed approach to making any changes. Because uniform legislation changing the NRA for all workers will hit different firms and industries with varying degrees of severity, any proposal should allow needed adaptation time. On the other hand, the survey shows that even though half of the respondents were not in favor of raising the normal retirement age under Social Security, three quarters of them did not think that doing so would cause their business problems.

VII. APPENDIX

DETAILS ON THE METHODOLOGY OF THE SURVEY

The questionnaire was pretested with one dozen clients. 127 clients were mailed the final survey. Twelve clients declined to respond. Eight clients were excluded from the sample; four because they could not respond in time and four because their primary plans are defined contribution plans. This yielded a total of 107 responses out of 119 clients sampled - a response rate of 90 percent.

During the telephone interviews, the questions on the survey were discussed in order with one exception. Questions 16 and 17 were considered between questions 11 and 12; this was done to improve the logical sequence of discussion. Missing information about late retirement plan provisions and Social Security integration was filled in through study of the individual plans.

A breakdown of the firms interviewed shows a relatively even distribution of firms among employees size brackets.

Table XIII

Sample Breakdown by Employee Size Bracket

Size Class (Number of Employees)	Number of Firms Contacted		Approximate Proportion of CG Client Base
5 - 50	23	(21.5%)	40%
51 - 100	19	(17.8%)	20%
101 - 250	21	(19.6%)	20%
251 - 500	20	(18.7%)	10%
501 and up	24	(22.4%)	10%
Total	107	(100.0%)	100%

As can be seen from Table XIII, the sample is underweighted at the small end by plan count. At the same time, it is underweighted at the large end by employee count. As a result, the aggregate results (percentages reported) represent different size proportions than the relevant universe yet, for the most part, are not affected much by reweighting procedures used to adjust the data. In this report, all results have been presented on an unweighted basis with the display of any trends where they exist.

QUESTIONNAIRE

A. YOUR PRESENT PENSION PLAN(S)

1. What kind of pension plan(s) do you now provide for your workers. (CHECK ALL THAT APPLY)

	How many?
( ) Defined Benefit Plan	______
( ) Defined Contribution Plan	______
( ) Profit Sharing Plans	______
( ) Money-purchase Pension Plans	______
( ) Stock-bonus plan, employee stock ownership plan (ESOP), tax reform act stock-ownership plan (TRASOP)	______
( ) Thrift Plan	______
( ) Other (Please Specify) ______________	______

2. Your Primary Plan is usually the one that has been in existence for the longest period of time and/or covers the majority of your employees. If your firm has more than one pension plan, which of those checked above is your primary plan? (PLEASE SPECIFY) ______________________________

Is the plan contributory? ( ) Yes ( ) No

FOR THE REMAINING QUESTIONS WE WANT YOU TO CONSIDER THE BASIC PRIMARY PLAN THAT YOU HAVE SET UP FOR YOUR EMPLOYEES.

3. Is your Primary Plan the plan you have with Connecticut General? ( ) Yes ( ) No

4. Are all of your employees eligible to participate in this plan? ( ) Yes ( ) No

( ) All are eligible.

( ) All classes of workers are eligible if they meet the hours, service and age standards.

( ) Other workers are excluded. (PLEASE DESCRIBE WHICH WORKERS ARE EXCLUDED)

____

5. Was the existence of this plan or any of its provisions determined through a collective bargaining or union negotiation process? ( ) Yes ( ) No

6. What is the NRA under your current plan?

7. Does your plan permit employees over NRA to draw their pension while they continue working for you? ( ) Yes ( ) No

If Yes: If works full-time ( ) If works part-time ( )

8. Does your plan currently suspend benefits if a retiree returns to work for you? ( ) Yes ( ) No

9. Does your plan currently give credit for service worked beyond NRA? ( ) Yes ( ) No

If yes, how is this accomplished? Check all that apply:

a. Recognize salary earned during postponed retirement period. ( )
b. Recognize increased length of service for years in postponed retirement period in computing benefits. ( )
c. Increase benefit payable at NRA by applying postponed retirement factor. ( )
d. Provide for contributions during postponed retirement period. ( )

If no, do you plan to change this policy in the near future? ( ) Yes ( ) No

B. SOCIAL SECURITY AND PRIVATE PENSION IN THE FUTURE

Given the following scenario in the year 2000:

- As a result of the lower birth rates in the later half of the 20th Century, relatively few new workers enter the labor force.

- People are living longer and enjoying better health.

- The ratio of workers to Social Security beneficiaries drops to 2 to 1 (from 3.3 to 1 in 1982).

10. Do you think that older workers should be encouraged to remain in the labor force? ( ) Yes ( ) No

11. Do you think that increasing the NRA under Social Security is a good way to encourage the older worker to remain in the labor force? ( ) Yes ( ) No

If yes:

a. To what age? ( ) Age 68 ( ) Age 70 ( ) Other _________

b. Most suggestions recommend phasing in the increase over a period of years. What approach would you favor?

1. Start in 1990 and complete by the year 2000. ( )
2. Start in the year 2000 and complete by 2012. ( )
3. Other (please specify)_______________________________

12. Would raising the Social Security retirement age in the late 1990's or early 2000's cause your business particular problems?

( ) No Why?

( ) Yes Why?

13. If the NRA under Social Security were raised to age 68 in the very near future, what action would you take regarding your corporate retirement plan?

a. Make no changes. ( )
b. Raise the NRA under your plan to coincide with the Social Security NRA. ( )
c. Freeze benefits at age 65 (or your plan's current NRA, if different). ( )
d. Retain present NRA and increase private plan benefits to make up for the cut in Social Security benefits available at that age. ( )

14. Is your pension plan integrated with Social Security? ( ) Yes ( ) No

If yes:

a. At what age? ______________
b. Would an increase in the Social Security NRA cause you to change the way in which your plan is integrated?

( ) No
( ) Yes --- (PLEASE SPECIFY IN WHAT WAY YOU WOULD MODIFY THE PLAN)

____

____

15. If the NRA under Social Security were increased, do you think reduced Social Security benefits should continue to be available prior to NRA? ( ) Yes ( ) No

If yes:

a. At what age? ( ) Age 62 ( ) Age 65 ( ) Other ______________

b. On what basis?

( ) Actuarially-equivalent to a benefit claimed at NRA (when claimed prior to NRA, the benefit has the same total value over the remaining lifetime of the beneficiary)?

( ) Subsidized basis (when claimed prior to NRA, the benefit has a greater total value over the remaining expected lifetime of the beneficiary)?

16. Instead of changing the NRA for Social Security, do you think other alternatives would be preferable to encourage the older worker to remain in the labor force? ( ) Yes ( ) No

If yes, which of the following would you prefer? Rank in order of preference from 1 to 5 with 1 being the highest.

a. Increase the reduction in the Social Security benefit when one retires early. ( )

b. Provide greater benefit increases under Social Security for those who work beyond age 65. ( )

c. Eliminate the retirement income test. ( )

d. Eliminate mandatory retirement age. ( )

e. Other (please specify)______________________________

17. Raising the retirement age under Social Security reduces benefits by shortening the period of time over which benefits are paid to an individual retiree. Instead of raising the NRA to reduce Social Security benefits, do you think the general level of benefits should be reduced across the board instead? ( ) Yes ( ) No

18. Additional comments regarding the direction Social Security should take.

C. YOUR BUSINESS AND WORK FORCE CHARACTERISTICS?

19. What is the nature of your business? (please describe)

____

____

____

20. How many employees do you have? ____________________

21. Could you give a rough breakdown of your workforce by the following worker classifications? (PLEASE DESIGNATE EITHER THE NUMBER OF WORKERS IN EACH CLASS OR THE PERCENTAGE OF YOUR TOTAL WORKFORCE. YOU DO NOT HAVE TO DESIGNATE BOTH)

	Number	or Percent	Are they represented by a union? Yes	No
Professional	____	____	____	____
Administrative	____	____	____	____
Technical	____	____	____	____
Clerical	____	____	____	____
Blue Collar	____	____	____	____
Trade or Craftsmen	____	____	____	____
Other (specify)	____	____	____	____

Name of Respondent: ____________________

Position: ____________________

Company: ____________________

Address: ____________________

Telephone Number: ____________________

Prepared Statement of Dr. William D. Greenough, Chairman of the Committee for Economic Development, Subcommittee on Retirement Policy and Retired Chairman, TIAA-CREF

Mr. Chairman, I appreciate the opportunity to present my thoughts on the proposed recommendations of the National Commission on Social Security Reform. As you probably know, I served both as Chairman for the Committee for Economic Development's Retirement Subcommittee which issued a report proposing solutions to this critical problem more than a year and a half ago, Reforming Retirement Policies (September 1981) and, from 1979-1981 as member of the President's Commission on Pension Policy. I want to congratulate you on the extraordinary leadership you have shown in obtaining an agreement on this crucial matter. Without your involvement, I doubt we would be where we are today.

Mr. Chairman, I know you have seen the CED report. It was almost a year ago to the day that we submitted the statement to your full Committee during its initial efforts to make-up a proposal. But I would like to submit again for the record a brief summary of CED's 1981 recommendations. The Committee for Economic Development is currently preparing an in-depth analysis of the Commission's recommendations which, unfortunately, will not be completed by your Committee's deadline for submittal of additional documentation. However, I would like to offer that analysis for your consideration as soon as it is finished, perhaps in a more informal way.

In the meantime, let me summarize my own views on the Commission's recommendations which I believe, also, reflect in large measure those of my colleagues at CED.

The National Commission on Social Security Reform has put together a package of mostly short-term compromises. Hardly any of the details are perfect, and the major long-term demographic and economic trends that can cause overwhelming financial problems early in the next century are scarcely addressed in the recommendations. And yet, we believe that the package should be approved, now, and in its entirety. This is a rare opportunity for the two parties to join in accomplishing long overdue changes. This opportunity must not be nibbled away by advocates on either side. The recommendations are too little; let us not allow them to be too late also. It will be most disheartening if this bipartisan effort falls apart. It should solve the short-term cash flow problems that otherwise will overwhelm the system later this year. It establishes several precedents. For almost the first time, when benefits outrun financing or good sense, they can be slowed down a bit rather than relying only on increasing taxes. When reserve funds fall below certain levels, benefit escalation would slow down until the reserves are rebuilt. And at least some part of Social Security benefits would be included in taxable income, as are wages, dividends, interest, pensions and most other income. Finally, Federal employees and more State and local and nonprofit workers would be covered by the national program.

The Social Security Commission reached agreement on a total package estimated at $168.7 billion. Many of us can challenge some of the assumptions, which have frequently been far from the mark, or the method by which a particular "gain" was achieved. But if the package is approved, the system will be some $150 to $200 billion sounder financially, than if the system is allowed to founder in 1983 on its present course.

Although we do not have an official position on the recommendations, I can confidently state that the majority of CED's trustees support the package and would encourage the Congress and the President to enact the Commission's recommendations as soon as possible.

It is noteworthy that the Commission's short-term recommendations follow some of the principles established by the CED, the 1979-81 President's Commission on Pension Policy, the National Commission on Social Security Reform and a number of other groups. Unfortunately, the differences among the recommendations have been played up vigorously; the areas of agreement are all too often overlooked.

It is especially important to note that none of these prior groups, including our own CED Subcommittee, recommended radical changes in the structure of Social Security. All agreed with the Social Security Commission's decision to reject proposals making Social Security voluntary, or fully funded, or needs tested, or a government-run imitation of private pension plans. They all agreed that the long and short-term financial problems required vigorous and immediate attention. They all agreed on universal coverage.

Despite my general enthusiasm for the recommendations the Commission has made, too much remains unresolved. If the Commisson's recommendations are turned into law, everyone should applaud, but only lightly. Phase I will be over, but a Phase II, in my view, will be an absolute necessity and will require similar effort devoted to solving the long-range problems. Agenda items for new discussions should include the early and normal retirement ages under Social

Security, adjusting benefit escalations so that Social Security benefits would not outrun wage rates, working toward elimination of employee Social Security contributions from taxable income and elimination of the $20,000 and $25,000 limits on inclusion of half of the benefits in taxable income, and full coverage for every American worker.

Phase II must also come to grips with the horrendous financial implications of our present course in medical and disability benefits under Social Security.

A major disappointment with the Commission's recommendations has to do with delayed retirement. Only nine of the fifteen members agreed that a one-year increase in retirement age should take place early next century. This really is "too little and too late." Various groups have agreed on a three-year extension of the retirement ages to be accomplished by or before the start of the 21st century. Workers deserve adequate warning of such a change so it should be legislated now, or at least early in Phase II.

Perhaps the worst of the Commission's recommendations is one that superficially sounds good: From 1990 to 2010, gradually increase the delayed retirement credit for individuals between 65 and 70 from 3% to 8% per year. The argument is made that people should be "rewarded" for staying in the labor force by such an increase. But the significant question is whether people who are healthy and lucky enough to stay in the labor force from age 65 to 70 should have a Social Security benefit that is 40% higher (8% per year for 5 years) than other persons not so lucky.

This would provide a much larger benefit for the very people who have had five more years of time to save. The serious problem is that the recommendation would give away most of the financial help to the system provided by eventual action to delay the retirement age. The increased bonus for later retirement sounds good but by itself would be a serious mistake.

The Social Security Commission understandably was not charged with looking at private savings and private pensions, which as you know was the chief focus of the CED study. The various other groups that have looked thoughtfully at the total problem of provision of income in retirement for Americans, including CED, all recommended a greater reliance on non-Federal sources of income. They recommended strong tax incentives both for personal savings for retirement and employer pension plans. In addition, the CED strongly recommended exclusion of employee contributions from taxable income, especially if some part of the benefits are to be included in taxable income. Greater reliance on private pensions and savings accomplishes several things at once. It increases the future retirement security of our people. It provides a huge source of capital formation to help readjust the relative undersaving of the United States compared with almost all western nations. And it can take an increasing amount of strain off both the welfare benefit and the Social Security programs. I believe you will find that Americans have begun and continue to devote considerably greater weight to private savings and private pensions as the main source of their retirement income and I would urge that this be continued.

Again, Mr. Chairman, I appreciate the opportunity to submit my views to the Committee and I would be glad to provide any additional information the Committee would like on our views and analysis of the Commission's recommendations.

THE RIGHT REVEREND JOHN M ALLIN
PRESIDING BISHOP, EPISCOPAL CHURCH

815 SECOND AVENUE
NEW YORK N Y 10017

February 28, 1983

Statement of The Episcopal Church in The U. S. A. on Contemplated Changes in the Self-Employment Tax Affecting Ministers

The Honorable Robert J. Dole
Chairman, Senate Finance Committee
United States Senate
Washington, D. C. 20510

Dear Senator Dole:

The substantial increase in the self-employment tax that is included in the proposals by the National Commission on Social Security Reform ("National Commission") and which is now before the Congress (e.g. Senate Bill S-1) is of great concern to the Episcopal Church in the U. S. A. Our denomination consists of approximately 7,600 parishes and organized missions with an estimated three million members. There are over 13,000 ordained clergy of the denomination, practically all of whom participate in the Social Security System.

If the tax proposals of the National Commission become law, the clergy of our denomination will be subjected to a percentage increase in their taxes that is completely disproportionate to the increase that will be imposed upon employees and high-bracket self-employed individuals. The impact of the higher taxes would be very severe because clergy as a rule have low incomes and will necessarily create increased difficulty in supporting themselves and their families. We are writing to urge that this inequitable tax burden upon the clergy -- and, indeed, all other low income self-employed persons -- be avoided and that the proposals of the National Commission be modified accordingly in the resulting legislation.

For purposes of the Social Security System, clergy contribute at the rates established for self-employed individuals. The proposed legislation (i.e. the Senate Bill S-1, 98th Cong., 1st Sess.) implementing the National Commission's report would increase the tax on self-employed individuals from its present level of 9.35% of the earnings base to 12.70% in 1984 and upward to 13.85% in 1990. Partially to offset this increase, the National Commission recommends, and the proposed legislation provides, a deduction in computing adjusted gross income for federal income tax purposes of 50% of the OASDI portion of the self-employment tax. Because income tax rates are progressive, higher income self-employed individuals will receive the greatest relief from this deduction while lower income self-employed individuals, such as the clergy, will receive the least relief. Thus the burden of the Social Security tax increase falls most heavily upon clergy and other low income self-employed people who are least able to pay.

To alleviate this situation, we suggest that the Congress delete the 50% deduction proposed by the National Commission and substitute in lieu thereof a refundable income tax credit equal to 25% of the OASDI self-employment tax. Such a refundable credit would cause the percentage increase in out-of-pocket cost to be the same for all self-employed individuals, thereby rectifying the inequity in the proposed legislation.

We respectfully request your own support for such a 25% refundable tax credit, rather than the proposed deduction, as an integral part of any legislation that implements the recommendations of the National Commission.

We are well aware that these matters of social security reform have your close attention and concern. So it is with us. Please accept, in that spirit of sharing, my writing to you.

Sincerely,

+John M. Allin

John M. Allin
PRESIDING BISHOP

JMA/ac

TESTIMONY for the RECORD

of

SENATE FINANCE COMMITTEE

INCLUSION of NEW FEDERAL EMPLOYEES in SOCIAL SECURITY

by

BUN B. BRAY, JR.

EXECUTIVE DIRECTOR FEDERAL MANAGERS ASSOCIATION

Before expressing the views of this Association regarding the proposals associated with the future solvency of the Social Security Program, some background of the Federal Managers Association (FMA) itself will be useful to this Committee. That background has much to do with the FMA position and why it should be of critical importance to the Members of this Committee.

The FMA is the oldest and largest management organization in the Federal government. It dates back to the early 1900's when it was formed to provide an effective vehicle for input into top management decisions. Its membership is comprised of all levels of management from first-line supervisors in the wage grade system through managers and management officials in the upper reaches of the general schedule.

These men and women are responsible for the day-to-day functions of government. It is their job to meet schedules through the work of their employees. A function of the supervisor is selecting new employees from applicants, assigning work, recommending advancement of better employees, discipline and the whole range of human resources management within the scope of their work responsibility.

The point of all of this is that the people whom FMA represent are the only ones with direct, first hand, and absolute knowledge of the quality of the rank and file Federal employees. Alan Greenspan who had the awesome responsibility of developing the Social Security recommendations, and we take no issue with his competency, has no such knowledge. The Members of this Committee have no such knowledge. The staff of this Committee has no such knowledge. Indeed, even the Director of OPM has no such knowledge whether he professes to or not.

Clearly, the Congress must consider issues affecting Federal employees very carefully because they can have a devastating affect on service to the taxpayer by these employees. If the Civil Service system operates as it should, and I believe that it does in spite of the criticism it receives from time to time, it will attract a work force at least as good or better than the private sector. I believe that is a cornerstone of the Public Employee system and it's importance is self evident.

The Civil Service system of the U. S. is perhaps the most complex in the world. The regulations, policies and programs within it are tied so close together, are so intertwined that changes to any one part can have a positive or negative effect that will ripple through the entire system. When the Wage Grade system was raised and GS was not, which occured for a long time, it became exceedingly difficult to move our best Wage Grade supervisors into GS ranks. That short sightedness has had a constrictive impact on the career development system which in turn has driven our best people to early retirement.

Another example is Merit Pay which has been disasterous. Instead of an incentive to better performance, it is a true and unfortunate disincentive. It has rippled into career development paths, damaged morale in management ranks, precipitated unfortunate losses to retirement, impaired recruiting and so forth. The ripple effect.

Now let's look at the proposal to include new employees in Social Security. Where will that ripple? The answer is, everywhere through the system. Recruitment, pay, retirement, morale and many other parts of the Civil Service program that directly impacts on service to the American taxpayer.

RECRUITMENT:

Whether you want to face the truth or not, the fact is that Federal pay lags behind the private sector in many important skills. This is especially true in the technical field such as engineering and the sciences. (As an aside, I would point out that these areas are particularly important because of today's technological revolution and the Federal government can ill afford to not keep pace). In today's bloated economy, desirable recruits are looking harder at the bottom line than ever before. "How much will I take home?" While the Federal pay offer is less than the private offer, because of the Social Security deduction, the bottom line figure rises at least close enough to be competitive. Much is made of the Federal retirement program being a generous one, and it is attractive. It ought to be. The Federal government must maintain a competitive posture in the job market and without a competitive pay program, there is only the benefit side of the equation left. Heretofore, we have had at least that tool to entice quality applicants. If the proposal passes to bring new hires under Social Security, that tool will be gone forever. The result will be that only marginally competent people will apply because the others will go elsewhere; where the bottom line is best. If you were a bright, young engineer, what would you do? The ripple effect. What plan has this Committee to improve pay to offset that effect? Of course, you have none.

RETIREMENT:

The Federal retirement program is generous and I have already pointed out why it ought to be. It is most often criticized because it allows retirement at age 55. Many say that is too young. They claim that Federal employees want to "retire" at that early age. These claims are wrong. What is true is that Federal employees "retire" at 55 to "get out of government service". What a terrible indictment of our government as an employer. Why is this true? Morale. Since the comparability concept was put into place, Federal employees have received it only once. Candidates for high office flail away at government as a horrid institution which is responsible for all of society's problems. "The bureaucrats have caused it". Translation: Federal employees are no good.

For the last ten years, the retirement program has been attacked by Congress and Administrations, culminating with this Administration's determination to conscript its workforce. The Congress has never appropriated funds for the retirement, preferring instead to borrow from it and pay the interest. Then it runs around complaining at the cost. The simple fact is that employees do not trust their employer and are leaving because that's the safest decision.

This proposal will jerk the foundation right from under the retirement program. If you were 55 and at 30 years service, what would you do? The ripple effect.

PAY:

Federal employee pay has dramatically eroded just in the last three years. On October 1, 1982, Federal workers received a 4% pay raise. In January of '82, the health benefits program costs to individuals skyrocketed because of shortsighted decisions of OPM. In January 1983, Federal employees began paying a 1.3% medicare tax. In addition, the Congress <u>again</u> readjusted the retirement program. The net result of all this was a pay loss! This proposal to Federal employees is a pay loss by any calculation. The ripple effect. I would also add that this Administration proposes a zero pay raise for Federal workers this year.

Facing pay losses, many Federal skilled employees will take out what they have in retirement and take other jobs. Other employees will retire as soon as possible, and still others dedication to their jobs will decline.

Consider this. If recruiting is impaired as it surely will be, and our best say "goodbye" to government service, the taxpayers will be the loser. Then what? Who then will be Congress and the Administration's scapegoat?

These are not speculative thoughts. Supervisors and managers tell FMA's staff that it's happening now! Now, even before the Congress decides.

Finally, there is cost. Obviously, a supplemental retirement program will have to be developed for new employees. Although based on the Government's record as an employer, you may decide to go back in time to the days before a Department of Labor and not bother. Hopefully, you will provide one. But what kind of program can you offer that is of any real value without experiencing substantial costs? The government must match Social Security costs, will have to contribute to the new retirement program, and pay into the cost of the current system. The ripple effect.

How will this Administration explain to taxpayers why they are paying into 3 major retirement programs? At that same time, how will Congress explain to taxpayers why the service they receive from government has deteriorated?

The ripple effect of this proposal is devastating.

STATEMENT OF POSITION ON

FINANCING OF THE SOCIAL SECURITY SYSTEM

ON BEHALF OF

FINANCIAL EXECUTIVES INSTITUTE

TO THE

SENATE COMMITTEE ON FINANCE

BY

ROBERT W. MOORE

PRESIDENT, FINANCIAL EXECUTIVES INSTITUTE

February 23, 1983

Good afternoon, Mr. Chairman and members of this Senate Committee. My name is Robert W. Moore and I am President of Financial Executives Institute. I want to thank this Committee for the opportunity to testify on the proposed Senate Bill S-1, "Social Security Amendments of 1983," which addresses a financial issue of national concern.

Financial Executives Institute (FEI) is a professional organization of individual members who are senior financial and administrative officers in business organizations throughout the United States and Canada. FEI has over 12,000 members who are affiliated with some 5,000 companies in virtually all segments of the economy and who, therefore, represent a broad cross-section of American business.

Members of our Committee on Employee Benefits have studied the problems of the Social Security system, both short- and long-term, particularly the short-term cash shortages of the Old Age, Survivor and Disability Insurance Funds (OASDI), over the past several years. They have also been involved in studies of the Employee Retirement Income Security Act (ERISA), the Economic Recovery Tax Act (ERTA), and the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). As part of these efforts, we have made suggestions to Congress in the spirit of cooperation as technical experts. More recently, we wrote to the National Commission on Social Security Reform, suggesting a method which would preserve basic financing concepts, as well as provide the system with fiscal stability. Mr. Chairman, a copy of that letter to the Commission is included as an appendix to this testimony and should be made a part of the record.

Since our members have spent a great deal of time studying the problems of the Social Security System and its current funding problems in an attempt to develop an equitable solution, we feel we are in a position to judge fairly both the scope of the task which the Commission was confronted with, as well as the merits of their proposed solution. It is our opinion that the Commission created a thoughtful compromise, which has been incorporated in legislation proposed by Senator Dole, and which should correct the current financing deficiencies of the system. We believe the Commission was presented with a set of almost insurmountable political and technical problems, yet managed to emerge with an equitable compromise. We especially commend the Commission's acceptance of the fact that the burden of corrective action must be shared between beneficiaries of the Social Security System and taxpayers. One of the strengths of the Social Security System has historically been the bond between generations created by the financing of the system, through payroll taxes of the working generation while providing a foundation for the reasonable income needs of those who have retired from the work force. Those who believe, as we do, that the Social Security System is a vital aspect of American life must recognize the need for sacrifice.

Essentially, FEI believes that the problems of the Social Security System should be solved within the bounds of the system, without changing its fundamental character, and without infringing on the areas outside the charter of the system. We believe that the short-term cash flow problems of Social Security can be contained without doing harm either to the generational transfer of wealth, which is the bedrock of the Social Security program, or to the concept of payroll financing, which preserves the financial integrity of the system. The linkage between Social Security benefits and payroll taxes is important, and this link should remain the most important stabilizer for the System.

As an organization, we have discouraged the use of general revenues to finance the Social Security System. Although we understand their inclusion as one-time crisis intervention measures needed now, we do not believe this type of financing should continue to be used in the future. The one exception is the Commission's proposal to tax one-half of Social Security benefits for recipients with total income above certain levels. While some have characterized it as a use of general revenues, we believe Congress can alleviate these concerns if the legislation enacted includes appropriate controls. For example, proposed legislation could clearly provide that all tax revenues raised in this way be promptly remitted to the Social Security Trust Funds under a permanent appropriation. Use of the income tax system in this manner would not be at variance with our concepts for financing the Social Security System.

We believe the National Commission on Social Security Reform has developed a worthwhile context for handling the Social Security short-term financing problem yet, by consent of the members signing the compromise, two areas were left open to further debate. We would like to discuss one of these areas and recommend a modification that we believe would enhance the financial stability of the OASDI system.

Our suggestion is designed to further enhance the stabilizer suggested by the Commission. We recommend the use of a self-correcting mechanism which would correlate the funding needs of the Social Security System to national economic conditions at any given time. Our proposed stabilizer would provide for an annual adjustment to both the COLA increase and the payroll tax rates if the finances of the OASDI System deteriorate again. We agree with the Commission's recommendation to adopt a stabilizer with a 20% reserve trigger point, and suggest it be strengthened by adjusting both the tax rates and the annual COLA to ensure the continued liquidity of the system.

A simplified outline of this formula would be as follows: in 1988 and thereafter, if the Social Security trust fund falls below a 20% ratio, the COLA would become the lower of CPI or wages (as the Commission proposed) minus an additional adjustment of one percentage point. At the same time, the combined employer-employee tax rate would be increased over the prior year's rate by two-tenths of a percent (0.2%) with half to be paid by employees and half by employers. This formula would provide for similar annual adjustments until the needed infusion of funds to keep the Social Security System solvent and restore reserves to at least 20% occurred. This process would continue to spread the burden equitably between taxpayers and beneficiaries.

In a manner suggested by the National Commission, when the trust fund reaches a 32% ratio, an orderly refund of accelerated taxes and COLA reductions should be made. For as long as reserves remain above the 32% threshold, the annual adjustment would be reversed by increasing the COLA by one percentage point and reducing the combined OASDI payroll tax rate by two tenths of a percent (0.2%). Thus, this type of fail-safe mechanism would guarantee stability with temporary loans, in effect, from beneficiaries and taxpayers in roughly equal amounts.

While the formula we recommend is somewhat more complex than the Commission's proposal, it is nonetheless workable, since the calculation as to whether or not the fail-safe formula was triggered could be made at least six months before the need to begin withholding FICA taxes and paying cost of living adjustments. One of the virtues of this proposal is that it does not modify the formula for scheduled benefits, but merely adjusts yearly cost of living increases; and it adds needed flexibility to the tax schedule in the event that the Commission's assumptions are found to be too pessimistic.

In conclusion, we commend the Commission for its bi-partisan efforts and urge the Congress to act in a timely fashion to secure the future of Social Security. We believe our suggestion supplements the Commission proposals, and that it is consistent with the concept of sharing the burden for preserving the Social Security System between the taxpayer and the beneficiary in an equitable way.

FINANCIAL EXECUTIVES INSTITUTE

STATEMENT OF POSITION

FINANCING OF THE SOCIAL SECURITY SYSTEM

APPENDIX A

Letter to Mr. Alan Greenspan, Chairman of the National Commission on Social Security Reform and "Proposal to Correct Short-term Financial Problems of the Social Security System"

FINANCIAL EXECUTIVES INSTITUTE
633 THIRD AVENUE, NEW YORK, N.Y. 10017 · 212 953-0500

ROBERT W. MOORE
PRESIDENT

October 26, 1982

Mr. Alan Greenspan, Chairman
National Commission on
Social Security Reform
736 Jackson Place, N.W.
Washington, D.C. 20503

Dear Mr. Greenspan:

The Financial Executives Institute* is deeply concerned about the problems of the Social Security system, both short and long term -- particularly the Old Age and Disability Insurance Funds (OASDI). Recent discussion in the press concerning the near-term cash short-fall appears to have concentrated on a payroll tax increase as the only practical solution.

In lieu of such tax increase, our Employee Benefits Committee has developed a proposal which we believe is worthy of consideration by the Commission. The proposal is not intended to address all the problems of the OASDI Funds but rather is designed to correct the near-term cash short-fall problem and to restore a modest reserve over the next several years.

This proposal does not address the problems which will result from long-term demographic shifts projected to impact the system beginning in the 21st century. It would, however, restore liquidity to the OASDI Funds and maintain the basic financing concepts of the Social Security program; namely, to be solely financed by payroll taxes (no use of general revenues), and continued parity between employees and their employers in sharing the tax burden. We consider these basic financing concepts to be fundamental to a sound ongoing Social Security system.

The immediate liquidity problem results in large measure from the unusual economic volatility of recent years -- particularly the CPI escalator raising benefits faster than increasing wages raised the tax revenues of the system. Accordingly, we believe

*Financial Executives Institute is the professional association of 12,000 senior financial and administrative officers of over 6,000 organizations, large and small, throughout the United States and Canada.

Mr. Alan Greenspan October 26, 1982
Page 2

the financial solution to this immediate problem should be borne partially by the beneficiaries and partially by the taxpayers. Our proposal provides a mechanism for this rough equity to occur and for modest levels of reserves to be built over the next few years.

The second part of our proposal provides a self-correcting mechanism, whereby, once modest reserves are developed, they can be maintained regardless of short-term economic volatility -- merely by raising or lowering the tax rates as needed to maintain liquidity with modest reserves.

This type of solution to the immediate problems of the system would provide time for more detailed consideration of the long-term problems facing the Social Security system. These problems need to be addressed and significant modifications may have to be made in order to maintain system solvency in the 21st century. We believe adoption of a proposal such as ours will give your Commission and others more time to carefully study these serious long-term problems.

Attached is a description of our proposal together with a projection of how it could work using the Trustees' intermediate II-B assumptions over the next 10 years. It is important to note that such projection indicates that liquidity can be restored to the system under our proposal with tax rates only slightly higher than those in the present law during most of the 1980s -- and in 1990 and thereafter, with tax rates significantly lower than those now mandated.

We suggest that any action along the lines of our proposal have a 10 year sunset provision so that it can be reviewed to ensure that it is meeting the needs of the system.

The attached proposal is only a skeleton outline of a concept -- even though it is the carefully thought-out product of many months of work by our Employee Benefits Committee. More work will have to be done on the details by those more experienced with the operation of the OASDI system. For example, as indicated above, our proposed concept has been tested against only one set of economic assumptions. Accordingly, we would welcome the opportunity to discuss this matter in more detail with the Commission and its staff at your convenience.

Very truly yours,

R.W. Moore

attachment

FINANCIAL EXECUTIVES INSTITUTE

Proposal to Correct Short-Term Financial Problems of the Social Security System

The Old Age and Survivors (OASI) and Disability Insurance (DI) Funds of the social security system are insolvent; only temporary inter-fund borrowing from the Hospital Insurance Fund (HI) allows it to continue to pay monthly benefits through June 1983. In the absence of legislative action, the trust funds will be unable to honor their checks in July 1983.

In the face of mounting evidence that the American people are losing faith in the ability of the social security system to survive as the mainstay of our national retirement income system, some equitable solution to the serious short-term financial crisis must be developed on a bi-partisan basis.

Social security is essentially a pay-as-you-go system with benefits to current beneficiaries financed by the current payroll tax revenues. Recent volatility of the economy -- principally the high inflation rate causing significant cost-of-living adjustments (COLA) for beneficiaries -- have all but eliminated the cash reserves of the Funds. Thus, there are projected short-fall of revenues to finance the OASDI funds; reserves are now less than two months' benefits.

FEI continues to believe that the Old Age and Survivors Insurance (OASI) and the Disability Insurance (DI) funds should be exclusively financed by payroll taxes; general tax revenues should not be used. We also believe that parity in payroll taxes borne equally by employees and their employers should continue.

We believe the solution to the present insolvency should be financed equitably between the taxpayers and the beneficiaries of the OASDI funds. We have developed a proposal which not only corrects for the present insolvency but also self-adjusts to solve any future financial short-falls resulting from volatility in the economy. This proposal would also self-adjust in the opposite direction; when reserves recover to an adequate level, tax rates would be reduced.

The result of implementing such a proposal would have modest impact on each individual. The monthly impact on the average beneficiary would be about $8.12 in the first year. The tax increase would be about $5.40 per month for each employee earning the statutory maximum and his employer. Yet these modest amounts would provide solvency of the OASDI trust funds for the remainder of the 20th century; no further legislative action would be required.

This proposal does not envision corrective action sufficient to solve problems resulting from major demographic shifts that will occur in the 21st century. These types of corrections need to be carefully thought out with sufficient study and research. In fact, we propose the automatic adjustment procedure have a 10-year sunset provision so its effectiveness can be measured and maintained only if appropriate.

Nor does this recommendation address the very significant deficits projected for the Hospital Insurance fund beginning in 1987.

* * * * *

Specifically, this proposal would make very limited automatic annual adjustments in both the payroll tax rate and the COLA increase, either upward or downward depending on the state of the trust fund reserves.[1] If reserves were below 25% of annual benefit payments (approximately three months' reserves) then the combined payroll tax would be increased by 0.2% (an individual employee's tax rate would be increased by 0.1% and matched by the employer) and the next annual COLA increase would be reduced by two percentage points of the COLA otherwise payable (if 10% was the scheduled COLA, then 8% would be added). The aggregate dollar impact of these two factors is roughly equal. We also propose the effective date for the annual COLA be changed to the September benefit checks beginning in 1983. These tax rates, as self-adjusted annually, would supercede presently legislated tax rates.

And this automatic feature also self-corrects when the trust funds reach a solvent position some time in the late 1980's. At that time, the tax rates would reverse by lowering taxes annually by 0.2%. Such annual adjustments would continue as long as the reserve ratio stayed above the 25% level, but never be permitted to fall below 1982 tax rates.

Detailed Explanation and Projection

The attached projection develops the impact of applying the FEI proposal by automatic annual adjustment to both the combined OASDI payroll tax rate and the annual cost-of-living adjustment of benefits (COLA). The annual automatic adjustment is triggered by the level of reserves. When the reserve ratio as of any June 30 is below 25%[a], the combined OASDI tax rate is increased the next January 1 by 0.2% and the next scheduled COLA is reduced by 2 percentage points (a scheduled 10% increase would be paid at 8%). Initial adjustments would be the 1983 COLA and January 1, 1984 for the tax rates. We further propose the timing of the annual COLA be reflected in the September benefit payments (paid in early October).

When the reserve ratio exceeds 25%, then the automatic annual adjustment of the tax rate would reverse and be reduced by 0.2%. Such adjustments would continue until any post-1982 adjustments had been reversed.

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(1) If the reserve ratio is lower than 8.3% of annual payments (one months' reserve), then inter-fund borrowing from the Hospital Insurance Fund (HI) would be permitted.

(a) The reserve ratio would be calculated by dividing net assets of the OASDI trust funds as of June 30 by the disbursements for the preceding 12 months adjusted as if the immediate COLA had been implemented for all of those 12 months.

Based on the average individual monthly benefit of $406, an annual COLA reduction of 2 percentage points would amount to $8.12 each month in the first year. Equivalent adjustments would be made for any subsequent years for which the adjustment procedure is effective.

Based on an employee whose annual earnings were equal to the maximum taxable wages (presently $32,400), the increase in the combined tax rate of 0.2% would amount to $5.40 per month.

As shown on the attached projection, the combined OASDI tax rate would advance from the present level of 10.8% in annual increments to a high in 1988 of 11.8%. It would then remain below the level that is presently legislated for 1990.

The annual COLA increase for beneficiaries would likewise be reduced until 1988 at the rate of two percentage points each year.

Borrowing from the HI fund would be necessary until 1984; such borrowing would be fully repaid by 1986.

The cash reserves held by the system would increase throughout the period of this projection reaching over 70% of annual disbursements at the end of fiscal 1992 (a reserve of over 8 months of benefit payments).

ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS

Fiscal Years Ended September 30 ($ Amounts in billions)
(Using 1982 Trustees Report II-B Assumptions)

Fiscal year	(2) Income	Borrowing from HI Fund: Current Year	Borrowing from HI Fund: Cumulative	(2) Disburse-ments	Net change in funds	End of Year: Assets	End of Year: Reserve Ratio	Combined OASDI tax rate: Present Law	Combined OASDI tax rate: Pro-posed	CPI benefit adjustment: Present Law(2)	CPI benefit adjustment: Proposed
1982	$148.4	--	--	$156.6	-$8.2	$19.1	12.2%	10.8%	10.8%	7.4%	7.4%
1983	160.1	$6.1	$6.1	168.1	- 1.9	17.1	10.2	10.8	10.8	7.5	5.5
1984	178.8	2.0	8.1	181.5	- 0.7	16.4	9.0	10.8	11.0	7.7	5.7
1985	198.9	--	8.1	196.8	+ 2.1	18.5	9.4	11.4	11.2	6.9	4.9
1986	220.8	(8.1) (1)	--	211.3	+ 1.4	19.9 (1)	9.4 (1)	11.4	11.4	6.1	4.1
1987	244.0	--	--	225.7	+18.3	38.2	16.9	11.4	11.6	5.6	3.6
1988	271.2	--	--	240.0	+31.2	69.4	28.9	11.4	11.8	5.4	3.4
1989	292.1	--	--	249.8	+42.3	111.7	44.7	11.4	11.6	5.1	5.1
1990	310.7	--	--	269.6	+41.1	152.8	56.6	12.4	11.4	4.7	4.7
1991	328.5	--	--	289.9	+38.6	191.4	66.0	12.4	11.2	4.2	4.2
1992	343.6	--	--	310.3	+33.3	224.7	72.4	12.4	11.0	4.0	4.0

(1) The build-up in the OASDI assets from 1987 forward could be adversely affected through continued inter-fund borrowing since the HI fund is expected to reach a deficit position in 1987 and continue to accrue deficits throughout current projections periods.

(2) Amounts developed using 1982 Trustees' Report II-B assumptions

TESTIMONY OF FEDERALLY EMPLOYED WOMEN, INC.

MR. CHAIRMAN, IT IS BOTH A PRIVILEGE AND A PLEASURE TO PRESENT THE VIEWS OF FEDERALLY EMPLOYED WOMEN, INC. (F.E.W.) BEFORE THE COMMITTEE TODAY. I AM DE BURTON, NATIONAL PRESIDENT OF F.E.W. OUR ORGANIZATION REPRESENTS OVER 800,000 WOMEN IN THE FEDERAL GOVERNMENT THROUGHOUT THE UNITED STATES AND OVERSEAS. F.E.W. WAS FOUNDED IN 1968 FOR THE PURPOSE OF UPGRADING THE STATUS OF WOMEN IN THE FEDERAL SECTOR. IT IS A PRIVATE, NON-PROFIT, NON-PARTISAN ORGANIZATION AND ITS CHARTER IS THE SAME AS THAT OF THE FEDERAL WOMEN'S PROGRAM, A SPECIAL EMPHASIS PROGRAM ESTABLISHED BY AN EXECUTIVE ORDER IN 1967. THE FOUNDERS OF F.E.W. BELIEVED THAT THE ORGANIZATION COULD SERVE AS A CONSTRUCTIVE TENSION AGENT TO FACILITATE PROGRESS FOR WOMEN IN THE FEDERAL GOVERNMENT.

REPRESENTING CONCERNED CITIZENS WHO COMPRISE ABOUT ONE-THIRD OF THE FEDERAL WORKFORCE, I CAN SAY, UNEQUIVOCALLY, THAT THE NATIONAL COMMISSION RECOMMENDATIONS AND THE COMMITTEE'S WORK ARE OF UTMOST IMPORTANCE TO US. AND, SO WE DO APPRECIATE THIS OPPORTUNITY TO INFORM YOU, MR. CHAIRMAN, AND YOUR COLLEAGUES ABOUT SOME OF OUR SPECIAL CONCERNS. WE HAVE FOLLOWED WITH INTEREST THE DIALOGUE, DEBATE AND ANALYSES RELATED TO THE RE-FINANCING OF SOCIAL SECURITY. WE COMMEND ALL WHO ARE PRESENTLY INVOLVED AND THOSE WHO HAVE WORKED HARD IN THE PAST TO RESOLVE

THE HIGHLY COMPLEX ISSUES RELATED TO THIS CRITICAL NATIONAL PROBLEM. WE, TOO, RECOGNIZE THAT JULY 1 IS UNCOMFORTABLY CLOSE. YET THE COMPLEXITY OF THE ISSUES COVERED BY THE COMMISSION'S RECOMMENDATIONS CALLS FOR CONGRESS MAKING A CAREFUL ASSESMENT AND WEIGHING AS WIDE AN ARRAY OF OPTIONS AS POSSIBLE.

SOME HAVE PRAISED THE COMMISSION FOR SPREADING SACRIFICE EQUITABLY. "SACRIFICE FOR ALL" IS NOT NECESSARILY THE SOLUTION TO BE SOUGHT. ESPECIALLY SINCE IT SEEMS IT IS ALWAYS THE SAME "ALL" THAT IS SACRIFICED. WE WOULD RATHER SEE A LEGISLATIVE PACKAGE DESIGNED TO RESPOND TO THE IMMEDIATE CRISIS THAT IS NOT ONLY RATIONAL AND PRAGMATIC BUT ALSO HUMANE AND COMPASSIONATE. WE AGREE WITH THOSE WHO HAVE SPOKEN OUT HERE WITH SENSITIVITY ABOUT THE PLIGHT OF MANY IN THIS NATION WHO ARE BARELY SUBSISTING UNDER THE PRESENT SOCIAL SECURITY BENEFITS. WE ALL KNOW, TOO, THAT SCORES OF THOSE WHO LIVE AT THE POVERTY LEVEL, ARE WOMEN, POOR, ELDERLY AND BLACK.

-- 60% OF ALL ADULT RECIPIENTS OF SOCIAL SECURITY BENEFITS ARE WOMEN.

-- 72% OF THE ELDERLY POOR ARE WOMEN. OLDER WOMEN ARE THE FASTEST GROWING POVERTY GROUP IN THE NATION.

-- 60% OF SINGLE WOMEN OVER 65 DEPEND ON SOCIAL SECURITY BENEFITS AS THEIR SOLE SOURCE OF INCOME.

-- WOMEN, TYPICALLY ARE LOW WAGE EARNERS AND SO RECEIVE LOW BENEFITS.

THEY MUST NOT BECOME THE INVISIBLE GROUP IN YOUR DELIBERATIONS.

AS YOU CAN SEE WE ARE VERY INTERESTED IN HOW CHANGES IN THE SOCIAL SECURITY SYSTEM WILL EFFECT MOST BENEFICIARIES. HOWEVER, OUR REASON FOR BEING HERE TODAY FOCUSES ON ONE ASPECT OF THE PROPOSED CHANGES. THAT IS THE PROPOSAL REQUIRING MANDATORY COVERAGE OF NEWLY HIRED CIVILIAN EMPLOYEES OF THE FEDERAL GOVERNMENT, AS OF JANUARY 1, 1984. F.E.W. IS ADAMANTLY OPPOSED TO MANDATORY UNIVERSAL COVERAGE FOR FEDERAL, POSTAL AND STATE/LOCAL PUBLIC EMPLOYEES UNDER SOCIAL SECURITY. IN OUR OPPOSITION TO THIS PROPOSAL WE ARE ON RECORD SUPPORTING AND JOINING IN THE RESOLUTION PRESENTED BY THE FUND FOR ASSURING AN INDEPENDENT RETIREMENT (FAIR) TO THE MEMBERS OF THE 97TH CONGRESS (SEE ATTACHMENT 1).

MR. CHAIRMAN, THERE ARE THREE MAJOR ISSUES WE WANT TO DISCUSS. WE URGE YOU AND YOUR COLLEAGUES TO EXPLORE THESE FULLY IN YOUR ASSESSMENT. THE FIRST ISSUE RELATES TO MOVING BEYOND THE ADMISSION THAT THE "WOMEN'S ISSUE IS IMPORTANT

AND THIS IS NOT THE TIME TO ADDRESS IT." WE SAY THIS <u>IS</u> THE TIME TO ADDRESS IT, PARTICULARLY IN THE CONTEXT OF PROPOSED UNIVERSAL COVERAGE. TO BEGIN TO UNDERSTAND WHY MANDATORY UNIVERSAL COVERAGE WILL ULTIMATELY HAVE A DISPROPORTIONATE NEGATIVE IMPACT ON WOMEN IN THE FEDERAL SERVICE, WE NEED TO CONSIDER WHERE WOMEN ARE IN SYSTEM. WE ARE INCLUDING THE FOLLOWING FIVE PAGES OF DATA FROM THE MOST RECENT OFFICE OF PERSONNEL MANAGEMENT REPORT ON EQUAL EMPLOYMENT STATISTICS, AS OF NOVEMBER 1980. CURRENT DATA IS NOT AVAILABLE FOR RELEASE TO THE PUBLIC AT THIS TIME. IF WE CAN SECURE THE CURRENT INFORMATION BY THE TIME OUR TESTIMONY IS INCLUDED IN THE CONGRESSIONAL RECORD WE WILL AMEND THE FIGURES WE HAVE USED. THE DATA WILL SHOW THAT WOMEN ARE CLUSTERED IN THE LOWER GENERAL SCHEDULE (GS) GRADES AND, JUST AS WOMEN IN THE PRIVATE SECTOR, ARE THE LOW WAGE EARNERS IN THE SYSTEM. 85% OF THE FEDERAL WOMEN WORKERS ARE IN GRADES GS-1--9; THE AVERAGE GRADE IS ABOUT GS-6 AND THE AVERAGE SALARY IS ABOUT $15,000. AS IN THE PRIVATE SECTOR A HIGH PERCENTAGE OF THESE WOMEN ARE SINGLE HEADS OF HOUSEHOLD.

Table 1—Number and Percent of Full-time Federal Employees by Pay System, General Schedule and Equivalent Grade Grouping, Sex and Minority/Non-minority, November 1980

Pay System/Grade	Total Employees		Sex				Minority/Non-minority			
			Number		Percent		Number		Percent	
	Number	Percent	Men	Women	Men	Women	Minority	Non-minority	Minority	Non-minority
All Pay System	2,438,906	100.0	1,637,342	801,564	100.0	100.0	574,006	1,864,900	100.0	100.0
GS and equivalent Pay Systems	1,455,528	59.7	795,478	660,050	48.6	82.3	302,622	1,152,906	52.7	61.8
GS 1–4	273,939	11.2	62,646	211,293	3.8	26.4	90,187	183,752	15.7	9.9
GS 5–8	444,991	18.2	155,664	289,327	9.5	36.1	116,805	328,186	20.3	17.6
GS 9–11	353,587	14.5	236,158	117,429	14.4	14.6	58,260	295,327	10.1	15.8
GS 12–13	284,545	11.7	249,138	35,407	15.2	4.4	29,725	254,820	5.2	13.7
GS 14–15	98,466	4.0	91,872	6,594	5.6	0.8	7,645	90,821	1.3	4.9
Executives	8,419	0.3	7,901	518	0.5	0.1	592	7,827	0.1	0.4
Wage Systems	440,881	18.1	403,010	37,871	24.6	4.7	131,128	309,753	22.8	16.6
Nonsupervisory	326,720	13.4	296,060	30,660	18.1	3.8	105,600	221,120	18.4	11.9
Leader	11,466	0.5	10,677	787	0.7	0.1	3,671	7,795	0.6	0.4
Supervisory	38,140	1.6	36,834	1,306	2.2	0.2	8,773	29,367	1.5	1.6
Other Wage Systems	64,555	2.6	59,437	5,118	3.6	0.6	13,064	51,471	2.3	2.8
Postal Pay Systems	512,636	21.0	419,348	93,288	25.6	11.6	136,507	376,129	23.8	20.2
Other Pay Systems	21,442	0.9	11,605	9,837	0.7	1.2	3,157	18,285	0.5	1.0

HIGHLIGHTS

Composition of the Federal Work Forces (Appendix I)

By Sex:

	Total	Percent
All Full-time Employees	2,438,906	100.0%
Men	1,637,342	67.1%
Women	801,564	32.9%

By Minority (And Non-minority) Group Designations and Sex:

	Total	Men	Women
All Full-time Employees (2,438,906)	100.0%	67.1%	32.9%
Non-Minority (1,864,900)	76.5	53.6	22.9
Minority (574,006)	23.5	13.6	10.0
Negro/Black (414,345)	17.0	9.1	7.9
Hispanic (100,387)	4.1	3.0	1.1
Native American (28,433)	1.2	0.6	0.5
Oriental American (30,841)	1.3	0.8	0.4

Percent Distribution by Minority Designations:

	Total	Men	Women
Minority (574,006)	100.0%	57.7%	42.3%
Negro/Black (414,345)	72.2	38.7	33.5
Hispanic (100,387)	17.5	12.8	4.7
Native American (28,433)	4.9	2.7	2.2
Oriental American (30,841)	5.4	3.5	1.9

By Selected Pay Systems and Sex:

	Total	Men	Women
All Pay Systems (2,438,906)	100.0%	67.1%	32.9%
GS and Equivalent (1,455,528)	59.7	32.6	27.1
Executive (8,419)	0.3	0.3	*
Wage Pay Systems (440,881)	18.1	16.5	1.6
Other Pay Systems (21,442)	0.9	0.5	0.4
Postal Pay Systems (512,636)	21.0	17.2	3.8

*Less than 0.1 percent.

By Selected Pay Systems Minority (and Non-minority) Group Designations:

	Total	Minority	Non-minority
All Pay Systems (2,438,906)	100.0%	23.5%	76.5%
GS and Equivalent (1,455,528)	59.7	12.4	47.3
Executive (8,419)	0.3	*	0.3
Wage Pay Systems (440,881)	18.1	5.4	12.7
Other Pay Systems (21,442)	0.9	0.1	0.8
Postal Pay Systems (512,636)	21.0	5.6	15.4

*Less than 0.1 percent.

Percentage Distribution for Minority (and Non-minority) Groups and Sex by Office of Personnel Management Regions:

	Non-Minority		Minority	
	Men	Women	Men	Women
All Regions Summary (2,080,104)	55.6%	22.2%	13.5%	8.7%
Southeast (383,343)	59.6	22.8	11.3	6.2
New England (97,193)	71.7	22.2	3.8	2.3
Great Lakes (290,629)	54.5	22.9	11.2	11.4
Southwest (243,261)	47.0	21.2	21.5	10.3
Rocky Mountain (105,408)	59.6	25.4	9.9	5.1
Eastern (195,925)	57.0	18.4	14.8	9.8
Mid-Atlantic (260,844)*	54.6	22.8	12.9	9.7
Mid-Continental (102,873)	56.9	27.5	8.1	7.6
Western (301,006)	48.2	20.2	20.3	11.3
Northwest (99,622)	65.2	23.9	6.8	4.1
*Excludes Washington, D.C. SMSA (308,199)	42.5	25.1	14.0	18.4

Occupational Distribution by Minority and Non-minority/Sex Combinations:

	Total		Non-minority		Minority	
	Men	Women	Men	Women	Men	Women
All Categories	67.7%	32.9%	53.5%	22.9%	13.6%	10.0%
Blue Collar Series	91.7	8.3	65.5	3.8	26.2	4.5
White Collar Series	61.2	38.9	50.7	27.6	10.5	11.3
Professional	76.1	23.9	69.2	19.1	6.9	4.8
Administrative	73.7	26.3	65.2	20.6	8.5	5.7
Technical	56.9	43.1	45.9	28.8	11.0	14.3
Clerical	49.0	51.0	36.9	35.2	12.1	15.8
Other	90.6	9.4	66.0	5.5	24.6	3.9

TABLE 1-023 Minority Group Study of Full-Time Employment: November 30, 1980

DEPARTMENT OF DEFENSE (SUMMARY)

PAY SYSTEM	TOTAL ALL EMPLOYEES			TOTAL MINORITY EMPLOYEES				NEGRO/BLACK			
	No.	No. WOMEN	% WOMEN	No.	%	No. WOMEN	% WOMEN	No.	%	No. WOMEN	% WOMEN
TOTAL ALL PAY SYSTEMS	875,904	272,140	31.1	172,790	19.7	57,886	6.6	112,812	12.9	43,323	4.9
TOTAL GEN SCHED & EQUIV	554,831	246,916	44.5	88,401	15.9	48,386	8.9	58,288	10.5	36,640	6.6
GS- 1	1,327	1,031	77.7	599	45.1	480	36.2	446	33.6	345	26.0
GS- 2	7,708	6,157	79.9	2,370	30.8	1,730	22.5	1,922	24.9	1,418	18.4
GS- 3	39,315	32,423	82.5	10,180	25.9	7,579	19.3	7,420	18.9	5,654	14.4
GS- 4	69,340	55,404	79.9	15,115	21.8	11,120	16.0	10,692	15.4	8,085	11.7
GS- 5	81,084	58,824	72.5	16,534	20.4	11,368	14.0	11,436	14.1	8,234	10.2
GS- 6	33,784	23,606	69.9	6,388	18.9	4,380	13.0	4,588	13.6	3,374	10.0
GS- 7	52,682	24,704	46.9	9,256	17.6	4,724	9.0	5,959	11.3	3,575	6.8
GS- 8	10,286	3,692	35.9	1,578	15.3	702	6.8	1,106	10.8	566	5.5
GS- 9	60,866	19,115	31.4	9,179	15.1	3,536	5.8	5,333	8.8	2,549	4.2
GS-10	5,749	699	12.2	591	10.3	110	1.9	329	5.7	76	1.3
GS-11	67,832	12,151	18.0	7,732	11.4	2,146	3.2	4,354	6.4	1,696	2.5
GS-12	69,475	6,799	9.8	5,760	8.3	1,066	1.5	3,074	4.4	894	1.3
GS-13	34,979	1,753	5.0	2,286	6.5	215	.6	1,179	3.4	175	.5
GS-14	14,861	423	2.9	696	4.7	48	.3	369	2.5	35	.2
GS-15	5,725	130	2.3	200	3.5	17	.3	96	1.7	9	.2
AVERAGE GRADE	7.80	5.86		6.56		5.40		6.22		5.43	
TOTAL EXECUTIVE	915	24	2.6	31	3.4	1	.1	23	2.5	1	.1
AVERAGE SALARY	50,229	50,213		50,958		50,100		50,796		50,100	
TOTAL WAGE SYSTEMS	319,517	19,874	6.2	83,488	26.1	8,313	2.6	55,599	17.4	6,279	2.0
REGULAR NONSUPERVISORY	246,836	17,287	7.0	70,030	28.4	7,166	2.9	46,225	18.8	5,502	2.2
WG- 1	3,382	2,110	62.4	1,554	45.9	1,075	31.8	1,027	30.4	690	20.4
WG- 2	8,460	2,025	23.9	4,710	55.7	1,339	15.8	3,730	44.1	1,121	13.2
WG- 3	5,410	898	16.6	2,482	45.9	421	7.8	1,864	34.5	330	6.1
WG- 4	7,250	1,680	23.2	3,439	47.4	781	10.8	2,720	37.6	651	9.0
WG- 5	28,940	3,503	12.1	12,004	41.5	1,274	4.4	8,567	29.6	1,020	3.5
WG- 6	17,780	1,736	9.8	7,790	43.8	693	3.9	5,703	32.1	586	3.3
WG- 7	15,870	1,339	8.5	6,070	38.2	446	2.8	4,339	27.3	350	2.2
WG- 8	30,507	1,656	5.4	8,606	28.2	523	1.7	5,681	18.6	420	1.4
WG- 9	25,635	897	3.5	6,010	23.5	249	1.0	3,279	12.8	194	.8
WG-10	72,309	1,288	1.8	13,846	19.1	323	.4	7,440	10.3	219	.3
WG-11	21,860	214	1.0	2,966	13.6	53	.2	1,425	6.5	36	.2
WG-12	8,752	34	.4	997	11.4	8	.1	356	4.1	5	.1
WG-13	2,706	7	.3	279	10.3	1		111	4.1	1	
WG-14	782	4	.5	72	9.2	1	.1	31	4.0	1	.1
WG-15	66			3	4.5			1	1.5		
AVERAGE GRADE (WG)	8.09	5.17		6.96		4.47		6.56		4.40	
REGULAR LEADER	8,566	366	4.2	2,380	28.0	177	2.1	1,444	17.0	146	1.7
WL- 1	115	104	90.4	93	80.9	52	45.2	45	39.1	39	33.9
WL- 2	326	63	19.3	241	73.9	50	15.3	184	56.4	42	12.9
WL- 3	119	29	24.4	65	54.6	15	12.6	53	44.5	12	10.1
WL- 4	308	43	14.0	151	49.0	27	8.8	127	41.2	25	8.1
WL- 5	788	46	5.7	375	47.6	11	1.4	286	36.3	11	1.4
WL- 6	567	27	4.8	244	43.0	11	1.9	186	32.8	8	1.4
WL- 7	353	9	2.5	119	33.7			82	23.2		
WL- 8	871	12	1.4	287	33.0	6	.7	199	22.8	6	.7
WL- 9	1,222	3	.2	192	15.7			93	7.6		
WL-10	2,850	14	.5	461	16.2	4	.1	158	5.5	2	.1
WL-11	720	4	.6	67	9.3	1	.1	32	4.4	1	.1
WL-12	157	1	.6	14	8.9			2	1.3		
WL-13	88	1	1.1	12	13.6			5	5.7		
WL-14	15			1	6.7						
WL-15	1			1	100.0						
AVERAGE GRADE (WL)	8.21	3.58		6.88		2.87		5.88		3.02	

WHILE THE URGENT PRIORITY IS REFINANCING THE SYSTEM TO ACHIEVE SOLVENCY IN THE SHORT TERM, THAT WILL ONLY SERVE TO COMPOUND THE INEQUITIES THAT EXIST. WHAT WE ARE REALLY SAYING THEN TO WOMEN IN THE FEDERAL SERVICE (AND IN THE NATION) IS THAT THE BIG PART OF THE COST OF SAVING THE SOCIAL SECURITY SYSTEM IS THE DISPROPORTIONATE PRICE WOMEN WILL CONTINUE TO PAY. IF UNIVERSAL COVERAGE GOES INTO EFFECT FOR WOMEN, WE ARE SAYING TO THEM THAT THEY MUST JOIN IN PAYING THAT PRICE. WE ALREADY KNOW THAT, WOMEN'S LIFE PATTERNS HAVE CHANGED:

* WOMEN LIVE LONGER ON THE AVERAGE 19 YEARS BEYOND RETIREMENT AGE.
* 90% OF ALL RETIREES OPT TO RETIRE BEFORE AGE 65. WOMEN HAVE A HISTORY OF RETIRING EARLIER, FOLLOWING THEIR SPOUSES INTO RETIREMENT.
* WOMEN HAVE LOWER CAREER EARNINGS AND INTERRUPTED WORK HISTORIES.
* WOMEN MAKE UP 50% OF OUR WORKERS (30% OF THE FEDERAL WORKERS) TODAY.
* LARGE NUMBERS OF WOMEN FAIL TO QUALIFY FOR BENEFITS ON THEIR LOWER EARNINGS.

* SINGLE WOMEN RETIREES RECEIVE LOWER BENEFITS.
* DIVORCE IS INCREASING; DIVORCED WOMEN RECEIVE NO BENEFITS UNLESS THE MARRIAGE LASTED MORE THAT TEN YEARS.

WE SUPPORT THOSE WHO HAVE SAID THAT THE STRUCTURAL REFORMS PROPOSED TO MAKE THE SYSTEM SOLVENT FALL INTO TWO BASIC AREAS: ADDITIONAL REVENUE OR REDUCED BENEFITS. AND, WE SUPPORT THE VIEW THAT THE TRADE-OFF FOR MOST OF THE REFORMS WILL MEAN A REDUCTION OF BENEFITS WITH A DISPROPORTIONATE IMPACT ON WOMEN. WE FAIL TO UNDERSTAND HOW THE STANDARD OF FAIRNESS AND EQUITY CAN BE APPLIED HERE. AND, FURTHER, WE ASK YOU, MR. CHAIRMAN, AND YOUR COLLEAGUES TO CONFRONT THIS ISSUE IN YOUR DELIBERATIONS.

THE SECOND ISSUE IS THAT THE PROPOSAL FOR UNIVERSAL COVERAGE LACKS CLARITY AND DEFINITION. IT IS UNTHINKABLE THAT THERE IS NO PLAN FOR THIS MAJOR CHANGE. THE CHANGE WILL AFFECT NOT ONLY THE NEWLY HIRED WHO WOULD BE COVERED IN 1984 BUT OVER 2.4 MILLION WORKERS UNDER THE PRESENT RETIREMENT SYSTEM AND THOSE ALREADY IN RETIREMENT. WE STRONGLY SUPPORT THOSE WHO HAVE SAID EARLIER IN THE COMMISSION REPORT AND THESE HEARINGS THAT BEFORE COVERAGE OF FEDERAL WORKERS IS MANDATED, A SEPARATE PENSION PROGRAM TO SUPPLEMENT SOCIAL SECURITY <u>MUST BE</u> IN PLACE. SUCH A PENSION PROGRAM SHOULD ASSURE THAT:

1. PENSION BENEFITS NOW AVAILABLE WOULD NOT BE REDUCED.
2. ANY ADDITIONAL FINANCIAL BURDEN TO EMPLOYEES WOULD HAVE COMMENSURATE ADJUSTED BENEFITS.
3. THE IDENTITY OF RETIREMENT PLANS COVERING EMPLOYEES WOULD BE MAINTAINED.
4. EMPLOYEES WOULD RETAIN THE RIGHT TO IMPROVE THEIR RETIREMENT SYSTEMS.

WE CAN NOT BELIEVE THAT THE CONGRESS WILL MANDATE COVERAGE IF WE DO NOT KNOW HOW OR WHETHER THE RETIREMENT BENEFITS OF PRESENT AND FUTURE EMPLOYEES WILL BE PROTECTED AND GUARANTEED. SOME HAVE ALREADY SPOKEN ABOUT THE GREAT IMPORTANCE OF RESTORING PUBLIC CONFIDENCE IN THE SOCIAL SECURITY SYSTEM. WE SEE THIS AS CLEARLY RELATED TO HOW CONGRESS DECIDES TO TREAT PROPOSED UNIVERSAL COVERAGE.

THE ISSUE THAT IS VERY DISTURBING IS THE QUESTION OF FUNDING THE PRESENT CIVIL SERVICE RETIREMENT SYSTEM AS NEW EMPLOYEES ARE COVERED BY SOCIAL SECURITY. IT IS INCREDIBLE THAT THIS QUESTION REMAINS AND WAS NOT ADDRESSED IN THE REPORT. IT IS NOT THAT FACTS ARE NOT AVAILABLE; IT IS THAT

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THE COMMISSION OPTED NOT TO OPEN "PANDORA'S BOX." ESTIMATES ARE AVAILABLE THAT PREDICT WHAT THE DROP IN CONTRIBUTIONS TO THE CSRS WILL COST. IT HAS BEEN REPORTED ALREADY THAT THE CASH FLOW PROBLEM CREATED BY THE DROP COULD BANKRUPT THE SYSTEM WITHIN 40 YEARS. IT HAS ALSO BEEN REPORTED THAT THE ESTIMATED ADDED REVENUES TO SOCIAL SECURITY ($9.9 BILLION) WOULD BE OFFSET BY ADDITIONAL FEDERAL GOVERNMENT PAYMENTS.

WHAT IS STAGGERING ABOUT THE BLOW TO THE CSRS IS THE RANGE OF ESTIMATES OF THE GAP THAT WILL BE CREATED WHEN PRESENT WORKERS BEGIN TO RETIRE AND, IF IN THE FUTURE, FEDERAL EMPLOYEES NO LONGER PAY INTO THE SYSTEM. THESE ESTIMATES RANGE FROM AN INITIAL $185 BILLION, ASSUMING ZERO INFLATION OVER THE NEXT 40 YEARS, TO AS HIGH AS $640 BILLION WITH INFLATION FACTORED INTO THE ESTIMATES. ONE REPORT STATES THAT FEDERAL FUNDING OF THE NEW COMBINED RETIREMENT SYSTEM WOULD EXCEED THAT OF THE EXISTING CSRS BY $63.2 BILLION BETWEEN 1983-1989. THIS IS A COST TO THE TAXPAYERS.

PREVIOUS SPEAKERS BEFORE THESE HEARINGS HAVE EXPRESSED GRAVE CONCERNS ABOUT THE LONG TERM IMPACT OF UNIVERSAL COVERAGE ON THE SOCIAL SECURITY SYSTEM 30 TO 40 YEARS IN THE FUTURE. WE SUPPORT THOSE CONCERNS AND THE APPEALS URGING YOU, MR. CHAIRMAN, AND YOUR COLLEAGUES TO SEE THAT THE

"OPERATIONS" ARE NOT ONLY SUCCESSFUL BUT THAT THE "PATIENTS" SURVIVE. WE CALL TO YOUR ATTENTION THE FOLLOWING PUBLICATION, "FUND FOR ASSURING AN INDEPENDENT RETIREMENT (FAIR)--COMMENTS ON THE NATIONAL COMMISSION ON SOCIAL SECURITY OPTIONS PAPER, DECEMBER 8, 1982." IT PRESENTS A CAREFUL ANALYSIS OF THE ISSUES. WE HAVE ATTACHED THE SUMMARY OF THOSE COMMENTS TO OUR TESTIMONY (ATTACHMENT 2).

LET ME SAY IN CLOSING THAT WE HAVE BROUGHT YOU OUR CONCERNS ABOUT:

1. UNIVERSAL COVERAGE VIS A VIS THE IMPACT ON THE CSRS AND THE SOCIAL SECURITY SYSTEM ITSELF;
2. UNIVERSAL COVERAGE VIS A VIS CONTINUING EVEN INTENSIFYING THE INEQUITIES TO WOMEN NOW AND IN THE FUTURE: AND
3. BRUSHING ASIDE THE "WOMEN'S ISSUE."

WE SAY THESE ARE SERIOUS PROBLEMS. THE SOLUTIONS DO NOT ELUDE US BUT THE PROBLEMS HAVE TO BE CONFRONTED AND EQUITABLE REMEDIES PRESCRIBED. WE WANT TRUE EQUITY FOR ALL. WE WANT THE SOLVENCY OF THE SOCIAL SECURITY SYSTEM AND THE CSRS. WE ARE CONFIDENT THAT SOLUTIONS CAN BE REACHED THAT WILL BE IN ALL OUR BEST INTERESTS AS CITIZENS, WORKERS, RETIREES AND TAXPAYERS.

MR. CHAIRMAN, I WANT TO AGAIN THANK YOU AND THE MEMBERS OF THE COMMITTEE FOR GIVING ME THE OPPORTUNITY TO EXPRESS THE VIEWS OF F.E.W. ON THESE IMPORTANT ISSUES.

ATTACHMENT I

RESOLUTION

WHEREAS: The Civil Service Retirement System is a moral, and perhaps legal, committment of the Congress that provides for a contributory annuity system with taxable benefits, and this system is viable and equitable for the federal and postal employees covered by it; and

WHEREAS: The public interest is served by the present Civil Service Retirement System -- which enables recruitment and retention of the capable and diligent employees who carry on both the day-to-day and the extrordinary functions of our national government through war and peace and through crisis and normal conditions; and

WHEREAS: Proposals late in the 97th Congress, specifically embodied in S.2905, to be renewed in the 98th Congress, would drastically alter this system into a "pension" system; and

WHEREAS: Said proposals would make no lasting contribution to the Social Security system or the general revenue of the United States, but would, in the long term, add to liabilities;

NOW THEREFORE BE RESOLVED THAT: The 25 national member-organizations subscribing to this resolution, individually and collectively, unalterably oppose S.2905 in the remaining weeks of the 97th Congress and -- perhaps renumbered -- in the 98th Congress and petition Congress to refrain from enacting any such unfair, unjustified dissection of the Civil Service Retirement System;

AND BE FURTHER RESOLVED THAT: The officers of FAIR are directed to present this resolution to all members of Congress, especially the newly-elected 98th Congress, with documentation in support of this position; and each member-organization pledges every effort to defeat the destruction or crippling the Civil Service Retirement System.

Members, FAIR's Board of Directors	Member-Organization
John W. Sturdivant	American Federation of Government Employees
Robert M. Beers	American Foreign Service Assn.
Moe Biller	American Postal Workers Union
Charles McDougall (sign by Walter John)	Epsilon Sigma Phi
George E. Ammon	Federal Executive and Professional Association
Frances Kaplan	Federally Employed Women
Eugene M. Barnes	Graphic Arts International Union

Members, FAIR's Board of Directors	Member-Organization
Rodney A. Bower	International Federation of Professional and Technical Engineers
[illegible]	International Printing and Graphic Communications Union
[illegible]	International Union of Operating Engineers
[illegible]	Military Sea Transport Union
[illegible]	National Association of Air Traffic Specialists
[illegible]	National Association of ASCS County Office Employees
[illegible]	National Association of Federal Veterinarians
Vincent R. Sombrotto	National Association of Letter Carriers
M. J. McTwomey	National Association of Postal Supervisors
[illegible]	National Association of Postmasters of the U.S.
L. J. Andolsek (by [illegible])	National Association of Retired Federal Employees
[illegible]	National Federation of Federal Employees
James G. Kirkan	National League of Postmasters
Wilbur S. Wood (by C.M.)	National Rural Letter Carriers Association
Vincent L. Connery	National Treasury Employees Union
Walter John	Organization of Professional Employees of the USDA
Gary W. Eads	Professional Air Traffic Controllers Organization
John J. Sweeney	Service Employees International Union
[illegible]	John E. Cosgrove, Chairman of FAIR

Adopted 11/24/82

ATTACHMENT II

Summary Comments
on the
National Commission on Social Security Reform
Options Paper

1. The National Commission on Social Security Reform unanimous agreement on the magnitude of the Social Security shortfalls -- $150-$200 billion shortterm (1983-1989) -- 1.82% of payroll tax long term (1982-2056) -- has established a basis for evaluating cost impact and the merit of alternative options to eliminate these deficits.

2. Mandatory coverage of public sector workers at the federal/postal and state/local levels is an option being consider by the National Commission on Social Security Reform. Recommendations are being sought to reduce the Social Security deficit with the least possible cost from the perspective of the individual employee and the taxpayer in the private sector.

3. Although coverage of new workers in the private sector would yield new net tax revenues to the Social Security system as well as the federal government, such extention of coverage to workers in the public sector does not create any new net tax revenues. Additional tax revenues flowing into the Social Security system from public sector employers and employees represent either increased payment for the government entities to the Social Security fund or diversion of contributions from existing government retirement systems.

4. The estimated added Social Security revenues of $9.9 billion from coverage of new federal/postal workers is offset by additional federal government payments. If the Social Security system were to be removed from the unified budget then these payments would be entered as federal budget outlays and no "apparent" savings could be shown.

5. Mandatory coverage under Social Security for public employees would require that existing government retirees' programs be integrated with Social Security. The Civil Service trust fund, which has been evaluated as financially sound and capable of making all payments for the next 100 years, would, instead, if mandatory coverage were adopted for all federal and postal employees, have its fund balance exhausted within a period of only two decades. Further, without supplemental funding beyond that provide by statue, the Civil Service Retirement System would be in deficit by the year 2525 in excess of $1 trillion.

6. Senator Ted Stevens of Alaska has introduced bill S.2905 that would provide integration for new Federal/Postal employees into the Social Security system with the necessary funding to continue the existing Civil Service Retirement System as a closed group plan. The federal government's funding of the new combined retirement system would exceed that of the existing Civil Service Retirement System by $63.2 billion between 1983-1989. The budgetary process is elusive and complex. This additional funding would not result in additional outlays, but most likely add to the national debt by $63.2 billion. Over the next 40 years, the increased funding, and expected added national debt, required by S.2905, would grow to almost 600 billion.

7. S.2905 proposes investment of future retirement trust funds for Federal/Postal employees in the private sector. New private sector investments would constitute

federal budget outlays. The recall of private sector investment into federal bonds would constitute federal budget revenues. This illustrates the complexity of seeking to interrelate Social Security and the Civil Service Retirement System.

8. Inclusion of new federal and postal hirees in Social Security will increase not decrease the magnitude of Social Security's long term revenue short fall.

The nature of any pay-as-you-go system produces cost levels that directly depend upon the difference between payroll tax revenues versus benefit payments. Therefore, coverage of new workers early in their careers provides a positive flow of revenues into the Social Security system. However, upon retirement, the benefit payments to the same workers will greatly exceed their previous tax payments. For instance, an average married worker who retired at 65 in 1980 can expect to recover his Social Security tax paymets, plus interest, in retirement benefits in about 18 months -- including the employer tax payment -- within 36 months.

9. The President's Pay Agent (comprised of three cabinet-level officials) reported to the President of the United States that federal general schedule workers pay rates were 18.5% behind comparability rates in the private sector as of March 1982. Further, the Office of Personal Management total compensation studies demostrate that total compensation of these workers (including all retirement benefits) fell 13.8% behind the private sector comparable levels. Additional funding cost for their retirement system generated by the recommendation for mandatory coverage under Social Security could well contribute to further erosion in pay and benefit levels.

10. FAIR urges rejection of extension of Social Security coverage to non-covered public employees. This study confirms and further documents that mandatory coverage of public sector workers in order to "solve" the Social Security shortterm and long term deficits is counter-productive, excessively expensive and contrary to the best interest of the Social Security system, American taxpayers, and public employees.

FUND FOR ASSURING AN INDEPENDENT RETIREMENT (FAIR)

COMMENTS ON THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM OPTIONS PAPER

December 8, 1982

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FAIR

FUND FOR ASSURING AN INDEPENDENT RETIREMENT

STATEMENT
TO
FINANCE COMMITTEE
UNITED STATES SENATE
BY
FUND FOR ASSURING AN INDEPENDENT RETIREMENT (FAIR)
FEBRUARY 24, 1983

FAIR, the Fund for Assuring an Independent Retirement appreciates this opportunity to submit its views to the Finance Committee on the financing problems of the Social Security system.

I am John E. Cosgrove, Chairman of the Board of Directors of FAIR. The twenty-five national-organizations (list attached) which compose our coalition, representing a majority of federal and postal employees and annuitants, have as a top priority protection of the Civil Service Retirement System, as an intergral part of the labor standards for federal/postal employees.

We are especially concerned with the proposals, including that of the National Commission on Social Security Reform, that public employees, specifically federal and postal employees hired on or after January 1, 1984, be mandatorily covered under the Social Security system.

First of all, we support, as do most Americans, the Social Security system. We believe that the short-term, cash flow problems that it is encountering can be solved by a variety of means available to the Congress. These might include use of general revenues, continuing interfund borrowing, taxing the employer's share based on total payroll, accelerating already enacted tax increases, or any of a number of other steps.

We are opposed to coverage of state and local public employees, on a mandatory basis, recognizing that there are constitutional questions involved and, so, truly "universal" coverage is unlikely. Certainly, state and local retirement systems which include coverage under the Social Security system should not be allowed to terminate, after they were initiated at the request of the employer government and the employees affected, solely on the unilateral action of the employer government unit.

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Since truly universal Social Security coverage, on a mandatory basis will not likely occur, the question becomes one of whether federal and postal employees should be required to be covered or whether new employees should continue to rely on the Civil Service Retirement System, which has served so well for 62 years.

In our considered judgement mandatory coverage of federal and postal employees would not be in the public interest or the interest of new workers proposed to be so covered or of present employees or annuitants.

The public interest is not served by adding additional workers to a Social Security system facing long-range financial problems. To take 7%, or any other percent, of the pay of federal and postal employees which they would otherwise pay into the Civil Service Retirement System, plus a like amount from agency matching contributions, and direct these amounts into the Social Security system would not produce any new revenues.

If there are no new entrants to the CSRS, and if present financing is continued, the balance in the CSR Fund, which is now $96 billion, will be reduced to zero in about 20 years. It will then be necessary to find additional revenues from some source -- presumably general revenues -- in order to pay the benefits promised to present employees and annuitants. The additional revenues needed will be at least $185 billion, increased to as much as $550 billion if inflation continues at an average of 5.5% a year.

This is why, in 1977, the deputy commissioner of Social Security testified before Congress that bringing public employees under Social Security would not solve Social Security financial problems or slow further increases in the Social Security tax.

The Social Security Administration has estimated that in 1985 additional revenues that could derive from extending Social Security to newly hired federal employees would be $0.7 billion (over ten years less than $12 billion). This compares with the additional Social Security revenues of $12.4 billion that could be realize, that year, from a 1% decrease in unemployment.

Simply reducing unemployment by one percentage point each year for the next three years would raise 556% more revenue for Social Security during the same period than would covering newly hired federal workers. To gain the $192 billion estimated as necessary for 1984-89, by the National Commission on Social Security Reform, to keep Social Security solvent, it is estimated that $12 billion could come from mandatory coverage of new federal/postal hires. Alternatively, if employers were required to pay Social Security taxes on total wages and salaries -- not just the first $35,700 per employee -- Social Security would realize $41 billion in the same time period, a greater revenue by $29 billion.

In sum, it is contrary to the public interest to mandate coverage of federal and postal workers under the Social Security system, since it would increase, the system's long-range burdens and is the least fruitful alternative available to strengthen, as we all want, the Social Security system.

Our second objection to the proposed mandate is on the grounds of its unfairness. While reportedly some claim that the Civil Service Retirement System is on a shaky financial basis, the facts are otherwise. Like the state of Texas or the city of Chicago, we know that the U.S. Government will continue to exist. Accordingly, unlike private sector retirement programs, there is not the compelling necessity for full advance funding. This has apparently been the conclusion of Congress in that, since the inauguration of the CSRS in 1920, appropriations have not always been regular or complete to pay the government's share into this trust fund -- that share being the amount anticipated to be required over and above employees' contributions. Federal/postal-employees contributions are, incidentally, based on the whole salary or wage rather than just a portion.

More recently Congress has been appropriating the interest on the government's liability. This partially accounts for the fact that the government payment is substantially higher than that of the employees. Nevertheless, despite the spotty record of the government's contribution, as employer, in 1981 the CSRS fund had a balance in excess of $84 billion -- $96 billion now -- and so the CSRS cannot be represented as having financial problems. Indeed projections indicated that, if the present laws are retained and followed, there will be no financing problems in that system for at least 100 years.

Given the ability of the CSRS to meet its obligations, to federal and postal employees, the issue remaining is solely one of equity.

In our judgement the federal government should continue to provide the good labor standards (largely through the retirement program) which have enabled it to both recruit and retain a very high caliber of federal employee. Federal workers have, on a non-partisan basis, continued the efficient operation of the peoples' business in times of war and peace, in depression, recession, and prosperity, during times of political crises and times of relative calm.

Starting with the Administration of our 8th president, the federal government has been able to, and, until recently, has in fact, maintained generally good labor standards, although this cannot be said of its pay policies. In fact, the intent of Congress that the pay of those in Civil Service be comparable to that of like positions in the private sector, in firms which are large if not as large as government, has not been served. Recently, this Congressional intent has been thwarted. For the present fiscal year the President's Pay Agent found that the average General Schedule employee would require an 18% pay increase to reach comparability because of the lag of federal pay in recent years. We entered this present calender year with the suggestion that only 4% would be contained in the President's budget.

We are now faced with a wage freeze, that is zero percent. Accordingly, while the pay is lacking, and this, of course, affects future annuitants' benefit levels adversely, the annuity remains the chief labor standard. We ask you to protect and preserve it.

It is asserted that federal and postal workers, with respect to Social Security, should not be in a position different from the private sector. In fact, the work situation is quite different. It is different economically in that those who work for the sovereign not have collective bargaining anything like that encouraged by law since 1935 for the private sector. While federal workers have faced threats of periodic "lock outs" when continuing resolutions are delayed, -- they do not have the right to withhold their labor, since a job action can be construed as a felony. Politically the federal and postal employee is also less able effectively to petition for grievance redress, because of the excessive limitations of the 1939 Hatch Act.

In these circumstances, the federal/postal employee is left to appeal to the sense of fairness of his/her elected representatives in Congress to maintain adequate labor standards -- and specifically the Civil Service Retirement System.

The role of semantics cannot be ignored. It is said that a federal annuitant who has also qualified for Social Security benefits is a "double dipper" or the beneficiary of a "windfall". Here we ask only for rights available to any other citizen. If we qualify under the law for the benefit, we should receive the benefit.

These annuities, averaging little over $1,000 a month, are, for many, <u>the</u> retirement income, not a floor or supplement. These annuitants had better have some other income, from private sector employment or otherwise. The average survivor of an annuitant receives about half the benefit of an annuitant.

The Commission expressed the belief that, if Social Security coverage were mandated for new federal/postal employees, clearly an obligation would exist to devise a "supplemental" retirement program. However, the Commission declined to indentify what, how much, when or by whom such a program would be worked out. Evidently, it could not be devised and put into effect by the end of this calendar year. No "overnight special" concoction could provide this. Accordingly, the new hires, after that time, would have no annuity program as do private sector employees (where, incidentally, 80 percent of the major programs supplementing Social Security are not-contributory) but could look forward with any degree or certainty only to whatever they would receive from Social Security.

The CSRS annuity is one based entirely on the employer-employee relationship. It is a condition of employment -- a labor standard. The Social Security system is an income floor. These two systems are different, not incompatible and both vital to the welfare of this country. We ask the Committee and the Senate to share our faith that America will again, by growing, be wholly able, willing and ready to meet the obligation which it has pledged to meet. We trust that this moral compact with present and retired employees, and this inducement in recruiting and retention of new employees, will be protected.

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SOCIAL SECURITY STATEMENT

The food distribution industry is one of the most labor intensive industries in the United States with well over two million employees. We are burdened with one of industry's highest effective tax rates, estimated industry-wide at approximately 37% or more in 1981 with many of our members paying near the full statutory rate. Moreover, we number among our customers the entire spectrum of the population - the aged, the working population, the disabled and the young. From an employer and employee, as well as a consumer and beneficiary perspective, the Food Marketing Institute is vitally concerned with the future integrity of the social security system, its funding and benefit levels.

The Food Marketing Institute (FMI) is a non-profit association that conducts programs in research, education and public affairs on behalf of its 1,100 members--food wholesalers and retailers and their customers. FMI's member companies operate over 17,000 retail food stores with a combined annual sales volume of $125 billion--half of all grocery sales in the United States. More than three-fourths of FMI's membership is comprised of independent supermarket operators or small regional firms.

We have examined with great care the recommendations of the National Commission on Social Security Reform. The scope and nature of the problems as outlined by the Commission demand immediate attention and prompt rational solution. The Commission is to be commended for their sustained effort to reach a bipartisan series of recommendations. We limit these comments to the short-range problems and recommendations contained in the Commission's report.

There is much about the package of recommendations which FMI finds very difficult to accept. We would strongly oppose on separate consideration some of the recommendations. The suggestion that the scheduled 1985 tax rate increase be moved up to 1984 will impose an additional payment on our industry and employees of over $200 million. Further, we find the failure of the Commission to address the structural deficiencies of the Social Security program, particularly in the area of automatically indexing COLA adjustments to the CPI, to be a significant disappointment.

Clearly, however, the need to guarantee that the payment of scheduled benefits by the Social Security Administration continues without interruption remains paramount. Therefore, we endorse the consensus package of the Commission and urge Congress to adopt it without any major revision. As is the case with all compromises, we remain unhappy with particulars of the program, but we are convinced that without this package, a reasonable, sound and prompt solution will be all but impossible. The national interest would not be served by allowing this to occur.

2/22/83

FEDERATION OF PROTESTANT WELFARE AGENCIES, INC.

FPWA

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Testimony of the

FEDERATION OF PROTESTANT WELFARE AGENCIES

with respect to the Report of the

National Commission on Social Security Reform

February 16, 1983

The Federation of Protestant Welfare Agencies, the only Federation of Protestant and nonsectarian human services agencies in the nation, is a planning, consulting and coordinating body of 275 member agencies in the New York metropolitan area. The Federation and its member agencies annually serve more than one million needful people of all ages, races and faiths.

The Federation has a longstanding interest in the Social Security system and welcomes this opportunity to present our views on Social Security and the recommendations put forth by the National Commission on Social Security Reform. We believe that the Social Security system is of crucial importance to millions of elderly Americans and other beneficiaries, as well as to those additional millions who will receive benefits in the future. Moreover, we hold that Social Security benefits are based on a relationship of trust between the government and the American people. It is of paramount importance that this trust be maintained. Consequently, the soundness of the system must be assured.

The Federation has a special concern for the less fortunate, and believes that any changes in the Social Security system should be based on the principle of giving priority to protecting the poor and the near-poor. It is precisely such individuals who are most dependent on Social Security benefits. Any effort to maintain the viability of the system must be premised on a recognition of this dependence.

It is for this reason that Federation, with one important exception, endorses the recommendations made by the National Commission on Social Security Reform. The recommendations ensure the survival of the Social Security system and insure that those most dependent on Social Security benefits can survive. We urge the Committee, in evaluating the Commission's proposals, to avoid making any changes which would impose burdens on those incapable of making additional sacrifices.

The Federation is particularly pleased with the Commission's proposal to bring newly hired Federal employees and the employees of not-for-profit organizations into the system. As advocates of universal Social Security for all Americans, we view this recommendation as an important step toward that goal. In addition, these new members will provide the Social Security system with needed revenue.

We have never endorsed the concept of taxing Social Security benefits. But we believe that if taxing benefits is necessary to maintain the soundness of the Social Security system, an approach should be developed which both takes into account the total income of a recipient and which protects beneficiaries with the lowest incomes. The Commission's recommendation for taxing the benefit of individual recipients with annual incomes of $20,000 or more, and of couples with incomes of $25,000 or more per year, fits both criteria. Again we urge the Committee, when reviewing this proposal, not to make any changes which require taxing the benefits of those unable to cope with a loss of income.

It is with this last point in mind that the Federaion would like to recommend an important and, we believe, humane change in the Commission's recommendation regarding the six-month delay in cost-of-living adjustments. The proposed delay is, in actuality, a reduction in benefits. The Commission, in recognition of this fact, has provided for the needs of the very poor with an increase in SSI benefits. This approach is laudatory but insufficient. Those with incomes just above the SSI eligibility level will suffer an income loss which will be extremely difficult to absorb. This Committee should fashion a mechanism to ensure that this "near-poor" population is protected from financial detriment.

Our final recommendation is not related to the Commission's recommendations. However, because Congress is contemplating so many changes in the Social Security system, we believe that this is an excellent time to make a much-needed additional modification. The Federation recommends that the composition of the Advisory Council on Social Security be altered to more fully reflect that of the general population. The Council presently lacks adequate representation from senior citizen and consumer groups and the public would benefit from their inclusion. Moreover, the Council needs to be more watchful and should advise more carefully on the prudent handling of Social Security funds, so as to maximize investment income coming into the system. Broadening the composition of the Council's membership would do much to effectuate that purpose.

In conclusion, we would like to make one final point. The Federation believes that Congress has a responsibility to insure the long-term solvency and stability of the Social Security system. The Commission has acknowledged that its proposals do not address this issue. It is unwise to allow the Social Security system merely to reel from crisis to crisis. Such a policy serves only to weaken public trust in the system and ultimately to undermine the public's belief in the ability of government to provide for their security.

The implementation of additional measures needed to preserve the Social Security system through the next century should be prefaced by broad public discussion, and should be phased in gradually, with adequate notice to all those affected. This process should commence as speedily as possible.

Thank you for the opportunity to present testimony.

Submitted by,

Joyce Phillips Austin

Joyce Phillips Austin
Executive Vice President

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AGE AND YOUTH IN ACTION
GRAY PANTHERS
PROJECT FUND

Thank you for the opportunity to testify today on the Recommendations of the National Commission on Social Security Reform.

I am Maggie Kuhn, founder and national convener of the Gray Panthers, a national activist intergenerational organization involving both old and young people.

For two years the Gray Panthers have given national priority to the Social Security system and how we can make it secure for all Americans. We have monitored the Commission at work, engaged in intensive study and analysis of the report, demonstrated publicly during Commission meetings to encourage the Commission to act justly and courageously.

Today we make this preliminary response to the report:

Some of the elements of the Commission's report are meritorious, but the "package" as a whole is unacceptable to us. The Commission's package places a heavy burden on those least able to afford it - as in the COLA cuts. It sets a dangerous precedent, by taxing the Social Security benefits while ingnoring other ways of raising revenues. It espouses universality of coverage which insures support, a good general concept, but would penalize workers for that universality. It does not address the central reason for the current predicament of Social Security - the massive increases in unemployment which are the direct result of President Reagan's disastrous economic and military program. Each percent increase in unemployment causes a loss of about 15 billion dollars over the 1983-89 period.

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We are cognizant of the immediate cash flow problem that Social Security will face when the monies from Interfund borrowing will run out. $17 billion was borrowed from the Disability and Health Trust Funds in 1982 to meet requirements until June 30, 1983. Whatever one's views of the "package" it is imperative that Congress enact emergency legislation to continue interfund borrowing as needed, to assure there will be no interruptions or delays in the issuing of Social Security checks to beneficiaries. This is a survival matter for millions and it transcends political differences and lack of concurrence about the long time financing.

We believe that the introduction and enactment of such emergency legislation should be the first order of business before Congress. We urge its passage as an alternative to the Commission's package.

Further, we join many others, including those within the Commission itself, in not accepting the Commission's figures of a $168 billion shortfall between now and 1989. However, we believe the following Gray Panther proposals are equitable and make up the $168 billion which has unfortunately been accepted as a basis for discussion:

a. Remove the cap which currently limits the amount of income that can be taxed.
   This would not increase taxes for people with annual income of less than $35,700. By extending the same tax on incomes above $35,700 the proposal would raise about $85 billion.
b. Credit Social Security for trust funds for military wage credits and uncashed Social Security checks.
   The Commission calculated this at $18 billion. We believe it should be larger because no account has been taken of inflation or interest.
c. Allow for interfund borrowing between the three Social Security trust funds.

d. Ban withdrawl from the system. This would yield at least $3 billion.

e. Bring forward the scheduled Social Security tax increase by one year and refund an equivalent amount through income tax. This is similar o the Commission's report which would raise $40 billion.

f. Provide for universal coverage without penalizing current and prospective workers. The Commission estimates that universal coverage would raise $20 billion. However, we believe that national receipts might be less if fair and equitable treatment provisions were set up to guard against penalizing new federal workers.

g. Provide fair Social Security taxing to the self-employed. The Commission's proposal would raise $18 billion. However, the proposal will hit low and middle income self-employed persons very hard, including farmers. We propose that the tax bases for self-employed workers be raised only for those earning more than $20,000 a year.

These proposals from the Gray Panthers would add up to 170 billion, addressing the revenue requirements through 1989, as mapped out by the Commission. We strongly urge that these measures be accompanied by a federal jobs program which is essential to restore and insure the health of the economy in general and the Social Security system in particular. This jobs program must be of such magnitude as to result in full employment. Full employment will develop sufficient revenues for Social Security and enable us to anticipate some reduction in Social Security tax rates. In our "pay as you go" system, Social Security's future depends on full employment.

The predicted problems for the Social Security system to occur around the year 2005 are based on forecasts of a reduced ratio of workers to retirees. These predictions are extrapolated from current trends. Yet the ever accelerating pace of change makes the only certainty in predicting the future, the certainty that change will occur.

Unemployment - a shortage of jobs, the exportation of jobs overseas at a million a year, not an overabundance of workers - has long been an American problem. Gray Panthers believe that with imagination and innovation there is both now and in the future, work to be done and workers to do it. Further, we believe that everyone who is able to work is entitled to satisfying and financially rewarding work. Old and young should not have to fight each other for jobs.

The attention of the Ways and Means Committee and the Congress should be directed to what is popularly termed "Jobs for Peace." Vast military expenditures and technical skills allocated for the Cruise Missile and the Pershing II, highly debatable forms of national defense, should be released to meet the enormous backlog of domestic needs for housing and public transportation, and investment in long-term peaceful improvements in our national security and quality of life for our American people. While millions of poor and elderly Americans live in squalor and uncounted homeless people live on the streets, the people in the Pentagon squander billions and risk the destruction of the earth in nuclear war.

We urge support for the Commission's recommendations for a package of benefits for women. We women are the survivors and have suffered many inequities and discriminations.

We also vigorously support the separation of the Social Security trust funds from the unified federal budget. The inclusion of the Social Security monies was a political expediency which should not be contenanced by our people or the Congress.

<u>Where We Stand</u>

Gray Panthers believe that Social Security is a contract between the

American people and their elected government to provide every citizen with the dignity of financial independence. It is based on the constitutional right to life, liberty, and the pursuit of happiness for all Americans including women, minorities, disabled, young, widowed and orphaned, as well as aged.

Gray Panthers believe that the deceptive statements made by President Reagan and others in his Administration have created fears that the system will collapse. These statements are based on faulty assumptions, and expose the Administration's hidden agenda to privatize and destroy the system. The massive advertising campaigns by banks, insurance companies, and the Federal government all support the belief that Social Security is a dying system, and IRAs and private pensions are being used to lure people and organizations away from the Social Security system and undermine its visability.

An alarming number of young and middle aged people are being persuaded that Social Security benefits will not be there for them when they need them. Many non-profit organizations are being pressured to withdraw from Social Security. Accelerating and dangerous divisions are arising between the old and the young.

Clearly public confidence must be restored, and further withdrawals must be stopped. Social Security can and must be guaranteed to all present and future recipients.

Gray Panthers urge the Social Security administration and members of Congress to undertake an aggressive campaign of public education to increase public understanding of the wide protection and benefits provided by the system and to restore public confidence in our Social Security.

Putting the Social Security System in Perspective

When the Social Security system was enacted into law in 1935, millions of older people had no savings or pensions. To conform to the American desire for independence, the system was funded solely by the payroll tax. As a result, Social Security is a pay-as-you-go entitlement program. During their active years workers pay into the fund. The money is then disbursed to current retirees. At the same time deductions made are credited to the worker's retirement account.

Although Social Security was intended to be a supplementary retirement income, it is most retirees' primary, and for many, only income. Many recipients are without pensions because their places of employment had no plans or because they lost their pension rights due to job changes. Others who always held low-paying jobs were unable to accumulate savings.

Since the system was begun it has been expanded. It now assists the orphaned children of workers, including funds for education to help them become productive members of society. It assists widows, making it possible for them to remain at home while they have young children. It provides the disabled with dollars lost through accident or illness. It makes it possible for the nation's elderly to end their lives with some semblance of dignity.

Gray Panthers believe that the American people do not wish to return to a system where any of these groups become the objects of public or private charity.

In conclusion, Gray Panthers recognize the awesome responsibility of the Congress in reviewing and approving the federal budget, particularly in the present political climate and world economic unrest. We respectfully call attention to alternative federal budget proposals projected by the Congressional Black Caucus on March 18, 1981 by Chairman Rep. Fauntleroy. We are also mindful of the alternative defense budget proposed by Rep. Ronald Dellums. Recent hearings in Rep. Dellums' Armed Services sub-committee considered other options for a Defense Budget. The Black Caucus proposals include significant and viable reductions in defense spending as well as increased allocations for housing, transportation, and education. They address the big backlog of public need which the Reagan budget ignores. Regretably the proposals of the Black Caucus have received minimal attention on the Hill and in the press. We urge your committee to consult with the Black Caucus and the Armed Services sub-committee without delay and give the American people as well as the Congress some options that are just and human.

If your Committee and other members of the Congress take leadership on these budget matters, there are coalitions of Americans who will support you. We have already succeeded in preventing implementation of even more detrimental proposals made by the Reagan administration. Yours is the power to lead!

PERMANENT SOLUTIONS TO SOCIAL SECURITY PROBLEMS

By Donald S. Grubbs, Jr., F.S.A.

Presented to

Committee on Finance

United States Senate

My name is Donald S. Grubbs, Jr. I am an actuary and am manager of the Washington Office of George B. Buck Consulting Actuaries, Inc. This testimony is my own and does not represent the views of my employer or any one except myself. It is presented in an effort to assist the Congress in the difficult task of finding permanent solutions to the problems of Social Security.

I support the Recommended Bi-Partisan Solution, not because I think it is the best possible solution, but because I think that no better solution stands a chance of enactment.

This testimony is limited to two problems not settled in the Bi-Partisan Solution, which Congress still needs to resolve. These are the following:

1. A fail-safe mechanism
2. The remainder of the long-term deficit

A Fail-Safe Mechanism

The Bi-Partisan Solution is based upon two estimates. The short-term deficit in calendar years 1983-89 was estimated as $150 to $200 billion. The long term deficit was estimated as 1.8 percent of payroll, though I understand that a more recent estimate by Social Security actuaries is 2.0 percent. Both the 1.8 percent and 2.0 percent long term estimates are almost certain to be wrong and there is also a good chance that the short term estimate is wrong.

I do not assert that these estimates are high or low, or that I have any better estimates. But I do assert that the items projected are subject to such great variability and uncertainty that it would be a chance occurrence if actual experience were to follow the projections, particularly in the long run. The National Commission has adopted the best estimates it can for its planning purposes. Such estimates are necessary and those adopted appear reasonable. But who was accurately estimating the 1983 deficits only 5 years ago? If we have learned anything from history, it is that economic projections are unreliable.

This unpredictability presents a dilemma. Almost as important as the actual financial problem of Social Security is the problem of public confidence. Young people don't believe they will ever receive a Social Security benefit, and the elderly are afraid their payments will stop. The Bi-Partisan Solution is a responsible step to solving the estimated deficit, but by itself it fails to provide the necessary assurance that benefits will be paid. Even if the Bi-Partisan Solution is enacted, an unexpected further increase in unemployment next year, for example, could produce new headlines proclaiming that the system is going "bankrupt", again destroying confidence in the system.

To help alleviate this problem the National Commission has recommended two standby solutions to be used if needed, interfund borrowing from the Hospital Insurance Trust from 1983 to 1987 and possible reduction of cost-of-living adjustments beginning in 1988. But neither of these solutions is guaranteed to be sufficient to meet possible deficits, so the "bankruptcy" bugaboo would remain. Therefore the National Commission recommended that some type of automatic fail-safe mechanism also be adopted, although it did not specify what the fail-safe mechanism should be.

An automatic fail-safe mechanism must be flexible enough to work in all circumstances and must provide an absolute guarantee that benefits will be paid, forever removing the specter of "bankruptcy". Of course Congress will retain the authority to make modifications in the benefits and taxes, but with an adequate fail-safe mechanism no one could ever charge that the trusts will run dry if Congress fails to act in time.

One possible fail-safe mechanism is to automatically reduce all benefits proportionately to the level that can be paid by the assets of the trust. But retired workers have average incomes only half those of active workers, and many live below the poverty line; they are the segment of society that can least afford any reductions. Such a provision would reintroduce an element of uncertainty that would undermine confidence in the system, even if the provision were never actually triggered.

A second possible fail-safe mechanism is an automatically triggered increase in the wage tax of whatever amount is needed. But changes in the tax rate take some lead time to administer and it may be difficult to predict in advance how much of an increase, if any, is needed. This might necessitate an overly conservative approach with larger tax increases than are really needed. In addition this could lead to abrupt and sudden changes in the tax rate.

A third possible fail-safe mechanism is automatic borrowing from general revenues to cover any deficit. But there may be no actual prospect that such borrowing would be repaid, so that this might result in permanent general revenue financing.

The best solution lies in a combination of the last two alternatives. The law should provide for automatic borrowing from general revenues to provide for any deficit. But if any such borrowing has not been repaid by September 30 in any year, the law should provide for an automatic increase in the wage tax effective on the following January 1, sufficient to amortize the remaining debt over 5 years.

Such an automatic fail-safe mechanism would absolutely guarantee that the trust funds will never run dry, that the system will not be converted into unlimited general revenue financing, and that any changes in the wage tax will be gradual and have adequate lead time.

If this solution is adopted, the Commission's two recommended standby solutions--borrowing from the HI Trust in 1983-87 and reduction of cost-of-living adjustments after 1987—would no longer be essential. But regardless of whether there is borrowing from the Hospital Insurance Trust, I recommend merger of the OASI Trust and Disability Insurance Trust in order to permanently end the need to borrow between these two Trusts or readjust the allocation of contributions between these two, as well as to reduce accounting.

Solving the Remaining Long-Term Deficit

The National Commission has based its long term solution upon the assumption that the long-term deficit will be 1.80% of payroll. The Bi-Partisan Solution is expected to decrease the deficit by 1.22% of taxable wages, leaving 0.58% to be met by other solutions. Two alternative solutions have been offered, increasing the retirement age or increasing taxes.

Three earlier advisory bodies have recommended increasing the normal retirement age from 65 to 68, phasing in the three-year increase over a twelve year period beginning in either 1990 or 2000. Eight members of the National Commission have made a more modest suggestion of a one-year increase from 65 to 66 phased in over the 12-year period beginning with those who reach age 62 in 2000, with automatic adjustments thereafter to reflect further increases in life expectancy. The estimated savings is 0.65% of payroll. Five other Commissioners have suggested instead either an increase in the wage tax by 0.46% each for employees and employers beginning in 2010 or an equivalent general revenue contribution.

Which of these two approaches is preferable? To answer that question it is useful to reexamine the magnitude of the expected deficit. The Commission based its proposals on the IIB assumptions, one of the four alternative sets of assumptions used by the Social Security Administration. The magnitude of the surplus or the deficit under the four sets of assumptions* is as follows:

Assumptions	Projected Long-Term Surplus or Deficit as a Percent of Taxable Wages
I	+1.29%
IIA	-0.82%
IIB	-1.82% (adjusted to 1.80%)
III	-6.47%

The Bi-Partisan Solution would generate savings amounting to 1.22% of payroll. Under the IIB assumptions this leaves a deficit of 0.58% of payroll, and we have two proposals to solve that 0.58% deficit. But no one really knows which of the four sets of assumptions will come closer to the actual experience. If the optimistic I assumptions prove correct, there will be no long-term deficit and neither solution will be needed. If the moderately optimistic IIA assumptions prove correct, the deficit will be small and the other parts of the Bi-Partisan Solution will solve it, again without the need for either of these proposals. But if the III assumptions prove correct, even after the effects of the Bi-Partisan Solution, the remaining deficit will not be 0.58% of payroll but over 5%. In that case even applying both proposed solutions simultaneously would not be adequate. In that case, it might be necessary to increase the retirement age by three years to age 68 and to also increase the wage tax by 2.6% each for employees and employers in order to cover the deficit.

*As shown in Table 6 of Appendix K of the Report of the National Commission. The 1.82% shown in Table 6 was later adjusted to 1.80%.

As we get closer to the year 2000, the range of the estimates will narrow. I recommend that Congress plan to solve a projected deficit of 0.58% of payroll, but use an approach that can be adjusted to meet the actual need when it becomes better known. If we are going to have a potential increase in the retirement age, workers need to be told well in advance. Therefore I recommend that Congress enact in 1983 a 1-year increase in the normal retirement age beginning in the year 2000. But I recommend that this increase be phased in over only 4 years rather than the 12 years suggested by the 8 Commissioners. Then if it became apparent as we approach the year 2000 that the III assumptions were closer to being correct, Congress would be in a position to both increase the retirement age to 68 during the 12-year phase-in period and also to add whatever increases it finds necessary in the wage taxes or general revenue financing. On the other hand, if it became clear that experience was following the more optimistic I or IIA assumptions and no solution was needed, Congress could easily eliminate the scheduled increase in retirement age.

As an alternative to currently scheduling an increase in either the retirement age or the tax rates in the next century, Congress could defer such action until the exact need becomes more predictable. This would not leave the long-term problem unsolved, if Congress includes a suitable fail-safe mechanism in its 1983 legislation. To the extent that Congress takes no action later to modify the legislation it passes in 1983, any emerging deficit not otherwise solved by the 1983 legislation can be solved by its proposed fail-safe mechanism. Note that I have recommended that the fail-safe mechanism be a temporary loan from general revenues to be repaid by an increase in the wage taxes.

4418 Vacation Lane
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February 2, 1983

Honorable Robert J. Dole, Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Attention: Robert Lighthizer, Esquire, Chief Counsel

Dear Mr. Chairman:

In accordance with your Committee's announcement of hearings, dated January 18, 1983, I hereby submit to the Committee five (5) copies of this letter and the attached one-page summary of my objections to the proposal to levy an income tax on certain Social Security benefits (S. 1, 98th Cong., 1st Sess. (Jan.26, 1983), Sec 302, amending the Internal Revenue Code of 1954 by adding new Sec. 86).

I hereby request an opportunity to be heard by your Committee concerning the above-mentioned proposal, on February 22, 23, or 24, 1983.

In the event that my request to be heard is not granted, please have both this letter and the one-page attachment thereto included in the formal record of the hearings and the printed transcript thereof.

For the record, I wish to state that my letter and the attachment thereto are submitted to the Committee solely in my capacity as an individual taxpayer, and that I represent no clients, no other person, and no organization.

I am confident that millions of other taxpayers share my distaste for this iniquitous legislative proposal.

I also want to state for the record that I would be directly, adversely, and almost immediately affected were the subject proposal to be enacted:

(1) I will be eligible to receive Social Security benefits starting in April 1984, and

(2) My wife and I (who file jointly) presently suffer an adjusted gross income in excess of the proposed "base amount" of $25,000 for married couples (S. 1, Sec. 302, new I.R.C. Sec. 86), and presently intend neither to get divorced prior to the close of any taxable year (id., new I.R.C. Sec. 86(b)(3)(A)), nor to live apart from each other at all times during any taxable year (id., new I.R.C. Sec. 86(b)(3)(B)).

Respectfully submitted,

Richard L. Hirshberg

Richard L. Hirshberg

Attachment (one page, five (5) copies)

January 28, 1983

PROPOSED TAXATION OF SOCIAL SECURITY BENEFITS

The Report of the National Commission on Social Security Reform, issued January 15, 1983, asks the Congress to levy an income tax on 50% of all Social Security benefits received by anyone having an income of $20,000 or more per year ($25,000 for married couples).

Several compelling arguments against such a tax are presented in the Dissenting Views of Congressman Bill Archer, January 18, 1983. (See also, "Social Security's Non-Fix," editorial, Wall Street Journal, January 24, 1983.)

In addition to the views presented by Congressman Archer, this proposal (S. 1, Sec. 302, 1/25/83) is subject to the following objections:

(1) It is unfair and inequitable, because the affected taxpayers have contributed just as much to the retirement system as those lower-income persons whose benefits would be totally tax exempt. (Self-employed persons, in fact, have contributed 50% more than exempted employees contributed.)

(2) The proposal is a discriminatory, retroactive--and probably unconstitutional--confiscation of the vested property interests of affected taxpayers. Furthermore, it directly conflicts with the President's recent "important pledge to the American people:... no one's payments will be reduced"(State of the Union Message, January 25, 1983; emphasis added).

(3) The $20,000 income ceiling is arbitrary and unreasonable, making no allowance for cases where much more income might be required to maintain a decent standard of living (e.g., heavy medical expenses, support of aged parent).

(4) Contrary to the State of the Union Message's promise "to simplify the tax code," this provision would add new technicalities to the Internal Revenue Code. For example, in computing the $20,000 ceiling:

(a) Do you include tax-exempt municipal bond interest, the untaxed portion of capital gains, and "All Savers" interest?

(b) What about tax-deferred income, such as IRA and Keogh plan contributions and reinvested public utility company dividends?

(c) What about the untaxed portion of annuities?

(5) This proposal, if enacted, would be an open invitation to tax avoidance, tax evasion, and outright fraud. For example:

(a) A person subject to the $20,000 ceiling could set up a 10-year "Clifford Trust" for his children, with the tacit understanding that they would "kick back" portions of the income on request.

(b) A person could simply "give" income-producing property to his children, with the same understanding.

(c) A person could get the advantage of the exemption every other year simply by juggling income from one year to the next year.

(6) The proposal would give rise to many late-blooming divorces and extramarital living arrangements, in order to get the benefit of the full $40,000 ceiling for two persons (in lieu of $25,000 for married couples).

For the above reasons (and probably additional reasons will come out in the February hearings on S. 1, Sec. 302), the proposal to tax 50% of Social Security benefits appears to be fatally flawed.

It is respectfully submitted that this provision has no legitimate place in the Internal Revenue Code, and should not be enacted.

Richard L. Hirshberg

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TESTIMONY

To The

U.S. Senate Finance Committee

on The Recommendations of The
National Commission on Social Security Reform

by

Isabella Shapiro

of the Caring Community Senior Center

On Behalf of The

JOINT PUBLIC AFFAIRS COMMITTEE FOR OLDER ADULTS (JPAC)

JPAC is sponsored by the Jewish Association for Services for the Aged
an affiliate of Federation of Jewish Philanthropies of Greater New York

February 22, 1983

Mr. Chairman, and members of the Senate Finance Committee, thank you for this opportunity to testify before you today. My name is Isabella Shapiro. I am a representative of the Joint Public Affairs Committee (JPAC) for Older Adults from Caring Community Senior Center. JPAC is a social action coalition comprised of over 100 senior centers throughout metropolitan New York. It is sponsored by the Jewish Association for Services for the Aged, a member of Federation of Jewish Philanthropies of New York, and many other senior groups. I speak on behalf of the many thousands of senior citizens active in JPAC who could not have the opportunity to appear before you.

Social Security is the single most important concern of all older Americans. It is the major source of income for at least 2/3 of America's elderly, many of whom are living at or near the poverty level. As the recipients of Social Security benefits we feel that the opinions of retired persons should be foremost when changes in the system are being considered. I express our disappointment that today represents the first opportunity that senior citizens have had in shaping the future of the Social Security system. We only hope our words today will carry some weight and do not come too late.

Social Security and its recipients have been victimized. Throughout this year's battle over financing Social Security, the media has perpetuated a negative image of Social Security in particular and the elderly in general. We have been blamed for almost every ailment that plagues this country's economy - unemployment, inflation and the huge federal budget deficit. Efforts must be made to put an end to this assault by restoring confidence in Social Security and dignity to America's elderly.

Threats of the system's bankruptcy continue to loom overhead as we are warned not to undermine the Social Security compromise package. "If this package collapses there will be no Social Security checks in July" many Congressmen have claimed. You have scared many older Americans irreparably, so that they might silently accept inequitable sacrifice when alternatives are available. We have already been forced to sacrifice when Congress eliminated minimum benefits for future retirees, and cut student and death benefits. I personally am receiving reduced benefits because of legislation enacted in 1977 which lowered benefits for those born between 1917 and 1921.

We appreciate this great effort toward bi-partisanship and understand the difficulty in reaching accord on this difficult issue. However, we feel as older citizens that we cannot tolerate further sacrifices in order to negotiate a compromise.

Senior citizens more than any other interest group applaud the Commission's hard work in its attempts to assure the solvency of the Social Security system. We applaud the Commission's recommendation to Congress not to alter the fundamental structure of the Social Security program or to undermine its fundamental principles. We applaud their outright rejection of proposals to make Social Security voluntary. We are glad to see beginning attempts to address the inequities against older women, although we would like to see them developed further. We support the notion of universal coverage.

We are, however, adamantly opposed to a six-month delay in the Social Security cost of living adjustment (COLA), as proposed by the Commission. Any delay in COLA is a reduction in benefits. Social Security is the major source of income for two-thirds of America's elderly. For one out of four elderly individuals, Social Security represents 90 percent of their income. Eighteen percent of all elderly women are living below the poverty level. These lowest income Social Security recipients would be forced to bear the brunt of this cut since they rely on Social Security for 85-95 percent of their total income.

The average monthly benefit for an elderly widow is $375.00 per month - a modest sum, to say the least. The proposed 6-month COLA delay will cost the average recipient $20 per month. Over the period 1983-89 the average retiree would lose nearly $1,100, while the couple would lose $1,800. A small sacrifice say some, but not for those whose every penny is needed for food, rent, heat, costly prescription drugs and other necessary medical care.

The elimination of the July 1 Social Security COLA will coincide with the already scheduled increase in Medicare Part B co-insurance. And, if President Reagan's proposed changes in Medicare are enacted, these same elderly people will pay considerably more for medical care while their Social Security check does not increase. We urge Congress to defeat attempts to make changes in the Medicare program which will reduce benefits for recipients.

The cost of living increase was a provision under the Social Security Act to ensure some small safeguard against inflation for beneficiaries. To remove that safeguard now is regressive and is a denial of federal responsibility to the aged.

Many have questioned "why should the elderly be safeguarded against inflation when the rest of us are not?". I respond by reminding you that the items for which older people are forced to spend their income have a far higher inflation rate than all other consumer items - namely sky-rocketing medical and energy costs.

We are also opposed to the Commission's recommendations that one-half of the Social Security benefits of certain recipients be subject to federal income tax. This proposal represents a departure from the general principles of Social Security which excluded benefits from taxation. It also represents a means test, which is a fundamental change and one that will turn the system into a welfare program. The thresholds that are now recommended could easily be lowered in the future, thereby subjecting lower income beneficiaries to taxation. Setting taxation of benefits as a precedent is dangerous.

We express opposition to another proposal to base COLA on the lower of wages or prices if the OASDI Trust Fund ratio falls below 20% starting in 1988. Although provision was made to repay benefits when the Trust Fund ratio reaches 32%, we feel that this proposal is disastrous. It further erodes the safeguard against inflation that allows many senior citizens to survive.

We vehemently oppose consideration of recent recommendations to make structural changes in the Social Security system such as: raising the age of retirement and lowering the replacement rates to meet the potential future problem. These proposals are not part of the compromise and we see them as premature solutions to an undefinable problem. Estimating a Social Security financing problem that could emerge in the early part of the 21st century depends on too many factors which we cannot forecast acurately today. We strongly object to any structural changes in the Social Security system which would be based on a perceived problem that may not come to pass.

We give enormous credit to the bi-partisan Commission which showed us that stability and solvency of the system could be achieved with minor revisions. However, it is not the only package that could have been created. We remind you that the Commission's recommendations are not binding upon Congress but serve as a guideline for your legislative action. We feel that there is room for ammendment to this compromise without dooming it to collapse. We urge consideration of other alternatives. These include:

* granting permission to borrow from general revenues during periods of high unemployment;

* sale of special Social Security bonds guaranteed by the Federal government to raise additional revenue, and

* accelerating and increasing already scheduled payroll taxes coupled with a tax credit for the worker. All of these alternatives are far more equitable solutions and less damaging for workers and retirees than what the Commission is proposing.

We implore you to lead this nation to economic recovery by creating jobs, cutting the military budget, and restoring cuts in social programs.

You must take immediate actions to aid the economy by deferring or eliminating the scheduled July 1 tax cut that benefits corporate America. President Reagan's FY '84 budget includes a $30 billion increase in military expenditure at a time of double digit unemployment, while social programs continue to be scraped to the bone.

The elderly of this nation urge you to hold public hearings across the country to allow the 26 million senior citizens the opportunity to voice their concerns as I have today. We hope that you will support our efforts to preserve the integrity of the Social Security system by restoring confidence in the system and protecting benefits for current and future retirees.

I thank you for the privilege of testifying before you today.

Statement of: DR. MARTIN A. LARSON, Tax Policy Consultant, LIBERTY LOBBY
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202 - 546-5611

Submitted to: SENATE FINANCE SUBCOMMITTEE ON SOCIAL SECURITY

On: SOCIAL SECURITY FINANCING

February 25, 1983

Mr. Chairman and Members of the Committee:

I am Martin A. Larson, tax policy consultant for LIBERTY LOBBY. I appreciate this opportunity to submit for the record the views of our more than 30,000-member Board of Policy, as well as approximately a million readers of our weekly newspaper, The SPOTLIGHT.

I. INTRODUCTION
II. IN A STATE OF CRISIS
III. ERRONEOUS FINANCING
IV. SUGGESTED PALLIATIVES
V. DEFECTIONS FROM THE SYSTEM
VI. MY PROPOSAL
VII. HOW TO MEET OBLIGATIONS?
VIII. ADVANTAGES OF THE UNIVERSAL TRUST PLAN
IX. SUMMATION

I. INTRODUCTION

It is now about 12 years since I began saying that the Social Security (SS) system would collapse in due course unless drastic remedies were applied. I stated that although it had begun as a purring kitten, it would, in time, become a ravaging tiger; that the $30 a year maximum contribution of the employee would have to be increased progressively until it became an overwhelming burden; that it was wasteful and uneconomical; that it should be phased out as rapidly and equitably as possible without injury to those already, or about to be, retired.

I also offered a detailed and practical plan by which this could be accomplished; and it was my opinion that the problem was political rather than economic. I also ventured to say that the federal government had no constitutional authority to establish such a system in the first place.

My solution was then, and still is, that SS should be replaced by a Universal Trust Plan, in which every person earning an income will contribute to his own retirement account. In due course it would pay far more than SS can possibly hope to disburse.

We should note that the present system is not insurance in any true sense; it is neither funded nor vested; contributors have no equity on which they can borrow; in case of death, the obligation of the system to the person who dies also expires; in fact, there is no certain economic guarantee that future benefits can be paid in full.

II. IN A STATE OF CRISIS

That the system is in deep trouble is now generally admitted. It became bankrupt in October, 1982, when its reserves were exhausted and disbursements exceeded income by more than $1 billion a month. It was therefore forced to "borrow" from other funds, which will also soon be without money. This is in spite of the fact the system in 1982 collected a maximum of $4,343 from the employee and employer as a levy on a single median job. This amount is scheduled to increase to more than $6,000 in a few years, which, even so, may be insufficient. And remember that SS deficits, like all those incurred by the federal government, will add fuel to the raging fires of inflation, which is exercising such a devastating effect upon our people and economy.

III. ERRONEOUS FINANCING

Nothing seems more obvious to me than that the reserve trust funds held by federal agencies should have been, and should be, invested at current rates of interest in private enterprise, as they are, for example, in Singapore. Instead, all such funds have simply been appropriated and spent by the government, which has given the Agency federal securities in return, which have increased the national debt and thus placed an additional and perpetual burden upon the taxpayers of this country.

In 1950, about 15 contributed to the system for each recipient--whose benefits were very modest. As a result, the reserve surplus continued to increase. In 1970, this amounted to $41,454,000,000 (1971 <u>Statistical Abstract</u>, p. 283). In 1976, total federal trust funds were $142,535,000,000, of which $48,153,000,000 was in the SS division (1976 <u>SA</u> p. 235).

However, in the following years, this reserve dwindled rapidly because of increased payments and the growing ratio of recipients compared to contributors. In 1982, there were only three contributors for each recipient, and this development continues in the same direction.

Now, had these funds been invested at current rates of interest in private enterprise; and had the federal government not caused inflation by deficit spending, there would have been no need to increase the SS payments as they have been; the system would be in sound condition now; and the need for enormous increases in tax levies upon the labor force would not have resulted.

IV. SUGGESTED PALLIATIVES

The federal government has maneuvered itself into an unenviable position, resulting from the fact that political expediency has taken the place of statesmanship. Deficit spending has created an inflation destructive to a point where savings, and retirement income therefrom, have been drastically reduced in real value; thus, in order to help retirees survive, attempts have been made to make SS benefits keep pace with this depreciation of the currency; but this in no way compensates for the dreadful losses resulting from the reduced value of other intangibles. In order to meet the demands of millions of well-organized elders possessing enormous voting power, the payments have been progressively increased. But to do so, the amounts levied upon production have risen even more rapidly from a maximum of $60 per job in 1937-50 to $4,342 in 1982, with no end in sight to the possible inflationary spiral.

Obviously <u>something</u> must be done. Some suggest that eligible age of retirement be increased to 66 or even 68. But this merely means that from 25 to 30% of all those who pay into the system will die before the time to receive benefits arrives. What a terrible injustice it will be for a person to invest enough money to create a trust corpus of perhaps $1 million during a 40 to 45-year period and have nothing at all either for himself or his heirs! But this is what will happen to an untold number of Americans under this proposal.

Others propose that we delay cost-of-living increases. This, of course, will depress more millions into their morass of economic despondence. Still others hold that we must increase the base on which levies are made and the rate of exaction even more rapidly than had been intended; so that, before very long, it may be necessary for every median job to contribute perhaps $8,000 or even $10,000 to the system annually, if it is to pay its benefits and remain solvent.

It is now proposed that those retirees who have a certain amount of other income be taxed on their SS benefits; and this in spite of the fact that employee contributions to the system are not tax-deductible when made; and the fact that some, because of loopholes in the Internal Revenue Code, have multi-million dollar incomes wholly exempt from every kind of taxation.

V. DEFECTIONS FROM THE SYSTEM

We should note that there are millions not enrolled in the SS program. Passive income is not subject to SS contributions. Employees of churches and other charities, such as hospitals, are not enrolled unless they choose to be; several million federal employees have a far more generous retirement plan, largely funded by the general taxpayers; and employees of other governmental entities can leave the system by giving a two-year notice of intent to leave.

And they have been doing so, in droves. Los Angeles County, with 55,000 employees, has just defected--which will give them a far better form of retirement. Incidentally, this will save the taxpayers $36 million a year, since the county government will make no contribution to the private pension plan. There are, altogether, about 12.5 million state and local government employees in the U.S., of whom one-third are not enrolled in SS. Thus 3.1 million of these have their own form of private retirement. Of the remaining 9.4 million, many are withdrawing as rapidly as they can.

Incidentally, one of the proposals to shore up the system is to force future federal employees to enter it--a step they bitterly oppose for obvious reasons. It is also suggested that all other governmental employees be forced to enrol. True, this would help temporarily, but the ultimate results will be the reverse of what is necessary for a real solution. Instead of placing more people into the system and thus enormously increasing the future cost of operation, we should be reducing their number as rapidly as expedient so that some day the problem can be resolved in an equitable manner.

VI. MY PROPOSAL

My suggestions are quite simple. I believe the entire system should be phased out as soon as possible. Since the Individual and Keogh Retirement Accounts are steps in the right direction, I believe that every worker and self-employed person who will contribute between 5 and 10% of his income to an irrevocable and mandatory retirement plan until the age of 60 or 65 or until disability supervenes, should be excused from SS.

I believe that those who leave should be refunded their actual investment--plus that of their employers--on condition that such sums be placed in permanent trust accounts. Thus, all governmental obligation would terminate.

I believe that all self-employed persons should be encouraged to take this step as soon as convenient. Furthermore, all funds held in trust for federal employees should be invested in private enterprise; and the taxpayers in general should not be required to make any contribution for their benefit, in addition to the generous salaries they receive.

The fact that Singapore, for example, has been able to accomplish its economic miracle is due, at least in part, to the manner in which it handles the funds placed into the retirement system.

A number of prominent Americans have made proposals which, to some extent, are in consonance with my suggestions. Among these are Milton Friedman, and William Simon, former Secretary of the Treasury. A syndicated column by James Kilpatrick published Dec. 4, 1982 gave full support to a proposal virtually identical with mine, advanced by the National Taxpayers Legal Fund, a Washington-based organization, the gist of which is that the present system should be phased out over a period of 30 or 40 years; and that all workers and all self-employed be excused from SS on condition that they establish their own private programs similar to IRA or Keogh accounts.

VII. HOW TO MEET OBLIGATIONS?

Of course, one of the first questions that arises is this: How will payments be made to present and future retirees as contributions from the working force decline? I have said before, and I repeat, that the problem is more political than economic and that it can be solved without injustice to anyone.

First, as the private trust funds increase until they total perhaps 35 million with reserves of at least $1 trillion, a reasonable tax on this will help substantially to defray the cost of the declining system. At 8%, the sum just mentioned would produce $80 billion; a 25% tax on this--during the period of transition--would be $20 billion. As the total reserves increase to $3 trillion, the potential tax could be $60 billion.

The government could sell its power-grid for an estimated $200 billion--which would not only reduce federal deficits but also give the states a new and important base for real-estate taxation. Also, assuredly, the government could sell some of the 765 million acres of land which it withhold illegally from state ownership.

It could also save $100 billion a year by abolishing the Departments of Energy and Education and no longer making unnecessary grants of multiform variety. Furthermore, by abolishing some of its own taxes, it could reduce its cost of operation by perhaps $100 billion a year.

Finally, as a last resort, it could issue bonds, the repayment of which would be guaranteed by taxes imposed upon the growing private trust-fund revenues. In a few years, the payments to retirees would decline drastically, and in time, become negligible.

VIII. ADVANTAGES OF THE UNIVERSAL TRUST PLAN

The advantages of making the change are so obvious that it seems unnecessary to explain them in detail. But consider this: if a person pays only $125 a month at 6% into his own trust, this will grow in 40 years to $475,000. If he contributes $2,000 a year at 10% for 25 years, this $50,000 investment will grow to $234,962.25. If he invests this amount for the same number of years at 12%, the corpus of the trust will grow to $266,668. In 40 years, the sum will total no less than $1,534,183. Thus the magic power of interest will cause an investment of $80,000 to increase almost 20-fold.

A trust with a corpus of $250,000 at 8% will pay $2,389.15 a month for 15 years, or $1,929.35 for 25. One with a corpus of $1 million would, of course, pay four times these amounts. Please note again, that every median job in 1982 was required to contribute more than $4,300 to SS, an amount which, at 12% in 40 years, would have created a corpus well exceeding $3 million.

Another tremendous advantage would be the fact that employers--principally corporations and governmental agencies--would probably not make any contributions to their employees' retirement plans. This would reduce the cost of all goods and services substantially and save enormous amounts in taxation.

An even greater advantage would be that in due course these trust funds--all administered by qualified financial institutions--would make $1 trillion and then $3 trillion available at reasonable interest for the construction of homes, shopping centers, factories, office buildings, etc.--in fact everything needed for a superior civilization. The resulting prosperity would be phenomenal and would continue indefinitely. The interest would be credited to the accounts of millions of Americans who, in time, would retire in security and opulence; and the longer their lives, the more honored they would be. However, those who die before reaching the age of retirement will leave substantial bequests for their heirs and devisees. And, in passing, let us note that should a cure for cancer be found, and should the incidence of heart failure be much reduced, the resulting longevity would certainly spell utter ruin for SS.

However, it seems to me that by far the greatest advantage is the fact that the terrible burdens now placed upon producers--especially the young trying to raise families and pay for homes--would be removed completely. The elderly would no longer be looked upon with resentment because of their cost to the younger generations; all would become self-supporting, as they should be, and would be, in any equitable social and economic order.

IX. SUMMATION

Other important changes are called for in the structure and operation of the federal government, but the replacement of SS by a Universal Trust Plan would be of such benefit and magnitude as to constitute a constructive revolution of the highest order.

Of course, there will still be people in need of welfare, as there always have been, who have made no provision of their own care. However, a considerable portion of payments are even now funded by the general budget, so that this would entail no problem whatever. My own opinion is that all such benefits should be handled and financed by local governments and authorities, which could more easily eliminate waste and discrimination and accomplish the same objectives more equitably at far lower cost.

It has long been my opinion that the proposals advanced by the National Taxpayers Legal Fund and Liberty Lobby, whether we like them or not, must, to a greater or lesser degree, be adopted; for ultimately they will be demanded by the producers and will become an economic and political necessity. And the sooner we adopt such a plan, in part or in whole, the less will be the pain, the cost, and the difficulties involved.

Finally, let me say that my proposals are based upon the belief that the federal government must, and will, before too long, operate without deficits and the resulting inflation. Otherwise, the future of this nation is indeed terrifying to contemplate.

Thank you again for the opportunity to submit this statement for the record.

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Statement of the
Machinery and Allied Products Institute
to the
Senate Committee on Finance
on
The New Social Security Proposal: A
Compromise in Need of Change

February 23, 1983

MAPI is pleased to have this opportunity to express its views on the changes to the social security program made necessary by the current financing crisis.

The Role of the National Commission

Before taking up our principal statement, we want to express our appreciation and that of our member companies to the members of the National Commission on Social Security Reform. The Commission was charged with examining alternative means of avoiding a financial collapse of the social security system and recommending to the President and the Congress an appropriate course of action. So intractable was the subject matter of the Commission's inquiry that its studies consisted mainly of a search for the least undesirable from a whole range of generally undesirable alternatives--and this in a super-charged political atmosphere.

To have arrived at a recommendation under these circumstances is a tribute to the wisdom and restraint of the Commission's membership. Nor is our sense of gratitude diminished by the fact that we do not agree with the compromise in a number of important respects. It provides a most useful baseline, a starting point, for consideration by those ultimately responsible for the social security system--the members of the Congress. In this connection, it is interesting to note that a member of the Commission--Senator William L. Armstrong--has stated that "The most important single achievement of the Commission, under the patient, considerate, and scholarly leadership of Chairman Greenspan, has been to marshall a consensus for admitting the problem." Prior to adopting any specific recommendations, the Commission estimated a funding gap of $150 to $200 billion between now and the end of the decade.

As the congressional process goes forward, we trust that statesmanship will prevail over temporary political expediency. As you look around the world, it is not difficult to identify countries which overcommitted themselves to "benefit programs" and are searching for the political courage to cut back. We venture to suggest that the directions of the social security system, particularly as to benefits and heavy and growing reliance on taxes, may not be affordable in the U.S.

The Institute has written extensively about social security over the years/1 and like most observers holds some strong views about the strengths and weaknesses of our current system. We start with the premise that present political realities dictate a "compromise." To correct the current financing problem, some "give" has to be exacted in both the tax and benefit areas, and the "mix" must be reasonably evenhanded.

1/ See MAPI publications: "Social Security: How Should It Be Reshaped To Meet the Goals of the System and Federal Tax Policy?" (1980); "Social Security--The Financial Crisis in Perspective" (1977); and "Social Security and Private Pensions at the Crossroads: Crisis or Compromise" (1967).

Suggested Standards for a "Compromise Enactment"

Having expressed this view, we hasten to add that a compromise cannot be acceptable if it does not meet the following standards:

-- It should not alter the fundamental principles of the system.

-- It should "hold down the tax burden on the workers who support Social Security."/1

-- It should be fair.

-- It should not be a vehicle for "cleaning up" related problems which have no present financial implications.

-- It should not ignore the resolution and burdens of past attempts to solve financial crises.

It has been opined that Congress must accept the National Commission's package without any changes lest bipartisan support evaporate once tinkering commences. We, frankly, are convinced that some adjustments can be made. We feel strongly that a helter-skelter rush to pass a measure containing some misdirected provisions could have the unintended result of weakening the support of certain key sectors of the public and, in effect, do more long-run harm than working hard now to achieve a better compromise.

Our views below deal with three elements of the compromise which we believe to be most unfortunate: (1) taxing benefits of certain retirees; (2) including 401(k) plan reform in the compromise package; and (3) once again using employer and employee payroll taxes to reduce anticipated revenue shortfalls. Our position does not represent a full

1/ See President Reagan's Letter to Congressional Leaders Dated May 21, 1981 on "Social Security Trust Fund" and Statement by Richard S. Schweiker, Secretary of Health and Human Services, Before the Subcommittee on Social Security of the House Committee on Ways and Means, May 28, 1981.

endorsement of other elements of the package. For example, we see a disappointing degree of timidity in extending coverage to such a limited number of federal government employees; we are disturbed by the creep in dependence upon federal revenues for support of the system; we strongly urge the adoption of provisions to meet the longer range financial shortfall which appears to be increasing as new data is made public; and we believe it is timely to "cap" the automatic cost-of-living benefit escalator. But in keeping with a spirit of compromise, our comments are limited to those parts of the package we believe must be changed consonant with the standards noted above.

Fundamental Social Security Principles

As the Senate Finance Committee well knows, our current social security system is complex and hybrid providing a broad range of benefit programs for an equally widespread number of needs. Basic and perhaps central to the system is a retirement benefit program for the aged installed originally as a type of social insurance plan as contrasted with the well-known flat-benefit method advocated by Dr. Francis E. Townsend. This income retirement plan, in terms of results, is very much like a private retirement plan system except that benefits are weighted at the lower end of the wage and salary scale.

Much has been made over the years of maintaining the insurance concept, the earned-benefit approach if you prefer. Simply put, Congress through the years has resisted numerous efforts to weaken the relationship of benefits to earnings and the relationship of the right to benefits tied to performance of work.

Indeed, it is fair to state that in fending off repeated attempts to turn an "insurance" plan into a welfare scheme, Congress had adopted a number of programs to aid the elderly which in effect are outside the realm of social security. Two come quickly to mind: the Supplemental Security Income Program and the various special income tax rules for those aged 65 and over.

Obviously, the effort to maintain the system in the context of an insurance plan has been difficult in major part because it is operated on a pay-as-you-go basis and Congress reserves the right to change at any time the program, the benefits to be received, or the eligibility requirements. Thus, there is no property right--only, perhaps, a strong moral right. We strongly believe, however, that the program's credibility still turns on the belief that the plan is <u>not</u> a "welfare" program incorporating the usual means test.

Unfortunately, the Commission's compromise package attacks this insurance principle through the back door. We are referring specifically to the recommendation that 50 percent of OASDI benefits be considered as taxable income for income tax purposes <u>but only</u> for persons with adjusted gross income (before including OASDI benefits) of $20,000 if single and $25,000 if married. This change would introduce a means test modifying the "right" to benefits and clearly make a mockery of the earned-benefit theory and the insurance concept. Moreover, it is not fair.

We do not think this new proposal can be allowed to stand as it is if Congress intends to maintain the program as a social insurance system. The weaknesses of this recommendation include the following:

-- This reduction of benefits cannot but erode the faith of taxpayers in the system, particularly the higher paid ones and their employers who are experiencing the annual burden of rising taxes due to increases in the taxable wage base. Much has been said about not cutting promised benefits, yet that is what this change would accomplish first and foremost and in a discriminatory manner.

-- The proposal penalizes that portion of the system's beneficiaries who have indeed made social security a floor of protection, the intended role for this system.

-- The impact of the proposal will gradually, whether or not so intended, extend itself as the $20,000-$25,000 level includes more and more beneficiaries, while only 10 percent are estimated to be covered today.

We believe that a means test for benefits is absolutely untenable if the system is to continue to have credibility. Its impact would be very negative. For example, many employers build their pension plans on top of social security, i.e., integrate the two. With the proposed change, it is not possible to determine what level of benefit an employee may qualify for since some employees will be taxed and others will not.

While it would be fairer to tax one-half of every beneficiary's benefits, a better alternative is to find another income source. Retaining this provision under the excuse that it is part of an "unchangeable" package is in our view unacceptable.

Nongermane Provision

We recognize that Congress must maintain an ongoing oversight of social security to correct inequities and to eliminate technical errors. We do not think, however, that the compromise financial solution put forward by the Commission is a proper vehicle for such "housekeeping." Our prime concern here is the recommendation for social security coverage of payments under salary reduction plans./1 Specifically, Section 305 of S. 1, the Social Security Amendments of 1983, would include in taxable wages for purposes of OASDHI those salary reductions made under salary-reduction plans qualifying under Section 401(k) of the Internal Revenue Code.

We find the proposal to be both unreasonable and totally unnecessary as part of a bill to correct for fund shortfalls since it is alleged to have zero current revenue implications--only prospective ones.

This proposal is unreasonable in our view because it seems to represent a highly circuitous method to discourage the adoption of 401(k) plans. We do not believe Congress was in error in creating this opportunity to encourage saving and capital accumulation on a broad nondiscriminatory basis. To the extent that employees are less dependent on social security for retirement assistance the better off the system will be. While 401(k) plans will never be a "mandatory universal pension system," it makes no sense to attack them by indirection. If there is a concern, it should be addressed in appropriately called hearings.

We think from a technical standpoint this proposal has a host of flaws, including the following, among others:

-- It tries to distinguish between 401(k) plans and other similarly qualified cash and deferred arrangements by subjecting only the former to OASDHI taxes.

-- It ignores the extensive variation in the design of such plans which makes it difficult to determine what amount would be subject to the social security payroll taxes.

1/ Employees can put some 10 percent of their salaries into company profit-sharing or savings plans and for tax purposes the funds are treated similarly to a company contribution to a thrift plan.

-- It would create an administrative nightmare by establishing another definition of wages for payroll purposes.

The only apparent logic of pulling this provision into the financing reform measure is that some day if enough 401(k) plans are adopted, there could possibly be a revenue loss for the social security system. This "could be" scenario does not strike us as a relevant problem insofar as the compromise proposal is concerned. We urge the Committee to drop it and, if deemed necessary, reexamine the entire 401(k) provision in separate hearings.

An Unbalanced Reliance on Taxes

Six years ago, the social security system faced a similar financial crisis. To close the gap between social security outlays and receipts, Congress passed the largest peacetime tax increase in U.S. history, raising both tax rates and the earnings base to which the tax rates are applied. The debate surrounding that 1977 legislation was full of assurances that the measure, if enacted, would ensure the long-term stability of the system.

In a bite-the-bullet atmosphere, taxpayers, employees and employers were asked to help "right" the system. Indeed, the legislation adopted a schedule of social security tax rate increases over then-present law for 1979, 1981, 1982, 1985, 1986, and 1990. The law also specifically mandated increases in the taxable wage base in 1979, 1980, and 1981. Since 1981, of course, the automatic adjustment procedures have provided still further increases in the taxable wage base in both 1982 and 1983. The combined maximum tax for the employer and employee has steadily climbed from $1,930 in 1977 to $4,784 in 1983 and will rise to an estimated $8,676 in 1990 under the 1977 amendments.

It is estimated that the bipartisan package contains new sources of revenue and tax increases of about $100-$130 billion depending on whether the taxing of benefits is classified as a tax increase or a benefit reduction. Further, when the compromise and the 1977 amendments are added together, the result is $400 billion in new revenues and tax increases to close a gap of around $500 billion, or an 80-20 split.

Obviously, in anyone's view this is an unbalanced reliance on taxes, which places an excessive burden on the taxpayers, while at the same time immunizing retirees to a significant extent. The Finance Committee must recognize that there is a "limit" at some point. Yet, the last decade has shown Congress repeatedly turns to tax increases rather than benefit restraints. This is <u>not</u> a true compromise.

Many experts are currently indicating that the long-range deficit is much worse than the Commission has predicted and others point out that the prospective significant deficit in the hospital insurance fund is not even being addressed. Taxpayers can add two and two. <u>This "compromise" is a signal to employers and employees alike that future shortfalls will again be met largely by higher taxes</u>. This is a grim prospect, particularly for the younger worker. It is certainly likely to create another crisis of confidence, but one largely directed at Congress that apparently hasn't the will to:

-- restrain future benefits to lessen the prospective tax burden, or even

-- to distinguish between benefit restraint--such as that accomplished in the 1977 amendments--and benefit "take aways" which is not being advocated.

A further argument against excessive dependence upon the tax route is an economic one. Given the prospect for slow economic recovery and growth, this compromise will serve as a further drag on the economy. It is a bar to employment--it may even cause unemployment--and obviously is a disincentive for the consumer. In short, the case for further accelerating the scheduled payroll tax is not there. The 1977 changes have placed a heavy tax burden on both employers and employees. To achieve a balance now, it is appropriate to seek benefit restraint.

Conclusion

It seems obvious that the compromise being rushed through Congress is not likely to please anyone. Certainly the list of social security "no no's" which are being violated is long, e.g., using significant new general revenue financing, abandoning the earned-benefit concept, undermining efforts to save for retirement, and--again--significantly raising taxes. We sincerely believe this compromise does too much damage to basic principles to be acceptable without change.

Having stated this position, we offer the view that Congress should treat the package as a reasonable starting point which must be modified and fine-tuned to preserve the basic social security principles. The present framework does not have to be torn down to arrive at a better measure. The need is simply to recognize that the proposed compromise violates too many principles to be acceptable.

It will be recalled that after the 1977 amendments were passed, many predicted a taxpayer revolt. While no such revolt has materialized (although many of the tax increases in that law are not yet effective), it seems fair to conclude that with the passage of the present proposal the future of the system itself could well be put in doubt. When it is realized that Congress is relying on a payroll tax to promote a retirement plan which is taking on more and more of the characteristics of a welfare system, it is likely the taxpayer will entertain new doubts about the merits of the program.

In sum, the risk of upsetting a "fragile" compromise should be subordinate to that of undermining the entire system.

MOUNTAIN STATES
LEGAL FOUNDATION

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TESTIMONY
OPPOSING THE ELIMINATION
OF SOCIAL SECURITY TAX EXEMPTIONS
FOR NON-PROFIT ORGANIZATIONS

SENATE FINANCE COMMITTEE
FEBRUARY 22, 1983

I. INTEREST OF MOUNTAIN STATES LEGAL FOUNDATION

Mountain States Legal Foundation (MSLF) is a non-profit, membership, public interest law center dedicated to defending the principles embodied in the Constitution and reflected in the American system of government. Since its founding in 1977, MSLF has brought greater balance to the judicial process by advocating the values and concepts of individual freedom, private property rights, and the free enterprise system.

MSLF plays a vital public interest role by giving focus to important legal and policy issues. Its resources are committed to such efforts as defending individuals and the private sector from illegal and excessive governmental regulations; holding government accountable to the citizenry and the rule of law; insuring public access to and proper management of public lands; and protecting the constitutional rights of individuals.

The Foundation receives all of its support from voluntary contributions, and does not solicit or accept government funds. The Foundation is exempted from general federal taxation pursuant to 26 U.S.C. §501(c)(3), and from Social Security taxes under 42 U.S.C. §410(a)(8)(B). The National Commission on Social Security Reform (the Commission) has recommended that non- profit organizations and their employees be required to join the Social Security system effective January 1, 1984. In this written testimony, MSLF presents its opposition to this recommendation.

II. SUMMARY OF THE TESTIMONY

MSLF's opposition to the elimination of the non-profit exemption from Social Security taxes is fully consistent with its principled commitment to limited, responsible government and to the vitality of private sector alternatives. Imposition of Social Security taxes on non-profit organizations like MSLF will have a dramatic detrimental impact on their ability to provide important services in the public interest. Further, such a change is inconsistent with the goal of achieving long-range financial integrity and stability for the Social Security system.

This testimony contains two parts. First, the tremendous burden which Social Security taxes will impose on MSLF and its employees is illustrated. Second, public policy arguments against extension of Social Security taxes are presented. MSLF respectfully presents this testimony in the hope that it will demonstrate that the Commission's proposal, which could cause irreversible damage to nonprofit organizations and the vital public services they perform, should not be enacted.

III. IMPACT ON MSLF AND ITS EMPLOYEES

The financial impact of Social Security taxes on non-profit organizations will be enormous. The projected consequences of these new taxes on MSLF is illustrative of these burdens.

MSLF employs approximately 28 full-time and 10 part-time staff members. The Foundation has always recognized the value of health care and retirement benefits, and provides comprehensive coverage for full-time employees. Such employees are covered at no cost by excellent health, dental, disability, and retirement plans, and may further provide for their own retirement through tax shelter annuities. Pension coverage vests 20% each year and is fully vested after five years of employment, guaranteeing retirement payments equalling 66 3/4% per year of the average of the employee's five highest-earning years. This private pension plan provides superb benefits at <u>less than one-fourth the cost of Social Security</u>.

MSLF's Board of Directors carefully prepares its annual budget to guarantee that contributions are channelled to fulfil the goals and objectives of the Foundation. As a result, at least 70% of the Foundation's expenditures are applied to the legal activities for which MSLF was founded. The remaining funds are used for administrative, communications, and develop ment purposes. Based on its 1982-83 budget, MSLF can project that, if subjected to Social Security taxes, it would have to devote fully four percent of its budget to employer's share of Social Security taxes in 1984.*

Social Security taxes would also have a drastic impact on MSLF employees. Although the Commission recommends that employees be taxed at the rate of 7% of gross salary as of January 1, 1984, the effect on actual take-home pay will be significantly greater. Social Security taxes will reduce MSLF employees' paychecks by 8.4% to 9.2%. The tax burden for a typical employee, which presently reduces gross salary by 19%, will now claim over one-fourth of the gross salary.

Non-profit organizations and their employees will bear a disproportionate burden of the Commission's proposal. While governmental agencies newly subjected to Social Security taxes will be compelled to make contributions only for new employees, non-profit organizations will have to pay for all present and future employees. Further, existing non-profit employees are the only American employees to suffer such a dramatic decrease in net salaries. As described here, the financial impact on Mountain States Legal Foundation will be enormous, and could impair the ability of the Foundation to carry out its public interest activities. MSLF submits that similar disproportionate burdens will be borne by the other non-profit organizations and their 675,000 employees presently exempted from Social Security taxes, jeopardizing the important and beneficial roles they perform.

IV. PUBLIC POLICY CONSIDERATIONS

Imposition of Social Security taxes on presently exempt non-profit organizations will have serious adverse public policy consequences. Clearly, the overall costs and burdens of the change will outweigh the questionable benefits for the long-range viability of Social Security.

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*This figure does not take into account extra administrative costs and potential expenses of insulating employees from the impact of Social Security taxes on their takehome pay.

A. Burden to non-profit organizations

In difficult economic times, organizations dependent upon voluntary contributions face greater than usual difficulties in fulfilling public interest objectives. As illustrated in the preceding section, the potential financial impact of this proposal would be tremendous, and possibly fatal to some nonprofit organizations. Additionally, due to the impact of Social Security taxes on net salaries, it will be more difficult for such organizations to attract and retain highly qualified employees. It is impossible to quantify either the costs to society of cutbacks in or elimination of private sector nonprofit services, or to predict the potential costs of replacing such services through government. But such an outcome will necessarily result from the imposition of massive new tax burdens.

B. Discouragement of private sector pension alternatives

As noted, excellent private alternatives to Social Security are available at substantially lower costs. Government should encourage pursuit of such alternatives. In addition to reducing the burdens to employers, employees, and the Social Security system, private pension plans often make funds available for investment. Contraction of such alternatives could thus adversely impact the economy while increasing the drain on Social Security benefits.

C. Long-range burdens on Social Security

As the Wall Street Journal notes, the Commission's package "gets Social Security over short-term trouble [but] it doesn't ensure long-term solvency."* Inclusion of non-profit organizations in the system would produce an immediate infusion of funds. But it would also greatly expand the number of future claimants, adding to an already over-burdened pension system. MSLF submits that the proper response is to confine, rather than expand, this significant problem.

V. CONCLUSION

The financial difficulties facing Social Security are an important national concern. In fashioning solutions, however,

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*Merry, Social Security's Plan's Chances, Wall St. J., Feb. 4, 1983 at 23.

it is vital that the long-range benefits outweigh costs. Mountain States Legal Foundation, which provides important and unique public interest services, strenuously objects to the disproportionate burden the Commission proposes that it and other non-profit organizations bear. MSLF respectfully requests that this honorable Committee consider the consequences of this proposal, and to reject as ill-advised the proposal to eliminate the non-profit exemption to Social Security taxes.

Respectfully submitted,

MOUNTAIN STATES LEGAL FOUNDATION

WILLIAM H. MELLOR III
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CLINT BOLICK
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A Statement on

THE U.S. GOVERNMENT'S RESPONSIBILITIES FOR SOCIAL SECURITY AND OTHER CONTRIBUTORY FEDERAL PENSIONS

Michael S. March, Ph.D.*

An unprecedented effort to cut earned Federal pensions is being made by the Reagan administration and several groups of well-to-do business leaders who have long been lukewarm towards social insurance. The effort to reduce pensions to the low-income retired people is being carried out under the Reagan budget-cutting banner behind the screen of projected large Federal deficits. There is no hint for the American people in the publicity on this subject that the projected deficits are entirely the product of reckless and unproductive Reagan tax cuts in 1981,which dwarf the Social Security shortfall by at least 7 times, and the Reagan recession.

The Reagan administration, especially the OMB, is leading this effort. Abetting this attack is Wall Street financier Peter G. Peterson who has recruited 500 businessmen in a so-called Bipartisan Budget Appeal to cut $60 billion a year from Federal employee and social security pensions and other entitlement programs His particular targets are the "non-means-test" Federal retirement programs such as Social Security and Civil Service Retirement. He wants to slash their real worth by stopping or cutting indexing and exposing the elderly to the untender impacts of inflation. But he wants to keep the Reagan 10 percent income tax cut for July 1983 and the income tax indexing which begins in 1985 for the Cadillac-sized tax cuts which his rich cohorts got from Mr. Reagan. He also has not mentioned as an area for economy the tax-subsidized and non-means-tested pensions which corporate executives enjoy ($27 billion of tax subsidies in 1983, according to the Senate Budget Committee).

The recent National Commission on Social Security Reform has reaffirmed the long-standing principle that a continuing financially-assured Social Security system is necessary for the economic security of Americans. However, under pressure from Mr. Reagan's OMB Director Stockman, it recommended a 6-month delay in statutory cost-of-living adjustments (COLA) which will reduce the real pensions of the Social Security recipients by more than $1,000 on the average over the next 7 years -- $40 billion in total. Moreover, if the trust fund sinks below 20% of annual outlays beginning in 1988, the COLA for pensioners will be the lesser of the increase in the wage index or the consumer price index -- a lose/lose proposition for retirees. The Commission report does not outline a coherent set of principles for its actions. It essentially details a set of compromises untested against the historic rules of fairness, equity, and adequacy.

President Reagan has seized on the Commission's unfortunate willingness to renege on existing statutory COLAS for Social Security also to defer COLAS for Civil Service retirees for a whole year. His proposals raise in stark form the issue of whether the U.S. Government's statutory pension commitments to retired people have any reliability and whether current workers and retired people can have any confidence in Federal pension systems.

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*Prepared for Hearings on Social Security and Civil Service Retirement in the U. S. Senate, February, 1983. Dr. March served in the U. S. Bureau of the Budget and Office of Management and Budget from 1944-1973, specializing in the field of pensions. His history of U. S. Income Maintenance programs from 1776-1980 was published as a Government document in 1981. He is presently Professor of Public Affairs in the University of Colorado at Denver. The views are those of the author and not those of any organization with which he has worked.

Public Policy Issues - Analysis

The abrogation of statutory pension provisions for COLAS or other rights for people who met statutory criteria for retirement and were awarded pensions is a Government violation of its public trust and its responsibilities to defenseless elderly people. The proposed actions are economically unfair and socially cruel impositions on the weakest people in the society:

1. 1981 Reagan Tax Cuts Are At Fault -- The earned statutory rights of Federal pensioners are being crucified on the altar of Reaganomics. The Reagan administration used trumped up economic budget projections in 1981 to lobby through a huge economically unjustified and fiscally reckless tax cut. Now it is using assumptions slanted in the opposite direction to show big deficits and to scare the Congress into cutting earned pensions as well as other entitlement programs. Since early 1981 pension cuts were always buried in the unidentified portion of OMB's projected future-year savings -- a full disclosure was not made to the public to avoid public demonstrations.

The current budget-cutting materials by President Reagan, Treasury Secretary Regan, and OMB Director Stockman fail to identify the cause of the large projected deficits -- the 1981 Reagan tax cuts. The 1981 tax cuts, as fractionally offset by the 1982 tax "reforms," will total $1.5 trillion during 1983-1989 -- 7 to to 10 times the projected shortfall in Social Security funds for these years. Without these reductions in revenues the deficits would be tolerable and there would be adequate latitude for the offsetting Social Security tax increases necessary to fully fund statutory pensions. Why should public pensioners suffer because supply-side economics miscarried?

2. COLA Cuts Are Inequitable and Reagan Tax Cuts Are Unfair -- The common ingredient of practically all the pension cut plans is to cut, cap, or drop COLAS. The proponents of cuts in real pensions by deferring and manipulating formulas for COLAS are asking low-income pensioners to help pay for the fully indexed Reagan tax cuts for the rich and for corporations. Congressional Budget Office data shows that 85% of the net 1981 - 1982 Reagan tax cuts will benefit taxpaying households with incomes of $20,000 and over; and 50% will go to households with incomes over $40,000.

Indeed, 1.2% of the households with incomes over $80,000 -- in which Mr. Peterson's cohorts would be found -- will receive 17% of the tax cut benefits -- averaging more than $20,000 annually per household by 1985. Bureau of Census data for 1979 show that 85% of the elderly people had total incomes of less than $10,000 per year, of which the primary source was Social Security. Only about 5% had incomes of over $15,000. People over age 65 had median incomes only about 40% of the incomes in the age 45-54 group in 1979. Is it fair for income to be redistributed by public policy from the low-income people to the rich as the Reagan administration is proposing?

3. Public Pensions Are Earned Rights and Are Needed by Retirees -- "Takeaways" of awarded Social Security and Civil Service Retirement pension rights by changing the statutes under which workers have retired and have been awarded annuities is a violation of a solemn public trust to the workers who have contributed for years to the pension trust funds.

The U.S. Civil Service Retirement system enacted in 1920, provides the deferred portion of career compensation for Civil Service employees. These pensions average about $1,000 a month for retired workers and $450 for survivors. Social Security, likewise, has been presented to the public by Democratic and

Republican Presidents and Congresses as the people's assurance of a basic income in old age or in the event of total disability or death of the breadwinner. Monthly Social Security annuities now average about $400 for single retirees and $700 for couples.

What confidence can U.S. civil servants and workers under Social Security have in these systems if the government reneges on its statutory promises to pay benefits pursuant to the terms of the laws under which workers have retired in the belief that they could trust the Government? In the past the Congress commonly "saved" the rights of people on the rolls, and particularly, so for contributory pensions such as Civil Service Retirement.

4. Trust Funds Were Established to Insure Payment of Earned Pensions -- In recognition of the essentially contractual nature of U.S. pensions it has been national policy, established by Republican and Democratic Presidents and Congresses starting in 1920, that the contributory Civil Service Retirement and Social Security retirement systems should be funded on a continuing long-range basis through trust funds which assure payment of the statutory pensions -- thereby sheltering these systems from the short-term fiscal viccisitudes of the General Fund Federal budget. Indeed, during President Roosevelt's administration the Economy Act of 1933 did not reduce Civil Service retirement pensions because they were contributory and obligatory payments from trust funds. In the decades since then, until the last few years, these earned pensions have been treated as "fixed commitments" and have not been tampered with.

Moreover, these trust fund plans were not included in the Federal Budget totals until fiscal year 1969. Since then new policymakers, unfamilar with the early history and the obligatory nature of pension commitments, have treated them as though they could be cut at will in the annual budget process. The Reagan administration has contributed to the confusion by lumping earned Social Security and Civil Service Retirement pensions into a single category of "entitlement" programs along with "means-tested" public assistance, food stamps, and veterans' non-service-connected pensions. This pejorative grouping has presented the contributory, earned pensions in an unfair and improper light.

A sharp distinction must be made between earned, contributory pensions and the general fund needs tested programs. The earned pensions are in essence contractual payments based on earned eligiblity; the needs test programs are public gratuities.

5. COLA Provisions Are a Necessary and Key Part of the Retirement "Contract" -- Protection of people with modest, basic public pensions against the ravages of inflation is economically essential -- and is part of the Government's retirement commitment on which workers have staked their decisions to retire in the belief that they could rely on the Government's statutory commitments. Periodic cost-of-living adjustments to maintain the real value of annuities were enacted in 1962 for Civil Service retirees (CSR) and in 1972 for those on Social Security (SS).

At retirement workers typically take cuts from prior pay levels of more than half under CSR and even more under Social Security. In 1979 the incomes from all sources of persons age 65 and over, were only about 40% of those in ages 45-54 (U.S. Statistical Abstract, 1981, p. 444). It would be deplorable public policy to force elderly people to incur even further reductions in their standard of living due to inflation. A 5% inflation rate would cut the real value of a pension by nearly 48% in 10 years; a 10% rate by more than 60%. In this inflationary environment the COLA is the most important right Federal pensioners have beyond and their right to receive a pension. In the present inflationary era to cut or defer COLAS is to cut the real pensions of retirees. To say that dollar benefits are not being reduced while denying proper COLAS is a sly misrepresentation of the real effect of COLA cuts.

6. Reagan Administration Pension Policies Create Fear and Concern -- President Reagan and his team have repeatedly violated their promises to pensioners and are not being fair to elderly pensioners now on the rolls who have no practicable way to enhance their incomes.

The 1980 Republican platform lulled the Older Americans into voting for Mr. Reagan with statements such as "Inflation is called 'the cruelest tax'....It strikes most cruelly at the elderly....Inflation has robbed our elderly of dignity and security....Social Security is one of this nation's most vital commitments to our senior citizens. We commit the Republican Party to first save, and then strengthen, this fundamental contract between our government and its productive citizens." None of these statements even hinted that Social Security pensions and rights would be "saved" by cutting benefits.

But when Mr. Reagan became President he took repeated actions to make massive and unprecedented cutbacks in social security rights and to force retirees to bear the "cruelest tax" of inflation by denying ths COLAS due them under the law. In 1981 he proposed elimination of the Social Security minimum pension and also multi-billion-dollar curtailments in retirement eligiblity. In 1982 he endorsed a Senate Budget Committee plan for a $40 billion reduction in Social Security pensions over 3 years. When all these proposals were rebuffed he led in creation of the National Social Security Reform Commission, which was manipulated by OMB Director Stockman into recommending a 6-month deferral of COLA which would cost the elderly $40 billion by 1989, plus other important cutbacks in earned social security rights.

Meantime, President Reagan has repeatedly told the elderly that their Social Security pensions would not be cut. In late 1981 he went before the White House Conference on Aging and stated "We will not betray those entitled to Social Security benefits...." In his State of the Union message on January 25, 1983 he endorsed the recommendations of the Social Security Commission and stated that under this plan "the integrity of the Social Security system will be preserved -- and no one's payments will be reduced." This is a deceptive statement which at its core misrepresents the real effect of the Reagan-endorsed plan, because what really counts is the real purchasing power of the Social Security checks, not their nominal dollar amounts. The Commission's plan, which he has endorsed, will reduce the real Social Security pensions by forcing annuitants to bear the "inflation tax" for 6-months, and thereby cut pension payments by $1,000 for the average pensioner over the next 7 years from what present law would provide, by taxing half the Social Security pensions of persons with higher other income, and by giving annutants in future years less than full COLAs if the trust fund falls below 20% of annual outlays. Such statements try to fool the elderly and will damage their well-being by leading them to think that their pensions are being preserved when actually the pensions are being cut because their statutory rights to full COLAS are being abrogated or some benefits are to be taxed for the first time.

The unfairness of the President's policies with respect to the elderly becomes more evident in the light of the President's unequivocal and repeatedly stated support for retention of the 1981 provision for indexing of income taxes for the rich and the administration's use of the real purchasing power criterion for calculating increases in the Pentagon's budget. If indexing is appropriate for the

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rich and for the armanents budget, is it not even more appropriate for pensions for the low income elderly? Moreover, should not the President at least tell the elderly the truth -- that he is proposing to cut the real value of their pensions by endorsing revisions in their exising statutory rights to full cost-of-living adjustments -- and also explain his position on why indexing of taxes for the rich should be retained while indexing of pensions for the elderly is being proposed for reduction.?

President Reagan has said publicly that his 1984 budget proposals are "fair." But he is asking low-income elderly to take cuts in real pensions, while handing out hundreds of billions in tax cuts for the rich. The Congress must make sure that the proposed policies are in truth fair on the basis of longstanding policies previously enacted by the Congress time after time on which the American people have come to depend in planning their economic security. The Reagan administration's proposed Social Security and Civil Service Retirement cutbacks in pension rights will destroy confidence in these systems and create fear and insecurity among the elderly by engendering great uncertainty. The Congress must show retirees and current workers that their pension rights are secure.

7. Proposals Severely Jeopardize Civil Service Retirement Pensions -- Among all the Federal pensioners, Civil Service retirees are the most endangered by the Reagan administration. President Reagan has utterly broken the promise he gave them in 1980 to support their twice-yearly COLAS, and having gotten away with it so far, is making recommendations which will destroy the Civil Service Retirement and Disability Retirement system as it has existed for 63 years. His actions and proposals are completely unfair to members of this system. This proposed denigration of the status of Civil Service employees, active and retired, poses the biggest threat to the career service since the Pendleton Act was approved by Republican President Arthur in 1883.

Retirees under the U.S. Civil Service Retirement (CSR) system, which covers members of the Congress, have the best grounded rights to their pensions among all groups of Federal pensioners. CSR pensions are an integral part of the Government's personnel policy. Their purpose is to promote the efficiency of the Federal career service. Pensions are the deferred portion of the compensation for career service. These annuities are geared directly to years of service and to high-3-year covered wages.

The CSR system has always required the highest employee contributions of any major system -- and, most unfairly, both these employee's contributions and the ensuing annuities (except for return of own non-interest-bearing contributions) are subject to the Federal income tax. Federal employment covered under this system has not been covered by Social Security, so CSR pensions for career employees fill both the basic income replacement function of OASDI and the staff retirement function filled by corporate retirement plans. CSR wage replacement ratios are in line with those of private employees who receive both Social Security and supplementary pensions. Civil servants who earned their pensions and retired under the statutorily prescribed eligiblity conditions have a legitimate right to cry "foul" when the President proposes to change the law to deny them the earned, cost-of-living adjusted pensions which they have every right to receive under present law. They are being punished because their trust funds are in the budget.

President Dwight D. Eisenhower, in a 1954 message regarding funding of the Civil Service Retirement system, assured Federal workers that their "earned" civil service retirement pensions were more secure than private pensions because the U.S. government would not go out of business.

> ...no such eventuality faces the employees of the Federal Government. The Retirement Act promises to make certain payments under specified conditions, and regardless of the size of the balance of the Retirement Fund at any particular time, these benefits will be paid because the promise to do so is backed by the Government. To assume otherwise is to call into question the full faith and credit of the United States Government.

President Reagan is blandly calling into question the full faith and credit of the Government by proposing that it not live up to its statutory COLA commitments. Ironically, the Federal Government has by law set standards for private pensions and created the Pension Guaranty Corporation to insure their payment. Yet it is proposing to renege on important provisions of its pensions for its own employees. In its zeal to cut taxes and budgets, the Reagan administration is acting irresponsibly. It has forgotten than pensions are a Government obligation to people who dedicated their lives to the Government.

President Reagan has not kept his word to Civil Service retirees. As Candidate for President, on October 3, 1980, he wrote the National Association of Retired Federal Employees that he did "not favor abandoning the...semi-annual indexing" of their Civil Service Retirement pensions. Just a few months later the President signed a bill to substitute once-a-year adjustments. Then in 1982 COLAS were put on a 13-month cycle -- and retirees under age 62 were given half-COLAS. Now, in the 1984 budget, the President is proposing a complete denial of COLAS in fiscal year 1984 -- plus unspecified restructuring of adjustments in future years and sharp changes in benefits for near retirees. His aim is to cut CSR expenditures by $16 billion over 5 years. These savings would come out of pensions for retired employees to a considerable extent. The human factor cannot be found in these proposals.

Pensions for current employees under the CSR system would be utterly devastated by President Reagan's 1984 budget proposals which include pay freezes coupled with pay cuts in the form of increased deductions for benefits. To raise revenues for the 1983 budget, current workers are required to contribute 1.3% of Social Security covered wages for Medicare benefits-- which already have been sharply cut and which would be further reduced under the 1984 budget proposals. They pay this tax now but will wait for Medicare until age 65. The President also proposes a 2% increase in CSR retirement deductions from 7% to 9% in 1984, plus a further 2% to a total of 11% in 1985. This would amount to an effective immediate out-of-pocket pay cut for Federal civil servants of more than 3% in 1984 -- in addition to the burden of ongoing inflation which might run from 4-6% per year. In effect, the President is proposing for the Civil Service an effective real pay cut on the order of 7 or 8% in fiscal 1984 plus 2% or more in 1985, depending on what decisions are made for that year. This is a sure way to destroy the morale of the Civil Service.

For these sacrifices the reward to workers would be sharply reduced retirement rights -- retirement phased over 10 years to age 65 instead of the long-standing regular retirement age of 62 or retirement on full pensions after 30 years of service at age 55 which was enacted during the 1960s. Finally, there would be no assurance of COLAS. This is a system of negative rewards for faithful service.

8. The Planless Coverage of New Federal Employees Under Social Security Could Destroy the Civil Service Retirement System -- The President has endorsed the recommendatins of the National Commission on Social Security that "all newly hired

civilian" Federal employees be covered under Social Security. (p. 2-7) With respect to the details on how this would be done the Commission report (p. 2-8) only contains a very brief statement:

> The National Commission believes that an independent supplemental retirement plan should be developed for the Federal new hires, which would be part of the Civil Service Retirement system (just as private employers have plans supplementing the OASDI program). It is important to note that present Federal employees will not be affected by this recommendation (and that the financing of their benefits over the long run will not be adversely affected).

There is obviously no coherent plan for the new supplementary CSR system. The Commission's proposal to cover all new civilian Federal hires under Social Security thus raises several sets of crucial problems:

(a) The Commission basically looked only at the financial problems of the Social Security system. Its report shows no evidence that it looked at the implications of its proposal for Federal personnel policy, its impact on the morale of civil servants and Government efficiency, nor at the benefit rights of "old" or "new" Civil Service employees. .

(b) While the Commission report states that "present Federal employees will not be affected by this recommendation (and that the financing of their benefits over the long run will not be adversely affected)" by this step of segregating new hires from present employees and retirees), these are mere words which imply intent. They are not accompanied by a specific plan to effectuate this intent.

For instance, a defined contribution plan along the line of the Stevens bill in the 97th Congress would seriously downgrade retirement protection of current employees as compared to present CSR benefits. Equally, current and future CSR retirees would be segregated into a terminating CSR system which would become dependent more and more on Federal appropriations as employees contributions dry up -- and hence be increasingly subject to budget cutting pressures resulting in curtailments of earned benefits.

An alternate plan for different formulas within one CSR system covering both "old" and "new" employees along the lines of the one recommended in 1954 by the statutorily-established Committee on Retirement Policy for Federal Personnel would provide a greater degree of continuity and funding for the CSR system (Senate Doc. No. 89, Part 3, 83rd Congress, 2nd Session, May 20, 1954). For workers with Social Security that Committee's report proposed a reduced supplementary staff pension formula within the CSR system. The two layers together yielded about the same level of benefits as had been provided previously under the CSR system alone.

A better way to solve the problem of Social Security coverage for Federal Civil Service personnel might be along the following lines:

(a) Keep all Federal civilian workers under the CSR system as at present.

(b) Allow employees with sufficient career service to elect retirement and survivorship benefits under CSR.

(c) For employees who do not vest under CSR or do not elect to take CSR, contributions equivalent to Social Security contributions would be transferred to the Social Security funds before refunding the employee's share of CSR deductions.

(d) Employees qualifying for a CSR annuity who also qualify for Social Security on the basis of a partial career under this system would have their Social Security pension reduced pro-rata to eliminate the windfall element from short service and the weighted formula in Social Security.

The Congress would be well advised to defer the coverage of Federal civilian employees under Social Security until an appropriate Commission can develop a sensible and fair coordination plan. Otherwise, there is likely to be a mess.

9. Federal Civilian Employees Are Disadvantaged Compared to Military Personnel -- The OMB's reported characterization of the CSR as an excessively liberal system is neither fair nor factually correct, even in comparison with good corporate systems. The most liberal and costly major Federal retirement "system" is for military personnel. Military personnel can retire on 50% of basic pay after 20 years at any age, e.g., as early as age 38 assuming entry into service at 18. After 30 years 75% of basic pay is provided at any age. Unlike CSR, military retirement is non-contributory and unfunded -- is entirely dependent on General Fund appropriations. In addition, military service is covered under Social Security, so at age 62 or age 65 Social Security retirement becomes available with no offset against military retirement or the tax free VA compensation. The wage replacement ratios from this dual coverage for military retirees far exceed those of Civil Service employees with comparable service.

While the Reagan administration is attempting to chop CSR pensions severely, no similar efforts to bring the military retirement costs under control are publicized, except for a one-year deferral of COLAs. Historically, military personnel have maintained that their military retirement "pay" was earned by service. This is, of course, true also for Civil Service employees, who in addition contribute 7% toward their retirement for a lesser package of pensions.

Conclusions and Proposed Principles

The two major contributory Federal pension systems -- Social Security and Civil Service Retirement -- face unprecedented, unwarranted, multi-billion-dollar cutbacks by the Reagan administration, especially on the COLAS. The growth of outlays from these systems reflects their long-forseen maturation and the impact of Government-created inflation. Inflation is the chief and cruelest enemy of pensioners. They are caught in the retirement trap from which there is no release short of demise.

While Social Security has a fund shortfall this is largely the result of the deep recession since 1981 due to the failure of "supply-side" economics to achieve the prosperity promised by the President. The Civil Service Retirement and Disability system under a 1969 law is now funded on a basis which stabilizes the growth of its unfunded accrued liability. The cash assets of the fund at the end of September 1982 were $96 billion.

The large projected overall Federal deficits which are being used by the Reagan administration as the excuse for pension cutbacks are not the fault of these pension systems. They are overwhelmingly the product of the administration's economic policies and its deliberate action in 1981 in pressing for huge reductions in Federal income and corporate taxes, which will total about $1.5 trillion through 1989 net of the 1982 tax increases. Sharp increases in Pentagon outlays under the President's $1.6 trillion initiative also add heavily to deficits. The obvious game plan of the administration has been to cut taxes in order to "cap" budget expenditures and then to force cuts in the social programs, including the earned pensions, while increasing defense outlays sharply.

The Reagan administration, with support of businessmen and interests such as Peter G. Peterson who are the chief beneficiaries of the fiscally irresponsible tax reductions enacted in 1981 -- the 25% income tax cut; the indexing of individual income taxes starting in 1985; and the gutting of the corporate tax -- are engaged in a heartless and irresponsible effort to get the Congress to renege on statutory rights for retirees. They are using the projected deficits as a camouflage for their effort to defer COLAS and to change other statutorily provided, earned pension rights for some 40 million Federal beneficiaries, the overwhelming majority of whom receive negligible or no benefits from the 1981 Reagan tax cut.

Under the net 1981-82 Reagan tax cuts, 1.1 million taxpayers with incomes of over $80,000 will receive an estimated $250 billion in tax cuts from 1982-89. This amounts to about $225,000 per taxpayer. Mr. Peterson wants to make this up by cutting pensions for people whose total annual pensions typically run only 1/5 to 1/2 of the size of the annual tax reduction benefits which these rich people will receive. However, the rich industrialists have gotten their tax cuts, but they have cut their capital investment, contrary to President Reagan's predictions in 1981.

The earned pension rights must be saved! America can not be "mended" by taking pension money from low-income elderly who are out of the economic mainstream to make up for enormous tax cuts for the rich and the multi-national corporations. Such action will cruelly impact on the elderly, some of whom are below and many are close to the poverty line. The rest have every right to their earned benefits, because neither Social Security nor Civil Service Retirement have ever been presented as means-tested programs.

These pensions are rights. It is up to the Congress to preserve and protect the payment of earned benefits fully in accordance with the statutory policies which Congresses of both parties have followed since the early 1930s. Reindustrialization and rearmament should not be undertaken on the backs of the elderly who have done their share to build this country and/or invested their lives in the Government service.

More specifically the following principles are suggested as appropriate guides for evaulating President Reagan's proposals regarding the contributory Social Security and Civil Service Retirement Systems:

I. Statutory Government Commitments For Earned, Contributory Pensions Must Be Paid in Full to Retired People -- Social Security and Civil Service Retirement pensions are earned rights based on service and contributions and funded by trust funds under duly-enacted U.S. statutes. The workers and families dependent on the systems have regarded statutory pensions as contracts backed by the full faith and credit of the Government -- as President Eisenhower officially stated to Congress and to Federal employess in 1954. The U.S. Government has created programs to set standards for and to financially guarantee private pensions. Surely it should honor its statutory pension commitments to its own former employees. For it to renege is irresponsible. It will destroy public confidence in the pension programs and in the word of the Government. The statutory provisions under which workers retired and were awarded Federal pensions should be "grandfathered" for them. The only exceptions should be clear error in the law or fraud.

II. Cost-of-Living Adjustments Are Vital for the Modest Public Pensions -- The canard that "a rising tide lifts all boats" is fallacious with respect to the economics of retired aged. Elderly retired people are no longer in the economic waters; they are high on a arid economic beach, for hardly any of them can go back to their earlier or equivalent positions. Moreover, in the current economy in which inflation has not been permanently conquered, the financial markets show existence of a fear that the tide of inflation will again run strong if the economy resurges. Even the recent 4% rate of inflation would be hurtful to elderly pensioners if they lost their cost-of-living adjustments for any significant period of time -- and inflation would be very damaging for all of them if inflation built up. The elderly depend on the pensions that they earned in prior years and the Government must exercise special care to protect the pension rights of the elderly. Their living standards were sharply reduced in most cases when they retired and they depend on cost-of-living adjustments to keep from sliding into lower and lower levels. Apart from the right to a pension itself, the COLA provisions under SS and CSR are the most important rights retirees have. It is unethical for the Government to hold out pension plans which include permanent COLA provisions and then to tamper with COLA and/or other provisions just because it prefers to cut taxes instead. Without a COLA, CSR retirees starting with an average $1,000 monthly pension would have a real purchasing power in 10 years of $558 with a 6% inflation and only $312 in 20 years.

III. Awarded Pensions Should Be Fully Honored and Any Changes in Pension Provisions Should Be Made Only With Adequately Deferred Effective Dates -- Given the intrinsically contractual nature of contributory, service-based pensions, the Government should as a controlling principle fully honor for the rest of their limited lives the commitments which it makes to retirees -- and it should not make commitments which it is not prepared to honor fully.

However, in multi-decade pension arrangements fundamental demographic and economic conditions may require structural pension changes in the pension plans for active, unretired workers. Such changes should, however, be made objectively on the basis of thoroughly evaluated and widely-publicized procedures -- and, most important of all, they should be made effective with a minimum of 10 years delay so workers and their families will have adequate time to change their life plans. Changes dreamed up by the OMB in the hurly-burly of a budget season to project a budget savings are likely to be damaging to the fundamental purpose of the pensions.

IV. Pensioners Should Not Be Misled By Being Told That Their Pensions Are Not Being Cut When COLA Deferments Are Cutting Their Real Pensions -- It is deception for policy makers to tell aged pensioners on TV or in their mailings to constituents that the administration is not cutting their pensions at the same time that it is preparing schemes to delay, cap, or cut the cost-of-living adjustments on their pensions. It is the real purchasing power of pension money that counts. If indexing of the budget for defense outlays and indexing of income taxes for the rich are supported by the President, he ought to be forthright enough to tell the elderly squarely that deferments of COLAS on pensions and other benefits for lower income people means that their real incomes will be reduced. They should also be told how much the reductions are.

Pensioners should be sheltered from inflation in inflationary times like these because most elderly have low or modest incomes. Median incomes of elderly persons over age 65 are only 40% of the incomes of people in the working years 45-54. Much misplaced effort has been devoted to criticizing the present COLA index, mostly in an effort to find a rationale to cut the budget.

The present BLS Consumer Price Index is the best available measure of the effect of inflation on the budgets of consumers. Indeed, the aged probably are shortchanged even on this basis because of lags in adjustments and because of their disproportionately large outlays for rapidly rising items such as medical care and fuel. The CPI basis for COLA adjustments should be retained until a special index for the elderly can be developed and adequately tested.

V. As Trustee of the Pension Trust Funds the Government Bears Responsibility For Financing Them Adequately -- The contributory Social Security and Civil Service Retirement systems are financed through trust funds to finance them on a stable, long-term basis as befits intergenerational programs. It was never intended by the Congress that these trust fund programs be subjected to budgetary cutbacks in the manner that has occurred since they were put in the unified budget in fiscal year 1969. The Social Security Reform Commission has proposed that Social Security be removed from the budget.

It is the responsibility of the President and the Congress to provide adequate taxes and contributions to finance the benefits committed by statute to the retired people and the current workers covered by these systems who expect to retire. It should be evident to the public that the Secretaries of the Treasury who served as Trustees of the Social Security trust funds in the years 1961 to 1979, and who now have lent their names to the Bipartism Budget Appeal -- Dillon, Fowler, Connally, Simon and Blumenthal -- failed to carry out their trusteeship responsibilities adequately when they were in office and let these funds go downhill in relation to rising outlays. Their current proposals for large reductions in earned benefits may explain their earlier weak performance -- a lack of sympathy with public pensions.

Historically, the U.S. Government has promised pensions but has not financed either the Social Security or the Civil Service Retirement systems adequately -- at least until 1969 for the CSR system. It therefore has responsiblity to raise payroll taxes for Social Security to fund benefits and/or to provide general fund aid to enable the system to pay them.

Social Security payroll taxes have become less regressive now that the covered wage base is indexed than they were in earlier years when the covered wage level was frozen at $4,800 for many years. However, the rates have increased and the tax is still levied on wages and salaries (which are declining as a share of total personal income) and the earnings of the self-employed. An equitable and economically sound step would be to broaden the Social Security tax base to include more kinds of personal income -- and to raise the covered income limits to include a higher proportion of the covered incomes in the taxable category, while perhaps adding another lower bend at the top of the benefit formula. One possibility would be to (a) cover all types of personal income except public transfer payments, (b) raise the taxable limit to cover 99% of the covered tax base, and (c) add an upper bend in the benefit formula to yield, say, 10% benefit on higher level average covered wages. Such a step would add substantially to the covered wage base to raise needed Social Security revenues by a type of flat-rate tax formula which might permit present tax rates to be frozen or even reduced. (See U.S. Statistical Abstract, 1981, p. 427 for composition of personal income.)

Present statutory funding arrangements are adequate for Civil Service Retirement to the extent that the unfunded liability is being stablized. It is unfair to Federal employees for the Reagan administration to try to shift the burden to the workers by raising their CSR payroll deductions by 57% in two years while cutting the retirement benefits they would earn.

VI. A Special Commission Should Be Created to Develop a Plan For Coordinating CSR and SS -- The cryptic recommendation by the Social Security Reform Commission that new Federal employees be put under Social Security leaves many unexplained questions before such action can be accepted.

What impact will such action have on incentives and rewards for career service in the Government? What will be the organizational location and of the supplementary CSR system and the configuration of the supplementary staff retirement formulas? Will the new supplementary staff pension plan be in the CSR system, as the Commission implies? How will the staff pensions be financed, e.g., in industry the employers finance most supplementary plans? What guarantees will be made and implemented to assure that retirees under CSR and current career employees who are left in the CSR system will receive full payment of earned pensions, including the very important cost-of-living adjustments? Will the Government fully fund the accrued CSR liablity? Should the civilian employees have their staff pensions reduced upon coverage under Social Security, e.g., the military personnel were given full military retirement pay plus full Social Security and have much higher pay replacement rations than CSR retirees? Will Members of Congress, law enforcement, Foreign Service Personnel, and Judges go under Social Security? Will the principle of the CSR defined benefits formula be kept?

Until such questions are answered fully and objectively by an expert and broadly representative Commission, Social Security coverage for civilian Federal employees poses serious risks for active employees and for their retired predecessors who depend on the full and fully guaranteed continuity of their earned retirement pay. The recommendations of the Reagan administration in its 1984 budget show that it puts reduction of CSR ahead of fairness and recognition of earned retirement rights. Such a posture is injurious to the Federal career service and to the people who have devoted their lives to the public service. It scapegoats them improperly and unfairly. They must fight for their rights and insist on full detailing of the terms of the staff pensions which are to accompany Social Security coverage if this is the policy course the Congress elects. Otherwise, CSR is likely to be destroyed and many fine public servants who devoted their lives to serving in the Government will be denied their due rights and will be hurt economically.

As discussed above in the analytic section, there are various possible models for coordinating SS and CSR plans. The Congress might well defer putting civil servants under SS until it has a firm plan before it. Such a plan should be presented to the Legislative Committees which now have cognizance over the CSR system. The Congress should, by statutory provision, similar to its 1971 act creating the Railroad Retirement Commission, form a special, representative commission to make an expert study and develop a sound plan which will adequately serve the needs of the career service and fully protect the rights of CSR retirees and current and future active employees.

VII. The Proposed Pension Cuts Result From the President's Overt Policies and They Should Be Reversed by the Congress -- From a budgetary standpoint there is every reason for the Congress to disregard the President's cry of "wolf" about the large projected budget deficits as his reason for axing COLA's for Social Security and Civil Service Retirement pensioners. President Reagan entirely caused these deficits by his deficient economic policies and his own calculated policies of cutting taxes in the net by some $1.5 trillion for the years 1982-1989 while simultaneously increasing proposed defense outlays by $1.3 trillion (over the 1980 base) during this same period. He is the first President in this century (indeed, probably in our history) who has launched a major rearmaments program while simultaneously cutting taxes. The President's allocation of $2.8 trillion for the years 1981-1989 to tax cuts and increase defense outlays is questionable national policy. This sum far exceeds the sum of projected "structural" deficits for these years.

The President's tax cuts overwhelmingly benefit the rich -- while his proposed pension and other social program cuts hit the low-income and moderate income people. Yet, while sending up a 1984 budget to cut pensions for the ordinary people, he announced to a business group that his personal desire is to eliminate the corporate tax completely. He is utterly unfair to the poor and the middle class. His not-so-hidden goal is to reverse the social progress of the last 40 years by destroying the Government's ability-to-pay revenue raising system while decimating the social programs. These policies have not proved conducive to economic recovery. The rich have not used their tax savings to spur the promised reindustrialization while the poor people have had their purchasing power cut and are threatened with further unconscionable reductions which reduce effective consumer demand.

The Congress, however, can still readily correct several of the major errors of the 1981 Economic Recovery Tax Act. It can cancel the 10% individual income tax reduction scheduled for July 1, 1983 and also the scheduled indexing of the personal income tax starting in 1985. It can take back some of the wantonly excessive depreciation allowances which decimated the corporate income tax. It can also reduce the President's proposed inflationary, excessive increases in defense expenditures. Such actions would sharply reduce the projected deficits in future years -- and obviate the President's proposals for taxing the elderly by the device of denying COLAS on Social Security and Civil Service Retirement pensions and reducing their Medicare protection. There would also be adequate room for adding necessary Social Security taxes to cure the shortfall in this system.

By these means the Congress can preserve the earned, statutory pension rights of the elderly -- along with the other jeopardized social programs which benefit the poor and the lower middle class. In short, the sacrifices which President Reagan wants to impose on the elderly and other low-income groups through his severe 1984 budget cuts are entirely the product of his calculated policies, are unnecessary, are socially destructive, and are counterproductive to economic recovery.

VIII Contractual Rights -- The essence of retirement systems is confidence that the earned benefits provided by the plan will be paid in full to retired workers. The maintenance of confidence must be guarded zealously, especially in trust fund plans such as Social Security which has only a contingency reserve and the Civil Service Retirement system which the U.S. Government has not fully funded.

The surest way to destroy confidence in these fundamental social compacts to provide earned pensions for the elderly is to allow the Reagan administration to succeed in its attempts to cut these programs as much as it can get away with cutting them through its unremitting efforts, e.g., to defer and reduce COLAS. Once precedents for significant cuts are set, there will be no stopping more cuts. After all, Mr. Reagan has in the past shown his disregard for the sanctity of the Social Security compact by suggesting that Social Security be made voluntary -- which, of course, would destroy the system of social insurance against the risks which this system insures. His pronouncements in past years show that he is prepared, if the opportunity presents itself, to abrogate Social Security commitments in a callous breach of faith. His 1984 Budget proposals would devastate the Civil Service Retirement system.

The President's repeated statements to the elderly in the last 2 years that he is not going to cut their "present benefits" while he is preparing and endorsing proposals to cut their real benefits by deferring or capping COLAS is indicative of willingness to use the power of the Presidental communications system to mislead and confuse the elderly about the administration's real intentions to undermine the well-being of the elderly. Such conduct is not a hallmark of trustworthy government.

There is no surer way to impoverish public pensioners than to subject them to inflation. The dollar which bought 100 cents worth of consumer goods and services in 1972 had a real value in 1982 of only 44 cents because of inflation. Moreover, despite the temporary recent lull in prices, the financial markets fear the resurgence of inflation. The elderly with their reduced incomes need protection against inflation. The COLA provisions are one of the most important rights Social Security and Civil Service retirees have.

Social Security, Civil Service Retirement, and other contributory Federal pension programs need a Congressional reaffirmation that the earned pensions provided in the statutes will be paid to retired people in accordance with the statutes -- that vital rights such as the COLA will not be taken away in old age by changes in the law which result in a breach of faith in the Government's compact with the people who contributed to their system in the belief that they were providing for their security in old age. The surest and fairest way to build confidence in these systems is for the Congress to turn down the Reagan administration's proposals for deferral of COLAS -- and to provide by law that Federal pensions rights in contributory systems are to have the legal status of contracts once persons have been awarded their pensions and retired.

Likewise, the Congress should establish the principle that it will not enact cutbacks in vested pension rights in contributory Federal pensions with less than a 10-year effective date. Such provisions will assure that current workers will have due notice about pension changes affecting their lives -- and that defenseless retired workers will not have their pension rights abrogated and be left "high and dry" by changes in the law after they have retired or are close to retirement.

FEBRUARY 17, 1983

"PROSPECTIVE PAYMENT FOR MEDICARE"
TESTIMONY BY THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
BEFORE THE HEALTH SUBCOMMITTEE OF THE SENATE FINANCE COMMITTEE

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, THE NATIONAL MULTIPLE SCLEROSIS SOCIETY IS PLEASED TO HAVE THE OPPORTUNITY TO PRESENT IT'S PERSPECTIVES ON THE PROPOSED MEDICARE PROSPECTIVE PAYMENT SYSTEM. THE PRIMARY QUESTION WHICH WE HAVE ATTEMPTED TO INVESTIGATE IS HOW IMPLEMENTATION OF THE PROSPECTIVE PAYMENT SYSTEM WOULD IMPACT ON THE QUALITY OF HEALTH CARE SERVICES TO MEDICARE BENEFICIARIES WITH MULTIPLE SCLEROSIS. OUR TENTATIVE CONCLUSIONS ALSO HAVE IMPLICATIONS FOR MANY OTHER INDIVIDUALS WHO SUFFER FROM LESS COMMON DISEASES OR DISORDERS FOR WHICH THERE IS, AS YET, MARKEDLY LIMITED SPECIFIC THERAPY.

DRG PROSPECTIVE PAYMENT IMPACT ON QUALITY OF CARE

WE HAVE CONFERRED WITH A REPRESENTATIVE SAMPLE OF NEUROLOGISTS WHO DIRECT PROGRAMS OF QUALITY CARE FOR INDIVIDUALS WITH MULTIPLE SCLEROSIS ON AN IN-PATIENT AND OUT-PATIENT BASIS. SOME SIGNIFICANT DATA ON COSTS RELATED TO IN-HOSPITAL PROGRAMS FOR MULTIPLE SCLEROSIS HAS BEEN EXAMINED.

OUR PRIMARY CONCERN WITH THE PROPOSED SYSTEM OF ESTABLISHING A DIAGNOSTIC RELATED GROUP (DRG) ENCOMPASSING MULTIPLE SCLEROSIS AND ASSIGNING A SPECIFIC COST FOR PROSPECTIVE PAYMENT IS THAT IT IS LIKELY TO INCORPORATE SUBSTANTIAL DISINCENTIVES FOR THOSE HOSPITALS WHICH ARE PRESENTLY MOST CAPABLE OF PROVIDING APPROPRIATE

CARE FOR INDIVIDUALS WITH MULTIPLE SCLEROSIS AND IN ADDITION, TOTALLY DISCOURAGE FUTURE IMPROVEMENT IN THE MUCH NEEDED SERVICE MIX IN OTHER HOSPITALS. THE SYSTEM OF DETERMINING THE PROSPECTIVE PAYMENT FOR A DIAGNOSTIC RELATED GROUPING IS BASED ON A SAMPLE OF THE HISTORICAL COST DATA COVERING ALL TYPES OF HOSPITALS. BUT, IN THE CASE OF MULTIPLE SCLEROSIS AND MANY OTHER RELATIVELY UNCOMMON DISORDERS, THE "AVERAGE" IN-HOSPITAL MS TREATMENT PROGRAM DOES NOT NECESSARILY REPRESENT AN APPROPRIATE QUALITY OF HEALTH CARE.

THE WIDE RANGE IN AGE OF AFFECTED PERSONS, 15 YEARS THROUGH OLD AGE (85% NORMAL LIFE EXPECTANCY), PLUS THE TREMENDOUS VARIATION IN CLINICAL SEVERITY OF THE DISEASE FROM ONE PERSON TO ANOTHER AND WITHIN THE SAME PERSON OVER THE YEARS, PROVIDES PROBLEMS OF PAYING ON THE BASIS OF ONE DRG RATE FOR ALL THERAPY. IT MUST BE EMPHASIZED THAT WHILE MS AFFLICTS PERSONS OVER A WIDE SPAN OF YEARS, THE ONSET AND SOCIOECONOMIC IMPACT TO PRODUCTIVITY IN EARLY AND MIDDLE ADULTHOOD DEMANDS THAT SUBSTANTIAL INVESTMENT IN TREATMENT BE MADE WIDELY AVAILABLE.

WITH RESPECT TO MS, PROGRAMS WHICH ARE GENERALLY CONSIDERED GOOD, COST SIGNIFICANTLY MORE THAN THE "AVERAGE" COST. THUS, A DRG PROSPECTIVE PAYMENT TO ONE HOSPITAL WHOSE KEY PERSONNEL ARE UNABLE TO PROVIDE COMPREHENSIVE HEALTH CARE FOR MS PATIENTS MAY BE SUFFICIENT PAYMENT FOR THOSE LIMITED ASPECTS OF CARE THE HOSPITAL IS ABLE TO PROVIDE. BUT THE SAME PROSPECTIVE PAYMENT MAY BE WHOLLY INADEQUATE FOR ANOTHER HOSPITAL WITH A SPECIALIZED PROGRAM OF CARE FOR PERSONS WITH MS. THE RESULT IS INCENTIVES TO THOSE PROVIDING LESS THAN ADEQUATE QUALITY CARE AND DISINCENTIVES TO THOSE PROVIDING AN OPTIMAL QUALITY OF CARE.

OUR VIEWS ON THE DIVERSE QUALITY OF CARE FOR PERSONS WITH MS BY HOSPITALS IS NOT INTENDED TO BE AN INDICTMENT OF HOSPITALS. WE ARE OBSERVING SIGNIFICANT IMPROVEMENT IN THE CAPABILITY OF HOSPITALS TO PROVIDE THE APPROPRIATE MIX OF MEDICAL, SURGICAL, REHABILITATIVE AND PSYCHOLOGICAL SERVICES. HOWEVER THIS CAPABILITY IS NOT YET IMPLEMENTED TO A DEGREE THAT WOULD BE REFLECTED IN THE RETROSPECTIVE ANALYSIS DEFINING DRG COSTS. SUCH COMPREHENSIVE SERVICES HAVE BEEN DEVELOPED IN NUMEROUS HOSPITALS AND FROM THOSE EXPERIENCES IT WILL BE POSSIBLE TO DERIVE TRUE DRG ESTIMATES.

ONE SUCH HOSPITAL IS THE FAIRVIEW-DEACONESS HOSPITAL IN MINNEAPOLIS WHERE AN MS MULTI-DISCIPLINARY TEAM IS HEADED BY DR. RANDALL T. SHAPIRO. EXTENSIVE DATA HAS BEEN COLLECTED WHICH HAS NOT YET BEEN ANALYZED WITH RESPECT TO COSTS, BUT IT IS VERY CLEAR THAT THE AVERAGE HOSPITALIZATION (ABOUT ONE WEEK) INVOLVING NEUROLOGICAL SERVICES, BOWEL AND BLADDER MANAGEMENT, DRUG THERAPY, OCCUPATIONAL AND PHYSICAL THERAPY, PSYCHO-SOCIAL SERVICES, AND ALL REQUISITE NURSING SERVICES CANNOT BE SUPPORTED AT AN AVERAGE COST OF $1,899.38 - WHICH IS THE FIGURE LISTED FOR "DRG NUMBER 13: MULTIPLE SCLEROSIS AND CEREBELLAR ATAXIA" IN THE HEALTH CARE FINANCE ADMINISTRATION PRINTOUT ENCLOSED AS APPENDIX I OF THE DHHS REPORT TO THE CONGRESS ON HOSPITAL PROSPECTIVE PAYMENT FOR MEDICARE - DECEMBER 1982 (THE BLUE BOOK).

THE HIGHLY RESPECTED MS PROGRAM OF COMPREHENSIVE HEALTH CARE AT ALBERT EINSTEIN COLLEGE OF MEDICINE (AECM) IN THE BRONX, DIRECTED BY DR. LABE SCHEINBERG, WOULD NOT BE POSSIBLE FOR MS MEDICARE PATIENTS UNDER THE PROSPECTIVE PAYMENT SYSTEM. AECM IS

AN EXAMPLE OF A TERTIARY, UNIVERSITY RESEARCH AND TEACHING INSTITUTION IN WHICH COMPLEX MS PROBLEMS ARE TREATED IN-HOSPITAL AND IN ADDITION, STUDIES ON COST-SAVINGS BY OUT-PATIENT THERAPY AND DAY-HOSPITAL PROGRAMS ARE BEING CONDUCTED. IN A ONE YEAR PERIOD 1980-81, 173 PATIENTS WERE TREATED IN-HOSPITAL FOR 3,486 DAYS, RANGING FROM 2 TO 80 DAYS FOR AN AVERAGE OF 20 DAYS. ON THE BASIS OF AECM REIMBURSEMENT RATE OF APPROXIMATELY $500 PER DIEM, COSTS AVERAGED 20x500 = $10,000. WHILE AECM IS ORGANIZED TO PROVIDE A MIX OF COMPREHENSIVE SERVICES, THE HIGH COST OF SUCH CENTERS IS ALSO BASED ON COMPLEX DIFFERENTIAL DIAGNOSES, TREATMENT OF INTRACTABLE URINARY AND PULMINARY INFECTIONS, SURGICAL INTERVENTIONS SUCH AS TENOTOMIES, AND SPINAL CORD SECTIONS FOR INCURABLE SPASTIC MUSCLE CONTRACTURE OR PAIN AND RECURRENT DECUBITUS ULCERS. IT BEARS EMPHASIS THAT WITH THE ADVANCING TECHNICAL COMPETENCE OF HOSPITALS AND MEDICAL PROFESSIONALS, AN INCREASING NUMBER OF HOSPITALS WILL BECOME CAPABLE OF SUCH COMPLEX THERAPIES.

IN MANY COMMUNITY HOSPITALS MS PATIENTS ARE ADMITTED PRIMARILY FOR THE PURPOSE OF ADMINISTERING AND MONITORING THE CLINICAL RESPONSE TO INTRAVENOUS ACTH (ADRENOCORTICOTROPHIC HORMONE). PROVIDED SUFFICIENT REIMBURSEMENT OR PROSPECTIVE PAYMENTS WERE MADE FOR THIS ON AN OUT-PATIENT BASIS, SOME HOSPITALIZATIONS COULD BE AVOIDED. THIS TYPE OF RELATIVELY INEXPENSIVE IN-PATIENT CARE IS QUITE DIFFERENT FROM THE MORE EXPENSIVE TREATMENT OF COMPLICATIONS AND SECONDARY SYMPTOMS SUCH AS BLADDER INFECTIONS, ETC., ALLUDED TO ABOVE. IT IS ALSO QUITE DISTINCT FROM THE PROGRAMS OF IN-HOSPITAL AND OUT-PATIENT COORDINATED, MULTISPECIALTY COMPREHENSIVE CARE WHICH OUR STUDIES INDICATE ARE BOTH COST EFFECTIVE IN COMPARISON TO

OTHER MODELS OF UNCOORDINATED AND FRAGMENTED INTERVENTIONS WHICH DO NOT PROVIDE HOLISTIC MANAGEMENT OF THE PATIENT AND FAMILY.

DESPITE THE EFFORTS TO DETERMINE HOW COSTS COULD BE DECREASED BY PROVIDING MANY DIAGNOSTIC STUDIES AND TREATMENTS ON AN OUT-PATIENT BASIS, PATIENTS THAT TRAVEL LONG DISTANCES FROM SPARCELY POPULATED AREAS, AS IS THE CASE WITH DR. SHAPIRO'S SERVICE AT FAIRVIEW-DEACONESS HOSPITAL, MAY REQUIRE HOSPITALIZATION IN ORDER TO RECEIVE THE BASIC SERVICES. ALTERNATIVE LOW COST HOSPITAL-ADJUNCT MOTELS WOULD HELP KEEP DRG RATES LOWER. IN CONTRAST THE URBAN METROPOLITAN SERVICE AT ALBERT EINSTEIN CENTER IN THE BRONX IS ABLE TO HANDLE A LARGER PERCENTAGE OF RELATIVELY HIGH COST PATIENTS ON AN OUT-PATIENT BASIS THUS PRESERVING THE IN-HOSPITAL SERVICES FOR MUCH MORE COMPLEX HIGH COST PROBLEMS..

THE POINT IS THAT WITH THE COMBINATION OF FACTORS REGARDING THE DISEASE ITSELF, THE VARIABLE CAPABILITIES OF HEALTH CARE FACILITIES, AND THE CURRENT LIMITS OF MEDICAL KNOWLEDGE ABOUT OPTIMAL AND PREDICTABLE TREATMENT FOR MANY SYMPTOMS OF THE DISEASE, THE PROSPECTIVE PAYMENT SYSTEM CURRENTLY RECOMMENDED WILL FAIL TO SUPPORT ADEQUATELY THE HOSPITALS WHICH ALREADY ARE PROVIDING HIGH QUALITY HEALTH CARE FOR PERSONS WITH MULTIPLE SCLEROSIS AND TOTALLY DISCOURAGE IMPROVEMENT IN CAPABILITY OF THOSE HOSPITALS MOVING TO FILL THIS NEED.

IN CONSIDERING WAYS TO ADDRESS THIS PROBLEM, WE HAVE THOUGHT OF SEVERAL POSSIBLE AVENUES OF APPROACH. ONE IMMEDIATE WAY TO COPE WITH THE PROBLEM IS TO INCLUDE DRG'S OF RELATIVELY RARE INSTANCE WHICH REQUIRE VERY SPECIALIZED SKILL IN THE SAME

CATAGORY AS THE OTHER TYPES OF CARE WHICH THE SECRETARY PROPOSES WOULD STILL BE REIMBURSED ON THE BASIS OF COSTS BECAUSE ADEQUATE STUDY HAS NOT BEEN DONE (E.G. PSYCHIATRIC, PEDIATRIC, ETC.). ANOTHER AVENUE MIGHT BE TO PROVIDE FOR PASS THROUGH REIMBURSEMENT FOR QUALITY CARE PROGRAMS IN THE SAME GENERAL WAY THE "OUTLIER" CASES WOULD BE COVERED. YET, ANOTHER APPROACH MIGHT BE SOME STRUCTURE BY WHICH EXPERTS IN THE TREATMENT OF MS ARE ASKED TO PREPARE A RANGE OF APPROPRIATE THERAPEUTIC TREATMENT MODELS WHICH WOULD BE USED TO ADJUST A PROSPECTIVE PAYMENT SCHEDULE FROM THE DATA BASED ON HISTORICAL "AVERAGE" TO A REASONABLE APPROPRIATE QUALITY OF COMPREHENSIVE CARE. WE ARE PREPARED TO ARRANGE ACCESS FOR THE SUBCOMMITTEE AND THE ADMINISTRATION TO PERSONS WHO ARE "EXPERTS" IN MS HEALTH CARE, AS IT IS DESIRED.

PAYMENTS FOR OBSERVATIONS ON THE EFFECTIVENESS OF NEW THERAPIES

IN THE CONTINUING SEARCH FOR SPECIFIC THERAPIES TO HALT OR REVERSE THE SERIOUS OUTLOOK IN MS, NUMEROUS TRIALS OF NEW DRUGS AND PROCEDURES ARE BEING CONDUCTED OR PLANNED. BECAUSE SUCH OBSERVATIONS ARE MOST EFFECTIVELY CARRIED OUT IN CLINICAL TEACHING CENTERS, IT IS RECOMMENDED THAT DRG PROSPECTIVE PAYMENT ADJUSTMENTS INCLUDE SUCH A CATAGORICAL APPROACH. SPECIFICALLY, IT IS RECOMMENDED THAT WITH REGARD TO TREATMENTS WHICH HAVE ALREADY UNDERGONE INITIAL TESTING AND BEEN REPORTED IN RESPECTED MEDICAL JOURNALS, REIMBURSEMENT SHOULD PERMIT EXTENSION OF SUCH OBSERVATIONS ON THE BASIS OF APPROVAL BY THE NATIONAL INSTITUTES OF HEALTH IN CONSULTATION WITH THE NATIONAL MULTIPLE SCLEROSIS SOCIETY. SUCH WORK SHOULD BE LIMITED TO ACADEMIC MEDICAL CENTERS WHERE MONITORING OF THE CLINICAL OBSERVATIONS CAN BE GUARENTEED. EXAMPLES OF THESE THERAPIES ARE

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INTERFERON, PLASMAPHERESIS, HYPERBARIC OXYGEN, IMMUNOSUPPRESSIVE DRUGS, ETC. IN THIS REGARD, WE ARE ASSUMING THAT THE CONSTRUCTION OF THE "LUMP SUM" INDIRECT COSTS PAYMENT TO TEACHING HOSPITALS WILL INCLUDE THE COSTS OF CLINICAL TESTS AND PROCEDURES THAT HISTORICALLY HAVE BEEN THE BASIS OF NEW DIRECTIONS FOR THERAPY.

GENERAL PERSPECTIVES

THE NATIONAL MULTIPLE SCLEROSIS SOCIETY IS STRONGLY SUPPORTIVE OF FEDERAL, STATE AND PRIVATE EFFORTS TO CONTAIN THE HEALTH CARE COST INCREASES. WE BELIEVE THAT PHYSICIANS AND OTHER HEALTH CARE PROVIDERS CONTROL MOST OF THE HEALTH CARE COST DECISIONS FOR PERSONS WITH MS. THEREFORE, PROPOSALS AIMED AT DEVELOPING A MORE EFFICIENT HEALTH CARE SYSTEM SUCH AS PROSPECTIVE REIMBURSEMENT HAVE OBJECTIVES WHICH WE SHARE.

MOREOVER, SINCE COPAYMENTS AND COST SHARING ARE ALREADY A SUBSTANTIAL REALITY AND SINCE SOME APPROPRIATE MEDICAL THERAPIES AND EQUIPMENT ARE NOT CURRENTLY REIMBURSED, PERSONS WITH MULTIPLE SCLEROSIS AND THEIR FAMILIES ARE OFTEN ALREADY STRETCHED TO THEIR FINANCIAL LIMIT. SYSTEMS THAT WILL TEND TO MAKE THE HEALTH CARE PROVIDER SYSTEM MORE EFFICIENT MAY THEREBY ALSO REDUCE THE POTENTIAL OF ENACTMENT OF FURTHER COST SHARING AND COPAYMENT PROPOSALS WHICH WOULD PLACE AN EVEN GREATER BURDEN ON OUR PEOPLE.

HEALTH CARE COST CONTAINMENT, THROUGH WHATEVER MECHANISM, AS IT IMPACTS UPON THOSE DISABLED BY MULTIPLE SCLEROSIS AND MANY OTHER DISEASES OR DISORDERS OUGHT NOT BE CONSIDERED BY THE CONGRESS AS A HEALTH COSTS ISSUE ISOLATED FROM OTHER BUDGETARY IMPACTS. EVEN IF QUALITY MEDICAL CARE COSTS MORE, IT OFTEN HOLDS THE PROMISE

OF NOT ONLY IMPROVING THE QUALITY OF LIFE FOR INDIVIDUALS TREATED BUT OF REDUCING THE OVERALL FEDERAL BUDGET BECAUSE THE OTHER FEDERAL EXPENDITURES SUCH AS INCOME MAINTENANCE (E.G. SSDI) AND LONG TERM CARE MAY BE REDUCED AS A RESULT OF EFFECTIVE HEALTH CARE.

WE BELIEVE WE HAVE HIGHLIGHTED A PROBLEM WITH THE PROPOSED "PROSPECTIVE PAYMENT FOR MEDICARE" WHICH NEEDS TO BE EXAMINED AND RESOLVED PRIOR TO A TIME WHEN A NEW SYSTEM OF PROSPECTIVE PAYMENT WOULD APPLY TO SPECIALIZED MS TREATMENT PROGRAMS AND MS COMPREHENSIVE CARE CENTERS. WE ARE READY TO WORK WITH REPRESENTATIVES OF THE SUBCOMMITTEE AND OTHERS IN AN EFFORT TO PROVIDE THE TYPE OF DETAILED INFORMATION WHICH IS NEEDED TO CONSTRUCT A REASONABLE SOLUTION.

WRITTEN STATEMENT SUBMITTED BY:

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STATEMENT OF JOSEPH M. GONDOLA
PRESIDENT OF THE NATIONAL ASSOCIATION OF POSTMASTERS
OF THE UNITED STATES
BEFORE THE SENATE FINANCE COMMITTEE
ON THE PROPOSED EXTENSION OF OASDI
TO NEWLY HIRED FEDERAL WORKERS

Mr. Chairman, and Members of the Committee, I am Joseph M. Gondola, President of the National Association of Postmasters of the United States and Postmaster of Clifton, New Jersey. I have the privilege of speaking for approximately 36,000 Postmasters and retirees. On behalf of our membership I thank you for this opportunity to express our Association's views concerning the proposed extension of OASDI Coverage to Newly Hired Federal and Postal Workers.

The National Association of Postmasters of the United States is opposed to the merger of the Civil Service Retirement Program with Social Security. We believe that forcing non-covered federal and postal employees under Social Security would be contrary to the public interest.

Our Organization fully recognizes that Social Security is a social program essential to our society and feels that it should be continued. Social Security was conceived and implemented as a program to provide an income floor which the worker and his employer would supplement through whatever resources they put aside. Although not originally conceived as a basic retirement program, fortunately, or unfortunately, it came to be recognized as just that. One which thousands of our citizens depend upon as their sole source of retirement income and as such it is imperative that it be continued.

The Civil Service Retirement System on the other hand was originally designed to provide an adequate income in retirement for the career employee who was required to pay a percentage of his total income for this protection. In other words, it is a basic retirement program and not a supplemental one.

Federal employees were excluded from the Social Security program at the outset because they were already covered by a good retirement plan. To place them under Social Security now would necessitate reducing future retirement benefit levels without any corresponding gain from Social Security.

It is acknowledged that in order for Social Security to survive, some changes or reforms will have to be made. Bringing another 6.5 million federal, state and local government employees under its coverage would only compound the problems that exist now and would ultimately cost the taxpayers more in the future. What is needed is a reasoned reform of the Social Security program, not more participants. It is true that coverage of federal employees would mean the infusion of millions of dollars into the Social Security trust funds, but such thinking reflects false economies because federal, state and local government workers making Social Security contribtuions would of necessity one day become Social Security recipients. Furthermore, the introduction of more monies into the Social Security trust funds would be out-weighed by short term administrative costs and long term benefit payments.

In addition, the Federal Government would experience a significant tax revenue loss if universal coverage were to become a reality. In 1977 Civil Service retirees paid taxes on the $9 billion in retirement benefits they received. Conversely, Social Security disbursed some $85 billion in retirement benefits, all of it non-taxable. This loss in revenue would have to be made up elsewhere. The Joint Economic Committee estimates that more than $2,000,000,000 is collected each year in federal income taxes from CSRS benefits. These revenues would be lost if retired federal employees collect Social Security instead of Civil Service Retirement Beneftis. The average CSRS annuity is less than $13,000, and that is fully taxed.

At the present time federal and postal workers pay 7% of their salaries into the Civil Service Retirement System. The Civil Service Retirement System is financially sound and will remain so for many years to come. But the retirement system depends on receipts from current employees to pay benefits to retired workers. Placing newly hired workers under Social Security instead of Civil Service Retirement would eventually bankrupt the Civil Service Retirement System. Once bankrupt the cost to the taxpayers to meet Civil Service benefits would be very great. An independent researcher estimates conservatively a minimum of $185,000,000,000 and using a 40 year period to phase out CSRS when adding a 5.5% inflation rate, that figure could be a staggering $550,000,000,000. The fact is that while the Civil Service Retirement System is financially sound now, universal Social Security would lead to its ultimate bankruptcy.

The proposed merger would also result in lowering the quality of management in the Federal Government and would have an adverse impact on the Federal Government's ability to recruit and retain able workers. We believe that a good retirement system for federal employees is and has been the premier inducement for individuals to enter and remain in federal employment. If that benefit is removed or diminished by a merger it would bring undue harm to the recruitment of able and quality employees. It has long been recognized that the stable and cost-effective Civil Service Retirement System is one of the major reasons for job longevity and upper management retention in the Federal Government. In addition to this it would also lead to the erosion of a vital personnel management tool. The Civil Service Retirement Act has helped to create vacancies to reward deserving employees, it has alleviated the painful human effects of reduction of force as well as to encourage workers to spend long and productive careers in government. In the long run, the adverse effects on the quality of our government will be excerbated and the inability to retain high caliber personnel will ultimately lead to mediocrity.

It is for these reasons that we oppose the proposed "grandfathering" of present civil service employees and annuitants under the coverage of existing retirement law and placing newly appointed workers under Social Security. We aslo feel that as the number of persons covered under existing law would decrease, Congress would give less and less attention to needed changes in a retirement system covering a dwindling population.

U. S. Representative Marjorie S. Holt in expressing her concern over bringing all new federal employees and those with less than five years of service into the Social Security Program recently stated: "But if these federal workers would not be contributing to the Civil Service Retirement System, then how would we pay for the future retirement benefits of those legions of federal employees who would continue to be entitled to Civil Service retirement benefits? Perhaps a reduced Civil Service retirement plan to supplement Social Security will be made available for the new and newer federal workers, but there is no doubt that their contributions to the Civil Service Retirement System would be substantially less. It is clear that the commission's proposal would steadily diminish the income of the Civil Service Retirement System. If future Civil Service retirement benefits were not cut proportionately, then those benefits would need to be financed with a growing subsidy from general funds. Most responsbile Members of Congress would not want to directly finance Social Security benefits with general funds, which would inevitably make the program indistinguishable from a welfare program. Social Security should be maintained as a self-supporting program of earned benefits financed by a special tax on employers and their employees. However, the commission's proposal to bring federal workers into Social Security is an indirect method of financing the program with general funds. It bleeds the Civil Service Retirement System and creates a new liability against general funds to support civil service retirement."

President Wilbur S. Wood, of the National Rural Letter Carriers Association, in his remarks shared our concern when he stated: "The Presidential Commission proposal to extend OASDI coverage to newly-hired federal workers was offered with the expectation that a supplemental employer-sponsored pension would be established for those workers. However, no where in the Commission's report, nor any place in the Committee's files, exists an adequate proposal for developing that supplementary system. Again, on "good faith", Congress asks the federal work force to accept that such a system will be created. But how, and when, and by what fiduciary standards? Will it be a defined benefit or defined contribution plan? Will it employ add-on, variable, or a fixed-rate approach in calculating aggregate benefits? Certainly the parameters of such elementary questions should be answered before the federal workers are asked to accept the creation of a fundamental rift in their retirement program."

Universal coverage of all employees sounds impressive. Why not have all employees covered by Social Security? Surely if all are covered it would cure the faltering Social Security program. That is an illusion. Actually, the goal of universal coverage is not practical. Constitutional impediments surrounding separation of church and state would preclude the extension of coverage to state and local government employees or to the employees of many religious based non-profit groups.
In conclusion, the members of our Organization oppose the merging of federal and postal employees into the Social Security system. We have a financially sound retirement system. We are satisfied with it. We do not feel that the inclusion of federal and postal workers as part of the Social Security System will correct its shortcomings. Why destroy a good program in order to save a program which aside from being troubled, is not a true retirement plan?

THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS

EXECUTIVE VICE PRESIDENT • WILLIAM E. WOODS
205 DAINGERFIELD ROAD, ALEXANDRIA, VA 22314
(703) 683-8200

Seven minutes from the Nation's Capitol

February 25, 1983

The Honorable Robert J. Dole
Chairman, Committee on Finance
221 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Dole:

The National Association of Retail Druggists represents the owners of more than 30,000 pharmacies where 75,000 pharmacists practice their profession. These pharmacies fill approximately 70% of all prescriptions and serve 18 million consumers daily.

The purpose of our statement is to contribute to your inquiry designed to assist in the reform of the social security program. The owners of independent retail pharmacies are interested in steps that will help to restore the confidence in the social security system as well as prevent unwarranted additional payroll tax burdens on small businesses which have recently experienced and are already scheduled to incur stifling increases in the federal payroll tax rate.

We are diligently attempting to develop an exact profile of a NARD member and the impact of social security. For the time being, however, we can indicate that nearly all of our members employ 15 or fewer persons and four to six employees would be typical. The annual sales volume of our members rarely exceeds one million dollars and less than half of that amount would be typical.

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The following comment from the U.S. Small Business Administration's report on social security* succinctly portrays not only the impact of social security on small business but more particularly the members of the NARD:

> Small businesses are disproportionately burdened by the Social Security payroll tax. This disproportionate burden results from several distinguishing structural characteristics of small firms. Small firms employ the majority of all workers, and in addition tend to pay lower average wages. Since the payroll tax is inherently a tax on labor, whoever employs more labor is likely to pay more tax. Small businesses also have less ability to shift their tax burdens, and utilize labor more intensively. The effective payroll burden is higher in small firms. Small firms pay more Social Security taxes per dollar of wages.

It is our view that the proposals submitted by the National Commission on social security reform have finally stimulated a consensus, across the political spectrum and irrespective of idealogy, as to the magnitude of the problems associated with the social security program and the need to act in order to avoid disaster and assure that the original objectives of the program are met. It is with such purposes in mind, we make the following recommendations:

- Support steps which would be taken to discourage early retirement. A reduction of the pre-65 benefit and an acceleration of the delayed retirement credit would assist in achieving this purpose. Increasing the age for full retirement to 66-68 by the year 1990 would similarly assist in achieving this objective.

- Support the proposed six-month delay in the 1972 cost-of-living-adjustment (COLA) and the shift to calendar year adjustment basis. Linking the COLA to the average national wages as well as the CPI would be an improvement.

- Oppose advancing scheduled tax rate increases for 1983-1990. Scheduled increases are already perceived by many as the "straw that breaks the camel's back." Optimumly, we would support a repeal of the 1985 and 1990 scheduled increases in the tax rate.

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*Small Business Administration, "Social Security: A Tax on Labor," Report of the Small Business Task Force on Social Security, January 1983.

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> Adding to this existing burden is in our view ludicrous. Small businesses generate jobs. Strong small businesses make a strong economy. Additionally, tax on labor will only increase present record levels of unemployment. Therefore, along with most small businesses, we reject reforms based on increasing the cost of hiring and retaining employees.

The NARD, its Officers and Executive Committee stand ready to assist your Committee in fashioning sensible short and long-term solutions to the present crisis. Returning to the original goal of providing a salary replacement to retirees should be among the alternatives given serious consideration.

Our members are major factors in the stability of their hometowns. They are not newcomers or employees on the ladder to stardom in some distant chain's hierarchy. They know their employees and customers. Often they provide the success models or symbols to young, and not so young, of proof that the American dream of ownership and hard work is still what this country is all about. They are the aged's best hope for health counseling and medication advice. They support religious endeavors and other local institutions. In other words, they are leaders with a stake in the community who have, and are demonstrating daily, a commitment to local and national pride. They learned long ago that "big is not necessarily better!"

All that they epitomize is under fire. Regretfully, the federal government (through actions or inaction) is firing most of the shots!

Uppermost, our members want to continue owning and operating their pharmacies, providing vital, personalized health-care services for each of our communities. NARD solicits your assistance in any mutual effort which will permit them to continue to control their own economic and professional destinies.

Sincerely,

W. E. Woods

William E. Woods
Executive Vice President

WEW/ej

NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
1533 NEW HAMPSHIRE AVE., N.W., WASHINGTON, D.C. 20036 AREA CODE (202) 234-0832

STATEMENT OF L. J. ANDOLSEK, PRESIDENT
OF THE
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
SUBMITTED TO THE
SENATE COMMITTEE ON FINANCE
ON THE REPORT OF
THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

TUESDAY, MARCH 1, 1983

Mr. Chairman, I am L. J. Andolsek, President of the National Association of Retired Federal Employees. Our Association, commonly known as NARFE, currently has half-a-million dues paying members, all of whom are--or soon will be--dependent on the Civil Service Retirement Fund as the major source of their retirement income.

The Civil Service Retirement System (CSRS) was developed and enacted into law in 1920, some fifteen years before the Social Security Act. The original Social Security Act purposely excluded the Federal workforce from its coverage on the valid assumption that such workers were already adequately protected by the CSRS from financial destitution after retirement. The two systems were developed with different basic intents--CSR as a prefunded staff retirement system for career workers and Social Security as an income insurance or social adequacy plan. Over the years, the CSRS, like Social Security, has periodically expanded and adapted its benefit and funding mechanisms to more adequately meet changing financial situations and benefit needs of its contributors and their dependents. But for more than forty-five years now, CSRS and Social Security have been maintained and operated totally independent of each other. Our Association believes good public policy demands continuation of this historically sound policy of maintaining CSRS and Social Security as separate and independent programs.

The recently issued report of the National Commission on Social Security Reform recommends that Social Security coverage be extended on a mandatory basis as of January 1, 1984 to all newly hired civilian employees of the Federal Government. I am appearing before you today to voice NARFE's vigorous opposition to that proposal for several reasons:

1) We are convinced that expanding Social Security coverage to future Federal workers will not solve the financial problems of the Social Security System;
2) We are deeply and genuinely concerned that the proposal can only result in deterioration of the Civil Service Retirement System; and
3) We believe extension of Social Security to new Federal workers will incur significant new costs to the Government.

The report of the National Commission on Social Security Reform indicates that on a short-term basis, from 1984 through 1989, coverage of new Federal workers will bring an additional $13 billion in revenues into the OASDI Program. We understand that new actuarial data is now being developed, and there is every reason to expect this will result in the short-term revenue gains from this particular proposal dropping considerably, actually falling more in the $8 to $10 billion dollar range.

While we recognize that helpful new revenue would be generated for the OASDI funds in the near future, we cannot be convinced that this expansion of coverage will have "a favorable long-range effect" as the Commission report states. On several occasions in the past, Social Security coverage has been expanded to new groups of workers, yet the extended coverage has never proven the answer to the program's financial problems.

It only stands to reason that today's new contributor becomes tomorrow's new liability to the system. We are well aware of the fact that the Commission's report indicates that "the additional OASDI taxes paid on behalf of the newly covered workers over the long run will exceed, on the average, the additional benefits which result from such employment....". But even this statement in support of their proposal concludes that such is true only on the assumption "that the program is in long-range actuarial balance." That qualifying phrase does little to convince us that there will indeed be long, as well as short, term benefit to the Social Security System. Since similar actuarial assumptions have not proven valid in the past, how much faith can we have in the current ones? In fact, just within the past two or three weeks since this report was released, we have heard serious, and seemingly justified questioning of the assumptions used.

Furthermore, we are told that today's average beneficiary stands to receive more in benefits than he or she paid in taxes by a five to one ratio. We recognize that this ratio will decrease in the years ahead, but no one is assuming that it will fall into an equal return of taxes paid in the foreseeable future, or revert to a ratio in which taxes paid exceed benefits received. Until this happens, it is only logical that additional participants in the system can only mean greater benefit payouts beyond contributions tomorrow. Mr. Chairman, I have heard many individuals give many reasons for Social Security's current fiscal difficulties, but I have not heard anyone charge that too few participants is one of them.

On April 24, 1979, Robert P. Bynum, Deputy Commissioner of Social Security, testified to Congress:

> "The notion ... of bringing Federal employees into the Social Security system ... to keep it from going broke ... is just not factual ... Bringing Federal civil servants under Social Security would not reduce Social Security costs, would not reduce the Social Security deficit, and would not slow planned future increases in the Social Security tax." When asked directly if the inclusion of public employees in Social Security would relieve Social Security's funding problems, Mr. Bynum answered: "No, it would not."

We are aware that this statement has recently been challenged as being completely wrong, and that although Mr. Bynum was so informed, he never saw fit to correct it. Perhaps like us, Mr. Bynum was never convinced that his statement was in error. We have not yet seen convincing evidence.

Indeed, I would call attention to a much more recent statement from an acknowledged authority on this subject. In a letter to the Editor of The Wall Street Journal on January 3, 1983, Mr. Francis J. Crowley, Executive Director of the 1980-1981 National Commission on Social Security, advised, "If Government employees are brought under the system solely because of the additional income which will improve short term financing, a mistake will be made."

And only two weeks ago, on January 24, 1983, an editorial in The Wall Street Journal acknowledged the undeniable short term appeal of including new Federal workers in Social Security, but then cautioned:

> "But step back and look down the road: All those people paying into Social Security will eventually become all those people taking out of Social Security. So the failure to bring benefits in line with the revenues will mean that Social Security's future unfunded liabilities of $6 trillion will increase by almost another trillion when Federal workers are folded in."

Even if Congress chooses to ignore the long-term financial implications of extending coverage to new Federal workers, it should not be able to close its eyes to the consequences such a move can have on other Government programs. In the Civil Service Retirement System alone, elimination or reduction of matching employee-employer contributions from future employees can have disastrous effects.

Information developed by an independent actuary reveals that with no new employee contributions going into the Civil Service Retirement Fund, the assets of that Fund which have historically increased each year, to the current level of approximately $96 billion, will begin an annual decline in about eight years, and within 20 years these assets would be totally depleted.

Here again, let me say we are fully cognizant of the National Commission's stated belief that, along with Social Security coverage, Federal new hires should have a "supplemental retirement plan ... which would be part of the Civil Service Retirement System.....". Our organization contends that a fair and equitable supplemental retirement plan cannot and indeed should not be developed in the haste of a few short months for the sole purpose of providing an as yet undetermined, short term financial boost to the OASDI. But no supplemental plan would require the same contribution rate as the current CSR plan.

We are currently unable to assess the full effects of a lower contribution rate being paid into the CSR Fund for new workers, but simple mathematics indicate it could not maintain the adequate and sound financing which even our severest critics are forced to admit our current system now enjoys. You cannot pay less for any product without the quality of that product depreciating, or the manufacturer of the product being forced to assume a loss. In this case, Civil Service retirement benefits can be likened to the product, and the Civil Service Retirement Fund to the manufacturer.

In an apparent attempt to diffuse this legitimate concern of current Federal employees and retirees, the Commission report parenthetically states, "...the financing of their benefits over the long run will not be adversely affected." We find this remark gratuitous at best, and point out that there is no evidence of any kind presented to support this blithe assertion.

Without continued participation of all Federal workers in a common Civil Service Retirement System, that System stands open to greater political maneuvering than we have witnessed even in the recent past, and becomes completely useless as a means of recruiting and retaining an able and dedicated Federal workforce of career employees.

Mr. Chairman, we are all only too aware of the fear that has been generated among millions of this nation's elderly as a result of the financial difficulties of Social Security. Certainly these fears must be stilled with constructive action on behalf of that vitally important program. But is it fair to provide temporary balm to the fears of some at the expense of others?

Civil Service retirees are also fearful. Fearful that the retirement system to which they long and faithfully contributed a substantial portion of their working wages will now be allowed to deteriorate to a point where it is no longer of concern to the Congress or to enough individuals to protect the benefits of that system.

Congress can promise today that the Civil Service Retirement System will not be allowed to become a "second class" retirement program, but there will be a different Congress in eight years, or in twenty years, and who then will defend today's promise? Unfortunately, Mr. Chairman, just within the past five or six years, Civil Service workers and retirees have seen promises broken and their incomes and fringe benefits threatened and ravaged to the point that even as the Government's own, they are losing faith in the credibility of that Government.

We recognize within the Commission itself severe contradiction in determining why Federal employees should be brought under Social Security. This group also considered mandating coverage to state and local government employees, but rejected the proposal for several stated reasons. Outlining their reasons for rejection, they include the statement, "Some members point out that many state and local governments already have adequate, well-financed retirement systems for their employees, so that they do not need OASDI-HI coverage." This point is footnoted with the information that a few state and local employees do not have any retirement protection -- neither OASDI-HI, nor a public employee retirement plan.

We can only wonder why these same Commission members did not also recognize that Federal workers already have an adequate, well-financed retirement system, and now also HI coverage, and therefore did not need OASDI coverage anymore than those in state and local government employment. And within the Federal service, they could not have found anyone, even a temporary employee, who was not given some retirement protection. We see nq logical explanation, only different standards for different groups of workers.

Mr. Chairman, I have expressed our deep concern that the extension of Social Security coverage to new Federal workers will not solve the financing difficulties of Social Security, yet will seriously disrupt the financing of the Civil Service Retirement Fund, and further destroy the Government's credibility as an employer.

In addition, we believe this proposal is significant in that it will affect every American taxpayer by incurring new costs to the Government. It is for this single reason that Congress has considered and rejected Social Security coverage for its own employees eight times in the past. The reason for the new cost is that the extension of Social Security coverage to new Federal workers means that the Treasury must come up with additional funds beyond its current obligations as an employer to meet new obligations to Social Security. More specifically, if this proposal is enacted, the Federal Government will be required to contribute between $4 and $7 billion to the Social Security System between 1984 and 1989.

Unless there is no supplemental retirement program within the Federal service for new workers, this will not be money that can be diverted from some other source. It is new money which must be paid into Social Security so that it can be used to help pay out benefits to current Social Security recipients. And these are funds required in addition to those obligated under the Civil Service Retirement Fund.

In his book, The Coming Revolution in Social Security, published in 1981, A Haeworth Robertson, Chief Actuary of the Social Security Administration from 1975 to 1978, addresses the concept of bringing Federal workers into Social Security as a means of holding down the payroll tax rates. He contends that it is not a proper alternative, and asks the question, "But who pays the Social Security taxes for Federal employees?", and immediately responds, "It is the taxpayers of the nation." He then logically points out:

> "Any diversion of present employee contributions from the Federal Civil Service retirement plan to Social Security would have to be restored by added general revenue paid by the nation's taxpayers.
>
> "Finally, universal coverage would actually increase the tax burden because Civil Service retirement plan benefits can be reduced by some, but not all the benefits provided by Social Security."

By virtue of its authority, the National Commission on Social Security Reform was limited to looking only at the question of Social Security financing. It did not consider the impact of its proposals on total cost to the Government. If it had, it would have seen that the extension of coverage to the Federal workforce would substantially increase the immediate cost requirements of the U. S. Treasury.

Because Social Security is a pay-as-you-go system, a continual flow of employee-employer contributions must come into the system each month to enable it to cover benefits being disbursed. The need for this immediate flow of payroll tax monies to Social Security is especially true now when monthly receipts and disbursements are in such a tight squeeze. The Federal Government, as employer, therefore assumes a need for immediate outlays not required under the Civil Service Retirement System in which pre-funded benefits can be paid each month without increasing the cash flow requirements of the Government, as employer.

Former Comptroller General Elmer Staats addressed this point in a 1978 report to Congress in which he advised:

"It must also be recognized that Social Security coverage for all Federal workers will, in general, require an increase in the Government's immediate cash requirements ... At present the annual receipts of the Government's funded systems exceed their current obligations to beneficiaries; the excess is accumulated in the trust funds. The 'cash assets' of the trust funds are converted to long-term debt (in effect Treasury borrows from the trust funds) thereby decreasing the Government's current cash demand. Social security benefits are not prefunded, but are paid from current contributions by covered employees and their employers. If all Federal employees were covered by the program, their and the Government's contributions would be used to make benefit payments. In short, there would be an increased flow of cash out of the Treasury."

And there can be other new costs to the taxpayers as well.

Were a supplemental plan for future employees developed, based on the experience of the Railroad Retirement System, Congress can reasonably expect the administrative costs of operating two major employee retirement programs to run somewhere in the range of two to four times what is now required for a single system. A conservative estimate of that figure would be $1 billion between 1984 and 1989.

And what of the effects on tax revenues? Our Association believes that a specific amount of income should be tax exempt for all retirees, regardless of the source of that income, but currently there is not equitable tax treatment of all retirement income. Under the current circumstances, an independent actuary has indicated that the gradual substitution of primarily tax-free Social Security income for what is now taxable Federal annuity income will eventually result in a multibillion dollar erosion of Federal and state tax revenues. It is estimated that if Civil Service retirees had been receiving retirement income from a combined Social Security-supplemental retirement plan system last year, combined Federal and state tax revenues would have been lowered by at least $2 billion.

Mr. Chairman, I have attempted here to present to you and your Committee the depth of our opposition to any plan to extend Social Security coverage to future employees of the Federal Government, along with the primary reasons for this opposition. I respectfully request that our beliefs and our comments be given the full benefit of your fair and objective consideration before any changes are made in the name of political expediency and short term financial gains.

Thank you.

NCO ASSOCIATION (NCOA)
NATIONAL CAPITAL OFFICE
219 N. WASHINGTON ST.
ALEXANDRIA, VA 22314

STATEMENT
Sergeant Major C.A. "Mack" McKinney USMC (Ret.)
Executive Director for Government Affairs

before the

SUBCOMMITTEE on SOCIAL SECURITY
COMMITTEE on WAYS and MEANS
U.S. HOUSE of REPRESENTATIVES
FIRST SESSION, 98th CONGRESS

Feb. 8, 1983

on

PROPOSED SOCIAL SECURITY REFORMS

MR. CHAIRMAN. I am C.A. "Mack" McKinney, Sergeant Major USMC (Ret.), currently serving as the Executive Director for Government Affairs, Non Commissioned Officers Association of the USA (NCOA).

NCOA is a military and veterans organization with more than 150,000 noncommissioned and petty officers who are serving or have served in the U.S. Armed Forces and more than 100,000 associate members of all grades who are now veterans- joined together under the Association's banner. More than 80 percent of the initial group are currently serving on active duty or retired. It is this group and its comrades-in-arms that I represent today in my appearance before this distinguished panel.

BACKGROUND DATA

Beginning in 1946 "gratuitous" benefits were paid from the Social Security Trust Fund to survivors of members of the Armed Forces. During the Korean conflict, particularly, these benefits caused a drain on the fund. Due to the economics of the situation and because at the time military personnel had no benefit programs for their survivors, it was decided that servicemembers would be integrated into the social security system.

Of lesser significance was the uniqueness of the (then and now) military retirement program.

*Only one of every 10-to-12 persons joining the military serve in uniform long enough to become eligible for military retired pay.

*The military retirement system is not a "vested" program; therefore, eligibility for receipt of retired pay comes only after serving a minimum of 20 years on active duty. (All other government and quasi-government employees, and foreign nationals employed by the U.S. including those in non-appropriated fund activities, have a vested interest in their retirement program.)

The enrollment of military personnel in the social security system has gained greater significance in recent years because of the Non-Vested Retirement System for military personnel. Most important it recognizes that subsequent to military service most will again come under social security upon returning to or first engaging in civilian employment.

Servicemembers began contributing to social security on Jan. 1, 1957. The FICA tax then was 2.25 percent of wages earned up to a maximum of $4,200. However, the major portion of uniformed personnel- the enlisted corps- did not meet the maximum taxable earnings base and never have to this date. In 1959, the tax increased to 2.5 percent, to 3 percent in 1960, and to 3.125 percent in 1962.

The new FICA taxes came on the heels of a new income tax imposed on military pay just two years earlier. Despite the increased burden on military personnel between 1955 through 1962, their pay remained almost constant from 1955 through 1962. An adjustment was made in 1958 to accommodate the creation of two new super-grades in the officer and enlisted ranks. However, reductions were made in the pay of all junior and middle grade enlisted and officer ranks at higher-seniority levels.

What is so unique, here, is that during the years that Congress imposed the two tariffs on servicemembers, their pay was not significantly increased to offset the added assessments. Further, the pay of all but junior officers and enlisted personnel was undergoing the process of compression. Over a period of two generations-plus, the pay of junior personnel gradually increased at a higher percentage rate than that of their seniors. For example, the pre-1942 pay of a senior Master Sergeant/Chief Petty Officer, now pay grade E-7, was 7.5 times higher than that of a Private/Seaman, now pay grade E-1. By 1957, the year military personnel were brought into the Social Security program, the ratio had dropped to 4.3. Today, under current pay levels, it stands at 3.1.

The most devastating act of compression came in 1972 with the advent of the All-Volunteer Force. Congress was convinced that recruiting new personnel into the armed forces was of greater importance to the Nation's defenses than retaining its qualified, skilled, and experienced noncommissioned officers, petty officers, and commissioned officers.

E-1 pay was increased 100.4 percent, E-2 pay 115 percent, and E-3 pay 84.4 percent. All senior enlisted pay grades received a token increase of less than 7.3 percent, with the exception of grade E-4 which was raised 17 percent. Eleven years later, even with a special adjustment of pay in 1981 for senior enlisted personnel, pay increases for E-7s thru E-9s continued to lag from 142 percent to 209 percent behind those for E-1s thru E-3s.

This pay compression, coupled with many adverse congressional actions that "gnawed away" at the value of their pay and benefits, caused a mass exodus of career military personnel in the late 1970s. By 1980, the Navy- short 20,000 experienced petty officers- could not get its ships to sea. The Army was characterized as "hollow" by its Chief of Staff because it had a shortage of thousands of qualified noncommissioned officers in the combat forces.

Congress rushed to make amends in 1980 and 1981. Retention rates climbed, but there is no way for the military to replace skilled personnel in two or three short years. The senior NCOs and Petty Officers that left in the 1976-80 period are lost forever. The only hope is that Congress will treat the current NCO Corps with fairness and equity so that they will stay and serve. If it doesn't, our Armed Forces will be in far worse shape than in 1979-80.

CURRENT

Now comes 1983, one year after a military/federal pay cap- the fourth in less than 10 years.

President Reagan has recommended a pay freeze for the military/federal work-force in 1983 and is urging Congress to adopt certain recommendations of the National Commission on Social Security Reform.

Two of these recommendations are of concern to NCOA and its members:

*move the 1985 OASDI tax schedule increase to 1984.

*tax one half of the social security benefits of recipients whose adjusted gross imcomes are at least $20,000 if single or $25,000 if married.

OASDI TAX SCHEDULE

The President's supposedly unrelated recommendations would be ludicrous if it were not for the seriousness of matter. The many promises he made publicly in consideration of his military personnel- and he is the Commander-in-Chief- have been replaced by successive dips into the pocketbooks of our servicemembers. Now he proposes a further devaluation of their purchasing power by actually decreasing take home pay. Of the more than a dozen separate federal pay systems, none but the military will suffer a negative cash flow if the 1985 increase is moved to 1984. Accordingly, NCOA believes active military personnel should be exempt from payment of these accelerated taxes.

TAXING BENEFITS

The most important career-incentive for servicemembers is the military retirement system. The receipt of military retired pay is considered the cumulation of 20 or more years of active service leading to reduced compensation that is provided not only for services rendered but for services performed. Congress has recognized that the receipt of retired pay is restitution for the low pay and contingencies of military life experienced over a 20 year or longer period. Nevertheless, there have been no fewer than 20 adverse actions affecting military retired pay since 1972, including major changes last year. As noted earlier in this statement, servicemembers do not have a vested interest in a retirement system. For example, a regular enlisted member may serve honorably for 19 years, 11 months, and 29 days and, if not permitted to serve one more day, receives no monetary reward for those many years in uniform.

The Federal Courts, on the other hand, have recognized military retired pay as "reduced pay for reduced services." The retired military member remains in the service, retains his or her grade, is subject to recall and disciplinary action, and is faced with any number of restrictions that may preclude receipt of all or part of the member's retired pay.

Additionally, retired military personnel enrolled in the Uniformed Services Survivors Benefit Plan are well aware that their survivors' benefits, under this program, are "offset" by an amount determined by the Department of Defense as attributable to the servicemember's participation in the social security program while in the military. This is the only federally-sponsored survivors benefit program that has a social security offset.

For, yet, another group of military retirees, retired pay is subject to a "social security offset" at age 62.

There are many other factors that make the military retirement system unique within the retired community. Its benefits, although termed "generous" by many, aren't easy to come by. If they were, the services would be able to close many recruiting stations, spend little if anything on advertising and bonuses, reduce its training budget to a minute level, and not have to worry about retaining experienced personnel to maintain adequate readiness.

Unlike the civilian sector, almost everyone must begin a service career at the lowest level of enlisted or officer grades. For many servicemembers social security taxable earnings are but a small fraction of their total lifetime wages. For a young 18 year old recruit who eventually applies for social security benefits at age 65, the first 12 years in the military will not have an effect on his benefits. Only to the military retiree are those benefits representative of a significant part of his total retirement income.

With these thoughts in mind and because of the extensive number of adverse changes made in computing the retired pay of servicemembers over the past decade, NCOA believes that taxation or partial taxation of social security benefits is not justifiable for retired military personnel.

SUMMARY

There is no other known group of government employees, other than those at the executive level, that has suffered pay compression as did the career enlisted and officer grades in the military services.

There is no other known group in government that has had more adverse fiscal actions levied against compensation than that of career enlisted servicemembers in grades E-5 thru E-9.

There is no other known group within the federal government's work force that has had more adverse changes directed by Congress affecting its receipt of retired pay and benefits than that of military personnel.

And, there is no other group in this category that is denied compensation when "RIFed" from federal employment (after performing a requisite number of years on the government payroll) other than that of regular enlisted personnel in the armed forces.

NCOA believes that the inclusion of active duty and retired servicemembers in the applicable reform addressed in this statement would have a detrimental effect on retaining qualified and skilled personnel in the armed forces.

Congress may resort to a draft to bring young men and women into military service but there is yet no known way it can induct people who are skilled, trained, military-wise, and ready-to-go as qualified and capable leaders. These people are made, not born.

NCOA urges Congress to give more attention to these recommendations than that which was offered by the President and the NCSSR. It is the Association's firm conviction that adopting the reforms noted herein will cost the United States much more in the long run than a "quick-fix" for the social security system.

Statement By

The National Caucus and Center on Black Aged, Inc.

On

Social Security Financing

To The

Senate Committee on Finance

March 3, 1983

Mr. Chairman and Members of the Finance Committee, the National Caucus and Center on Black Aged appreciates the opportunity to submit testimony on proposals to strengthen Social Security's financing.

This is clearly one of the most crucial issues for aged Blacks and other older Americans because Social Security is the economic mainstay for the vast majority of elderly persons in the U.S. A system as large and as important as Social Security must have public confidence.

In one form or another, Social Security touches the lives of almost every American family in the United States:

— Nearly one out of every six Americans receives a monthly Social Security check.

— About nine out of ten employees work in jobs covered by Social Security.

— Approximately four out of five people 21 to 64 years old have disability protection.

— About 19 out of 20 young children and their mothers have survivor protection.

These facts underscore the importance of Social Security. They also make it clear that Social Security must be built on a sound and secure financial base.

NCBA's testimony will focus on Social Security primarily from the perspective of elderly Blacks, since NCBA is the only organization in the United States that represents exclusively the interests of aged Blacks. However, our proposals will, in nearly all cases, have equal applicability for other older Americans.

Cost-of-Living Adjustment

A financially sound Social Security system is the number one legislative priority for older Americans during the 98th Congress. Social Security has encountered financing problems in recent years, in large part because of the sick state of our economy. The highest level of unemployment since the Great Depression has siphoned off revenue for the program. Social Security loses an estimated $4 billion for each 1 percent rise in unemployment. Rampant inflation -- although it has moderated recently -- has driven up program costs.

The National Commission on Social Secruity Reform deserves credit for attempting to develop a comprehensive package to strengthen Social Security's financing. This plan, however, should be modified by the Finance Committee to correct certain flaws and to improve the overall thrust.

One clearcut example is the proposed six-month delay in the cost-of-living adjustment, from July 1983 to January 1984. This cutback would be partially offset by a measure to allow Supplemental Security Income recipients to disregard $50 of monthly Social Security benefits, instead of $20. The effect is to provide larger SSI checks for low-income older Americans who receive Social Security and SSI.

The increased Social Security disregard will be helpful to SSI recipients, but it will not shield the elderly poor from the proposed COLA cutback because many low-income older Americans do not receive SSI, for a variety of reasons:

-- Their assets may be too high, although they meet the income tests.

-- Some elderly persons find the SSI income and resource tests to be demeaning.

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NCBA is deeply concerned about eliminating the COLA for 1983 because the average Social Security retiree will lose about $132 in benefits in 1983 if the six-month COLA delay becomes effective. The average aged couple will sustain a $222 benefit loss. These reductions will swell to $1,100 for the average retiree and to $1,800 for an elderly couple for the period 1983-89.

The effect will be especially harsh for older Blacks because many have incomes hovering just above the poverty lines. The net impact is that large numbers of older Blacks and other older Americans will be pushed into poverty if the six-month COLA delay becomes effective.

Older Blacks are already three times as likely to be poor as elderly Whites. In 1981, 820,000 older Blacks — about 88 percent of all Blacks 65 or older — were poor. Older Americans were considered poor in 1981 if their income fell below $4,359 a year ($5,498 for an elderly couple). In addition, another 306,000 older Blacks were marginally poor. Their incomes were above the poverty levels but not more than 25 percent above it. The bottom line is that almost 1.1 million Blacks 65 or older — more than one out of every two aged Blacks (53.6 percent) either lived in poverty or so close to it in 1981 that they really could not appreciate the difference.

For these reasons, NCBA urges the Committee to reject the National Commission's proposal to postpone the COLA.

General Revenue Financing

NCBA favors raising revenue to improve Social Security's financing, rather than cutting back benefit coverage. We support general revenue financing because it would make Social Security more progressive. General revenue financing is also justified because:

— Considerable benefits go to people who are too old to have worked long enough to make full contributions to the system.

— The payroll tax is regressive and has just about reached its limits of political acceptability.

-- Several socially-oriented features of Social Security — such as the special minimum monthly benefit and the weighted benefit formula -- are appropriately supported by the general revenues.

Morever, general revenues can maintain the overall dollar amount of the National's Commission's package and without adding to the budget deficit. For example, the needed general revenues could be raised by postponing or limiting part of the scheduled 1983 income tax reduction. Additional revenue could be provided by eliminating the automatic indexing of the Internal Revenue Code. Further revenue could be raised by closing gaping loopholes in the Internal Revenue Code, such as the $75,000 income tax exclusion for U.S. citizens who work abroad and meet other requirements.

The additional revenue from these measures could strengthen Social Security financing without the COLA delay and accelerating the payroll tax rate, as recommended by the National Commission on Social Security Reform.

<u>Opposition to Raising Eligibility Age for Full Benefits</u>

NCBA strongly opposes proposals to increase the eligibility age for full Social Security benefits. Elderly Blacks and other aged minorities would be the big losers under this proposal because they have shorter life expectancies than Whites. For example, the life expectancy for Black males was 64.0 years in 1979 compared to 71.8 years for White males.

Blacks and other minorities would suffer under this proposal in other ways. Large numbers now must accept actuarially reduced benefits at an earlier age, oftentimes involuntarily, because:

— They are unable to obtain employment after being laid off from work, especially those in unskilled occupations;

— They may have exhausted their unemployment benefits after a prolonged and fruitless search for work; or

-- They have a disabling condition preventing them from working, but it is not serious enough to meet the stringent definition to qualify for benefits under the Social Security law.

Promote Employment Options

NCBA opposes legislation to raise the eligibility age for full Social Security benefits. We strongly believe that our national policies should promote employment opportunities for all Americans, including older Americans. However, there are clearly more effective ways to achieve this objective than to increase the retirement age under Social Security.

NCBA supports the following measures to promote employment opportunities for older Americans:

—Mandatory retirement should be abolished completely for employees in the private sector, as well as state and local governments. The federal government has already taken the lead in eliminating mandatory retirement for nearly all civilian employees. We believe that this policy should be extended to other workers. NCBA fully recognizes that this recommendation would come within the jurisdiction of the Labor and Human Resources Committee. But, we have offered this proposal in the context of Social Security hearings because it is so vitally important to establish a long awaited national employment policy for older Americans.

-- The delayed retirement credit should be gradually increased — from 3 percent to 8 percent per year — to make it more attractive for people to work after age 65.

— The earnings test should be liberalized with the eventual goal of total abolition.

Special Minimum Monthly Benefit

Finally, NCBA urges that the special minimum monthly benefit be raised to a more adequate level for persons with low lifetime earnings. At present, the special minimum payment is $345.10 for individuals with 30 or more years of covered employment under Social Security. This benefit is still well below the poverty level.

NCBA believes that persons who have been employed either all or nearly all of their working lives under Social Security should be able to live in dignity and self respect. We urge that the special minimum monthly payment be increased to at least 10 percent above the poverty threshold.

Conclusion

NCBA recognizes that there are obviously other issues that must be addressed by the Finance Committee in developing the 1983 Social Security Amendments. We have focused on these measures because of their importance for older Blacks.

NCBA reaffirms support for these proposals as keystone elements for assuring a sound and equitable Social Security financing package.

National
Farmers Union

SUMMARY STATEMENT

BY

RUTH E. KOBELL
LEGISLATIVE ASSISTANT
NATIONAL FARMERS UNION

SUBMITTED TO

COMMITTEE ON FINANCE
UNITED STATES SENATE

February 23, 1983
Washington, D.C.

Social Security is of such fundamental importance to the economic security of farm families that the Executive Branch and the U.S. Congress must take immediate steps to assure the solvency, reliability and stability of the system.

The current crisis in Social Security is neither inherent nor internal. The program is having severe, but temporary, cash-flow problems because of the poor performance of the economy. The troubles are directly attributable to the recession and high levels of unemployment.

In a full-employment economy, the Social Security retirement trust fund would be in excellent condition.

Nevertheless, nothing must be allowed to undermine public confidence in the Social Security program. Since, from all indications, a sluggish economy, with unacceptable levels of unemployment, may persist for several years ahead, it is important as the National Commission on Social Security Reform has recommended to take emergency measures to alleviate cash-flow problems for the next six years.

In the Attachment "C", submitted with our statement, which we ask you to include in the record of this hearing, we reproduce

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in parallel columns, the Commission findings along with the attitude of the National Farmers Union on many of the points.

Obviously, we do not agree with every part and particle of the reform package. Nevertheless, we consider it urgent for the Congress to proceed expeditiously and place a bill on the President's desk hopefully by the end of March.

We do suggest, however, some improvements, refinements and clarifications which could be adopted without harm to the basic thrust of the Commission recommendations and without causing damaging delay.

Let me review our two most vital concerns and ask you to note the other recommendations which we make in the basic statement.

First, there is an unfortunate and unforeseen impact upon self-employed farmers in the Commission proposal to increase the self-employment tax rate from 9.3% to 13.4%, with one-half of the 13.4% tax rate being deductible as a business expense for income tax purposes.

Proponents of this provision apparently assumed that this would cut back the self-employed tax rate to the same 6.7% rate which now applies to wage-earners. This will be true only for higher-income self-employed.

Most of America's farmers have been in the lower income brackets for at least three years, with little prospect of an escape from that situation anytime soon. For those, who have little or no income tax liability, the business deduction will be unusable.

Farmers who have no net income or very little net income have an option to pay the OASDI tax on $1,600 a year in order to continue to contribute to the retirement trust fund. But, how does one take a business deduction fully on the overpayment of the tax?

During the Commission deliberations, consideration was given to providing a refundable tax credit, rather than a business deduction. Without being aware of the consequences for low-income self-employed, the Commission opted for the business deduction approach. Clearly, however, self-employed farm operators will pay sharply higher net taxes under the business deduction approach than they would with a refundable tax credit. See Attachment "D".

Therefore, we feel the Congress should change the provision to a refundable tax credit which would assure that no farmer or other taxpayer would pay more than the intended 6.7% rate.

Second, although the Reform Commission made some recommended changes regarding the situation of widows, divorcees and disabled spouses, a particularly severe problem area is untouched. Farm women do not have equality in eligibility for benefits. Women, who are for all intents and purposes partners in the farming operation, are not recognized as such for the purpose of payment of taxes towards a Social Security account in their own names.

As a practical matter, administrative rules and practice have discouraged farm couples from paying Social Security taxes on both individuals even though the federal law is quite clear in noting that intent to operate as partners is sufficient, even where there may be no written document to prove the partnership. This discrimination against the farm wife should be rectified.

Thank you for the opportunity to express these concerns and to indicate the urgency of early action on the reform package.

National Farmers Union

STATEMENT BY

RUTH E. KOBELL

LEGISLATIVE ASSISTANT
NATIONAL FARMERS UNION

SUBMITTED TO

COMMITTEE ON FINANCE
UNITED STATES SENATE

WASHINGTON, D.C.

FEBRUARY 23, 1983

RELATIVE TO

LEGISLATION TO ASSURE THE SOLVENCY AND
STABILITY OF THE SOCIAL SECURITY SYSTEM

National Farmers Union, an organization of some 350,000 family-scale farm operators across the Nation, appreciates the opportunity to present views and recommendations aimed at dispelling real or imagined threats to the solvency of the Social Security retirement trust fund.

We regard Social Security as one of the truly great achievements of American society in the past fifty years. Although National Farmers Union had urged the inclusion of farm operators in the program from the beginning, it was not until 1954 that the law was amended to so provide. ATTACHMENT "A" provides a chronology on farmers and Social Security.

Although the Social Security retirement trust fund faces some financial difficulty during the balance of this decade due to the recession and high unemployment, it is a basically sound and durable system which can be assured full financial viability without damage to its basic structure.

We applaud the unanimous finding of the National Commission that the Congress "should not alter the fundamental structure of the Social Security program or undermine its fundamental principles."

We are heartened that the Reform Commission unanimously rejected alternative proposals, such as its conversion into a voluntary program or the introduction of a means test, which, in our opinion, would lead eventually to the destruction of the system.

Before Social Security, farmers were among the groups having the least cushion for the retirement years. If Social Security were to become bankrupt or to be destroyed legislatively, farmers would again be among the most vulnerable in our society.

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Social Security's problems are external, not inherent. The present crisis is entirely attributable to the bad performance of the national economy over the past five years.

When the last major Social Security bill was enacted in 1977, the Congress based its decisions on the "intermediate scenario" in economic projections and felt assured that the new schedule of rates and benefits would keep it financially sound well into the next century.

The economy has not performed as anticipated and the result has been a cash-flow problem resulting entirely from a deficit in revenues rather than from overly bountiful retirement benefits or cost-of-living adjustments.

Fortunately, the shortfall is neither inevitable nor permanent. If most of the currently unemployed were back at work, paying Social Security taxes, this would alone resolve the problem.

It has been estimated that Social Security loses between $5 and $8 billion a year in revenue for each one percent of unemployment. Taking the low end of this range, it can be seen that if unemployment were reduced by six percent, revenues of the Social Security retirement trust fund would improve by $30 billion a year. Multiply that by six times and you take care of the projected deficit about which the Reform Commission was concerned.

Though we are satisfied that the Social Security crisis was greatly overblown by some of its critics, we nevertheless feel that nothing must be allowed to undermine public confidence in the program.

At the same time, we are constrained to warn that, unless steps are taken to move towards a full-employment economy, there may be recurring cash-flow crises, even though the Reform Commission's consensus package is designed to take care of things at least to 1990.

Basically, we endorse the consensus package developed by the Reform Commission and consider it urgent that the Congress place a bill on the President's desk for signature hopefully by the end of March.

We do not agree with every part and particle of the 22 major findings of the Reform Commission, but we urge early Congressional acceptance of what is a reasonably balanced compromise. See ATTACHMENT "C".

Having said this, however, we do not feel we can be silent about some improvements, refinements, and clarifications which could be adopted without harm to the basic thrust of the package and without damaging delay.

Our most serious concern relates to the Commission's proposal that the Social Security tax rate for the self-employed be raised from 9.3% to 13.4% and that one-half of the 13.4% tax would be deductible as a business expense for income tax purposes.

It was apparently assumed that this would cut back the Social Security tax for self-employed to the same 6.7% tax rate which applies to wage earners. This would be true, in our opinion, only for the higher-income self-employed.

It would not be true for the lower-income self-employed, among which most of America's farmers would be found.

For most of the past thirty years and certainly in the last three years, farmers' net income has been chronically low.

For farmers and other self-employed who have little or no federal income tax liability, the business tax deduction would be unusable.

Yet, farmers would still pay a Social Security self-employment tax under the provision of the law which gives them the option of paying the tax on $1,600 a year in income in order to maintain some continuity of payments to the retirement trust fund. See ATTACHMENTS "E" and "F" for regulations under which farmers pay taxes on self-employment income. But, how does one take a business deduction if there is little or no tax liability? It is meaningless.

In ATTACHMENT "B", we submit some data on the relative proportion of U.S. farmers showing an operating profit or an operating loss for the 1978 tax year, the latest data which we have at the moment from IRS sources.

We understand that during the Reform Commission deliberations, some attention was taken of the possibility of providing a refundable tax credit, rather than a business deduction. Without being aware of the consequences for low-income self-employed, the Commission report opted for the business deduction approach. See ATTACHMENT "D".

Clearly, from examination of limited data from actual farm situations, it appears that self-employed farm operators would pay substantially higher net taxes under the business deduction approach than they would with a refundable tax credit.

Therefore, we think it is essential for the Congress to make provision for a refundable tax credit which would have the effect of assuring that no farmer or other self-employed taxpayer would pay more than the intended net 6.7% tax rate.

In the accompanying ATTACHMENT "C", we provide our point-by-point attitude on most of the 22 major findings of the Reform Commission.

We do not believe that any reduction in current benefits is needed or desirable. Therefore, we object to both the proposal to delay the cost-of-living adjustment for six months and the suggestion to impose federal income tax on Social Security benefits received by higher-income beneficiaries. We consider any reduction of current benefits as a breach of contract.

Some other method of obtaining comparable amounts of revenue should be substituted. One obvious possibility, which would raise more than a comparable amount of revenue, would be to have employers pay the Social Security tax on the entire wage base, not just the share on which the wage-earner pays.

We note with interest that the Reform Commission made some minor recommendations regarding the status of widows, divorcees and disabled spouses, and gave study to numerous other problems of women.

However, apparently no study was given to an area of the law which needs to be rectified if farm and other women are to have some equality in eligibility for benefits.

Farm women, for example, do not have such equality. Women, who for all intents and purposes are partners in the farming operation, are not recognized as such for the payment of self-employment taxes towards a Social Security account in their own names.

As a practical matter, we find many, many examples in our contacts with farm women, where administrative rules and practices are being interpreted to discourage farm couples from paying Social Security taxes on both individuals even though the federal law is quite specific in noting that intent to operate as partners is sufficient for Social Security purposes, even where there may be no written, legal document to prove the partnership.

This sort of discrimination against the farm wife should not be permitted to continue and Congress should make this crystal clear either in the new law or in the legislative language accompanying it.

In conclusion, we believe that the problem of the self-employment taxes needs to be handled in the reform statute now under consideration.

We hope that some clarification can be inserted either in the law or in the legislative language to clarify and perfect the rights of women to Social Security coverage and benefits.

Beyond that, if there is not time to cover other problem areas, we hope that the Congress will commit itself to eventual consideration through statements in the committee reports or conference reports.

We thank you for the opportunity to express our concerns and particularly to indicate our full support for early legislative action on the overall package.

ATTACHMENT "A"

CHRONOLOGY --- FARMERS AND THE SOCIAL SECURITY SYSTEM

1935 --- President Franklin D. Roosevelt, on August 14, signs the federal Social Security bill into law. However, farmers and other self-employed are not included because of perceived difficulties in formulating a system by which they would pay into the retirement system. National Farmers Union had advocated inclusion of farmers and farm workers.

1936 --- A Farmers Union committee makes a recommendation to the Roosevelt Administration that "the Nation's farmers be given equality of access to the new Social Security program."

1940 --- National Farmers Union convention at Denver recommends inclusion of farmers in Social Security. Conventions re-echoed the recommendation during the 1940s. The 1945 convention complained that farmers were the only major group left out.

1947 --- Farmers Union convention delegates again ask Social Security coverage for farmers. Also they propose national health insurance program.

1948 --- Coverage for farmers proposed by annual convention of National Farmers Union.

1950 --- National Farmers Union expressed disappointment that farmers were not included in P.L. 81-734, although it did bring into the Social Security system some regularly employed farm workers.

1952 --- Policy statement adopted at Farmers Union convention at Dallas again called on Congress to broaden coverage of the Social Security Act to include farm operators.

1954 --- Call for coverage of farmers again repeated by Farmers Union convention. On September 1, 1954, President Dwight D. Eisenhower signed an omnibus Social Security bill, P.L. 83-761, bringing a number of self-employed groups, including farmers and professionals, into the system. The law also broadened the coverage for part-time farm workers.

1956 --- P.L. 84-880 cleared the way for farm landlords to be considered self-employed farmers for purposes of the Social Security Act. This law also spelled out the regulations for farm workers in greater detail.

1959 --- In this and later years, Farmers Union advocated improvements in the Social Security program and in 1961, 1964, 1965 and 1967 also urged health care for the aged under Social Security.

ATTACHMENT "B"

DATA ON SELF-EMPLOYED FARMERS, NUMBERS AND OPERATING PROFIT 1978

The total number of persons filing Schedule "F" (farm) returns for 1978 was 3,109,664. Of these 2,666,309 were farm proprietors, while 443,355 were farm landlords.*

Of the 3.1 million total, 1.1 million reported only self-employment income. About 300,000 had both farm and nonfarm self-employment income. The remainder had both self-employment and wage income.**

Of the total of 3.1 million farm units, 1,671,496 reported an operating profit for the year, while 1,436,557 reported an operating loss. Thus 54% reported a profit for farming, 46% reported a loss. The average net earnings for all 3.1 million farms was $1,783. The average net income on the profitable farms was $7,814; the average net loss on the unprofitable farms was $5,230.*

It should be noted, of course, that almost two-thirds of the farm operations had other income besides the self-employment income, which would affect their situation as relates to payment of Social Security taxes.

Of the 3.1 million farms, about 8% were operated by a family headed by a woman.

*Source: IRS Publication 1131, 1978 Statistics of Income
SOLE PROPRIETORSHIP RETURNS

**Source: Office of Research and Statistics,
Social Security Administration, HHS

ATTACHMENT "C"

COMMISSION FINDINGS

(1) The members of the National Commission believe that the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles. The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully-funded program, or to change it to a program under which benefits are conditioned on the showing of financial need.

(2) The National Commission recommends that, for purposes of considering the short-range financial status of the OASDI Trust Funds, $150-200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds in calendar years 1983-89.

(3) The National Commission finds that, for purposes of considering the long-range financial status of the OASDI Trust Funds, its actuarial imbalance for the 75-year valuation period is an average of 1.80% of taxable payroll.

(4) The National Commission recommends that coverage under the OASDI program should be extended on a mandatory basis, as of January 1, 1984, to all newly hired civilian employees of the Federal Government. The National Commission also recommends that OASDI-HI coverage should be extended on a mandatory basis, as of January 1, 1984, to all employees of nonprofit organizations.

FARMERS UNION ATTITUDES

(1) National Farmers Union concurs fully in the unanimous finding of the National Commission that the Congress should not "alter the fundamental structure of the Social Security program or undermine its fundamental principles." Likewise we concur in rejection of proposals to make Social Security a voluntary program or to introduce a means test for beneficiaries.

(2) Assuming that economic stagnation and high unemployment persist for the next several years, the projected deficit may be as large as $150-$200 billion. However, Farmers Union believes that restoration of reasonably full employment would largely, if not completely, relieve the temporary cash-flow problem.

(3) - - - - -

(4) Farmers Union believes, ideally, that coverage should be universal.

COMMISSION FINDINGS

(5) The National Commission recommends that State and local governments which have elected coverage for their employees under the OASDI-HI program should not be permitted to terminate such coverage in the future -- specifically, termination notices now pending would be invalid if the process of termination is not completed by the enactment date of the new legislation.

(6) The National Commission is concerned about the relatively large OASDI benefits that can accrue to individuals who spend most of their working careers in noncovered employment from which they derive pension rights, but who also become eligible for OASDI benefits as a result of relatively short periods in covered employment with other employers. Accordingly, the National Commission recommends that the method of computing benefits should be revised for persons who first become eligible for pensions from non-covered employment, after 1983, so as to eliminate "windfall" benefits.

(7) The National Commission recommends that, beginning with 1984, 50% of OASDI benefits should be considered as taxable income for income-tax purposes for persons with Adjusted Gross Income (before including therein any OASDI benefits) of $20,000 if single and $25,000 if married. The proceeds from such taxation, as estimated by the Treasury Department, would be credited to the OASDI Trust Funds under a permanent appropriation.

FARMERS UNION ATTITUDES

(5) Farmers Union agrees that state and local governments, now in the program, should not be permitted to opt out. However, study is needed on the feasibility of requiring coverage of all state and local government employees.

(6) - - - - -

(7) Farmers Union considers the taxation of 50% of OASDI benefits an unwise policy, for two reasons, it constitutes a reduction of earned benefits and it introduces a means test into the program. Some other provision should be devised for an equivalent amount of revenue.

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COMMISSION FINDINGS

(8) <u>The National Commission recommends that the automatic cost-of-living adjustments of OASDI benefits should, beginning in 1983, be made applicable to the December benefit checks (payable early in January), rather than being first applicable to the June payments. The National Commission also recommends that the amount of the disregard of OASDI benefits for purposes of determining Supplemental Security Income payment levels should be increased from $20 a month to $50.</u>

(9) <u>The National Commission recommends that the following changes in benefit provisions which affect mainly women should be made:</u>

(a) <u>Present law permits the continuation of benefits for surviving spouses who remarry after age 60. This would also be done for (1) disabled surviving spouses aged 50-59, (2) disabled divorced surviving spouses aged 50-59, and (3) divorced surviving spouses aged 60 or over.</u>

(b) <u>Spouse benefits for divorced spouses would be payable at age 62 or over (subject to the requirement that the divorce has lasted for a significant period) if the former spouse is eligible for retirement benefits, whether or not they have been claimed (or they have been suspended because of substantial employment).</u>

(c) <u>Deferred surviving-spouse benefits would continue to be indexed as under present law, except that the indexing would be based on the increases in wages after the death of the worker (instead of by the increases in the CPI, as under present law).</u>

FARMERS UNION ATTITUDES

(8) The proposed six-month delay in automatic cost-of-living benefits is, in effect, a reduction in benefits, and unjustifiable in our opinion.Cost of living adjustments are vital to retirees and should not be scaled down simply due to a blundering federal policy on money and credit has caused inflationary pressures.

<u>Special Note:</u> National Farmers Union has no disagreement with points (a), (b), (c), and (d). However, these were only a few of the changes which the Commission studied involving rights of women as beneficiaries. A large area, however, did not come to the attention of the Commission, namely, the rights of a spouse in a self-employment situation. On this subject, the National Farmers Union policy statement, urges that "recognition should be given to the contribution which women partners make to the operation and management of a family farm. Under present law, women who are partners in the operation of a family farm are not covered for survivor benefits or disability insurance unless husband and wife have paid Social Security taxes for both as partners."
In many instances, farm couples are discouraged from paying Social Security taxes on both even though the law is quite clear in noting that intent to operate as *partners* is sufficient even though there may be no written document to prove the partnership.

COMMISSION FINDINGS

(9) The benefit rate for disabled widows and widowers aged 50-59 at disablement would be the same as that for non-disabled widows and widowers first claiming benefits at age 60 (i.e., 71½% of the Primary Insurance Amount), instead of the lower rates under present law (gradually rising from 50% at age 50 to 71½% for disablement at age 60). Such change would not only be applicable to new cases, but would also be applicable to beneficiaries of this category who are on the rolls on the effective date of the provision.

(10) The National Commission recommends that the OASDI tax schedule should be revised so that the 1985 rate would be moved to 1984, the 1985-87 rates would remain as scheduled under present law, part of the 1990 rate would be moved to 1988, and the rate for 1990 and after would remain unchanged. The HI tax rates for all years would remain unchanged. The resulting tax schedule would be as follows:

Year	Employer and Employee Rate (each)			
	OASDI		OASDI-HI	
	Present Law	Proposal	Present Law	Proposal
1983	5.4%	5.4%	6.7%	6.7%
1984	5.4	5.7	6.7	7.0
1985	5.7	5.7	7.05	7.05
1986	5.7	5.7	7.15	7.15
1987	5.7	5.7	7.15	7.15
1988-89	5.7	6.06	7.15	7.51
1990 and after	6.2	6.2	7.65	7.65

For 1984, a refundable income tax credit would be provided against the individual's Federal income-tax liability in the amount of the increase in the employee taxes over what would have been payable under present law.

FARMERS UNION ATTITUDES

(10) Some adjustment in the rate schedule appears justified as a part of the reform package. However, Congress should make the rate changes for 1986 and beyond subject to review, since they may not be needed in a revitalized national economy.

COMMISSION FINDINGS

(11) <u>The National Commission recommends that the OASDI tax rates for self-employed persons should, beginning in 1984, be equal to the combined employer-employee rates. One-half of the OASDI taxes paid by self-employed persons should then be considered as a business expense for income-tax purposes (but not for purposes of determining the OASDI-HI tax).</u>

Under present law, self-employed persons pay an OASDI tax rate which is approximately equal to 75% of the combined employer-employee rate (exactly 75% for 1985 and after) and an HI tax rate which is 50% of the combined employer-employee rate. Also, under present law, self-employed persons cannot deduct, as business expenses, any OASDI-HI taxes paid. The reduction in income taxes payable by the self-employed during 1984-89 as a result of considering one-half of their OASDI taxes as a business expense is estimated to be about $12 billion.

(12) <u>The National Commission recommends that the proposed OASDI tax rates should be allocated between the OASI and DI Trust Funds in a manner different from present law, in order that both funds will have about the same fund ratios.</u>

(13) <u>The National Commission recommends that the authority for inter-fund borrowing by the OASDI Trust Funds from the HI Trust Fund be authorized for 1983-87.</u>

FARMERS UNION ATTITUDES

(11) National Farmers Union does not object to the proposal to raise the OASDI tax rate for self-employed to the combined rate for employees and employers, providing that there is an iron-clad provision assuring that the net tax will not be greater than for the wage-earning employee. As proposed, this will not happen except for higher-income self-employed. Self-employed farmers with either a low tax liability or none at all will not be able to use the business tax deduction. The provision, instead, should be for a refundable tax credit, as had been explored in Commission Memorandum No. 56. Clearly, low-income self-employed will pay more net tax under the business deduction arrangement than they would under a refundable tax credit.

(12) - - - - -

(13) Authority for inter-fund borrowing should continue to 1989.

COMMISSION FINDINGS

(14) The National Commission recommends that a lump-sum payment should be made to the OASDI Trust Funds from the General Fund of the Treasury for the following items:

(a) The present value of the estimated additional benefits arising from the gratuitous military service wage credits for service before 1957 (subject to subsequent adjustments if the experience deviates from the estimates).

(b) The amount of the combined employer-employee OASDI taxes on the gratuitous military service wage credits for service after 1956 and before 1983 (which were granted as a recognition of non-cash remuneration, and the cost of which is met, under present law, when additional benefits derived therefrom are paid). The payment would include interest, but would be reduced for any costs therefor which were paid in the past to the OASDI Trust Funds from the General Fund of the Treasury. In the future, the OASDI Trust Funds would be reimbursed on a current basis for such employer-employee taxes on such wage credits for service after 1982.

(c) The amount of uncashed OASDI checks issued in the past (which were charged against the trust funds at time of issue), estimated at about $300-400 million. (The problem of uncashed checks in the future has been corrected as a result of changed procedures of the Treasury Department with regard to checks which are uncashed for a long time.)

FARMERS UNION ATTITUDES

(c) Uncashed checks should be returned to the Social Security trust fund from which they were drawn, rather than to the Treasury.

COMMISSION FINDINGS

(15) The National Commission recommends that, beginning with 1988, if the fund ratio of the combined OASDI Trust Funds as of the beginning of a year is less than 20.0% (except that, for 1988, the fund ratio to be considered would be that estimated for the end of that year), the automatic cost-of-living (COLA) adjustments of OASDI benefits should be based on the lower of the CPI increase or the increase in wages. If the fund ratio is 32.0% or more at the beginning of a year, payments will be made during the following year as supplements to monthly benefits otherwise payable to make up to individuals for any use of wage increases instead of CPI increases in the past, but only to the extent that sufficient funds are available over those needed to maintain a fund ratio of 32.0%.

(16) The National Commission recommends that the Delayed-Retirement Credit should be increased from the present 3% (for persons who attained age 65 after 1981) to 8%, to be phased in over the period 1990-2010.

(17) The National Commission recommends that, in the case of salary-reduction plans qualifying under Section 401(k) of the Internal Revenue Code, any salary reduction thereunder shall not be treated as a reduction in the wages subject to OASDI-HI taxes.

FARMERS UNION ATTITUDES

(15) Farmers Union believes that it would be desirable to continue to link cost-of-living adjustment to the CPI. CPI is a more general yardstick, more applicable to our society as a whole. In normal times, often wage increases have run somewhat ahead of the inflationary rate.

(16) - - - - -

(17) - - - - -

COMMISSION FINDINGS

(18) The National Commission believes that, in addition to the stabilizing mechanism of Recommendation (15), a fail-safe mechanism is necessary so that benefits could continue to be paid on time despite unexpectedly adverse conditions which occur with little advance notice. Several types of fail-safe mechanisms are possible other than the one currently being used --inter-fund borrowing; there is strong disagreement among the members as to which type of mechanism should be used. A combination of these types of mechanisms would, of course, be possible.

(19) The National Commission recommends that the investment procedures of the OASI, DI, HI, and SMI Trust Funds be revised so that (1) all future special issues would be invested on a month-to-month basis, (i.e., without fixed maturity dates, as under present law), at an interest rate based on the average market rate of all public-debt obligations with a duration of four or more years until maturity (not including "flower bonds"); (2) all present special issues would be redeemed at their face amount; (3) all "flower bonds" would be redeemed at their current market values; (4) all other current holdings would be held until maturity (unless disposed of sooner, if needed to meet outgo); and (5) only special issues would be purchased by the trust funds in the future.

(20) The National Commission recommends that two public members be added to the Board of Trustees of the OASDI Trust Funds. The public members would be nominated by the President and confirmed by the Senate. No more than one public member could be from any particular political party.

FARMERS UNION ATTITUDES

(18) - - - - -

(19) - - - - -

(20) This would be an acceptable arrangement.

COMMISSION FINDINGS

(21) A majority of the members of the National Commission recommends that the operations of the OASI, DI, HI, and SMI Trust funds should be removed from the unified budget. Some of those who do not support this recommendation believe that the situation would be adequately handled if the operations of the Social Security program were displayed within the present unified Federal budget as a separate budget function, apart from other income security programs.

(22) The majority of the members of the National Commission believes -- as a broad, general principle -- that it would be logical to have the Social Security Administration be a separate independent agency, perhaps headed by a bi-partisan board. The National Commission recommends that a study should be made as to the feasibility of doing this.

FARMERS UNION ATTITUDES

(21) National Farmers Union for several years has recommended that Social Security be removed from the unified budget. It should never have been placed therein, since it is a separate trust fund, and the revenues are legally reserved for program purposes. Congress has no responsibility to make annual appropriations from the Trust Fund. Inclusion in the unified budget merely makes it a target for political critics.

(22) National Farmers Union would find this acceptable. Our organization has recommended that the policy functions of OASDI be performed by a board of directors, appointed by the President and confirmed by the Senate, with staggered terms, and with the top administrator appointed by the board of directors.

ATTACHMENT "D"

NATIONAL COMMISSION ON SOCIAL SECURITY REFORM
736 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20503

October 8, 1982

MEMORANDUM NO. 56

TO: Members of the National Commission on Social Security Reform

FROM: Robert J. Myers
Executive Director

SUBJECT: Cost Effect of Increasing Contribution Rate for Self-Employed Persons to Combined Employer-Employee Rate

At the meeting of the National Commission on September 20, a request was made for a cost estimate as to the effect of increasing the OASDI-HI contribution rates for the self-employed to those for the employer and employee combined, and at the same time providing a refundable income tax credit equal to 25% of the OASDI-HI taxes paid. This would be effective for 1984 and after.

Under present law, the self-employed rate is 1½ times the employee rate for OASDI and is the employee rate for HI.1/ For 1982-84, the aggregate effect for the OASDI-HI tax rate is that the self-employed rate is 69.8% of the combined employer-employee rate, with the corresponding proportions being 70.2% for 1985, 69.9% for 1986-89, and 70.3% for 1990 and after according to the tax schedule in current law.

Insofar as the OASDI tax rates are concerned, the proposal would involve no increase in cost to the self-employed over the long run, because the increased OASDI tax would generally be exactly counterbalanced by the refundable tax credit.2/ The doubling of the HI tax rate for the self-employed, however, would result in a net increased cost, because the refundable income tax credit would offset only half of the increased HI tax. For example, for a self-employed person with the estimated maximum taxable earnings of $37,500 in 1984, the present basis would result in an OASDI-HI tax of $3,506.25, while the proposal would produce a net cost (after allowing for the refundable income tax credit) of $3,768.75.

1/ In 1982-84, the self-employed rate is .05% less than 1½ times the employee rate.

2/ In 1984, because the self-employed rate is slightly less than 75% of the combined employer-employee rate, there would be a very small increased cost to the self-employed -- namely, $18.75 for a person with earnings of $37,500, the currently estimated earnings base for 1984.

Some persons might argue that this proposal would indirectly inject general revenues into the financing of the OASDI and HI programs on an ongoing basis. The counter argument could be made that virtually the same result would occur if all self-employed persons were to incorporate their businesses, in which case half of the combined employer-employee rate would be considered a business expense and would thus result in lower income-tax liability. (For those in the 50% income-tax bracket, the result of such incorporation on the net cost for both OASDI-HI and income taxes would be the same as would occur under the proposal; for those in lower brackets, such net cost would be somewhat higher due to incorporation than under the proposal.)

The additional income to the OASDI and HI programs under this proposal is estimated under the Alternative II-B assumptions, to be as follows (in billions):

Calendar Year	OASDI	HI	OASDI-HI
1984	$.9	$.4	$1.3
1985	2.8	1.3	4.1
1986	3.1	1.5	4.6
1987	3.4	1.7	5.1
1988	3.6	1.8	5.4
1989	3.8	2.0	5.8
1990	4.2	2.1	6.3
1991	4.8	2.2	7.0

The long-range OASDI cost savings for this proposal is .19% of taxable payroll over the 75-year valuation period, under the Alternative II-B assumptions (.15% for the first 25-year period, .19% for the second 25-year period, and .23% for the third 25-year period). The corresponding cost savings for the HI program over its 25-year valuation period is .14% of taxable payroll.

The decreases in general revenues resulting from the refundable income tax credit are estimated to be as follows, on an "accrual" basis (in billions):

Calendar Year	Loss in Revenues
1984	$1.1
1985	3.4
1986	3.9
1987	4.3
1988	4.6
1989	4.9
1990	5.4
1991	6.0

Robert J. Myers

B-3 Accelerate the 1985 and 1986 OASDI-HI tax rates to 1984.**

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-9.4	-.6	0	0	0	0	-10.0
III, OASDI	0	-9.1	-.6	0	0	0	0	-9.7
II-B, HI	0	-4.9	-3.8	-.2	0	0	0	-8.8
III, HI	0	-4.7	-3.8	-.2	0	0	0	-8.7

25-Year Cost, OASDI: -.02% of taxable payroll
50-Year Cost, OASDI: -.01% of taxable payroll
Long-Term Cost, OASDI: -.01% of taxable payroll

25-Year Cost, HI: -.02% of taxable payroll

B-4 Increase the OASDI-HI tax rate for self-employed persons to the combined employer-employee rate, effective in 1984.***

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-.9	-2.8	-3.1	-3.4	-3.6	-3.8	-17.5
III, OASDI	0	-.8	-2.6	-3.0	-3.3	-3.6	-3.9	-17.3
II-B, HI	0	-.4	-1.3	-1.5	-1.7	-1.8	-2.0	-8.7
III, HI	0	-.4	-1.2	-1.5	-1.7	-1.8	-2.0	-8.6

25-Year Cost, OASDI: -.15% of taxable payroll
50-Year Cost, OASDI: -.17% of taxable payroll
Long-Term Cost, OASDI: -.20% of taxable payroll

25-Year Cost, HI: -.14% of taxable payroll

** The figures shown assume that the taxes resulting from the 1986 increase in the HI portion of the tax rate would go into the HI Trust Fund. It would be possible to keep the HI tax rate under the proposal at the same level in 1984-85 as under present law and to reallocate the increase in the OASDI-HI rate entirely to the OASDI Trust Funds; then, the cost effect for the OASDI Trust Funds would be the sum of the figures shown for OASDI and HI.

*** In conjunction with this proposal, a tax credit for the self-employed equal to 25% of the self-employment tax could be provided. Alternatively, 50% of the payroll tax paid by the self-employed could be made tax deductible as a business expense.

ATTACHMENT "E"

SCHEDULE SE - FORM 1040

SCHEDULE SE (Form 1040)
Department of the Treasury Internal Revenue Service

Computation of Social Security Self-Employment Tax
▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074 **1982** 22

Name of self-employed person (as shown on social security card): *James Arthur Brown*
Social security number of self-employed person ▶ 579 | 28 | 6685

Part I Regular Computation of Net Earnings from Self-Employment

1 Net profit or (loss) from Schedule F (Form 1040), line 57 or line 90, and farm partnerships, Schedule K-1 (Form 1065), line 18b	1	28,068	
2 Net profit or (loss) from Schedule C (Form 1040), line 32, and Schedule K-1 (Form 1065), line 18b (other than farming). See instructions for kinds of income to report. Note: If you are exempt from self-employment tax on your earnings as a minister, member of a religious order, or Christian Science practitioner because you filed Form 4361, check here ▶ [ ]. If you have other earnings of $400 or more that are subject to self-employment tax, include those earnings on this line	2		

Part II Optional Computation of Net Earnings from Self-Employment

Generally, this part may be used only if:
- Your gross farm profits were not more than $2,400, or
- Your gross farm profits were more than $2,400 and your net farm profits were less than $1,600, or
- Your net nonfarm profits were less than $1,600 and less than two-thirds (⅔) of your gross nonfarm income.

See instructions for other limitations.

3 Maximum income for optional methods	3	$1,600	00
4 Farm Optional Method—Enter two-thirds (⅔) of gross profits from Schedule F (Form 1040), line 31 or line 88, and farm partnerships, Schedule K-1 (Form 1065), line 18a, or $1,600, whichever is smaller	4		
5 Subtract line 4 from line 3	5		
6 Nonfarm Optional Method—Enter the smaller of two-thirds (⅔) of gross profits from Schedule C (Form 1040), line 3, and Schedule K-1 (Form 1065), line 18c (other than farming), $1,600, or, if you elected the farm optional method, the amount on line 5	6		

Part III Computation of Social Security Self-Employment Tax SE

7 Enter the amount from Part I, line 1, or, if you elected the farm optional method, Part II, line 4	7	28,068	
8 Enter the amount from Part I, line 2, or, if you elected the nonfarm optional method, Part II, line 6	8		
9 Add lines 7 and 8. If less than $400, you are not subject to self-employment tax. Do not fill in the rest of the schedule	9	28,068	
10 The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax for 1982 is	10	$32,400	00
11 a Total FICA wages from Forms W-2 and RRTA compensation . . 11a			
b Unreported tips subject to FICA tax from Form 4137, line 9, or to RRTA tax . . 11b			
c Add lines 11a and 11b	11c		
12 Subtract line 11c from line 10	12	32,400	
13 Enter the smaller of line 9 or line 12	13	28,068	
If line 13 is $32,400, fill in $3,029.40 on line 14. Otherwise, multiply line 13 by .0935 and enter the result on line 14		.0935	
14 Self-employment tax. Enter this amount on Form 1040, line 51	14	2,624	

ATTACHMENT "F"

Instructions for
Schedule SE
Social Security Self-Employment Tax

Purpose

Schedule SE is used by self-employed persons to figure any self-employment tax due. The Social Security Administration uses the information provided on Schedule SE to figure benefits for self-employed people under the social security program. Social security self-employment tax applies regardless of your age, and even if you are receiving social security benefits.

Who Must Use Schedule SE

You must use Schedule SE if:
- You were self-employed,
- Your net earnings from self-employment were $400 or more, and
- You did not have wages (including tips) of $32,400 or more that were subject to social security tax or railroad retirement tax.

Who Should Use Schedule SE

You should use Schedule SE if you will benefit from using the optional method of computing self-employment earnings.

Use of the optional method may benefit you if:
- Your self-employment earnings are less than $400 and Form 1040, line 33, is less than $10,000 and you wish to claim the earned income credit; or
- You had a loss from self-employment and you need to increase your net earnings from self-employment to qualify to claim the child and dependent care credit.

Fiscal Year Filers

If your tax year is a fiscal year, you must use the tax rate and earnings base that apply at the time the fiscal year begins. You need not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

More Than One Business

If you farmed and had at least one other trade or business or had two or more trades or businesses, your net earnings from self-employment are the combined net earnings from all your businesses. If you had a loss in one trade or business, it reduces the income from another. Figure the combined self-employment tax on Schedule SE.

Joint Returns

Show the name of the spouse with self-employment income on Schedule SE. If both spouses have self-employment income, each must file a separate Schedule SE. Include the total profits or losses from all businesses on Form 1040, line 12 or 19, as appropriate. Then enter the combined self-employment tax on Form 1040, line 51.

Community Income

In figuring net earnings from self-employment, if any of the income from a business, including farming, is community income, all the income from that business is considered the income of the spouse who carried on the trade or business unless there is a husband and wife partnership. The identity of the spouse who carried on the trade or business is determined by the facts in each situation.

If you file separate returns, attach Schedules C and SE (for nonfarm business) or Schedules F and SE (for farm business) to the return of the spouse with the self-employment income. Community income included on these schedules must be divided, for income tax purposes, on the basis of the community property laws.

Partnerships

In figuring your combined net earnings from self-employment, you should include your entire share of earnings from a partnership, including any guaranteed payments. However, if you are a limited partner, do not include your share of income or loss from the partnership, other than guaranteed payments. Unless you and your spouse are partners, no part of your partnership earnings can be treated as your spouse's even if the income, under State law, is community income. If you and your spouse have a partnership, enter the distributive share of each as partnership income on Schedule E (Form 1040), Part II for income tax purposes, and on separate Schedules SE, line 1 or line 2, for self-employment tax purposes.

If a partner in a continuing partnership dies, that member's distributive share of partnership ordinary income or loss for the year must be included in the partner's net earnings from self-employment.

Share-Farming

If you produced crops or livestock on land belonging to another for a share of the crops or livestock produced, or the proceeds from them, you are an independent contractor and a self-employed person rather than an employee. Report your net earnings for income tax on Schedule F and for social security self-employment tax on Schedule SE.

Line-By-Line Instructions

We have provided specific instructions for some of the lines on the schedule. Those lines that do not appear in the instructions are self-explanatory.

Name of self-employed person. Enter the name and social security number of the self-employed person as it appears on that person's social security card.

Part I

Regular Computation of Net Earnings from Self-Employment

Income Not Included in Net Earnings from Self-Employment

- Salaries, fees, etc. subject to FICA tax which you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained under Income Included in Net Earnings from Self-Employment) or as an employee or employee representative under the railroad retirement system.
- Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments, if you had no other interest in the partnership and did not perform services for it during the year.
- Real estate rentals, unless received in the course of a trade or business as a real estate dealer. These include cash and crop shares received from a tenant or sharefarmer. You should report these amounts on Schedule E, Part I.
- Dividends on shares of stock and interest on bonds, debentures, notes, certificates, or other evidence of corporate indebtedness unless received in the course of your trade or business as a dealer in stocks or securities.
- Gain or loss from:
  - The sale or exchange of a capital asset;
  - The sale, exchange, involuntary conversion, or other disposition of property, unless the property is stock in trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business;
  - Certain transactions in timber, coal, or domestic iron ore; or
  - Net operating losses from other years.

Other Income Included in Net Earnings from Self-Employment

- Rental income from a farm if the rental arrangement provides for material participation by the landlord and, as landlord, you participated materially in the production or management of the production of farm products on this land. This income is farm earnings. Report it on Schedules F and SE. (To determine whether you participated materially in farm management or production, do not consider the activities of any agent who acted for you.)

- Payments for the use of rooms or other space when services are also provided to the occupant, such as rooms in hotels, boarding houses, tourist camps, or homes.
- Payments you received for space in parking lots, trailer parks, warehouses, or storage garages.
- Income you received from the retail sale of newspapers and magazines if you are 18 or over and kept the profits.
- Income you received as a crew member of a fishing vessel with a crew of normally less than 10 individuals. See Publication 595, Tax Guide for Commercial Fishermen, for more information.
- Fees you received for services performed as a State or local government employee provided you are compensated solely on a fee basis and the position is not covered under a Federal-State social security coverage agreement.
- The rental value of a home or an allowance for a home furnished you if you are a minister or a member of a religious order.
- The value of meals and lodging provided to you for the convenience of your employer if you are a minister or member of a religious order.
- Director's fees and other payments received by a director of a corporation for services as a director.
- Fiduciaries' fees received by professional fiduciaries. Also, nonprofessional fiduciaries if the fees relate to active participation in the operation of the estate's trade or business or the facts indicate the fiduciary manages an estate which requires extensive management activities over a long period of time.

Lines 1 and 2.—Exclude from lines 1 and 2 any income or expense not included in figuring net earnings from self-employment and attach an explanation. If you are a partner, adjust lines 1 and 2 for any expense deduction for recovery property (section 179) claimed, oil or gas depletion, or unreimbursed partnership expenses.

Part II

Optional Method for Figuring Net Earnings from Farm Self-Employment

If your gross farming profits for the year were not more than $2,400, you can report two-thirds of your gross farm profits instead of your actual net earnings from farming.

If your gross farm profits were more than $2,400, and your net farm earnings were less than $1,600, you can report $1,600 on line 4.

There is no limit on how many times you can elect this optional method. If you use this method, you must apply it to all farm earnings from self-employment for the year. This method can be used to increase or decrease net farm earnings, even if the farming operation resulted in a loss. You may change the method (from actual net to optional net or the reverse) after you file your return.

For a farm partnership, figure your share of gross profits according to the partnership agreement. With guaranteed payments, your share of the partnership's gross profits is your guaranteed payment plus your share of the gross profits after they are reduced by all guaranteed payments of the partnership. Limited partners should include only guaranteed payments.

NATIONAL FEDERATION OF LICENSED PRACTICAL NURSES

The National Federation of Licensed Practical Nurses is pleased to have the opportunity to present its views on President Reagan's prospective Payment proposal for Medicare.

As the professional association representing the nations 750,000 licensed practical nurses, we are particularly concerned about the cost of health care, as well as the quality. Our concerns are that those who are in need of Medicare services should have the opportunity to receive quality care at a reasonable cost. We are also concerned that the efforts to reform the Medicare program should not be done with the idea that this is an alternative to a national health care system.

As nurses and patients, we are deeply concerned about the high costs of health care and that the costs of health care continue to rise at a more rapid rate than any other component in our economy.

In our testimony today, we would like to address the prospective payment proposal mechanism for Medicare based on the Diagnostic Related Group (DRGs). Under this system, Medicare would establish the rates in advance rather than by costs hospitals incur in treating patients. The Department of Health and Human Services would establish these rates based on a patient's diagnosis using one of the 467 DRGs to classify the patients illness or treatment. All hospitals will be paid at the same rate but there would be an adjustment for local labor costs.

We agree with the concept that health care costs must be contained and that while last years Tax Equity Fiscal Responsibility Act made an effort to contain costs by adding incentives to the program, there is no overall system which urges the delivery of health care to be cost efficient.

We support the concept that there must be incentives to keep health care costs down, but the suggested changes by the administration do not, in our opinion, provide a system which protects the elderly and disabled.

We believe that this system might increase the burden on those who can least afford it and we are concerned that under the administrations proposal, the concept of prospective payment applies only to Medicare. The Federation believes that the cost containment applies to all payors. If there is no conformity among all participants the system will lead to different quality levels of care. It will, in fact, create a system of private health care, public health care and Medicare.

Secondly, the prospective payment concept should apply to all providers. The idea that just hospitals are the only providers of health care is unrealistic. In general, we are concerned with the following problems:

1. We want to avoid a system which will place an unfair burden on the public and non-profit hospitals in treating those patients who are most ill and therefore are the most costly patients.

2. We want to have a professional standard review system which includes all providers, hospitals doctors, registered nurses and licensed practical nurses. Quality assurance and peer review is an essential of any program which attempts to insure a quality care.

3. We have concerns that the DRG mechanism may not be the most appropriate. It is difficult to have a mechanism, such as DRG, to fully compensate for the needs of a particular patient or family. There might be circumstances where additional support from nursing personnel is essential and that the general category described by the DRG may not allow for this exception. We are concerned, too, that the DRG may not provide highest quality care.

4. The processes described by the administration shows a basis of favorable treatment for surgical procedures as opposed to non-surgical procedures. It is conceivable and entirely possible that surgical procedures

will not be curtailed and, in fact, may be encouraged.

Our major concern is to be able to give the public total and complete quality health and medical care, including nursing services. In this regard, we believe nursing services are an integral part to health care delivery and that total care, in fact, in many times is the primary reason for hospital care in the first place. The failure of our present system to identify nursing services is unwise. Classified under routine operating costs, nursing services run the risk of being the first area cut during cost efficiency efforts.

We believe that the present system does little to curtail rising costs of health care. However, we see many deficiencies in the administrations proposal for prospective payments. We believe that an overhaul of the system is necessary to place cost incentives in the program but before we institute new policies and procedures to achieve this goal we must be sure that it is fair and reasonable to the patients and to the health providers.

We thank you for the opportunity to share our views on this matter and we hope that you will again seek our views in regard to this important health care matter.

NATIONAL LEAGUE OF POSTMASTERS
OF THE UNITED STATES
1023 N. Royal St., Alexandria, VA 22314-1569 • Telephone—(703) 548-5922

STATEMENT OF
R. FAIN HAMBRIGHT, PRESIDENT
NATIONAL LEAGUE OF POSTMASTERS
BEFORE THE
SUBCOMMITTEE ON SOCIAL SECURITY
AND
INCOME MAINTENANCE PROGRAMS
OF THE
SENATE FINANCE COMMITTEE
FEBRUARY 22, 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM R. FAIN HAMBRIGHT, PRESIDENT OF THE NATIONAL LEAGUE OF POSTMASTERS. OUR ORGANIZATION REPRESENTS MORE THAN 22,000 POSTMASTERS THROUGHOUT THIS NATION, MANY OF THEM IN RURAL POST OFFICES SUCH AS THE KIND YOU ARE FAMILIAR WITH IN YOUR HOME STATE OF COLORADO. OUR MEMBERS NOT ONLY ENJOY THE DAILY CONTACT WITH THE PUBLIC ON POSTAL MATTERS, BUT WE TOUCH THE LIVES OF SOCIAL SECURITY RECIPIENTS AND UNDERSTAND THE IMPORTANCE OF A FINANCIALLY SOUND SYSTEM. IN MOST COMMUNITIES WE REPRESENT THE ONLY CONTACT THEY HAVE WITH THEIR GOVERNMENT WHICH IS SYMBOLIZED BY THE AMERICAN FLAG WAVING OVER THEIR POST OFFICE. IN ADDITION, WE REPRESENT MORE THAN 70,000 OTHER FEDERAL EMPLOYEES AS ASSOCIATE MEMBERS, ENROLLED IN OUR POSTMASTERS BENEFIT PLAN. POSTAL EMPLOYEES HAVE THEIR OWN COMPREHENSIVE RETIREMENT PLAN ESTABLISHED IN 1920 AS AN EMPLOYEE CONTRIBUTORY PLAN DESIGNED AS A FULL RETIREMENT PLAN.

THANK YOU, MR CHAIRMAN, FOR INVITING US TO EXPRESS OUR VIEWS CONCERNING THE REPORT OF THE PRESIDENT'S COMMISSION ON SOCIAL SECURITY AND ITS EFFECT UPON THE POSTMASTERS OF THIS NATION.

THE NATIONAL LEAGUE OF POSTMASTERS SHARES THE CONCERN OF ALL AMERICANS ON THE FINANCIAL STATUS OF THE TROUBLED SOCIAL SECURITY SYSTEM. FURTHER, WE DESIRE TO PARTICIPATE IN ANY EFFORT TO ASSURE THE SOLVENCY OF THE SYSTEM; HOWEVER, WE BELIEVE THE PRESIDENT'S COMMISSION APPROACHED THIS COMPLEX PROBLEM WITH ONLY ONE VIEW IN MIND - A QUICK INFUSION OF CASH INTO THE SYSTEM. ON THAT SPECIFIC ISSUE, THE REPORT APPEARS TO HAVE FOUND A WORKABLE SOLUTION. HOWEVER, CONGRESS WILL HAVE TO APPROPRIATE MORE THAN $200 BILLION TO THE CIVIL SERVICE RETIREMENT SYSTEM TO COVER THEIR UNFUNDED LIABILITY DUE TO THE SYSTEM AND THIS MUST BE DONE OVER A SHORT PERIOD OF TIME IF THE CIVIL SERVICE PLAN IS TO BE PHASED OUT.

HOWEVER, MR. CHAIRMAN, WE BELIEVE IT TO BE NOTHING MORE THAN A "QUICK FIX." THE SOCIAL SECURITY SYSTEM IS IN TROUBLE SIMPLY BECAUSE IT PAYS OUT MORE THAN IT TAKES IN. THERE ARE A NUMBER OF REASONS WHICH HAVE CAUSED THIS IMBALANCE. THE MOST PROMINENT CAUSES HAVE BEEN INFLATION, SYKROCKETING MEDICAL COSTS AND

UNEMPLOYMENT. YET, NONE OF THESE PROBLEMS WERE ADDRESSED BY THE PRESIDENT'S COMMISSION. IT IS OUR BELIEF THAT IF THESE CAUSES CANNOT BE CONTROLLED, THEN A SYSTEM OF CHECKS AND BALANCES MUST BE IMPLANTED INTO THE SYSTEM TO PREVENT A REPEAT OF ANOTHER CRISIS SUCH AS THIS.

MR. CHAIRMAN, WE WANT TO ADDRESS ONE PROPOSAL BY THE COMMISSION THAT CERTAINLY WILL NOT SOLVE THE FINANCIAL DIFFICULTIES OF THE SOCIAL SECURITY SYSTEM, BUT WILL IN FACT, ULTIMATELY PLACE EVEN MORE SERIOUS FINANCIAL BURDEN ON SOCIAL SECURITY, AND THAT IS MANDATORILY INCLUDING NEWLY HIRED FEDERAL AND POSTAL EMPLOYEES IN THE SYSTEM. PLACING NEW HIRES UNDER SOICAL SECURITY CUTS OFF THE FLOW OF NEW MONEY TO THE CIVIL SERVICE RETIREMENT SYSTEM, BUT THE PLAN MUST CONTINUE TO MEET THE REQUIRED PENSION PAYMENTS FOR THE NEXT 40 YEARS OR MORE. BUT HOW?

THIS IDEA IS NOT NEW. UNIVERSAL SOCIAL SECURITY COVERAGE HAS REPEATEDLY BEEN PROPOSED BY PREVIOUS COMMISSIONS AND STUDY GROUPS, AND THE CONGRESS HAS WISELY, REPEATEDLY REJECTED THE IDEA. WHY? BECAUSE, SIMPLY PUT, IT MAKES NO SENSE. AT NO TIME HAS EXTENSION OF COVERAGE RESULTED IN GREATER FINANCIAL SECURITY FOR SOCIAL SECURITY. IT HAS ONLY MANDATED CONGRESS TO LEGISLATE

MORE MONEY INTO THE SYSTEM OR IT HAS CREATED A GREATER DEFICIT. IN ADDITION, THE FEDERAL TREASURY WILL LOSE TAX REVENUE SINCE CIVIL SERVICE ANNUITIES ARE FULLY TAXABLE.

AT THIS POINT, MR. CHAIRMAN, WE STRONGLY RECOMMEND THAT THIS PROPOSAL TO INCLUDE FEDERAL AND POSTAL EMPLOYEES UNDER SOCIAL SECURITY BE REMOVED FROM THE "PACKAGE" PRESENTED BY THE COMMISSION UNTIL A FULL STUDY AND COMPLETE HEARING ON THIS ISSUE CAN BE CONDUCTED BY THE CONGRESS OF THE UNITED STATES. THE PRESENT CIVIL SERVICE RETIREMENT SYSTEM IS FINANCIALLY SOUND. TAKING MONEY FROM A SOUND SYSTEM TO SHORE UP A TROUBLED SYSTEM, IN THE SHORT TERM, IS NOT THE ANSWER TO SOCIAL SECURITY PROBLEMS AND ESPECIALLY SO WHEN THE VOLUME OF DOLLARS AVAILABLE WILL ONLY HELP FOR A VERY SHORT PERIOD OF TIME.

WE ASK THIS FOR SEVERAL REASONS. FIRST, NO SIGNIFICANT FINANCIAL LOSS TO THE SYSTEM WOULD RESULT THROUGH A YEAR OR TWO DELAY IN PLACING NEWLY HIRED FEDERAL AND POSTAL EMPLOYEES UNDER SOCIAL SECURITY. THE COMMISSION PROJECTED UP TO $20 BILLION OF ADDED REVENUES FROM THIS PROPOSAL FROM 1983 TO 1989. ONLY VERY LITTLE OF THESE REVENUES WOULD BE REALIZED DURING THE INITIAL STAGES OF SUCH A CHANGE. AFTER ALL, THERE IS LITTLE NEW HIRING PRESENTLY TAKING PLACE IN GOVERNMENT. A FEW OF THE MANY QUESTIONS THAT SHOULD BE ADDRESSED ARE: WHO WILL PAY THE PENSIONS

TO CIVIL SERVICE RETIREES WHEN THE FUND HAS BEEN TOTALLY USED UP? HOW WILL THE GOVERNMENT COME UP WITH THE UNFUNDED LIABILITY FUNDS IN THIS SHORT SPACE OF TIME? WHAT WOULD THE COSTS OF PHASING OUT CIVIL SERVICE BE?

SECOND, THE CONGRESS WOULD BE ABLE TO DETERMINE NOT ONLY THE ATTRIBUTABLE ASSETS TO THE SOCIAL SECUITY FUNDS BY SUCH A MOVE, BUT MORE IMPORTANTLY, THE LIABILTIY THAT WILL BE INCURRED. IF THE CAUSES OF THE PRESENT CRISIS TO SOCIAL SECURITY WERE ELIMINATED, THERE WOULD BE LITTLE NEED TO TERMINATE CIVIL SERVICE RETIREMENT; BUT IF THEY ARE NOT CORRECTED, IT WOULD JUST CREATE AN ADDITIONAL FINANCIAL BURDEN TO A PLAN WHICH PRESENTLY CANNOT SUPPORT ITS PRESENT ENROLLEES. SURELY THIS COULD NOT BE TERMED A WELL THOUGHT OUT PLAN OF CORRECTION AT THIS POINT. ADDED TO THIS WOULD BE THE EXORBITANT COSTS OF PHASING OUT THE CIVIL SERVICE SYSTEM. THE LOGIC OF THIS MOVE INDICATES THE THINKING OF CONTINUED INFLATION, HIGH HEALTH COSTS, AND HIGH UNEMPLOYMENT, SO THIS COST WOULD ALSO BE HIGH. IN ADDITION TO THE MONETARY QUESTION, UNDER OUR PROPOSAL, THE CONGRESS COULD AMPLY STUDY THE IMPORTANT HUMAN ASPECT INVOLVED, THE FUTURE SOLVENCY OF THE CIVIL SERVICE RETIREMENT SYSTEM FOR THOSE EMPLOYEES PRESENTLY UNDER THIS SYSTEM, AND THE GOVERNMENT'S ABILITY TO HIRE QUALIFIED PEOPLE IN THE FUTURE.

MR. CHAIRMAN, WE SUBMIT THAT THE REMOVAL OF FEDERAL AND POSTAL EMPLOYEES FROM THE PACKAGE IS A REASONABLE REQUEST. WE BELIEVE THIS ISSUE REQUIRES CONGRESSIONAL PRUDENCE RATHER THAN POLITICAL EXPEDIENCY AND WE STRONGLY AND RESPECTFULLY SOLICIT YOUR SUPPORT IN THIS MATTER.

MR. CHAIRMAN, WE HAVE, AS PART OF THIS TESTIMONY A "POSITION PAPER" WHICH WE HAVE HAND DELIVERED TO EVERY CONGRESSIONAL AND SENATE OFFICE, ALONG WITH A "FACT SHEET" ON THIS SUBJECT. WE ASK THAT THESE DOCUMENTS BE INCLUDED IN THE RECORD AS PART OF OUR STATEMENT. FURTHER, WE WISH TO ASSOCIATE OURSELVES WITH THE TESTIMONY AND POSITION OF FAIR (FUND FOR ASSURING AN INDEPENDENT RETIREMENT).

ON BEHALF OF THE NATIONAL LEAGUE OF POSTMASTERS, I AGAIN THANK YOU FOR PROVIDING US THE OPPORTUNITY TO BE HEARD ON THIS MOST VITAL ISSUE. I PLEDGE OUR COMPLETE COOPERATION TO YOU AND YOUR STAFF IN EVERY WAY POSSIBLE IN REACHING A SOLUTION TO ASSURE A VIABLE SOCIAL SECURITY SYSTEM AND SAFEGUARDING THE FINANCIAL INTEGRITY OF THE CIVIL SERVICE RETIREMENT SYSTEM. WE BELIEVE OUR RECOMMENDATION IS A SURE WAY TO PROTECT TAXPAYERS FROM FACING A SIMILAR CRISIS A FEW YEARS DOWN THE ROAD.

NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

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STATEMENT OF

WILBUR S. WOOD, PRESIDENT

NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

BEFORE THE

SENATE COMMITTEE ON FINANCE

CONCERNING

THE PROPOSED EXTENSION OF OASDI COVERAGE

TO NEWLY HIRED FEDERAL WORKERS

February 23, 1983

Mr. Chairman and Members of the Committee:

My name is Wilbur S. Wood and I am President of the 65,000 member National Rural Letter Carriers' Association. I am pleased to have this opportunity to express the Association's views concerning the Social Security financing package presently before the Committee.

Rural letter carriers, like all Americans, share a deep and abiding concern for the fiscal well-being of the OASDI program. That program's solvency, today and for the future, underscores the government's ability to fulfill its most deeply-rooted of obligations to the American people. As individuals with long histories of payroll contributions-based upon OASDI covered private sector employment, and expectations of duely-earned Social Security benefits, rural carriers strongly believe that those obligations should be met.

But we also believe that care must be taken to insure that today's solutions to Social Security's financing ills not exacerbate tomorrow's burdens to the taxpaying public at large. It is out of this deeply held belief that the proposal to extend OASDI coverage to newly-hired federal workers is a poor solution to an enduring and as yet unanswered problem, that we oppose the package presently before the Committee.

Our opposition to the proposal to extend OASDI coverage to newly-hired federal workers centers around the following points:

- The goal of universal social security coverage is an illusory one. Constitutional impediments and issues rightfully surrounding separation of church and state will preclude the Congress from extending coverage to state and local government employees, or to the employees of many religious based non-profit groups. If universal coverage is the Congress' motivation behind extending OASDI participation to newly-hired federal workers, then it is an illusory one which will never be met.

The President's Commission on Social Security has badly overestimated the revenue savings associated with their coverage proposal. From an initial proposed savings to the Social Security system of $18 billion, more recent Commission reports have downward revised the alleged savings to the $8 to $10 billion range. This near 50% drop in anticipated savings alone should force Congress to carefully re-evaluate the credibility of the Commission's coverage proposal.

We remain convinced that the Commission has not fully evaluated the loss to OASDI of future beneficiary payments. It is true that coverage would, in an immediate sense, generate new revenue for the OASDI system. But today's contributor, both in the short and long-run of OASDI covered employment, will become tomorrow's beneficiary. Current and future federal workers are and will be contributing to OASDI with the expectation of getting something back from that system.

The government would lose substantial tax revenues by extending coverage to newly-hired federal workers because civil service annuities are fully taxable while Social Security income is tax-free.

The only other time in recent memory when the Congress attempted to coordinate the retirement benefits of Social Security with an existing retirement system, they created the debacle now known as the Railroad Retirement System. Badly underfunded, in constant need of supplemental appropriations from the Congress, the horror stories surrounding the Railroad Retirement System are all too familiar. With that sort of track record, it is rather easy to see why current federal workers are reluctant to accept Congress' well-meaning guarantees that "they will be taken care of".

The Presidential Commission proposal to extend OASDI coverage to newly-hired federal workers was offered with the expectation that a supplemental employer-sponsored pension would be established for those workers. However, no where in the Commission's report, nor any place in this Committee's files, exists an adequate proposal for developing that supplementary system. Again, on "good faith", Congress asks the federal work force to accept that such a system will be created. But how, and when, and by what fiduciary standards? Will it be a defined benefit or defined contribution plan? Will it employ an add-on, variable, or fixed-rate approach in calculating aggregate benefits? Certainly the parameters of such elementary questions should be answered before federal workers are asked to accept the creation of a fundamental rift in their retirement program.

It is just that rift which concerns us most. If OASDI coverage is extended to newly-hired federal workers, and a supplemental staff retirement plan created, then Congress will have succeeded in splitting the federal work force in two. As the current federal work force dwindles, and the number of participants in the new civil service staff retirement system grows, what is known in actuarial terms as a closed set will have been created for current workers and CSR's beneficiaries. Our leverage on the Congress for improvements in or liberalizations to the present Civil Service Retirement System program will be lost. Beneficiaries covered by the existing Civil Service Retirement System program will certainly then be confronted with the likelihood of gradual diminutions in their retirement benefits as the needs of the new staff plan grows.

It is my hope that we have succeeded in raising the spectre of doubt in your minds about the coverage proposal. We believe that extension of OASDI coverage to federal workers is ill-advised, and that careful reflection by Committee Members and their colleagues will lead them to the same conclusion. Social Security coverage of newly-hired federal workers is just the sort of panacea that the OASDI program does not need.

We appreciate this opportunity to express our views.

Respectfully submitted,

Wilbur S Wood

Wilbur S. Wood, President
National Rural Letter Carriers' Assn.

PREPARED STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Mr. Chairman and members of the Ways and Means Committee:

I am Vincent L. Connery, President of the National Treasury Employees Union. Our union is the third largest in the Federal sector, representing over 120,000 employees in various agencies of the United States Government.

We are here today not to obstruct efforts to save the Social Security System but to join in them. Even though as Federal employees, we are not covered by Social Security, our parents, our families, and our friends are. In addition, many of our members will leave Federal service or have entered the government from private industry; they too have a stake in Social Security. We believe that the protection of the Social Security System is in the best interest of all Americans.

Yet, for a program that has become so crucial to the well-being of countless Americans, Social Security continues to encounter deep-rooted problems. The crisis in funding that exists today is but the most recent in a succession of difficulties that have threatened the health of the system for years. Unless we take a seasoned, far-sighted approach in resolving our current dilemma, we will be faced with similar difficulties over and over again.

We have reviewed the report of the National Commission on Social Security Reform. We are deeply disturbed by the fact that its recommendations are designed to meet the needs of Social Security only for the rest of this decade and that they ignore the inevitable problems that will occur despite -- and indeed as a result of -- the Commission's proposals.

Our primary concern with the Commission's report is that section which mandates Social Security coverage for all Federal and postal workers who are hired on or after January 1, 1984. Consistent with the historical position of our union, we firmly oppose the inclusion of any Federal and postal workers -- past, present or future -- under Social Security and/or their exclusion from the Civil Service Retirement System. In fact, the issue of covering Federal and postal workers under Social Security has been before Congress at least five times in the past, and each time Congress has completely rejected the issue.

We take this position not only in the interest of our mem-ers, but on behalf of those covered by Social Security. We are concerned that the retirement benefits which Federal and postal workers have earned and have been promised to them remain secure. We are equally concerned with the long-term financial stability of the Social Security trust fund. Bringing new Federal and postal workers into Social Security will add a new burden to the taxpayers and jeopardize the retirement benefits of current and future civil service retirees as well as Social Security recipients. Let us examine the reasons behind this position.

The Costs to Social Security

In its findings, the Commission stated that the inclusion of newly-hired Federal and postal workers would generate approximately $8-13 billion in revenue (counting the employees of non-profit organizations, the estimate is $20 billion) from 1983-89. The report, however, does not address the long-term impact on the Social Security trust fund of including these workers. Using the Commission's own figures, it soon becomes clear that the addition of more employees to the system will increase the long-term shortfall in the trust fund rather than assist in meeting the funding crisis.

In examining the problems faced by Social Security, the Commission concluded that in the long run -- that is, the 75-year period beginning at the present time -- the actuarial imbalance of the system is an average of 1.8 percent of taxable payroll per year. The recommendations of the Commission, however ensure the system's solvency only until the end of this decade; part of this projection is based on the inclusion of new Federal and postal workers.

The Commission's own estimates show that after 1990 the projected 1.8 percent actuarial imbalance in the fund would not be fully met but would remain at .58 percent. Not coincidentally, this is about the same time that covered Federal and postal employees would begin to collect their Social Security benefits. Thus, it is readily apparent that the Commission has willingly traded a long-term funding crisis for a short-term, stopgap infusion of revenue.

Social Security, of course, is affected by numerous external factors, and it is impossible to predict with any certainty the condition of our nation's economy in the next century. Based on available data, however, it is reasonably clear that the inclusion of Federal and postal employees would only accelerate the problems with the system and not solve them.

The Effect on Civil Service Retirement and the Federal Budget

The Civil Service Retirement System is a staff retirement plan designed and intended by Congress to provide a livable annuity to those who have worked for the United States Government and have vested in the program. The system was enacted in 1920, and, despite past sporadic support by the government, it is on sound financial footing until well into the 21st century. Civil Service Retirement currently pays annuities to over 1.5 million Federal retirees, their spouses and their survivors.

These are the facts about the system as it currently exists. However, if Congress accepts the Commission's plan to put newly-hired Federal and postal workers under Social Security, the Civil Service Retirement System will be in dire financial straits in a short period of time and totally bankrupt near the turn of the century.

In 1977, the last time a universal social security coverage proposal was before Congress, it created the Universal Study

Group to conduct a two-year study on the methods by which Federal and postal employees could be brought into the system. However, the group was unable to devise a Federal retirement program that could be integrated with Social Security at an acceptable cost and without a substantial loss of benefits, and their recommendations have never been seriously considered.

This recent history is important to note because we believe it has a bearing on where we are today. Mindful of the Congress' previously expressed desire to maintain present civil service retirement benefit levels, but sensing a politically safe target in the Federal workforce, the National Commission on Social Security Reform chose to recommend the inclusion of only newly-hired Federal and postal employees. We suspect that the Commission felt that this would allay any negative reaction by active and retired Federal workers while using a politically unpopular group as a means to generate needed short-term revenue.

Unfortunately for the Commission, Federal and postal workers know how to add. We are not at all mollified by the proposal to bring only new hires into social security. Doing so would pose a threat to the retirement security of every Federal and postal worker and retiree. You know it, we know it, and the public -- if they do not already -- will soon know it.

A study conducted by Edwin Hustead, form Chief Actuary of the Civil Service Commission and now the Director of Actuarial Services for Hay Associates, demonstrates that if new Federal and postal workers stop paying into civil service retirement, the point where income into the system equals outlay will be reached in eight years. In 20 years, the balance in the civil service retirement fund would be zero. After that, all benefits would be paid solely out of the U.S. Treasury.

If new Federal and postal workers are brought under Social Security, then those who are already employed would have to depend on Congressional action to maintain their retirement income. We find it outrageous and disgraceful that the Commission would ask Federal and postal workers to risk their retirement security based on such a vague promise of future funding. Unfortunately, over the past four years, we have witnessed a continued deterioration of our pay rates, our retirement program and our other benefits. To expect us to rely on Congress to expend the amount of funds necessary to maintain our retirement plan after the balance in the fund reaches zero, is asking us to forget the lessons of the recent past. Neither we nor our members will ignore reality.

It is important that Congress realize the size of the debt to which it would be committing the government if contributions to the Civil Service Retirement System are discontinued. Our research indicates that the amount of money that the government would have to pay in promised benefits once the retirement fund is depleted would be $185 billion. It is important to remember that this is a static figure, i.e., one that is not adjusted for inflation or any other economic factor. Once a modest 5.5

percent inflation rate is factored in, the figure would reach $550 billion.

We remind the Committee that the Civil Service Retirement System is financed in a manner which is different from the Social Security system. Under Social Security today's workers and employers are paying the benefits of today's retirees. A future generation of workers and employers will pay their benefits. No effort is made to prefund or to set aside sufficient funds during the working lifetime of the employees which together with investment income will pay his benefits as is the case with the Civil Service Retirement System and other pension systems. One cannot look at the Civil Service Retirement System as one would a "pay as you go" or generational type funded system.

For example you cannot merely look at the amounts paid out in benefits in one year and look at the source of the income in that year and assume that employees paid the percentage of the assets shown as employee contributions and the employer paid the balance. The amount of the contributions represent a percent of payroll, our installment, required to be set aside each year over a long period of time to meet the cost of the benefits which the employees will later receive. When the amount set aside is not sufficient or the benefits are liberalized during the working career of the employee unfunded liability is created, in other words, the benefits are going to be higher than the contributions plus interest income which have been set aside and held in a fund. Provision must be made for paying this amount.

Under the Civil Service Retirement System, as well as other contributory pension systems the amount of the employee contributions paid in during a given year will vary as a percent of the amount paid out in benefits. It can, as it was with the Civil Service System for many years, represent more than 100% of the benefits paid, in other years the percent will change. However, the fact remains that over a long period of time a specified percent on average or as a level percent of payroll must be there to pay future benefits.

At present the fund has an unfunded liability; the amount not there to pay benefits which are going to have to be paid is $185 billion. These benefits are not payable now, but the obligation for them will be met <u>if</u> contributions into the system continue. If incoming revenue is cut off, Congress would either be forced to meet this staggering debt or drastically reduce benefits and deny employees their promised retirement security.

The Civil Service Retirement System is currently financially sound. This is not an idle contention on our part; it is supported by the Commission's own Executive Director, Robert J. Myers, who has said:

> "The basic actuarial-funding basis of CSR, as it will be done in the future, is that the accumulated unfunded liability will <u>never</u> be liquidated. Rather, interest on it will be <u>paid</u> every year into perpetuity (as it has been in the past). This will provide adequate financing at all times, and it is a quite appropriate procedure for a Federal government plan. Such interest will be expressed as a percentage of payroll of the total then-active workforce, even though many of them -- eventually, all of them -- will not have had anything to do with the creation of the unfunded liability itself!"

The adequacy of the current system was also supported in a recent study conducted by pension experts of the Ford Motor Company, Burlington Industries and the Wharton School of Finance of the University of Pennsylvania. This study showed that as long as the Civil Service Retirement System is financed in the current manner, it will remain solvent indefinitely. We believe that it makes no sense to destroy a stable program in favor of short-term gains for Social Security -- especially when those gains would be purchased at tremendous long-term cost to the Social Security System and the American taxpayer.

Supplementary Civil Service Pension Plan

In recommending that newly-hired Federal and postal workers be brought under Social Security, the Commission also stated its belief that a supplementary pension plan would be developed for the employees to provide roughly the same level of benefits as the current system. Once again, we feel that the Commission is ignoring reality.

First of all, there is the question of time. Congress will be busy with the social security issue at least until April or May. In addition, both the House and Senate must fulfill its budget and appropriations responsibilities as well as consider other important matters such as the jobs bill. There is hardly "plenty of time," as one Commission member suggested, to devise a fiscally responsible, fair retirement system before January 1, 1984.

The difficulty of developing such a supplementary plan cannot be underestimated. In 1979, an Office of Personnel Management Compensation Group issued a study entitled, "Cost Estimates for Options for Coverage of Federal Employees under the Social Security System." In it, the group devised three models on which a combined social security-supplementary pension plan would be based. Each was more costly and provided lower benefits than the present system. Likewise, the Universal Coverage Study Group created by the Social Security Amendments of 1977 could not develop a system to provide the same level of benefits to all participants at the same cost as the current program.

Last year, Senator Ted Stevens (R-AK) introduced a bill which would create a social security-based retirement plan for Federal employees. Senator Stevens' bill, however, was never subject to public scrutiny. Our initial research uncovered major inconsistencies in the legislation, and the Senator himself admitted it was only a starting point.

Yet, the Commission continues to insist that a plan can be developed. Just last week, Commission member Alexander Trowbridge in testimony before the committee offered a paper by Mr. Myers which sought to rebut many of the objections raised by Federal and postal workers. In his paper, Myers claims that the Civil Service Retirement System need not be destroyed because a supplementary system could be developed that would help to pay for future benefits.

But Mr. Myers in his recommendations does not provide the funding necessary to maintain the financial well being of the current Civil Service Retirement Ssytem, even if the funds of the two plans were mixed. Employees now pay 7 percent of salary into the fund; under the Myers plan, this contribution would be less than one percent. It is obvious on its face that this inconsequential contribution could never finance the same level of benefits.

In addition, Mr. Myers makes an unsubstantiated assumption by even suggesting that the two funds be comingled. Senator Stevens for one has already stated his opposition to such a plan. For our part we would see no practical way or any private sector model which would lead us to believe that the funds of two totally different plans could be merged. If that is so, then our fears for the future of the Civil Service Retirement System and to the resultant debt it would produce remain unanswered. We remain convinced that cutting off contributions in the fund would eventually threaten the retirement security of active and retired Federal and postal workers.

Windfall Benefits

While we have grave concerns over the implications of the so-called "windfall" benefit proposal contained in the Commission's report, we do not wish to engage in a lengthy discussion of the issue at this time. We do not want to divert attention from the severe threat to the taxpayer and the Civil Service

Retirement System posed by the proposal to include Federal and postal workers under Social Security.

Conclusion

In conclusion, we believe that the Commission's proposal to include newly-hired Federal and postal workers under Social Security is an example of the kind of shortsighted thinking that has created our present social security crisis. What is even worse is that Federal and postal workers -- present and future -- would be asked to submit their retirement system to destruction. Although the Commission claims that their proposal is fair and requires "sharing" of the burden on everyone's part, we do not see anyone else being asked to give over their retirement plan for the short-term gain of Social Security.

We submit that the Congress would better serve the long- and short-term interests of the Social Security System by attacking the root causes of the problems -- not just the symptoms. One of the major reasons why we face a social security shortfall is the dismal state of the economy. If we could put just one percent of unemployed Americans back to work each year for the next three years, we could generate over $12 billion for the system by 1985 according to the Social Security Administration. That is far more than would be gained over the same period by adding Federal and postal employees.

In addition, we urge Congress to consider funding the welfare component of social security out of general revenue. For example, Medicare and Supplementary Security Income (SSI) should be recognized for what they really are, social welfare programs and not components of a contributory retirement system. Under this proposal, which has the support of many experts, the cost of the retirement benefits paid by social security would be rightly borne by the working sectors of the economy while the welfare aspects of the program, like other welfare systems, would be financed through general revenues.

These are suggestions we offer out of our belief that Social Security must be saved. However, we do not support the destruction of our retirement system for the sake of short-term gains for the system. We stand ready to work with the Committee to develop workable solutions to the social security crisis. Until then, we urge this Committee to reject the idea that new Federal and postal workers be brought into the Social Security System.

Older Women's League
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STATEMENT

of the

OLDER WOMEN'S LEAGUE

to the

COMMITTEE ON FINANCE

U.S. SENATE

February 23, 1983

The Older Women's League is the first national membership organization to focus exclusively on the concerns of middle-aged and older women. Founded at the White House Mini-Conference on Older Women in 1980, OWL has 75 chartered chapters in more than half of the states, and its members work for changes in public policy that will reduce the inequities older women face.

We very much appreciate the opportunity to share with you the concerns of older women about Social Security, and in particular, our views on proposals to address the financing problems of the Social Security system.

SOCIAL SECURITY--A WOMEN'S ISSUE. We will begin by underscoring for you the extent to which Social Security is women's issue. Social Security is far and away this country's most important social program. It has significantly reduced poverty among the aged, and has served well as a family support system, insuring against the loss of income through the death or disability of wage earners.

For women, Social Security is a lifeline. In contrast with older men, most of whom are married and living with a spouse even after age 75, the majority of older women are widowed, live alone, and depend on Social Security as their only significant source of income. Although women are 59% of the over-65 population, they account for nearly three-fourths of the aged poor, and have substantially lower incomes than older men. (See tables at the end of this statement). So Social Security is very much a women's issue.

THE COMMISSION'S PACKAGE. Within its very limited mandate, the Commission did a good job of balancing tax increases with benefit reductions. To its credit, the Commission affirmed the fundamental structure of Social Security, and rejected proposals to make Social Security voluntary, or to base benefits solely on contributions paid in, or to change a universal system into one in which benefits would be based on proven need. Each of these alternatives would have been disastrous for women, who on average earn less, change jobs more, spend significant time caring for family members, and live longer on lower incomes that seldom include private pensions or much savings, and who thus depend on Social Security much more than men.

From the viewpoint of political expedience, the package of "reforms" presented by the Commission is better than expected. They are the result of hard bargaining between those who favor higher taxes and those who prefer cuts in benefits to maintain the status quo in Social Security.

The Older Women's League strongly concurs with the defense of the Social Security system reflected in the report. Some of the Commission's recommendations fit in with positions that we have advocated, such as universal coverage and a de-politicized administration of Social Security, by removing it from the unified budget and setting it up as an independent agency. We also welcome the first steps toward including general revenue support for Social Security.

THE "WOMEN'S RECOMMENDATIONS". In addition, we strongly support the four recommendations addressing specific groups of women. The categories of older surviving spouses who continue to receive benefits after remarriage should certainly include disabled and divorced women, who were left out of prior legislative changes apparently through a technical quirk, and not through Congressional intent. Divorced dependent spouses need independent eligibility for Social Security benefits regardless of the retirement of their former spouses, few of whom make support payments. This is particularly true for displaced homemakers, who are divorced or abandoned late in life and face serious difficulties in re-entering the paid labor force. We have special concern, therefore, that the Commission recommended a "significant" waiting period following the divorce before eligibility for this benefit would begin.

Finally, the proposed changes in the calculation of benefit levels for disabled and other widows are a step in the direction toward income security for women who tend to have very low incomes, even among older women. The costs associated with these four recommendations are minimal, because only a small percentage of recipients are affected. Nevertheless, the changes are vitally important to those women, and address long-standing grievances.

THE COST-OF-LIVING ADJUSTMENT. The compromise package, however, has one element that will be especially harmful to older women: the postponement of the COLA. This proposal will not have the same impact on each Social Security beneficiary. On the contrary, those who are most dependent on Social Security and who are very near the poverty line, will feel the effects much more.

A recent study using data from the 1981 Current Population Survey showed that single women over age 65 with incomes less than $5000 depend on Social Security for more than 80% of their income.* For those over 65 in 1981, the median annual income was $8173 for men and $4757 for women; the poverty level for a person living alone was $4359. So, Mr. Chairman, half the older women in this country have incomes under $5000, and almost two-thirds of all older women in the United States are single (widowed, divorced, separated, or never married). We believe, therefore, that the proposal to postpone the COLA falls very disproportionately on women, especially on those thousands and thousands of women who are near and below the poverty line, who are not eligible for SSI even with the increased income disregard proposed by the Commission. While their income remains the same for another six months, their rent, food, utility, and medical bills continue to increase.

CHANGES IN RETIREMENT AGE. A second area of grave concern to women are proposals to increase the age of "normal" retirement and/or to increase the penalties for early retirement. While these are not recommendations to which a majority of the Commission agreed, some members did, and many members of this body may seriously consider such changes without fully understanding their significance for women.

* "The Distribution of Income and Social Security Benefits within the Aged Social Security Beneficiary Population in 1980," Thomas C. Borzilleri, 1982.

Changing the age of retirement is usually discussed in the context of providing "disincentives for early retirement." The proposal is based on a number of questionable assumptions. The most important are that living longer means being healthy longer (and thus able to work at an older age), and that employment is available to all who want or need paid jobs. The latter is certainly not true for older women, particularly for those who have been out of the paid labor force for many years. And expert opinion differs on whether greater longevity means longer periods of good health. It is known that women have higher disability and morbidity (disease) rates, especially chronic diseases, than men do.

An integral part of such proposals for changing retirement age must be an absolutely firm commitment to job training and placement programs specifically designed for persons in their 60's with limited paid work experience, supplemented by more liberal disability programs for persons unable to work, and by more vigorous enforcement of laws prohibiting age and sex discrimination in employment. Until the eradication of such discrimination in the work place, and until we achieve full employment, a change in the age of retirement or an increase in the penalties for early retirement will sentence thousands of older women to abject poverty.

SOCIAL SECURITY AND WOMEN. Beyond the limited domain in which the Commission worked--finding ways to prevent the "bankruptcy" of a system battered by inflation and unemployment--Social Security as a whole remains inadequate and inequitable for women. Although the Commission had limited discussion of the changing roles and circumstances of women under Social Security, it did not study any basic structural changes that might make the system more equitable for women. Rapid passage of the Commission's proposals may quiet those who wish to dismantle the system, but much more needs to be done to address the inequities.

Social Security must be restructured in a way that recognizes marriage as an economic partnership, with Social Security credits inherited or split upon death or divorce. This would eliminate spousal, divorced wives' and survivors' benefits, along with all associated problems. It would also result in lower benefits to the one-earner couple. OWL supports the earnings sharing concept, as long as it includes a "hold-harmless" provision that would eliminate the disadvantage to one-earner couples. We agree with several members of the Commission that it is time for the concept to be seriously studied and developed in a form that does not advantage one group of women at the expense of another. Thus we take serious exception to the view that earnings sharing can be implemented quickly and at no cost. Otherwise, there will be many losers.

THE NEXT STEP. The Older Women's League proposes, therefore, the formation of a commission of comparable stature to the President's Commission on Social Security Reform to address the problems of women and Social Security, focusing on long-range changes needed to make a more adequate retirement system. Such a commission should consider ways of assuring protection to homemakers, equity for two-earner families, and the sharing of Social Security without penalty between spouses. The proposed commission should not confine its deliberations to current funding mechanisms, but should look at alternatives as well. For the Older Women's League and for women, the Social Security system is still in need of reform.

SELECTED DATA ON PERSONS AGE 65+: INCOME, POVERTY, MARITAL STATUS

TOTAL MONEY INCOME IN 1981, BY SEX AND AGE

Table 1

Age	Men	Women
45-49	$21,248	$ 7,494
50-54	20,796	6,513
55-59	19,879	5,926
60-64	14,807	4,966
65+	8,173	4,757

(Poverty level in 1981 for a person living alone: $4359)

(Source: Census Bureau, Current Population Reports P-60, No. 134, Table 10)

POVERTY RATES BY SEX AND RACE/HISPANIC ORIGIN FOR PERSONS AGE 65 OR OVER IN 1981

Table 2

	Total	White	Black	Spanish Origin
Men	10.5%	9.0%	32.3%	23.6%
Women	18.6%	16.2%	43.5%	27.4%

(Poverty rate in 1981 for persons 65+: 15.3%)

NUMBERS OF PERSONS AGE 65 OR OVER IN POVERTY IN 1981, BY SEX AND RACE/HISPANIC ORIGIN

Table 3

	Total	White	Black	Spanish Origin
Men	1,080,000	787,000	272,000	60,000
Women	2,773,000	2,191,000	547,000	86,000

(Source: P-60, No. 134, Table 17)

MARITAL STATUS OF PERSONS 65+ IN 1981, BY SEX

Table 4

Status	Men	Women
married	77%	38%
widowed	13%	51%
separated/divorced	6%	5%
never married	4%	6%

MARITAL STATUS OF PERSONS OVER 65, BY SEX AND AGE

Table 5

WIDOWED	65 to 74	75+
Men	8%	22%
Women	40%	68%
MARRIED	**65 to 74**	**75+**
Men	81%	70%
Women	48%	22%

(Source: P-20, No. 372, Tables 1 and E)

Prepared by: Older Women's League, 1325 G St. NW, LL B, Washington, DC 20005

INTERNATIONAL FEDERATION OF
PROFESSIONAL AND TECHNICAL ENGINEERS
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TESTIMONY

OF THE

INTERNATIONAL FEDERATION

OF

PROFESSIONAL AND TECHNICAL ENGINEERS
AFL-CIO

BEFORE THE

SENATE FINANCE COMMITTEE

February 1983

19-467 O—83——51

Mr. Chairman and Members of the Senate Finance Committee, my name is Rodney A. Bower, and I am President of the International Federation of Professional and Technical Engineers (IFPTE), AFL-CIO. I am pleased to have the chance to call your attention to the diverse concerns our Union has about the compromise solutions recommended by the bi-partisan National Commission on Social Security Reform (NCSSR) and proposed legislatively as Senate Bill S.1.

IFPTE represents 50,000 employees in the private, public and federal sectors. The combined sectors of our Union bring together the sum total and variety of employee interests at stake in solving the problems of the Social Security System. This Union will support reasonable legislation that strikes a fair balance of responsibility between employers, employees and taxpayers. We are opposed, however, to legislation which would drastically undercut benefits of one employee group to provide only a meager portion of the funds needed to guarantee future benefits for other groups. It just doesn't make sense to deliberately create a new set of problems to resolve those on hand. The seriousness of the system's present and future solvency calls for solutions based on a far firmer ground of financing principles than the "quick-fix" variety.

IFPTE Supports:

Rescheduling payroll taxes.

50% tax on Social Security benefits on higher incomes.

Six (6) month delay in annual COLA.

Assisting public employees in establishing their rights to Social Security coverage — by removing the option for public sector employers to withdraw from the Social Security System once they have elected coverage; and by enabling public employers who have withdrawn from the system to re-enter it.

IFPTE Opposes:

Raising the Social Security retirement age to 66 or older.

Mandating Social Security coverage of federal employees.

IFPTE SUPPORTS FAIR PROPOSALS TO RAISE REVENUES

IFPTE wholeheartedly supports the Commission recommendations that would solve the system's problems between now and 1990 through raising revenues. Specifically, such solutions as re-scheduling payroll taxes and the 50% tax of Social Security benefits on higher incomes, are the most equitable and least destructive to beneficiaries. Such measures carry a fair distribution of worker and taxpayer responsibility and they go a long way to assuring financial solvency of the Social Security System for the next seventy-five (75) years.

Another Commission recommendation that carries less risk of more serious benefit cuts, is the six-month delay in the annual cost-of-living adjustment. Again, not a perfect solution, but one that would at least see the poorest Social Security beneficiaries compensated with increases in their Supplemental Security Income (SSI) benefits. Compensation of the poor along with the lower rate of growth in the 1982 Consumer Price Index translates into far less decrease of benefits than the more inequitable cuts that some have proposed. The increase would have been the lowest of many years due to the CPI factor, and it helps to solve the deficit for 1983. In fact, the relatively small cut in benefits is somewhat offset by the fact that Social Security subscribers could once again count on a secure future and present.

All of these measures contrast sharply with "quick-fix" solutions which would rob a particular employee group of promised pension benefits to finance other groups.

PROTECT RIGHT OF PUBLIC EMPLOYEES TO PARTICIPATE IN SYSTEM

As Mr. Kirkland indicated in the bi-partisan consensus report, IFPTE, too, would support legislation that would greatly assist public employees to establish their right to Social Security coverage. As it stands now, the absolute right of public employees to remain in the Social Secuirty System has been pre-empted because their employers have had the unilateral right to withdraw from the system. The result is that public employees have lost valuable retirement, survivor, and disability protections when their public sector employers who had previously elected for coverage have exercised their option to withdraw from Social Security. Public sector employers frequently opt to withdraw from the system because of changes in political regime, budgetary considerations, and purely subjective preferences for other plans. This should not continue, and IFPTE is firmly for legislation that would remove the option for public sector employers to withdraw from the Social Security System once they have elected for coverage. Such options on the part of the employer leave the public sector employee's right to retirement planning in limbo — and subject to too many decisions that may bear no relationship to family and individual needs of employees. To rectify the inequities that public employees have been dealt in the past, public employers who have withdrawn from the system should be permitted to re-enter it under new legislation because present law does not allow for that. New legislation, initially recommended by Mr. Kirkland, should specify a way for workers or their unions to initiate an action designed for employer re-entry.

RAISING RETIREMENT AGE IS UNJUST AND A FINANCIAL BURDEN FOR EMPLOYEES

Another area of great concern to this Union are reports of recommendations which support raising the retirement age from what most plans define as 65 years to age 66. We have a number of reasons why raising retirement age would create inequity. But, to deal with one, our private sector members are frequently covered by pension plans that mesh with Social Security benefits. At the time these plans were negotiated, it involved employees trading-off increased wages and other benefits in return for the added measure of old age security that the pension plans represented as a supplement to Social Security. Those negotiated trade-offs plus the proposed raise in retirement age would result in a definite hardship for the employees who had originally meant to shore up old age security, and planned their lives accordingly. The proposed raise in retirement age could affect private sector employees covered by so-called "30-year and out" pension plans in any number of negative ways: if, for example, a private pension plan offered $500.00 for an eligible retiree at age 65 and Social Security offered an equal amount at the same age, the employee would lose $500.00 per month for one year if the Social Security retirement age were raised to 66 or more instead of the current age of 65. But, if the private sector employer and employee negotiated a supplemental payment to make up the loss of Social Security if the retirement age was raised to 66 or more, the supplemental would result in added costs to the private sector employer. In addition, the majority of such plans now in effect were not negotiated with an eye to the retirement age raising, so a negotiated supplemental would apply only to those persons in the workforce who will have bargained after the retirement age was raised. Those who have not will be stuck with half the benefits they planned for — and depending on other economic factors — may have to apply for welfare benefits. The latter would result in hardship for the retiree — and extra costs to government.

RAISING RETIREMENT AGE IS NOT REASONABLE FOR HIGH-TECH WORKFORCE

To point to an equally disturbing factor, even if both private pension plans and Social Security benefits were geared to a 66 year old retirement age, why do we want to enact legislation to keep people in the workforce longer? The familiar argument is, of course, that we are living longer. That does not provide a sound rationale for keeping people in the workforce longer. It certainly would not expand opportunities for our young people to enter the workforce. That rationale does not take into account the unquestionable impact that high technology is having even now on older workers. And, the chances of older workers remaining in their jobs until they can make it to the present retirement age of 65 are narrowing by the day. In a few years, the present trends indicate that the welfare rolls will be even more overloaded by older persons than they are now. The reason: older workers faced with high technology's ever-increasing impact on jobs will be confronted with an easily predictable rationale that they are "too old to train." But, adding another year on to the retirement age will also mean that these older workers are one more year away from retirement and one more year into unemployment and/or welfare rolls.

IFPTE OPPOSES MANDATORY SOCIAL SECURITY COVERAGE FOR FEDERAL EMPLOYEES

We are strongly opposed to the mandatory coverage of federal employees by Social Security. We and our members perceive the proposals to cover federal employees as a most serious attack on fair and appropriate labor standards. The right of a federal employee — or any other employee — to a liveable retirement should be inviolable. It would be truly shameful if the federal government did not provide that for its employees! The importance of the current Civil Service Retirement System to the federal employee is even more pronounced in view of the total federal employee compensation package. Presidents and Congresses have repeatedly limited increases in federal pay to the point where a federal employee now earns about 20% less than an employee in a similar position in the private sector. In the last few years, federal employees and retirees have seen numerous reductions in benefits — in health insurance, retiree COLA's, increased payroll taxes, and more.

COVERING FEDERAL EMPLOYEES WILL COST THE TAXPAYERS

Mandatory Social Security coverage of federal employees will not help any of those we represent — in any sector. The revenues which new federal employees could bring to the Social Security System would be less than the amount of increased Social Security revenues which would be realized by a one percent (1%) decrease in the rate of unemployment. Any short-term increase in Social Security revenues by this proposal would be offset by other costs to the federal government and taxpayers. Because Civil Service Retirement benefits are taxable and Social Security payments are not, mandatory Social Security coverage would result in a loss of 2 billion dollars a year in tax revenues. In addition, any legislation that cuts-off new entrants into the Civil Service Retirement System will result in that system being, in about twenty (20) years, without any funds to pay those retirees who will still be eligible for Civil Service Retirement benefits. To meet the outstanding obligation to these retirees, the federal government will have to find at least 185 billion dollars to bail-out the Civil Service Retirement System's liabilities.

Over he long-term, the influx of new contributors to Social Security, without fail, turns in a few years into increased liabilities on the system. It is not reasonable to propose a solution which postpones and possibly magnifies the existing problems for a later time.

FEDERAL EMPLOYEES DESERVE A VIABLE RETIREMENT SYSTEM

It has become popular to view federal and public employees as fair game for all political expedience. The recommendation of the National Commission for Social Security Reform for mandatory Social Security coverage of federal and postal workers places us on the verge of plunging into an incomplete, inadequate resolution of the issue. There have been no acceptable legislative proposals for a "supplemental" retirement plan for federal and postal employees above and beyond the Social Security income floor. The Commission, in making its recommendation, "believes" that a supplemental program is part of the solution. But no such program exists — no viable proposal has been made — and we cannot rush headlong into terminating a sound Civil Service Retirement program for the sake of political expedience.

CIVIL SERVICE CANNOT WITHSTAND FURTHER BENEFIT CUTS

Many of the installations where we represent federal employees — for example, at Navy shipyards and NASA Centers — have difficulty competing for the highly trained employees needed to accomplish the missions of the Agencies. Pay and benefits in the engineering and technical fields is better in the private sector than the federal sector to a greater extent than the 20% pay comparability lag for federal employees indicates. The Agencies and the Office of Personnel Management have recognized this recruitment problem and have offered "special pay rates" to certain engineering and technical employees to address the issue.

Nevertheless, the "special pay rates" do not meet private wages. The Civil Service Retirement has been a key incentive for recruiting and retaining qualified employees.

CONCLUSION

We urge the Congress to act prudently and with dispatch to resolve Social Security's financing problems. The report of the National Commission on Social Security Reform offers a generally sound package. However, proposals to increase the retirement age and to require coverage of federal and postal workers create new problems, not solutions.

PROFIT Sharing Council Of America
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CHICAGO ILLINOIS 60606 (312) 372 3411

February 25, 1983

Mr. Robert E. Lighthizer
Chief Counsel
Committee on Finance
Room SD-221 Dirksen Senate Office Bldg.
Washington DC 20510

Dear Mr. Lighthizer:

Re: Report of the National Commission on Social Security Reform - Taxation of Contributions to Section 401(k) Plans

The purpose of this letter is to submit the comments of the Profit Sharing Council of America (the "Council") with respect to the proposal in the Report of the National Commission on Social Security Reform (the "Report") and in S.1 to subject contributions to plans that meet the requirements of Section 401(k) of the Internal Revenue Code (the "Code") to taxes under the Old-Age, Survivors, and Disability Insurance Programs and the Hospital Insurance Program ("OASDI-HI taxes").

The Council is a nonprofit association of approximately 1400 employers that maintain profit sharing plans. Such plans cover about 1,750,000 employees. Council members are located throughout the United States and are engaged in practically all areas of economic activity. Member companies range in size from Fortune 500 size companies down to small family operations. Council members believe that profit sharing provides retirement security, and creates an incentive for increased productivity, capital formation and profits.

The Council defines "profit sharing" in its Constitution and ByLaws as any procedure under which an employer pays or makes available to employees, subject to reasonable eligibility rules, in addition to prevailing rates of pay, current or deferred sums based on the profits of the business. Under a deferred profit sharing plan, the employer contributions are allocated to an employee's account, together with the employee's own contributions, if any, and such sums are then invested for the benefit of the employee and subject to investment risk. At retirement, all of the employer contributions, employee contributions, gains or losses, and the reinvested earnings are made available to the employee for his retirement benefit.

The Council estimates that there are approximately 17 million employee participants in over 315,000 deferred profit sharing plans that meet the requirements for qualification under Section 401(a) of the Code. Employee profit sharing trusts now hold over $75 billion in invested assets on behalf of such participants.

In Paragraph 17 of Chapter 2 of the Report, it is recommended that salary reduction contributions to plans covered under Section 401(k) of the Code be subjected to OASDI-HI taxes at the time such contributions are made. Section 305 of Senator Dole's bill to implement the Commission's recommendations, S.1, apparently would subject all contributions to a Section 401(k) plan with respect to which an employee has a cash or deferred election to OASDI-HI taxes, although the title of Section 305 and Senator Dole's remarks in the Congressional Record (129 Cong. Rec. 897, daily ed. Jan. 26, 1983) refer only to salary reduction plans.

The Council respectfully submits that contributions under a cash or deferred plan should continue to be exempt from OASDI-HI taxes. For convenience, such plans hereinafter are referred to as "cash or deferred" plans.

Description of Cash or Deferred Plans

A cash or deferred plan is first and foremost a profit sharing plan. A profit sharing plan may provide for setting aside a specified portion of profits, such as 10% of pre-tax profits, or may provide for a discretionary determination by the employer's board of directors in each year of the amount of profits that will be contributed to the plan. In either event, a contribution will be made only if, in fact, the employer has a "profit" within the plan definition of that term.

Under a typical cash or deferred profit sharing arrangement, the plan provides that at some point prior to the end of each year and before the amount, if any, of employer profits and contributions to the plan become determinable (for example, in November under a calendar year plan), an employee has the option of irrevocably electing to receive a percentage of any employer contribution in cash, instead of having the entire amount contributed by the employer to the trust under the plan. Any portion of the profit sharing contribution which the employee receives in cash is treated as taxable income for the year of receipt and is subject to OASDI-HI taxation. In effect, the employee receives an end-of-the-year cash profit sharing bonus. The portion paid to the trust is an employer contribution like any other employer funds contributed to a qualified profit sharing plan.

Long before the enactment of Section 401(k) of the Code, the Internal Revenue Service held that cash or deferred plans could qualify under

Section 401(a) of the Code and spelled out the rules for qualification of such plans, Rev. Rul. 56-497,1956-2 C.B. 284. Section 401(k) of the Code merely confirms the qualified status of cash or deferred plans and changes the rules somewhat.

The proposed regulations under Section 401(k) of the Code, 44 FR 55544, Nov. 10, 1981, would also include salary reduction plans as plans that may qualify under Section 401(k).

A salary reduction plan differs from a cash or deferred profit sharing plan in that under a salary reduction plan, the employee directs that a portion of his salary be contributed to a deferred plan in lieu of receiving such amount as regular salary. The employer may or may not put additional amounts in the trust. To the extent that the rules of Section 401(k) are met, the employee does not have to include the amounts contributed to the trust in his income for the year contributed.

Thus, in the salary reduction situation, an employee in effect surrenders what is already his. In the cash or deferred situation, the employee makes an election to have a portion of his allocable profit sharing amount distributed to him rather than paid entirely to the trust. The employee has no prior right to the cash or deferred bonus and, in fact, may not be entitled to any bonus at all if there are no profits.

It should be emphasized that shared profits under a cash or deferred plan, by definition, begin as the "employer's" money. Profits, if any, are the financial result of the employer's operation, not funds of the employee to be deferred. Indeed, the employee's compensation is a cost that is deducted from the profits to be shared. The incentive feature that is crucial to cash or deferred profit sharing derives from the very fact that employees do not give up what they already have earned; instead, they work harder to produce a larger profit in which they may share.

Policy Considerations

The Commission's Report and the section-by-section analysis of S.1 in the Congressional Record state that the proposal with respect to salary reduction plans will not significantly increase current OASDI-HI revenues. The proposal is being offered because of possible future decreases in OASDI-HI revenues. Cash or deferred plans, as stated above, do not result in the reduction of an employee's take-home salary, but instead provide for sharing yearly profits. Accordingly, the Council believes that existing cash or deferred plans do not, and new cash or deferred plans will not, significantly deplete the revenue of the Social Security system. Further, there is no greater reason to tax employer contributions under a cash or deferred plan than there is to tax employer contributions to any qualified profit sharing or pension plan.

The benefit of a cash or deferred plan to rank-and-file employees should not be overlooked. The Council believes that cash or deferred plans provide a particular incentive for employees to save for retirement. A rank-and-file employee may find it difficult to give up a portion of each paycheck in advance. However, under a cash or deferred plan he does not have to sacrifice any take-home pay in order to defer for retirement. Plans that meet the qualification rules of Section 401(a) of the Code historically have been granted favorable income tax and OASDI-HI treatment because of the policy objective of encouraging savings for retirement. The Council believes that cash or deferred plans indeed encourage such savings for all employees.

Summary

The Council maintains that providing retirement benefits in the private sector by encouraging employers to share profits with employees for both current use and future retirement is of more benefit than any additional revenue gain to the Social Security system that would be achieved by subjecting the deferred portion of an employee's cash or deferred profit sharing plan to OASDI-HI taxes. To the extend qualified cash or deferred profit sharing plans can be encouraged, such action inevitably will result in greater productivity and greater planning for retirement by the private sector. This will provide increased retirement security for employees and act to ease some of the pressures on the Social Security System.

Respectfully submitted,

PROFIT SHARING COUNCIL OF AMERICA

Walter Holan
President

mc/

Testimony of Stanley H. Ruttenberg
Ruttenberg, Friedman, Kilgallon & Associates, Inc.
on the Proposals of the
National Commission on Social Security Reform
Submitted to the
Committee on Finance
U. S. Senate
February 24, 1983

I am pleased to have the opportunity to present the results of the research in which our firm has been engaged over the last one and one half years to the Committee on Finance. That research, sponsored by the National Marine Engineers' Beneficial Association, has looked at the options for Social Security from the point of view of financing the system, and from the point of view of benefits and costs to workers and employers. A full report on that research is available to anyone who is interested.

The Social Security system, as it now stands, contains a basic inequity in contributions collected from workers and employers. The government is taxing employers with one hand in the form of the Social Security payroll tax and giving a portion of the amount received back to the employers with the other hand in the form of reduced income taxes. The giveback is largely financed by the income taxes of the same workers who have already paid their full share of the payroll tax and who, in addition, must pay income taxes on the amount of that contribution. As a result, employers are only paying about one-third of the cost of the combined employer-employee Social Security contribution and employees are paying two-thirds.

Keeping this problem in mind, let's consider the hard won compromise of the National Commission's proposals. First, I would point to the comments of Robert Myers. He has pointed out that the mixture of higher taxes, reduced benefits and general revenue may still not be enough in the short term; it may not be adequate for program needs in 1985-87. Standby authority may still be needed for further tax increases and benefit cuts, he said. That is certainly a problem when the compromise rests on the mutual acceptance of actions nobody really wants to take. And, of course, the compromise is admittedly insufficient for the long term; future tax increases or benefit cuts will almost certainly be needed. Secondly, the Commission proposals, if implemented, would further exacerbate and compound the basic inequity in the contributions to the Social Security system that I have just outlined. The main burden of the increased funding will fall on workers.

As an alternative, I would suggest a single solution that would provide sufficient funds to finance the system in both the short and long term, namely, eliminating the deductibility of the employers' share of the payroll tax. Doing so would provide approximately $213 billion in additional revenues from 1983 through 1989, or more than enough to cover the upper estimates of need. In the long term it would provide 1.7 percent of payroll, or nearly enough to fund the estimated long term deficit. In addition, this solution would make a 50-50 split in contributions between employees and employers a reality rather than a fiction. And it would remove the existing inequities in contribution rates among different sizes and situations of employers. Allow me to explain how the inequity arises, how the National Commission proposals contribute to the inequity, and why the solution of eliminating the deductibility of the employer contribution is by far the fairest, the most equitable, and of primary importance, the most effective way to solve Social Security's current problems.

Inequities between Employees and Employers

Social Security contributions are expressed as being collected 50 percent from the employee and a matching 50 percent from the employer. The 50-50 formulation, however, is a misleading one. Employers do not really contribute a full 50 percent, while employees contribute more than 50 percent. This happens because employers deduct their contributions from their income taxes while employees cannot do so, and employees, in addition, pay income taxes on their contributions.

Employers do send the full amount of their employees' and their own matching contributions to IRS. The Social Security trust funds are indeed credited with the full amount of the statutory employer and employee contributions. The rebate to the employer comes later, in the form of his income tax deduction. The cost of giving that rebate to the employer does not come from the trust funds, but is borne by general revenues. To say it another way, it is the revenues that are collected to finance the rest of the federal budget that are reduced by the employer's deduction of his share of the contributions. So in a very real sense, there always has been a general revenue contribution to Social Security — albeit an unacknowledged one.

Over the years, the burden of that general revenue contribution has been shifting increasingly to employees, as the proportion of federal budget revenues collected from corporations has declined steadily and the share provided by taxes on individuals' incomes has risen correspondingly. In 1954, corporation income taxes supplied 34 percent of all revenues (excluding employment taxes). For 1982, the corporate share was only 11 percent of general revenues. Taxes on the income of individuals now provide 71 percent of general revenues(of which at least 60 percent is borne by wage and salary earners), up from 47.5 percent in 1954. Consequently, the general revenue contribution to Social Security now comes in the main from income taxes paid by employees.

For example, if a medium sized, profitable corporation had a payroll of $10 million (of taxable wages below the ceiling) in 1982, its OASDI payroll taxes would have been 5.4 percent of that amount, or $540,000. Its employees would have had a like amount deducted from their paychecks. The total amount of $1,080,000 would have gone to the Social Security Trust Funds. When the time comes for the corporation to pay income tax, however, the deduction of that $540,000 as a business cost will lower its income tax liability by $248,000 (46 percent of $540,000). So the corporation's out-of-pocket expenses for Social Security contributions will only have been $292,000. The general revenue loss of $248,000 is made up by general taxpayers. But corporations are providing only 11 percent of general revenue budget receipts, while, as noted above, taxes on wage and salary income are supplying about 60 percent. So if this hypothetical corporation and its employees are representative of the average, their contributions to Social Security could be viewed as follows:

	Corporation	Employees
Initial contribution	$540,000	$540,000
Less: value of tax deduction	248,000	
Subtotal	292,000	540,000
Share of general revenue loss replaced by income taxes	27,000	149,000
Total adjusted contribution	$319,000	$689,000

As was mentioned, the corporation's out-of-pocket contribution is $292,000, while that of the employees is $540,000. The general revenue loss is $248,000. Corporations replace 11 percent of that general revenue loss through their corporate income taxes, or $27,000. Employees replace 60 percent of that general revenue through their income tax payments, or $149,000. (The balance of the general revenue loss is made up by taxes levied on interest, capital gains, "mixed source" income, excise taxes, estate and gift taxes, etc.) The total contribution from the corporation comes to $319,000, while that from the employees comes to $689,000. As can readily be seen, in this example the employee's adjusted contribution is more than twice that of the corporation's.

The combination of the income tax deduction available to employers, and the skewed source of the general revenues -- largely collected from workers -- that replace the taxes lost through that deduction results in employers really paying about one-third of the cost of Social Security while employees pay about two-thirds.

Inequities Among Different Types of Employers

The general revenue subsidy to employers now varies inversely with their ability to pay. If the employer is a corporation paying income tax at the 46 percent rate, then the employer recoups 46 percent of his contribution. If the employer is a small corporation paying tax at the 15 percent rate applicable to taxable income of less than $25,000, it recoups 15 percent of its share of the Social Security contribution. If the employer is an unincorporated business, the percentage recouped depends on the owner(s)' individual tax bracket(s). If the employer is losing money and therefore has no tax liability (and the loss is greater than the amount that he deducts because of Social Security contributions), then the employer actually pays the full amount of the "employer share." If the employer is a state or local government, a religious organization, or any other type of non-profit organization, then that employer also pays the full amount of the employer's share, because there is no tax liability that can be reduced by a deduction.

Commission Recommendations

If the recommendations of the Commission are adopted, these inequities will be reinforced and extended.

Consider, for example, the proposal to tax 50 percent of benefits if a taxpayer has other income of $20,000, or $25,000 for a joint return. While this is only applicable to a limited segment of taxpayers, the theory behind all proposals to tax one-half of benefits is the same. It rests on the proposition that employees and employers each pay one-half of the contributions to the system. Since the one-half share of contributions paid by the employer during the employee's worklife has never been taxed, the theory goes, it should be taxed when it is received. The reality of the situation, however, does not support this theory. The worker has already paid a good share of what was supposed to be the employer's half, because the bulk of the general revenue loss created by the employers' income tax discount on their contributions was replaced by income taxes of workers. Until such time as this basic inequity is remedied, it is unconscionable to ask any worker to again pay taxes — this time on his or her benefit.

The fact that the benefit taxing provision would, according to the Commission, only affect about 10 percent of the beneficiaries does not make it any more fair or reasonable. Some of these beneficiaries would be maximum earners, who, under the redistributive aspects of Social Security, already receive lower replacement ratios and have lower ratios of benefits to contributions than lower earners. Our research shows that taxing one-half of benefits will lower the benefit to contribution ratios for these earners by 13 - 14 percent. And that analysis leaves aside the fact that these higher earners would have already paid a higher rate of income taxes on their own Social Security contributions and also a larger share of the general revenue replacement for the employer contributions. In short, in addition to the problems raised by others in relation to this proposed provision — those of discouraging the accumulation of savings and investments at a time when such accumulations are badly needed by the economy and are being encouraged by other legislation, and the troublesome "notch" problem — this provision adds inequity on top of inequity. It might initially begin as a large inequity for a small group, but could easily tend to expand as time and inflation puts more and more taxpayers within the affected group.

The proposal to cover newly hired Federal employees and employees of nonprofit organizations, and to ban withdrawals by state and local employers is still another example of the interaction of the basic inequity of the current employer and employee contributions and the Commission proposals. As the system now stands, nonprofit organizations and state and local governments that participate in the system pay a disproportionate share of the total burden, compared to private employers. They have no tax liability against which to deduct the employer share of the contributions, so they pay the full amount. (It is little wonder these employers have found the system less than attractive.) In a sense, the same will be true of the federal government as employer. In fact, general taxpayers — largely workers — will be doubly hit in this regard. It is they who will ultimately pay the full share of the employer contribution for federal government workers. In addition, it is they who will have to face the funding for the huge unfunded liability of the current Civil Service Retirement System. With new employees either out of the CSRS or participating at a reduced level, the largely pay-as-you-go method that the CSRS has depended upon to avoid funding of its $499 billion unfunded liability will be even less adequate than it is now. A greater share will have to be borne by the taxpayer.

Finally, any increased payroll tax, and that includes the moving up of the scheduled tax, inevitably suffers from the same basic inequity. It will be paid not half and half, but two-thirds by workers and only one-third by private employers. Giving the refundable tax credit for the part of the employee rate that has been rescheduled is only a very partial remedy to the inequity. Like the employer deduction, this is just another way of transferring general revenue to the Social Security Trust Fund. To the extent that other demands on general revenue are not lessened, however, the taxes "lost" must somehow be "replaced". And given the skewed nature of the tax base, the replacement will be made by the same wage and salary earners who received the credit. The best that can be said is that there will be some progressive redistribution of the burden among wage and salary earners. But given that high earners would be the ones affected by the proposal to tax benefits, the question of how much can be dumped upon one group has to be raised. It would be far better if the employers were bearing their fair share of the costs.

The Equitable Solution

In contrast to all of these burgeoning inequities and problems, eliminating the income tax deduction for the employer's contribution would accomplish three major goals:

* Generate sufficient new revenues to finance the system now and in the future,
* Create equity between employees and employers, and
* Create equity among different types of employers.

If employers were to be treated the same as employees, their Social Security contributions would not be deductible as a business expense. As a result, the amount of those contributions would come down to the bottom line of their income tax returns as taxable income and be taxed.

The additional taxes collected from employers because of this change could be separately calculated and earmarked for transfer to the Social Security Trust Funds. Although it is difficult to calculate the exact amount of additional revenue that could be expected, our conservative estimates suggest that the change would generate additional revenue amounting to about 1.4 percent of payroll now, rising to about 1.7 percent of payroll in 1990 and beyond (under current tax rate schedules). This translates to approximately $213 billion in additional revenues from 1983 through 1989, based on the Alternatiave III pessimistic assumptions, or more than enough to meet anticipated needs. And for the long term, the 1.7 percent of payroll is very close to sufficient to fully fund the estimated deficit. It is certainly enough to allow postponing the fashioning of any additional revenue sources to a time 30 to 40 years hence, by which time the course of demographic and economic events will determine whether they are needed.

While providing a single solution to the financing problems of the system, this proposal would greatly improve the equity of the Social Security contributions. Eliminating the employer's income ta : deduction would end the worker-subsidized general revenue contribution and restore the balance between the employers' and employees' total social security-connected payments.

Finally, if the deductibility of the employer's contribution is eliminated, every employer would pay the full amount of the Social Security payroll tax that is levied on employers. The disparities between private and public, profit and nonprofit, and large and small employers would disappear. A disproportionate burden would no longer fall on public and nonprofit employers.

With the amount of the contribution becoming taxable as a result of the elimination of the deduction, the amount of income taxes paid on the Social Security contribution by different types of private employers would continue to vary with their circumstances. But the variation would be more in accordance with their ability to pay, that is, large corporations would pay 46 percent, and those with smaller taxable incomes would pay the lesser rates to which they are subject. Where the employer tax is now regressive because those with the highest incomes pay the lowest true rate of payroll tax, taxing the contribution would move in the direction of progressivity.

National Council
SOCIAL SECURITY MANAGEMENT ASSOCIATIONS

250 Monroe NW, Room 600
Grand Rapids, MI 49503

February 9, 1983

<u>Senate Finance Committee Hearings:</u>
<u>National Commission on Social</u>
<u>Security Reform Recommendations</u>
February 15, 22, 23 and 24, 1983

The 4,000 Social Security managers and supervisors I represent are opposed to having the issue of whether new federal employees should be placed under Social Security decided in the Social Security reform legislation. Instead, we believe a separate bill should be introduced to address the need to cover Federal employees under Social Security and the need for changes in the Civil Service Retirement System (CSRS). We prefer this approach because:

1. The Social Security reform forum is not the one in which to address the needs of 2.5 million Federal employees and 1.4 million CSRS retirees. I have watched, on cable T. V., early testimony of National Commission members before the House Ways and Means Committee. It has been clear there has been little thought given to how coverage of Federal employees will impact on the CSRS. I listened in dismay when Robert J. Myers provided a suggestion on a supplemental CSRS plan. It was very simplistic, flawed and self-admitted to have been hastily contrived. I am not faulting Mr. Myers, because he did sincerely express the need for a supplemental CSRS. He did the best he could on short notice, but I am fearful this is good evidence of how any issue over the coverage of Federal employees will be handled in the Social Security forum. The forum for dealing with the National Commission's recommendation has been and will be very

emotional and derisive. We believe it is inappropriate to decide the fate of the CSRS in this setting. Our retirement system has been in place 63 years and deserves a forum sensitive to it's character and significance.

2. The stability and solvency of the CSRS will be immediately jeopardized by Social Security coverage of new Federal employees. We do not have confidence the will of Congress and the Administration is such to maintain the long term stability of a CSRS system without regular new entrants.

3. The Social Security reform legislative process will tend to perpetrate the myth that the CSRS is an overly generous retirement system. The major problem for growth in CSRS outlays has been the cost-of-living increases. These also caused the Social Security financing problem. The over generous cost-of-living increases to beneficiaries in the past ten years has strained both systems. Instead of placing the blame squarely on the COLA's, the solutions will be to make todays workers bear the major burden of reform by increasing taxes and reducing their future benefits. The Administration's proposals in the 1984 budget for changing the CSRS are a clear reflection of this trend.

4. Finally, and most important, a properly designed package of Social Security coverage and a supplemental CSRS may be to the advantage of all Federal workers. There are weaknesses in the CSRS (survivor benefits and spouse coverage) which might be strengthened under a combined system. A properly designed combined system may also be appealing to already employed Federal workers.

As a solution, I suggest the Social Security legislation should convey the intent of the final legislative decision on the coverage of Federal employees. This intent should be referred to the Senate Government Affairs Committee and the House Post Office and Civil Service Committee. These committees should then draft a bill which would provide the proper forum for a decision on coverage of Federal employees under Social Security and possible changes in the CSRS.

Thank you for considering our position.

Sincerely,

Robert P. Fleminger
President
National Council
Social Security Management Associations

SOS

COALITION TO PROTECT SOCIAL SECURITY

SOS SAVE OUR SECURITY

1201 16th ST., N.W., SUITE 222, WASHINGTON, D.C. 20036
TELEPHONE: (AREA CODE 202) 822-7848

February 10, 1983

The Honorable David Durenberger, Chairman
Subcommittee on Health
Committee on Finance
United States Senate
2207 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

It is our understanding that the American Federation of Labor and Congress of Industrial Organizations will be presenting testimony to the Subcommittee on Health, relative to the Administration's proposals for prospective payments under Medicare.

This is to inform you that the views which will be presented by the AFL-CIO are fully supported by Save Our Security.

SOS is a nationwide coalition of more than 140 organizations representing a cross-section of American life. I am attaching a list of the affiliated organizations to give you the full flavor of the coalition. There are organizations representing the elderly and the disabled, trade unions representing workers in the public and private sectors, social welfare groups, women's groups, civil rights groups and religious organizations. Together, these affiliated organizations have a membership of between 35 and 40 million adult Americans, almost equally divided between beneficiaries of, and contributors to, Social Security.

On behalf of Save Our Security, we wish to associate ourselves with the views expressed by the AFL-CIO, and respectfully request that this letter be made a part of the Subcommittee's hearings record.

Sincerely,

Wilbur J. Cohen

Wilbur J. Cohen
Chair

WJC/as

AFFILIATED ORGANIZATIONS

A. Philip Randolph Institute
Action Alliance of Senior Citizens of Greater Philadelphia (PA)
Advocates for the Handicapped
Alton-Wood River (IL) Federation of Labor
American Association of Homes for the Aging
American Association of Retired Persons
American Association of University Professors
American Association of University Women
American Association on Mental Deficiency
American Coalition for Citizens with Disabilities
American Council of the Blind
American Ethical Union
American Federation of Labor/Congress of Industrial Organizations
American Federation of State, County and Municipal Employees
American Foundation for the Blind
American Jewish Committee
American Veterans Committee
Americans for Democratic Action
Armstrong, Clarion Counties (PA) Central Labor Union Council
Associated Actors and Artistes of America
Association for Retarded Citizens
Bakers, Confectionery and Tobacco Workers International Union
Cattaraugus-Allegheny Counties (NY) Central Labor Council
Center for Community Change
Center for Independent Living
Central Labor Union of Erie County (PA)
Central Maine Area Agency on Aging
Central Ohio Council of Senior Citizens
Cincinnati (OH) AFL-CIO Council
Communications Workers of America
Community Council of Greater New York
Concerned Seniors for Better Government
Congress of Senior Citizens of New York
Connecticut State AFL-CIO
Council of State Administrators of Vocational Rehabilitation
Democratic Socialist Organizing Committee
Disabilities Plus, Ink
Disabled American Veterans
Disabled in Action of Pennsylvania
Dunn County (WI) Central Labor Council
Economic Opportunity Commission
Edwardsville (IL) Central Trades and Labor Council
Federation of Senior Citizen Clubs and Organizations
Food Research and Action Center
Fund to Assure an Independent Retirement
Graham-Greenlee Union Club of Clifton (AZ)
Gray Panthers
Highland Valley (MA) Elder Service, Inc.
International Association of Bridge, Structural and Iron Workers
International Association of Machinists and Aerospace Workers
International Chemical Workers Union
International Ladies' Garment Workers Union
International Union of Operating Engineers
Joseph P. Kennedy, Jr., Foundation
Leadership Conference of Women Religious
Legal Research and Services for the Elderly
Massachusetts Association of Home Care Corporations and Area Agencies on Aging
Massachusetts Organization of Disabled Workers
Mechanics Educational Society
Metal Trades Department, AFL-CIO
Metropolitan Baltimore Council of AFL-CIO Unions
Metropolitan N.Y. Coordinating Council on Jewish Poverty
Monmouth County (NJ) Office of the Handicapped
Montana State AFL-CIO
Muskegon (MI) Labor Council
National Association for Human Development
National Association for the Advancement of Colored People
National Association of Private Residential Facilities for the Mentally Retarded
National Association of Retired Federal Employees
National Association of State Universities and Land Grant Colleges
National Black Catholic Lay Caucus
National Board of the YWCA
National Caucus and Center on Black Aged
National Center for Urban Ethnic Affairs
National Coalition for Older Women's Issues
National Conference of Catholic Charities
National Consumers League
National Council of Catholic Women
National Council of Churches
National Council of Jewish Women
National Council of La Raza
National Council of Negro Women
National Council of Senior Citizens
National Council on the Aging
National Education Association
National Farmers Union
National Indian Council on Aging
National Multiple Sclerosis Society
National Organization of Social Security Claimants Representatives
National Senior Citizens Law Center
National Society for Autistic Children
National Urban Coalition
National Urban League
National Women's Political Caucus
New Hampshire Association for the Elderly
New Horizons
Ohio Coalition of Senior Citizen Organizations
Ohio Rehabilitation Services Commission
Older Women's League
Operation Overcome of Lackawanna County (PA)
Operation Overcome of the Anthracite Region (PA)
Operation Overcome of the Lehigh Valley (PA)
Oswego County (NY) Labor Council
Ozaukee County (WI) Trades and Labor Council
Paralyzed Veterans of America
Pennsylvania Alliance of the Physically Handicapped
People United for Self Help
Power, Inc.
Retired Teachers Chapter, United Federation of Teachers
Retirees Union Club of Sierra Vista (AZ)
San Joaquin and Calaveras Counties (CA) Central Labor Council
San Mateo County (CA) Central Labor Council
Save Our Childrens' Security
Secure Our Children
Senior Citizens Task Force/United Planning Organization
Seniors for Adequate Social Security
Southeastern Oregon Central Labor Council
Student Services for the Handicapped
Texas Planning Council for Developmental Disabilities
Texas State AFL-CIO
The Workmen's Circle
UAW Retired and Older Workers Department
Union Club of Cottonwood/Verde Valley (AZ)
Union Club of Sun City (AZ)
United Association of Journeymen & Apprentices of the Plumbing and Pipefitting Industry
United Automobile, Aerospace & Agricultural Implement Workers of America International Union
United Cerebral Palsy Associations
United Furniture Workers of America
United Presbyterian Church
United States Catholic Conference
United Steelworkers of America
University of the District of Columbia/Institute of Gerontology
Washington Armed Services Committee
Washington State Labor Council, AFL-CIO
Waukesha County (WI) Central Labor Council
West Virginia Developmental Disability Planning Council
Western Gerontological Society
Westside Community for Independent Living
Wisconsin Council on Developmental Disabilities
Women's Equity Action League

WRITTEN TESTIMONY

SUBMITTED TO THE

SENATE FINANCE COMMITTEE

Washington, D.C.

February 23, 1983

RE: PROPOSAL OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM BEARING ON 401(k) PLANS

Alan P. Cleveland, Esq.
Sheehan, Phinney, Bass & Green, Prof. Ass'n
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Manchester, New Hampshire 03101
(603) 668-0300

The Report of the National Commission on Social Security Reform includes among its recommendations a proposal effecting a change in present law -- i.e., that employee salary deferred under a tax-exempt retirement plan qualified under Section 401(k) of the Internal Revenue Code be deemed "wages" subject to OASDI-HI taxes.* This proposal is not expected to produce current income to the OASDI and HI programs, but rather to discourage the formation of private retirement plans qualified under Section 401(k). For the reasons set forth below, the proposal is an ill-considered erosion of the private retirement system, limits the opportunity for individual retirement planning by the younger members of the workforce, and is likely to have a long-term detrimental effect on national pension policy.

Commonality of the Social Security and Private Retirement Systems

Pension, profit-sharing and other tax-qualifed plans are established by employers for the purpose of providing retirement benefits for their employees. Private retirement plans and Social Security have the common objective of providing replacement income so that the pre-retirement standard of living of retired employees can be maintained. Most retirement planners believe that, as a rule-of-thumb, aggregate replacement income, including Social Security benefits, equalling 65% of pre-retirement income is needed to meet this objective.

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*See Report of National Commission on Social Security Reform, January 20, 1983, Ch. 2, ¶(17) "Coverage of Payments Under Salary Reduction Plans"

There are fundamental differences between private pension plans and Social Security, however. Social Security was originally designed to provide a minimum income floor just sufficient for the retiree to subsist. Private plans are intended to build on this floor by providing additional benefits so that the retiree can live with dignity and with the least disruption to his or her pre-retirement life pattern. Social Security benefits under present law are nontaxable to the retiree. Private plan benefits are usually taxable income to the retiree when received. Social Security is an intergenerational system that transfers income from the current workforce to retirees. It is a pay-as-you-go system. Private plans usually provide benefits to retirees out of previously accumulated plan assets. The public perception is that Social Security is in financial difficulties and unlikely to provide the same past level of benefits to younger members of the workforce. Indeed, the findings and recommendations of the National Commission confirm this view. For young people, the private pension system, rather than Social Security, is seen as their primary and most secure source of future retirement income.

The demographics of the "baby-boom" population of younger workers supports the view that a pre-funded private retirement system should not be subordinated to a pay-as-you-go Social Security system. After the year 2030, when the majority of the baby-boom population has reached retirement age, the current "dependency ratio" of 3 workers per retiree will have shifted to a ratio of 2 workers per retiree. Many experts believe that a dependency ratio of less than 2.5:1 cannot be sustained by a pay-as-you-go system without a severe curtailment of the standards of living for workers, or retirees, or both. The attached graphic demonstrates the relationship between projected dependency ratios at given normal retirement ages (Appendix 1), and the implications of the present trend to early retirement at age 62 (Appendix 2). Even at the current 3:1 dependency ratio, today's pay-as-you-go Social Security system is in serious trouble. Projecting present retirement trends, there appears to be no way Social Security can operate in either the short- or long-term without benefit cutbacks before the baby-boom population reaches retirement age, regardless how these reductions are characterized or over what transition period.

It is the unhappy charge of this Congress to make those adjustments necessary to strengthen the Social Security system, and to determine whether implementation of what the National Commission has recommended would accomplish this. The single recommendation of the Commission's Report (¶17) directly relating to private retirement plans, although not demonstrably bolstering the Social Security system, would restrict the present scope of individual pension planning by the younger elements of the workforce.

The Need for an Enhanced Private Retirement System

The 1981 Report of the President's Commission recommended a shift from dependency on pay-as-you-go financed federal programs, such as Social Security, to a balanced program of employee pensions, social security and individual effort.* Historically, Congress has promoted the voluntary establishment of private retirement plans by enactment of favorable tax laws. Recent advancements of this favorable tax policy toward individual retirement planning are the Economic Recovery Tax Act of 1981, which made Individual Retirement Accounts available to all wage-earners and increased IRA deductible contribution limits to $2,000; and the Tax Equity and Fiscal Responsibility Act of 1982, which liberalized Keogh plans and doubled employer contribution limits to $30,000.

Federal legislation has always had a dominant influence over both the magnitude and direction of growth of the private retirement system. By any measure, either in terms of employee coverage or aggregate fund assets available to pay future benefits, the private pension system is assuming an

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*Report of the President's Commission on Pension Policy, February 26, 1981. Also see Final Report of the National Commission on Social Security, March 1981, Chapter 3.

increasingly important role in providing for the future retirement needs of the nation's workforce. Although it is generally agreed that Social Security coverage under current law has now stabilized at 90% of the private sector work-force, there remains some controversy as to the present and projected levels of employee coverage by pension plans. The President's Commission on Pension Policy stated in its 1981 Report that private plan coverage had stabilized at about 50% of the present workforce. The Employee Benefit Research Institute and others challenge this view, stating that in fact approximately 68% of non-governmental, non-agricultural employees were covered by private plans.* The EBRI study also challenged the view of the President's Commission that the growth of private plan coverage had leveled off. Appendix 3, which shows incremental formation of new plans through 1981 according to Treasury data analyzed by the Profit-Sharing Research Foundation, indicates that EBRI may have the better side of the argument.**

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*Employee Benefit Research Institute, "Retirement Income Opportunities in Aging America: Coverage and Benefit Entitlement", July 9, 1981. See also, U.S. Department of Labor, LMSA/PWBP and Daniel J. Beller, "Patterns of Worker Coverage by Private Pension Plans", August 1980.

**Both the President's Commission and EBRI do agree that about 70% of current workers between the ages of 25 to 29 (as of 1981) can expect to receive retirement benefits under private plans.

Another measure of the strength of the private retirement system is accumulated plan assets available for payment of pension benefits. In a study commissioned by the U.S. Department of Labor and performed by ICF, Inc., private pension assets, which reached $225 billion in 1975, and $420 billion in 1981, are projected to increase to over $3 trillion in 1995. This conservative projection, which enjoys a broad consensus of expert opinion, promises that the pre-funded assets of the private retirement system, if allowed to grow, will be sufficient to meet many of the future retirement needs of the younger segment of the workforce.

It should be further noted that while private plan assets are being accumulated for the purpose of paying future retirement benefits, they also contribute enormously to the capital formation of this nation as a form of forced savings. Social Security taxes, on the other hand, represent a dissavings and inhibit capital formation.* Thus, an enhanced private pension system not only serves national retirement objectives but also national economic recovery goals of increased capital formation and productivity.

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*See a trilogy of "Working Papers" of the President's Commission on Pension Policy of September 17, 1979, by Mordecia Kurz and Marcy Arvin, entitled "Private Pensions and Capital Formation", "Social Security and Capital Formation", and "The Funding Issue and Modern Growth Theory". See also a "Working Paper" of the National Bureau of Economic Research, Inc., "Private Pensions and Public Pensions: Theory and Fact", No. 902, June 1982, by Alan S. Blinder.

As to the direction or form the private retirement system takes, this too is greatly influenced by Federal legislation. For example, it is generally recognized that defined benefit type retirement plans are in decline today, and being replaced by defined contribution type plans,* largely as a Congressionally unintended consequence of the Employee Retirement Income Security Act of 1974, and its progeny of rules, regulations and amendments.**

At this time, there is a great deal of interest among employees and employers in the private sector in establishing a particular type of defined contribution plan -- the so-called 401(k) plan. Enthusiasm for this type of private pension plan would be severely dampened by implementation of the National Commission's Recommendation 17.

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*"Defined benefit" and "defined contribution" type plans are distinguished as follows: Under a defined benefit plan, employees are promised a fixed and determinable benefit at a specified retirement age. Usually the promised benefit is tied to the employee's earnings, or length of service, or both. Under a defined contribution plan, the employer's annual rate of contribution is fixed, rather than the benefit to be received by the employee. The employer contribution is usually a percentage of the employee's earnings. The benefit payable at retirement is based on money accumulated in each employee's individual account. Such accumulated money will reflect investment gains or losses, and, in an (employee) contributory plan, the value of the employee's contributions.

**See, Economic Survival in Retirement: Which Pension Is for You?, Employee Benefit Research Institute, 1982. Also see, Proceedings of the 33rd Annual Meeting of the Conference of Actuaries in Public Practice, October 7-9, 1982, Cambridge, Massachusetts.

The 401(k) Plan

In legislating the Revenue Act of 1978, Congress added Sections 401(k) and 402(a)(8) to the Internal Revenue Code, which permitted treatment of a "cash or deferred arrangement" as a tax-qualified defined contribution plan. Essentially, Section 401(k) enables employees to save money on a tax-exempt basis by electing to defer a portion of compensation to their individual accounts held under a qualified plan. If the requirements of Section 401(k) for full vesting, non-discrimination and limited withdrawability are met, the employees' deferrals are excluded from gross income under Section 402(a)(8), and from FICA and FUTA wages as well.

The Internal Revenue Service on November 10, 1981 issued proposed regulations on 401(k) plans, which are expected to be finalized within the next several months. It is evident from the basic framework of these regulations that the 401(k) arrangement will be among the most non-discriminatory plans permitted to be qualified under the Code. Presently there is substantial activity in converting conventional thrift or savings plans to 401(k) plans. It is expected that many profit-sharing plans will also be amended to include the 401(k) participant option of electing between cash or deferred contributions. Additional employers who either cannot afford or do not wish to take on the legal burdens of sponsoring a more complicated employee retirement plan may further have an interest in establishing an employee-pay-all 401(k) plan.

Attached as Appendix 4 is a table showing the advantage to the employee, expressed in terms of benefit cost ratios, of participating under a 401(k) cash or deferred arrangement as compared to alternate contributory retirement plans. From the employee standpoint, there is no plan with a higher payback of benefits to cost than the 401(k). If the participant is young (under age 45), the 401(k) plan, as a type of defined contribution plan, is more likely to provide a higher level of retirement benefit than a comparable defined benefit plan. Among participants who are young and female, that group having the highest rate of employee turnover and therefore least likely to become vested in benefits accrued under most other pension plans, the full and immediate vesting requirement of 401(k) plans is an especially valuable guarantee.

In sum, establishment of 401(k) plans, as contemplated under the Revenue Act of 1978, would raise the level of future pension benefits available to that segment of the workforce which will be in greatest need of additional retirement income supplementing that now being reduced under Social Security.

Recommendation 17 is Intended to Discourage 401(k) Plans

The National Commission recommends under Paragraph 17 of Chapter 2 of its Report that amounts deferred under 401(k) plans should be subject to OASDI-HI taxes. Stated in support of the recommendation is the observation that "[I]f the recommendation is not followed, it is quite probable that many such plans will be instituted . . . ." Further, Recommendation 17 is incorporated in Senate Bill 1, Section 305, which offers an identical rationale for the measure: "[I]f the proposal is not enacted, it is quite probable that many such plans will be instituted . . . ."

Apparantly there is no hard data in support of Recommendation 17. Rather, there only appears a conclusory statement suggesting more fear than fact that the private retirement system and the Social Security system somehow have conflicting objectives in providing for the future retirement needs of the national workforce. To adopt this view would signal a sharp change in established national retirement policy, which has consistently sought to foster a pre-funded private retirement system to relieve dependence on a pay-as-you-go Social Security system. Immediate adoption of Recommendation 17 is being urged where no present problem has been identified and no data presented as to the consequences to either the Social Security or private retirement systems.

Recommendation 17 Requires Further Study

The introductory paragraph of a 1980 EBRI Issue Report, Retirement Income Policy: Considerations for Effective Decision Making, still makes good common sense:

> "Each day we are confronted with new surveys, reports, studies, panel recommendations and policy proposals intended to inform us about, or to alter and improve, public and private retirement income programs. Before any decisions can be made based on this material and the data already available, decision-makers must assure themselves that the real problems have been identified, that related issues have not been ignored and that the treatment of an issue has been adequate and thorough."

As a practitioner in the area of private plans, and one who deals most often with small plans sponsored by small business, I respectfully offer the following: The best means of encouraging the private sector to accept responsibility for providing a greater share of future retirement income is for Congress to be restrained in enacting yet more federal legislation placing special limitations on private pension plans. This area is already amazingly complicated. With added legislation, private pension plans would become even more difficult to establish and operate. If let alone, or a broader scope of action by plan sponsors permitted, private pension plans can and will bridge the void left by a deemphasized Social Security system.

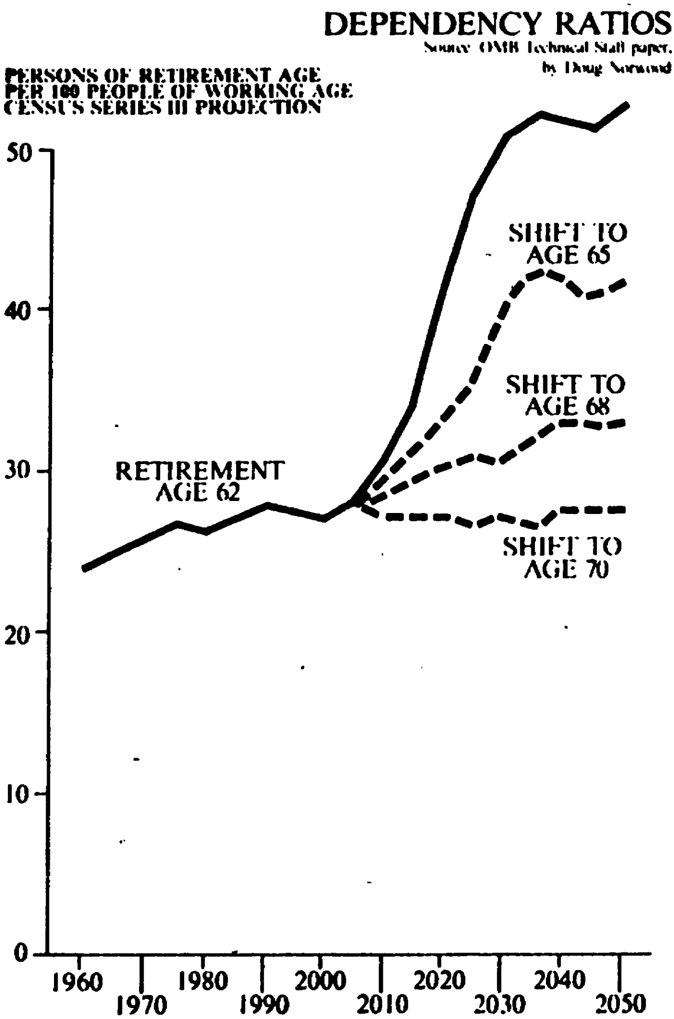
In the absence of substantiated data showing that the growth of 401(k) plans is indeed detrimental to the Social Security system, and that such costs, if any, outweigh the increased retirement benefits provided by such plans under the private pension system, Recommendation 17 should not be enacted.

Respectfully submitted,
SHEEHAN, PHINNEY, BASS & GREEN,
PROF. ASS'N

February 23, 1983
Manchester, N.H. 03101

By: Alan P. Cleveland
Alan P. Cleveland

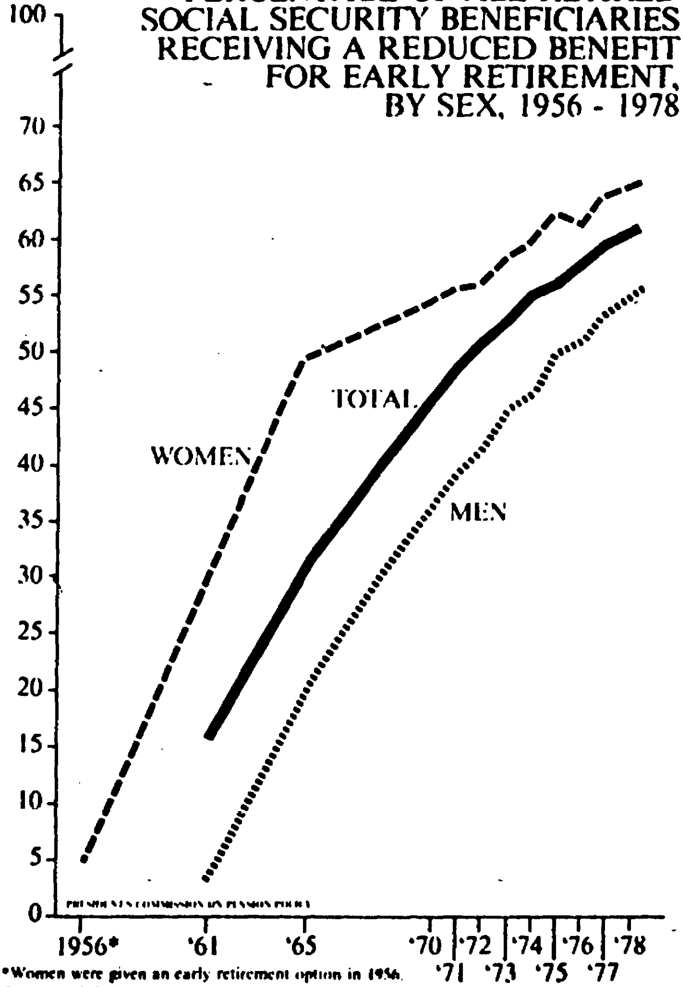
Appendix 1



Source: President's Commission on Pension Policy, 1979.

Appendix 2

PERCENTAGE OF ALL RETIRED SOCIAL SECURITY BENEFICIARIES RECEIVING A REDUCED BENEFIT FOR EARLY RETIREMENT, BY SEX, 1956 - 1978

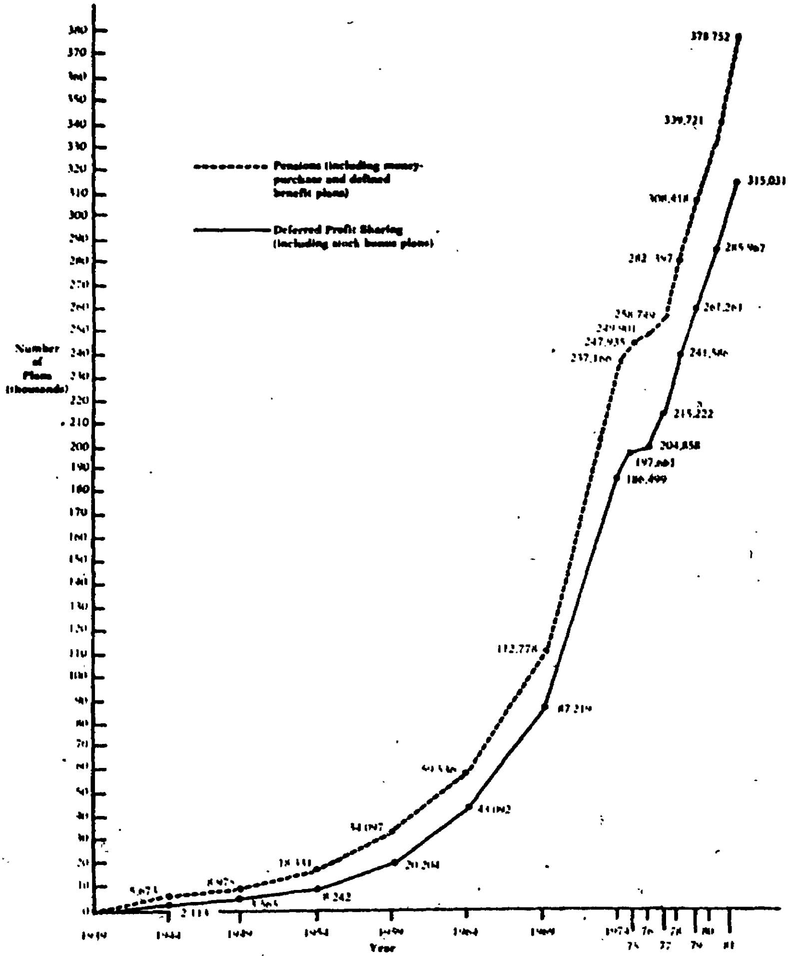


*Women were given an early retirement option in 1956.

Source: OMB Technical Staff paper by Doug Norwood, 1979.

Appendix 3

Cumulative Growth in Number of Qualified Deferred Profit Sharing Plans and Pensions in the United States—1939 to 1981[1]



Source: Profit Sharing Research Foundation calculations based on U.S. Treasury Department reports.

[1]Plan approvals minus plan terminations.

CODA vs. ALTERNATIVES
RE: INCREASED RETIREMENT BENEFITS

	Voluntary Nondeductible Qualified Plan Contribution	IRA	Employee-Pay-All CODA Sec. 401(k)	Matched Conventional Thrift Plan	Matched CODA Sec. 401(k)
1. Employee contributions (20 years)	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
2. Employer contributions (50% match)	0	0	0	20,000	20,000
3. Investment growth	86,005	86,005	86,005	129,008	129,008
4. Age 65 account balance (1 + 2 + 3)	126,005	126,005	126,005	189,008	189,008
5. Employee tax savings from deduction or exclusion (40% marginal tax rate)	0	16,000	16,000	0	16,000
6. Net investment cost to employee: (1 - 5)	40,000	24,000	24,000	40,000	24,000
7. Taxable income at distribution	86,005	126,005	126,005	149,008	189,008
8. Tax if distribution received in a lump sum	12,211	50,402	19,811	25,072	35,172
9. After-tax value of distribution (4 - 8)	$113,794	$ 75,603	$106,194	$163,936	$153,836
10. Benefit cost ratio (9 ÷ 6)	2.84	3.15	4.42	4.10	6.41

Assumption: 10% year investment return
Ordinary income tax at 40% rate on IRA distribution, tax on others determined using 1984 rates and 10-year averaging.

STATEMENT FOR SUBMISSION TO

THE SENATE FINANCE COMMITTEE

by

ARTHUR B. LAFFER

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(NOTE: University affiliation is listed for identification only, and nothing contained herein is intended to represent the views of the University of Southern California.)

The Administration and Congress are once again on the verge of making a serious error in economic policy. Unfortunately, the systemic nature of the potential error and the virtual impossibility of its reversal almost guarantee that our children and grandchildren will be poorer as a consequence. While these highly politicized actions will have a marked detrimental impact on the secular performance of America, they should do little to retard the nascent cyclical sharp recovery this year and the next.

The proximate issue is, unfortunately, not confined to the relatively temporal crises perpetuated by the like of last year's billion dollar tax increase or other such immature dawdlings.

Social Security is serious and may not be handled in the off-handed manner so typical of highly politicized environments. Unfortunately, the President's Blue Ribbon Commission has succumbed to a most virulent infestation of Potomac fever and Social Security, as we've know it for years, is at risk. Before addressing the Commission's prescription a detailed view of two competing conceptions of what Social Security is and should be is de riguer.

The one perception is that social security, inclusive of both payroll taxes and old age benefits, is a self-contained state-run insurance cum pension plan. Thus, people who have contributed into the system have earned the right to be fully covered by the system with all the inherent risks and rewards that that might entail. Give or take a pinch, this means that social security has an obligation, if not a survival imperative to be actuarily sound.

From this perspective, there is absolutely no question that our current Social Security system is grossly remiss. Using any type of insurance tables on longevity, income and inflation projections, and other such ingredients which are the grist of actuarial brews, the Social Security system stands with a deficiency in its reserves of some 4-7 trillion dollars. Such a number is so large and diffuse as to be meaningless.

If put in a slightly different context the abject terror becomes explicit. If benefits are to be maintained as stated by current law then payroll taxes will have to rise to over 25 percent (12½ percent each for employer and employee) within the next fifty years. This assumes unrealistically that such a surge in the payroll tax will not destroy the very income based upon which it is levied. Quite clearly, when viewed in this perspective the entire Social Security system is literally bankrupt. Like the proverbial Masserati careening toward a granite wall at 175 kilometers per hour, there is no question the system will stop. The only issue is how.

And yet, another perspective on our Social Security system yields a diametrically opposite feeling. This view envisions Social Security as nothing special in the context of government spending and tax programs. Social Security most assuredly is not a payroll tax linked inextricably to old age benefits. True, there is a payroll tax but there are lots of taxes and anything short of a full commingling is disingenuous poppycock accounting. Likewise it is equally true that there are old age benefits. But they too should not be treated separately but should be considered within the panoply of all spending programs. When seen in this light there is no Social Security problem per se but only an overall budget problem.

From my personal perspective, the latter view is more constructive. There is no percentage in trying to link spending programs with specific taxes. Taxes should be collected in such a fashion as to minimize their damage to the society while providing the requisite revenues. Likewise, spending programs should be determined in accordance with the tastes of the society and the programs the society deems appropriate. Thus, if next year we learned that payroll taxes were exceptionally pernicious taxes while other taxes were far less noxious, it would be foolhardy for us not to substitute other taxes for payroll taxes.

In a similar vien, if the government in its infinite wisdom decided agricultural subsidies were appropriate in 1965 and that old age benefits should commence at age 65 in 1940, there is no reason why all years hence should necessitate agricultural subsidies or old age benefits commencing at age 65. A society's views as to what is appropriate do change. Sometimes those changes come about because society's tastes change or even as a result of recognition of past errors. They also change because the conditions of man change. Just because many people whom we consider officially in a poverty category today would have been above that designation a century ago, does not imply that we should not help them now. If we want to help them we should. If five years from now the society changes its mind and wants to help them more or less, that too is perfectly acceptable.

What is totally unacceptable however, is committing the government to a specific course with specific promises and then after people have, as a consequence, relinquished reasonable alternative reneging on that commitment. This is totally abhorrent and in my view immoral.

The Blue Ribbon Commission has recommended just such an immoral path. The Commission has recommended that the benefits to those people currently receiving retirement benefits be reduced. Their proposed reduction occurs through a permenant six month delay in the cost of living adjustment for benefits and also by subjecting some Social Security benefits to the income tax period.

The elderly have no way of coping with such cuts except by absorbing the full brunt and experiencing the anxiety, associated with such arbitrary actions. Being as old and as infirm as many of our Social Security recipients are, the attendant feeling of insecurity weighs far more heavily on their minds than any savings to the government could benefit the rest of us. These are the very people who provided our nation's security years ago and now they are forced to exist on the quixotic vagueries and whims of those yahoos in Washington. What the Commission has recommended here is wrong.

The Blue Ribbon Commission also recommended higher payroll taxes for those people now taxed and through coverage of workers previously not covered. This too is quite simply bad economics. America doesn't need more taxes now just when it is starting to recover from its worse recession-depression since the 1930s. But even more to the point, the one group that needs the tax increase least is the low wage worker group selected by the Commission as its victim.

The payroll tax stops at an earned income of somewhere in the mid-thirty thousand dollar range. It doesn't count unearned income in its base either. Low wage workers are just those people suffering most from the economy's horrendously high unemployment rates, from the threat of foreign competitions and from high-technology job displacement. They don't need nor do they deserve higher taxes to make then less competitive, more susceptible to replacement by automation, and more victimized by high unemployment rates. Again, what the Commission has recommended is wrong.

The Commission's sins of commission are no worse than their sins of omission. By not addressing the relevant issues this Blue Ribbon Commission has forfeited an opportunity rarely experienced. We were afforded an opportunity to respond morally and with good economics to an issue that troubles all of us. They did nothing to address the real issue.

It doesn't take a genius to realize that people live a lot longer now than they did in 1940 when Social Security began. Life expectancy alone has risen by more than ten years. Few people ever lived to be 65 years old in 1940. A lot more do now. As a consequence, a reasonable retirement in 1940 is nonsensical today. Times have changed, but Social Security's retirement has not.

The only proper redress of our Social Security dilemma is to extend the retirement age. The only way to do that morally is to allow people time to adjust to the new rule. Thus, my view would be to announce to everyone that those people between the ages of 50 and 60 will start receiving Social Security benefits at age 66½. If they so choose, they can retire on their own at 65 or continue working. Whatever, their benefits begin at age 66½. People between the ages of 40 and 50 will begin receiving benefits at age 68, people under 40 will start their benefits at 70 years of age. Why the Commission refused to recognize this straightforward reality is at the core of why our government is failing us everywhere.

CONGRESS OF THE UNITED STATES

UNITED STATES SENATE

COMMITTEE ON FINANCE

HEARINGS ON

NATIONAL COMMISSION ON SOCIAL SECURITY REFORM RECOMMENDATIONS

February 22, 1983

Statement
by
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STATEMENT TO THE
UNITED STATES SENATE
COMMITTEE ON FINANCE

by

A. Haeworth Robertson
Managing Director
William M. Mercer, Incorporated
Washington, D.C.

February 22, 1983

Mr. Chairman and distinguished Members of the Committee, my name is A. Haeworth Robertson. I served as Chief Actuary of the Social Security Administration from 1975 to 1978, a period during which the longer-range financial problems of Social Security first became evident. I am currently a Managing Director of William M. Mercer, Incorporated, an international firm of employee benefit and compensation consultants.

My views do not necessarily represent those of my employer or any other organization with which I am associated. I am presenting my views in my capacity as an individual citizen and as a professional actuary in the hope that I can make observations that will assist you in identifying the problems that threaten the long-term solvency of the Social Security system and finding solutions to such problems that will not only assure the financial integrity of the system but will assure the provision of appropriate benefits. This was, of course, the very mandate of the National Commission on Social Security Reform.

STATEMENT TO THE
UNITED STATES SENATE
COMMITTEE ON FINANCE

by

A. Haeworth Robertson
Managing Director
William M. Mercer, Incorporated
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Summary of Principal Points

1. The Social Security system has several very important problems which are somewhat interdependent but not completely so.

- The system has financial problems that are relatively small for the next ten years or so but that will become enormous after the turn of the century. To restore the balance in income and outgo solely by tax increases would require the current employee tax rate of 6.7% to increase relentlessly for the next 50 years to a level of 14% to 20% (matched by a like amount from the employer).
- Public confidence in the system has eroded seriously during the past eight years. The elderly fear substantial benefit cuts. The young fear an entire collapse of the system. To restore public confidence the system must be perceived as being soundly financed.
- The system is out of tune with the times. The social and economic environment has changed more rapidly than Social Security in the past, and this gap will continue to widen in the future unless significant change is made. The system must be perceived as fair and appropriate if the taxpayers are to continue to support it. This is a separate issue from whether the system is financially sound.

2. After thirteen months of study, the National Commission on Social Security Reform has made a series of recommendations that do not decisively resolve any of these major problems.

3. The Commission's proposals would, if we are fortunate, close the gap between income and outgo under the OASDI program for the seven-year period 1983-1989. The proposed changes do not allow sufficient margin, however, for adverse economic conditions, and experience shows that seven uninterrupted years of good times may be too much to expect.

4. The Commission's proposals do not resolve the longer-range problems of the OASDI program. To resolve such problems, the Commission merely states that taxes must be increased, benefits must be reduced, or the retirement age must be increased.

5. The Commission's proposals do not resolve either the short-term or the long-term problems of Medicare (HI and SMI). On the contrary, they aggravate the problems by providing that the OASDI program can continue to borrow from the HI program which is already spending more than it collects and is projected to deplete its reserves before this decade ends.

6. The taxpayer is not interested in the niceties of whether the Congress resolves the OASI problem or the DI problem or the HI problem or the SMI problem or any combination of them. <u>To the taxpayer, Social Security is one large system for which one large tax is paid.</u> The quickest way to destroy any remaining confidence of the public in Social Security is to enact the Commission's proposals and give one more false assurance that the system is soundly financed once and for all.

7. Because of the impending national crisis that Social Security faces, I would not want to speak out against the Commission's set of recommendations, even though I believe that many of them are ill-conceived and in this paper have pointed out some of the deficiencies. Perhaps the Commission's proposals are the best compromise attainable at this late date and, as such, represent the minimum action that should now be taken.

8. But we must not delude ourselves into believing that the proposals, if adopted, truly resolve any of Social Security's problems. Adoption of the proposals would do no more than give us another grace period of two to five years, if that long, to develop real solutions. (Adoption of the proposals would also, for better or worse, set some significant precedents for further revisions.) Unless I perceive its mood incorrectly, the public will not tolerate very many more grace periods before taking the matter of Social Security reform, or revolution, into its own hands.

9. Before the Congress takes any action on Social Security I would urgently suggest that it obtain the most recent projections of income and outgo under the OASDI and HI and SMI portions of Social Security over the next 75 years--the remaining lifetime of today's youngsters to whom we are promising benefits. The projections should be made under the same range of assumptions, from optimistic to pessimistic, used by the Board of Trustees in its annual reports.

10. An impartial examination of these projections of income and outgo would demonstrate clearly the enormity of the long-range financial problems, as well as the fact that we have promised more in benefits than the taxpayers will be willing and able to finance, and that we must begin now, not later, to redesign Social Security.

11. If the Congress is not willing to obtain and publicize estimates of the long-range costs of all parts of Social Security to determine whether or not it can confidently assure the public that the present type and level of benefits will in fact be paid as promised, then it has no alternative, if it is to be honest with the public and maintain its credibility, but to issue a public statement as follows (as a kind of "full disclosure" or "truth in advertising"):

-- The National Commission on Social Security Reform presented long-range cost estimates for only part of the Social Security program. A complete array of cost estimates would have indicated a total cost of as much as 40% to 50% of taxable payroll by the time the baby boom generation retires, according to actuaries who specialize in demographic and economic projections. Such costs may well be higher than taxpayers will be willing and able to sustain.

-- Nevertheless, this Congress, which is responsible for maintaining a sound Social Security program, has not reviewed and considered the estimates of the full cost of the Social Security benefits currently promised, and is therefore unable to say with any degree of certainty that the benefit promises now being made to millions of today's taxpayers will in fact be honored.

If Congress is not willing to examine thoroughly the cost implications of its promises, it has no right to make those promises.

INTRODUCTION

On January 20, 1983 the National Commission on Social Security Reform released its long-awaited Report to discharge its mandate to identify Social Security's financial problems and propose "solutions to such problems that will both assure the financial integrity of the Social Security System and the provision of appropriate benefits." This Report was duly presented on February 1, 1983 to the Committee on Ways and Means of the United States House of Representatives.

The work of the National Commission on Social Security Reform was extremely disappointing. Not because it failed to make recommendations that would resolve all of Social Security's financial and design problems--that would be asking too much. But because it failed to identify and report forcefully the full extent of the problems so that the Congress and the public would know that such problems exist. This failure to be honest and forthright with the public will, if not corrected, result in the continued erosion of public confidence not only in Social Security but in the government itself.

FINANCIAL ASPECTS OF RECOMMENDATIONS

Ignoring the merits and faults of the Commission's recommendations for a moment, how effective are the recommendations in resolving Social Security's financial problems? Unfortunately, they are not very effective.

During its meeting November 11-13, 1982 the Commission adopted a Background Book of actuarial cost estimates that defined the size and scope of Social Security's financial problems as follows:

Old-Age, Survivors, and Disability Insurance (OASDI)

-- During the period 1983-1989, provision must be made to increase income or decrease benefits, or some combination of both, by $150 to $200 billion (i.e., 9% to 12% of projected expenditures).

-- During the next 75 years, 1982-2056, the average annual deficit. defined by comparing income and outgo according to the intermediate (II-B) demographic and economic assumptions used in the 1982 Trustees Reports, would be as follows: Average annual expenditures of 14.09% of taxable payroll and average annual tax income of 12.27% of taxable payroll, resulting in an average annual deficit of 1.82% of taxable payroll.

Hospital Insurance (HI)--Part A of Medicare

-- During the period 1983-1989, scheduled taxes will be barely adequate to pay benefits; increased taxes or decreased benefits must be adopted not later than 1990. Under less optimistic assumptions this remedial action must be taken in the late 1980s (and even sooner if OASDI continues to borrow from HI).

-- During the next 75 years, 1982-2056, the average annual deficit, defined by comparing income and outgo according to the intermediate (II-B) demographic and economic assumptions used in the 1982 Trustees Reports, would be as follows: Average annual expenditures of 8.10% of taxable payroll and average annual tax income of 2.89% of taxable payroll, resulting in an average annual deficit of 5.21% of taxable payroll.

The Commission's recommendations attempt to assure the near-term solvency of the OASDI program by increasing projected net income during the period 1983-1989 by $168 billion (primarily by increasing income by $129 billion and decreasing projected benefit increases by $40 billion). This would satisfy the requirement stated above that net income be increased by $150 to $200 billion.

The Commission's recommendations would decrease the average 75-year OASDI deficit of 1.82% of taxable payroll to 0.58%, thus eliminating only about two-thirds of it. No agreement could be reached by the Commission on how to eliminate this remaining deficit. Some members favor a higher retirement age, some prefer higher taxes, and some prefer reduced benefits.

The Commission virtually ignored the Hospital Insurance deficit of 5.21% of taxable payroll, which is almost <u>three times</u> the OASDI deficit of 1.82%. The Commission also completely ignored the Supplementary Medical Insurance (SMI) part of Medicare, 25% of which is financed by participant premiums and 75% of which is financed by general revenue. The total cost of SMI is now the equivalent of about 1.0% of taxable payroll and is projected to rise to some 5.0% of taxable payroll during the lifetime of today's youth.

There is nothing mysterious about Medicare and there is no excuse for ignoring it. It is a life annuity, paid in kind rather than cash, primarily to Social Security beneficiaries aged 65 and over. Almost one fifth of the taxpayer's FICA tax is now used to finance the Hospital Insurance portion of Medicare. Social Security <u>includes</u> Medicare and ignoring Medicare's problems will not make them disappear.

Although the Commission did not address the financial problems of the Hospital Insurance program, and in spite of that program's imminent financial difficulties, the Commission recommended that the OASDI trust fund be authorized to continue borrowing from the HI trust funds during the period 1983-1987.

The Commission's recommendations, therefore, do not even come close to resolving Social Security's financial problems--except those of the OASDI program for the next seven years.[1] To resolve the longer-range financial problems the tax rate would have to rise considerably above its currently scheduled level of 7.65% in 1990:

-- Under "intermediate" assumptions (adopted by the Commission) the tax rate would have to increase to about 14% early in the next century (within the working lifetime of today's young taxpayers). This is nearly twice the ultimate scheduled tax rate of 7.65%.

-- Under less optimistic assumptions the tax rate would have to increase to about 20% (a combined employer-employee tax rate of 40%). This is almost three times the ultimate scheduled tax rate of 7.65%.[2]

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[1] Under less optimistic, but not inconceivable, economic assumptions the Commission's recommendations would not get the OASDI system through the 1980s and further remedial action would be required.

[2] For long-range planning purposes, it appears prudent to rely upon demographic and economic assumptions somewhat less optimistic than those adopted by the Commission. For example, the intermediate assumptions are that the fertility rate will rise eventually about 12% above its present level. This is in spite of the latest official population projections by the Bureau of the Census which indicate a preferred assumption, for planning purposes, that fertility rates will not rise above current levels.

By assuming higher than realistic fertility rates the Commission is assuming lower than realistic future costs. It is wishful thinking to assume that fertility rates will rise above current levels and to make future promises of benefits on that basis; all indications are that fertility rates will remain at their present levels or decline, rather than increase.

This is in addition to the cost of the SMI part of Medicare which is projected to rise to some 5% of payroll and is financed primarily from general revenue.

There are alternatives, of course, to these onerous tax rates. The retirement age could be increased to about age 70 for persons currently under age 35, or benefits for tomorrow's retirees could be reduced somewhat, or the entire system could be restructured to reflect the changing social and economic environment. But the Commission could not consider changes of this type without acknowledging there was a longer-range problem--and this it was somehow unable to do.

The Commission considered it a major achievement that it could get the minority of the Commissioners representing those who favor the status quo to admit there will be a relatively minor financial problem during the next seven years, 1983-89. It should not be surprising, therefore, that the Commission was unable to acknowledge the existence of major financial and structural problems that may not become critical for another ten years.

I would urgently suggest that the Senate Finance Committee obtain from the Social Security Administration and the Health Care Financing Administration the most recent projections of income and outgo under the OASDI and HI and SMI portions of Social Security. These projections should be made under the same range of assumptions, from optimistic to pessimistic, used by the Board of Trustees in its annual reports. The projections should extend over the next 75 years, that is, for the remaining lifetime of today's youngsters to whom we are promising benefits. Finally the projections should be reported on a year-by-year basis, and not just as a 75-year average, otherwise the high future costs will be obscured.[3] An impartial examination of these projections of income and outgo would demonstrate clearly the enormity of the long-range financial problems, as well as the fact that we have promised more in benefits than the taxpayers will be willing and able to finance, and that we must begin now, not later, to redesign Social Security.

Chart 1 on the following page portrays projections of this type for the OASDI, HI, and SMI programs combined, based upon the assumptions used in the 1979 Trustees Reports. The projected costs would probably be even higher based upon assumptions currently being used by the Trustees. Adoption of the Commission's recommendations would not decrease these costs significantly since they would reduce the average 75-year net expenditures by only 1.24% of taxable payroll.

APPROPRIATENESS OF RECOMMENDATIONS

It is tempting to criticize the Commission for not recommending the "correct solution" to Social Security's problems; however, there is no such correct solution. The "proper design" for Social Security depends upon one's individual values and beliefs about social ethics and is not something on which unanimous agreement should be expected among diverse interest groups. Nevertheless, the following limited commentary may be of value in assessing the recommendations offered by the Commission.

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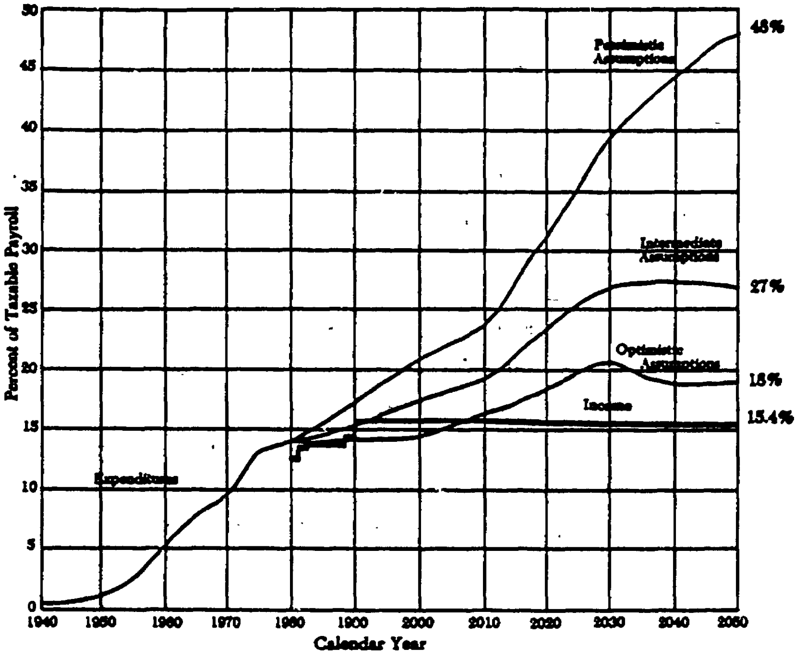
[3]For a more detailed rationale for long-range cost estimates, reference may be made to Chapter 10 of The Coming Revolution in Social Security (Reston, 1982) written by A. Haeworth Robertson.

Chart 1

Projected Expenditures for Old-Age, Survivors, Disability, Hospital and Supplementary Medical Insurance Programs Combined under Alternative Demographic and Economic Assumptions, and Legislated Income, Expressed as a Percentage of Effective Taxable Payroll



This chart is derived from data contained in Chapter 7 of The Coming Revolution in Social Security (Reston, 1982) written by A. Haeworth Robertson.

Broken Promises

For 47 years the public has thought Social Security's benefits were inviolable. If the government promised a certain type and level of benefit, it would be paid. People were told that by paying "contributions" to Social Security, they were acquiring "earned rights" to certain benefits. In fact, there has been a steady expansion of benefits and people have generally received even more than promised. As recently as December 7, 1979 the Advisory Council on Social Security had the temerity to say:

> "After reviewing the evidence, the Council is unanimously convinced that all current and future Social Security beneficiaries can count on receiving all benefits to which they are entitled."

It should be evident that it is no longer true that benefits, once promised, will certainly be paid. Witness the cuts in student benefits and minimum benefits that occurred in 1981. Witness the Commission's recommendation to defer the COLA benefit increase for six months, or the recommendation to decrease benefits currently being paid to persons with other income of $20,000 or more for a single taxpayer, or of $25,000 or more for joint return taxpayers. (This benefit reduction would be accomplished indirectly by taxing half of their Social Security benefits.)[4]

One disturbing aspect of this selective benefit reduction by taxing benefits is the introduction of the philosophy that if a person saves successfully for his own retirement the reward will be a reduction in benefits that were presumably counted upon in making retirement plans. If

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[4] Initially, this effective benefit reduction would apply to only about 10% of the OASDI beneficiaries. But since it is not indexed, inflation would result eventually in its application to virtually all beneficiaries.

this means-test philosophy is carried to its logical conclusion, the government will effectively discourage private saving and individual self-reliance, and it may even discourage the disclosure of other income. Such a government-induced change in behavior would be extremely damaging to the character of our nation.

Furthermore, the breaking of these benefit promises will have a far-reaching effect on the public's perception of Social Security, as well as the government itself, as reliable institutions. This will make it difficult to convince the younger taxpayers that Social Security will in fact make good on its promise to pay benefits to them some 30 to 50 years hence. And without this conviction, taxpayers will be very reluctant to pay the high taxes necessary to support the system in the years ahead.

Higher Retirement Ages

The Commission's recommendations make no mention of the inevitable increase in normal retirement age for persons now less than about age 35 or 40. This will be absolutely necessary to provide the nation an appropriate-sized work force, not just to resolve Social Security's financial problems. When today's youngsters retire at age 70 in the next century they will have more years left to live than their forefathers who retired in the past at age 65. A higher retirement age is not a benefit cut; it is a natural consequence of increasing lifespans and improved health. The only tenable way that today's youngsters can retire in their early 60s is to retain the same short lifespans as their forebears--not a very attractive alternative.

Not only did the Commission fail to propose higher retirement ages, it recommended that if persons defer their retirement beyond age 65 it will not result in any substantial relief to Social Security. This is because of the Commission proposal to increase the delayed retirement credit for individuals between ages 65 and 70 from 3% to 8% per year. This is an unrealistic proposal and is directly contrary to the need to raise the retirement age and decrease retirement benefits for those retiring in the future.

Increased Taxes

The Commission's proposals to increase net income to Social Security by $168 billion during the next seven years, 1983-1989, are comprised of both benefit decreases and revenue increases, with emphasis on the latter.

Faced with an immediate fiscal crunch, this emphasis on tax increases may be preferable to an emphasis on benefit decreases. But the system's current financial problems did not occur overnight. They have been in the making since the mid-1970s and contingency plans could have been made that would have permitted a more even balance between tax increases and benefit decreases. (Parenthetically, it should be noted that we have this same kind of opportunity now to make plans to accommodate the impending Medicare deficits and to restructure the OASDI program to reflect demographic shifts, the changing role of women in the work force, and so on. Ten years from now as we frantically search for solutions to this "surprise crisis," we will decry the lack of time to develop well-designed solutions and will resort, one more time, to hastily designed compromises.)

Unfortunately, waiting until the last possible moment to resolve the system's financial problems virtually forced the use of general revenue, and a large part of the recommended tax increase would come from general revenue, particularly in 1983 and 1984. As most everyone knows, the nation's budget is in a deficit position and there is no available general revenue to use for Social Security. Relying on general revenue to pay benefits is thus tantamount to borrowing--not a very sound basis on which to operate a social insurance system.

The extent of the Commission's proposed use of general revenue may not be obvious at first since it is done rather circuitously. General revenue would be used in this manner:

-- The increase in the employee Social Security tax for 1984 (from 6.7% to 7.0%) would be returned to the employee as a tax credit or cash refund, thus reducing general revenue by the same amount as the tax increase.

-- One half of the total increased self-employment Social Security tax would be deductible as a business expense, thus reducing general revenue by a substantial portion of the tax increase.[5]

-- The lump sum reimbursement to the old-age trust funds for military wage credits would be from general revenue.[6]

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[5] It should be noted that although this procedure places the high-income self employed in the same after-tax position as the present procedure, it places a much larger tax burden on the lower-income self employed.

[6] This is the ultimate example of how waiting until the last minute to resolve Social Security's financial problems can evoke desperate, even ludicrous, "solutions" that have no substance whatsoever.

Gratuitous military service credits are granted under Social Security in some cases without the payment of Social Security taxes. To prevent a loss to the trust funds the current procedure is to use general revenue to reimburse the trust funds for the amount of the benefits arising from these credits

A more subtle introduction of general revenue would arise from the inclusion of Federal employees in Social Security. Including Federal employees in Social Security is said to cause a financial gain to the system. This gain arises because more tax money is paid into the system for Federal employees than is paid out in benefits. But the ultimate source of all the taxes paid into the system for Federal employees is general revenue. Therefore, the inclusion of Federal employees in Social Security will simply cause a shift from direct payroll-tax financing to indirect general-revenue financing.

Although it is not widely known, general revenue is already used to finance three-fourths of the cost of the SMI portion (Part B) of Medicare. In 1982 the total cost of SMI was about $17 billion, or the equivalent of about 1.0% of taxable payroll. With the total cost of SMI projected to rise to 5% of payroll, this means eventual general revenue financing equivalent to nearly 4% of payroll. This is twice the cost of the entire Social Security program (a combined employer-employee tax of 2%) when it was originally adopted.

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at the time the benefit is actually paid. The Commission recommendation would change this procedure and require general revenue reimbursement to the trust fund in advance of the disbursement of benefits. This advance funding of military credits could then be used to meet the current shortfall in the trust funds and permit the continued payment of benefits to others.

Careful analysis reveals this to be an artful machination to give the public a false sense of security without any substantive action being taken. The procedure is to take funds from nonexistent general revenue (i.e. raise the national debt by borrowing from the taxpayers), and to pay amounts to Social Security that are not due for many years in the future, so that such amounts can be used to pay current beneficiaries.

The net result is an increase of $20 billion in the national debt in 1983 so that $20 billion can be added to the Social Security trust funds to stave off insolvency for a few more months.

Anyone who is worried about an increased use of general revenue to finance Social Security should start worrying harder.

Universal Mandatory Coverage

As desirable as universal mandatory participation in Social Security might be from several viewpoints, it seems grossly unfair to ban withdrawal from the system by state and local governmental employers. These employers (and their employees) voluntarily joined Social Security with the understanding that they could withdraw in the future. A unilateral change in this participation agreement seems highly undesirable, if not illegal. At the least, state and local governments should have a grace period in which to make a final irrevocable decision as to whether they want to withdraw from Social Security or continue to participate.

Mandatory coverage of newly hired Federal employees may be desirable in some respects but it is doubtful that it will save the nation any money--as some advocates of mandatory coverage suggest. It is likely that new hires would receive the same total benefits from Social Security and a revised Civil Service Retirement System as they now receive from their present system. If so, the total cost of retirement benefits for Federal employees would not be reduced. It would simply be rearranged.

Mandatory universal coverage would be defensible if Social Security provided only a minimum floor of protection. It would then be reasonable to impose Social Security's benefits on all employees, including employees of the Federal government, nonprofit organizations, and state and local governments.

But Social Security is not a minimum floor of protection, it is much more. It provides an array of benefits far beyond those that everyone would agree is a socially desirable minimum. Accordingly, it does not seem reasonable to impose the existing Social Security program on everyone whether they need it or not. If Social Security were reformed to provide a reasonable level and array of benefits that most people could agree was socially desirable, then mandatory universal coverage would be in order.

Problem Is Not Just Financial

In defining the size and scope of the Social Security problem, the Commission gave practically no attention to the strong likelihood that the long-range problem is primarily a design problem and not just a financial problem. The social and economic environment will be considerably different 30 to 50 years from now when the children of the post-World War II baby boom approach retirement. The role of women in society and the workplace has changed and will continue to evolve. It is entirely reasonable, therefore, to give serious consideration to a completely new type of social insurance system for the relatively young segment of our population, even if we continue the present system for the older segment of the population.

What did the Commission have to say on this subject? During the final days of its meetings, the Commission acknowledged that it was committed to the basic structure of the existing Social Security and contemplated no recommendations for major change. Several members of the Commission noted that the social and economic environment had changed more rapidly than Social Security had changed and that a reexamination of the basic structure of Social Security was therefore in order. They stated, however, that the pressures imposed by the size of the financial problems had diverted their attention from such a comprehensive study. This seems absurd in view of the fact that

-- The Commission was appointed in December 1981 when the financial problems were well known and well documented, so the Commission had more than adequate time for a thorough study.

-- The inappropriate design of Social Security is a significant factor both in causing the long-range financial problems and in causing doubt about the fairness and thus the long-term viability of the system.

Approximately 80% of the nonretired population is less than age 45. It is this large group that is questioning whether Social Security will still be around when it retires. Social Security's future existence depends precisely upon whether or not today's youth will support it, and this depends in turn upon whether it suits their needs and whether they believe it is fair.

Restoration of Public Confidence

The Commission has been laboring to design recommendations for change in Social Security that will simultaneously

-- resolve the system's financial problems, and

-- restore the public's confidence in the long-range viability of the system.

This effort to restore public confidence is of paramount importance in view of the Commission's finding "that currently there is little confidence that the program will continue to operate over the long-range future, especially among young people." Confidence in Social Security's permanence is essential, of course, if the taxpayers are to keep supporting it.

Although much of the Commission's work may be commendable in view of the circumstances, adoption of the Commission's recommendations will clearly not resolve a very large part of Social Security's financial problems. If the public is misled to believe that the financial problems have been resolved, there will be a very harsh day of reckoning in the not-too-distant future. Any further erosion of public confidence in Social Security and in the government itself would be a dangerous threat to the stability of the nation.

If the Congress does not do a better job than the Commission of recognizing Social Security's significant future financial problems, it may soon be too late to develop rational solutions, since an atmosphere of crisis seldom yields satisfactory results--as evidenced by the present situation. If the Congress tries to solve the future financial problems without resolving the future design problems and thus gaining greater public support, its efforts will be in vain.

Much bolder action will be required by the Congress than was recommended by the Commission if it is to truly resolve Social Security's problems. And nothing short of this will restore the public's steadily eroding confidence.

CONCLUSION

If Congress adopts the Commission's meager recommendations for Social Security reform and then assures the public that all is well, the following scenario seems probable:

-- In the mid-1980s the near-term Medicare financial problems will become as evident as the near-term OASDI problems are now. But Medicare's financial problems are considerably greater than the OASDI financial problems.

-- The short-range Medicare problems will be studied for several years and finally "resolved" at the last possible minute--in about 1987. The public will again be assured that all is well with Social Security.

-- Simultaneously, in the late 1980s, discontent with the relentlessly-increasing taxes will be aggravated by the inappropriate design of Social Security. The social and economic environment will continue to change faster than Social Security is changed. By then people will have a full understanding that they are not buying and paying for their own benefits and that Social Security is a huge income transfer program, and they will be extremely restive.

-- In the late 1980s or early 1990s the long-range financial problems of both OASDI and Medicare will start becoming more believable as they become more imminent. It will be clear that people will have to remain in the work force beyond their early 60s--probably until age 70 or so. The first children of the post-World War II baby boom will be approaching age 50 and they will not take kindly to a suggestion that they work another five years or so beyond their planned retirement at age 65. "Why didn't you tell me sooner?" they will ask.

It is difficult to foresee how all of this will end, but one thing is sure: The strife and turmoil in the late 1980s and early 1990s will make today's problems with Social Security look like an afternoon picnic.

Fortunately, there is still time to forestall much of this discord. All we need to do is pay more serious attention to the obvious problems that lie ahead and stop kidding ourselves. Realism may be painful but it is not nearly so fatal as unjustified optimism.

O

ERRATA

National Commission on Social Security Reform Recommendations

The above sighted Senate Committee on Finance hearing which is numbered Senate Hearing 98–89, is incorrect.

The correct designation is Senate Hearing 98–87, Part 3.