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COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

H.J. RES. 308 - INCREASE IN THE PUBLIC DEBT

DISCUSSION OF S. 1978 - RETIREMENT EQUITY ACT OF 1983

Washington, D.C.

Tuesday, October 25, 1983



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EXECUTIVE SESSION

H.J. RES. 308 - INCREASE IN THE PUBLIC DEBT
DISCUSSION OF S.1978 - RETIREMENT EQUITY ACT OF 1983

TUESDAY, OCTOBER 25, 1983

United States Senate,
Committee on Finance
Washington, D.C.

The committee met, pursuant to notice, at 11:15 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Robert J. Dole (chairman of the committee) presiding.

Present: Senators Dole, Packwood, Danforth, Wallop, Durenberger, Symms, Long, Matsunaga, Moynihan, Baucus, Boren, Bradley, and Pryor.

Also present: Rod DeArment, Chief Counsel; Michael Stern, Minority Staff Director; Richard Belas, and George Pieler, Professional Staff.

The Chairman: As I understand, we have on the agenda today the increase in the public debt, and the Retirement Equity Act of 1983. It is my understanding, having been notified not by the Senator, but by the Senate floor, that Senator Symms has objected to our meeting today on the debt ceiling, but we can still discuss it informally, and then we

1 can vote at 12:01, because that objection is not allowed
2 during the recess. The Senate then will be in recess from
3 12:00 to 2:00 today for policy luncheons of Democratic and
4 Republican members.

5 I wonder if we might discuss the reason that we are
6 asking for an increase in the ceiling, and then more to the
7 Retirement Equity Act of 1983. It is my thought that after
8 discussion of these two measures that we can start rounding
9 up a quorum.

10 We need 11 members to report out?

11 Mr. DeArment: That is correct, we need 11 to report out,
12 Mr. Chairman.

13 Mr. Chairman, the committee has before it H.J. Res. 308,
14 which is the Resolution from the House, which would increase
15 the debt limit from \$1.389 trillion to \$1.614.6 trillion. We
16 have a representative from the Treasury Department, Mr.
17 Healy, the Assistant Secretary for Domestic Finance, who
18 might speak to the level and the need for debt limit
19 increase.

20 The Chairman: Mr. Healy, when is it necessary that we do
21 this; is there an absolute deadline?

22 Mr. Healy: On November 1, Mr. Chairman, there is a
23 required transfer of \$13 billion to the Social Security Trust
24 Fund, which when invested in Treasury securities would raise
25 the estimated debt subject to limit to \$1.397 trillion, which

1 would be \$8 billion above the limit. That would occur
2 November 1, there is a required transfer based on legislation
3 passed I believe last year.

4 The Chairman: Barring some unforeseen windfall, we need
5 to do it by November 1.

6 Mr. Healy: It isn't even a function of a cash balance.
7 We will have enough cash on November 1, but the debt subject
8 to limit as of today is approximately \$1.381 trillion, and on
9 the 31st it will be approximately \$1.386 trillion. In order
10 to issue the \$13 billion of new debt for the Social Security
11 Trust Fund investment it will take the debt subject to limit
12 over the ceiling.

13 It is not a question of cash. There is enough cash to
14 run the government on that date, but there is not adequate
15 debt ceiling to invest the Social Security Fund.

16 The Chairman: There are apparently some who don't think
17 that we should extend the ceiling, we should just let the
18 President start reducing spending based on the permanent
19 ceiling. Those are the views, I think, of Senators Symms and
20 others, but they are not going to be here to discuss them.

21 Is there any other discussion of the debt ceiling
22 extension?

23 Senator Baucus: Mr. Chairman, I think it is important to
24 keep in mind another bigger problem, and that is just these
25 deficits as they are piling up, and more importantly the lack

1 of any immediate prospect to address those deficits. Just as
2 a reminder here, in 1980 the total public debt was about \$900
3 billion, the next one is going to reach about \$1.3 trillion,
4 and that is an increase of 50 percent in a three-year period
5 of time in total public debt. Moreover, the annual deficit
6 has risen from \$60 billion, which is 2 percent of GNP, in
7 1980 to \$207 billion, which is 6 percent of GNP. So as a
8 percent of national product, there is a three-fold increase
9 over a three year period.

10 Mr. Chairman, I think that the President of the United
11 States, Tip O'Neill, and the House are doing the country a
12 great disservice by not coming together. I think the
13 President has to recognize that to get the deficit reduced,
14 he has to not only cut some spending, but also increase
15 revenue. I think Tip O'Neill has to recognize that if the
16 deficit is to be reduced, not only must some revenue be
17 increased, but also there has to be some cut in spending.

18 I applaud Senators Danforth and Boren for making the
19 first proposal, for coming up with the first precise solution
20 to try to address these deficits. Senator Wallop is part of
21 that coalition, and I applaud him as well.

22 Mr. Chairman, I think there are a couple of infirmities
23 in that approach. One is that it does not approach corporate
24 income taxes, also it does not address some of the increases
25 in defense spending. I think there has to be even more

1 symmetry and more even-handedness than is already contained
2 in the Danforth-Boren proposal.

3 I would suggest that we move along the lines of
4 Danforth-Boren, that we address some of the inequities that
5 are contained in that proposal, that is, it falls
6 disproportionately upon middle-income taxpayers, not so much
7 on higher income tax payers, and also include some of the
8 other areas where I think we have to address not only income,
9 but also spending, to make it a truly even-handed, more
10 balanced, more symmetrical proposal to greater assure the
11 chances of its adoption, or something similar to it to be
12 adopted, so that we can this year, not next year, 1985, try
13 to address these problems.

14 I am convinced that unless we address these deficits this
15 year, 1983 and 1984, we are going to find that in 1985
16 whoever is elected President is going to have a pyrrhic
17 victory, is going to have such tremendous budget problems on
18 his hands that he immediately is going to have to propose
19 Draconian measures to right the economy and to correct some
20 of the accumulated economic difficulties that we will have
21 built up.

22 Interest rates, interest rates will come down, I think,
23 if we act this year or next. Our trade imbalance will begin
24 to be corrected if we act this year, rather than later. You
25 can go down the list of the reasons why the President and Tip

1 O'Neill have to come together and each give in a little bit
2 in order to accomplish the greater goal of getting the
3 deficits down, otherwise the Sword of Damocles is going to
4 come down and chop off any recovery that may or may not be
5 building in these months. It is Alphonse and Gaston, each
6 waiting to go first politely.

7 We are in a pre-election paralysis this year, neither the
8 Congress nor the President is acting, and I think that it is
9 frankly outrageous that there is not more leadership on both
10 ends of Pennsylvania Avenue, because we all know that we have
11 to do it, but we are just not doing it.

12 As we today address whether or not to increase the debt,
13 I am forced to say, Mr. Chairman, that I will not support an
14 increase in the public debt for these reasons, because in the
15 meantime we are not doing what we know we should be doing,
16 and the President is not doing what he should be doing,
17 neither is the Speaker of the House doing what he should be
18 doing to reach some fair and even-handed compromise to get
19 those deficits down.

20 The Chairman: Could I just say one word, and then I will
21 yield to Senator Danforth.

22 Don't assume we are not doing something. We are about
23 ready to submit to this committee a rather substantial
24 package that we believe is balanced. I think it may be
25 necessary for us to provide the leadership in this committee,

1 since we have most of the jurisdiction on the spending and
2 revenue side, and maybe by doing that encouraging both the
3 Speaker and the President.

4 I honestly agree with everything you have said, but it
5 may take a little push by someone in the Congress, and I
6 can't think of a better committee than this committee to
7 indicate that there is a willingness. My own view is that
8 maybe the White House is fearful because they don't want to
9 get out front on something that is not going anywhere. Tip
10 O'Neill may be hesitant for the same reason.

11 Based on the vote we had on the Wallop-Boren-Danforth
12 proposal, we have been busy ever since trying to figure out
13 some balanced package, as you suggest, on the spending and on
14 the revenue side, and it has to be substantial. If we are
15 only going to go \$10 billion or \$20 billion, we might as well
16 not do anything.

17 So we are looking at something of much substance, and it
18 may be available as early as tomorrow or Thursday. Then as
19 soon as we have it put together, we will start discussion
20 with members on both sides of the aisle, because I know for a
21 fact that there are some on my side of the aisle who aren't
22 going to vote for anything. Their theory is, don't do
23 anything, don't worry about the deficits. So it is going to
24 have to be a bipartisan effort, and I am highly encouraged by
25 your comments.

1 Senator Baucus: If the chairman would yield, I am happy
2 that he is coming up with a proposal. I want to work with
3 the chairman to find a balanced and even-handed approach,
4 because I think that it is absolutely necessary.

5 The Chairman: It is done at the urging, I might say, of
6 the ones I just mentioned, plus Senator Long indicated to me
7 two weeks that we just had to do something about the
8 deficits, and that was good news, too.

9 Jack, did you want to comment?

10 Senator Danforth: Yes, Mr. Chairman, thank you very
11 much. Let me make some comments, and then I would like to
12 ask some questions of Treasury.

13 I think, Mr. Chairman, that what you have said is the
14 most important thing that has been said by a Member of
15 Congress in months. As I understood your comment, you were
16 looking forward to getting together with the Finance
17 Committee this week to see if we can come up with some ideas
18 for major reductions in the size of the deficit.

19 The Chairman: Major.

20 Senator Danforth: I absolutely agree with Senator
21 Baucus. I have no pride of authorship in CPI-Minus Three, it
22 is simply a concept. I share the frustration of Senator
23 Baucus and the view that we are doing something very bad to
24 this country in running up these deficits.

25 I would only say that the Finance Committee has a vacuum

1 to fill and we should be filling it. If the President is not
2 going to show leadership, if the House of Representatives is
3 not going to show leadership, then what better place is there
4 to start than here in the Finance Committee, and I think
5 Senator Dole has made a very important statement.

6 My hope is that what we do, when we do it, is big. Why
7 fiddle around with it. My view also is that we, in this
8 committee, if we are going to take action on the deficit
9 cannot be too fastidious in doing so, because I think that
10 that is the great enemy of reducing deficits,
11 fastidiousness. The view that any proposal to reduce the
12 deficit has to be precisely what we want it to be or we are
13 not going to go along with it. If we are overly fastidious,
14 then we are going to be paralyzed just as the rest of the
15 government is paralyzed.

16 So I applaud the efforts of Senator Dole, and I hope that
17 all of us will be forthcoming in attempting to cooperate with
18 him.

19 Mr. Chairman, we have a vote, we are on five-bells. I
20 have some questions which I would like to ask of Treasury. I
21 wonder if we could resume after the vote.

22 The Chairman: Let me suggest that tomorrow morning we
23 are going to have an executive session, an informal session
24 with Mr. Volcker. I think he will tell us, too, that if we
25 demonstrate some responsibility in this committee, and start

1 the ball rolling, it might have a rather positive impact on
2 the economy and the length of the recovery.

3 I hope that all members will be able to attend that
4 meeting. It is not going to last very long. It will start
5 at 11:00 o'clock in the Executive Room. It is an
6 off-the-record session. We want Mr. Volcker to tell us
7 everything he might tell us in a public session and more. I
8 hope that that will encourage us to do better work.

9 You have questions on the debt ceiling.

10 Senator Danforth: Yes, I do.

11 The Chairman: We will go and vote, and then we come
12 back. I would like to finish the questions on the debt
13 ceiling, and move to the Retirement Equity Act. I am going
14 to encourage a lot of members to be here at 12:01 so we can
15 vote on both measures.

16 (Recess)

17 Senator Danforth (presiding): Mr. Healy, let me ask you
18 for some numbers. You were asking that the debt ceiling be
19 increased to what?

20 Mr. Healy: We have been asking that it be raised to
21 \$1.614.6 trillion.

22 Senator Danforth: What is it again?

23 Mr. Healy: It is \$1.614.6 trillion.

24 Senator Danforth: What is the debt ceiling right now?

25 Mr. Healy: \$1.389 trillion.

1 Senator Danforth: When will we exceed \$1.389 trillion?

2 Mr. Healy: As I said a couple of minutes ago, based on
3 estimates which are pretty correct, certainly within a
4 billion or so, the point would be November 1 where there is a
5 \$13 billion transfer to the Social Security Trust Fund.
6 Those funds have to be invested in Government securities, and
7 there would not be adequate room to issue all of those
8 securities to invest the Social Security Trust Fund.

9 Senator Danforth: Do you have a projection as to when
10 the debt will likely exceed \$1.614 trillion?

11 Mr. Healy: The best estimate that we have is that the
12 July mid-session review would show the debt subject to limit
13 as of September 30, 1984, of \$1.608 trillion, which would be
14 about \$6 billion under the new proposed limit.

15 Senator Danforth: That would be what date?

16 Mr. Healy: That would be September 30, 1984, if those
17 numbers were correct, and bear in mind that that far out,
18 there is a lot of windage.

19 Senator Danforth: Sure.

20 Mr. Healy: That would mean that October 1, 1984, we
21 would again have to invest the Social Security Trust Funds,
22 which order of magnitude would be about the same as the \$13
23 billion at the beginning of this month. Under that scenario,
24 we would be back at that same problem.

25 Senator Danforth: What is the projection as to when the

1 debt would exceed \$2 trillion?

2 Mr. Healy: I don't know the answer to that question.

3 Senator Danforth: Does anyone know the answer to that?

4 We were told the last time we went through this that in
5 1986, it is projected to reach \$2 trillion.

6 Mr. Healy: That is a reasonable estimate, but I don't
7 have with me the numbers from the mid-session review, which
8 would have that. We can certainly get it for you.

9 Senator Danforth: Could you get me that this afternoon?

10 Mr. Healy: Sure.

11 Senator Danforth: Also the projections for as far as you
12 have them.

13 Mr. Healy: Sure.

14 Senator Danforth: I know that it is not a fine art, but
15 just insofar as you have the numbers, if I could get them
16 today, I would really appreciate that.

17 Mr. Healy: There is no problem.

18 Senator Danforth: Can you tell us when the national debt
19 went to \$1 trillion?

20 Mr. Healy: It was during 1981 -- fiscal year 1981.

21 Senator Danforth: Do you know when it reached \$500
22 billion?

23 Mr. Healy: In fiscal year 1975.

24 Senator Danforth: Do you know when it went to \$100
25 billion?

1 Mr. Healy: I don't have that. It was prior to 1972,
2 though, which is oldest date I have on the chart.

3 Senator Danforth: What was it in 1972?

4 Mr. Healy: At year end fiscal 1972, the gross Federal
5 debt was \$437 billion.

6 Mr. Brockway: Senator, it was 1942 when you went to \$125
7 billion.

8 Senator Danforth: Tell me, what is the interest cost on
9 \$1.389 trillion?

10 Mr. Healy: I don't have it precisely.

11 Senator Danforth: Let me ask you, because I don't want
12 you to have to find it right now, when you give the debt
13 figures, could you also give me -- I will tell you what I
14 would really like to see, it is kind of a historic and future
15 looking view of both the debt and the cost of interest in
16 servicing the debt. That is to say, when did the debt reach
17 \$100 billion, \$500 billion, \$1 trillion, and then the present
18 \$1.389 trillion, and the \$1.624.6, projecting it out, let's
19 say, five years from now, what does it look like, and what
20 would your best judgment be of the history of the interest,
21 but also projecting it out into the future. Could you do
22 that?

23 Mr. Healy: Fine. I am not sure that all of this is
24 going to be available early this afternoon, so it may come to
25 you in two passes.

1 Senator Danforth: That is fine. I hate to give you a
2 lot of work to do, but there is a specific reason why I would
3 like it today, if I could get it. Could you also get the
4 figures as a percentage of GNP.

5 Mr. Healy: Yes.

6 Senator Danforth: Thank you.

7 Mr. Healy: Could I add one to your list?

8 Senator Danforth: Sure.

9 Mr. Healy: We did this, because it is a relevant
10 analysis. In one of the tables, which I found interesting,
11 we did it as a percentage of Federal outlays.

12 Senator Danforth: Thank you.

13 Let me ask you, what would be the effect of not extending
14 the debt ceiling; what would happen?

15 Mr. Healy: Over what time period? I can give it to you
16 almost day by day, so why don't we start with the first day.

17 The first thing that would happen is that the Social
18 Security funds could not be invested in Treasury securities.
19 So those funds would begin to lose interest. Also on the day
20 after the ceiling was not extended, at least two kinds of
21 securities issuance would have to be stopped, which would
22 normally occur on a daily basis.

23 The one that would affect the largest number of people
24 immediately is savings bonds. We would have to cease issuing
25 savings bonds, and that embodies a fair amount of turmoil,

1 because you have millions of people involved in savings bond
2 purchase programs under a payroll deductions, and those
3 checks just come in would normally get issued every day. As
4 much money as comes in, they get issued.

5 Secondly, you have what are commonly referred to as
6 SLUGS, which are special investments by State and local
7 governments which are used in connection with refunding of
8 tax exempt securities. We do indeed issue these securities
9 whenever they are demanded, and daily issuances in the past
10 have run from zero to about \$500 million, which is the
11 largest looking back historically.

12 The current projection, and it is a little approximate,
13 but the current projection is that unless the debt ceiling is
14 raised, there would have been issuance on November 1st, 2nd,
15 3rd, 4th, 7th, 8th, and 9th. I just have it for the first
16 seven days after October 31, all of those issuances would be
17 disrupted because we wouldn't be able to issue additional
18 debt.

19 That has various impacts on municipalities and other
20 issuers of tax exempt debt who are refunding, where they
21 would either have to find an alternative, or delay their
22 offering, or conceivably even not be able to make an
23 offering.

24 Senator Danforth: Can you project, let's take two months
25 from now, what would happen if we had no extension of the

1 debt ceiling?

2 Mr. Healy: Let me give you one more problem. We can't
3 get to two months is the short answer, so let me get you up
4 to where we can get to.

5 The next set of problems is in connection with the
6 mid-quarter refunding, which we are currently in right now.
7 Normally that would be announced October 26, which is
8 tomorrow, and that financing is expected to be about \$16
9 billion of new issuance, which would refund \$6 billion and
10 raise about \$10 billion in new cash.

11 Sixteen billion is an approximate number, it is not the
12 official Treasury projection of what we are going to announce
13 tomorrow afternoon, I am not meaning to presume on that.
14 Those would normally auction November 1st, 2nd and 3rd for
15 settlement on November 15th.

16 We will caution tomorrow when we make the announcement
17 that that auction is subject to the increase in the debt
18 ceiling, because we can't have an auction and then not be
19 able to issue the securities. If the debt ceiling is not
20 raised, we would not have those auctions which are scheduled
21 for the 1st, 2nd and 3rd of November.

22 If that were to happen, then the result of that is that
23 it starts to cost the Treasury and, therefore, the taxpayers
24 money. We don't have a precise estimate of that, but the
25 mid-quarter refunding is the centerpiece of Treasury

1 financing and the one that is the most visible in the
2 market. If they can't be issued as scheduled, there will
3 start to be a substantial amount of disruption in that
4 market.

5 If there were an increase of an eighth of a percent in
6 the cost of the Treasury securities on that \$16 billion of
7 securities -- an eighth of a percent, if it were that little,
8 could add as much as \$250 million to outlays in interest on
9 the public debt over the \$16 billion of securities.

10 Assuming that that all happened, now we have savings
11 bonds disrupted, we have state and local government refunding
12 disrupted. We are disrupting the securities market.

13 Based on our current cash estimates, the next problem, if
14 we need any more problems, would be the 15th, and on the
15 15th, where the interest payment needs to be made on the debt
16 -- that is always the 15th of November -- based on our
17 current estimates on the 15th, we would be unable to make
18 payments on the interest, or some of the checks issued on the
19 15th would not have funds to cover them.

20 Senator Danforth: If we couldn't pay interest on the
21 debt, what would happen?

22 Mr. Healy: I am being a little slow in answering because
23 I am not sure we can distinguish with any precision on the
24 15th between interest payments on debt, and other payments
25 that need to be made in the ordinary course of conducting the

1 business of the Government.

2 There is no ability that we can distinguish between not
3 making any particular payment, which is an obligation of the
4 Secretary of the Treasury to make. So when I say "interest
5 on the debt," I really use that as the example of why the
6 payment --

7 Senator Danforth: I just want to ask you one question.
8 I don't want to get into the technicalities. Suppose that
9 the United States Government decided that either it was not
10 going to pay interest on the debt, or that it was going to
11 pay interest at a reduced rate, what would happen?

12 Mr. Healy: Without giving you a legal opinion, I presume
13 that they would go in default, and the owners of that debt
14 who hadn't received their interest would start claiming
15 default on the debt and to to the court to force the
16 obligations to be paid.

17 Senator Danforth: Would it make it more difficult to
18 issue debt in the future?

19 Mr. Healy: I think it would question forever the
20 risklessness of owning a Treasury security. Honestly, we
21 haven't even contemplated that as a possible scenario, we
22 thought the other horrors were awful enough, the mere fact
23 that there is public discussion of that.

24 Senator Danforth: Thank you, Mr. Chairman.

25 Senator Bradley: Mr. Chairman.

1 The Chairman: Yes.

2 Senator Bradley: May I ask you a question about your
3 intention on the disability insurance?

4 The rumor is that the Ways and Means Committee is putting
5 it on the debt limit bill. The rumors are that it might be
6 put on the debt limit bill when it gets to the floor in the
7 Senate. I was just curious, will we avert that by having
8 markup here in the Finance Committee sometime soon on
9 disability?

10 The Chairman: I am not certain what pattern we will
11 follow. I met with Senator Cohen and Senator Levin
12 yesterday. I am meeting today at 4:30 with Secretary Heckler
13 and Mrs. McSteen, who I guess will be nominated to be the new
14 Social Security Administrator, to see what the Administration
15 is willing to do.

16 Frankly, the Pickle bill about a \$3.5 billion spending
17 increase, and the Levin-Cohen is even more. We have
18 scheduled temporarily a hearing on Friday afternoon where the
19 first witness would be Secretary Heckler. If she can work
20 out some accommodation to satisfy not only those who are on
21 the different bills, but also some who have some reservations
22 about it, we might not need a hearing. It is, you know, a
23 rather radical change in the program.

24 Senator Bradley: It is your intention to do something,
25 though, on disability?

1 The Chairman: It depends on what something is.

2 Senator Bradley: More than an extension?

3 The Chairman: Yes. They get into the medical
4 improvement, which to me puts the burden on the Social
5 Security Administration to prove that you can't do your job.
6 I have just got to believe that there are a lot of people on
7 the rolls that probably shouldn't be there, and there are
8 probably a lot of people not on the rolls that should be
9 there. I hope that we don't take all the teeth out of what
10 we did in 1980. But, yes, the intention is to do something,
11 if we can work it out.

12 Senator Bradley: I thank the chairman.

13 Senator Long: Could I just speak to that for a moment.

14 Mr. Stern might recall the details better than I do, but
15 he will agree with my position because he has given me a lot
16 of my information on the subject.

17 When we passed this disability law, it was our
18 understanding that we were going to put on that roll people
19 who were totally and permanently disabled. Isn't it correct
20 that this is what we were talking about?

21 Mr. Stern: Yes.

22 Senator Long: That meant by a very strict test.

23 Mr. Stern: Inability to engage in any substantial
24 gainful activity.

25 Senator Long: That is right.

1 We had our estimate as to what that was going to cost. I
2 can recall when Walter George made his speech explaining what
3 that was going to cost at the time we passed that through the
4 United States Senate. It passed by a single vote. If any
5 one of us had voted no on that, it wouldn't have passed. I
6 was one of the co-sponsors on that amendment.

7 Since that time, the cost of that program went to about
8 four times the estimate, did it not?

9 Mr. Stern: That is correct.

10 Senator Long: In looking into it to see why it was four
11 times what it was supposed to be, it was because we had four
12 times as many people on the rolls as we had estimated we were
13 going to have on there. Isn't that the size of it?

14 Mr. Stern: Yes, sir.

15 Senator Long: Why were they on there? Some cases
16 because of the examiners, some cases are people on appeal,
17 and in some cases the courts. Each one of them would look at
18 a case. Each person first persuades himself that he needs
19 money, so he first persuades himself that he is disabled.
20 Then he proceeds to persuade other people that he is
21 disabled. He can't persuade the examiner, he will persuade
22 somebody on appeal. They make themselves look sad, make a
23 sad case to people, and they go on those rolls.

24 I am juset familiar with a considerable number of cases
25 that have come to my attention, and those people were not

1 disabled at all under the terms of that bill. I can give you
2 a sad case where a person can be handicapped, but not
3 disabled.

4 I had a woman who was working for me. She was working
5 parttime, and parttime for other people. She came down with
6 cancer. We all felt badly about that, but as far as my wife
7 and I were concerned, as long as she could get around and do
8 any work at all, we would pay her just as much, and she could
9 do whatever she felt like doing. I think the other people
10 felt the same way. But she had this available to her, where
11 she could go down and get the money for being disabled.

12 She came back and offered to work for nothing, because we
13 didn't feel like participating in a fraud on the government,
14 but we said, no, we can't do business that way, and we didn't
15 want her to work for us for nothing. Basically, we had to
16 terminate the lady because she couldn't work for us under
17 those conditions and still draw the disability money.

18 Other cases came into light. People come to me to talk
19 about being on the rolls for disability, and I can't see
20 anything the matter with them, but to hear them tell it, you
21 would think that they can't do anything whatever. Then later
22 on, I find out from friends, when they have appealed and they
23 have been restored to the rolls, that they are fishing,
24 playing golf, and having a good time with buddies who have
25 done exactly the same thing. Partners, life-long friends,

1 both of them had the same disability, and they were out there
2 playing golf. They can play golf, they can fish, they can
3 enjoy life, but meanwhile they are totally disabled to do any
4 kind of work.

5 We in this committee passed a resolution, knowing that we
6 can't keep this up, and we called on the Department to take a
7 look at these cases. When they looked at them, what
8 percentage of that sample indicate were not eligible for the
9 rolls?

10 Mr. Stern: Around half.

11 Senator Long: About 50 percent of them were not eligible
12 for the rolls. We had estimated that we were going to have a
13 quarter, and they found that about half were not eligible
14 based on their study.

15 Surely, when you go back and get into all that, surely
16 you can find cases of people who let you take a picture of
17 them in bed. Somebody can be in bed and tell you that he
18 can't do anything. He is dying to hear him tell it, but how
19 would you know if you didn't pull back the covers and check
20 it out for yourself. But to seem them on television, you
21 would think that that person is in terrible shape. I am sure
22 a lot of them have been, there have been mistakes made both
23 ways, but if I had to guess, I would say that there were ten
24 times as many mistakes to load those rolls down with people
25 who don't belong on there as people that do.

1 If we don't have the courage to have some control over
2 this program, that has got to be the equivalent of about a 5
3 percent increase in your income tax to load these rolls down
4 with people who don't belong on there. I have met with those
5 people. They understand my point of view. So far as I know
6 I haven't lost any of my supporters even though they have
7 brought people like that to meet with me in delegations. I
8 have explained why I am voting the way I am voting.

9 Now the States proceed, and this is political
10 motivation. Now they get the State legislatures or a
11 governor to instruct those State people, and we are paying
12 100 percent of the cost, to find them disabled by a State
13 standard rather than the standard we have put in the law.
14 What we ought to tell them, "Sorry, you don't have any job,
15 Mr. State Examiner. We will just have our examiners examine
16 those people that are disabled."

17 For us to have to pay for about two to four times as many
18 "disabled" people as we intend to pay for is to put a great,
19 big tax increase on the American people that they don't
20 deserve to pay.

21 Here we are on a debt limit bill. How can we do anything
22 but go deeper and deeper in debt when we put these people by
23 hundreds of thousands on full time pay to live on the
24 government for doing nothing when those people could be doing
25 something. We ought to have a better program for handicapped

1 people, because that is what the majority of them are --
2 handicapped.

3 For us to load all of these people on the disability
4 rolls and make the taxpayer pay for it, it is just a lack of
5 political courage to face some of those people, at least that
6 is the way I feel about it. I am not going to impugn all of
7 the people who sign the letters and say, "Go all the way and
8 put all of those people on."

9 Here they have this amendment with 30-odd co-sponsors
10 saying that we cannot challenge the fact that any of these
11 people are not qualified to be on those rolls, when the
12 figures show that you have about two to three times as many
13 people on there as we had planned to put on. That is going
14 to cost just a big fortune for the taxpayers to pay.

15 So far, the taxpayers, I have not heard their side of the
16 argument, but I promise that before we get through with that,
17 I am going to tell it, because I was around here when all of
18 this was happening, and they wouldn't have had the program if
19 I had not voted for it because it only passed by one vote the
20 way it was. We voted to take care of people who are totally
21 and permanently disabled. Those people who are handicapped,
22 they ought to be under programs where we give a preference, a
23 job preference for hiring handicapped people. They should
24 not be on a program that was designed for totally and
25 permanently disabled people.

1 I know a man, when he went to apply for his Social
2 Security benefits, they found out that his records did not
3 adequately reflect what he is entitled to. He went down and
4 talked to them two or three times about the matter, and in
5 the course of it they never could quite seem to find the
6 records. They said, "Maybe we can put you the rolls of being
7 disabled." Here it wasn't his idea that he was disabled, it
8 was their idea that he was disabled. So they put him on the
9 rolls of being totally and permanently disabled.

10 I know about all those kinds of cases, and for me to sit
11 here and go along and not resist something, where you have
12 twice as many people on the rolls as you ought to have on
13 there, and to see an effort made to say that we can't even
14 challenge the right of all those people to be on there. Then
15 to talk about States setting their own standards with us
16 paying for it 100 percent, 100 percent of the cost of that
17 State employee finding people qualified who are not
18 qualified, and then 100 percent of the State legislature for
19 it to legislate State standards to a Federal law, it just
20 gets pretty ridiculous in my judgment. We ought to have the
21 courage to take a good look at the program, to actually get
22 the facts by our own independent investigation.

23 Goodness knows, if President Reagan means what he says on
24 this issue, he ought to have the courage to fight on this
25 issue. If he doesn't, we will prevail. I just down think

1 that we ought to bend our knee to a bum's rush approach to
2 legislation to blanket in forever a whole bunch of people on
3 those rolls who never did belong there. I hope that some of
4 us will at least have the courage to stand up and make our
5 case. I hope that the President and the Secretary of HHS
6 will have the courage to do their job.

7 What we are talking about doing here is to add people to
8 the cost that shouldn't be there. It can exceed everything
9 that the Social Security group saved with the work they did
10 trying to cut down and trim the cost by just adding to the
11 disability rolls people who are not disabled by the law we
12 passed.

13 The Chairman: I guess the answer is that we are working
14 on it, and I will put Senator Long down as undecided.

15 [Laughter]

16 The Chairman: I think we have three more members coming,
17 and then we can take action on the debt limit. For the next
18 few minutes, while they are assembling, I wonder if we could
19 move on to the Retirement Equity Act of 1983. We have 14
20 members of this committee co-sponsoring that bill. I don't
21 know of any objection to the bill. Technically, it wasn't
22 placed on the agenda in a timely fashion, but if we have a
23 quorum and if there is no objection -- Senator Long, Senator
24 Durenberger, Senator Packwood, Senator Roth, Senator Heinz,
25 Senator Danforth, Senator Wallop, Senator Moynihan, Pentsen,

1 Mitchell, Baucus --

2 Senator Long: Mr. Chairman, could I interrupt you for
3 just a second before the Treasury people leave the room.

4 The Chairman: Yes.

5 Senator Long: I want the Treasury people to hear this.
6 I want to request that you update the charts that I
7 customarily ask for at these meetings. Do you know what I am
8 talking about?

9 Mr. Carter: Yes, sir. We gave you those charts the last
10 time, Senator, for fiscal year 1982. As soon as all of the
11 figures for fiscal year 1983 are in, we will be glad to
12 update and send you a complete list of your charts.

13 Senator Long: Thank you.

14 The Chairman: I am going to add Senator Pryor as a
15 co-sponsor, if staff would take care of that.

16 Senator Bradley: Mr. Chairman, I am a co-sponsor.

17 The Chairman: Yes, you are a co-sponsor.

18 Rich, are you going to explain this?

19 Mr. Belas: Yes, sir.

20 The Chairman: If you could give the highlights of this.
21 Members may have statements that they would want to put in
22 the record, or maybe questions. So if you would go through
23 it.

24 Mr. Belas: Yes, sir.

25 Mr. Chairman, a very large number of groups have brought

1 to the attention of the Congress several technical changes in
2 the private pension laws which, it has been argued, have
3 discriminated against women in the workforce in the pension
4 area. It is important at the outset to point out that the
5 rules that are subject to change in S.1978 are technical
6 changes. These are not major revenue items. The downside is
7 about \$100 million a year on the most expensive provision.
8 It is not a major revenue item.

9 The provisions of S.1978 specifically provide flexible
10 rules for participation in pension plans for vesting in
11 pension benefits and for providing survivor benefits to the
12 non-employee spouse.

13 The first major provision relates to the participation
14 and vesting ages. Under current law, a pension can require
15 as a condition of participation that an individual is
16 employed for one full year and has reached at least age 25.
17 S.1978 would lower that maximum participation age to age 21.

18 In addition, a person may be required by a plan to have
19 reached age 22 in order to start vesting credit in that
20 pension plan, assuming he has reached the age 25
21 participation point. S.1978 would reduce this vesting age to
22 18. That doesn't mean that vesting will necessarily start
23 sooner, it means that once a person has reached the minimum
24 participation age that all years of service from age 18 on
25 will be considered in deciding whether an employee has met

1 the minimum number of years of employment in order to receive
2 a pension benefit.

3 The second major area deals with break in service. In
4 the current law, there is a problem in that many employees
5 will take a break to have children, and as a result lose
6 credit for earlier years of employment for pension purposes.
7 S.1978 would liberalize those rules so that a person who has
8 not been employed for five years will have up to five years
9 of break in service and still be able to get credit for
10 participation and vesting purposes for those early years.

11 In addition to that, S.1978 would allow one year for
12 maternity or paternity leave which would not count as a break
13 in service for the purposes of taking into consideration
14 early years prior to that break for participation in the plan
15 purposes.

16 The third major area deals with survivor coverage. Under
17 current law, if an individual who is a participant in the
18 plan desires, a plan which has a retirement benefit in the
19 form of annuity would allow him or her to change the benefit
20 procedure so that that annuity would be payable only over the
21 participant's life rather than over the participant's life
22 and his or her non-employee spouse's life.

23 The problem is that the non-employee spouse may never
24 know whether he or she has a benefit upon the death of the
25 employee or not. The rule in S.1978 would be to require the

1 consent of a non-employee spouse in order for the general
2 rule of a joint survivor benefit to be changed to an employee
3 annuity only.

4 In addition, under current law, if an employee dies
5 before reaching the later of the earliest retirement age
6 under the plan or age 55, there is no survivor benefit
7 payable. S.1978 would reduce that requirement so that if a
8 person was an employee and was a participants with ten years
9 of vested service and had reached age 45, a spouse's survivor
10 benefit would be available. That, of course, could be
11 elected out by the employee and his spouse, but that would
12 require written consent as under the general rule.

13 The fourth major area deals with assignment and
14 alienation of pension benefits. S.1978 would create a
15 special exception to the prohibition against assignment of
16 benefits for court orders relating to child support, alimony,
17 or other marital property rights if if the court order met
18 certain requirements.

19 The fifth is a change in the tax treatment of divorce
20 distributions. The primary change is to cause a proration
21 between employee contributions and employer contributions
22 when a pension benefit is split pursuant to a divorce
23 settlement between the spouses, the employee and non-employee
24 spouse. This would mean that the parties could not decide
25 that one spouse would have all employee contribution which

1 upon distribution would be non-taxable and the other would
2 have only employer contributions that would be taxable. They
3 would both have to share in both types of contribution for
4 distribution purposes. Each would be taxable on a
5 percentage.

6 Finally the provisions of S.1978 liberalize the rules for
7 plans in order to allow them to cash out, pay a lump sum to a
8 terminated employee if that lump sum is less than \$3,500.
9 That is included as an administrative convenience to the
10 plans. It does not necessarily hurt any participant in that
11 plan because the participants could roll that termination
12 distribution into an IRA and not have to pay tax at that
13 time.

14 That concludes the short description.

15 Senator Packwood (presiding): I think both Chairman Dole
16 and the Administration are to be congratulated for coming up
17 with this package. It is a fair portion of what Senator
18 Durenberger and I and others introduced several years ago.
19 It is not everything we would have liked, but it is a fair
20 portion of it, and it gets us half-way along the line to the
21 equity for women that we were hoping to achieve.

22 Senator Durenberger: Mr. Chairman.

23 Senator Packwood: Dave.

24 Senator Durenberger: I have just a brief comment. I
25 think you have already stated the genesis for a lot of these

1 ideas, and I want the record to show that I have gotten over
2 the frustration of the fact that S.888 is not moving, but
3 economic equity is. I want to compliment the chairman of
4 this committee and a lot of other people on this committee,
5 Rich and other members of the staff who have really helped to
6 put all this together.

7 Lest the record stay on the level of technical amendments
8 and only \$100 million, let me remind the record or whoever
9 that somebody has been carrying the burden of that \$100
10 million, or whatever it is, for a long period of time around
11 here, and this room, when we had hearings, was full of those
12 kinds of people. It was full of women, who were carrying the
13 brunt of wanting to be mothers and also work outside the home
14 at various periods of time, and couldn't do it because of the
15 way the law has been constructed.

16 So on their behalf, there are a whole lot of folks out
17 there to whom this is more than technical changes in the law
18 and I think that it is something that we can all be very
19 proud to co-sponsor and to vote out of this committee.

20 The Chairman: I want to thank Senators Packwood,
21 Durenberger, Bradley, and others for their work in this
22 area. Senator Boren is going in as a co-sponsor.

23 Mr. DeArment: Senator Long was your co-sponsor.

24 The Chairman: That is right.

25 What I would like to do, if there is no objection, is to

1 vote to report out the Retirement Equity Act of 1983, because
2 it wasn't timely placed on the agenda. It was about two or
3 three hours late getting on the agenda. I know of no
4 objection to it.

5 Mr. Belas: Mr. Chairman.

6 The Chairman: Yes.

7 Mr. Belas: Mr. Chairman, the one thing I failed to
8 mention is that you may want to consider a problem in the
9 effective date to assure that for plans currently in
10 existence that the changes go into effect in the first plan
11 year after calendar year 1984 to give the plans enough time
12 to make the necessary changes.

13 The Chairman: There is no objection to that.

14 Why don't you call the roll.

15 Mr. DeArment: Mr. Packwood.

16 Senator Packwood: Aye.

17 Mr. DeArment: Mr. Roth.

18 The Chairman: Senator Roth votes aye.

19 Mr. DeArment: Mr. Danforth.

20 Senator Danforth: Aye.

21 Mr. DeArment: Mr. Chafee.

22 The Chairman: Chafee votes aye.

23 Mr. DeArment: Mr. Heinz.

24 The Chairman: Heinz votes aye by proxy.

25 Mr. DeArment: Mr. Wallop.

1 Senator Wallop: Aye.
2 Mr. DeArment: Mr. Durenberger.
3 Senator Durenberger: Aye.
4 Mr. DeArment: Mr. Armstrong.
5 [No response]
6 Mr. DeArment: Mr. Symms.
7 Senator Symms: Present.
8 Mr. DeArment: Mr. Grassley.
9 The Chairman: Aye.
10 Mr. DeArment: Mr. Long.
11 Senator Long: Aye.
12 Mr. DeArment: Mr. Bentsen.
13 [No response]
14 Mr. DeArment: Mr. Matsunaga.
15 [No response]
16 Mr. DeArment: Mr. Moynihan.
17 Senator Moynihan: Aye.
18 Mr. DeArment: Mr. Baucus.
19 [No response]
20 Mr. DeArment: Mr. Boren.
21 Senator Boren: Aye.
22 Mr. DeArment: Mr. Bradley.
23 Senator Bradley: Aye.
24 Mr. DeArment: Mr. Mitchell.
25 [No response]

1 Mr. DeArment: Mr. Pryor.

2 Senator Pryor: Aye.

3 Mr. DeArment: Mr. Chairman.

4 The Chairman: Aye.

5 I would suggest that you have read off co-sponsors who
6 are not recorded, so make certain that they are contacted. I
7 would think that the co-sponsors would want to be recorded
8 aye.

9 Senator Moynihan: Mr. Chairman, can we leave the vote
10 open for the remainder of the day.

11 The Chairman: Sure.

12 Senators Bentsen wants to be recorded in the affirmative,
13 as well as Senator Mitchell.

14 Mr. DeArment: I have them recorded, Mr. Chairman.

15 The Chairman: On this vote, the ayes are what?

16 Mr. DeArment: The ayes are 17 and one voting present.

17 The Chairman: One voting present, and you need to
18 contact the other two.

19 Mr. DeArment: Mr. Chairman, we are voting to approve the
20 details of S.1978 as amended.

21 The Chairman: You have a House vehicle?

22 Mr. DeArment: We have several House vehicles. One that
23 I might suggest would be to take H.R. 2769, which was a House
24 Caribbean Basin Initiative bill, that matter has already been
25 disposed of, to strike the House provisions dealing with the

1 Caribbean Basin Initiative and substitute this.

2 The Chairman: Is there any objection to that?

3 Senator Symms: What was the request, I am sorry.

4 The Chairman: We have a Caribbean Basin House passed
5 measure, and we no longer need that number. We will put the
6 Retirement Equity Act on that House vehicle.

7 On the debt ceiling, I would hope that you might help me
8 get it out of the committee. There is still an effort to
9 leave here on the 18th of November. My conservative friends
10 fret because we don't get it out early enough. This is an
11 opportunity to get it at least two-and-a-half to three weeks
12 before the proposed adjournment.

13 Even though you may not want to vote for it on the Senate
14 floor, if we could vote to report it out, it would be
15 appreciated. I will try to make certain, if we can work that
16 out, that we don't do it this week.

17 Senator Long: Mr. Chairman, let me make it clear that if
18 this amended the way it has been suggested it be amended, I
19 will be compelled to vote against it. Other than that, I
20 will vote to report on the basis that I reserve my right.

21 Senator Moynihan: Would Senator Long explain the
22 amendment that troubles him?

23 Senator Long: I discussed that at considerable length
24 before you got here, but it is an amendment that has to do
25 with grandfathering all those disability cases. In my

1 judgment, about half of those cases are subject to a
2 challenge on the basis that they were never disabled.

3 Senator Moynihan: You are not referring to the debt
4 limit.

5 Senator Long: I am talking about a rider to the bill
6 that it has been suggested might be offered.

7 Senator Symms: Mr. Chairman, I am sorry I was not here
8 this morning, but my committee has a bill on the floor which
9 I am managing. I would just like to say that I want to
10 oppose this debt increase bill. I think that last year, when
11 Senator Long, Senator Armstrong, Senator Dole, and myself and
12 others amended it so that we now have a permanent debt, now
13 is the time for us to start making substantial changes in the
14 spending habits of the Federal Government.

15 I think we ought to go through this process once a month,
16 and every month add another few billion cuts from the Federal
17 spending until in a six-month period we would get the Federal
18 budget where we don't spend any more than we take in in
19 taxes.

20 I want to vote against the debt increase bill and delay
21 it until we can focus attention on it, because it is obvious
22 to me now that the leadership is planning to roll this
23 through like they always do, and nothing will become of it.
24 I think that it would be really unfortunate if this Congress
25 passes up an opportunity now when there should be at least

1 serious consideration given to giving presidential authority
2 for more spending restraint at the administrative level,
3 there should be serious consideration for reopening many of
4 the government pension programs on the expenditure side, and
5 there should be serious consideration given to
6 across-the-board cuts on all salaries and wages that the
7 Federal Government pays. I think that now is a good time to
8 do it. So I would like to vote against raising the debt
9 ceiling until we can address some of those issues.

10 The Chairman: I wonder if you would have any objection
11 to passing it out on a voice vote, otherwise we will have a
12 roll call.

13 Senator Symms: Do we have any kind of an agreement that
14 we will not bring the bill up on the floor of the Senate this
15 week.

16 The Chairman: I am willing to try to persuade the
17 Majority Leader not to do that because of your concerns, and
18 the concerns of Senator Armstrong, and maybe others.

19 Senator Symms: Otherwise I feel I would be constrained
20 to sit here and talk about it for a while, and try to delay
21 it. I don't mean to put the chairman in a position where he
22 can't answer. I realize he needs to consult with the
23 Majority Leader.

24 The Chairman: I think it is all geared to whether or not
25 we really want to leave here on the 18th of November. If it

1 is, we are trying to schedule these matters as they come up,
2 particularly this one because there may be a lengthy delay.
3 It is hope that if you could accommodate those who either
4 want to kill it completely or to offer amendments to get the
5 President extraordinary power. I think Senator Armstrong is
6 working on a package of amendments. That is the only reason
7 for trying to get it out before the last minute. Normally it
8 comes up on the last day.

9 Senator Long: Senator, if I might just make a suggestion
10 in the spirit of compromise. If we have an agreement that
11 the chairman will file a committee report, then you would
12 have the benefit of a three-day rule, and all you would have
13 to do is just object, and that would put it over three days
14 after the date the committee report is filed.

15 Senator Symms: I think that is a very good suggestion.

16 The Chairman: If the committee wants me to have a
17 report, the Majority Leader doesn't, I am willing to accept
18 that direction, if it is the view of the majority of the
19 committee that we file a report.

20 Is there any objection to reporting out the --

21 Senator Moynihan: Mr. Chairman, before we do -- I am
22 sorry that I was necessarily elsewhere in the Intelligence
23 Committee this morning -- could you take me through your
24 understanding of what we are going to be able to do about
25 disability insurance in this session?

1 The Chairman: I indicated to Senator Bradley earlier
2 that I met yesterday with Senator Levin and Senator Cohen,
3 and I am meeting at 4:30 today with Ms. McSteen, who I
4 understand will be the new Social Security Administrator, and
5 with Margaret Heckler, the Secretary of HHS, to see what they
6 propose we do in this area, because there is an intense
7 interest. I have a letter signed by 30 Senators. I assume
8 that if nothing else is accomplished there will be effort to
9 amend the debt ceiling bill on the Senate floor.

10 Senator Moynihan: I have introduced Representative
11 Pickle's bill just so that we have a document before us. Is
12 there no possibility that we could discuss this matter in
13 this committee?

14 The Chairman: I would like to discuss it in this
15 committee, but not in connection with this bill. In fact, we
16 would like to have a hearing. It seems to me that it is
17 rather substantial. The estimated cost of the Pickle bill is
18 about \$3.5 billion for five years, and maybe that is what it
19 should be, but there are some areas that I know the
20 Administration has a problem with, some areas that I know
21 Senator Long has problems with, and some areas that I have a
22 problem with -- that is only two votes.

23 We tentatively set a hearing on Friday of this week for
24 the Secretary to present the Administration's views. I
25 assume that if we can't work it out by the time the debt

1 ceiling matter comes up on the floor, there will be an effort
2 by a number of Senators to amend the debt ceiling, or so I am
3 advised.

4 Senator Moynihan: Thank you.

5 The Chairman: Is there any objection to reporting out
6 this bill?

7 Senator Boren: Can we be recorded in the negative, those
8 of us who wish to be. I would like to be recorded in the
9 negative.

10 The Chairman: Without objection, we will report the
11 bill, and those who want to be recorded in the negative will
12 be. There will be a report, so that will take care of your
13 problem.

14 Senator Symms: Thank you, Mr. Chairman.

15 The Chairman: The committee stands adjourned.

16 [Whereupon, at 12:35 p.m., the committee adjourned.]

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COMMITTEE ON FINANCE

Executive Session

Tuesday, October 25, 1983

SD-215

11:00a.m.

A G E N D A

1. H.J. Res. 308 - Increase in the Public Debt
2. Discussion of S. 1978 - Retirement Equity Act of 1983

Increase in the Public Debt Limit

Prepared by the Staff of the Committee on Finance

The administration has requested an increase in the public debt ceiling by no later than November 1, 1983, to cover the anticipated financing needs of the Federal Government through September 30, 1984. The present ceiling on the public debt is \$1,389 billion. In May, Congress acted to eliminate the distinction between the temporary and permanent debt ceilings, so that there is only a permanent ceiling with no fixed expiration date. However, the administration anticipates that the present ceiling on the public debt will be exceeded by the first of November.

The Treasury Department has indicated that an increase of \$225.6 billion in the debt ceiling will be sufficient to cover the Government's financing needs through the end of fiscal year 1984. This would raise the debt ceiling to \$1,614.6 billion. The same figure was recommended as appropriate in the budget resolution for fiscal year 1984.

House Action

The House of Representatives has passed H.J. Res. 308, which sets the statutory limit on the public debt at \$1,389 billion or \$1,614.6 billion, on or after October 1, 1983. This is a permanent increase in the debt ceiling, designed to carry through to the end of fiscal year 1984. The Senate can complete action on the debt limit by passing H.J. Res. 308 without amendment. The bill will then go to the President for signature.



THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

October 17, 1983

Dear Bob:

It is essential that Congress act to increase the debt limit by November 1, 1983.

The present debt limit is \$1,389 billion. The debt subject to limit, based on our present financing and cash receipt and expenditure estimates, will be \$1,386 billion on October 31, and on November 1 it will increase to \$1,397 billion, or \$8 billion above the limit.

The major reason for the increase in the debt subject to limit on November 1 is that on that date the Treasury is required by the Social Security Amendments of 1983 to transfer an estimated \$13 billion from the general fund to the Social Security trust funds. The Act requires that tax receipts which would otherwise be credited to the Social Security trust funds as they are received during a month be credited to the trust funds on the first day of the month. Since the trust funds are invested immediately in public debt securities, the transfer on November 1 will increase the debt subject to limit by \$13 billion on that date.

Also, the Treasury's major mid-quarter refunding is scheduled to be announced October 26. That financing is expected to total about \$16 billion of new issues of notes and bonds, to refund about \$6 billion of securities maturing on November 15 and to raise about \$10 billion in new cash needed by that date to pay the Government's current bills. These securities are to be auctioned on November 1, 2 and 3, for settlement on the November 15 refunding date. The Treasury can not conduct these auctions without assurance that it has sufficient debt authority to issue the securities. Consequently, if Congress does not act on the debt limit by November 1, and the auctions are cancelled, there will be a substantial cost to the Treasury. The mid-quarter refundings have been the centerpiece of Treasury financing for many years, and a broad market of various investor groups has developed for these issues. If the securities cannot be issued as scheduled, potential investors will be required to make other arrangements, and the Treasury will be required to borrow later in a less favorable market. An increase of just one-eighth of one percent in the cost of

financing these note and bond issues would add about \$250 million to outlays for interest on the public debt.

The Treasury also has weekly and monthly shorter-term bill auctions scheduled for late October and early November, which will be more costly as delay on the debt limit bill causes uncertainty in the market and postponements or cancellations of these issues.

I know that you will make every effort to assure action by the Senate on the debt limit bill by November 1, to permit the Treasury to invest the Social Security trust funds and to avoid adding hundreds of millions of dollars to the cost of financing the public debt.

Please let me know if I can be of further assistance.

With best wishes.

Sincerely,



Donald T. Regan

The Honorable
Robert Dole, Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

cc: The Honorable
Howard J. Baker, Jr.

RETIREMENT EQUITY ACT OF 1983

Background

S. 1978 would provide more flexible rules for participation, vesting and survivor benefits with respect to private retirement plans. The bill reflects the concerns addressed in numerous pension equity bills introduced in this Congress. Hearings were held on the issue of pension equity in both the Finance Committee and in the Subcommittee on Labor of the Committee on Labor and Human Resources.

Major Provisions of S. 1978:

1. Participation and Vesting Ages

Present Law

The maximum age that a qualified retirement plan may impose as a condition for plan participation is 25. All service after age 22 must be counted for determining whether the participant has a vested retirement benefit that would be forfeitable only upon death prior to retirement.

S. 1978

S. 1978 would lower the maximum participation age to 21 and the maximum age for granting vesting credit to 18.

2. Breaks in Service

Present Law

Generally plans may require participants who incur a one-year break in service to wait one year before reentering the plan. Also, under the "rule of parity" if the length of a nonvested employee's break in service exceeds the length of prior service, the employee may lose credit for his prior service upon return to the plan.

S. 1978

S. 1978 would prevent loss of prior service credit for vesting purposes (and a one year wait upon return to service) for individuals who take a maternity/paternity leave of less than a year. It would also amend the rule of parity to prevent loss of prior service credit for participation and vesting purposes for employees who leave an employer's service for less than 5 years. No additional credit would be provided for benefit accrual purposes under S. 1978.

3. Survivor Coverage

Present law

A retirement plan that provides a life annuity form of benefit must provide optional survivor coverage when the participant attains the later of age 55 or the earliest retirement age under the plan. Unless the plan subsidizes this coverage, a participant's future benefit may be reduced to reflect the cost of such coverage. A participant may elect to receive a form of benefit other than survivor coverage. Plans may require spouses to be married for at least 1 year prior to the participant's date of death in order to receive survivor benefits.

S. 1978

S. 1978 would require that a spousal survivor benefit be offered in the circumstances below if a life annuity form of benefit is offered under the plan. It would require all defined benefit plans that currently offer life annuities to retain this option and require all newly created defined benefit plans to offer life annuities.

S. 1978 would require plans that provide life annuities to offer spousal survivor coverage to all participants who attain age 45 and have 10 years of service, as well as to those who attain the later of age 55 or the plan's earliest retirement age. The cost of survivor coverage may be paid by the participant. Any election not to receive spousal survivor coverage must be authorized by the non-participant spouse.

S. 1978 would also allow spouses married on the participant's annuity starting date, but not on the date of death, to receive survivor benefits.

4. Assignment and Alienation

Present Law

ERISA prohibits a participant to assign his plan benefits to another person. This rule has prevented assignment of plan benefits to a divorced spouse until the benefits are in pay status.

S. 1978

S. 1978 would create an exception to the prohibition against assignment of benefits for court orders relating to child support, alimony or other marital property rights if the court order met certain requirements (e.g., specificity).

5. Tax Treatment of Divorce Distributions

Present Law

Under present law, a plan participant pays tax on his retirement benefits to the extent they exceed any contributions made to the plan out of his taxable income (usually voluntary contributions). Qualified lump sum distributions from retirement plans are eligible to be rolled over tax free into an IRA and are also eligible for favorable ten-year forward averaging tax treatment.

S. 1978

S. 1978 would prorate a participant's voluntary contributions between a participant and ex-spouse, and would allow a divorce distribution to be rolled over into an IRA. The distribution would not be eligible for ten-year forward averaging.

5. Cash out

Present Law

Plans may "cash-out" participants who terminate or retire with a lump sum payment if the present value of the participant's benefit is \$1,750 or less.

S. 1978

The \$1,750 threshold would be increased to \$3,500.