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HEARINGS

Before the

Committee on Finance

# UNITED STATES SENATE

MARKUP: SOCIAL SECURITY FINANCING AMENDMENTS

~~CONFIDENTIAL~~

Washington, D.C.

Thursday, March 10, 1983



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8 The Committee met, pursuant to recess, at 10:02 a.m., in  
9 Room SD-215, Dirksen Senate Office Building, the Honorable  
10 Robert J. Dole (Chairman of the Committee) presiding.

11 Present: Senators Dole (presiding), Packwood, Roth, Chafee,  
12 Heinz, Durenberger, Armstrong, Symms, Grassley, Long, Bentsen,  
13 Matsunaga, Moynihan, Baucus, Boren, Bradley, Mitchell, and Pryor.

14 - - -

15 The Chairman: I assume other members may be here  
16 momentarily. If not, we can complete action fairly quickly. I  
17 was just wondering while we are waiting for other members, does  
18 everybody have the material based on discussions yesterday  
19 afternoon, all that new material has been distributed to members  
20 of the Committee?

21 Mr. Lighthizer: Yes, Mr. Chairman. It was distributed  
22 early this morning.

23 The Chairman: In some of the areas where we reached -- were  
24 able to work out some accommodation amendments of certain  
25 Senators have been included in what we call the "package"?

1 Mr. Lighthizer: Yes, sir.

2 The Chairman: Mr. Myers, just so we have some indication  
3 in the record, there has been some discussion of self-employed  
4 and the way they may be treated in the event the legislation  
5 passes, it did in the House yesterday, to their treatment under  
6 the revised changes in Social Security.

7 As I understand presently, they pay less and receive equal  
8 benefits. I would just like you to clarify that for the record  
9 because we want everyone to understand that we are not trying  
10 to punish anyone, but we are trying to make the system fair and  
11 equitable and trying to preserve it at the same time.

12 Could you comment on that?

13 Mr. Myers: Yes, Mr. Chairman. I'd be glad to.

14 Under present rule, the self-employed pay only three  
15 quarters of what the employer and employee do for the same amount  
16 of earnings and for the cash benefits part of the program, and  
17 for the hospital insurance part of the program, they only pay  
18 half of what the employer and employee pay.

19 Now there is really no logic in that. You can't say why  
20 this is so, and in theory, I think from an actuarial standpoint,  
21 the fund should get the same amount of money for each \$1,000 of  
22 earnings, whether it comes from an employee or a self-employed  
23 person, but from the very beginning when the self-employed were  
24 put in the system by the 1950 Act, they paid a lower rate,  
25 largely because of the belief of some people that the combined

1 employer/employee rate would be too heavy a financial burden.

2 I think it was a mistake from the start. It was really sort  
3 of a compromise between those who thought the self-employed should  
4 pay the same as the employer/employee combined and others who  
5 felt this would be too heavy a tax burden.

6 I think the recommendations of the National Commission in  
7 this respect were the right thing to do from a financing and  
8 an actuarial standpoint, although at the same time, it should  
9 be said that they should get some relief from part of the taxes,  
10 just as the employer does, on employer's income tax.

11 The employees, of course, as you know, pay the Social  
12 Security tax out of really after tax income.

13 The Chairman: All right. There may be other questions on  
14 that when other members arrive. As I recalled our discussions  
15 and Commission deliberations, that was pointed up time and again.

16 It is not that we are trying to treat anyone unfairly. We  
17 are trying to make certain that somebody who may have had some  
18 advantage is maybe now disadvantaged.

19 Mr. Myers: Yes. I think it can fairly be said this is not  
20 treating the self-employed unfairly but it is making up for what  
21 really was the sort of prejudicial treatment of them from the  
22 start.

23 The Chairman: The House passed this, didn't they, Bob,  
24 last night?

25 Mr. Myers: Yes, they did.

1 The Chairman: Are there any areas that the staff -- that  
2 we can save some time, anything that ought to be made a part of  
3 the record, that we can properly do before other members arrive?  
4 Any housekeeping matters? I don't know about the other members  
5 but we would like to conclude this today.

6 No other matters in dispute that you are aware?

7 Mr. Lighthizer: None that can be resolved with one member.  
8 None that are in dispute with you, Mr. Chairman.

9 The Chairman: Are the Democrats caucusing?

10 Mr. Lighthizer: They are caucusing. I understand that.

11 The Chairman: I would just say for those who might have  
12 an interest, it is our purpose to finish the markup today or  
13 tonight. Senator Baker is very hopeful that we would file  
14 something tomorrow.

15 Mr. Lighthizer: He would like us to file tomorrow, yes,  
16 sir.

17 The Chairman: The bill would then come up when, next  
18 Tuesday?

19 Mr. Lighthizer: Tuesday or Wednesday; yes, sir.

20 The Chairman: Carolyn, I wonder if we might again make  
21 certain we have a number of members here now. Could you sort  
22 of hold up the package that we will be looking at so everybody  
23 can identify it, if they don't have it. I don't find it myself.

24 Mr. DeArment: It has a cover sheet, "Materials for Markup"  
25 dated March 9th and it has this kind of a second page layout.

1           The Chairman: Let me say to the members, it is our hope  
2 that we can complete action today or tonight on the markup. We  
3 will probably be interrupted a number of times with votes on  
4 the Senate Floor.

5           Senator Baker would like very much to be in a position to  
6 bring this -- call this up next Tuesday, not later than  
7 Wednesday on the Senate Floor, and hopefully dispose of it by  
8 the weekend, next weekend or early the following week so it can  
9 be -- we can go to Conference and have it on the President's desk,  
10 assuming it is passed in the Senate before the Easter recess of  
11 March 26th.

12           What we did yesterday was to go through for about three  
13 hours just a general package along with a number of amendments  
14 that different members had raised, aliens, for example, that  
15 Senator Mitchell and Senator Grassley and others have an  
16 interest in.

17           What is now before us is a package where we believe that  
18 some of those amendments that have been worked out to the  
19 satisfaction of the members involved have been included.

20           It would be my hope that we might have some expression as  
21 to how we wish to proceed. I would like to have some indication  
22 and we certainly are not going to deny anyone the right to offer  
23 amendments, but there is some general agreement on the package  
24 itself which pretty much parallels the Commission's  
25 recommendations.

1           There will be other amendments, amendments on the long term  
2 with reference to age or taxes. I know Senator Armstrong has  
3 a number of amendments. Senator Grassley has amendments. Senator  
4 Bradley and Senator Mitchell, and we were trying to work out a  
5 couple of areas that Senator Bentsen was concerned about. We  
6 think we have resolved one and the others in the process of  
7 oral briefings in the process of negotiations.

8           Senator Bentsen: I might comment on that, Mr. Chairman.  
9 We could get codification of Rule 65208. That would help clear  
10 it up as I understand it. In the meantime, I would like to see  
11 that as part of the compromise. In the meantime, I understand  
12 we are trying to work out the problem of 403(b) with the  
13 universities and hospitals.

14           Could we get a staff comment on that?

15           Mr. Belas: Mr. Chairman?

16           The Chairman: Yes, Mr. Belas.

17           Mr. Belas: We have been trying to work on what kind of a  
18 revenue impact that would have if we just merely codified  
19 Revenue Ruling 65208. There is an universe of \$1.1 billion  
20 that Section 403(b) inclusion in the FICA base picks up. We  
21 can't compute yet or we have not gotten the numbers, to find  
22 out what portion of that \$1.1 billion is lost if we just codify  
23 65208.

24           The Chairman: That is something you are working on right  
25 now? I mean we don't have to address that this moment. We are

1 working on it, Lloyd and hope to have something here by noon.  
2 Can you have it that quickly? I know Senator Bentsen must leave.

3 Senator Bentsen: Yes, I have to leave shortly after noon.  
4 to catch a plane.

5 Senator Durenberger: Mr. Chairman, before you leave your  
6 list, I will have one amendment unless something can be worked  
7 out. It doesn't look like it will be worked out, to eliminate  
8 the provision relative to Section 125 that applies to certain  
9 kinds of cafeteria plans, the one that has the cash option.

10 I think there is a fair amount of support already on the  
11 Committee for the amendment but we haven't been able to resolve  
12 it at a staff level. You are going to have to reserve some time  
13 on your list.

14 The Chairman: I assumed there would be a number of  
15 amendments. I think if we can reach some agreement on the  
16 general concept, and I know there have been discussions about  
17 the Federal employees, and if in fact we are going to defer  
18 the Federal employees, then we might as well just adjourn the  
19 meeting, because then we have violated the spirit of the  
20 compromise and we ought to defer everything else until that is  
21 worked out.

22 We have a letter this morning from Ted Stevens and  
23 Senator Mathias. I think it might be well if we could have that  
24 letter read, although it has been made available to every member.

25 I think it does offer some of the assurances that Federal



1 employees deserve and that some of the members were concerned  
2 about.

3 Do you have a copy there?

4 Mr. DeArment: Yes.

5 The Chairman: Why don't you quickly read, not particularly  
6 the cover letter, but the letter addressed to Senator Baker by  
7 Senator Stevens.

8 Mr. DeArment: The letter reads "The National Commission  
9 on Social Security Reform recommended covering new Federal  
10 employees under the Social Security System. We oppose that  
11 recommendation. However, coverage of new Federal employees does  
12 not present insurmoutable problems vis-a-vis the Civil Service  
13 Retirement System. It should not affect any current Federal  
14 employee or retiree's expected benefit. It does, though,  
15 present three related issues.

16 1) Without a change in law, Federal employees, hired  
17 after December 31, 1983, will be required to pay approximately  
18 14 percent of pay toward Social Security and Civil Service  
19 retirement.

20 2) The Civil Service Retirement Trust Fund could  
21 eventually experience serious financing problems if new Federal  
22 employees no longer participate in the Civil Service Retirement  
23 System.

24 3) A supplemental pension needs to be developed for new  
25 Federal employees which will integrate the Federal pension with

1 the Social Security System.

2 Therefore, we plan to offer an amendment to the Social  
3 Security Bill on the Floor which will permit Federal employees  
4 hired after December 31, 1983, to opt out of the Civil Service  
5 Retirement System. New Federal employees will only be required  
6 to pay the Social Security tax but also may further participate  
7 in the Civil Service Retirement System if they choose.

8 In addition, we plan to introduce a resolution authorizing  
9 a joint task force with the House to study the problems and  
10 make recommendations regarding all the Federal retirement  
11 programs. Specifically, the task force will be required to  
12 recommend a new Federal retirement system which can be  
13 integrated with the Social Security System. Federal employees  
14 who joined the Government after December 31, 1983, but prior to  
15 the enactment of the new pension would be grandfathered into the  
16 new program. The recommendations will also be required to  
17 address the need to shore up the solvency of the current  
18 retirement system to protect all current Federal employees  
19 and retirees without reducing their benefits. Adoption of these  
20 two measures will provide us time to establish a good yet  
21 affordable retirement program for all federal employees.

22 We also want to take this opportunity to express our views  
23 on other proposals affecting Federal employee benefits. We will  
24 oppose all proposals which have the effect of reducing Civil  
25 Service retirement benefits or increasing employee contributions

1 for current employees and retirees except for a delay in the cost  
2 of living adjustment which is comparable to the delay proposed  
3 for the Social Security benefit until the task force makes  
4 its recommendations. Finally, we will insist on an increase  
5 in Federal civilian salaries if a pay increase is authorized for  
6 the military.

7 Federal employees have served this nation well. They are  
8 for the most part a highly qualified and energetic group of  
9 workers. We need them to ensure that our Government continues  
10 to operate effectively and efficiently."

11 That is signed Senator Stevens and Senator Mathias.

12 Senator Bentsen: Mr. Chairman, could we have a copy of that  
13 letter? I haven't seen that letter.

14 The Chairman: Yes.

15 Senator Long: Apparently a copy must have been mailed to  
16 me but I just don't have a copy. I notice that the cover letter  
17 was mailed to both the Chairman and myself.

18 Let me just make this suggestion. Some of us talked  
19 about, among the Democrats this morning, our view that we ought  
20 to just amend the bill to say the provisions relating to the  
21 coverage of new Federal employees would become effective either  
22 on January 1, 1984, as provided, or the month following the  
23 date of enactment into law of legislation providing a  
24 supplemental retirement plan to replace the existing Civil  
25 Service Retirement System.

1           In other words, we are aware that the Federal employees have  
2           contended that when they are voted under Social Security and  
3           then seek to have a supplemental plan, that the Administration  
4           and the President might take the attitude that the President would  
5           veto any such plan unless they are willing to settle for a much  
6           lower level of benefits or retirement advantages than they have  
7           now.

8           Now, if that is their concern, it seems to us that the  
9           logical thing would be to say when we pass a supplemental plan,  
10          that would trigger the proposal in this bill for covering  
11          Federal employees.

12          Now testimony has been here that that should be a very  
13          simple thing to do; it shouldn't take very long and such a plan  
14          is something to be worked out promptly and passed promptly.  
15          If that is the case, it would seem to us that there would be  
16          no problem in getting that into effect so it could meet the  
17          January 1 deadline in the bill. Otherwise, it would seem to us  
18          appropriate that the matter should be deferred until we can  
19          tell these people what their supplemental benefits are going to  
20          be.

21          I would hope that might be a compromise we would agree  
22          upon to solve the problem. If it doesn't solve the problem,  
23          we will have to find something else.

24          I would like to ask the Chairman, does that pose any  
25          serious problem to the bill?

1           The Chairman: I hope Senator Moynihan will be here but  
2 I think yes, I think it would pose a very serious problem. It  
3 is a departure from the Commission's recommendations. I will  
4 not quote the Speaker yesterday. I listed to Speaker O'Neill  
5 talk about this very issue.

6           There were a lot of considerations before the Commission  
7 with reference to Federal employees. One was to bring all the  
8 Federal employees into the system. That was rejected rather  
9 quickly. For a while, we were carrying around in the so-called  
10 Commission deliberations, bringing in all Federal employees with  
11 five years of service or less because there was no vesting. It  
12 seemed to us and the Commission generally that maybe that was  
13 a good thing to do and said, well, that's probably not right  
14 so let's make it three years.

15           Finally, in an effort to satisfy the concerns of the  
16 Federal employees and the Federal Employees Unions, we decided,  
17 well, there is no need to take on that burden, let's limit this  
18 to new hires.

19           I guess the problem is we got certain things within our  
20 jurisdiction, the supplemental plan is not; that is why we had  
21 asked Senator Stevens to give us a letter to provide further  
22 assurance to members of this Committee and the Federal employees  
23 that we are going to move quickly.

24           As Senator Stevens indicates, as far as opting out, that  
25 will be an amendment on the Floor. In addition, they plan

1 to introduce a resolution authorizing a joint task force to  
2 study the problems and make recommendations regarding all Federal  
3 retirement programs.

4 As I view it, and I would like to hear Senator Moynihan,  
5 I think if we start -- maybe the Commission package shouldn't  
6 be sacred but I have checked just quickly with the White House  
7 who was part of the negotiations and they feel this would be a  
8 breach of that compromise. If we are going to breach it, we  
9 might as well breach it right now and not do it later in the day.

10 Senator Long: Mr. Chairman, there are about 15 of us on  
11 this Committee who did not serve on the Commission. Now, we  
12 admire those who did serve and we respect those who served and  
13 we certainly are willing to consider the logic of what they said  
14 but in the last analysis, when we go home to explain to our  
15 constituents what we did, it is not an adequate answer to say,  
16 look, we didn't think this was a good idea but the Commission  
17 recommended it so we had to do that.

18 People expect us to do what is right no matter who  
19 recommends something that we might not agree with.

20 We thought that was what we are here for. I think a  
21 majority -- I am looking at one Senator who to my knowledge  
22 served on the Commission and has a difference of opinion with  
23 some of the things in the recommendations and I think he will  
24 probably do what he thinks is right under the circumstances,  
25 just like I'm sure all the rest of us will.

1 Now, I fully understand that those who are on the Commission  
2 might want to feel that they agreed and made a compromise and  
3 this is what they are going to have to do, but I don't think the  
4 public would understand that, us saying, well, look, we didn't  
5 think this was the right way to do it, but the Commission  
6 recommended that and that's what we had to do.

7 I think we better try to do what we think the public would  
8 like to have us do, particularly those who send us to the Senate.

9 Senator Armstrong: Would the Senator yield to me?

10 Senator Long: Yes.

11 Senator Armstrong: I want to express to the Senator from  
12 Louisiana general agreement with the tone of his remarks. As  
13 far as I am concerned, we are the legislative committee and that  
14 takes nothing away in any sense from the recommendations of the  
15 National Commission, some of which I agreed with and some of  
16 which I did not, but if somebody has come up with the idea that  
17 this Committee doesn't have the full legislative jurisdiction  
18 or that we ought to steer clear of adopting some amendment  
19 because it wasn't a part of the Commission package, then it  
20 would appear to me that what we ought to do is forward without  
21 recommendation the Commission's package to the Floor of the  
22 Senate.

23 There is no sense in presenting a bunch of amendments  
24 or going through a markup if in fact we are going to determine  
25 as a body not to markup.

1 Now, I don't happen to agree with the Senator entirely on  
2 the question that is immediately before us, that is, how we  
3 ought to take care of the Federal employee.

4 Certainly on the main point, I do agree. I don't think that  
5 the House Ways and Means Committee, for example, which is our  
6 counterpart in the House, I don't think they had any such  
7 principle that the Commission package couldn't be subject to  
8 amendment.

9 They changed the benefits in the unemployment compensation  
10 program in a Ways and Means Committee amendment. That wasn't  
11 the subject of the Commission's report. They approved a new  
12 system for reimbursing doctors and hospitals. That wasn't in  
13 the Commission's report.

14 They amended the taxation of benefits by providing higher  
15 thresholds. That was certainly beyond the scope of the  
16 Commission's report.

17 They provided a new tax credit to offset the tax increases  
18 imposed on the self-employed. The Commission didn't do that.  
19 They provided a new fail safe general revenue borrowing  
20 mechanism which they gave the benign designation "tax  
21 normalization," and I don't know who thought that one up but  
22 they ought to get the Academy Award for nomenclature. That  
23 certainly sure as thunder wasn't ever before the Commission  
24 and approved it and on and on.

25 I don't criticize the Ways and Means Committee for doing



1 that. That is what they are supposed to do. They are a  
2 legislative committee. So is this one. While I don't  
3 necessarily agree about how we ought to handle the Federal  
4 employee issue, as far as I am concerned, I am here to legislate  
5 and I join the Senator from Louisiana in his expression.

6 Senator Long: It may be that the suggestion that I am  
7 making on behalf of several of us on this side might not be  
8 the answer. It might not be. We are here to consider the  
9 complaints of a lot of unhappy people along with the urging  
10 of people who are pleased about the recommendations.

11 I would hope that we could work it out in such a fashion  
12 that when the bill leaves this Committee, it wouldn't be nearly  
13 as many concerned citizens as there are at the moment. Maybe  
14 we can work it out and maybe we can't but I think we ought to  
15 try.

16 The Chairman: I would just suggest that there are several  
17 key areas and I know Senator Armstrong has a different view on  
18 some. I think he has some good ideas but I don't think again  
19 they are within the compromise and I think other Senators would  
20 feel the same.

21 We have now a bill that has passed the House that I think  
22 fairly well carries out the intent. The Commission obviously  
23 had no legislative authority. We obviously have an opportunity  
24 to change anything we wish to change in the Congress, and there  
25 have been some technical changes made.

1 I really believe if you look at the major portions of the  
2 Commission's recommendations, which is coverage of new Federal  
3 employees and non-profit employees, delaying the cost of living  
4 adjustment, which includes the SSI benefit increase, the COLA  
5 stabilizer, the taxation of Social Security benefits and  
6 interfund borrowing, the long range benefit formula tax rate  
7 changes, I think the primary parts of the Commission  
8 recommendation remained intact after the House debate.

9 The only major change was one that we knew would be  
10 debated on the House Floor, and that was whether you should  
11 increase taxes in the long term or raise the age. The age  
12 prevailed by some 20 to 30 votes.

13 I would say that even though Claude Pepper disagreed to  
14 that strongly, he did vote for the package, on the final  
15 package, which indicates his support without a change that --  
16 even though a change was made.

17 If that is the will of the Committee, and I don't suggest  
18 we can't change what the Commission wants to do, but if we want  
19 to delay coverage for Federal employees until they are certain  
20 that everything they are concerned about that is in some other  
21 jurisdiction is taken care of, then we ought to have that vote  
22 first, because there is an amendment on the Floor that I need  
23 to be working on in any event.

24 I think we may as well vote on that. If we are going to  
25 delay coverage for Federal employees, I don't see any reason

1 to rush through the rest of it.

2 Senator Mitchell: Mr. Chairman, I wonder if this proposal  
3 in fact rises to the level of major substantive change in the  
4 Commission's package, with which you have initially  
5 characterized it. I speak only for myself.

6 I think you and members of the Commission did an excellent  
7 job and I support the Commission's package generally.

8 There have in fact been changes made in it on the House side.  
9 There have been changes made in it here, all of which, I think,  
10 have been characterized and accepted as not being major changes  
11 that violates the thrust of the provision.

12 Yesterday Mr. Myers in response to a question, your  
13 question, described the fashioning of a supplemental retirement  
14 plan for Civil Service retirees as a relatively simple matter.  
15 Mr. Greenspan, again in response to your question some weeks  
16 ago, made an almost identical statement.

17 Federal employees have expressed concern over being  
18 required -- that future employees participate in the system,  
19 the dimensions of which have not been spelled out for them.  
20 It seems to me that the uncertainty which is the thing most  
21 people fear the most in any area, is the question here.

22 If it is in fact a relatively simple matter and one about  
23 which there is some urgency, I don't view this proposal as one  
24 that will delay the implementation of the package. I believe  
25 that it's a proposal that will in fact expedite implementation

1 of the package by ensuring that the supplementary plan will be  
2 developed as promptly and in as fair a fashion as everyone has  
3 suggested that it will be done, and which we all want to be done.

4 I wonder whether the Chairman might not think that this  
5 rather than any effort to delay is in fact an effort to expedite  
6 and will in fact not disrupt or pick this package apart, but in  
7 fact is an expression of support and a desire to accommodate  
8 what at least on the basis of simple equity seems to be a  
9 legitimate concern, uncertainty on the part of people about  
10 what they are going to be confronted with.

11 I would ask the Chairman to consider that.

12 The Chairman: The argument is we are talking about new  
13 hires, people who aren't yet in the Federal service. I don't  
14 know what uncertainty they have, but I am certain if they are  
15 not satisfied, they probably won't enter the Federal service.

16 I have never quite understood the argument. We are talking  
17 about only new hires. That's why we didn't go back three years;  
18 we didn't go back five years; we didn't try to include all  
19 Federal employees. We wanted to make certain that those  
20 coming into the Federal service were aware of the benefits  
21 and aware of the disadvantages, and they made a choice. Nobody  
22 is drafted in the Federal service unless there is some emergency,  
23 as far as military service.

24 Senator Mitchell: On the other hand, Mr. Chairman, those  
25 persons who in life represent others have a responsibility

1 to persons who will be their representation in future capacity.  
2 It is not uncommon in this Committee or in this Senate for  
3 people to say we are taking actions to protect future generations  
4 or persons who will be coming along in future years who we  
5 are representing.

6 It seems to me those who represent Federal employees have  
7 a similar obligation, to ensure that those who will be their  
8 constituents next January are treated in as fair a manner as  
9 possible.

10 Senator Boren: Mr. Chairman, I think the problem, the  
11 concern that people have, the existing Federal employees have  
12 the concern that if the supplemental system is not set up, if  
13 there does not continue to be new revenues paid into the existing  
14 Civil Service retirement program, if we were simply to cut off  
15 the flow of funds into that system, that it could well imperil  
16 the ultimate payment of benefits to those who are currently  
17 Government employees, if we deprive them of the new stream of  
18 payments in and we have assured them all along that that wouldn't  
19 be the case; that there would be this supplemental system, that  
20 there would be sufficient funds coming into the Civil Service  
21 retirement system.

22 I look at Senator Long's proposal as a very moderate  
23 proposal, and undoubtedly those who would want to prevent  
24 completely the bringing in of new employees or to prevent it  
25 for a long period of time, this would simply say that if, as

1 the testimony has been, that this can be done very quickly,  
2 as Senator Long said, and that is what we have been told,  
3 that there should be no hold up in this, that at the time that  
4 is enacted into law, this provision would take effect.

5 I see it as very much totally within the spirit of the  
6 Commission recommendation because we have gone out and given  
7 the assurance, we will not take this action, we aren't going  
8 to force you into Social Security, we are not going to deprive  
9 the existing fund of the revenues until we are sure there is a  
10 supplemental program.

11 The Chairman: Again, I am sympathetic with the Federal  
12 employees. I think Ted Stevens' record would certainly indicate  
13 that he has been sympathetic with Federal employees. He has  
14 indicated in a letter to myself and Senator Long, a cover letter  
15 with a copy of a letter he sent to Senator Baker yesterday,  
16 what he proposes to do.

17 If we can't accept the good faith of those who have the  
18 jurisdiction, if we want to start unraveling the package, I  
19 would just as soon do it now. There was some indication that  
20 we couldn't deal with Social Security and we might as well find  
21 off right off the bat.

22 If we are going to try to take care of our special interest  
23 group now, there are other special interest groups covered.  
24 Some don't want to pay taxes. Some don't want a COLA delay,  
25 non-profits don't want to be brought into the system. We can

1 continue to nit-pick at the package and probably destroy it in  
2 the process. I don't suggest that is what anybody has in mind  
3 but I do believe this would be contrary to the agreement we made  
4 and if it is, I pledge to support the compromise.

5 This to be a major departure would give the Federal  
6 employees time to never get into the system. They don't want  
7 anybody to come into the system.

8 We agreed they probably ought to be brought into the  
9 system, as the House did yesterday, and I would hope that we  
10 wouldn't at the first initial shock, shoot down the package.

11 Senator Heinz: Mr. Chairman, let me try and explain to our  
12 colleagues why the acceptance of this proposal by the Committee  
13 would be very prejudicial to the Federal employees who we think  
14 we are trying to help, I assume, by the proposal.

15 I happen to agree that it would cause a major fissure  
16 between the members of the Commission but I think we ought to  
17 examine the consequences of that.

18 The Federal employees understandably fear that there is  
19 going to be less money available for the Civil Service Retirement  
20 System if new Federal hires don't pay into it. That's  
21 understandable. It overlooks, if you just focus on that fear,  
22 the real fact that right now, that system costs about 37 percent  
23 of taxable payroll. Federal employees put in 7 percent of that  
24 37 percent.

25 What that means is that the Federal Government as of today,

1 is committed to putting almost \$5.00 in to fund those benefits  
2 out of every \$6.00 in benefits that are going to be paid out.  
3 That's a fact; very different from what a lot of people think,  
4 different from what a lot of people say but it happens to be the  
5 truth.

6 Now, therefore, the Federal Government, with respect to  
7 existing Civil Service retirees, is on the hook for a very large  
8 amount of money. Our obligations, which I believe are solemn  
9 to those Federal employees, are going to be met if, and only if,  
10 the Federal Government itself is relatively solvent.

11 Now, the point of the Social Security package is not just  
12 to make the Social Security System solvent. It does do that.  
13 I would suggest that it also helps make the general fund of the  
14 Federal Government a good deal more solvent.

15 Why?. Because by having a Social Security package that  
16 allows the system for the next 75 years to be self financing,  
17 we will not have to go the general revenue route of dipping into  
18 the general fund, and financing the Social Security System from  
19 those general revenues, by virtue of leaving those general  
20 revenues alone and I am ignoring for the purposes of this  
21 discussion, a modest amount of general revenue interbudget  
22 transfers we have in the first two years here, we actually make  
23 the Federal Government better able to meet its commitments to  
24 Federal employees of the future, in the future, who will retire  
25 on the Civil Service Retirement System.



1           It seems to me that the greatest threat to the Civil  
2 Service retirement benefits of the present Federal employees  
3 is not passing this Social Security solvency package, because  
4 then, obviously we are not going to stop paying Social Security  
5 benefits if the Social Security trust fund runs out of money,  
6 we will find the money someplace, but I can guarantee you that  
7 there will come a day of reckoning, if we do that, and I don't  
8 know of anybody who wants to do that, when we won't be able to  
9 pay both Social Security benefits, absent this package, and  
10 Civil Service retirement benefits, absent this package.

11           Therefore, if you are going to start pulling apart a very  
12 delicately crafted compromise, I suggest you carefully examine  
13 the consequences. I hope my good friends who do support this  
14 won't insist on supporting it because I think it is extra-  
15 ordinarily unwise and is going to end up instead of helping the  
16 Federal employees, hurting them, and that's not anybody's  
17 intention.

18           I would only add that this is one Senator who intends to  
19 see to it that our commitments to our existing Federal employees  
20 are met.

21           Thank you, Mr. Chairman.

22           Senator Moynihan: Mr. Chairman, could I join Senator  
23 Heinz in not just his view but his analysis. It seems to me  
24 of genuine import. If we can put the Social Security System  
25 on the basis that the House legislation provides, it means a

1 major source of financial instability in this Government  
2 disappears for two generations.

3 I wonder if my friend and fellow Commissioner would hear  
4 me on this point. The actuary, the Office of the Actuary  
5 at the Social Security Administration, has estimated what will  
6 be the effect of the bill that was reported out of Ways and Means,  
7 which is substantially the bill passed yesterday, on the sort  
8 of intermediate period.

9 The estimate is between 1982, today, as it were, and  
10 2021, we would accumulate a surplus of \$12.1 trillion. That is  
11 money in the Social Security funds and it won't be available for  
12 anything but Social Security, but it also means that the  
13 question of paying Social Security from general revenues does  
14 not rise, and the general revenues pay the Civil Service  
15 Retirement System and are in that measure much more available.

16 This means in many respects that the Federal Government  
17 goes into absent awful economic conditions of fairly solid  
18 budgetary situations for the next 40 years, and that is very  
19 important to anybody who depends on that Government for  
20 retirement payments.

21 Senator Grassley: Mr. Chairman?

22 The Chairman: Senator Grassley.

23 Senator Grassley: Following on where Senator Heinz left  
24 off, I did not know we had 80 percent of the Civil Service  
25 Retirement System paid for from the public treasury and 20

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1 percent from the 7 percent that the employees pay in.

2 I would imagine most people think that's a 50/50  
3 contribution approach, but in the final analysis then, I assume  
4 that the Commission, and I'm asking you, Mr. Chairman, the  
5 Commission would presume then to meet the obligations that we  
6 have to existing Federal employees, that 80 percent over a  
7 period of years would go up to 81 percent, 82 percent, 83  
8 percent, because we would meet the obligation and commitment to  
9 that last Federal employee who is living out there, we'll say  
10 50 years from now, drawing that check, that commitment will be  
11 made on the basis of expanding the contribution of general  
12 revenue to that system.

13 Isn't that right, Mr. Chairman?

14 The Chairman: The Commission did not address that directly  
15 but that's my understanding. That's how I feel about it, yes.

16 Senator Grassley: But somehow implied in the decision we  
17 are making here is that we are going to keep that commitment up  
18 and if there isn't revenue coming in from the employees, if  
19 it's 80/20 now, it is going to get worse as time goes on, that  
20 that commitment would be made up from the treasury, because you  
21 are not going to have the last Federal employee who is paying  
22 in the Civil Service retirement, paying in 100 percent of his  
23 last dollars that he makes to support his own retirement. It  
24 just wouldn't make sense.

25 That's what we are up to.

1           Senator Roth: Mr. Chairman, as you know, Government Affairs  
2 has jurisdiction over Federal employees. What concerns me here  
3 is if the Long amendment were added, I suspect what would happen  
4 is that it would become very difficult to make the reforms that  
5 are necessary in the Federal retirement program.

6           I think we are all dedicated to the concept that we have  
7 to keep our commitments there, and for the same reasons that we  
8 felt we had to do something in Social Security, we have to make  
9 that program solvent and viable.

10          If you provide that the Federal employees, new Federal  
11 employees, will not be covered, it seems to me what is going to  
12 happen is there is going to be a great effort put on never to  
13 have any legislation adopted.

14          It is well known that the Federal establishment, the  
15 Federal employees are strongly opposed to covering future  
16 employees.

17          What I am saying is that if you adopt the Long amendment,  
18 then I think it is going to be very difficult to get any kind  
19 of reform in these other programs to make sure that those  
20 retirement checks are going out, and we are going to end up  
21 really untieing everything that was done not only in the future  
22 with respect to the Federal employees but with respect to the  
23 Social Security.

24          Mr. Chairman, could I ask you, do you think that if the  
25 Long amendment were adopted that it would be possible to get

1 the reform through?

2 The Chairman: I think it would make it very difficult.  
3 It's obvious to me -- I think the amendment is offered in good  
4 faith, but I know or at least I have learned a little here the  
5 last few months about what happens.

6 You give people more time to work out their problems. I  
7 learned that from the banks most recently.

8 I think it would make it very difficult.

9 Senator Long: Since the Chairman brought that point up,  
10 that's a good point to consider. There was a proposition that  
11 could not have passed if those people it affected had the  
12 opportunity to know about it in advance and to petition Congress  
13 and make themselves heard. It didn't pass the Senate by  
14 majority vote anyway, if you look at how the absentees were  
15 recorded, how they said they would have voted.

16 Here is a situation where we hear about a reform that  
17 somebody wants. More often than not, when somebody talks about  
18 a reform, he is either talking about giving somebody the worse  
19 of it, giving them a deal that is not as good as they have  
20 already, and I suppose that's what those employees are worried  
21 about.

22 They say, all right, now before you take away what we have  
23 now or start taking it away, again, to dismember what we like  
24 very much, show us what you are going to give us to take its  
25 place. If we show them what it is going to be, they will really

1 be against it.

2 If that's the idea, I can understand why they are concerned.

3 The Chairman: I would just say that I always had doubts  
4 about withholding until the former chairman offered it and I  
5 supported him in 1976.

6 Senator Pryor?

7 Senator Pryor: Mr. Chairman, I would like to support and  
8 I do support Senator Long's modification. I think it really  
9 speaks to really trying to achieve equity in a situation. All  
10 of us in the political world know the great fears of Social  
11 Security recipients and the great fears that Social Security  
12 is going to cave and whatever.

13 It seems to me, in all due respect to our colleagues who  
14 were on the Commission and the Commission itself, it appears to  
15 me that the Commission perhaps in its findings and in its  
16 recommendations, concentrated on the Social Security System  
17 to the extent that the Civil Service System basically was  
18 almost brought in as an after thought.

19 I say that in all respect, because I truly believe the  
20 fears of the Social Security recipient, and of course, we  
21 justifiably have to mediate those fears.

22 Also, Mr. Chairman, I think it is incumbent upon us not  
23 to cause another segment of the population out there, and that  
24 is the Federal employees, to be waded off into this sea of  
25 uncertainty, not knowing what is going to happen, and that is

1 exactly what Senator Long's amendment does. It implies and it  
2 states that it is the policy of this Congress, that we are not  
3 going to force them into an unfair situation at this time, that  
4 we are not going to force them into a situation in the future  
5 or in the present, until we have a solution or until we find  
6 some answers to the questions that they are raising at this  
7 point.

8 I think it is a fair compromise. I hope that our colleagues  
9 will consider this as a compromise.

10 The Chairman: What I would like to do, unless there is  
11 some objection, is to proceed on the basis that we have a draft  
12 before us of the major provisions and is open to amendment at  
13 any time. Without that, I'm not sure how we can proceed. We  
14 have to have some document in front of us to offer amendments  
15 to.

16 Is there any objection to that? I think Senator Moynihan  
17 has been consulted on that. I know Senator Armstrong has a  
18 number of amendments. I want to be certain of how many votes  
19 and where the votes are on this issue, because I think very  
20 seriously if Senator Long prevails, that might take care of  
21 the Social Security problem for a while.

22 Senator Long: I would hope that we are not going to be  
23 confronted with this, just amendment by amendment, if you vote  
24 for this amendment, this will kill the bill. I have been  
25 around here 34 years. That gets awful tiresome.

1           May I say sometimes I use that technique myself. More often  
2 than not, if the amendment was agreed to, that wasn't the end  
3 of the bill. They say, well, now in view of the Senate's  
4 wisdom, I guess we will have to reconsider our position and  
5 move accordingly.

6           I hope we are not going to be confronted every time  
7 somebody offers an amendment and in good faith, and this is  
8 offered in good faith. I personally believe that we ought to  
9 pass just the kind of legislation that the majority thinks would  
10 be good for the country and good for Federal employees.

11           To say that because we say that we ought to show them what  
12 it is going to be before we push them under it, I just think  
13 it's a matter of telling them, we don't know why you should  
14 be worried about this or why you should be afraid, we are  
15 planning to give you a good program to take the place of the one  
16 you have now, and we ought to show it to them when we do it.

17           Senator Armstrong: Mr. Chairman, I'm sitting down here  
18 trying to figure out how to vote. I don't know if other  
19 members of the Finance Committee are aware of this, but in the  
20 general reshuffling of Committee assignments, and foreseeing  
21 that this problem would arise, I asked for and was granted a seat  
22 on Senator Roth's Committee, and in fact, petitioned for and  
23 was granted a seat on the Subcommittee which is going to have  
24 the task of drawing up the Civil Service Retirement System.

25           I am devoted to the idea that first, we are going to



1 solve it, that we are not going to treat anybody unfairly, that  
2 we are not going to delay it, we are going to get a system that  
3 is going to work out and that the Federal Government is going  
4 to meet its obligation to the people involved.

5 We are just not going to let somebody retire and have a  
6 trust fund that runs dry.

7 I am not very happy with Senator Long's amendment, but on  
8 the other hand, from the perspective of those of us who just think  
9 it is really unfortunate if we get into a position where we  
10 are not permitted to legislate here, I must say it is very  
11 tempting to me to just vote to it just to break the package open  
12 and then let's take a look at it and see where we are.

13 I guess maybe I won't do that but I would say if this  
14 amendment doesn't pass, that I would certainly be sympathetic  
15 to something on this subject.

16 I say again with all respect to the Chair that this  
17 Finance Committee, as far as I am concerned, has the  
18 responsibility to put out the best bill it can put out, without  
19 giving undue emphasis to recommendations from anywhere else,  
20 from the Commission, the White House, the Ways and Means  
21 Committee or anybody else.

22 The Chairman: I appreciate that. I don't question  
23 anybody's motives or anything else. It just seems to me that  
24 we might as well start by voting on the amendment and if it  
25 passes -- let's see, is the Commission expired? I think we

1 are out of business. That would then open up the package. I  
2 know there are a lot of other changes that I would like to make  
3 in the package.

4 I don't think the Commission's efforts are certainly  
5 perfect in any sense of the word. I don't suggest they are  
6 binding on this Committee. I suggest if we are going to start  
7 going outside, and I consider this going outside, by delaying  
8 the effective date of this provision based on something that  
9 we do not have any control over happening, then to me that is  
10 a different matter than the fine tuning, whether it is self  
11 employed or whether it is 403(b) or whether it is something  
12 else that is within our jurisdiction, and I cannot control the  
13 jurisdiction of the Government Affairs Committee.

14 I think Senator Roth has made it clear. Senator Armstrong  
15 has just made it clear and Senator Stevens, whose record in  
16 support of Federal employees' legislation is unequal in this  
17 Senate, has written us a letter indicating his concern and what  
18 he intends to do on the Floor.

19 If we need more assurance than that, I would leave it up  
20 to the Committee. I would hope the amendment would be defeated.  
21 We might move ahead and finish our work today in the Senate  
22 Finance Committee. We might as well find out. We may finish  
23 it right now.

24 The Clerk: Mr. Packwood?

25 Senator Packwood: No.

1           The Clerk: Mr. Roth?  
2           Senator Roth: No.  
3           The Clerk: Mr. Danforth?  
4           Senator Danforth: No.  
5           The Clerk: Mr. Chafee?  
6           Senator Chafee: No.  
7           The Clerk: Mr. Heinz?  
8           Senator Heinz: No.  
9           The Clerk: Mr. Wallop?  
10          The Chairman: No.  
11          The Clerk: Mr. Durenberger?  
12          (No response.)  
13          The Clerk: Mr. Armstrong?  
14          Senator Armstrong: No.  
15          The Clerk: Mr. Symms?  
16          (No response.)  
17          The Clerk: Mr. Grassley?  
18          Senator Grassley: No.  
19          The Clerk: Mr. Long?  
20          Senator Long: Aye.  
21          The Clerk: Mr. Bentsen?  
22          (No response.)  
23          The Clerk: Mr. Matsunaga?  
24          Senator Matsunaga: Aye.  
25          The Clerk: Mr. Moynihan?

1 Senator Moynihan: No.

2 The Clerk: Mr. Baucus?

3 Senator Baucus: Aye.

4 The Clerk: Mr. Boren?

5 (No response.)

6 The Clerk: Mr. Bradley?

7 Senator Bradley: Aye.

8 The Clerk: Mr. Mitchell?

9 Senator Mitchell: Aye.

10 The Clerk: Mr. Pryor?

11 Senator Pryor: Aye.

12 The Clerk: Mr. Chairman?

13 The Chairman: No.

14 The nays are ten; the ayes are six; the amendment is not  
15 agreed to.

16 Senator Armstrong: I am sorry. Mr. Symms votes no by  
17 proxy.

18 Senator Grassley: Mr. Chairman, would the amendment that  
19 I have on aliens be in order at this point or is there some  
20 other procedure?

21 The Chairman: As I understand it, the aliens amendment,  
22 is that part of the package we have before us?

23 Ms. Weaver: Yes.

24 Senator Grassley: It could be. It was my understanding  
25 we were starting out with S.1, and since this wasn't in S.1,

1 we would have to add it. We do not have S.1 before us?

2 The Chairman: What we have is the refinement of S.1  
3 based on discussions we had yesterday going through the package.

4 Discuss that provision, Carolyn, to make certain it  
5 satisfies Senator Grassley and Senator Mitchell.

6 Senator Grassley: Carolyn, can you tell us what number it  
7 is? Senator Boren and I and Senator Mitchell.

8 The Chairman: Right.

9 Ms. Weaver: Item number 23 pertains to the payment of  
10 benefits to aliens.

11 The Chairman: I wonder if we might do that first?  
12 Carolyn, could you go through and list very quickly the four  
13 or five changes made since yesterday? We discussed the whole  
14 thing in length yesterday. One of these changes is the alien  
15 matter. That might be better.

16 Let us go through the four or five changes we made in  
17 addition to the discussion yesterday and then we can go back  
18 and start taking amendments. I know Senator Armstrong wants to--

19 Senator Armstrong: Are these referenced to this March 9th  
20 document?

21 The Chairman: Yes.

22 Ms. Weaver: The first change in the document would apply  
23 to Section six in the cover summary sheet, which is the windfall  
24 benefit provision.

25 It was modified in light of the discussions yesterday, to

1 have a five year phase in period.

2 The Chairman: That was a question raised by Senator  
3 Chafee and Senator Heinz and I think others on this side.

4 Senator Armstrong: Carolyn, these are changes that have  
5 already been made in the written document?

6 Ms. Weaver: Now they are in the written document; yes.

7 Senator Chafee: Carolyn, you were going to try and work  
8 it out so that somebody did not suffer a cut in their benefits  
9 arbitrarily. How did you do with that?

10 Ms. Weaver: There are two guarantees that impact people  
11 immediately. Number one, the provision that no more than one  
12 third of the non-covered pension would be offset, and then  
13 number two, this five year phase in period.

14 Only one fifth of the full reduction would take place the  
15 first year.

16 Senator Heinz: As I understand it, the phase in isn't in  
17 the document but we are going to put it in?

18 Ms. Weaver: We have written it up in the document you have  
19 before you.

20 Senator Heinz: All right. Thank you.

21 Senator Moynihan: Mr. Chairman, there is some confusion  
22 over here. Is there a new piece of paper, different from that  
23 of yesterday?

24 The Chairman: Yes. I had her hold it up. Hold it up.  
25 It says on the front "March 9, 1983." It is the one you have

1 in your left hand.

2 Senator Moynihan: I see. This incorporates changes made  
3 overnight in response to comments yesterday?

4 The Chairman: To members' concerns; right.

5 Ms. Weaver: Yes.

6 The Chairman: The ones we could not change are still open,  
7 like Senator Bentsen's and others that we have not agreed upon,  
8 and Senator Armstrong has some amendments I think on women, right?

9 Ms. Weaver: Somebody coming in under the windfall  
10 provision in 1984 would be subject to just one fifth of the  
11 reduction had he come in at the point at which that phase in  
12 was fully operative, and that would be only a fifth reduction,  
13 that would be permanent for him, and then the following year,  
14 two-fifths of that reduction would take place for the next  
15 group of people becoming subject to the pension offset.

16 That is written up as item number six in your handout  
17 and the phase in formula is shown on that page.

18 Senator Grassley: Mr. Chairman, anything that is in this  
19 document, we will not have a separate vote on unless there is  
20 a motion to strike?

21 The Chairman: Somebody can have a separate vote, if you  
22 want to vote just on the provisions.

23 Senator Grassley: I would assume that if this is the bill  
24 that we are going to vote on, then the only departure from this  
25 would be either additions or subtractions.

1 The Chairman: That is right.

2 Senator Grassley: Otherwise, we assume this is the bill  
3 that we are voting on in final?

4 The Chairman: That is correct. We tried to reflect some  
5 of the changes that we could work out and others, we will just  
6 have to have votes on.

7 Ms. Weaver: Item 17 was also modified, which pertains  
8 to interfund borrowing. There was concern expressed yesterday  
9 that perhaps --

10 The Chairman: That was Senator Baucus and Senator  
11 Durenberger.

12 Ms. Weaver: That perhaps too much borrowing from the HI  
13 trust fund would create great difficulties for that trust fund  
14 needlessly.

15 The Chairman: Are you satisfied with that change?

16 Senator Baucus: What have you done?

17 Ms. Weaver: We have made a series of modifications.  
18 Number one, no further amounts could be borrowed from HI that  
19 would leave the HI trust fund with a ten percent reserve ratio.  
20 There would be the ten percent guarantee. Interest payments  
21 on any loans from HI would be made on an ongoing basis rather  
22 than accumulated to the end of some stated period. Repayment  
23 would be required whenever the reserves in the cash benefit  
24 trust fund is built up to at least 15 percent and then all  
25 repayment would be due in 1988 and 1989.



1 Senator Chafee: Mr. Chairman, I am unenthusiastic about  
2 the interfund borrowing because of the effect on the HI. I just  
3 do not think we should be doing it. I do not know whether you  
4 want us to move ahead with this amendment eliminating it now  
5 or wait until you go through this. What is your procedure?  
6 I am not going to ask for a roll call vote.

7 The Chairman: If there is a move to eliminate it, we ought  
8 to do it now.

9 Senator Chafee: Mr. Chairman, all right. I just think  
10 that fund, we all know, is in terrible shape. We have  
11 tremendous difficulties with it. I know as a result of  
12 Senator Baucus' suggestions, we put some limitations on it, but  
13 I am just unenthusiastic about even going into that area at all.

14 I would be interested in what the sentiment is here. As  
15 I say, I am not going to request a roll call vote.

16 The Chairman: Again, I might ask Mr. Myers to comment on  
17 this. I am not going to keep harking back to the Commission  
18 but it is an area that we kicked around or discussed quite a  
19 while. Some of us did not want it in here at all but we felt  
20 we needed it in case we had to use it, hoping we did not have  
21 to use it. I think the chances are pretty good we will not.

22 I wonder if Mr. Myers might comment on the reasons for  
23 including that provision? We did try to satisfy the concerns  
24 expressed by Senator Baucus and Senator Durenberger. We think  
25 we have tightened it up. I would hope we might keep it in the

1 package with appropriate restraints on HI.

2 Bob?

3 Mr. Myers: Mr. Chairman, first of all I might say this  
4 provision, both as the National Commission did it and as it is  
5 in the House bill and even as it is in this proposal, is  
6 essentially a fail safe device under the intermediate estimates.  
7 It is not expected to be used at all, and even under more  
8 pessimistic conditions, it would not be used.

9 As the staff has revised it here, I think it makes it  
10 even clearer that the only time it would have to be used would  
11 be in the very mid-1980's, that is say 1985, 1986, and it would  
12 not -- there are safeguards in here that it would not weaken  
13 the HI system unduly and also there are provisions in here  
14 that would be much more definite, that the HI trust fund should  
15 be repaid as soon as possible and a definite schedule of how  
16 it would be done.

17 I think this really does sharpen up the recommendations of  
18 the National Commission.

19 Senator Bradley: Mr. Chairman, does this permit borrowing  
20 among the funds? It does not specify which fund borrowing from  
21 another fund? In other words, what we think of is we think of  
22 the borrowing of the pension fund from the Medicare fund. Can  
23 you borrow the other way? Can the Medicare fund borrow from  
24 the pension fund?

25 Mr. Myers: Yes.

1 Ms. Weaver: There is three way borrowing between the trust  
2 funds.

3 Mr. Myers: But only through 1987. It is not likely that  
4 the HI fund will need it before 1988.

5 The Chairman: Senator Grassley?

6 Senator Grassley: Mr. Chairman, I support the amendment  
7 by Senator Chafee. In fact, if he had not offered it, I was  
8 prepared to offer one and would have done it at a later point.

9 I guess the reason I think about or thought about offering  
10 such an amendment was just what it kind of says about the whole  
11 package. I would like to have coming out of the Congress and  
12 the discussions we have related to Social Security, a feeling  
13 among the people that this is really a sound package, this  
14 is going to solve the problems for the long term, and I think  
15 the decision the House made yesterday helps us tremendously in  
16 that effort.

17 I think somehow if we leave vestages of the crisis  
18 situation we were in for the last two years when we instituted  
19 interfund borrowing as part of this package, then that is going  
20 to detract from re-establishing the credibility and helping  
21 people feel that it is sound.

22 I also have the same concerns that Senator Chafee did about  
23 how it might impact on the trust fund and that is going to  
24 hasten the crisis period for that fund as well. We obviously  
25 ought to learn from the experience of the crisis in the Social

1 Security, that we do not want to hasten that. We want to solve  
2 that years before it comes.

3 It seems to me that this gives the impression of being  
4 too easy of a way out. Instead of making actual benefit reforms  
5 or raising the revenue necessary to guarantee solvency, we are  
6 keeping our fingers crossed that this Commission report will be  
7 sufficient to get us through the decade.

8 If not, then of course we have this to fall back on. That  
9 just does not create a very good environment as far as I am  
10 concerned.

11 I would like to have it deleted and then I would like to  
12 have it deleted with an understanding that I suppose down the  
13 road, you know, if we are in a crisis situation, maybe we have  
14 to respond to that.

15 I think that it is going to cause us to be a little more  
16 careful in our approach as we respond to situations in the  
17 future, if we have to make the tough decisions at that time  
18 rather than taking the easy way out, which I think interfund  
19 borrowing has been and which it will be in the future.

20 The Chairman: Thank you, Senator Grassley. Senator Baucus  
21 and then Senator Durenberger.

22 Senator Baucus: Mr. Chairman, I am just curious, what  
23 is the greater likelihood, that there will be HI borrowing  
24 from OASDI or the reverse, during this decade? Particularly  
25 in the later years in this decade.

1 Mr. Myers: The borrowing can only be extended through  
2 1987, and in the period before 1987, the greater likelihood is  
3 and I do not think it is a big likelihood, but the greater  
4 likelihood as between the two is the borrowing would be by  
5 OASDI from HI, not the reverse.

6 Senator Baucus: As difficult a strait that the HI fund  
7 is in, even in 1986 and 1987, you think there is a greater  
8 likelihood that OASDI will borrow from HI rather than the  
9 reverse?

10 I do not have the figures in front of me, but it is my  
11 understanding that in the later years of this decade, the HI  
12 fund is in a very difficult condition.

13 Mr. Myers: In the later years, from 1987 on, it is;  
14 1987, 1988 and 1989. In 1987, there might be the likelihood--

15 Senator Baucus: Wouldn't the borrowing by OASDI from HI  
16 hasten the demise of HI? Because the estimates I have seen do  
17 not assume any borrowing from HI.

18 As I understand it, the surplus at the end of 1981 was  
19 \$18 billion; the surplus at the end of 1982 was only \$8 billion  
20 because of the roughly \$10 to \$12 billion borrowing from HI.  
21 If that continues, then HI is going to be in more difficult  
22 straits by say 1985 or 1986 rather than a difficult position  
23 in 1988 or 1989.

24 Mr. Myers: Under this proposal that is before you, there  
25 would be the provision that if OASDI has money, it should repay

1 that quite promptly to HI. Where HI's troubles will really  
2 come is certainly not before 1986 or 1987, and more likely  
3 not before 1987.

4 The Chairman: Is there further discussion? Senator  
5 Durenberger?

6 Senator Durenberger: Yes. Mr. Chairman, I think this is  
7 an important point. I am glad it was raised. Let me make this  
8 observation.

9 I guess I started with the same concern that Senator Chafee  
10 did. I started a year and a half ago when we all got together  
11 to switch off of minimum benefits and on to interfund borrowing.  
12 At that time, I opposed interfund borrowing from the HI account.

13 In retrospect, I would not have wanted to try to reform  
14 Social Security last fall rather than at this point, so the  
15 interfund borrowing was important.

16 Secondly, at first blush, I was deeply concerned about  
17 two things after the Commission reported. One was the  
18 continuity of interfund borrowing and the second was how  
19 difficult this continuity of interfund borrowing will make  
20 Medicare reform, from a policy standpoint, because any time  
21 we want to adjust cost sharing of benefits at anywhere along  
22 the line, someone will say, you know, it is because you took  
23 all that HI money out and gave it to somebody else.

24 Mr. Chairman, I have been dealing with this now I guess  
25 the last six weeks, as all of us have. I am impressed, number

1 one, with the sensitivity of the people who participated in the  
2 Commission process for the future of the HI trust fund. I am  
3 impressed with the work that has gone into both the projections,  
4 even including the most pessimistic projection. I am not sure  
5 that Bob accurately answered Max's question or to his  
6 satisfaction because I was left with the impression that it was  
7 more likely that the borrowing could go both ways than it was  
8 clear that the borrowing was going to go by OASDI from HI.

9 I am also impressed with the partial fail-safe that we  
10 will vote on, and finally, I guess I am impressed with the fact  
11 that this is not going to sail if we adopt the motion of the  
12 Senator from Rhode Island, and that there is not a further  
13 fail-safe.

14 I thought, for example, what we ought to do is have an  
15 ultimate fail-safe that says if there is a problem in HI, then  
16 we will adjust the COLA or we will borrow from general revenue  
17 or we will do something else. I came to the conclusion that  
18 to put that kind of a fail-safe in is a signal to everybody out  
19 there that the proposal is a failure.

20 You either have to bet on this proposal or not bet on it.  
21 The Chairman is right. He is not just defending the  
22 Commission's report. I mean he is defending a process by which  
23 the Commission came to grips with these issues.

24 You can call it a riverboat gamble or whatever, but  
25 there are not enough experts in this room today to tell us

1 what things are going to be like in 1987. It is difficult for  
2 me to do this obviously because of the responsibility I feel for  
3 HI. I do think we ought to support the Chairman and the  
4 Commission recommendation and not support the amendment offered  
5 by the Senator from Rhode Island.

6 The Chairman: Can we dispose of the Senator of Rhode  
7 Island's amendment? Are there modifications?

8 Senator Baucus: Mr. Chairman, I understand what the  
9 Senator from Rhode Island is trying to do here. Most of us  
10 have the same worries about both funds. Frankly, I think that  
11 in the interim period it probably makes more sense to have  
12 the flexibility for interfund borrowing, HI from OASDI and  
13 vice versa, rather than to prohibit all interfund borrowing  
14 outright.

15 Unfortunately, this Commission has only addressed one  
16 portion, OASDI. It did not address HI and Medicare, and that  
17 is the box that we are in.

18 I think we are going to be forced and constrained into  
19 setting up a similar commission to address the problems of  
20 Medicare and HI and so forth, and I would hope that we do that  
21 very quickly.

22 In the interim and intervening years, I think it probably  
23 makes more sense to give us that flexibility. I do not know  
24 if it is a riverboat gamble either, but it is the best so far  
25 proposal before us. We have no better alternative. I think



1 generally we therefore have to by and large, with some  
2 modification, go along with it, at this time, and make the  
3 adjustments as we need to, when the occasion arises.

4 Senator Chafee: Mr. Chairman, thirty seconds, if I might.

5 Mr. Chairman, I am very skeptical about the short range  
6 projections for the OAS itself and also it seems to me that we  
7 have proven here that in past years, if there has to be  
8 borrowing, we can take up a measure to permit the borrowing,  
9 as we did a couple of years ago.

10 At that time, it brings us all up short. It brings our  
11 attention to the serious problems that are in the fund. If we  
12 just have this automatic borrowing and this so-called fail-safe  
13 mechanism that takes place, then it removes us from our  
14 conscious efforts to direct our attention to the difficulties  
15 that exist here.

16 We are all busy. We are all delighted not to have to face  
17 up to any problem if we can avoid it, by having to vote on  
18 an interfund borrowing, it brings us up cold to the difficulties  
19 that one of the funds or the other faces and then hopefully  
20 we will take remedial action.

21 Mr. Chairman, as I say, I am not asking for a roll call  
22 vote, however you want to do it, a show of hands, a voice  
23 vote, but I would move my amendment.

24 The Chairman: All in favor of the Chafee amendment,  
25 signify by saying "aye."

1 Senator Bradley: What is the Chafee amendment,  
2 Mr. Chairman?

3 The Chairman: It knocks out the interfund borrowing. We  
4 might as well have a roll call.

5 The Clerk: Mr. Packwood?

6 Senator Packwood: No.

7 The Clerk: Mr. Roth?

8 Senator Roth: No.

9 The Clerk: Mr. Danforth?

10 The Chairman: No.

11 The Clerk: Mr. Chafee?

12 Senator Chafee: Aye.

13 The Clerk: Mr. Heinz?

14 Senator Heinz: No.

15 The Clerk: Mr. Wallop?

16 The Chairman: No.

17 The Clerk: Mr. Durenberger?

18 Senator Durenberger: No.

19 The Clerk: Mr. Armstrong?

20 Senator Armstrong: Aye.

21 The Clerk: Mr. Symms?

22 (No response.)

23 The Clerk: Mr. Grassley?

24 Senator Grassley: Aye.

25 The Clerk: Mr. Long?

1 Senator Long: No.

2 The Clerk: Mr. Bentsen?

3 Senator Bentsen: No.

4 The Clerk: Mr. Matsunaga?

5 Senator Matsunaga: No.

6 The Clerk: Mr. Moynihan?

7 Senator Moynihan: No.

8 The Clerk: Mr. Baucus?

9 Senator Moynihan: No by proxy.

10 The Clerk: Mr. Boren?

11 (No response.)

12 The Clerk: Mr. Bradley?

13 Senator Bradley: No.

14 The Clerk: Mr. Mitchell?

15 (No response.)

16 The Clerk: Mr. Pryor?

17 (No response.)

18 The Clerk: Mr. Chairman?

19 The Chairman: No.

20 Senator Chafee: My heart was pure but I did not have the

21 strength of ten.

22 Senator Armstrong: Senator Symms votes no by proxy.

23 The Chairman: 14 to 3.

24 The Clerk: It is 3 to 14.

25 Senator Grassley: Mr. Chairman, before you go on beyond

1 this, can I have a repeat of when the interest is going to be  
2 paid? I had a proposal on interest but that may be taken care  
3 of.

4 The Chairman: I had better double check with Carolyn.

5 Ms. Weaver: Interest would be paid monthly to HI on  
6 an ongoing basis.

7 The Chairman: Isn't there some 1988 or 1987 figure?

8 Ms. Weaver: All principal and interest is repaid in  
9 1988 and 1989.

10 Senator Grassley: Does that also include what has been  
11 borrowed up to this point?

12 Ms. Weaver: Yes.

13 The Chairman: Yes.

14 Senator Grassley: I am satisfied with that.

15 The Chairman: Do you have the aliens next?

16 Ms. Weaver: On the benefits side, the one last adjustment  
17 is on item number 23, which pertains to limiting benefits paid  
18 to aliens. In the provision we worked out yesterday, it is a  
19 relatively limited approach which would ensure that benefits are  
20 not paid to aliens, their dependents or survivors who reside  
21 outside the United States, and there would be the provision that  
22 they receive back the contributions of the worker before the  
23 limitation on benefits takes place.

24 There will be no circumstances under this provision under  
25 which somebody residing in the United States would have their

1 benefits terminated.

2 The Chairman: Could I ask Senator Grassley and Senator  
3 Mitchell if that is satisfactory?

4 Senator Grassley: Also Senator Boren.

5 The Chairman: Senator Boren. Excuse me, Senator Boren.

6 Senator Grassley: And Senator Mitchell. I think it  
7 satisfies me and I also would like to state for the record  
8 that we have had contact with Senator Lugar's staff on this  
9 and have worked with them because of his leadership in this area.

10 Senator Boren: I think it is a good provision and I  
11 commend Senator Grassley and Senator Mitchell and the other  
12 staff that have worked on this. Senator Lugar really began this  
13 effort a long time ago and several of us have worked with him  
14 on it.

15 I think this is a real step in the right direction.

16 Senator Grassley: At one point, Mr. Svahn brought up the  
17 fact that it is difficult to tell about the death of people  
18 in foreign countries and then the checks keep coming, the  
19 extent to which a person who would be drawing those checks  
20 beyond what he paid in under existing law, and that is going  
21 to end and then that problem is taken care of. Is that right?

22 Mr. Svahn: Would you explain that to me again, Senator?

23 Senator Grassley: You had previously said that there has  
24 been a problem of people who have died or we assume they have  
25 died, continuing to receive checks, even greater than the

1 problem is for people living within the United States, if they  
2 have lived in foreign countries.

3 Mr. Svahn: Percentage-wise; yes.

4 Senator Grassley: Now we are limiting those people  
5 receiving payment to what they have paid in to the system under  
6 this proposal?

7 Mr. Svahn: If they are an alien or an alien dependent; yes.

8 Senator Grassley: Now we would not have as much of a  
9 problem from people that are "living longer" because they are  
10 in a foreign country.

11 Mr. Svahn: If they are aliens or alien dependents; yes.  
12 If they were United States citizens or as I read this,  
13 alien dependents of United States citizens, then we would still  
14 have the same problem.

15 The Chairman: Senator Mitchell, is it satisfactory with  
16 you?

17 Senator Mitchell: Yes, it is, Mr. Chairman. I discussed  
18 this with Carolyn earlier. I thank the Chairman for his  
19 cooperation.

20 Senator Chafee: Mr. Chairman, I apologize. I am not  
21 sure what the alien amendment is. Could Carolyn briefly  
22 describe it?

23 Ms. Weaver: It would limit benefits paid to alien  
24 workers, their dependents and survivors while they are abroad,  
25 if they should leave the country, benefits would cease when

1 the worker had received back his tax contributions, and any  
2 dependents acquired after moving abroad would not be eligible  
3 for benefits.

4 Senator Chafee: It would limit it to their contributions,  
5 with interest?

6 Ms. Weaver: No interest.

7 The Chairman: It does not affect U.S. citizens living  
8 abroad.

9 Ms. Weaver: That is right.

10 Senator Chafee: I think that is an unfair thing. They  
11 contribute. The aliens have contributed. What is going on  
12 here anyway? I know they do not vote!

13 I find that an extraordinary provision.

14 The Chairman: I think it is rather limited, is it not,  
15 Carolyn, from the original proposal?

16 Senator Grassley: Maybe I can satisfy the Senator from  
17 Rhode Island, to the extent to which we discussed this amendment  
18 yesterday and there were some problems raised with it. Over  
19 the evening, working with Mr. Myers, it has been revised to  
20 take care of some of those concerns.

21 Senator Chafee: Those people paid into the system. They  
22 were required to pay into the system. They work. They put into  
23 the system.

24 Senator Mitchell: The Senator has raised a legitimate  
25 question about interest, but I would point out to you that

1 in the discussion yesterday, which was very extensive, pointed  
2 out and I would ask if Mr. Myers or Carolyn has the figures  
3 with respect to non-citizen, non-resident, the number of  
4 dependents is far higher than the general category of  
5 beneficiaries. The number of dependents acquired after  
6 retirement is truly extraordinary, and it is obvious that an  
7 abuse is occurring.

8 This is an effort to correct that abuse.

9 Senator Chafee: Well, it is a draconian solution if I  
10 have ever heard one.

11 Senator Mitchell: The only thing that is draconian is  
12 not paying interest. Do you have any other objection to it?

13 Senator Chafee: I do not see why they should not get  
14 the employer's contribution also. The employer has had to pay.  
15 He has taken a deduction on it. He has paid in. The person has  
16 worked. Then at the end of that, maybe if they have too many  
17 children, that is apparently unpopular here -- I do not see  
18 why they should be treated in this fashion, particularly when  
19 they are required to pay into it.

20 Senator Mitchell: To say they have too many children  
21 and it is unpopular mischaracterizes the problem, Senator.  
22 That is not the manner by which dependents are being acquired  
23 in this fashion.

24 I have no objection if you want to make it having them  
25 paid with interest. I agree that would be a fair way, if



1 that can be done. Beyond that, I think it is a reasonable  
2 proposal intended to correct abuses.

3 The American Social Security System was never intended to  
4 be a social security system covering non-citizens, non-residents.

5 Senator Chafee: I would have to ask the historian on that,  
6 Mr. Myers. Did that come up when President Roosevelt thought  
7 of this?

8 The Chairman: Bob was there.

9 Mr. Myers: When the original act was established, there  
10 were no restrictions by citizenship or residence, but there  
11 were some put in later on in the 1950's.

12 Senator Chafee: I do not think that suggestion was  
13 exactly accurate. Mr. Myers, do we have treaties with other  
14 countries that involve this, for instance, with Canada, where  
15 they have a retirement system, or an American alien up there  
16 working? Is there anything back and forth on that that we  
17 are missing?

18 Mr. Myers: We have certain treaties, one with Canada is  
19 pending. I think it is practically completed. We have some  
20 with other countries like Federal Republic of Germany and  
21 Switzerland. There are also certain other treaties of  
22 friendship and commerce that get into this.

23 This proposal would say that this restriction would not  
24 be applicable in any case for citizens of any country where  
25 it would break the treaty.

1 Senator Chafee: There is such a provision? I am sorry.  
2 I was not aware.

3 Mr. Myers: Yes, there is.

4 Senator Chafee: Mr. Chairman, I think the person has  
5 worked. He has put into the fund. He clearly should get back  
6 his interest and I think he should get back what the employer  
7 contributed, based on my successful record in rolling up votes  
8 here today, I am a little reluctant to press it too far. I will  
9 take two votes, first on the interest. Are you prepared to  
10 accept that?

11 Senator Mitchell: I am.

12 Senator Chafee: That gets me 50 percent of the way there.

13 Senator Matsunaga: Mr. Chairman, if I may get a  
14 clarification. Does this mean that if an alien returns to  
15 his native country, that he would get less than what he would  
16 be receiving if he remained in the United States?

17 Senator Mitchell: Certainly.

18 Senator Matsunaga: Heavens, I would be opposed to that.  
19 I thought it was limited to what he would be getting if he  
20 were here. No? I join Senator Chafee. You have one extra vote  
21 with you this time. I would think it was almost  
22 unconstitutional, treating a resident, one who was a resident  
23 under different situations, where if a citizen were to go  
24 under the system to a foreign country to reside there  
25 permanently, he would not be treated likewise.

1 Senator Mitchell: That is correct.

2 Senator Matsunaga: Is this prospective, Senator Mitchell?

3 Senator Mitchell: Prospective.

4 Senator Chafee: Mr. Chairman, I think that obviously the  
5 system should be tightened up. Mr. Svahn pointed out  
6 yesterday that if somebody lives in Bulgaria, their longevity  
7 is ten years greater life expectancy than if they lived in  
8 the U.S. Apparently the checks keep coming in and it extends  
9 one's life or at least one's family extends the life. Maybe  
10 they do not bury him so quickly over there or something.

11 I think all kinds of things of checking into the Embassy  
12 or the Council, all kinds of steps should be taken for the  
13 present, those on the present rolls. I would support that.

14 As far as perspective, I am prepared to support something  
15 along the lines but clearly they should get the interest and  
16 I should think they should get what the employer paid, too.

17 Senator Matsunaga: Mr. Chairman, I am sorry I was not  
18 here in the afternoon to join in the discussion, but we have  
19 a situation in Hawaii where we encourage aliens to go back,  
20 especially Philipinos, because while in Hawaii, Social  
21 Security benefits are definitely insufficient to even provide  
22 a decent living and so they go on welfare, an additional cost  
23 to the government and taxpayers.

24 When they do go back to the Philippines, the Social  
25 Security benefits as such, they live like kings in the

1 Philippines.

2 I hope this will not affect that situation. Who is the  
3 principal proponent of this?

4 The Chairman: Could I suggest that we have a vote in  
5 process. Maybe we ought to come back and discuss this right  
6 after the vote.

7 (Whereupon, at 11:55 a.m., the Committee was recessed for  
8 a Vote on the Floor, to reconvene at 12:20 p.m. this same day.)

9 Senator Moynihan: Mr. Chairman?

10 The Chairman: Senator Moynihan.

11 Senator Moynihan: Mr. Chairman, I do not want to in any  
12 sense seem to want to close off anybody's complete access in  
13 this Committee to anything they would like to propose, but  
14 today is going by. The period before the Easter recess is  
15 going by. We have more things on this legislation as I  
16 understand it, then just Social Security, which we have to get  
17 to.

18 I would like, at the risk of being a pest, urge that we  
19 get on with this issue. Therefore, I will shut up.

20 The Chairman: I appreciate that very much and I share  
21 the view expressed by the Senator from New York. We do not  
22 want to foreclose anyone's rights but it is my hope we can  
23 move rather quickly. The major provisions I think will remain  
24 intact. Obviously, we have a number of amendments which would  
25 make rather drastic changes. There are a number of amendments

1 which we think we might be able to accommodate.

2 I would hope from the period of time from about 12:30 to  
3 let's try to come back at 1:45, that if anybody has one of  
4 those that we might be able to work out, that the staff is  
5 notified so we can start moving rather quickly at 1:45 p.m.

6 We would like to settle the question on the alien  
7 amendment. I understand Senator Chafee and Senator Mitchell  
8 and Senator Grassley have had a chance to visit.

9 Senator Chafee: Yes, Mr. Chairman. I believe Senator  
10 Mitchell is agreeable to the interest. That is the employee's  
11 contribution plus interest. I would ask for a voice vote on  
12 the employer's and interest also when the proper time comes.

13 The Chairman: Jack, do you have something to say on the  
14 interest?

15 Mr. Svahn: No, it is more upon the amount paid by the  
16 workers, Senator. I hate to cast a damper on this. I feel  
17 compelled to; while I sympathize very much with the problem  
18 and I would like to eliminate the abuses of payments to  
19 beneficiaries overseas and we do have an awful lot of them, the  
20 way that this proposal is currently drafted, it allows benefits  
21 to continue until the total benefit is paid to the earner and  
22 dependent equal the taxes paid by the wage earner, and without  
23 wanting to get into a discussion about why we do not keep  
24 records, we do not have any records of how much in taxes were  
25 paid by each wage earner.

1           The Social Security Administration keeps records of earnings  
2 and would require us, if we could locate or if we could determine  
3 that a person was overseas, it would require us to go back and  
4 manually try and recalculate how much tax they might have paid,  
5 whether they paid it or not.

6           The Chairman: Do you have any suggestion how we might  
7 accomplish what some want to accomplish without that information?

8           Senator Bradley: May I make a suggestion, Mr. Chairman?

9           The Chairman: Yes.

10          Senator Bradley: I intend to offer an amendment, a similar  
11 amendment on non-taxing benefits until after the recipient has  
12 received what they have contributed plus interest, and I am told  
13 that it is impossible because you do not keep track, but a rough  
14 rule is within a three year period.

15          What I would do is propose a three year period and would  
16 offer this as a possible compromise, at the end of which time  
17 they would have received back everything they put in.

18          Senator Matsunaga: Mr. Chairman, if I may ask a question  
19 of Mr. Svahn. Suppose we limit the payments to what it would  
20 be had the alien remained in the United States and suppose we  
21 require the alien to report periodically, say annually or  
22 bi-annually, to the American Embassy, to prove that he is  
23 still alive and entitled to benefits?

24          How would this be relative to administration?

25          Mr. Svahn: That would be one way to solve the one problem

1 with regard to payments that are made to aliens after they are  
2 deceased, those that live in a foreign country.

3 I think there are a lot of different things or different  
4 circumstances that people are trying to eliminate in the  
5 so-called alien question and it is extremely complex.

6 We have been in contact with the State Department and the  
7 State Department is quite concerned about the tide that is  
8 moving to eliminate payments to aliens who live overseas and they  
9 feel there are very important foreign policy implications and  
10 that we should have some full and open debate about the issues  
11 and decide exactly what it is we want to do and what impact it  
12 would have on our foreign policy, what impact it would have  
13 on our foreign policy before we jump into something that we  
14 really do not know what it is going to do.

15 Senator Matsunaga: I agree with you. In the case of  
16 Hawaii, we encourage the aliens to go back, as I said earlier,  
17 because we save millions of dollars in welfare payments which  
18 they would be otherwise entitled to if they remained in the  
19 United States.

20 Actually, by enforcement of this type of provision, we  
21 would be losing in the States.

22 The Chairman: Senator Mitchell?

23 Senator Mitchell: Mr. Chairman, I regret that what is  
24 really is a relative and minor matter in relation to the total  
25 picture has taken so much time. I do not want to take more.

1 I think it is important that we understand precisely what we  
2 are proposing here and what has not been proposed and the reason  
3 for it.

4 A recent GAO report of just a few weeks ago indicated that  
5 in 1981, the Social Security System paid \$1 billion, 313,000  
6 beneficiaries who lived outside the United States; nearly  
7 200,000 of them are aliens. The study also found that alien  
8 retirees generally with respect to the average retiree, work  
9 less time in covered employment, pay less in taxes, have many  
10 more dependents.

11 Thirty-four percent of the dependents of alien  
12 beneficiaries are required after retirement, a manner which  
13 plainly indicates a pattern of abuse of the system.

14 There has been talk here about what is fair and equitable  
15 and so forth and it may be true, as Senator Chafee said, that  
16 President Roosevelt and Mr. Myers did not, when they  
17 collaborated on Social Security, discuss the problem of  
18 non-residents. I think it is clear to anyone that the Social  
19 Security System is intended to provide income security for  
20 Americans.

21 We are struggling to deal with the problem of how to meet  
22 the benefit levels we now have and those benefits are going to  
23 be less than they otherwise would be as a result of the  
24 legislation we are enacting.

25 You have an obvious abuse here. It is a not inconsequential



1 sum and reached the stage where \$1 billion is inconsequential  
2 and there is a responsible proposal to deal with it, and that  
3 is to limit payments made to non-residents, non-citizens,  
4 to the amount they paid in plus interest. They have been  
5 deprived of nothing.

6 Remember, the average beneficiary on Social Security gets  
7 back an amount equal to the amount of taxes paid in less than  
8 two years. Any amount over that for non-resident, non-citizens  
9 represents in effect a windfall paid for by American workers  
10 who are now already struggling under a very high payroll tax  
11 that is going to go up dramatically as a result of past and  
12 present actions.

13 It just seems to me to be simple commonsense and we have  
14 taken care of the objections of the State Department by  
15 exempting anybody affected by a treaty, which actually has the  
16 effect of limiting the scope of this amendment to a very, very  
17 modest, modest amount.

18 I urge, Mr. Chairman, that the alien provision be retained.  
19 I do not know if the pending order is a motion to strike it or  
20 a motion to put it in. I thought it was already in the package.

21 The Chairman: Could I just ask Mr. Myers, as I understand  
22 it, you have tried to work out some of the problems yesterday;  
23 is that correct?

24 Mr. Myers: That is correct.

25 The Chairman: You have been around a long time, and I

1 am not going back to FDR. Were you there with him?

2 Mr. Myers: I worked on the Committee of Economic Security  
3 but I hardly worked with FDR because I was just fresh out of  
4 school then.

5 The Chairman: You could have said so; we could not have  
6 proved otherwise!

7 In any event, what do you think of the compromise we now  
8 have? Does that address the concerns expressed by Senator  
9 Chafee and Senator Matsunaga? Should they be concerned as  
10 they are about this provision?

11 Mr. Myers: I think there are abuses in this area. I  
12 think the proposal that has been developed here takes care of  
13 those, whether it goes too far or not, is a matter of philosophy.

14 I can see their concerns, but I think this is a reasonable  
15 proposal and I think it is one that can be administered. I  
16 think despite what the Commissioner or the Under Secretary  
17 now said, that this can -- we can develop the taxes paid from  
18 the earnings record because earnings are available each year,  
19 from 1951 on and whether taxes were paid, you can presume they  
20 were. For the earnings before 1951, there is just one lump  
21 sum for the 1937 to 1950, and although the tax rate was one  
22 percent in 12 of those 13 years and 1.5 percent in the other  
23 one, you could just presume the tax rate say was one percent.

24 You need certain technical things like that to simplify  
25 the administration. It could be done. If you use interest,

1 then there are some problems of what interest rate and up to  
2 when and so forth. These can be worked out on a reasonable basis.

3 On the other hand, the approach was made that if you say,  
4 let's say everybody who goes abroad as an alien is entitled to  
5 36 months for which they have drawn benefits, whether it was  
6 before they went or after, that would be workable, too.

7 Senator Mitchell: Let's have a vote, Mr. Chairman.

8 Senator Chafee: What are we voting on?

9 The Chairman: The interest has been agreed to, I guess.

10 Senator Chafee: Yes, but there is quite a bit of  
11 difference between -- first of all, how are you ever going to  
12 tell, one, whether somebody is an alien? There is no way in  
13 your records at all to tell whether someone is an alien, is  
14 there?

15 Senator Bradley: Where do you send the check?

16 Senator Chafee: If my check is sent to Mexico, I am an  
17 alien?

18 Senator Mitchell: No. The GAO identified 313,000  
19 beneficiaries living abroad, of which 194,000 are aliens.  
20 Somebody already knows.

21 Mr. Svahn: I think you will find, Senator, those were  
22 estimates made by the General Accounting Office. Those estimates  
23 only relate to those checks that we do send overseas. About  
24 40 percent of the beneficiaries receive their checks direct  
25 deposit to a bank and we have no record of an address for those

1 beneficiaries. I would think that it would get around quite  
2 quickly that if one opens an American bank account and has  
3 their Social Security check deposited to that bank account,  
4 that the checks will continue to come.

5 The Chairman: I suggest we adopt the amendment and then  
6 work out the details between now and the time it is on the  
7 Floor.

8 Senator Grassley: I agree to the amendment he offered  
9 about the interest but I do not agree to the amendment about  
10 the part the employer paid in.

11 Senator Chafee: Mr. Chairman, I will make my amendment  
12 to include the employer's contribution as well and just ask  
13 for a show of hands.

14 The Chairman: You want a show of hands of those for you?

15 Senator Chafee: Yes. Can I vote by proxy for Senator  
16 Danforth?

17 The Chairman: Yes, put up both hands.

18 Senator Chafee: All right. I move my amendment, that it  
19 include the employer's contribution.

20 (Show of hands.)

21 Senator Grassley: If we are going to vote proxies, we  
22 ought to have a roll call.

23 The Chairman: Go ahead. That is fine.

24 The Clerk: Mr. Packwood?

25 Senator Packwood: No.

1 The Clerk: Mr. Roth?  
2 (No response.)  
3 The Clerk: Mr. Danforth?  
4 Senator Chafee: Aye by proxy.  
5 The Clerk: Mr. Chafee?  
6 Senator Chafee: Aye.  
7 The Clerk: Mr. Heinz?  
8 (No response.)  
9 The Clerk: Mr. Wallop?  
10 The Chairman: No by proxy.  
11 The Clerk: Mr. Durenberger?  
12 (No response.)  
13 The Clerk: Mr. Armstrong?  
14 Senator Armstrong: Aye.  
15 The Clerk: Mr. Symms?  
16 Senator Armstrong: Aye by proxy.  
17 The Clerk: Mr. Grassley?  
18 Senator Grassley: No.  
19 The Clerk: Mr. Long?  
20 Senator Bentsen: No by proxy.  
21 The Clerk: Mr. Bentsen?  
22 Senator Bentsen: No.  
23 The Clerk: Mr. Matsunaga?  
24 Senator Matsunaga: Aye.  
25 The Clerk: Mr. Moynihan?

1 Senator Moynihan: Aye.

2 The Clerk: Mr. Baucus?

3 (No response.)

4 The Clerk: Mr. Boren?

5 Senator Mitchell: No by proxy.

6 The Clerk: Mr. Bradley?

7 Senator Bradley: No.

8 The Clerk: Mr. Mitchell?

9 Senator Mitchell: No.

10 The Clerk: Mr. Pryor?

11 Senator Pryor: No.

12 The Clerk: Mr. Chairman?

13 The Chairman: No. There are others and I do not know  
14 how they might vote. I have a general proxy but I do not think  
15 it includes this amendment so I did not vote those. I wasn't  
16 even certain about Senator Wallop.

17 The nays are nine and the ayes are six. The other members  
18 may be recorded.

19 Senator Grassley: That amendment has lost?

20 The Chairman: Yes.

21 Senator Grassley: Now we have the package as it was  
22 originally proposed but with the interest added to it?

23 The Chairman: That is correct.

24 Senator Grassley: Every other provision of our amendment  
25 in the package stays as is?

1 The Chairman: Yes. As I understand it, Carolyn, does that  
2 take care of the items we tried to work out yesterday?

3 Ms. Weaver: It takes care of the benefit provisions.  
4 There are a couple of changes in the tax area that Rod will  
5 explain.

6 The Chairman: I wonder if we might just do these before  
7 we leave for lunch? I do not think there is any dispute in  
8 these areas. I am not certain.

9 Mr. DeArment: The principal area is in the tax that we  
10 changed, number 14. This deals with the self-employed tax rate.

11 As you recall, we are increasing the self-employed OASDHI  
12 taxes so that it will be comparable with the combined employee/  
13 employer rate and provide a credit. The change is in the area  
14 of the credit. The credit was increased slightly and the  
15 pattern of the credit was changed somewhat so that in 1984,  
16 there would be a 2.9 percent -- credit measured against the  
17 self-employed income of 2.9 percent; in 1985, 2.5; in 1986,  
18 2.2; in 1987, 2.1, and beginning in 1990, it would be 2.3.

19 That is slightly more costly than the pattern that we had  
20 yesterday.

21 The Chairman: About \$3 billion?

22 Mr. DeArment: Yes, it is a total of about \$2.6 billion  
23 rather than the proposal yesterday.

24 Senator Armstrong: We are looking at item 14?

25 Mr. DeArment: That is correct.

1 Senator Armstrong: I change 18.5 to be what?

2 Mr. DeArment: I guess I do not see an 18.5.

3 Senator Armstrong: I am looking at the markup document,  
4 item 14.

5 Mr. DeArment: I'm sorry. That 18.5 would not change at  
6 all, Senator. What we are dealing with is something that  
7 has no trust fund impact. It has an income tax impact. We  
8 are talking about the increase, how much money we would reduce  
9 income taxes.

10 Senator Armstrong: To look at it from that perspective,  
11 to get \$18.5 billion into the trust fund, how much are we  
12 giving away from the general fund?

13 Mr. DeArment: Actually it is more appropriate to look  
14 at the \$26.8, because that is the amount that goes into both  
15 the pension fund and the HI. In order to get the \$26.8, we  
16 would be giving an income tax credit of \$13.7 billion. It's  
17 a little more than half. That is the appropriate comparison.

18 Senator Matsunaga: Am I correct in my understanding that  
19 this compromise was worked up with the National Board of Realtors  
20 and they are satisfied?

21 Mr. DeArment: We talked with them and we understand that  
22 given the latitude here, this is an acceptable compromise and  
23 they like this approach.

24 Senator Boren: I know the people in agriculture have  
25 contacted me about the problem that they were not paying any



1 income taxes. They are all going broke. The self employment  
2 tax will go up on them. Does this have any refundable tax  
3 credit provision?

4 Mr. DeArment: It is not a refundable tax credit but as it  
5 functions, as I understand it, it would be available to someone  
6 who has no income tax liability because it would be --

7 Senator Boren: If I am a farmer and had no income tax  
8 liability, how would that work?

9 Mr. Weiss: It simply is a credit against their self  
10 employment tax.

11 Mr. DeArment: That credit is made up by general revenue.

12 Mr. Weiss: Right. That does not affect the trust fund's  
13 receipts.

14 Senator Boren: If I owe no income tax --

15 Mr. Weiss: If you owe no self employment tax, you would  
16 not get it. Whether or not you owed income tax really would  
17 not matter. It is simply a reduction in your self employment  
18 tax.

19 Senator Boren: I don't know if I understand this. If  
20 I have zero income this year, would I be paying self employment--  
21 I would not be paying any? I would have no income.

22 Mr. DeArment: No, you would not be paying any.

23 Senator Boren: Say that I had a certain amount of income  
24 but I do not owe tax. Is that a possibility? I have no income  
25 tax liability but I have income on which I would pay?

1 Mr. Weiss: Have to pay self employment tax?

2 Senator Boren: Yes.

3 Mr. Weiss: Yes, that is absolutely right.

4 Senator Boren: What happens? Do I still have to pay  
5 the self employment tax or do I get a refundable credit of some  
6 kind?

7 Mr. Weiss: In effect there would be a gross rate of  
8 self employment tax of 14 percent and then a credit against  
9 that of 2.9 percent for a net rate of 11.1 percent. You would  
10 simply pay a tax equal to 11.1 percent of your self employment  
11 income, instead of 14 percent.

12 Senator Boren: Which is the same as I would pay now?

13 Mr. Weiss: It is still somewhat higher than you would  
14 pay --

15 Senator Boren: The problem I am thinking of is for the  
16 person who is --

17 Mr. DeArment: The credit does not completely offset the  
18 increase in taxes. It would partially offset that, even for  
19 the person with no income tax liability.

20 Senator Boren: Let's say I am a person who is paying  
21 self employment tax and I have a taxable income for income tax  
22 purposes of \$100,000. That's person A. Person B is someone  
23 who owes liability under the self employment tax but who has  
24 zero income tax liability this year.

25 Will those two people be treated the same in terms of the

1 self employment tax under this proposal?

2 Mr. DeArment: That is correct. They would be treated the  
3 same in terms of their ability to get this relief.

4 Senator Boren: Get the relief for credit.

5 The Chairman: If there are no other questions in that  
6 area, I know Senator Mitchell had a question he wanted to  
7 raise about Federal judges which I failed to raise earlier.

8 Senator Pryor: I have one brief question after Senator  
9 Mitchell.

10 The Chairman: I think we will adjourn after that for lunch.

11 Senator Mitchell: Mr. Chairman, reading the statement  
12 which we are working from now, the working document, it is  
13 unclear whether Federal judges are included in the proposed  
14 Finance Committee proposal. It does not mention them although  
15 they were included in action by the Ways and Means Committee.

16 My first question is, do we propose in the legislation  
17 now before us to include Federal judges as did the Ways and  
18 Means Committee or are they excluded?

19 Ms. Weaver: They are included as new hires, when they  
20 are newly hired after 1983.

21 Senator Mitchell: They are not mentioned in the Finance  
22 Committee proposal. That is the reason for my first question.

23 Ms. Weaver: That is different from the Ways and Means  
24 Committee, which covered them on a current basis.

25 Senator Mitchell: Yes. I understand that.

1 Even beyond the question of new hires though, the proposal  
2 raises the problem which I think the Committee should consider,  
3 we may be acting in a manner inconsistent really with our  
4 national interest in terms of the effective utilization of  
5 the judicial system.

6 The House bill includes in addition to making them new  
7 hires, a provision that amends the Social Security Act so  
8 that a retired Federal judge performing judicial services  
9 would be deemed to receive outside earnings in the amount of  
10 those wages. Under the law now, a Federal judge retires at  
11 either age 65 or 70, they are called retired but they actually  
12 continue to work and contribute significantly meeting the  
13 backload of Federal cases. That is very common in the judiciary.

14 In that case, retired Federal judges would not be entitled  
15 to receive any Social Security benefits between the ages of  
16 65 and 70, if they perform judicial duties.

17 The House bill, and also unclear to me but I guess we  
18 are including it in our bill, would amend the Internal Revenue  
19 Code to provide that retired Federal judges performing judicial  
20 services will be receiving wages subject to Social Security.

21 They are already entitled to their full pay. Under this  
22 proposal, at least in the Ways and Means and I am not sure if  
23 it is in ours, if they work, they would be deemed to be  
24 receiving that as wages subject to Social Security tax. That  
25 means in effect that they would be paying the maximum amount

1 in order to perform a service for which they are actually  
2 receiving no additional compensation, thereby creating a  
3 significant disincentive to utilizing the services of Federal  
4 judges in retired status. The effect will be a far greater  
5 cost to our nation because if we eliminated that service,  
6 there would have to be an enormous increase in the number of  
7 active Federal judges to take up that slack.

8 Ms. Weaver: That is not included in this package.

9 Senator Mitchell: She may have answered the question  
10 already. We have taken care of that?

11 Ms. Weaver: We have not included those provisions to  
12 alter the retirement earnings with regard to Federal judges  
13 as the House did.

14 Senator Mitchell: We would leave it in the current status?

15 Ms. Weaver: That is the way this bill would be drafted.

16 Senator Moynihan: We would consider their working after  
17 the retirement age as volunteer work for which there is in  
18 fact no compensation, since in fact there is no compensation.

19 Senator Mitchell: That is the way they are treated by  
20 I.R.S. We are continuing the current status so we are not  
21 causing the problem with respect to the disincentive for active  
22 retired judges?

23 Ms. Weaver: That is correct.

24 Senator Mitchell: Thank you.

25 Senator Moynihan: Let's remember that in Conference.

1 The Chairman: Senator Pryor?

2 Senator Pryor: Mr. Chairman, I just have one question.

3 Item 26 is a little bit troublesome to me. I think this  
4 language -- I am not certain exactly how this was included.

5 "Nothing in this act shall reduce the accrued entitlements  
6 to future benefits under the federal retirement system of  
7 current and retired Federal employees and their families."

8 The Chairman: That is Senator Moynihan's.

9 Senator Pryor: Is this Senator Moynihan's language?  
10 What exactly does this mean?

11 Senator Moynihan: This means it is a statement obviously  
12 of intention and it obviously cannot bind future Congresses,  
13 but it is a statement that we have considered the present  
14 arrangements, retirement arrangements of present Federal  
15 employees as contracts to be met and to be kept.

16 Senator Pryor: I am just thinking if I were a postman  
17 somewhere and I read this, "nothing in this act..." that I  
18 might infer from that that something else was about to come  
19 down the track that may reduce benefits. I do not know. Maybe  
20 I am reading too much into it.

21 The Chairman: I think the problem was the question of  
22 jurisdiction again.

23 Senator Pryor: I just wondered if this was absolutely  
24 necessary to include this.

25 Senator Moynihan: It is not absolutely necessary. I

1 think it is desirable. It states our intentions and purposes.

2 Senator Pryor: I see. I think right now I probably  
3 won't make a point of it. The language was a little bit  
4 worrisome.

5 Mr. DeArment: We did discuss this with the staff of  
6 the appropriate subcommittee and committee of the Government  
7 Affairs Committee and they were not troubled by the language.  
8 We are aware of the other committee's jurisdiction and did not  
9 want to tread on them.

10 Senator Pryor: I might reserve the right to come back  
11 there a little later.

12 The Chairman: We can do that. Was there one other tax  
13 change?

14 Mr. DeArment: There is currently some discussion of the  
15 403(b) area.

16 The Chairman: That is being discussed behind me. I think  
17 they are doing pretty well back there.

18 As I understand it, that is near resolution. I am going  
19 to address that during the noon area. Is that true?

20 Senator Moynihan: That is my understanding, Mr. Chairman.

21 The Chairman: When we come back, and let's make it 2:00  
22 p.m. since it is now 1:50 p.m., Senator Armstrong has asked  
23 to be recognized.

24 Senator Bradley: Mr. Chairman, I would then have two  
25 amendments.

1           The Chairman: I will recognize Senator Armstrong and  
2 then Senator Bradley.

3           (Whereupon, at 12:50 p.m., the Committee recessed, to  
4 reconvene this same day, at 2:00 p.m.)

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## 1 AFTERNOON SESSION

2 [4:00 p.m.]

3 Senator Packwood: (presiding) All those in favor of  
4 reporting the bill, say aye.

5 [A chorus of ayes]

6 [Laughter]

7 Senator Packwood: Bob Dole called me from the floor and  
8 asked if I would preside while he is temporarily occupied on  
9 another matter, which he may be temporarily occupied on for a  
10 significant length of time. But I think we may have reached  
11 agreement on Section 403(b).

12 Rod, do you and Rich want to explain what I hope is the  
13 agreement?

14 Mr. Belos: Senator, I would be glad to. Item No. 15 as  
15 it is in front of you would include all amounts deferred  
16 under Section 403(b), tax-deferred annuity in the FICA base.  
17 That would be revised to reflect the holding of Revenue  
18 Ruling 65-208. That revenue ruling merely says that if there  
19 is a salary reduction agreement and income is deferred under  
20 that salary reduction agreement, the amount deferred would  
21 still be includable in the FICA base. That's all it does.  
22 And that would replace the current position, which would  
23 include in the FICA base all 403(b) annuity-deferred amounts.

24 Senator Moynihan: Mr. Chairman.

25 Senator Packwood: Senator Moynihan.

1           Senator Moynihan: May I say that I think this is an  
2 important step we are taking. It is very important. Senator  
3 Benson, who raised it yesterday, brought it to our attention,  
4 and I think it would be well for the record -- and if I am  
5 misspeaking, I hope I will be corrected -- that without  
6 intending it, we were, for example, going to include in the  
7 FICA base the pension sums contributed by colleges,  
8 universities and other such institutions and their employees  
9 under the Teachers' Insurance and Annuity Program, which has  
10 been in place now for about 60 years and is one of the most  
11 important pension systems of its kind in the country.

12           It would affect in a very devastating way every college  
13 and university in the country. These representatives of the  
14 various TIAA and the various colleges, universities and many  
15 hospitals and places like this participate in this.

16           They have lived in perfect accord under Revenue Ruling  
17 65-203. That has been there for 18 years. They have had no  
18 difficulty with it. And if our legislation leaves that, I  
19 think it is our purpose to in effect write Revenue Ruling  
20 65-208 into this bill. Is that not correct?

21           Mr. Belos: That is correct, Senator.

22           Senator Moynihan: That language is now being drafted.  
23 The principle is agreed upon and understood. I hope the  
24 committee can accept that. I am sure the committee can. I  
25 know the Chairman has done so, Senator Dole, and --

1           Senator Packwood: I think the committee is ready to  
2 accept it.

3           Senator Moynihan: I move its adoption.

4           Senator Packwood: Without objection. I am not sure how  
5 much there is left that is that easy. We met earlier, as we  
6 are operating on the whole bill, in accepting it, unless  
7 someone wants to amend parts of it out. The part they want  
8 to amend has some degree of controversy here and there, and I  
9 am not sure Pat and I have any objections left to the bulk of  
10 the bill.

11          Senator Moynihan: [Nods negatively]

12          Senator Packwood: Rod?

13          Mr. DeArment: Senator Armstrong will be in shortly. He  
14 has a number of amendments he wishes to raise, and there are  
15 several other members in the back of the room here.

16          Senator Packwood: In fairness to Bill, he does have a  
17 great variety of amendments. My hunch is he will not want to  
18 present them, and they are serious amendments and well  
19 thought out, to just two or three members, but if we can get  
20 five or six here to listen -- I would not want to vote on  
21 them. I don't know which proxies Bob has and I am not going  
22 going to exercise his proxie, but if Bill can get enough of  
23 us around to listen, we can occupy ourselves for an hour or  
24 two in doing his amendments.

25          Senator Moynihan: Do you mind if I run upstairs for a

1 few minutes?

2 Senator Packwood: On the Budget Committee?

3 [Recess.]

4 Senator Packwood: The committee will come back to order.

5 Senator Heinz.

6 Senator Heinz: Mr. Chairman, thank you very much.

7 One of the recommendations of the National Commission on  
8 Social Security that was supported by a majority of the  
9 Commission was that Social Security should be considered as  
10 separate from and should be separated from the unified  
11 budget. What I would like to do is get agreement on how to  
12 do it.

13 There are two issues on how to do it. One to which we  
14 must be sensitive is, if we actually put it into the bill  
15 that we have before us that we report, we would be guilty or  
16 at least be accused of being guilty of trespassing on someone  
17 else's turf, the Budget Committee's turf. So whatever it is  
18 we agree upon, I would like from the outset that it be  
19 understood that we would offer it as a committee amendment on  
20 the floor so that no one will accuse the Senate Finance  
21 Committee of trespassing on the turf of the Budget Committee  
22 or some other committee.

23 I think that would probably be agreeable to everyone, Mr.  
24 Chairman.

25 Senator Packwood: I can't speak for the Chairman, but it

1 seems to me we have no alternative if we are to avoid the  
2 turf of the Budget Committee.

3 Senator Heinz: As to the specifics, there really are  
4 three things that I think we need to address. The first --  
5 and this is something the Budget Committee people, I know,  
6 favor -- is just as soon as possible, namely, effective  
7 October 1, 1983, remove the operation for the OASI, DI, HI  
8 and SMI trust funds from functions 550 and 600 of the budget  
9 and establish the combined operations of these trust funds as  
10 a separate function category.

11 I don't know of anyone who disagrees with that. Hearing  
12 no objection --

13 Senator Packwood: You are not talking about actually  
14 taking them out of the unified budget. You are talking about  
15 just making a category.

16 Senator Heinz: The first thing we are doing is putting  
17 them in a separate category. That is the first thing. And  
18 then I have two other things.

19 The second proposition, which I believe is actually in  
20 the description of the legislation before us, is that  
21 effective October 1, 1988 to exclude the operation of the  
22 OASI, DI and HI trust funds from the budget of the United  
23 States Government as submitted by the President and from the  
24 congressional budget.

25 Now, my understanding is that is what is in our committee

1 print. Bob, is that correct? Is that what we have in the  
2 print?

3 Mr. Meyers: Yes, that is correct.

4 Senator Heinz: The third proposition --

5 Senator Armstrong: Is the second open for discussion?

6 Senator Heinz: Yes, but you might want to consider the  
7 last two together.

8 Senator Armstrong: Okay.

9 Senator Heinz: They are separable, but I think you  
10 particularly will want to consider them together. If we only  
11 agreed to the second proposition, the one I just stated, we  
12 would still be subjecting, as I understand it, the Social  
13 Security trust fund to the reconciliation process as I  
14 understand the Budget Act.

15 Frankly, I do not want to see the Old Age and  
16 Survivors Program or the Disability Program subject to the  
17 reconciliation process. Otherwise, the exercise that we are  
18 going through to set the trust funds apart from the unified  
19 budget will really be an exercise in futility.

20 I think it is terribly important that Congress look at  
21 this program, look at it hard but not look at it on a  
22 one-year, two-year or three-year basis and try to deal with  
23 it piecemeal. We have tried that before, and every time we  
24 have tried it, everyone has been badly burned and we have run  
25 up against the most serious kinds of time limits and problems.

1           So we end up dealing with what we are dealing with today,  
2 the Social Security compromise from the Commission with very  
3 little margin in terms of time for error. So the next part  
4 that I would propose is to exempt, effective October 1, 1988,  
5 the operations of the OASI and DI trust funds from any  
6 general budget limitation on expenditures or net lending  
7 budget outlays imposed by the Congressional Budget and  
8 Impoundment Control Act of 1974 and from all other provisions  
9 of the Act with the exception of Title 10 relating to  
10 impoundment control

11           It is my understanding that would effectively free the  
12 OASI and DI programs from reconciliation. It would not,  
13 because I have not included it, free the health insurance,  
14 Medicare, from reconciliation. It wouldn't free HI or SMI.  
15 Those are not included in the proposition. I think those  
16 have obviously unique problems. They are quite different in  
17 many respects from Social Security. They are affected by a  
18 lot of forces that have nothing to do with the kinds of  
19 forces that drive Social Security.

20           For example, health care costs rise at a rate much more  
21 rapid than the increase of inflation generally. Two and a  
22 half times is what is expected for the next 10 or 15 years.  
23 That is one of the reasons we have some of our problems in  
24 the Medicare program expected later this decade, because of  
25 the unique characteristics of it.

1           So I would hope the committee would agree with this.  
2   Obviously, not everyone is here, and any decisions we make  
3   will not bind the committee at this point. I know my friend  
4   Bill Armstrong has a different point of view. We have talked  
5   about this on many occasions. I respect his point of view.

6           Before I get into a debate with him, I want to check with  
7   the staff to make sure that what I have proposed indeed does  
8   what I propose it to do.

9           Mr. DeArment: I think it does, Senator. It would have  
10   that effect of removing it from reconciliation, and the idea  
11   of having a separate committee amendment would, if a point of  
12   order is raised under the Budget Act, the Budget Act requires  
13   that any amendment or bill which changes the budget process  
14   must be reported out of the Budget Committee. It is a  
15   protection of the Budget Committee's jurisdiction. That way  
16   we can deal with that matter separately, and if that point of  
17   order is raised, it would not taint the entire bill.

18          I would call to the committee's attention the views of  
19   Senator Domenici. He has written to Senator Dole. He has a  
20   letter. As you might imagine, he opposes this effort to  
21   remove it from the unified budget.

22          Senator Packwood: What? I couldn't hear you.

23          Mr. DeArment: He opposes this. I can have copies of the  
24   letter available to the committee.

25          Senator Heinz: Mr. Meyers, as you understand what the



1 Commission recommended, not everyone was for it, admittedly,  
2 would you agree that what the majority of the members of the  
3 Commission agreed to was basically what I proposed?

4 Mr. Meyers: Yes, I believe that was the intent of the  
5 majority of the National Commission that voted for this, to  
6 remove it completely from the budget process and the  
7 reconciliation process. In other words, have it be a  
8 self-contained sort of social insurance system.

9 Senator Heinz: We have some representatives of the  
10 Social Security Administration here. Mr. Simmons, could you  
11 tell us how the Social Security Administration would like to  
12 see this handled?

13 Mr. Simmons: We looked at the recommendation of the  
14 Commission, and we are making a preparation to do the kind of  
15 study that is coming out of the House side, the House bill  
16 that would look at the whole idea of removing Social Security  
17 as an agency from the government and make it an independent  
18 agency. On this issue, this we would view as a congressional  
19 prerogative. We were pleased with the House bill which makes  
20 a separate display so that the point can be better made to  
21 the taxpayer what is going on.

22 Whether or not you would take it out of reconciliation, I  
23 don't know. You are talking about a third of the national  
24 budget, and forever after the recordbook would have  
25 asterisks, why the budget suddenly shrank by a third after

1 all those years.

2 You have some practical considerations like that. From  
3 the point of view of public confidence in the system,  
4 displaying it separately reassures people the money is not  
5 being used to finance wars or whatever it is. There are a  
6 lot of myths about how the money is used, but from a  
7 bookkeeping view or anything else, I don't think it has any  
8 real impact whatsoever.

9 Senator Heinz: And as I understand it, you feel it would  
10 be healthier for the system and safer for the Social Security  
11 System if Social Security were treated as an agency  
12 independently, and secondly, that its accounts were treated  
13 independently. Is that correct?

14 Mr. Simmons: The least we would like to see would be the  
15 accounts shown separately so that at some point in the  
16 budget, which is always a confusing document even to people  
17 who pass on the budget, let alone those who live with it, if  
18 that could be shown as a unit and all of those numbers up and  
19 down and so forth are understood, whether or not it goes back  
20 into reconciliation, there is an issue that OMB would address  
21 and, of course, the Budget Committees would address, and that  
22 is not in our area of expertise.

23 Senator Heinz: Now, one of the real concerns that I have  
24 is that, assuming we enact this legislation sometime in the  
25 not too distant future and that it does do the kind of job

1 that we think it is going to do, the trust funds, the Old Age  
2 and Survivors and Disability trust funds, are going to build  
3 up some very considerable balances in the 1990s.

4 Mr. Simmons: That's correct.

5 Senator Heinz: If Social Security was part of the the  
6 unified budget, if we left things the way they were, would  
7 you anticipate that Congress might be more tempted to expand  
8 spending programs in other areas because the budget looked,  
9 if you will, favorably balanced?

10 Mr. Simmons: I would never presume to guess what the  
11 Congress would do, but that has happened in the past.

12 Senator Heinz: That has been my experience.

13 Mr. Simmons: One of the things that I think displaying  
14 it separately does is when all of these numbers are being  
15 bandied about in the press during the normal course of the  
16 budget cycle, if those numbers have to continually be  
17 referred to separately even though they are under the  
18 reconciliation process, at least that would tone down some of  
19 the idea that we are in a surplus now.

20 I am not an economist, but the bottom line of the budget  
21 argument is always how much are you taking out of the economy  
22 and how much are you spending back at it, and no matter how  
23 you cut the cake, they are the same dollars coming from the  
24 same pocket.

25 Senator Heinz: Those dollars won't change, I agree with

1 you, but it would seem to me unless we do separate the two  
2 there will be that tendency for Congress to do what it so  
3 often has done in the past, which is any time our finances  
4 seem to look good in the budget presented, we have this  
5 tendency never to say no to bright people with good ideas.

6 The result is we tend to get a budget that grows terribly  
7 fast.

8 Senator Packwood: Bill, any comments?

9 Senator Armstrong: Mr. Chairman, is this before us for  
10 discussion, for action? What is its status?

11 Senator Packwood: It is before us for discussion. We  
12 won't take any action today. We are not going to take any  
13 action right now. I shouldn't say today. I don't know what  
14 the Chairman's plans are.

15 Senator Armstrong: I don't want to belabor the point. I  
16 just want to be sure I understand. I think I will wait till  
17 Senator Heinz is free, and then I would like to answer one  
18 question for clarification.

19 If the Senator would yield to me, my understanding is you  
20 have advocated both a separate agency and a change in the  
21 budgetting function, but as I perceive the amendment now  
22 before us, or at least that is being discussed, it only  
23 relates to the three budgetary issues you have mentioned.

24 Senator Heinz: That is correct.

25 Senator Armstrong: Is it your view, Senator, that this

1 is within the jurisdiction of the Senate Finance Committee?

2 Senator Heinz: I don't know if the Senator heard me  
3 earlier on this point. I believe in order to avoid getting  
4 into the business of some other committee, we must handle  
5 this as a committee amendment on the floor. What I have  
6 proposed is whatever it is we agree to be handled as a  
7 committee amendment so the entire Senate can address it now.

8 Senator Armstrong: I did hear that. My question is does  
9 the Senator believe it is within the jurisdiction of this  
10 committee?

11 Senator Heinz: I believe this is properly the work of  
12 the National Commission on Social Security, and the  
13 Commission, on which we both served, did address this. And  
14 as an advocate for the work of that Commission, it is my  
15 belief we should handle it consistent with the Senate rules.

16 Now, the Senate rules would subject me to a point of  
17 order if I attempted to amend S.1 or Senate S.1 and report  
18 that to the floor, but I do think we are within our rights.  
19 This committee is within its rights to report a committee  
20 amendment that can be discussed by the entire Senate  
21 embodying our recommendations.

22 Senator Armstrong: I am a little lost. My question  
23 wasn't really to that but simply whether or not the question  
24 of the display of this in the budget, in the congressional  
25 budget, the handling of it in the unified budget submitted by

1 the Executive Branch, and the third issue of the budget  
2 reconciliation procedures, my question was whether that was  
3 within the jurisdiction of the Finance Committee.

4 Senator Heinz: I think as members of the Finance -- this  
5 is my answer to the Senator. I think as members of the  
6 Finance Committee we are free to take whatever positions we  
7 want. We are United States senators first. We happen to be  
8 under the organizational scheme of things members of the  
9 Finance Committee.

10 What I am proposing is as members of the Finance  
11 Committee, in effect we take a position on an issue, and that  
12 issue is as I have described, and that as members of the  
13 Finance Committee we raise that issue in the proper forum,  
14 which is on the floor by way of a committee amendment.

15 I think that is perfectly proper.

16 Senator Packwood: Let me ask it another way if I can  
17 because I think I see what Bill is driving at. Clearly, I  
18 think what John says is probably legally correct. Anyone can  
19 offer anything they want on the Senate floor. You are asking  
20 for a resolution by this committee, and I don't mean it in a  
21 technical sense with a capital "R," a resolution of this  
22 issue, a vote within the committee, members indicating that  
23 if they support it or oppose it, it will not be in our bill,  
24 it will not be in our conference report. But you will then  
25 offer it on the floor. You may offer it even if the

1 committee doesn't go along with it, but you would like to  
2 have the authority of the committee recommendation behind it.

3 Senator Heinz: I would indeed like to have it offered as  
4 a committee amendment with all of the support that that  
5 implies.

6 Senator Armstrong: Mr. Chairman, my desire is not to  
7 thwart the Senator's right to offer this on the floor, but I  
8 do not think it may be properly offered as a committee  
9 amendment. I direct the attention of the committee to the  
10 standing rules of the Senate, Rule 15.5, and I quote: "It  
11 shall not be in order to consider any proposed committee  
12 amendment (other than a technical, clerical or conforming  
13 amendment) which contains any significant matter not within  
14 the jurisdiction of the committee proposing such an  
15 amendment."

16 Aside from the rule, that rule is more than a mere  
17 technicality, it is a common sense procedure by which the  
18 Senate manages its business, and the issues which the Senator  
19 has raised, and I do agree with at least one of the three  
20 proposals he has made and I might agree to a second, but I  
21 would not agree, partly because I am a member of the Budget  
22 Committee but more because I am a senator, that it is not  
23 wise for the Senate Finance Committee to propose amendments  
24 which deal with the jurisdiction of other committees, whether  
25 it is the Budget Committee, as in the case of this proposal,

1 or the Government Operations Committee, of which I also  
2 happen to be a member, with respect to the breaking out of  
3 SSA as a separate agency.

4 These are both propositions worthy of serious  
5 consideration, but I think not of a committee amendment of  
6 this body. So my suggestion would be whatever action we  
7 take, it not only be separated from this bill but it not be  
8 in the form of a committee amendment.

9 Of course, the Senator would still be able to offer it on  
10 the floor, but not, I think, as a committee amendment.

11 Senator Heinz: I don't know how we resolve that  
12 parliamentary dispute in the committee.

13 Senator Armstrong: It is no dispute. If the committee  
14 wants to vote to submit a committee amendment when it gets to  
15 the floor, if someone chooses to make a point of order, the  
16 point of order will be --

17 Senator Packwood: Sustained, I think.

18 Senator Armstrong: I believe it would be sustained. I  
19 have explored the matter with the parliamentarian with  
20 respect to other similar issues, although I haven't raised it  
21 with respect to this one.

22 Senator Heinz: The Senator raises a good point, an  
23 interesting point and one I will do some research on. Thank  
24 you for raising it.

25 Senator Armstrong: It may be, I say to the Senator, that



1 it would be better service to the proposal to consider at  
2 least introducing this measure and asking the Budget  
3 Committee to have a hearing on the budgetary portion of it,  
4 and the Government Ops Committee to have a hearing on the  
5 Government Ops portion of it.

6 Frankly, I sense there is a lot of support for this  
7 proposal, and it is not my desire to frustrate the will of  
8 the Senate by being overly insistent on the procedural rules  
9 except to the extent it is necessary to give everyone a  
10 chance to understand it and really decide they want to do  
11 it. Then if they do, that is fine.

12 Senator Heinz: I think the Senator's points are well  
13 taken. I will check with the parliamentarian because it  
14 obviously would not be productive for us to proceed with an  
15 amendment that might be subject to a point of order. That  
16 would frustrate everyone, I am sure.

17 Senator Armstrong: The parliamentarian would like that.

18 Senator Heinz: The parliamentarian would enjoy that. It  
19 helps pay his salary.

20 Let me ask staff if they have checked any of this with  
21 the parliamentarian.

22 Mr. DeArment: Senator Heinz, we have explored similar  
23 issues. One in recent memory where this committee reported  
24 out matters was in TEFRA. Senator Packwood remembers that  
25 particular matter, that we reported out the spending portion

1 under the Aviation Trust Fund. There is a standing rule of  
2 the Senate.

3 Senator Packwood: That was under a peculiar arrangement,  
4 however.

5 Mr. DeArment: Yes, it was a peculiar arrangement.

6 Senator Packwood: Where a majority of the Commerce  
7 Committee agreed to let the Finance Committee do it. It  
8 acquiesced ahead of time with a letter signed by a majority  
9 of the committee.

10 Mr. DeArment: And in fact that committee amendment, I  
11 believe, was never acted upon by the full Senate. The  
12 parliamentarian is likely to rule that this violates, what is  
13 it, Rule 23?

14 Senator Armstrong: No, I believe it is 55.

15 Mr. DeArment: At any rate --

16 Senator Armstrong: 55.

17 Mr. DeArment: He is likely to rule this is a matter  
18 within the Budget Committee's jurisdiction and must be  
19 referred to the Budget Committee. That is the reason it  
20 seemed wise to have it as a separate amendment rather than an  
21 amendment to the bill if the committee chose to do it at all.

22 Senator Heinz: If it is a separate amendment reported by  
23 the committee, is it subject to a point of order?

24 Mr. DeArment: Yes. As I understand it, any amendment or  
25 bill.

1           Senator Heinz: Then what we can try to do is get a  
2 sense, is have a sense of the committee amendment which will  
3 put the committee on record as to whether or not it supports  
4 it. Obviously, we don't want to do things that the committee  
5 doesn't support. I would think that would be --

6           Mr. DeArment: That would not have the same infirmity, a  
7 sense of the committee resolution which could be attached to  
8 the bill laying the groundwork for a floor amendment.

9           Senator Packwood: Jack, do you have a question?

10          Senator Grassley: Yes, Mr. Chairman.

11          Is it possible under the motion put forward by the  
12 Senator from Pennsylvania that it can be divided so we can  
13 vote on removing Social Security from the unified budget and  
14 yet still have it subject to the reconciliation process? If  
15 that is not possible, I would like to offer an amendment to  
16 the amendment to make it possible.

17          Senator Heinz: [Nods affirmatively]

18          Senator Packwood: He indicated it is severable and would  
19 consider it, as I recall, but the process he is following --  
20 you came in as we were talking -- is he asked us to present  
21 whatever it is we present, whether you separate it or not as  
22 a committee amendment, not actually a part of the report by a  
23 committee amendment to be offered on the floor so this bill  
24 doesn't come out of the Finance Committee trampling on the  
25 jurisdiction of the Budget Committee.

1           That is roughly where we are right now.

2           Senator Grassley: Does that particular procedure here as  
3 a committee amendment, then, preclude on the Senate floor  
4 voting on them as separate issues?

5           Senator Heinz: No. I think they are severable at any  
6 point at any time, I say to my good friend.

7           Senator Grassley: I would like to speak in support that  
8 they be divided here so that we have a separate sense of the  
9 Finance Committee on the separate issues, and I would like to  
10 speak in support of removing it from the unified budget.

11           But the reason I am opposed to not having it separate  
12 from the reconciliation process is because if this compromise  
13 goes through as it came out of the Commission, then we still  
14 have the possibility of interfund borrowing as one thing that  
15 we ought to be able to address every year through the  
16 reconciliation process, and secondly because of what is  
17 referred to as normalized tax transfers, still somewhat of a  
18 gimmick for seeing that general revenue supports the system.

19           I think as long as we still have the security or the  
20 soundness of our Social Security System based upon those two  
21 things, then obviously there is plenty of reason to have it  
22 subject to the reconciliation process.

23           Senator Heinz: What I will do, then, I will offer, when  
24 we get down to our real work, a sense of the committee  
25 resolution that will combine the first two elements, the

1 separation into functions and the separation from the unified  
2 budget. My second sense will be separating it from  
3 reconciliation. That should give the Senator the kind of  
4 division he desires.

5 Senator Moynihan: Will you yield for a question?

6 Senator Packwood: Senator Moynihan.

7 Senator Moynihan: He said separate functions.

8 Senator Heinz: I say, Senator, we have not yet addressed  
9 the issue of Social Security as an independent agency.

10 Senator Moynihan: But you will be getting to that, or we  
11 will?

12 Senator Heinz: I think we can get to it right now  
13 because it is something you are very interested in and I am  
14 interested in.

15 Senator Moynihan: Fine.

16 Let's start, Mr. Chairman, may we?

17 Senator Heinz: The Senator from New York has expressed  
18 an interest which I share in moving Social Security, the  
19 Social Security Administration forward as an independent  
20 agency. There are some problems associated with doing that  
21 and it need not be something we should consider lightly.

22 But the Commission on page 71 of the Commission's report  
23 did indicate that there were a considerable number of  
24 advantages to having Social Security as a separate agency,  
25 not the least of which is it has a large a budget as any

1 other agency in the Federal Government, including the defense  
2 budget.

3 There is also a feeling, I think, that making the agency  
4 separate, separating it from HHS where it is now lodged,  
5 would enhance the perception that Social Security is indeed  
6 independent of politics, as well as some kind of  
7 Machiavellian budget process, and that we could inspire a  
8 good deal more confidence in the program if we had it  
9 separate.

10 What I would propose and what the Senator from New York  
11 would propose would be an implementation study which would be  
12 completed by January 1, 1984. It would be conducted by a  
13 presidential commission of experts widely recognized in the  
14 field of government administration, social insurance and  
15 labor relations, and it would be anticipated that that  
16 commission, following the Commission's recommendation, that  
17 what it recommended would be in place by April 1, 1984.

18 I would be happy to yield to my friend from New York,  
19 with whom I have worked very closely on this bill.

20 Senator Moynihan: The Senator correctly characterizes  
21 the Majority view. I think it would be useful to point out  
22 that, as the Senator from Pennsylvania has said, we go  
23 forward but there is also a sense in which we would be going  
24 backward because the original agency was an independent  
25 agency and worked -- Dr. Meyers could probably tell us, it

1 was a good 16 years or so -- as an independent agency, was it  
2 not?

3 Mr. Meyers: Yes, I think it was about that length of  
4 time.

5 Senator Moynihan: And it worked well. It served  
6 everybody's purposes. I think if the committee can agree to  
7 this measure, the commission that we contemplate should  
8 consider whether the health insurance should be included in  
9 this independent agency as well. It would be my assumption  
10 it should. In any event, we will have to legislate  
11 eventually.

12 But it is the fact that this is a confidence-building  
13 measure. I don't want to be in any way critical, but it  
14 seems to me that as a branch and, up until now, a  
15 not-very-controversial area of the Department of Health,  
16 Education and Welfare, the secretary of that body was always  
17 doing other things much more urgently.

18 We look up and we find that, very frankly, there seems to  
19 be a managerial problem in Social Security that verges on the  
20 critical. I welcome Mr. Simmons' view on it. It is a  
21 question of have you been able to get the data processing  
22 equipment you need and have you had the management resources  
23 you need, which I think you would be more likely to get as an  
24 independent agency than in someone else's budget, and pretty  
25 well in this regard down the line of attention span.

1           Would there be some comment? I think the administration  
2 is probably not for this, but I think the point about the  
3 management of the system is a real one.

4           Mr. Simmons: We do, of course, have incredible  
5 management problems, and very few of them, we think, have to  
6 do with our relationship with any other agency. The biggest  
7 problems we have are the years nothing was done about them,  
8 and we are in a crisis mode now, especially in the computer  
9 system.

10          The biggest problem would be if we are going to do a  
11 study -- and we are doing a study. The House bill calls for  
12 this also. It does not call for implementation right away,  
13 though. The biggest problem, obviously, will be less in the  
14 bureaucratic aspects than in the overlapping programs that we  
15 run that affect others.

16          For example, in Social Security we now have the welfare  
17 program, SSI and AFDC. We even have the refugee programs and  
18 all of these programs relayed across town to another agency  
19 with another program like Medicare and Medicaid.

20          Senator Moynihan: Right.

21          Mr. Simmons: So if you were to create a separate agency,  
22 you are talking about either a wholly income maintenance  
23 operated agency or an agency that would still have to have  
24 very strong bureaucratic and line ties with other agencies  
25 which have these other programs.



1           Senator Moynihan: Which is what a good study should be  
2 designed to do.

3           Mr. Simmons: It would be a major undertaking, and I  
4 suggest that if this were to be done with an eye to  
5 implementing this three months after something is produced by  
6 a Commission -- I think I heard those dates go by -- it would  
7 be January you decided to do it, and in April you do it. You  
8 can't even fire a GS-15 in three months.

9           Senator Moynihan: You can't fire a GS-15 period,  
10 although that is not under oath.

11           [Laughter]

12           Mr. Simmons: To carry it out, as the actuaries say, on  
13 the average over time you can't fire anyone in government.  
14 But I would like to see practical deadlines put on something  
15 like that.

16           Senator Heinz: What would be practical?

17           Mr. Simmons: I am thinking, assuming you are talking  
18 here about programs that are probably 40 percent of the  
19 national budget, I would think if you are going to do a blue  
20 ribbon study, the study would be a relatively easy thing to  
21 do, but the implementation -- you have to go through all of  
22 the committees of Congress, for example.

23           They would want to have hearings and talk about the  
24 implications of this and all of this because we report to  
25 eight or nine committees on both sides of the Hill. So you

1 have a lot of practical considerations like that, and I would  
2 think from a practical point of view the decision period --

3 Senator Heinz: Would a year be sufficient?

4 Mr. Simmons: Probably a year in order to make sure that  
5 decisions made by the Congress during that time are feasible.

6 Senator Moynihan: Then we just change the language to  
7 January 1, 1985.

8 Senator Packwood: Further comment?

9 [No response]

10 Senator Packwood: Let me tell you what I have asked. I  
11 have asked to see if we can get Bob back from the floor, if  
12 we can lay aside withholding for a while. We have numerous  
13 other issues on the jobs bill we could take up, and there are  
14 clearly enough people around here to do business today.

15 I would just as soon and I think the Chairman would just  
16 as soon go as far as we can tonight if we can. We have been  
17 operating on a catch-as-catch-can basis with people coming  
18 and going. Senator Boren and Bradley are both prepared to  
19 come back if necessary.

20 So I have asked for the moment for my staff to call both  
21 Bob and Howard and say can we get an agreement to lay aside  
22 withholding, prejudice no one's interest, go on to some other  
23 amendments and see if we can't do some other work here. I  
24 am, frankly, reluctant, although we are allowed to vote with  
25 seven, reluctant to have a bunch of 5-2 or 3-4 votes, leaving

1 the record open, everyone else can vote, and have to reargue  
2 and undo what we have already done.

3 Why don't we take about a five-minute break while we are  
4 making this phone call to see if we can get him back.

5 [Recess]

6 Senator Packwood: Let me make an announcement, if I can.  
7 The Senate has recessed until 10:00 tomorrow. I suspect the  
8 Chairman will be over soon and we are in a position to meet  
9 for a substantial number of hours and finish this this  
10 evening, I hope, although I cannot speak for him. The Senate  
11 has gone out, so we will not be occupied on the floor.

12 [Recess]

13 Senator Packwood: The committee will come to order,  
14 please.

15 What we would like to do until Bob gets here is listen to  
16 Sheila talk, if we might, to prospective reimbursement  
17 because now with the Senate recessed, there is a possibility  
18 we can finish, and this is one of the issues we must face.  
19 So Sheila, if you could start with the explanation. Let me  
20 call the members who are here.

21 Ms. Burke: Senator, you should have in front of you a  
22 document entitled "Explanation of the Administration's  
23 Hospital Prospective Payment System."

24 Senator Packwood: Yes, printed in bold type.

25 Ms. Burke: You should have enclosed in that document an

1 additional document entitled, "The House Ways and Means  
2 Committee Decisions" on that same piece of legislation.

3 Senator Packwood: That is correct.

4 Ms. Burke: That follows numerically the document  
5 presenting both the administration's proposals, and enclosed  
6 and attached are the staff recommendations on each of these  
7 items. So as we go down, you will be able to determine what  
8 Ways and Means has done with respect to those same  
9 provisions.

10 Senator Packwood: Where are the staff recommendations?

11 Ms. Burke: On the far right-hand side, Senator, under  
12 "Recommendations."

13 Senator Packwood: All right, thank you.

14 Ms. Burke: The proposal that was presented to the  
15 committee by the administration and introduced is a proposal  
16 that is designed to move from the current cost-based  
17 reimbursement system under Medicare to a system --

18 Senator Packwood: Let me interrupt again. I am still  
19 confused. In the column on the right-hand side where you  
20 have summary on the left, on the right it says "Similar to  
21 administration proposal." Is that the staff recommendation  
22 column?

23 Ms. Burke: Yes, sir, it is.

24 Senator Packwood: Thank you.

25 Ms. Burke: The first column is the issue. We have

1 broken them down to major issues. The second column is  
2 current law as identified. The third is a description of the  
3 administration proposal. The fourth column, the one to the  
4 far right, are the staff recommendations.

5 Senator Packwood: I am confused. I have only two  
6 columns. All right. You mean in the big chart.

7 Ms. Burke: Yes, sir.

8 Senator Packwood: What about this sheet in here?

9 Ms. Burke: That item should be identified as being the  
10 Ways and Means Committee's decisions, and those are in the  
11 same order as those contained in the book.

12 Senator Packwood: All right, thank you.

13 Ms. Burke: As I indicated, the proposal in general is  
14 designed to move us from a system of cost-based reimbursement  
15 for Medicare to one of prospectively established rates, using  
16 a system referred to as a DRG system, which establishes rates  
17 that represent different diagnosis-related groups for patient  
18 care.

19 The first item on page 2, prospective payment amount, is  
20 that which basically indicates that the Secretary would be  
21 required to determine a prospective payment amount for each  
22 hospital discharge, and those discharges would be categorized  
23 into 467 groups which take into consideration the diagnosis  
24 and the care provided to that particular individual.

25 We would recommend acceptance of that particular

1 proposal, as did the Ways and Means Committee.

2 In addition to the administration's proposal, we would  
3 also suggest a particular item having to do with those  
4 services that are traditionally provided in hospital that are  
5 sometimes under limited circumstances provided on a contract  
6 basis with an outside provider.

7 Under those circumstances, Medicare would pay for those  
8 services under Part B, commonly known as the physician side  
9 of the program. A good example of this would be the Mayo  
10 Clinic that has a hospital it contracts with to provide  
11 services.

12 We would from this point forward prohibit under Part B of  
13 Medicare -- that is, the physician's side of the program --  
14 billings for services provided to in-patients, with the  
15 exception of those limited circumstances that the Secretary  
16 identifies where it would cause particular difficulty to an  
17 institution.

18 In those cases we would recommend that the Secretary be  
19 granted authority to waive the general rules, the prohibition  
20 on payment under Part B for the period of time of the  
21 transition in this piece of legislation, which is three  
22 years, and to make arrangements for those institutions which  
23 accommodate their needs.

24 We would also suggest that if such a waiver were granted  
25 to an institution -- for example, the Mayo Clinic -- at the

1 end of the three-year transition, the Secretary would be able  
2 to provide for such method of payment under Part A, that is,  
3 the hospital side, as is appropriate given the organization  
4 structure.

5 On page 4, Item number 2, the DRG national standard  
6 rate. Under the administration's proposal, the Secretary  
7 would be required to determine a national standard rate per  
8 discharge, that is, a nationwide rate for each of the  
9 discharged. That rate would be basically the product of the  
10 standard cost level for that discharge and a weighting factor  
11 as the Secretary determined to be appropriate.

12 We would accept the administration's proposal to develop  
13 a nationwide standard cost per case by DRG, and in addition  
14 require an establishment of a separate urban and a rural  
15 standard rate on each of those DRGs, both nationally and on a  
16 regional basis, and that regional basis would be based upon  
17 four regions in the country.

18 You will note if you are following the Ways and Means,  
19 they chose to establish nine regions. We would suggest using  
20 four regions, so you would have a national rate, both urban  
21 and rural, you would have a rate by region, both urban and  
22 rural.

23 Item number 3 provides for a wage adjustment to each of  
24 those rates, taking into consideration the different wage  
25 patterns throughout the country. We would accept the

1 administration's proposal to modify with a national average  
2 rate for discharge adjusted for area differences in hospital  
3 wage levels, and also using a regional wage difference  
4 because we are establishing, as I indicated, both national  
5 rates and regional rates.

6 Item number 4 on page 5 of the booklet is the  
7 establishment of the initial payment level. Under the  
8 administration's proposal, the national rate for each of  
9 these diagnostic groups would be derived from Medicare's  
10 historical cost data. That would be true also under the  
11 staff proposal.

12 We would, however, suggest again that there is a  
13 recognition of urban and rural, regional and national  
14 standard rates, derived, again, from historical Medicare cost  
15 data. In terms of updating that information to account for  
16 increases in industry-wide costs, the administration would  
17 suggest simply updating by a factor of market basket, that  
18 is, the amount that represents the costs of goods and  
19 services that institutions have to purchase.

20 We would recommend using the market basket plus one  
21 percent, which is what is currently contained in the TEFRA  
22 provisions agreed to last year.

23 Item number 5 provides for an annual adjustment that  
24 would be made to the rates to again accommodate the  
25 increasing costs of goods and services purchased by



1 institution to provide services. We would amend the  
2 administration's proposal again to provide that the update  
3 would be a market basket plus 1 percent.

4 In rates set for subsequent years, those after 1985, we  
5 would leave it to the Secretary to establish a level  
6 necessary to provide for adequate compensation for efficient  
7 and effective delivery of medically appropriate and necessary  
8 care of high quality.

9 We would also recommend the establishment of a commission  
10 of experts to assist the Secretary in making decisions with  
11 respect to future years and how you might update the rates  
12 that would be paid under a DRG system, again taking into  
13 consideration all of the items necessary to provide care, the  
14 kinds of changes in technology and the quality of care needs  
15 under those particular DRGs.

16 We recommend that the Secretary publish those rates  
17 annually and that the commission that is established report  
18 to the Congress and to the Secretary by April 1 of each year  
19 on the adequacy of the payment rates established by the  
20 Secretary and with suggestions as to changes in those rates  
21 on a year-to-year basis.

22 The commission, as is noted, in making its  
23 recommendations would again take into consideration the  
24 market basket of services, the productivity of technological  
25 changes in recent years with respect to those services, and

1 taking into consideration the quality and skill level of  
2 professional nursing services provided in institutions to  
3 maintain the quality of care to those individuals provided  
4 services in those institutions.

5 Item number 6 on page 8 refers to the recalibration of  
6 those rates. That is designed to take into consideration the  
7 different weighting in establishing the DRGs. The principles  
8 of DRGs is to establish a rate which takes into consideration  
9 the different types of services and the costs of those  
10 services provided to any one type of diagnosis. That is done  
11 by looking at an average and then increasing or decreasing  
12 the weight of that particular DRG given the intensity of the  
13 services.

14 Clearly, over time you may wish to look at the DRGs  
15 differently because of changes in the way of delivering care,  
16 changes in technology and treatment patterns, the kinds of  
17 services that are provided to a DRG or within a DRG. We  
18 would recommend that the Secretary be required to adjust the  
19 DRG payment rates as more information becomes available and  
20 at least every five years should be required to review the  
21 DRGs and required to review them in the context of the kinds  
22 of services and resources used in those DRGs.

23 Again, the commission that would be established would  
24 work with the Secretary in establishing those kinds of  
25 changes and the kinds of evaluation necessary to update those

1 DRGs.

2 Senator Moynihan: May I ask, Mr. Chairman, to ask Ms.  
3 Burke, just out of curiosity, how many DRGs are there?

4 Ms. Burke: There are 467 currently, Senator.

5 Senator Moynihan: 467.

6 Ms. Burke: Yes, sir.

7 Senator Moynihan: Thank you.

8 Ms. Burke: Item number 7 on page 8 deals with those  
9 cases that are unusual and are referred to as either atypical  
10 cases or outliers. That basically is a case that would fall  
11 outside the range of the DRG and would be considered to be  
12 particularly costly or have a longer length of stay than is  
13 considered average.

14 The Secretary under the administration's proposal would  
15 be authorized to provide for additional payment amounts for  
16 those cases which are extraordinarily costly to treat  
17 relative to other cases within that same group. The  
18 Secretary's proposal provides for that adjustment to be made  
19 in the event the length of stay for that individual exceeds  
20 by 30 or more days the average length of stay for that  
21 particular DRG.

22 The staff would recommend an adjustment to that provision  
23 and would require that the Secretary, rather than simply be  
24 authorized to, be required to provide additional payments for  
25 the so-called outliers.

1           We would also require that the Secretary in viewing  
2 outliers would take into consideration not only the mean  
3 length of stay by some fixed number of days but also take  
4 into consideration the cost of that particular case within a  
5 DRG and the extent to which it exceeds the average cost for  
6 that DRG.

7           We have suggested that they look at discharges that  
8 exceed the mean length of stay or look at a certain number of  
9 standard deviations from the mean. So it will either be a  
10 fixed number of days -- for example, the administration's  
11 30-day recommendation -- or some amount beyond that  
12 particular mean length of stay per DRG in addition to a  
13 specific cost.

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1 Senator Moynihan: May I interrupt?

2 Ms. Burke: Yes, sir.

3 Senator Moynihan: You will just collect your data and  
4 calculate what the standard deviation is.

5 Ms. Burke: Yes, sir.

6 Senator Moynihan: And just do that administratively.

7 Ms. Burke: Yes, sir. There would be an amount  
8 established for each DRG. We were looking, for example, to  
9 two standard deviations from the mean or a specific day  
10 number be on the average, so the Secretary could look at  
11 either of those in terms of measuring which case would be  
12 particularly unusual or be considered an outlier.

13 Senator Moynihan: He can choose either two standard  
14 deviations from the mean or he can choose a number of days.

15 Ms. Burke: They would look at both of those -- a  
16 specific number of days or a specific standard deviation --  
17 and would use whichever is less.

18 Senator Moynihan: And it is two standard deviations?

19 Ms. Burke: That is what we had suggested. We are  
20 looking at what that would do in terms of the cost. If you  
21 will note, on item C it indicates that resulting from this  
22 policy we want to make sure that not less than 5 percent nor  
23 more than 6 percent of total Medicare payments to hospitals  
24 be used by outliers. So within the context of that amount of  
25 money we would see what standard deviations made sense and

1 what limits made sense.

2 But effectively, at least 5 and not more than 6 percent  
3 of Medicare's cases would be considered, or cost in terms of  
4 case.

5 Item number 8 on page 10 deals with capital expenses.  
6 Under current law Medicare reimburses hospitals for the  
7 reasonable cost of capital, which include depreciation,  
8 interest, rent. In addition, proprietary hospitals currently  
9 receive a return on a net equity.

10 The Secretary, as I indicate, under current law simply  
11 pays this amount. It is considered a passthrough. Under the  
12 administration's proposal, capital costs would continue to be  
13 reimbursed on a reasonable cost basis, and the return on  
14 equity would continue to be paid as it is under the current  
15 system.

16 We would recommend accepting the administration's  
17 proposal except that we would make capital specifically  
18 excluded from the prospective payment proposal and reimbursed  
19 on a reasonable cost basis.

20 In addition, we would require the Secretary to study and  
21 report back to the Congress by no later than 18 months from  
22 the day of enactment specific legislative recommendations for  
23 including capital and related costs such as the return on net  
24 equity under a prospective payment system.

25 We also indicate as of October 1st, 1986, capital costs

1 will no longer be excluded.

2 Item number 9 deals with medical education expenses.

3 The Chairman: Are there any items in disagreement?

4 Ms. Burke: Yes, sir.

5 The Chairman: Are there any items in disagreement?

6 Ms. Burke: Not yet, sir.

7 The Chairman: Are any coming?

8 Ms. Burke: I suspect there may be some, sir.

9 The Chairman: Why do we not move on to those? I do not  
10 want to not go through it. But I want to thank Senator  
11 Packwood and others for moving along as you have. And I do  
12 not want to burden any of the members, but Senator Baker  
13 would like very much for us to try to complete action on this  
14 bill today so that we might have it available. And I know I  
15 am not certain.

16 Have you offered your amendment, Bill?

17 Senator Armstrong: (Nods negatively.)

18 The Chairman: We have a lot of amendments to deal with,  
19 and I know Senator Armstrong, Senator Grassley and others  
20 have some. If there are questions on the Medicare, we should  
21 obviously address those; but I know the staff has been  
22 working with other members, and if there is no disagreement  
23 -- I am not certain everyone in the audience would agree, but  
24 if there is no staff disagreement, and I have gone over that.

25 Has it changed since our meeting last night at 9:00?

1 Ms. Burke: No, sir. We have tried to accommodate as  
2 many of the suggestions as were brought to us today, and we  
3 believe there are only remaining issues we are aware of that  
4 we were not able to resolve.

5 The Chairman: Why do we not move to those?

6 Senator Heinz: Mr. Chairman, I have maybe as many as two  
7 of them, maybe not. I do not know. One we were discussing  
8 with the staff would be an amendment that would allow HHS to  
9 retroactively deny payment to the admitting physician if a  
10 hospital is denied payment because the admission was not  
11 determined by the review authority to be not medically  
12 necessary.

13 Do you have any problem with that, Sheila?

14 Ms. Burke: My understanding of the proposal is an  
15 adjustment would be made in a physician's reimbursement if an  
16 admission to an institution was denied for that particular  
17 case.

18 Senator Heinz: Right.

19 Ms. Burke: In talking with the administration, it is our  
20 understanding that in some cases that does take place  
21 currently. We understand with respect to surgeon fees, for  
22 example, that has taken place.

23 There has been difficulty. We had, as a matter of fact,  
24 indicated an interest in doing the same thing and think it  
25 makes good sense. The concern was the ability of the



1 administration or the carrier, the individual who pays the  
2 bills, to determine which part of the physician's bill would  
3 be at stake. In many cases the majority of the denials are  
4 on the basis of days of care rather than the entire  
5 admission. So it is a question as to whether it would be the  
6 physician's visit on that particular day or the physician's  
7 services in total to that individual patient.

8 What we would like to suggest is asking the  
9 administration to report back to us with some specific  
10 recommendations as to how, in the cases where Medicare Part A  
11 payment is denied to a hospital, the related Part B payment  
12 for the admitting physician would also be denied, and to  
13 basically work back with us in trying to establish such a  
14 system.

15 Senator Heinz: Does the administration have the  
16 authority to retroactively deny such payments right now if  
17 they wanted to, if they felt they could do it?

18 Ms. Burke: My understanding, Senator, from discussions  
19 with them this morning -- and they are not in the room at  
20 this moment, so I would double check that -- was that they  
21 believed they do have that authority.

22 Senator Heinz: They do?

23 Ms. Burke: They do. That is our understanding.

24 Senator Heinz: That would be fine, Sheila. I understand  
25 that in terms of the second amendment on demonstration

1 projects that has been included.

2 Ms. Burke: That has been included in the package, sir.

3 Senator Heinz: Thank you, Mr. Chairman.

4 The Chairman: Senator Long.

5 Senator Long: I am very concerned about this proposal,  
6 and I really feel that and I would hope that we could strike  
7 this proposal from the House bill and postpone consideration  
8 until we know a lot more about it.

9 Let me tell you the reasons I am very worried about  
10 this. It sounded very good to me during the administration's  
11 testimony, but since that time I have learned more about it,  
12 and it has caused me to have real concern.

13 Is this not correct, Ms. Burke, that this is not expected  
14 to save any money for the program? It is supposed to cost  
15 about the same thing as the existing program. Is that  
16 correct or not?

17 Ms. Burke: That is correct. It is neutral under the  
18 budget.

19 Senator Long: Let me tell you what my situation is in  
20 Louisiana. As I understand it, Louisiana is in the area  
21 where we would expect to get overall a substantial increase  
22 in the amount of money available because we have lower costs  
23 than average, so we would be beneficiaries under this. But  
24 under the proposal, 33 percent of our hospitals would be  
25 losers, and they would lose about 21 percent of reimbursement.

1           Now, if I could be sure that in doing this those will be  
2 the ones who ought to be losing money, I would feel  
3 differently about it. But just yesterday it came to my  
4 attention some hospitals which I do not think ought to be  
5 losing money and which will be by very substantial amounts.  
6 Some people came to me from Houston, Texas.

7           Now, why would I be a friend of Houston, because  
8 Louisiana hospitals do not have the information to know what  
9 they are going to lose and what they are going to make. But  
10 here come these people to talk to us just yesterday from a  
11 major Houston hospital, including what I think is probably  
12 the best hospital in the area, the Methodist Hospital there.  
13 That is a magnificent hospital, probably the best in cancer  
14 in the United States.

15           And they explained to me that they are going to have a  
16 major cut in the amount of money they receive in those  
17 hospitals, anywhere from \$6 to \$10 million per hospital. I  
18 tried to understand why. They said it was because they are  
19 put in this big area, and they are then required to live with  
20 the same reimbursement per case of discharge as are the other  
21 hospitals in the area.

22           For example, take Methodist Hospital there. They are  
23 qualified to provide a superior service. They are qualified  
24 to take the very high risk cases. So much so I know of  
25 relatives who went there just because they had a very high

1 risk case and received very good treatment.

2 But by being held to the same kind of standards as others  
3 who have nothing like the staffing, the qualifications or  
4 equipment, they would be reimbursed at much lesser rates than  
5 they are at the present, which would cost them a ton of money.

6 No less a person than John Connally, who I think is  
7 respected in this committee on both sides -- he served with  
8 distinction as Secretary of the Treasury -- called me about  
9 this on the telephone yesterday. He asked me to talk to  
10 those people, and he pointed out that they would be barred  
11 under this amendment from taking these cases and adding  
12 something extra. You couldn't do it under the amendment.  
13 You would lose all of the reimbursement, or else if you get  
14 any at all; so that in their case you would have to amend the  
15 bill to take care of them.

16 And that same problem might apply to some of the  
17 outstanding hospitals in Louisiana, but that is just the  
18 beginning of the problem. Look at all of these other  
19 hospitals that will be cut an average of 21 percent. How am  
20 I to know that the case for cutting those hospitals is any  
21 better than the case for cutting Methodist Hospital in  
22 Houston, Texas?

23 It seems to me if we are going to act in this area, it  
24 would be better if we can take enough time so that all of the  
25 people in these various hospitals around the country can see

1 why they would be cut and what they would have to do to try  
2 to offset it, so they could at least appeal to us before we  
3 get into this thing rather than after.

4 As it stands now, the Louisiana hospitals are not  
5 adequately informed to tell me what this would do to those  
6 who are losing money and what they might be able to do about  
7 it. Meanwhile, if those who are theoretically the most  
8 efficient hospitals are given a big increase, that would be  
9 fine. But my impression as a legislator is if I do an  
10 injustice to one fellow, the fact that I benefit two others  
11 does not offset the fact that that one person was badly  
12 treated.

13 That is why it seems to me that we really need to take  
14 enough time so that all of the people out there could be  
15 informed what this means to their hospital, and then they  
16 could let us know what their reaction is. For example, the  
17 only case I know specifically that will get cut is an ERA. I  
18 think we could correct that by amendment, but how about all  
19 of the rest of them?

20 Ms. Burke: If I might, Senator, the issue you raise  
21 about the treatment of different institutions under the rate,  
22 in the long run the proposal is designed to pay a single  
23 price per service. Inherent in that are a number of  
24 adjustments which take into consideration a number of issues,  
25 the first of which is a teaching investment. That

1 accommodates the additional cost teaching institutions will  
2 bear as a result of their teaching activities.

3 The first is the indirect costs of things that result  
4 because there are interns and residents and nursing students  
5 in an institution. They order extra tests, for example. The  
6 teaching adjustment provided in this bill will be double what  
7 it is under current law so that those teaching costs will be  
8 passed through, both direct and indirect.

9 Senator Long: The people I talked to yesterday, you  
10 know, are as well advised as anybody. John Connally, former  
11 Secretary of the Treasury, is one of their lawyers. Those  
12 are the kind of people who find out what the law is we are  
13 talking about. They do not just come flying up to Washington  
14 to find out what the bill is. They find out before they come.

15 And those people tell me about their situation and that  
16 that teaching thing will not cure it. Now, they can show me  
17 how the bill could be amended to take care of that  
18 situation. Then I look down here. Here is New Orleans  
19 Hospital. That loses \$2.9 million. They have not been here,  
20 but \$2.9 million is a substantial amount of money.

21 What I am saying is while I think we could, if the  
22 committee wanted to, fashion an amendment to take care of  
23 these two or three hospitals, how about these other 33  
24 percent where they do not know what is going to happen to  
25 them? And I do not know, and I do not see how we can be in a

1 position to judge whether we are justified in doing this  
2 unless we have the information.

3 I would be very pleased to see some efficient hospital  
4 with whom I am familiar get a big increase, but I am  
5 concerned about those people who will get cut, if a lot of  
6 them really would have a good case against being cut.

7 Now, how can you satisfy me about that when they do not  
8 know what is going to happen to them and I do not either?  
9 What would get cut?

10 Ms. Burke: In part, Senator, one of the reasons we  
11 provided for a transition, you will recall the  
12 administration's proposal implements the prospective payment  
13 system as of October 1 of this year. This particular  
14 proposal recommended by the staff provides for a three-year  
15 phase-in. Those institutions would not be on a full DRG  
16 prospective payment system for four years. It would be the  
17 fourth year in which they were under a full DRG system.

18 The Chairman: The House has a five year, is that correct?

19 Ms. Burke: That is correct, Senator.

20 Under our proposal, Senator, they begin the first year  
21 with 75 percent of their rate being their own cost and 25  
22 percent of the rate in the first year being a blend of a  
23 regional and a national DRG rate. So that we very slowly  
24 bring them in for exactly the reason you suggest; that is, it  
25 is a new system. It is one we need to be able to sort out.

1 It is one we need to be able to spot the problems, the cases  
2 where institutions are receiving less than they would,  
3 although in many cases they are being hit equally as badly  
4 under TEF, last year's provisions, as they would under  
5 anything else.

6 But the design is to move it in slowly so we have the  
7 opportunity to make those kinds of adjustments. For example,  
8 we know we are not able to clearly identify the severity of  
9 the case to make an adjustment in cases like Methodist where  
10 they have very sick patients. We know that is something we  
11 will have to be able to do. Indeed, we provided that  
12 transition to help give us an opportunity to make those  
13 changes over time while again providing for an outlier or the  
14 treatment of particularly expensive cases and also providing  
15 for teaching adjustments, the passthrough of capital and so  
16 forth, again to help make those adjustments over time.

17 Senator Long: My thought is it is a lot easier to make  
18 changes that are needed before a program goes in and have it  
19 in effect than when you start pulling your hair out, then  
20 start trying to correct it.

21 You were perhaps around when we worked on the Medicare  
22 bill. We took a lot of time working on that. We had medical  
23 societies from all over the country come up and testify, the  
24 hospital associations and all the rest, and they were looking  
25 specifically at what their problems were going to be.



1           Now, we had a lot of problems after that, but we surely  
2 solved a ton of them before the program went into effect.  
3 That did not mean we did not have a lot of problems, but we  
4 had a lot less because we took time enough to look at these  
5 things.

6           I am concerned about moving to do this when you do not  
7 have information. Those people who are in a position to know  
8 whether they will be the winners or losers, for example, and  
9 why they will be the losers. I am not worried about the guy  
10 who is going to be the winner. You know he will not  
11 complain. He will be pleasantly surprised, and that will be  
12 fine. But I am worried about the losers, even in my state.  
13 We stand to be -- our state would be one of the winners, but  
14 one-third of those hospitals will be losers by an average of  
15 21 percent. That is what I am worried about.

16           The Chairman: That 21 percent, is that when it is fully  
17 implemented? Is that the basis of those figures?

18           Ms. Burke: Senator, we have two different kinds of  
19 number. One is the first year effect which shows the  
20 distribution of gains and losses, and the other is the full  
21 impact which assumes no changes in behavior on the part of  
22 the institution, and simply indicates if we put the whole  
23 thing into place the first year.

24           We do not believe that is a fair representation of what  
25 the likely outcome over a three-year phase would be, and in

1 fact, neither CEO nor the administration can give us  
2 four-year out numbers and say this is what institutions will  
3 do, because their behavior is likely to change, and in fact,  
4 this is designed to do that, to change their behavior. But  
5 we do have some idea, at least initially, what the gains and  
6 losses will be on average.

7 The Chairman: Are you aware of the specific problems  
8 Senator Long raised?

9 Ms. Burke: Yes, sir. Methodist Hospital is, I suspect,  
10 like many others who have large teaching components and do a  
11 lot of tertiary or very critical care. We have tried to  
12 address that, one, with a phase-in; two, with increasing the  
13 number of cases that will be treated as extraordinary, as  
14 outliers, and also doubling the teaching adjustment.

15 The Chairman: I guess my question is based upon what  
16 Senator Long has stated, have you addressed it to take care  
17 of the problem he has stated, or is this a problem after?

18 Ms. Burke: This is a problem generically with a proposal  
19 that moved to a single rate for treatment. There will be  
20 institutions whose costs are on an average much higher and  
21 will have to be brought down, and they are likely in part to  
22 receive less than they have. We have tried to moderate that  
23 impact, not remove it but moderate the impact over the first  
24 couple of years to give them an opportunity to change their  
25 behavior and for us to learn how to adjust the system.

1           Senator Long: You were talking about changing the  
2 behavior of probably the best-operated hospital in America.  
3 You are going to change their operation, change their  
4 behavior. That is a very efficient hospital. You know Dr.  
5 DePakey. If you go there and you have got trouble with your  
6 heart of your circulatory system, Dr. DePakey is the guy that  
7 will come after you. So we are talking about changing their  
8 way of doing business as though they need changing. Hell,  
9 they are the best in the world.

10           I called a man out here at NIH to try to find out if they  
11 are making any progress in cancer and to see if there was  
12 something that might come through that might help a person  
13 dear to me who had cancer in extremis who would die within a  
14 year if there is no breakthrough. He said if I want to find  
15 out something about cancer, call that hospital. They bought  
16 all of his best people away from him. So apparently their  
17 staff is better qualified than NIH can afford. How do you  
18 know? Because they bought them from NIH. And now we are  
19 going to show them how to run that hospital better? You had  
20 sure better be good.

21           Senator Durenberger: If I may, Senator Long, I have an  
22 observation on our telling them how to run their business. I  
23 think one of the reasons some of us are involved in looking  
24 prospective is that the hospital industry in this country has  
25 been looking at prospective for a long time, and the reason I

1 think they are involved in it is they would like to know only  
2 how much we are willing to pay for a particular they call it  
3 episode of illness or something like that, and then let them  
4 do their business better than anyone else.

5 Let me give you one little example. One of the terribly  
6 expensive things we buy from them is a room for the night.  
7 We are not providing surgery at that point or providing them  
8 some other expensive form of care. All in effect it is is  
9 like a hotel room.

10 Well, I have a hospital in Minneapolis just like the one  
11 you are describing, probably not quite the reputation yet,  
12 but it is getting there. It serves a large region. People  
13 come in from other states and so forth. And they like the  
14 idea of prospective because it lets them do things like they  
15 just got done doing. They built a hotel right next to the  
16 hospital, and they built it so they can charge \$20 a night if  
17 you do not have a hot plate in your room and cook your own  
18 meals, \$30 a night if you do have a little hot plate, and \$35  
19 if you have also got a biffy and shower rather than going  
20 down the hall like you used to in the old hotels. But they  
21 can at least break even with that kind of a hotel.

22 What that lets them do then is everybody comes in the  
23 night before surgery, and rather than going into the \$400 a  
24 night room and staying overnight before surgery, you go into  
25 the \$20 a night bed.

1           In Cleveland the Cleveland Clinic takes a look at a DRG,  
2 for example, that they have been operating I think 16 days  
3 for this particular kind of treatment. We say only 12 days.  
4 So what are they going to do? They realize that only about  
5 eight of those days they have really got to have them in a  
6 hospital setting, and the other eight days they are really  
7 just providing shelter. So they have a contract with a  
8 skilled nursing facility at much less money so they can make  
9 out under a 12-day DRG, still provide the person with their  
10 normal 16 days of care, and they can make a little money off  
11 the process.

12           And I think there is a lot of that sort of thing going  
13 around, and I think the whole notion behind prospective is to  
14 let hospitals do this job and not having us tell them what to  
15 do, which is what we have been doing for quite a long period  
16 of time.

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1           Senator Long: As far as those hospitals are concerned,  
2 you start right out, maybe over a four-year period you are  
3 going to cut them \$6 billion, but do you know how much this  
4 bill -- just take a Houston Methodist; how much would you cut  
5 them the first year? Do you know how much it was the first  
6 year?

7           Ms. Burke: No, Senator, I do not. I am sorry. I could  
8 give you an average for a group, but for the institution in  
9 dollar figures I cannot give you an estimate. It would  
10 depend upon what the adjustments were for their wages and  
11 teaching adjustments. I honestly cannot give you a number.

12          Senator Long: Well, if we had the time to focus on that,  
13 I do not have any doubt that we can do what we thought made  
14 sense, as far as that hospital is concerned. And I do not  
15 think it would be precisely what is in the bill here. I  
16 think the bill would have to be amended.

17          What concerns me is we do not have the information.  
18 Thirty-three percent of the hospitals in Louisiana -- and  
19 mind you, we are one of the states that would be on the  
20 winning end; on the whole, we would get more money -- 33  
21 percent of our hospitals would get a cut and the average  
22 would be 33 percent, and that is no small potatoes. That  
23 might be over a four-year period, but even so, if it is not  
24 going to make any money for them, if it is not going to solve  
25 the problem, if it is not going to make any money and will

1 bring a great number of problems, my question is why not take  
2 our time so we can know what we are doing, rather than rush  
3 this thing through, give it a couple of hours slap-dash  
4 consideration and here we go.

5 If it were going to save the government from bankruptcy  
6 or something, it would be different.

7 The Chairman: Max, do you have any comments?

8 Senator Baucus: Mr. Chairman, I have some of the same  
9 problems the senator from Louisiana has. As I understand it,  
10 this proposal is neutral, revenue neutral, in not only 1984  
11 but also, 1985 and 1986. Is that correct?

12 Ms. Burke: Through 1985, Senator, but not 1986. It  
13 would depend upon what rates were established under the  
14 system. But for fiscal years 1984 and 1985 it is as if TEFRA  
15 remained in place. It saves no more than is saved under that  
16 system.

17 Senator Baucus: And what would the anticipated savings  
18 be in 1986?

19 Ms. Burke: The savings assumed are those that would be  
20 comparable to those under TEFRA.

21 Senator Baucus: So in effect, prospective reimbursement  
22 is not cost savings; we are not saving Medicare dollars.

23 Ms. Burke: Not in addition to those saved under the  
24 TEFRA system, that is correct.

25 Senator Baucus: For that reason, Mr. Chairman, I would

1 like to say that we all know that the present Medicare  
2 reimbursement system is not working, it is not right. It  
3 rewards inefficiency. On the other hand, it seems to me the  
4 main purpose of prospective reimbursement is to shuffle boxes  
5 around to some degree and let hospitals manage their affairs  
6 a little more freely, although as I understand it, the  
7 paperwork involved in prospective reimbursement will be  
8 basically as comprehensive and burdensome with as much red  
9 tape as we now have under the cost-based reimbursement system.

10 I do not think we have much choice but to go along with  
11 the proposal but with some changes. I think it will be a  
12 rocky, bumpy road. There will be a lot of adjustments and we  
13 have no way of knowing how hospitals are going to shift costs  
14 off to other providers. We have no way of knowing the degree  
15 to which there will be an unbundling or an unraveling and all  
16 of the other phrases kicked around with respect to  
17 prospective reimbursement. It is not a charade really, but I  
18 think it is window dressing, frankly.

19 We will not really cut Medicare costs with this. We will  
20 not cut the increase in health care costs with this. It  
21 sounds nice, it is a form of deregulation, but I think that  
22 we are kidding ourselves if we think prospective  
23 reimbursement will, in any way, begin to solve the problem.  
24 The problems facing the health care system are, I think, much  
25 more complex; they involve physicians' insurance, tax



1 incentives and lots of factors which have very little to do  
2 with prospective reimbursement.

3 I share the Senator from Louisiana's worries. Were we in  
4 a more perfect world I think we should have more definite and  
5 complete hearings on this and hospital costs going into all  
6 of the ramifications involved with hospital cost increases  
7 because this provision itself has very little to do with the  
8 problem.

9 Senator Long: If I may just say it, when we had revenue  
10 sharing we were able to go out there and tell every little  
11 community in America here is how much you get with this  
12 bill. We had formulas, alternative formulas. Here is how  
13 much you get. Every 25 -- what was it, 25,000 communities,  
14 we could tell them here is how much you will get under the  
15 bill and here is how we would arrive at your share. And it  
16 seems to me -- think how much better off we would be if we  
17 would ask, even given the funds to do the work, to come up  
18 and tell us how much each hospital is going to get so that  
19 they can take a look and see -- all right, here is what you  
20 are going to receive. And then let those people have a  
21 chance to comment on it so they will see here is what --  
22 particularly those who are going to get the worst of it --  
23 here is what is going to happen to you and here is why. And  
24 then see what they can say for themselves.

25 I would think we might better iron out a great number of

1 wrinkles before we get started, but when I find that we are  
2 moving into areas that will have enormous additional  
3 complexities for one simple reason, so much additional  
4 complexities. What you just told me, Ms. Burke, is the first  
5 year you are going to be 75 percent of the old formula, which  
6 everyone agrees left a lot to be desired. We would all like  
7 to get rid of that. It would be 75 percent under that one  
8 and 25 percent under the new one. Can't you see people  
9 tearing their hair out, if they are not happy with the new  
10 formula and not happy with the old formula? Now they have  
11 the complexity of both to contend with.

12 I would like to see us in a position where people at  
13 least know and have had a chance to understand it, and you  
14 have had a chance to explain it to them through your  
15 bureaucracy. You have had a chance to get the word to them,  
16 and then let them have a chance to make their suggestion just  
17 like here, these people came up from Houston and they could  
18 show me how the problem could be solved as far as their  
19 hospital was concerned if the committee was inclined to  
20 follow their advice.

21 Other people are not in a position to do that. I just  
22 think it would be a great thing we look before we leap.  
23 Maybe we could get the whole thing done this year, but I  
24 would like to be in a position where those hospitals would  
25 know what the situation is and they have had a chance to at

1 least be heard and make their case and tell us why they think  
2 they would be adversely affected; why they think we should or  
3 should not do it.

4 The Chairman: As I understand, this is supported, is it  
5 not, by the Hospital Association?

6 Ms. Burke: Senator, in the hearings before the  
7 committee, the hospitals have generally -- and, in fact,  
8 individually -- supported moving toward a prospective payment  
9 system. If I may comment, the current system under TEFRA is,  
10 indeed a complicated system also. It requires the  
11 establishment of a rate of increase limitation in addition to  
12 the old 223 system, which, of course, requires grouping of  
13 institutions, the desire on the part of the institutions.

14 And this proposal is to move to a point when, indeed, a  
15 hospital does know what it is going to receive. The ability  
16 to do that is, in large part, going to be the ability to look  
17 at that institution's patient mix, now, what kinds of care  
18 will be provided in that institution and begin to establish a  
19 system that sets rates that represent that.

20 The principle of DRGs is, indeed, to look at an  
21 institution on an individual basis, to look at the kind of  
22 care they actually provide and provide a payment system that  
23 represents those kinds of cases, which is why it is case  
24 adjusted and why it is a case-related system.

25 The movement to that system is likely to be fraught with

1 some of the kinds of difficulties you have indicated; the  
2 ability to make those adjustments, but that is exactly why we  
3 believe the phase-in was appropriate. establishing pre-TEFRAs  
4 or pre-rate of increase limitation is the base for the first  
5 year. It will be on the basis of their costs in 1982,  
6 trended forward by, again, a rate of increase in the economy  
7 and a piece of that new rate which will be published annually  
8 by the department, by DRG. That institution will know what  
9 price is going to be paid for that particular kind of case.

10 In many ways, that is certainly an improvement over the  
11 current system where people have, for years on end, fought  
12 over cost-based reimbursement; what was and was not  
13 considered to be a reasonable cost for reimbursement  
14 purposes. Again, the transition is to give us that time to  
15 make those adjustments, along with the outlier policy I have  
16 described and the kinds of teaching adjustments and  
17 pass-throughs included in the proposal.

18 Senator Durenberger: We will not be lobbied on the  
19 nursing differential anymore, we will not be lobbied upon  
20 whether pathologists in or out of the hospital should be  
21 reimbursed. We could get rid of all of that.

22 Senator Long: You just have no idea how you are going to  
23 be lobbied.

24 [Laughter.]

25 No one on God's green earth can predict.

1           The Chairman: Has the administration -- oh, excuse me.  
2 Are you from the administration?

3           Ms. Feinstein: Yes.

4           The Chairman: You have listened to the objections. My  
5 understanding is that there has been a lot of staff  
6 discussion that this was a matter that was not that  
7 controversial. My attitude at the outset was no amendments  
8 on the Social Security bill but the House did not agree with  
9 that and they added unemployment and Medicare. And we have  
10 agreed that we would try to see if we could work out some  
11 acceptable provision, only after that.

12           If I am mistaken in that, Shiela, as I understand, in  
13 addition to these specific problems, I assume there are  
14 probably others that could be raised, but anytime we start  
15 changing anything we can dredge up a couple of examples where  
16 someone says do not do it yet because it may take some money  
17 from us. Maybe it should; maybe it should not.

18           That is why I felt the phase-in would protect anyone from  
19 any deep impact, and give us an opportunity to make those  
20 corrections if they should be made. I would like to hear  
21 from Ms. Feinstein from the administration.

22           Ms. Feinstein: Mr. Chairman, as you know, we are  
23 certainly very much in favor of moving in this direction. I  
24 think as Shiela points out, the industry is very anxious to  
25 move to a truly prospective system where they will know in

1 advance and can plan to run and manage their institutions  
2 exactly how much revenues they are going to be receiving from  
3 the Medicare program.

4 The other thing I would point out is we have had a very  
5 rich background of recent demonstration in this area, and  
6 over a ten-year period those states that have moved in the  
7 area of prospective payment, where's, they may not have been  
8 able to reach substantial savings in the first year, over  
9 time they all slowed their rate of growth in hospital  
10 expenditures by as much as 2 to 6 percent.

11 I think it is safe to say in 1984 there can be a shift,  
12 and we would want to protect against that shift through the  
13 kind of phase-in Ms. Burke has described to you. Over time,  
14 I think we can very much expect to have the same pattern in  
15 the rate of growth of expenditures as the states have had who  
16 have been under this system.

17 Senator Baucus: I have a nagging problem with the  
18 system. As I understand it, the theory of reimbursement is  
19 to find the average of nationwide ultimately for the same  
20 procedure, the same purpose. Like, say, a hip replacement  
21 which costs significantly more in one part of the country in  
22 one hospital than it does in some other part of the country  
23 in some other hospital.

24 Therefore, with prospective reimbursement, because in  
25 theory ultimately the payment would be the average between

1 the high cost and the low cost and, after all, hospital hip  
2 replacements are calculated on the averages, that the  
3 inefficient hospital will be a loser and the inefficient  
4 hospital will have to absorb some of those costs. That is,  
5 it is charging more than the average.

6 DRG will be paying the average so that that inefficient  
7 hospital will have to absorb that difference.

8 Ms. Burke: Yes, sir.

9 Senator Baucus: Whereas, the efficient hospital, which  
10 does not cost as much for that replacement, will be getting  
11 the benefit. Call it a windfall or whatever it is; it is  
12 just some kind of benefit.

13 The nagging red flag in my mind -- and I hope you can  
14 clear it up, I must you what it is -- is it seems to me,  
15 arguably anyway, over time that the efficient hospital, the  
16 one getting the benefit, the additional benefit because this  
17 procedure does not cost as much as the average will, by  
18 definition, be taking that additional benefit and buying new  
19 equipment. It will be non-profit hospitals buying new  
20 equipment or spending that benefit in some way which will,  
21 then raise the average, raise the cost of procedures for that  
22 hospital.

23 So my concern is that the averages over two or three  
24 years are going to start climbing because by definition, the  
25 average of whatever the procedures in all parts of the

1 countries, the efficient hospitals will be getting those  
2 benefits plowed back in, cranked back into costs, room costs  
3 going back up, and the inefficient hospitals will be pulling  
4 up the average, too, because they are inefficient and their  
5 procedures are costly.

6 I am worried that after two, three, four years, five  
7 years, whatever, this will not be budget-neutral; it will  
8 actually be somewhat more expensive a plan. So would you  
9 please tell me what the answer to that is?

10 Ms. Burke: I am not sure I can tell you what the answer  
11 is, Senator. I think the principle of DRGs and updating  
12 those DRGs is to take into account the kinds of changes and  
13 patterns of care within a DRG that will accomodate, for  
14 example, some of the new technologies that either make that  
15 service for a period of time less costly or more costly. I  
16 mean, the weightings between the DRGs, for example, would be  
17 changed to accomodate some of those differences.

18 The cost paid for the DRG; that is, the rates, are  
19 increased by some factor in the first two years by a market  
20 basket plus one, so there is a limit on how much it will be  
21 allowed to go up, how much the rates will be allowed to go up  
22 in the subsequent years, in the outyears.

23 The principle of including the commission that you  
24 suggested was to provide for some adjustments that make sense  
25 given the nature of the DRG system, given those kinds of



1 concerns. The principle is to figure out an adjustment that  
2 makes some sense. It may not just be a market basket plus  
3 one; it may be some other adjustment that takes into account  
4 changing rates between the DRGs, changing behavior on the  
5 part of the institutions, and also changing patterns of  
6 practice between physicians in different parts of the country  
7 that currently account for some of those enormous differences  
8 in the cost of care.

9 So I think there is a number of things that will help  
10 prevent that from taking place. I do not know that I can  
11 give you one answer as to what one item will prevent the  
12 averages from going up except to say in the first two years,  
13 of course, it is market basket plus one which holds down  
14 those rates, and in the outyears, indeed, we look to the  
15 commission and the Secretary to provide us with advice on how  
16 best to update to prevent those kinds of things from taking  
17 place.

18 Senator Baucus: Mr. Chairman, I appreciate the answer  
19 insofar as it is an expression of intention to try to cope  
20 with the problem, and I accept that. I think that HCVA and  
21 others in the administration will be trying to do that, but I  
22 tend to think, too, although I do not mean to belabor the  
23 point, that it will not solve a lot of the problems. The  
24 health care cost problem is much more fundamental than this.

25 Ms. Burke: The administration would agree, it is not

1 simply a hospital reimbursement issue. Yes, sir.

2 Senator Long: Let me get this straight. Did I hear you  
3 say that the Hospital Association is for this proposal?

4 Ms. Burke: What I indicated, Senator, is the hospitals  
5 have indicated a desire to move from cost rate reimbursement  
6 to a prospective system of payment. I did not indicated that  
7 they supported this specific proposal.

8 The Chairman: Could I interject there, that you have  
9 been discussing this with the representatives.

10 Ms. Burke: Yes, we have. Throughout the process.

11 Senator Long: Then it would be premature to say they are  
12 in favor of this proposal. They are in favor of moving  
13 toward this type of system.

14 Ms. Burke: That is correct, sir.

15 Senator Long: Now, with regard to this 467 different  
16 DRGs, I am sure those have been spelled out so that you could  
17 make that available, I take it. Can you publish that now?

18 Ms. Burke: Yes, sir.

19 Senator Long: Now, with regard to the rates that each  
20 DRG would receive throughout the United States, are you in a  
21 position to publish that now? Is that published, is it  
22 available where anyone can look at it?

23 Ms. Burke: That information would be published on an  
24 annual basis. I defer to the administration. Is that  
25 correct?

1 Ms. Feinstein: Our intention would be to publish those  
2 rates well in advance of the start of the fiscal year so that  
3 the hospitals could plan for their revenues from the Medicare  
4 program.

5 Senator Long: Do you have them now? Are they available  
6 in written form now? Could you present them to me right here  
7 and now? Could someone come and present those rates to me?

8 Ms. Feinstein: No, I could not. I am not certain how  
9 you are willing to divide this up between urban, rural,  
10 regions, the wage adjustment and so on. We could do that  
11 shortly after you devise a system.

12 Senator Long: So what you are telling us is that those  
13 rates have not been determined, but they are determinable,  
14 that you have a formula for how you would go about  
15 determining those rates, but that they have not been  
16 determined?

17 Ms. Burke: Senator, if I might interject, there is  
18 currently a list of the national average for each DRG. I  
19 think what Ms. Feinstein is indicating is under our system,  
20 of course, there are adjustments for regional and national  
21 differences, there are adjustments for wages. Those  
22 adjustments have not been calculated, but the average price  
23 per DRG is available currently.

24 Senator Long: You say the average price, all right. But  
25 now, if we want to show the people in our respective states

1 how much they get for each type case they treat, is it  
2 correct to say that you are not in a position to tell us at  
3 this point how much they would get paid for each one of these  
4 treatments?

5 Ms. Burke: That is correct, Senator, until we are able  
6 to decide if we want to do any adjustments to those national  
7 rates, we could give you the national rates per DRG. We  
8 could not tell you what it would be for Louisiana  
9 specifically until we decided whether to make urban or rural  
10 differences in those rates or adjust for regions in the  
11 country.

12 Senator Long: Well, and then you have other adjustments  
13 that have to do with whatever you call them --

14 Ms. Burke: Capital costs and teaching costs which are  
15 passed through.

16 Senator Long: But you have another adjustment where you  
17 take care of a high cost case. I have forgotten what you  
18 call that. What do you call that?

19 Ms. Burke: The outliers, sir.

20 Senator Long: Outliers?

21 Ms. Burke: Yes. Atypical cases.

22 Senator Long: So you have that proviso also for the  
23 outliers. But even for the regular case, the regular  
24 treatment that you have on a hospital-by-hospital basis, if I  
25 understand it, that is not available to those people at this

1 point.

2 Ms. Feinstein: That is correct.

3 Senator Long: The thought occurs to me that it would be  
4 good, and we would be in a lot better position to judge, and  
5 those who would be affected would be in better position to  
6 tell us what their reaction to it is if we could advise them  
7 here is what you will get paid for this type of case; if you  
8 come in for an appendectomy, here is what your reimbursement  
9 would be. And I would think, given a little time, you could  
10 actually -- and especially, I assume you have the resources.  
11 If not, you ought to have it, you will need it. But given a  
12 little time, you could tell us hospital by hospital what  
13 their rate would be under this DRG; is that correct or not?

14 Ms. Burke: Yes, sir, that is correct. Those adjustments  
15 could be made and we could give them a rate per institution.  
16 That is correct.

17 Senator Long: And I think we would be in a better  
18 position to advise people who are affected, and I think they  
19 would be in a better position to advise us whether they are  
20 for or against the plan. What you are telling me, and as I  
21 look at these figures here, in Louisiana, just to take my  
22 state, 33 percent of the hospitals lose -- I guess that means  
23 the others would gain. Under the House bill 47 percent of  
24 the hospital would lose. But we would be in a lot better  
25 position.

1 I would assume that those who are going to gain would not  
2 complain; they would like that.

3 Ms. Burke: I would assume so.

4 Senator Long: But to be fair to those who will lose I  
5 think it would be good if we could advise those people what  
6 they will get paid so they can react to it and hear their  
7 view as to whether they could live with it or whether they  
8 could not live with it, and also advise us whether they think  
9 it is just.

10 Now, I just yesterday heard from a hospital where I  
11 thought your proposals applied to them will not work. And  
12 fairly, I think you would need to amend the law. And I would  
13 hope that might not be a problem. I do not represent those  
14 particular people; they are from an adjoining state, but I  
15 feel confident that when they know what they can expect, and  
16 the other hospitals in my state do not, I would anticipate  
17 that we are in for trouble when these other people find out,  
18 especially if they are very good hospitals doing a very good  
19 job.

20 Senator Durenberger: Mr. Chairman, just to clarify who  
21 is supporting what, the Federation supported from this from  
22 the beginning. In fact, the Federation did not support the  
23 time extension we put in. I wantd to make the comment  
24 earlier that I have been personally working very closely with  
25 the American Hospital Association. We have not had any

1 objections from them, and I have just been handed a note that  
2 says the American Hospital Association urges the committee to  
3 move this bill. That is speaking for most of the hospitals  
4 in America, I think.

5 Senator Long: If I could just be satisfied that the  
6 American Hospital Association speaks for this 33 percent that  
7 is going to get less money I would feel a lot better about  
8 the bill.

9 Senator Chafee: Mr. Chairman?

10 The Chairman: Yes.

11 Senator Chafee: Mr. Chairman, I come from a state that  
12 already has prospective reimbursement, so we speak with some  
13 experience. There is no suggestion that we are going to  
14 reduce costs. All we can hope for is that it will reduce the  
15 rate of increase of costs.

16 I think, as Senator Baucus mentioned, with some despair  
17 that this was not going to solve the Medicare problem. No, I  
18 do not think it will, but at least it will help, in my  
19 judgment, and the trouble that I find as we sit through these  
20 hearings in Medicare and other activities dealing with the  
21 medical profession and medical costs is that nowhere in the  
22 system is there the slightest incentive for anybody to hold  
23 down costs.

24 There is no, under the presently-existing system no  
25 incentive on the hospital, no incentive on the patient, no

1 incentive on the physician and no incentive on the insurance  
2 company, because it is a continually rolling ball that is  
3 completely out of control, and I would hope that we would  
4 move forward with this prospective reimbursement. It is not  
5 perfect but it seems to me that extraordinary care has gone  
6 into the provisions in it, and it is something perhaps sure,  
7 some hospitals will receive less, but by definition, they are  
8 hospitals who appear to be less efficient than the others and  
9 this is an incentive for them to become more efficient  
10 because they will know in advance and they can make their  
11 plans, and every nickel they save is to their benefit.

12       Senator Long: Suppose you had a situation where the  
13 first three hospitals who come to discuss a matter with you  
14 are extremely high quality hospitals run by extremely  
15 talented people, and they can show you how this plan, if  
16 applied to them, works out very much to their disadvantage  
17 and would cost them a lot of money they could not handle. If  
18 that is the case, wouldn't that put you on notice that you  
19 ought to think about these others? You ought to try to alert  
20 the others to see what the situation would be?

21       For example, the Louisiana Hospital Association is a part  
22 of the American Hospital Association. They called here and  
23 told me they would like more time to study this thing and see  
24 how it would work before it applies to them. Now mind you,  
25 they are not testifying against it. They just want more time



1 to see how they think it would work and be applied to their  
2 members.

3 If the first three hospitals who came to discuss it with  
4 you could make that case, I am almost inclined to think why  
5 don't we reopen those hearings and let those three hospitals  
6 come and tell you why it would not work, as far as they are  
7 concerned. Mind you, I have no doubt you could amend the  
8 bill to take care of those three hospitals, but how about all  
9 the rest of them?

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1           Senator Chafee: Well, this consolation it seems here,  
2 Ms. Burke, isn't it that we have a basing system and if there  
3 are problems we can take account of them. I must say that  
4 one of the things that worries me here and if my fears could  
5 be allayed, I might lead to a different conclusion, one of  
6 the fears that bothers me here is if we put this off and  
7 study it it just will not go anywhere.

8           We might pass it, but the House might not. And I just  
9 see this as an ideal chance to get something that we have  
10 been struggling for for a good length of time. If the House  
11 is having action, the House is prepared to go ahead and we  
12 miss this opportunity, I just worry that the opportunity will  
13 not come again for a while.

14          Senator Long: Well, the House has already passed this.

15          Senator Chafee: I appreciate that.

16          Senator Long: And so my thought would be if we would  
17 take a few more weeks and do it, why not take their language  
18 and their bill and take our language that you would want to  
19 work out in our Committee, and we are going to have a  
20 substitute for that anyhow -- take our substitute and put them  
21 both in the same bill and just add it on top of anything, and  
22 just take the shell, add that to it, and go to conference  
23 with them and help work it out.

24          But if we are asking them for a conference just anytime  
25 we pass a bill, then that is not going to be any time this

1 year.

2 Senator Chafee: Is this under a separate bill?

3 The Chairman: No, it is part of the Commission's  
4 recommendation. In fact, I said early on I would hope there  
5 would not be any amendment, whether it be medicare or  
6 unemployment. The House added those amendments and we  
7 decided we had better try to improve, at least we thought we  
8 were improving what they had done so we have somewhat of a  
9 position in conference to negotiate with rather than go in  
10 with nothing, so that is where we are.

11 Senator Chafee: I mean, is it possible to pull out the  
12 medicare part and consider that passed legislation so that we  
13 can then all --

14 Senator Long: Let me just explain what can be done here,  
15 Senator.

16 Senator Chafee: Sure.

17 Senator Long: We could simply eliminate this from the  
18 bill and explain that we were going to ask for a conference  
19 on this and that we are going to take a reduction to it.  
20 Then we could take their position -- take it like two sheets  
21 of paper -- and take their position. We add ours to it and  
22 we just figure that all in on top of some of these revenue  
23 bills and have nothing but a shell to it. We add it to a  
24 revenue bill and we go to them and ask for a conference and  
25 say we want to talk about your bill and our substitute.

1 Let's go to conference and work it out.

2 So we would have their bill in caucus and confer with  
3 them on it. We would just have our language added so we  
4 could talk about the two of them.

5 Senator Chafee: I appreciate that, but that would  
6 require some kind of a bill, a revenue bill, coming through  
7 here for us to attach.

8 Senator Long: It could be anything. changing a coma to a  
9 semicolon.

10 The Chairman: Excuse me, did you want to speak?

11 Senator Moynihan: Mr. Chairman, I would like to speak in  
12 terms of Senator Chafee's proposal here. I recognize all the  
13 difficulties that have been raised. I would just like to say  
14 that in my State of New York we are just into the full  
15 prospective and just about ten years ago we began one for  
16 medicaid, and so we have been into this for a decade and  
17 there is a slight cost of adjustment that Senator Durenberger  
18 has brought up.

19 I do not believe the knowledge of the subject is complete

20 The Chairman: I do not want to try to comment on the  
21 area, Senator, but I know this is an area that Senators  
22 Durenberger and Baucus have spent a lot of time on. I must  
23 confess that the Chairman has probably not spent enough time  
24 on it, but I had understood that there was not strong  
25 opposition to the provision. In fact, I had the

1 misimpression that there was barely any opposition.

2 I know that things happen at the last moment in the  
3 justification and somebody hears about it and complains, but  
4 I would assume that Senator Durenberger would like to have a  
5 vote, at least get a vote on --

6 Senator Durenberger: It is not just me and I am not here  
7 representing the hospitals of America any more than I am  
8 representing the 29 million elderly that need the system.  
9 But the experience with TEFRA in the last year has really  
10 left a lot of people out there very, very uncertain and now  
11 the experience with prospective, which they like -- some of  
12 them like it only in concept but others like it because of  
13 the way we are recommending it -- is something that I think  
14 we need to resolve.

15 We need to resolve it timely. We cannot let it drag on  
16 through another year of the kind of thing we put through in  
17 TEFRA, so I would urge that we act right now. There is the  
18 problem that Senator Moynihan has relative to the New York  
19 waiver, and I would think we would work out some wording so  
20 that we could carry the 1.5 percent under the national  
21 average that was contained in that waiver through the three  
22 years of phase-in so we do not discriminate against New York  
23 State in any way.

24 Senator Moynihan: You can draft language that would  
25 simply mean New York can not be treated differently.

1           Could I also ask, Mr. Chairman, Senator Durenberger knows  
2 that the provision which includes the Territories and Ms.  
3 Burke has worked out language which asks the Secretary to  
4 recommend to the President on or before May 1, 1984, on a  
5 method of breaking that into a bunch of prospective payment  
6 systems. I think that is proper.

7           Senator Long: Might I just suggest that we take four  
8 months, take about four months to look at this matter before  
9 we vote on it, say September?

10          Senator Durenberger: Well, I would suggest not. October  
11 1 is the next year to apply what we did last year, and the  
12 four months gets us so close to October 1 that if you think  
13 this got John Connolly to call you, then it will be Jimmy  
14 Carter or somebody calling next.

15          It is a matter of urgency to hospitals. We either do it  
16 or we do not do it, and I think they would like to have us do  
17 it as early in the year and as far in advance of October 1 as  
18 possible. We are going to be faced with it.

19          Senator Long: Well, why don't we just wait--

20          Senator Durenberger: No, I would just as soon do it  
21 right now. The House has acted on it already, on the bill.

22          The Chairman: I just want to get the will of the  
23 Committee.

24          Senator Durenberger: Mr. Chairman, I will move the  
25 recommendation. We are going to accommodate Senator Baucus'

1 need to change the sole provider provision to study and/or  
2 recommended legislation.

3 Senator Bradley: Mr. Chairman, Senator Durenberger,  
4 before you move, I do not care if you move the package and  
5 then if I have the right to suggest an amendment or if we do  
6 that prior to moving the package. It does not make any  
7 difference to me.

8 Essentially I will speak very briefly on what I suggest.  
9 The amendment deals with the skilled nursing home  
10 facilities. Under TEFRA, whether it was community-based or  
11 hospital-based, we gave a single rate. A lot of the  
12 hospital-based skilled nursing home facilities have a lot  
13 sicker people in them than do the community-based, and it  
14 results in a drop in hospital bed reimbursement to these  
15 hospitals of like \$60 to \$70 per bed.

16 And it is a very serious blow to them. So what I would  
17 suggest is we delay implementation of the TEFRA cost limits  
18 on hospital-based skilled nursing homes until Congress has  
19 acted on a study and, second, I would ask Congress to do a  
20 study on severity of illness and intensity of care  
21 differences between hospitals and community care skilled  
22 nursing home facilities.

23 The idea here is people are sicker and you should give  
24 them a higher reimbursement rate. And if the study shows  
25 that they are sicker, then there would be a legitimate reason

1 to have a higher reimbursement rate. But in the meantime  
2 they should not be losing \$60 to \$70 a day per bed.

3 Senator Heinz: Will the Senator yield?

4 I want to commend the Senator for the amendment. I  
5 strongly favor it because the Senator is absolutely right.  
6 There are a number of hospitals that do have skilled nursing  
7 beds and care for a different kind of patient than the  
8 community-based skilled nursing home facilities. They are  
9 sicker patients and DRG just will not adequately compensate  
10 them for their very different patient mix.

11 Now it is my understanding that the cost of this  
12 amendment is very, very small indeed. It is something over  
13 \$20 million, if I am correct.

14 Ms. Burke: Yes, that is correct, Senator.

15 Senator Heinz: And I would urge my colleagues to  
16 understand what we are talking about here and hope that they  
17 will support it.

18 Senator Durenberger: I think we are sympathetic. It was  
19 our preference to do this on the budget and we are not doing  
20 prospective or DRGs or skilled nursing facilities, so I am  
21 just as sympathetic as you are to the preference of not doing  
22 it on this particular bill but do it on, for example, the  
23 budget bill.

24 The Chairman: By the way, there is no objection to  
25 putting the study on here?



1 Well, you could delay it for a year while you are doing  
2 the study.

3 Ms. Burke: We can limit the delay for a year while the  
4 study takes place.

5 Senator Bradley: So, it would delay implementation for a  
6 year.

7 The Chairman: Would that work out?

8 Senator Bradley: Yes, that is fine. The delay would be  
9 until the study is complete, and recommendations would be  
10 made by December 31, 1983.

11 Senator Durenberger: Mr. Chairman, I will move the  
12 recommendation.

13 The Chairman: Without objection.

14 Senator Durenberger, do you want to -- I came in late.  
15 Do we have the medicare provision before the Committee? Your  
16 motion is that we adopt the medicare provision or delay it.

17 Senator Long: Mr. Chairman, I would like to move that we  
18 delay it for 60 days.

19 Senator \*: Mr. Chairman, I have an adjustment I have  
20 discussed with the Senator from Minnesota. Do you want to  
21 tackle that first?

22 The Chairman: Why don't we just decide on the delay of  
23 sixty days I guess the question would be on Senator Long's  
24 motion and without demanding a record vote, We could have it  
25 by voice vote.

1 All in favor of delaying for sixty days signify by saying  
2 aye.

3 [A chorus of ayes.]

4 The Chairman: Opposed, no?

5 [A chorus of nays.]

6 The Chairman: The nays have it and the question occurs  
7 on the -- we will pick on the ammendment you had.

8 Senator Bacus: With respect to Item 10(b) on what you  
9 have before you, with regard to sole community providers,  
10 essentially the recommendation of the Committee to treat sole  
11 community providers slightly differently than non-sole  
12 community providers.

13 I very much favor that because sole community providers  
14 are essentially small hospitals with very wide fluctuation in  
15 utilization rates. They are small hospitals, therefore,  
16 physicians come and go in the communities and that causes the  
17 utilization rate to fluctuate very drastically.

18 I would ask to have that section amended, though, in the  
19 last sentence. Presently the last sentence states: "By April  
20 1985 the Secretary would be required to recommend legislation  
21 to bring sole community providers completely under the  
22 prospective payment system, taking into account the special  
23 circumstances experienced by such hospitals."

24 The problem I have with that, Mr. Chairman, is that there  
25 is a strong bias there that the Secretary must recommend

1 legislation to in fact bring sole community providers  
2 completely under the system.

3 I would amend that to say that the Secretary shall submit  
4 a study recommending to the Congress whether or not to  
5 completely bring sole community providers within the system  
6 and taking into account their special circumstances.

7 The Chairman: I see the Senator is nodding his head

8 Senator Durenberger: Yes, that is agreeable.

9 The Chairman: Without objection.

10 Could we then move to adopt this?

11 Senator Durenberger: I move we adopt this.

12 The Chairman: Is there a request for a roll call vote on  
13 that?

14 [No response.]

15 The Chairman: If not, then without objection it is  
16 agreed to. Does that take care of all that package?

17 Ms. Burke: Yes, sir.

18 The Chairman: Now we are back on the Social Security and  
19 Senator Armstrong has been waiting to be recognized all day.

20 Senator Armstrong: Thank you, Mr. Chairman.

21 Mr. Chairman, my thought would be to -- do you want to  
22 get the charts? In a moment I may refer to the charts that  
23 are here and perhaps ask the staff to let the members look at  
24 them.

25 This amendments, together with the others which I expect

1 to offer have been distributed in writing to all members of  
2 the Committee and so I do not think there is any point in my  
3 discussing it at any length, but I will just relay the  
4 outline I have put down.

5 Current law provides the non-profit organizations are  
6 covered on an option basis, that is, they are covered unless  
7 they withdraw. At the present time something like 90 percent  
8 of all non-profit organizations are in fact covered under  
9 social security. The proposal in the Commission is to make  
10 that coverage mandatory and to do so effective January 1.

11 It appears to me that the proposal which I have suggested  
12 has sort of a rough justice about it because it treats  
13 non-profit organizations that we are talking about here, in  
14 many cases small community organizations -- Meals on Wheels  
15 kinds of outfits and summer youth camps, organizations that  
16 may provide hot meals to derelicts or may have one or two  
17 employees in the course of providing shelter to people who  
18 would otherwise be homeless -- missionary organizations, you  
19 name it.

20 But at least they ought to have the same consideration of  
21 their pension fund planning problems that the federal  
22 government is getting. We decided it is reasonable that  
23 federal government employees should phase in on the basis of  
24 new hires and so that is exactly what my amendment does.

25 I would invite the members of the Committee to vote for

1 this not only because it is fair but because if we do not do  
2 this the funds that would be required to be paid to social  
3 security as a result will come out of the programs of these  
4 community organizations.

5 Now at a more affluent time in the life of this country  
6 that might not be a terribly serious matter, but my  
7 impression is that these community organizations, the  
8 non-profits we are talking about, are having a tough time,  
9 that the recession in the economy has not only hit them like  
10 other segments of the economy but in fact has hit them a lot  
11 harder than other segments because giving to these kinds of  
12 organizations is a sort of discretionary thing.

13 Most of us find that there are other demands on our  
14 resources and so what many of the non-profits tell me is that  
15 they have experienced a decline in their traditional support  
16 at the very time when the needs in these communities have  
17 risen. So while I do not quarrel with the basic notion of  
18 coverage under social security, I do say phase it in.

19 Mr. Chairman, the only other thing I wanted to draw  
20 attention to is that I would like to update the figures that  
21 appear in the writeup which has been distributed. The  
22 numbers which were distributed have been updated as follows.  
23 I will just tick them off; I do not think it changes the  
24 nature of the proposal.

25 For 1984 through 1989 the numbers are .3, .7, 1.0, 1.3,

1 1.8, 2.2, and for the period 7.3. So the difference between  
2 my proposal and that of the Commission is, over that period  
3 of time, about \$5 billion. It is not large in any particular  
4 year. It is a significant sum over time, significant to the  
5 trust fund but crucial to the non-profits involved.

6 The Chairman: Carolyn, Bob, do you want to respond?

7 Ms. Weaver: All I would comment on is the revenue losses.

8 The Chairman: Yes, I was trying to find that figure  
9 here. You gave it to me this morning, but a lot has happened  
10 since then.

11 Senator Armstrong: \$1.3 billion, wasn't it?

12 Ms. Weaver: The first year is the a billion I believe  
13 then --.

14 Senator Armstrong: 12.5.

15 Ms. Weaver: There is a \$5 billion revenue loss over the  
16 period.

17 Senator Armstrong: That is correct. No getting around  
18 it. You do not take it away from them, the trust fund is  
19 going to get it. I will note that I will shortly offer some  
20 amendments that will pick up that revenue and it does seem to  
21 me that the very fact that it is \$5 billion, that is not a  
22 large proportion of the trust fund, although it is a lot of  
23 money.

24 But it is a vastly larger proportion of the non-profit  
25 private sector and particularly so since many of these are

1 already covered. Something like 90 percent of them are  
2 already in, so you are talking about imposing a very large  
3 burden on a small segment and, in many cases, they are the  
4 little tiny ones that are not covered.

5 Mr. Chairman, that is the issue. Unless there is other  
6 discussion, I am ready to have a vote.

7 The Chairman: Do you want a roll call?

8 Senator Armstrong: Yes, sir.

9 The Chairman: The Clerk will call the role.

10 The Clerk: Mr. Packwood?

11 Senator Packwood: No.

12 The Clerk: Mr. Roth?

13 [No response.]

14 The Clerk: Mr. Danforth?

15 The Chairman: No.

16 The Clerk: Mr. Chafee?

17 [No response.]

18 The Clerk: Mr. Heinz?

19 Senator Heinz: No.

20 The Clerk: Mr. Wallop?

21 [No response.]

22 The Chairman: Mr. Wallop, no.

23 The Clerk: Mr. Durenberger?

24 [No response.]

25 The Clerk: Mr. Armstrong?

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



1           On this vote the yeas are two, the nays are eleven. The  
2 amendment is not agreed to.

3           Senator Armstrong: Mr. Chairman, item three on the  
4 markup agenda. The proposal to prohibit termination of  
5 coverage by state and local governments. There is a  
6 long-standing dispute about the constitutional issue involved  
7 here, of whether or not in fact the Federal government may  
8 impose social security taxes upon states and local  
9 jurisdictions.

10          My amendment does not go to that question. That will be  
11 tested in the courts by somebody and I don't want to even get  
12 into that question tonight. At the present time either under  
13 the statutory scheme or, if they take this up, under a  
14 constitutional provision, state and local governments have  
15 the option to withdraw from social security if they choose.  
16 Once they opt out, of course they cannot return.

17          To opt out is a two year process. There are a number of  
18 state and local jurisdictions which have availed themselves  
19 of their rights under existing law, who have already filed  
20 their applications and are well along in that process and yet  
21 who will, as I understand it, be preempted by the effect of  
22 this act.

23          My amendment simply permits state and local governments  
24 to continue their withdrawal process if their claims were on  
25 file but simply had not been processed by social security as

1 of January 15 which is the date the National Commission's  
2 recommendations were announced.

3 This is certainly no panacea, but at least it gets the  
4 local jurisdictions involved out of a catch-22 proposition  
5 leaving the larger constitutional issues for others to joust  
6 with.

7 The revenue loss is modest. It is written up in the  
8 notes you have. It is about \$1.2 billion for a five year  
9 period, but it does seem to me it is hardly fair to change  
10 the rules in mid-process for the state and local  
11 jurisdictions.

12 The Chairman: Well, I think I understand the issue. The  
13 information I have is that the revenue loss is greater.  
14 Carolyn, he said the revenue loss is about \$1.2 billion. Is  
15 that correct? I have about \$2 billion.

16 Ms. Weaver: I have \$2 billion.

17 The Chairman: \$2 billion out of the \$3 billion we hoped  
18 to raise in this provision. There are about 600 pending  
19 applications which would affect some 228,000 employees. And  
20 as you know, employees do not need to be consulted by state  
21 or local governments when they want to opt out.

22 I know that this has been a matter of concern, but--

23 Senator Armstrong: Maybe we could pin down the  
24 distinction between those numbers. I am advised that the  
25 numbers are .1, -.1, -.2, -.4, -.6, and the total is -1.2 and

1 I believe we got these numbers from SSA. If I am in error  
2 about that I will stand corrected.

3 The Chairman: No, you may be correct. I'm not sure  
4 where I got mine. Where did ours come from? SSA?

5 Ms. Weaver: SSA.

6 Mr. Goss: I believe the confusion is that whereas the  
7 National Committee's proposal would save \$3.2 billion over  
8 the period, it is estimated that this would save \$1.2  
9 billion, thereby producing an additional cost of \$2 billion.

10 Senator Armstrong: So the difference is \$2 billion but  
11 they both represent a savings.

12 Mr. Goss: Both represent savings.

13 Senator Armstrong: Over the present law.

14 The Chairman: The clerk will call the roll.

15 The Clerk: Senator Packwood?

16 Senator Packwood: No.

17 The Clerk: Mr. Roth?

18 (No response)

19 The Clerk: Mr. Danforth?

20 The Chairman: No.

21 The Clerk: Mr. Chafee?

22 (No response)

23 The Clerk: Mr. Heinz?

24 (No response)

25 The Clerk: Mr. Wallop?

1           The Chairman: No.

2           The Clerk: Mr. Durenberger?

3           Senator Durenberger: No.

4           The Clerk: Mr. Armstrong?

5           Senator Armstrong: Aye.

6           The Clerk: Mr. Symms?

7           (No response)

8           The Clerk: Mr. Grassley?

9           (no response)

10          The Clerk: Mr. Long?

11          Senator Long: Aye.

12          The Clerk: Mr. Bentson?

13          (No response)

14          The Clerk: Mr. Matsunaga?

15          (No response)

16          The Clerk: Mr. Moynihan?

17          (No response)

18          The Clerk: Mr. Baucus?

19          Senator Baucus: No.

20          The Clerk: Mr. Boren?

21          (No response)

22          The Clerk: Mr. Bradley?

23          Senator Bradley: No.

24          The Clerk: Mr. Mitchell?

25          Senator Mitchell: No.

1           The Clerk: Mr. Pryor?

2           (No response)

3           The Clerk: Mr. Chairman?

4           The Chairman: No.

5           The nays are 8 and the yeas are 2. The amendment is not  
6 agreed to.

7           Senator Armstrong: The next has to do with the deposit  
8 date for state and local jurisdictions.

9           At the present time state and local governments must  
10 deposit social security taxes collected from their employees  
11 within 30 days after the end of the month in which the  
12 applicable wages were paid. In contrast, private sector  
13 employers must deposit up to 8 times a month in the month in  
14 which the taxes were collected.

15          My proposal is simply to ammend the recommendation to  
16 require state and local governments to deposit taxes with the  
17 Social Security Administration in exactly the same fashion  
18 and at the same rate as private employers. In a moment I  
19 hope to add an ammendment that will provide a degree of  
20 relief for small employers in their daily deposit. I will  
21 come to that presently.

22          The issue addressed here is why give a better break to  
23 these reasonably large collectors of social security taxes  
24 which have large fiscal resources and sophisticated data  
25 processing equipment.

1 In fact, this item has picked up between '70 and '84 and  
2 thus was balanced in other years for a total improvement in  
3 trust fund balance of \$2.5 billion over the period.

4 Mr. Chairman?

5 The Chairman: In my own view it is a good amendment,  
6 It is one we have discussed. As a matter of fact we held  
7 hearings on it I think.

8 Senator Armstrong: I am perfectly willing to adopt it by  
9 voice vote if there is no objection? If there is objection,  
10 I would like a recorded vote.

11 Senator Long: Under this would city and state  
12 governments have to pay more?

13 Senator Armstrong: It would put them on the same  
14 collection schedule as private employers.

15 Senator Long: Well, I can't vote for it myself.

16 Senator Armstrong: It is interesting to note by the way  
17 that this neatly offsets the revenue loss of the immediately  
18 prior proposal. I urge you to think about that. Maybe if we  
19 have adopted this we should take another look at the other  
20 one. What I am trying to do here is to be fair.

21 It sure as thunder is not fair to interrupt somebody who  
22 is two years into a process and then he's one day short of  
23 being able to get out.

24 We turned that down a moment ago I guess because it cost  
25 \$2 billion. Here is a way to pick up \$2.5 billion. We ought

1 to do this anyway, the two are not joined, but I would note  
2 there is a sort of rough justice between the two proposals.

3 The Chairman: The clerk will call the roll.

4 The Clerk: Mr. Packwood?

5 Senator Packwood: Aye.

6 The Clerk: Mr. Roth?

7 (No response)

8 The Clerk: Mr. Danforth?

9 (No response)

10 The Clerk: Mr. Chafee?

11 (No response)

12 The Clerk: Mr. Heinz?

13 (No response)

14 The Clerk: Mr. Wallop?

15 (No response)

16 The Clerk: Mr. Durenberger?

17 Senator Durenberger: Aye.

18 The Clerk: Mr. Armstrong?

19 Senator Armstrong: Aye.

20 The Clerk: Mr. Symms?

21 (No response)

22 The Clerk: Mr. Grassley?

23 (No response)

24 The Clerk: Mr. Long?

25 Senator Long: No.

1           The Clerk: Mr. Bentsen?  
2           (No response)  
3           The Clerk: Mr. Matsunaga?  
4           (No response)  
5           The Clerk: Mr. Moynihan?  
6           Senator Moynihan: No.  
7           The Clerk: Mr. Bacus?  
8           Senator Bacus: No.  
9           The Clerk: Mr. Boren?  
10          (No response)  
11          The Clerk: Mr. Bradley?  
12          Senator Bradley: No.  
13          The Clerk: Mr. Mitchell?  
14          (No response)  
15          The Clerk: Mr. Pryor?  
16          (No response)  
17          The Clerk: Mr. Chairman?  
18          The Chairman: Mr. Pryor, no.  
19          The Clerk: Mr. Chairman?  
20          The Chairman: Aye.  
21          Senator Heinz: May we have just a statement of what we  
22 are voting on?  
23          The Chairman: This is to give state and local  
24 governments the same payment rate as private employers.  
25          Senator Heinz: Which is how many? Eight times per month?



1           Senator Armstrong: It varies, Senator, by the size of  
2 the employer. I think while you were out of the room,  
3 Senator, I  
4 mentioned that small firms do not have to deposit as fast as  
5 large firms. This just puts state and local employers on the  
6 same schedules as the private sector employers are on.  
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1 Senator Chafee: That has merit. I vote aye.

2 Senator Armstrong: Mr. Chairman, I have Senator Symms'  
3 proxy and he votes aye.

4 Senator Heinz: [Indicating]

5 The Chairman: Do you vote aye?

6 Senator Heinz: [Nods affirmatively]

7 The Chairman: The vote is now seven yeas and six nays.  
8 It is agreed to. The absent senators will record their votes.

9 Senator Armstrong: Mr. Chairman, in the next section  
10 there is a list of amendments under the heading of Equity,  
11 and I have two proposals to offer on that list. Both of them  
12 have some modest cost to the trust funds.

13 The first is in your package of handouts under the  
14 heading of providing additional dropout years. Under the  
15 current law when we compute benefit levels, the five years in  
16 which the worker had the lowest income are removed from the  
17 earning history. The effect of this five dropout years is to  
18 permit people to arrange their benefit records so as to  
19 increase their benefits to maximize their earnings.

20 The proposal I offer is to provide three additional  
21 dropout years for spouses who leave the work force for the  
22 purpose of caring for children under the age of 6 at home.  
23 To qualify for these additional years, a worker must not own  
24 more than half the average wage of all covered workers during  
25 the year. Literally in practically every case we are talking

1 about the mother, but in some cases, in perhaps a growing and  
2 significant number of cases, we are talking about the man who  
3 may stay home for a year or two to take part in child care.

4 I urge this for fairness reason and because I think as a  
5 matter of social policy our Social Security System should not  
6 unduly discourage people from staying home during critical  
7 years of their child's development. I think at least the  
8 Social Security System should be neutral to that extent.

9 The cost of this is estimated during the 1983-89 period  
10 as negligible. It has a long-term cost of .21, so both on  
11 fairness grounds and because I think we can well afford it, I  
12 would urge its adoption.

13 Senator Packwood: The question.

14 Senator Chafee: I would like to ask the Social Security  
15 people, the representatives, is it possible to monitor this?  
16 How does one identify that the home has children under 6?  
17 What does that do to your records?

18 Mr. Trout: Well, Senator, it could be an administrative  
19 problem but we do have a provision under the 1980 disability  
20 amendments that already requires us to determine child care  
21 dropout years, so we are developing ways of trying to  
22 implement this kind of provision.

23 Senator Heinz: Mr. Chairman.

24 Senator Packwood: Bill had his hand up first.

25 Senator Bradley: Mr. Chairman, I think this is a good

1 amendment. I hope the committee will adopt it.

2 Senator Heinz: May I ask how much this amendment costs?

3 Senator Armstrong: .21.

4 Senator Heinz: .21 percent of taxable?

5 Senator Armstrong: Long-range.

6 Senator Heinz: Does the Senator propose to offer a  
7 second amendment, another equity amendment?

8 Senator Armstrong: Yes, I have several amendments which  
9 I hope to offer.

10 Senator Heinz: According to the sheet here, you will  
11 also have one for the dropout years for child care as well  
12 as --

13 Senator Armstrong: That is the pending amendment.

14 Senator Heinz: Unremarried divorced spouses?

15 Senator Armstrong: Yes, that follows. That in the  
16 handout is not priced, but I have the numbers now. They were  
17 not available when we Xeroxed that sheet, but the pending  
18 amendment has negligible costs in 1983-89, and .21 over the  
19 long term.

20 Senator Heinz: Just so I understand the consequences, it  
21 doesn't cost much right now, but it means we will have to  
22 find .2 percent of taxable payroll on top of anything else.  
23 We are going to have to raise the retirement age further or  
24 reduce replacement rates or increase taxes.

25 Senator Armstrong: The Senator is correct. It is a

1 liberalization of benefits. It has a cost. In my view it  
2 promotes a socially desirable end and is fair. It is in  
3 essence a return to the policy that existed prior to 1972, at  
4 which time the dropout years were five and two. Because of  
5 legal questions that arose at that time, it was normalized  
6 for everybody at five.

7 This reestablishes the principle that we ought to have  
8 some consideration for people who have to care for children,  
9 but it does it in a sex-neutral way which we believe will  
10 raise no legal questions.

11 Senator Heinz: Mr. Chairman, clearly this is an  
12 extremely attractive amendment to all of us, but I would hope  
13 that before we start voting for attractive amendments, we  
14 find ways to pay for them. One of the reasons that Social  
15 Security, some of our constituents tell us, got into the  
16 situation it is now in is that all kinds of very fair,  
17 perfectly proper and also very equitable things were done,  
18 but the system couldn't afford it all.

19 I am not opposed to what the Senator is doing, but I must  
20 oppose it unless he finds a way to pay for it.

21 Senator Armstrong: The Senator makes a good point and I  
22 promise that I, for one, will support an amendment which will  
23 pay for it, and that amendment is included in here. But I  
24 also want to point out that that applies to everything we are  
25 doing here tonight. We have to decide what we want to do,

1 and in the end we must be prepared to pay for it.

2 I don't want to mislead anyone. The worst thing would be  
3 the situation where we were leaving the fund unbalanced, and  
4 I wouldn't do that for a minute.

5 Senator Chafee: Mr. Chairman, I think we have a great  
6 danger of that taking place. I think this committee, like  
7 many committees, is strong on voting for benefits and  
8 reluctant to vote for taxes, and when you said .21, I  
9 thought, that is fine. I thought .21 was something like  
10 210,000, or make it million, but nothing significant. But I  
11 understand now that it is .21 of payroll; is that right?

12 Senator Armstrong: [Nods affirmatively]

13 The Chairman: If you add another one, it would be two.  
14 I think the two amendments are .4 percent of payroll; is that  
15 correct?

16 Senator Armstrong: The amendment I hope to offer in a  
17 moment would have a long-term cost of .20, and the total of  
18 those would be .41. I would also point out to the Senator I  
19 have several amendments which contribute to the solvency of  
20 the fund in the long term, well in excess of the amendments I  
21 am offering.

22 The Chairman: Maybe you should offer those.

23 Senator Chafee: I would much rather see the savings  
24 amendments posed and adopted before we got into the spending  
25 amendments. Human nature being what it is, I suspect the

1 spending amendments have a good deal of support.

2 Senator Baucus: Mr. Chairman, I would second that  
3 suggestion. You know, .21 means employers and employees each  
4 contribute an additional .1 percent of payroll. Right now we  
5 are moving to 6.7, up to 7 percent. That is .1 percent of  
6 payroll, so it is not inexpensive. Like the Senator from  
7 Rhode Island, I would like to see where the savings are first.

8 The Chairman: Right. I am sympathetic. In fact, we  
9 wrestled around with these issues on the Commission. We had  
10 Martha Keys, who has probably been a leader for years in this  
11 area, and Mary Fuller on our commission and others who are  
12 interested in equity. We got to the point we either had to  
13 extend the retirement age or raise taxes, and what we, I  
14 think, more or less agreed, only at a commission level, and I  
15 am certain they are willing to agree at a committee level,  
16 was to explore these long-term, see whether there was some  
17 way we could work these in in the long-term areas so we  
18 wouldn't be forced to either raise more taxes, cut benefits  
19 or whatever.

20 Is that a correct recollection, Carolyn and Bob?

21 Ms. Weaver: Yes.

22 Mr. Myers: Yes.

23 Ms. Weaver: On a number of occasions.

24 The Chairman: I like the amendments, I think they have  
25 great merit, but I am not certain -- I know Senator Armstrong

1 is perfectly willing to pay for them.

2 Senator Armstrong: The Senator is correct. In fact, the  
3 Chairman and I are co-sponsors of a proposal which in fact  
4 would do so. It is not an inconsequential amount of money.  
5 I said at the outset it costs something but it is worth a  
6 lot, too. It is a useful proposal. It comes down to what  
7 you think our priorities are.

8 I think this is important, and if we have to give a  
9 little on the retirement age, that does not seem unreasonable  
10 to me. But there is no kidding about it: we must pay for all  
11 of this, not just this one but everything else in the bill  
12 and that we have previously voted for. That is absolutely  
13 right. I just think this is a worthy cause.

14 Senator Heinz: Mr. Chairman, could I ask whether the  
15 staff knows how much, since .21 doesn't sound like much to  
16 many people, how much that is in dollars over the 75 years we  
17 look here?

18 Ms. Weaver: Bob Myers and I were just calculating that  
19 and we believe it is about \$2.8 billion per year over the  
20 next 75 years, and that is in 1983 dollars, current dollars.

21 Senator Heinz: \$2.8 billion per year?

22 Thank you, Mr. Chairman.

23 The Chairman: Are you ready to vote?

24 Senator Armstrong: Sure.

25 Senator Chafee: Mr. Chairman, I will vote no until we



1 see how the money-raising aspects go.

2 The Chairman: We can always reconsider.

3 Senator Chafee: No, I won't be on the prevailing side,  
4 but someone will be.

5 The Chairman: Do you want to offer them in the other  
6 order, the savers first?

7 Senator Armstrong: Mr. Chairman, it cuts both ways.  
8 Exactly what I need to offer to pay for this depends on what  
9 carries. It doesn't matter what order we vote on them. In  
10 the end we have to reconcile them. I don't have to offer all  
11 of my amendments. If others want to get in after this vote  
12 and offer amendments, that is fine.

13 Senator Bradley: Good. Good.

14 Senator Armstrong: I would like to offer the one more  
15 tha ties to this, and then I would be glad to yield. I have  
16 several amendments but I do not seek to monopolize the floor.

17 The Clerk: Senator Packwood.

18 Senator Packwood: Aye.

19 The Clerk: Senator Roth.

20 [No response]

21 The Clerk: Senator Danforth.

22 The Chairman: No.

23 The Clerk: Senator Chafee.

24 Senator Chafee: No.

25 The Clerk: Senator Heinz.

1 Senator Heinz: No.  
2 The Clerk: Senator Wallop.  
3 The Chairman: No.  
4 The Clerk: Senator Durenberger.  
5 Senator Durenberger: Aye.  
6 The Clerk: Senator Armstrong.  
7 Senator Armstrong: Aye.  
8 The Clerk: Senator Symms.  
9 Senator Armstrong: Aye.  
10 The Clerk: Senator Grassley.  
11 Senator Grassley: No.  
12 The Clerk: Senator Long.  
13 Senator Long: No.  
14 Wait a minute. Is this your amendment?  
15 Senator Armstrong: Yes.  
16 Senator Long: Aye.  
17 Senator Armstrong: Thank you.  
18 The Clerk: Senator Matsunaga.  
19 (No response.)  
20 The Clerk: Senator Moynihan.  
21 Voice: No.  
22 The Clerk: Senator Baucus.  
23 Senator Baucus: Aye.  
24 The Clerk: Senator Boren.  
25 (No response.)

1           The Clerk: Senator Bradley.

2           Senator Bradley: Aye.

3           The Clerk: Senator Mitchell.

4           Senator Mitchell: Aye.

5           The Clerk: Senator Pryor.

6           (No response.)

7           The Clerk: Mr. Chairman.

8           The Chairman: No.

9           The yeas are eight, the nays are seven, and the absentees

10          can be recorded.

11          Senator Chafee: At least you got eight votes for your

12          raising proposals, anyway. Why don't you throw them out.

13          Senator Armstrong: Mr. Chairman, can I take the

14          companion? The Senator from Rhode Island knows I will do

15          that. In fact, I have just offered one which has been adopted

16          which did pick us up \$2.5 billion.

17          May I offer next the dropout years for divorced spouses?

18          The Chairman: [Nods affirmatively]

19          Senator Armstrong: I believe all senators have a writeup

20          on this, but if you haven't had a chance to look at it, let

21          me tell you quickly what the background of it is.

22          In determining benefits under the present law, a divorced

23          spouse can receive benefits based upon the higher of the

24          benefits, based upon their own earnings or their spouse's

25          earnings. Here is the problem. If you get a dependent

1 spouse, and again, we are most often, almost always, in fact,  
2 talking about a divorced woman who has been married for a  
3 long time, 10, 15, 20 years, who is then divorced and enters  
4 the workforce to make her own way and does not remarry.

5 There are simply not enough years left between the time  
6 of the divorce and the time of normal retirement for her to  
7 accumulate a decent earnings record. It just isn't possible.  
8 It is a Catch-22 situation. So the notion of this proposal  
9 is to solve that narrow problem for spouses who are  
10 dependents, who are divorced and who do not remarry.

11 If they remarry, they are right back where they were if  
12 they stayed married in the first place, so this only  
13 addresses itself to that group of people who are in the  
14 Catch-22 situation of being divorced, making their own way  
15 and simply not having enough years to accumulate a decent  
16 earnings record.

17 This proposal is not priced in the handout which has been  
18 distributed to you, and the reason is the numbers were not  
19 available to me at that time. Let me just tick off what the  
20 numbers are.

21 The costs to the trust fund are .1, .2, .3, .5, .6. The  
22 total for the 1983-89 period is 1.7, the long-term cost of  
23 .2. In my opinion this is an equity in the present system  
24 that needs to be corrected. I acknowledge it costs  
25 something, but it is worth something. It is a real injustice.

1           The Chairman: Well, as I understand, this is another  
2 very fine amendment, but I just want to tell my colleagues  
3 that the moment of reckoning will come here soon. How many  
4 billion a year is this?

5           Ms. Weaver: The same amount, \$2.8 billion.

6           The Chairman: So we are looking at how do we raise \$6  
7 billion a year, \$5.6 billion a year, and it is not easy,  
8 believe me. I don't have any ideas off the top of my head  
9 unless we want to go to 68 on the retirement age, and I know  
10 the Senator from Colorado does.

11          Senator Armstrong: No, the Chairman is mistaken. I want  
12 to go to 66 and thereafter index to longevity, which picks up  
13 1.68 percent of payroll. In other words --

14          Senator Bradley: 1.68 of payroll?

15          Senator Armstrong: Adopting the Commission's Option  
16 F-12, which is literally after the turn of the century  
17 raising the retirement age one year, and thereafter indexing  
18 to longevity is estimated to be worth 1.6 percent of payroll,  
19 which means --

20          Senator Bradley: In that plan what would the retirement  
21 age be in 2030?

22          Senator Armstrong: It depends on longevity.

23          Senator Bradley: 89?

24          [Laughter]

25          Senator Armstrong: I don't want to veer off too deeply

1 into that.

2 Senator Bradley: Okay.

3 Senator Armstrong: But I would invite the Senator's  
4 attention to the handout material. We put in three charts  
5 predicting longevity, both backwards to the 1930s and forward  
6 to the 21st Century, and you will see, based upon life  
7 expectancy at birth, age 20 and age 65 what is happening.  
8 They are going off the chart. There is no getting around  
9 it. The ages are rising.

10 Senator Bradley: So it could go up considerably.

11 Senator Armstrong: It could go up considerably, yes. In  
12 fact, I expect it would.

13 Senator Heinz: Would the Senator yield? Just so we are  
14 all clear on how this would work, there were a majority of  
15 members of the Commission who recommended that the retirement  
16 age be raised to age 66 effective in the year 2015, beginning  
17 by phasing that in in the year 2000 with the age 62 people a  
18 month per year. That was something that a number -- and then  
19 index to longevity after the year 2015.

20 Now, as I understand the difference, the Senator would be  
21 phasing in the age 66 approximately 13 years earlier than was  
22 recommended. Is my understanding correct?

23 Senator Armstrong: The Senator knows me well enough to  
24 know that I am not trying to be evasive when I say this, but  
25 I don't want to talk about retirement ages now because I

1 haven't decided what retirement age proposal I will  
2 recommend. I believe that my motion will be to adopt that  
3 which has already passed the House, or a very practical  
4 reason.

5 If when we get to the end of the markup that is not  
6 sufficient to cover the gap, even though I don't think the  
7 House-passed version is as good as the proposal I have passed  
8 out -- I think this is clearly better -- but there is some  
9 wisdom, you know, in settling some of this before we get to  
10 conference, so I am probably going to move to adopt the  
11 so-called Pickle amendment.

12 If at that point we have adopted things that have  
13 long-term costs in excess of what revenues are available to  
14 pay, then we are clearly obligated to cover those, and there  
15 are lots of different ways to do it.

16 The Chairman: Again, I don't have any quarrel with the  
17 amendment. We discussed the amendments in the Commission,  
18 but I must say we took the lead, the male members, from the  
19 ladies on the Commission and I think there was general  
20 agreement that as meritorious as these were, we couldn't come  
21 up with any way to pay for them.

22 Senator Armstrong has a way of paying for them, so we  
23 have to make a package judgment. If we are willing to vote  
24 for the amendments to pay for them, I want to be recorded  
25 aye. But we can't add \$5.6 billion per year by adopting --

1 we have already adopted one amendment -- by adopting a second  
2 amendment which is \$2.8 billion.

3 Senator Long: Why don't we put on something to pay for  
4 it?

5 The Chairman: We are getting to get a chance to do that,  
6 I guess, but hopefully we can always reconsider these later  
7 on, but let's just have a roll call.

8 The Clerk: Senator Packwood.

9 Senator Packwood: Aye.

10 The Clerk: Senator Roth.

11 (No response.)

12 The Clerk: Senator Danforth.

13 The Chairman: No.

14 The Clerk: Senator Chafee.

15 Senator Chafee: No.

16 The Clerk: Senator Heinz.

17 Senator Heinz: No.

18 The Clerk: I'm sorry?

19 Senator Heinz: No. I'm sorry.

20 The Clerk: Senator Wallop.

21 The Chairman: No.

22 The Clerk: Senator Durenberger.

23 Senator Durenberger: No.

24 The Clerk: Senator Armstrong.

25 Senator Armstrong: Aye.



1           The Clerk: Senator Symms.  
2           Senator Armstrong: Aye.  
3           The Clerk: Senator Grassley.  
4           Senator Grassley: No.  
5           The Clerk: Senator Long.  
6           Senator Long: No.  
7           The Clerk: Senator Bentsen.  
8           [No response]  
9           The Clerk: Senator Matsunaga.  
10          (No response.)  
11          The Clerk: Senator Moynihan.  
12          Senator Long: No.  
13          The Clerk: Senator Baucus.  
14          Senator Baucus: Aye.  
15          The Clerk: Senator Boren.  
16          Senator Boren: No.  
17          The Clerk: Senator Bradley.  
18          Senator Bradley: No.  
19          The Clerk: Senator Mitchell.  
20          (No response.)  
21          The Clerk: Senator Pryor.  
22          Senator Bradley: No.  
23          The Clerk: Mr. Chairman.  
24          The Chairman: No.  
25          On this vote the nays are 12, the ayes are 4. The

1 amendment is not agreed to.

2 Senator Bradley: Mr. Chairman.

3 The Chairman: Senator Bradley.

4 Senator Bradley: Mr. Chairman, I have two amendments I  
5 would like to offer. The first amendment deals with the  
6 taxing of benefits. Frankly, this presents some problems for  
7 all of us. The Social Security Commission has said that it  
8 would tax one-half of Social Security for incomes of  
9 non-Social Security income over \$20,000.

10 What I would like to suggest is that before that tax on  
11 one-half of Social Security benefits goes into effect, the  
12 recipient will have had to have received everything that he  
13 or she has put into the system, plus interest in the form of  
14 their Social Security payment.

15 Since, as we heard today from the Social Security  
16 Administration, it would be difficult to do this on an  
17 individual basis, what I will suggest is that the Social  
18 Security Administration be allowed to estimate the average  
19 period and tax benefits according to the average time period  
20 out there today, which is no more than three years.

21 So the effect of this would be that a tax on one-half of  
22 Social Security benefits paid would not go into effect until  
23 after three years of receiving benefits of any Social  
24 Security recipient.

25 The Chairman: Is there a cost estimate on this?

1 Mr. DeArment: It is estimated between \$7 billion to \$10  
2 billion over the decade.

3 Senator Armstrong: Mr. Chairman, excuse me. I thought  
4 staff had completed their statement.

5 Mr. DeArment: There is a bit of disagreement. It is  
6 either \$5 billion to \$7 billion cost over the decade or \$8  
7 billion to \$10 billion cost over the decade, depending upon  
8 what assumption you use, but it is at least \$5 billion.

9 The Chairman: That is a pretty big gap. How do you get  
10 it that big?

11 Mr. DeArment: That is basically by saying you are going  
12 to lose three years' worth of the taxation by assuming it is  
13 about 2-1/2 to 3 years before you pick up the amount put in  
14 by the employee.

15 Senator Bradley: Essentially it affects those retiring  
16 this year, next year and the following year, the first three  
17 years. It doesn't affect people who are already three years  
18 into retirement or more.

19 Mr. DeArment: That is right.

20 The Chairman: As I understood Mr. Myers this morning, he  
21 didn't think we would have that much difficulty, is that  
22 correct, in determining what?

23 Mr. Myers: Well, Mr. Chairman, I think you can determine  
24 what the contributions are for people in the past relatively  
25 easily. One thing I am not clear about the proposal is would

1 it take into account benefits people have received in the  
2 past or would it be just prospective? In other words, if  
3 someone has been on the roll for four or five years now.

4 Senator Bradley: No, it is prospective.

5 Mr. Myers: It is only the benefits they get from now on.

6 Senator Bradley: That is right. New retirees.

7 Mr. Myers: But for people who are now on the rolls.

8 Senator Bradley: People now on the rolls who have  
9 received their full amount back in contributions would be  
10 subject to the tax. It is people who are not on the rolls  
11 and who have not received their full contribution, and that  
12 is why I don't know if the figures are exactly correct.

13 Senator Long: Would you mind explaining that amendment  
14 again? I am not sure I understand.

15 Senator Bradley: All right. The Commission's proposal  
16 now says that one-half of your Social Security benefits are  
17 subject to tax if your income is over \$20,000 as an  
18 individual.

19 Senator Long: Say it again?

20 Senator Bradley: If your income, your non-Social  
21 Security income is over \$20,000 as an individual, one-half of  
22 your Social Security payment is subject to tax. What I am  
23 saying is: fine, only do not begin to tax that individual who  
24 has non-Social Security income over \$20,000 until they have  
25 received the full amount they have contributed to the system

1 plus interest.

2 Now, since you can't do that, as the Social Security  
3 Administration said, on a recipient-by-recipient basis, there  
4 is an average period conventionally looked at as three  
5 years. So the effect of this amendment is to say no tax on  
6 Social Security benefits on one-half of the Social Security  
7 benefits until three years after retirement.

8 Senator Chafee: Would you then impose a tax on 100  
9 percent?

10 Senator Bradley: No. One-half, the same as the  
11 Commission.

12 The Chairman: Let me just say, and I don't want to cut  
13 anyone off, but this was discussed in the Commission. It is  
14 one of those tough decisions, and whether it is \$5 billion or  
15 \$10 billion, if we adopt the amendment, we have to find the  
16 \$5 billion.

17 We have some concern about getting through 1985, 1986 and  
18 1987 as it is if we take out \$2.8 billion -- an amendment we  
19 just adopted -- per year, and another few billion here. I  
20 would just hope we would not adopt this amendment. I think  
21 it is probably more generous than we treat private pensions.  
22 Is is, is that not correct, Mr. Myers?

23 -Mr. Myers: Yes, it is, because private pensions, after  
24 the people get their money back, which is a period of  
25 probably less than three years, then you tax the whole

1 pension, not just half of it, and not with any threshold.

2 The Chairman: Do you want a roll call?

3 Senator Bradley: Yes, I would.

4 Senator Moynihan: May I just say the senator from New  
5 Jersey and I are normally in very close agreement on matters  
6 in this committee, but the putting together of a program that  
7 will put this system in solid shape, and the only close  
8 moment we have are in the next three years. As much as I  
9 would agree that it is a pleasant thing to do, it seems to me  
10 it would be a dangerous thing to do. It seems to me it could  
11 bring us back here in two years time.

12 Senator Armstrong: Mr. Chairman, I want to offer a  
13 substitute.

14 Senator Chafee: If I under --

15 Senator Armstrong: Excuse me. Go right ahead.

16 Senator Chafee: As I understand the rationale of only  
17 taxing half the Social Security benefits, it is that you are  
18 not taxing any of the portion that the beneficiary put in,  
19 you are only taxing the employer's share. You are not taxing  
20 any of what the beneficiary put in. So that the  
21 beneficiary's contribution is not being taxed at all, as I  
22 understand the rationale.

23 So the Senator from New Jersey's proposal is not only to  
24 not tax it but to give a three-year leeway on the employer's  
25 contribution.

1           The Chairman: Correct.

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1 unemployment plan to offer.

2 Senator Moynihan: We have the long-term.

3 The Chairman: We have the long-term. Senator Moynihan  
4 has an amendment on that. Senator Heinz, who was a member of  
5 the Commission and a member of the committee may have an  
6 amendment, and that should wind it up. We might be out of  
7 here soon.

8 Senator Armstrong: I have an addition to the items we  
9 have laid aside on the retirement age. I also have a modest  
10 amendment on Social Security and also a UC amendment. Do you  
11 want to take that one little Social Security amendment?

12 The Chairman: Let's take the Social Security amendment.

13 Senator Armstrong: Mr. Chairman, this is a very simple  
14 amendment. It has to do with the deposit requirements for  
15 small businesses. Under the present law, employers are  
16 required to make their deposits based upon the size of the  
17 liability which they incur.

18 At the present time, employers with \$500 or less in  
19 monthly withholding from FICA and income tax can deposit once  
20 a month or once a quarter. Employers in the \$500 to \$3000  
21 per month group deposit monthly. Employees who have more  
22 than \$3,000 a month deposit up to eight times a month.

23 My proposal is simply to do two things, actually three  
24 things, but two that are substantive. One is to raise the  
25 \$3,000 threshold to \$5,000, simply recognizing that with the



1 passage of time, some of these very small businesses find  
2 themselves in a situation where frequent deposit is difficult  
3 for them.

4 Second, I would include in my amendment reducing the  
5 target estimate for compliance from 95 percent to 90  
6 percent. In other words, that is the threshold before  
7 penalties would be imposed for late or incorrect deposit.  
8 Third, codify the rules.

9 That is the nature of the proposal. It has a small cost  
10 benefit to the trust fund and to the general revenue fund,  
11 which is mentioned in the material we have handed out to  
12 you. I think it is fair and, frankly, it responds to a very,  
13 very keenly felt concern among small businesses who, frankly,  
14 are having horrible cash flow problems. This seems like a  
15 reasonable way to help them out a little.

16 Mr. Myers, Randy, does anyone have a comment on this?

17 Mr. Weiss: I can explain the amendment essentially  
18 involves how often employers have to deposit withholding and  
19 taxes and would allow some employers in effect to be able to  
20 wait until the following month rather than having to pay the  
21 money to the Treasury during that month. I guess I assume  
22 that the reduction in the amount you have to deposit would  
23 only apply to small businesses, although it is not  
24 specifically stated here.

25 I think the revenue estimate is consistent with a small

1 business.

2 The Chairman: I wonder what the cut-off point on that  
3 is. How do you define a small business?

4 Senator Armstrong: Mr. Chairman, we don't attempt to  
5 define small business, but that threshold of \$3,000 we just  
6 raise it to \$5,000. That is how.

7 The Chairman: I see.

8 Senator Armstrong: There is no definition involved. Just  
9 three tiers of different deposit dates and very large firms  
10 are deemed to be able to deposit very frequently. They have  
11 data processing, they have the financial capacity, they have  
12 the float. We are just raising that threshold a little to  
13 give a group of small or medium-small business concerns a  
14 little, not a great deal of time, but a little more time to  
15 get their money in.

16 Mr. Weiss: Senator Armstrong, would the 95 to 90 change  
17 only apply to small businesses, perhaps businesses with an  
18 annual payroll below a certain amount, or would that apply to  
19 all corporations of all sizes?

20 Senator Armstrong: My contemplation is small business,  
21 but I must admit I haven't thought that through very well,  
22 and it sounds to me as if you have a recommendation. Do you  
23 have a recommendation?

24 Mr. Weiss: One possibility would be to look at the  
25 annual payroll for the business or the annual withholding.

1           Senator Armstrong: How about instead of doing that, make  
2 it apply to this group in the under-\$5,000 threshold because  
3 that would be consistent with the other provision of the  
4 amendment?

5           Mr. Weiss: The individuals who --

6           The Chairman: Bill, if it is all right, maybe Pandy can  
7 work on that during this ten-minute break.

8           Senator Armstrong: Sure, while we are at break. I have  
9 no objection.

10          I see your point. The very large firms would also have  
11 the capacity to hone that down and get down to where their  
12 compliance was 90.001. I am not trying to help the  
13 sharpshooters; I am just trying to help some people.

14          Mr. Weiss: I think the revenue estimate is consistent  
15 with some kind of limitation on that.

16          Senator Armstrong: Figure out what that would be.

17          The Chairman: I just have -- I don't think it is an  
18 amendment, but when Dr. Fleming and Mr. Cone appeared to  
19 testify, and they probably have been watching this program as  
20 closely as many, about 6.9 percent of elderly Social Security  
21 recipients also receive SSI, and it is believed by some that  
22 the proportion eligible may be considerably higher.

23          What they propose, and I think it is a rather simple  
24 suggestion, is to require that the Secretary of Health and  
25 Human Services notify all Social Security recipients of the

1 availability of Supplemental Security Income and to encourage  
2 those potentially eligible to contact their district office.  
3 Notification shall be made of all new beneficiaries and on an  
4 annual basis to all beneficiaries by insert with their  
5 benefit checks or through separate notification for those  
6 with direct deposit of their checks.

7 I understand HHS or whoever, SSA, there is no reason for  
8 this, but we have been unable to estimate the cost of the  
9 program. I know the administration feels that most of the  
10 beneficiaries have been notified. Unless there is some  
11 strong objection, it seems to me that is the least we can do  
12 for the lowest income people, to alert them on an annual  
13 basis that they might have some benefits if they contact  
14 their district offices.

15 Senator Moynihan: I think that is a fair point.

16 The Chairman: Do you feel strongly about this, Mr. Trout?

17 Mr. Trout: We looked at this idea overnight since we  
18 heard about it from staff. I want to make a couple of  
19 points about it. The numbers that indicate there are only  
20 6.9 percent of Social Security beneficiaries who get SSI  
21 don't reflect the fact that quite a number of them might have  
22 assets or asset income. As you know, the SSI asset tests are  
23 pretty tight.

24 They also may be living with relatives and have their  
25 needs taken care of. We have made many efforts over the

1 years since the SSI program was implemented to find as many  
2 cases as we could, and the latest efforts in that direction  
3 have had very small results. Our feeling is that to notify  
4 all 36 million beneficiaries is a real shotgun approach that  
5 will be in a sense wasteful.

6 The Chairman: Have you got a better idea?

7 Mr. Trout: Well, one thing we do right now is each  
8 Social Security applicant who does come in is advised about  
9 the ability of the SSI program, and if it sounds like they  
10 might be eligible, we take an application from them. We also  
11 have very active public information campaigns and we work  
12 with private charity agencies to get referrals.

13 We feel we have a very active program going on right now  
14 which just about pulls in everyone we can reasonably pull in  
15 without spending a lot of money.

16 The Chairman: I don't want to get into it. If there is  
17 no strong objection, what we might do is include this in the  
18 proposal, and that will give us some chance to work with you  
19 between now and the time we go to conference if there is a  
20 better way. But I can see the cost in mailing out 36 million  
21 notices. There ought to be a way to lower that number.

22 Mr. Trout: Mr. Chairman, we thought about ways of  
23 targetting this on certain groups, but if you try to target  
24 it, for example, to people with low benefit amounts, that is  
25 not necessarily the poorest people. You might get double

1 dippers and that sort of thing.

2 Senator Moynihan: Why don't we do this and give you the  
3 chance of thinking of an alternative? You come to us. We  
4 were talking about incentives here. We will give you an  
5 incentive.

6 Mr. Trout: Thank you.

7 The Chairman: I understand your concern, but unless  
8 there is objection, we can just adopt this rather minor  
9 amendment. You might have some cost estimates, too. So we are  
10 not trying to take money out of the system. If it is going  
11 to be costly, we will come up with some other idea.

12 Let's break now for 15 minutes.

13 How many other members have amendments? Senator  
14 Armstrong?

15 Senator Chafee: On this bill or on the evening's agenda?

16 The Chairman: On the evening's agenda.

17 Senator Chafee: I have one.

18 The Chairman: All right. Let's make it ten minutes.

19 Senator Chafee: Mr. Chairman, on the last thing, how was  
20 that left? Unless some change takes place, they are going to  
21 mail out once a year to 35 million people? Or is it that  
22 they are going to talk to you and see what to do before we go  
23 to the floor?

24 The Chairman: Unless there is objection, I will include  
25 it. I am certainly going to visit with the Social Security

1 people to see if we can come up with a better idea and I can  
2 modify it on the floor and in conference.

3 Senator Chafee: I hope you will modify it.

4 The Chairman: There has got to be a better way to reach  
5 the right people, but I haven't thought of it.

6 Ten minutes.

7 [Recess]

8 The Chairman: Senator Moynihan.

9 Senator Moynihan: Mr. Chairman, as we all know, we have  
10 been dealing with the financial aspects of the Social  
11 Security funds in roughly three timeframes: that is, the  
12 period between now and 1990, which we called the near term,  
13 and the middle term is the next 30 years, and then the period  
14 thereafter.

15 We clearly have taken more than ample care of the middle  
16 term, and sufficiently, we hope, for the short term. The  
17 long-term question remains. There is, in fact, a .68 percent  
18 of payroll still to be made up in this package. It can be  
19 done in a number of ways.

20 Five members of the Commission and many members of this  
21 committee think that the best thing to do would be to provide  
22 in this bill that there be a standby tax increase in the year  
23 2010, which, if it turns out it is not needed, Congress can  
24 repeal. But if it is needed, it is there. And in any event,  
25 from this point on the actuarial soundness over 75 years is

1 attested to by the actuary.

2 We know the difficulty of making real estimates about  
3 events in the far term, but in any event, we are committed to  
4 closing that actuarial imbalance over 75 years, which drew  
5 somewhat in the recent report of the trustees.

6 In order to close it, Mr. Chairman, in accordance with  
7 the views, with which you are familiar and which most of us  
8 know here, I am going to propose that we provide for a .53  
9 percent increase in the payroll tax. That is, 1.06  
10 altogether, 5.3 on either side, with comparable rates at  
11 self-employed to take place in the year 2010.

12 This will close the remaining long-term gap, and Mr. Goss  
13 can testify to this, I think, of .83 percent.

14 Mr. Goss: [Nods affirmatively]

15 Senator Moynihan: Mr. Goss indicates that is the view.

16 Mr. Chairman, I could speak at length if you like.

17 The Chairman: No, no.

18 Senator Moynihan: But I think you know the arguments.  
19 The arguments are that we don't have to make any immediate  
20 changes with respect to this long-term period, and many  
21 intervening events could mean we don't have to make any  
22 changes at all. But if things go exactly as they are now  
23 forecast, this would resolve the problem, and I would like to  
24 move this measure. I would like to discuss it with anyone  
25 who desires.



1           Senator Heinz: Mr. Chairman, I have a question. When we  
2 started our markup today, the long-term deficit that we had  
3 not addressed, as I understand it, was roughly .68 percent.

4           Senator Moynihan: Yes.

5           Senator Heinz: But we apparently adopted, although I did  
6 not vote for it, a child care dropout proposal that cost .14  
7 percent. So I assume there is a scorekeeper down there. My  
8 understanding is that Senator Moynihan's proposal would have  
9 addressed the long-term problem if he had offered it earlier  
10 in the day, but the committee has gone beyond that point and  
11 now we have an additional .14 percent that a lot of people  
12 voted for.

13          Senator Moynihan: Could I say to my friend, my  
14 understanding is it might even be .21.

15          Senator Heinz: You are quite right, .21.

16          Senator Moynihan: I hope we are going to reconsider that  
17 matter.

18          Senator Heinz: We better reconsider it first.

19          Senator Moynihan: I would be happy to defer to the  
20 Chairman's wishes.

21          The Chairman: Pardon me?

22          Senator Heinz: We were just saying Senator Moynihan's  
23 proposal doesn't cover the .21, and he is saying it better be  
24 reconsidered. I don't know whether there are votes to  
25 reconsider it or not, but we must address the issue, I think,

1 before we address the long-term solution.

2 Senator Moynihan: I think Senator Heinz is correct. If  
3 we don't, my proposal would not be adequate to our purposes  
4 if we continue with the child care provision. So, Mr.  
5 Chairman, you might want to reconsider that now.

6 I would like to reconsider it and would move to, as you  
7 wish.

8 Senator Heinz: Does anyone who was on the prevailing  
9 side want to reconsider?

10 The Chairman: I think we just vote on whether we want to  
11 fill the gap by raising taxes, and then I think there is a  
12 proposal coming from Senator Heinz.

13 Senator Heinz: Would that be all right, if we just took  
14 a vote on the principle of covering the gap with taxes?

15 The Chairman: What was the vote on the child care credit?

16 Mr. Lighthizer: At this point, Mr. Chairman, it fails by  
17 a tie vote, 9 to 9.

18 Senator Moynihan: Is that the consequence of Senator  
19 Bentsen's vote being recorded?

20 Mr. Lighthizer: That is correct, Senator.

21 Senator Moynihan: Then we do not have to reconsider the  
22 matter and it is adequate. I could make my speech again.

23 The Chairman: No, no.

24 Senator Heinz: That is not necessary.

25 Senator Moynihan: Did you all get it?

1           The Chairman: Do you want a roll call?  
2           Senator Moynihan: Yes, Mr. Chairman.  
3           The Chairman: The Clerk will call the roll.  
4           The Clerk: Senator Packwood.  
5           Senator Packwood: Aye.  
6           The Clerk: Senator Roth.  
7           Senator Roth: No.  
8           The Clerk: Senator Danforth.  
9           (No response.)  
10          The Clerk: Senator Chafee.  
11          Senator Chafee: No.  
12          The Clerk: Senator Heinz.  
13          Senator Heinz: No.  
14          The Clerk: Senator Wallop.  
15          (No response.)  
16          The Clerk: Senator Durenberger.  
17          Senator Durenberger: No.  
18          The Clerk: Senator Armstrong.  
19          Senator Armstrong: No.  
20          The Clerk: Senator Symms.  
21          [No response]  
22          The Clerk: Senator Grassley.  
23          Senator Grassley: No.  
24          The Clerk: Senator Long.  
25          (No response.)

1           The Clerk: Senator Bentsen.  
2           [No response]  
3           The Clerk: Senator Matsunaga.  
4           [No response]  
5           The Clerk: Senator Moynihan.  
6           Senator Moynihan: Aye.  
7           The Clerk: Senator Baucus.  
8           Senator Baucus: No.  
9           The Clerk: Senator Boren.  
10          Senator Boren: No.  
11          The Clerk: Senator Bradley.  
12          Senator Bradley: No.  
13          The Clerk: Senator Mitchell.  
14          Senator Mitchell: No.  
15          The Clerk: Senator Pryor.  
16          Senator Pryor: No.  
17          The Clerk: Mr. Chairman.  
18          The Chairman: No.  
19          Senator Danforth, no; and Senator Wallop, no.  
20          Senator Armstrong: And Senator Symms, no.  
21          The Chairman: Those are coming in pretty fast. The nays  
22          are 15, the yeas are 2.  
23          I now ask Senator Heinz if he and Senator Armstrong have  
24          a proposal.  
25          Senator Heinz: Yes, Mr. Chairman. The committee has

1 rather decisively decided they don't want to address this  
2 problem by simply increasing taxes on future generations, and  
3 that leaves us really with two alternatives. One alternative  
4 is that adopted by the House yesterday, which is to raise the  
5 retirement age to age 67, in a somewhat complicated way, but  
6 nonetheless to age 67.

7 That would not be my first choice, for a variety of  
8 reasons, particularly since I believe there is a more  
9 balanced way to proceed, and that way would be to, as a  
10 majority of the members of the Commission did propose, to  
11 raise the retirement age to age 66.

12 Now, at that point I would part somewhat with the  
13 majority of the commissioners and not index. Instead what I  
14 would propose we do is to make up the difference at a very  
15 little bit more, which I will explain in a moment, by  
16 adjusting the primary insurance amount across the board  
17 downward by about .5 or .53 percent, depending on what  
18 numbers we need.

19 Now, it had been my original intention to time these  
20 changes so that there would be enough money both to cover the  
21 elimination of the retirement test, the elimination of which,  
22 as I understand it, would only cost .05 in Senator  
23 Armstrong's proposal.

24 Mr. Myers: Yes, that is correct.

25 Senator Feintz: That is something that is very, very

1 modest indeed, .06. I was prepared to advocate accommodating  
2 a suggestion Senator Armstrong made, which was on this child  
3 care dropout years reducing them from 3 to 2 and lowering the  
4 cost to .14, but I agreed to that, frankly, on the assumption  
5 that his amendments had the votes.

6 I now find it does not have the votes, so I am not any  
7 longer willing to address it because we don't have to.

8 What I would propose is that we raise the retirement age  
9 from 65 to 66 over roughly totaling a 15-year period, between  
10 the year 2000 and 2015. That would put us at about .33, as I  
11 understand it.

12 Mr. Myers: .38. .39, I think, really. That is as in  
13 S.76.

14 Senator Heinz: If we --

15 The Chairman: Could you round that off to .40? Would  
16 that be all right?

17 Mr. Myers: [Nods affirmatively]

18 Senator Heinz: Bob, if we want to address the deficit  
19 and the retirement test together, the retirement test is  
20 .05. What is the deficit, .65 or .68?

21 Mr. Myers: .65.

22 Senator Heinz: So we need .71.

23 Mr. Myers: Yes.

24 Senator Heinz: We have .39.

25 Mr. Myers: Yes.

1 Senator Heinz: So we need just a point.

2 Mr. Myers: .32.

3 Senator Heinz: How would we do on the PIA?

4 Mr. Myers: You could do that, as the Ways and Means  
5 Committee bill did, the one that was introduced into the  
6 House, except where they had a 5.3 percent relative  
7 reduction, you could make it a 4 percent reduction, and that  
8 would produce the .32 and give you your exact balance.

9 Senator Heinz: I am not hung up on exactly which way.

10 Mr. Myers: Well, close.

11 Senator Heinz: I will go along with anyone who wants to  
12 do it so long as we do it. That would, Mr. Chairman, be my  
13 proposal for eliminating the retirement test as Senator  
14 Armstrong wants to do, and I think we should do that. There  
15 is a unique opportunity to do it and also make sure that we  
16 spread the burden of trying to make Social Security solvent.  
17 We don't put it simply on people by forcing them to work  
18 longer.

19 The Chairman: Does that also take care of the concern  
20 Senator Armstrong expressed about the child care credit?

21 Senator Heinz: No, it does not. I explained that when  
22 you were out of the room, I think. I indicated it had been  
23 my intention when I came in there to address that, but I  
24 agreed to that on the assumption that Senator Armstrong had  
25 the votes on his child care.

1           The Chairman: He said he would have had the votes, but  
2 because this was part of the package, I think, he didn't have  
3 the votes.

4           Senator Heinz: How is that, again?

5           The Chairman: It is confusing, but --

6           Senator Armstrong: It is not that confusing.

7           The Chairman: It is my understanding that it will be  
8 part of the package. I think what we are trying to figure  
9 out with the actuaries is how do we get close to that .7 we  
10 agreed to do in the Commission report and take care of  
11 repealing the earnings test as outlined by Senator Armstrong,  
12 modify the child care credit to reduce the long-term impact  
13 on that, stop at age 66 and do the ben points and still be  
14 within .1, .2 or something?

15           If we could round these things off like we do in the  
16 Budget Committee, we could do all right in here.

17           Senator Heinz: Let's ask Mr. Myers how we could do that.

18           Mr. Myers: Mr. Chairman, if you have the two childcare  
19 years in, then you would do with the ben points or with the  
20 benefit formula just what the Ways and Means Committee did,  
21 5.3 percent. That would give you a balance within very, very  
22 close, .01 or .02.

23           The Chairman: That's all right, isn't it, Bill?

24           Senator Mitchell: May I ask a question? Three people  
25 have now used the phrase "We will do it with the ben



1 points." Now, that might mean something to us here. Someone  
2 perhaps should explain what that means.

3 Senator Heinz: I could actually propose to do it with  
4 the primary insurance amounts. (-TAS-)

5 Mr. Myers: This is what the House Ways and Means  
6 Committee bill did. It was modified on the floor. What they  
7 did is say the benefit factor at 90 percent is applied to the  
8 first part of average earnings. They reduced that 90 percent  
9 by 5 percent relative. In other words, they bring it down to  
10 about 85 percent.

11 Senator Mitchell: In plain English, then, a reduction in  
12 benefits.

13 Mr. Myers: A reduction in relative benefits.

14 Senator Mitchell: So when we use the jargon "we will do  
15 it with the ben points," what we mean is we will accomplish  
16 the saving by reducing the benefits paid to the  
17 beneficiaries; is that correct?

18 Mr. Myers: Yes. For instance, the average beneficiary  
19 now in the long run gets 42 percent of earnings at age 65.  
20 This would mean they get 40 percent.

21 Senator Mitchell: I think it is important we understand  
22 what we are talking about.

23 Senator Moynihan: May I say to the Senator, in fairness  
24 to the action in the House, it is not a reduction in  
25 benefits; it is a reduction in replacement rates. Benefits

1 by this time will be considerably higher than they are now as  
2 real wages grow. But the replacement rate will go from 42 to  
3 40. It had previously been 38 and it crept up to 42.

4 Senator Mitchell: Right. But a person who retires then  
5 will as a result of this action receive a benefit smaller  
6 than would otherwise have been the case.

7 Senator Moynihan: That is correct.

8 Ms. Weaver: 5 percent lower.

9 The Chairman: Bob, you, Carolyn or Mr. Goss, could we  
10 run over that one more time so there is no uncertainty of  
11 what is in the proposal and how close we come to our magic  
12 number of .68 or .7?

13 Mr. Myers: First of all, the magic number, as you put  
14 it, now is .65 percent after the changes have been made  
15 before this. As I understand the package proposal, it would  
16 increase benefits in two ways. It would give two child care  
17 years and it would eliminate the earnings test beginning in a  
18 phased-in manner in 1990 the way Senator Armstrong proposed.

19 Now, it would reduce costs by going up to age 66 as the  
20 normal retirement age, as in your bill S.76, that is,  
21 beginning in the year 2000 and getting up there in about 15  
22 years. It would reduce the replacement rates to the benefit  
23 formula by about 5 percent, again beginning in 2000, and this  
24 is the way the House Ways and Means Committee bill did it.

25 The net result of all of this would, of the magic figure,

1 as you put it, of 6.5 percent, this would bring it about .62  
2 percent, and in my opinion, if you are that close -- it is  
3 .03 -- that, I would say, is in very close actuarial balance.

4 The Chairman: In other words, we won't go to jail for  
5 anything, will we?

6 Mr. Myers: I don't think so.

7 [Laughter]

8 In years gone by, if you were within .10 it was  
9 considered good. If you were within .03 or .04, I would say  
10 you are in very close actuarial balance.

11 Senator Heinz: Mr. Chairman, I think that is a  
12 reasonable proposition. I would make this observation just  
13 so it is clear. This does not include indexing the  
14 retirement age after age 66.

15 Mr. Myers: No, it does not.

16 Senator Heinz: The other thing is that if this fails, I  
17 suspect someone will come along and offer a straight  
18 retirement age proposition like they have in the House bill.  
19 Is that probably accurate, Mr. Chairman?

20 Senator Chafee: Or like the Ways and Means, a ben point  
21 plus half the tax.

22 The Chairman: I hope we could accept or adopt this  
23 amendment and we wouldn't have to worry about what might  
24 happen after that. I do believe that this is the area we  
25 could not agree on in the Commission. We said: okay, you

1 fight over the .65, or in this case, .63, and that is what  
2 happened on the House side. It is obvious there is no desire  
3 to raise taxes on the committee, and this is another option.

4 So I would like to vote on it.

5 Senator Bradley: Could Mr. Myers summarize again the  
6 components of this package?

7 Senator Long: Would you do that one more time?

8 Mr. Myers: Yes, Mr. Chairman.

9 The deficit that is trying to be met is .65 percent of  
10 payroll. It originally was .68 percent, but some of the  
11 changes you made earlier brought that down. A couple of  
12 little changes. Now, the two things that are added, the two  
13 benefit costs that are added, are two child care dropout  
14 years and phasing out the retirement test beginning in 1990  
15 and phasing it out, I guess, in 1994, the way Senator  
16 Armstrong proposed.

17 That would raise -- if you just did that, your deficit,  
18 then, would go up to .85 percent.

19 Senator Bradley: You phase out two child care dropout  
20 years?

21 Mr. Myers: No, that is a permanent feature. It is  
22 phasing out the retirement test.

23 Now, to meet that deficit of .85 that you would have if  
24 you did nothing else, you would raise the retirement age to  
25 66 gradually beginning in the year 2000 and reaching 65 in

1 the year 2015, as in the Chairman's bill S.76, and you would  
2 also then reduce the relative level of benefits, as we said,  
3 in the benefit formula by 5 percent relatively, the way it  
4 was in the House Ways and Means Committee bill.

5 The two of those together would bring in .32. That would  
6 leave a gap of .03, which in my opinion you are in very close  
7 actuarial balance if you are that near. The figures, after  
8 all, for that long a period are not that precise.

9 The Chairman: The Clerk will call the roll.

10 Oh, excuse me.

11 Senator Pryor: One quick question. What happens if we  
12 do nothing in this area?

13 Mr. Myers: If you don't do anything, you have a deficit  
14 of .65 percent.

15 Senator Pryor: That is a projection of over how long a  
16 period of time?

17 Mr. Myers: It is a 75-year projection.

18 The Chairman: How many dollars is that?

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1 Mr. Myers: In terms of recurrent dollars that is about  
2 \$9 billion a year.

3 The Chairman: Times 75?

4 Mr. Myers: Yes. We have a third of the long-range  
5 deficit. The House bill eliminated this deficit by just  
6 doing the retirement age up to 67.

7 Senator Bradley: What is the specific change in bend  
8 points?

9 Mr. Myers: The change is the benefit factors. The 90  
10 percent that is applied to the lowest would be gradually  
11 reduced beginning in the year 2000. So the 90 percent would  
12 go to 85 percent.

13 Senator Bradley: The first?

14 Mr. Myers: In each of the factors. The 32 percent  
15 factor would go down by 5 percent.

16 Senator Bradley: Okay.

17 Senator Armstrong: Mr. Chairman, I just want to pin down  
18 one tale. We are talking about closing the gap to the  
19 revised estimated long-term deficit of 2. --

20 Mr. Myers: 08.

21 Senator Armstrong: That is different from the number we  
22 had before on the Commission. We had a 1.8, 1.8 or 2.

23 Mr. Myers: That is correct.

24 Senator Armstrong: That was revised up slightly and this  
25 will close that deficit?

1 Mr. Myers: Yes.

2 Senator Armstrong: Thank you.

3 Senator Mitchell: Could I ask Mr. Myers to explain one  
4 more thing. When you said the change in the bend point would  
5 apply in the future and that there will be an increase in  
6 real wages between now and then, so that no person could be  
7 said to be suffering a benefit reduction, would you explain  
8 that, please?

9 Senator Moynihan: I think, in fairness, I said that.

10 Senator Mitchell: Did you? I am sorry.

11 Senator Moynihan: And I cannot prove it, but it would be  
12 the historical experience that over the next 20 years real  
13 wages will have increased enough such that a 5 percent  
14 decline in the replacement rate would not mean a lower real  
15 benefit. Benefits have been going up regularly. This is a  
16 function of productivity.

17 The Chairman: The Clerk will call the roll.

18 The Clerk: Senator Packwood.

19 Senator Packwood: Aye.

20 The Clerk: Senator Roth.

21 Senator Roth: Aye.

22 The Clerk: Senator Danforth.

23 The Chairman: Aye.

24 The Clerk: Senator Chafee.

25 Senator Chafee: No.

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



1 Senator Bradley: Aye.

2 The Clerk: Senator Mitchell.

3 Senator Mitchell: Aye.

4 The Clerk: Senator Pryor.

5 Senator Pryor: Aye.

6 The Clerk: Mr. Chairman.

7 The Chairman: Aye.

8 On this vote the ayes are 13, the nays are 4. The  
9 amendment is agreed to.

10 Senator Armstrong: Mr. Chairman, we left an amendment on  
11 the table a moment ago.

12 The Chairman: Yes, there is an amendment pending.

13 Senator Armstrong: We had a question of staff as to how  
14 to define the issue of who should get the benefit of the  
15 slightly more liberalized compliance provisions under this  
16 amendment. And I think we now have a proposed resolution to  
17 that.

18 Mr. Weiss: I think the suggestion would be for any  
19 business for which the annual withheld payroll taxes have  
20 been less than \$75,000 in all prior years, essentially that  
21 would be considered a small business and it would be those  
22 businesses which got the benefit of this reduction in the  
23 deposit requirement.

24 Senator Armstrong: I would accept that. And to recap,  
25 then, what we do is to raise that threshold for the speedup

1 of deposits from \$3,000 to \$5,000. We reduce the target  
2 estimate for compliance with deposit rules from 95 to 90  
3 percent for those firms whose withholding is \$75,000 or  
4 above, and we codify the deposit rules.

5 So what is the impact impact of that?

6 Mr. Weiss: The revenue impact is approximately \$1.1  
7 billion in fiscal '84, and then \$100 million a year in '85,  
8 '86 and '87, and then \$400 million in '88. So it is a  
9 cumulative total of \$1.9 billion.

10 Senator Armstrong: That is more than paid for by the  
11 amendment we adopted on state and local deposits.

12 The Chairman: Yes, but I think we already spent that.

13 [Laughter.]

14 The Chairman: Does it have to be that costly?

15 Senator Durenberger: We could take out banks.

16 [Laughter.]

17 The Chairman: I thought we just had a little technical  
18 amendment here, but a billion dollars is almost worth  
19 noting.

20 [Laughter.]

21 Senator Armstrong: Mr. Chairman, I should point out that  
22 the cost -- I did not hear staff's estimate. Did you say  
23 \$1.9 billion?

24 Mr. Weiss: Yes, over the '83 to '88.

25 Senator Armstrong: My impression is that is a general

1 revenue cost, and that the \$.8 billion is the five-year cost  
2 for the trust funds. And again I point out, we pick up \$2.5  
3 billion for the trust funds from the state and local  
4 governments.

5 The Chairman: Yes. But I have a strange feeling we will  
6 probably hear from the state and local governments.

7 Senator Armstrong: We might. In any case, the effect on  
8 the trust fund is only \$800 million over five years.

9 The Chairman: Well, I do not think -- it may be a good  
10 idea, but I am not certain at this point whether we can  
11 eliminate \$800 million or \$100 million from the trust funds.  
12 We have just given away a bit in the last package we  
13 adopted.

14 What can be done to address the concern Senator Armstrong  
15 has without spending a billion dollars?

16 Mr. Weiss: Instead of going from \$3,000 to \$5,000, you  
17 could go from \$3,000 to \$4,000, which would probably cut the  
18 revenue into a little less than one-half. It might go down  
19 to \$1.1 billion or \$1.2 billion instead of \$1.9 billion over  
20 that period.

21 Senator Armstrong: Let me come back to the question of  
22 state and local deposits. I think you are correct, we are  
23 going to hear from those.

24 The Chairman: There are a lot of small state and local  
25 people.

1           Senator Armstrong: I understand that. But all we are  
2 doing in the amendment we adopted on state and local  
3 government is saying they should be on the same deposit  
4 schedule as the private sector. So the little state and  
5 local units will not -- they will be getting the same benefit  
6 we are talking about in this amendment for the small  
7 employers.

8           To me, I expect fully we will hear from some state  
9 governments and maybe some large local unit jurisdictions,  
10 that it is impossible to justify giving a better break in  
11 deposit requirements to these large sophisticated local  
12 government and state government units, that have not only  
13 float and fiscal resources but data processing, than we give  
14 to the private sector. I mean, fair is fair.

15           I think we can stand our ground on the earlier amendment,  
16 which more than pays for giving a modest degree of relief to  
17 the small businesses.

18           The Chairman: I am just reminded in our state that our  
19 state collects it for all the localities, and it makes it  
20 difficult when they collect it for all the localities to make  
21 that payment, how many times? Eight times a month or eight  
22 times plus?

23           They like to use that money as a little float. They make  
24 a little money by not mailing it in so fast.

25           I would like to accommodate everyone, but I do not think

1 -- I would just have to have a roll call vote on that  
2 amendment.

3 Mr. Lighthizer: Mr. Packwood --

4 Senator Mitchell: Would the Clerk state the amendment  
5 again?

6 The Chairman: Right. Randy, would you just state it?

7 Mr. Weiss: The amendment would provide that employers,  
8 instead of under present law, which requires that employers  
9 with \$3,000 of accumulated withholding put their money in up  
10 to eight times a month into the deposit system, this  
11 requirement instead would apply to employers only with \$5,000  
12 of accumulated withholding.

13 If they had less than \$5,000, essentially they could  
14 generally wait until the middle of the following month to  
15 deposit. And also, for businesses with \$75,000 or less of  
16 annual payroll taxes in prior years, they would only have to  
17 deposit 90 percent of the accumulated amounts rather than 95  
18 percent.

19 Senator Heinz: May I just ask one question?  
20 Approximately how many employees would a business have at  
21 \$3,000 and how many employees would they have to \$5,000?

22 Mr. Weiss: I guess \$5,000 roughly a month would be  
23 \$60,000 a year, which would probably be about \$180,000  
24 payroll a year. So it would be 10 to 12 employees, 12 to 15,  
25 something like that.

1           The Chairman: I am just suggesting, I do not have many  
2 proxies, but I just hope we would not adopt this amendment  
3 now. Maybe we can figure out something, because I think what  
4 Senator Armstrong wants to do is good and I may be willing to  
5 accept something on the Senate floor, but there must be some  
6 other way to relieve that burden on the small business person  
7 without having that much of an impact. Maybe not. You are  
8 talking about a lot of employers and it does not take long to  
9 add that much up.

10           We will vote without any prejudice to working out  
11 something later on.

12           Senator Armstrong: Mr. Chairman, if it is your desire to  
13 wait and have me offer it on the floor, I will be glad to. I  
14 will be offering other amendments on the floor. It is no  
15 inconvenience, and I rather sense, the way things are going,  
16 that I might have a better chance if I wait to see if we can  
17 work something out or take my case to the floor.

18           But we really are talking, in terms of the scope and  
19 magnitude of the social security trust fund and the decisions  
20 we have made, of a very, very small amount, and we are  
21 talking about small employers. We are talking about little  
22 companies.

23           And the question is, if I understand the discussion of  
24 staff, whether or not they get to wait until maybe the middle  
25 of the month following when they pick it up or when they pay

1 their checks; in other words, if they pay once a month, for  
2 example, as some small companies do, or twice a month,  
3 whether they have to deposit within the same month they make  
4 the payroll, even up to twice a month, four times a month, or  
5 whether they get to deposit on the 15th of the next month.

6 That does not seem to me to be a very generous form of  
7 relief.

8 The Chairman: I do not quibble with the potential merit  
9 of the amendment. I would just like to have more time to  
10 focus on it. I have not had a chance to focus on it myself.

11 Senator Armstrong: Is this an amendment someone on the  
12 other side is cosponsoring? I think Senator Baucus is a  
13 cosponsor. I am perfectly willing to withhold it and take it  
14 to the floor if you are, Max. I think we will do better.  
15 How many votes have you got for it over there?

16 Senator Baucus: A couple.

17 Senator Armstrong: I think we have got a few over here,  
18 but I am not sure how many.

19 I think, Mr. Chairman, we would like to wait. I might  
20 package this with something else I might want to offer on the  
21 floor, too.

22 Senator Boren: Mr. Chairman, I would like to raise one  
23 issue again I raised the other day. There is no use to argue  
24 it. I see how the Committee feels.

25 I wonder if the staff found the figures on what they

1 would be if we made this neutral insofar as the marriage  
2 penalty is concerned.

3 The Chairman: It is how many billion?

4 Senator Boren: I am not talking about changing. I am  
5 talking about if it were revenue neutral. What would you  
6 have to set the threshold at, the taxable figure, to make it  
7 revenue neutral for individuals versus married couples?

8 Mr. Weiss: One option that we looked at in terms of  
9 revenue that would be about the same as the Committee bill  
10 and would be much more nearly neutral would be thresholds of  
11 \$20,000 for single people and \$36,000 for married couples, so  
12 that the married would go from \$32,000 to \$36,000, the single  
13 would go down from \$25,000 to \$20,000. That would be  
14 approximately revenue neutral.

15 It would have the effect of certain people, certain  
16 individuals whose other adjusted gross income was perhaps in  
17 the \$15,000 to \$20,000 range would be subjected to tax on  
18 their benefits.

19 Senator Boren: Well, Mr. Chairman, I personally favor  
20 that. I do not want to argue that. I think it is something  
21 the Committee would have to decide. It was raised several  
22 times. The original proposal was \$25,000 and \$20,000 or  
23 something when the Commission first reported, and there were  
24 all sorts of senior citizens who stood up and said, if there  
25 are two people who live together that is \$40,000 and if it is



1 one married couple that is \$25,000 and we do not approve of  
2 that, we do not approve of that marriage penalty.

3 It is just a question, I guess, as to how the Committee  
4 would feel about it, and perhaps we can just take a vote on  
5 it. I would propose we adopt those figures. They would have  
6 no impact on the revenue, is that correct?

7 Mr. Weiss: Approximately.

8 Senator Boren: But to make it neutral, so that there  
9 would be no marriage penalty. You would be lowering the  
10 taxable threshold for the individual from --

11 Mr. Weiss: From \$25,000 to \$20,000.

12 Senator Boren: And increasing it for the married couple  
13 from \$32,000 to \$36,000.

14 Senator Moynihan: Would there not be some persons for  
15 whom you would keep it under \$20,000?

16 Mr. Weiss: Yes. The test would be whether your other  
17 income plus half your benefits exceeded \$26,000. If you have  
18 \$10,000 of benefits, you would start phasing into the system  
19 when your other income was \$16,000 if you were an unmarried  
20 individual.

21 Senator Boren: Suppose you put \$20,000 as the floor and  
22 removed as much of the penalty as we could. You would just  
23 have to work that out mathematically.

24 Mr. Weiss: Then you probably would not -- you would be  
25 right back up to \$25,000 for singles.

1 Mr. Lighthizer: If you were revenue neutral, you would  
2 be right where you are now.

3 Mr. Weiss: Right. And if you want to go back up to  
4 \$25,000 for singles --

5 Senator Boren: I am not talking about going back up to  
6 \$25,000.

7 Mr. Weiss: In terms of the combined income.

8 The Chairman: I wonder if this is not another one --  
9 again, I do not want to shut anyone off, but obviously this  
10 is rather complicated, is it not? I do not understand it.  
11 There might be another area that we might want to spend some  
12 time on.

13 Senator Heinz: Mr. Chairman, if the Senator from  
14 Oklahoma would be willing, I have an amendment that is not  
15 technically difficult and I would be willing to take it while  
16 this is --

17 Senator Boren: I would like to resolve this, because I  
18 think it is something we ought to as a matter of principle  
19 decide, do we want to have this imposed, another marriage  
20 penalty, or is this an area where we want to start out  
21 without a marriage penalty. I frankly would like to see us  
22 not have a marriage penalty in this Act.

23 I realize that what is in it now is parallel to others.  
24 There is no use arguing. Why do we not just vote, Mr.  
25 Chairman? It is just a very clearcut case, are you willing

1 to take the consequences of adjusting these two figures so  
2 there is not a marriage penalty, or would you rather, in  
3 order to stay above whatever magic figure that is, have a  
4 marriage penalty?

5 Senator Durenberger: I just suggest, the marriage  
6 penalty in this case, the demographics are a little different  
7 than the marriage penalty we discussed a year or two ago.  
8 You have got an awful lot more single women in the category  
9 of 65 and over.

10 Senator Boren: But you see, they have skewed that  
11 somewhat to keep it revenue neutral. It is not exactly a two  
12 to one situation.

13 Mr. Weiss: Yes. I want to make clear, in effect under  
14 those figures I cited you would be affecting some unmarried  
15 individuals who are not now affected under the Committee  
16 bill.

17 Senator Boren: Oh, sure. You would have to.

18 Mr. Weiss: To make up the loss.

19 Senator Boren: You would have to. That is the only way  
20 you can do it.

21 I just feel obligated to offer this. I may be the only  
22 one who feels they would opt to make a few more people pay  
23 the tax to reduce the marriage penalty.

24 The Chairman: Let us vote on it and see how it goes.

25 The Clerk: Packwood.

1 Senator Packwood: No.  
2 The Clerk: Roth.  
3 [No response.]  
4 The Clerk: Danforth.  
5 The Chairman: No.  
6 The Clerk: Chafee.  
7 Senator Chafee: No.  
8 The Clerk: Heinz.  
9 Senator Heinz: No.  
10 The Clerk: Wallop.  
11 The Chairman: No.  
12 The Clerk: Durenberger.  
13 Senator Durenberger: No.  
14 The Clerk: Armstrong.  
15 Senator Armstrong: Aye.  
16 The Clerk: Symms.  
17 [No response.]  
18 The Clerk: Grassley.  
19 Senator Grassley: No.  
20 The Clerk: Long.  
21 [No response.]  
22 The Clerk: Bentsen.  
23 [No response.]  
24 The Clerk: Matsunaga.  
25 [No response.]

1           The Clerk: Moynihan.  
2           Senator Moynihan: No.  
3           The Clerk: Baucus.  
4           Senator Baucus: No.  
5           The Clerk: Boren.  
6           Senator Boren: Aye.  
7           The Clerk: Bradley.  
8           Senator Bradley: No.  
9           The Clerk: Mitchell.  
10          Senator Mitchell: No.  
11          The Clerk: Pryor.  
12          Senator Pryor: No.  
13          The Clerk: Mr. Chairman.  
14          The Chairman: No.  
15          Senator Boren: I was almost right, Mr. Chairman, that I  
16 might be the only one.  
17          The Chairman: I think it is a good point.  
18          Senator Boren: Maybe we can work on something to modify  
19 it a little bit later on.  
20          The Chairman: I am not as anxious now to do that as I  
21 was.  
22          Senator Boren: I can understand that.  
23          [Laughter.]  
24          The Chairman: 12 days, 2 years.  
25          Senator Heinz: Mr. Chairman, is it now time for

1 amendments of broad, general, sweeping interest, such as my  
2 amendment on the Amish?

3 The Chairman: Oh, the Amish. Yes, I remember the  
4 testimony there, yes. But I think you have modified yours.

5 Senator Heinz: We have modified the amendment, Mr.  
6 Chairman.

7 For those of you who were not here for absolutely  
8 remarkable testimony from the Amish groups, they have an  
9 exemption right now from social security as long as they are  
10 self-employed, and they came asking for an exemption for --  
11 let me back up a moment.

12 They have an exemption for themselves as long as they are  
13 self-employed, and their religion forbids them, not to pay  
14 taxes -- they are all right on paying taxes, but their  
15 religion forbids them either to pay into or to take benefits  
16 from a social insurance system. They are opposed to  
17 insurance. As a result, they actually make a pledge as part  
18 of their religion that not only will they not pay into social  
19 security, they will never take a benefit out of it. Rather  
20 unique.

21 The problem is, there are no longer enough farms for  
22 individuals -- they are almost all farmers -- for the  
23 individual Amish to all be self-employed. So things are  
24 changing and what is happening is some Amish are going to  
25 work for other Amish. There are some getting off the farm

1 and into private employment.

2 My amendment does not seek to exempt them from social  
3 security. Only if they are still working for other Amish  
4 would they be exempt, the same way the employer, if he is  
5 Amish, is exempt.

6 We are talking about a total of 6,000 people that have  
7 this rather unique matter of conviction. And we have worked  
8 closely with the staff on this. My understanding is, and I  
9 cannot speak for members of the Committee -- I am not trying  
10 to -- but the staff is satisfied that this causes no  
11 problems; is that correct? The Social Security  
12 Administration?

13 Mr. Trout: Senator Heinz, we have no objection to it in  
14 principle, but I think we should ask the actuaries to discuss  
15 the cost.

16 Mr. Goss: For this proposal we estimate for over the  
17 period '84 through '89 the cost to CASDI would be  
18 approximately \$2 billion -- that is, \$200 million in lost  
19 revenues. Over the long range, though, it would be  
20 negligible.

21 Senator Heinz: It would be negligible over the long  
22 range, but \$200 million in lost revenue in the short run?

23 Mr. Goss: Right, in the seven-year period period.

24 Senator Heinz: The reason it would be negligible in the  
25 long run is you would have to pay benefits out to these

1 people, is that right?

2 Mr. Goss: That is right. We would no longer be paying  
3 benefits to these people, for one thing. But in addition,  
4 although the \$200 million is a lot of money, on an annual  
5 basis it is a sufficiently small amount that it is a fairly  
6 small amount.

7 Senator Heinz: Just so I understand, if they pay in we  
8 will have to pay them benefits, is that not right?

9 Mr. Goss: Right. And if they are exempt from FICA we  
10 will not be paying benefits in the future.

11 Senator Heinz: We will not, that is right. We will not  
12 pay them benefits in the future.

13 Right now we do not force the self-employed Amish to pay  
14 benefits and we do not pay them benefits, is that not right?

15 Mr. Goss: Right.

16 Senator Heinz: What you are saying is, if we insist on  
17 making people who do not want, refuse to claim, and take an  
18 oath they will never claim benefits -- if we excuse them from  
19 paying their taxes we will lose a couple hundred million  
20 dollars?

21 Mr. Goss: Over this period.

22 Senator Heinz: I am not anxious to spend money, but  
23 these -- I do not know how you could make these people pay  
24 something they are not willing to pay.

25 Senator Packwood: I understand this question. I believe



1 this amendment has already been agreed to. But apart from  
2 their religious connection, how are they distinguished from  
3 others who would be happy to say, I will put nothing in and  
4 take nothing out?

5 Senator Heinz: This is a matter of their religion. They  
6 are apparently unique in this, and we would not give anybody  
7 an exemption. I suppose we could come along and give someone  
8 else an exemption.

9 Senator Packwood: The distinction is solely religious?

10 Senator Heinz: It is solely religious.

11 Senator Packwood: My hunch is there would be more than  
12 6,000 in this country who would take that pledge, whether or  
13 not they were Amish.

14 Senator Heinz: I suspect you are right.

15 Senator Moynihan: May I say, you can tell an Amish when  
16 you see one?

17 [Laughter.]

18 Senator Moynihan: I move, if I may -- if the Senator  
19 does not mind, I would like to second the amendment. The  
20 testimony was powerful, direct and respectful, and it goes to  
21 questions of religious tolerance in our country. And I think  
22 we should have a voice vote on the matter.

23 Senator Packwood: Is there further discussion on the  
24 amendment?

25 [No response.]

1 Senator Packwood: All those in favor say aye.

2 [A chorus of ayes.]

3 Senator Packwood: Opposed, no.

4 [No response.]

5 Senator Packwood: Adopted.

6 Senator Heinz: I thank my colleagues.

7 Senator Packwood: Are there further amendments on social  
8 security?

9 The Chairman: I was just checking that. I think there  
10 is one about the public trustee. I just want to have some  
11 language.

12 Mr. Lighthizer: Yes, Mr. Chairman. The Treasury  
13 Department suggestion is we make it clear the public trustees  
14 are not fiduciaries and thus are not personally liable for  
15 any decisions they may make.

16 [Laughter.]

17 The Chairman: What? The public trustees are not what?  
18 Not liable?

19 Mr. Lighthizer: Are not fiduciaries and thus are not  
20 personally liable for the decisions they make.

21 Senator Heinz: Is that a statement of fact?

22 Mr. De Arment: This would be a statement of law. The  
23 present trustees are all Federal Government employees and  
24 thus protected. If you bring in other public members who are  
25 not federal employees --

1           The Chairman: It is for their protection.

2           Mr. De Arment: That is correct.

3           The Chairman: I see no objection to that.

4           Now, Caroline, are there any other amendments related to  
5 social security?

6           Senator Heinz: Mr. Chairman, Senator Moynihan and I  
7 offered a study, an implementation study amendment on social  
8 security as an independent agency. We discussed it when  
9 there was practically no one here.

10          Senator Moynihan: The proposal is to have a presidential  
11 commission report by 1 January 1984 and be implemented by 1  
12 January 1985.

13          Senator Heinz: This is in line with one of the  
14 recommendations of the Commission.

15          Senator Moynihan: Senator Packwood was chairing and  
16 there were not enough people here.

17          Senator Armstrong: Mr. Chairman, would you just state  
18 what the proposal is?

19          Senator Heinz: I will read the proposal. It is brief:

20          "In order to improve the operation of the social security  
21 system and strengthen public confidence in the integrity of  
22 the program, the social security system should be  
23 administered as an independent agency under a bipartisan  
24 board appointed by the President and confirmed by the  
25 Senate. The needed legislative details for the

1 implementation of this policy should be developed in a study  
2 to be completed by January 1, 1984. This study would be  
3 conducted by a presidential commission consisting of experts  
4 widely recognized in the fields of government administration,  
5 social insurance, and labor relations. The independent  
6 agency should be in place by January 1, 1985."

7 Senator Armstrong: And the intention, Mr. Chairman, of  
8 Senator Heinz is simply that that is an expression of the  
9 opinion of this Committee? It does not go forward as a  
10 Committee amendment or anything like that? A sense of the  
11 Committee, in effect?

12 Senator Moynihan: Oh --

13 Senator Heinz: No. This would order a study.

14 Mr. De Arment: It is in the House bill.

15 Senator Armstrong: I wonder if Senator Roth could be  
16 heard on that. It appears to me that is clearly in the  
17 jurisdiction of the Committee of which he is the Chairman,  
18 and I wonder how he feels about that.

19 Senator Roth: To be candid, one of my concerns is that  
20 everybody wants to create another independent agency, and I  
21 think that is partly the problem of government today. And if  
22 you are to make this kind of a study, the chances are they  
23 are going to make this kind of a recommendation.

24 Frankly, I think if we are going to have that sort of  
25 thing there would have to be some kind of sequential

1 for 1985 in 1986?

2 Senator Long: January, 1985.

3 Mr. Myers: There is a COLA determined for December,  
4 1994, and another COLA for December, 1985.

5 Mr. Stern: The check people receive in January, 1985, is  
6 what we are referring to.

7 The Chairman: But it also seems to me that what Senator  
8 Long is concerned about is getting into a situation, as I  
9 understand it, where we cannot mail out the checks. I think  
10 what Bob Ball testified is, if the money is not there, you  
11 have to wait a few days. So, I am not certain we need the 20  
12 percent. I agree with Senator Heinz that the 20 percent  
13 would probably mean you would have an adjustment of a COLA a  
14 number of times between now and 1990.

15 As I understand, what Senator Long is concerned about, if  
16 you get down to the bare bones, there ought to be a timely  
17 check mailed out. It might be a dollar or two less. We are  
18 not trying to puff up the reserves.

19 Senator Long: As far as I am concerned, 10 percent would  
20 be all right. It does not have to be 20 percent.

21 Mr. Stern: Last year, people were saying you have to  
22 have at least 20 percent to make sure during the course of  
23 the month you have the cash on hand to get the checks, but  
24 the idea is, the Secretary would have to be making a guess at  
25 this, and if he is making this guess six months in advance,

1 he ought to give himself a little margin.

2 I think 20 percent tends to be close to giving yourself  
3 that minimal margin.

4 Senator Boren: If you dropped below that, you would not  
5 be reacting in time to do any good.

6 The Chairman: Is there a six-month notice for Congress?

7 Senator Long: Who said 12 percent? Where did the 12  
8 percent figure come from? Was that your suggestion?

9 Mr. Myers: That has been suggested in another area.  
10 That is one and a half months' benefits, and the way the  
11 Chairman was talking, I think with that viewpoint of it 12  
12 percent would certainly be a good figure. I certainly would  
13 not want the figure to go below 12 percent.

14 Senator Long: All you are really trying to do here is to  
15 have enough reserves to protect if his guess is not very  
16 good. I mean, he is trying to keep you from running  
17 completely out of money, and if his guess is not good, he  
18 would need some reserve there, but the 12 percent, I would  
19 think, would be enough.

20 Do you think that would be enough, Mr. Myers?

21 Mr. Myers: Yes, I think that would be enough.

22 Senator Chafee: Twelve percent is only enough to cover  
23 one and a half months' payments.

24 Senator Boren: That is really cutting it close.

25 The Chairman: We are trying to satisfy the concern

1 Senator Heinz raised. But I am also making it -- there will  
2 be, as I understand the amendment, Mike, Congress will be  
3 notified. How much time does Congress have to act?

4 Mr. Stern: Under this amendment, the Secretary would  
5 notify the Congress on July 1, but of course he would be  
6 guessing what the annual increase would be and what he would  
7 have to do the next year. If you really base it on 12  
8 percent, it seems to me you are not giving yourself any  
9 leeway at all. If he is a little bit wrong, you are stuck.

10 Twenty percent seems to me to be pretty close to the  
11 tolerances that you would need. In any case, as Mr. Myers  
12 was saying before, if the reserves are going up, if they are  
13 not declining, they are going up, it would not matter if it  
14 was going from 15 to 16 percent. There would not be any  
15 reduction.

16 The Chairman: It is only when they are coming down.

17 Mr. Stern: That is right.

18 Senator Heinz: Mr. Chairman, what kind of warning do we  
19 get right now from anybody about the fact that the checks  
20 might go out late?

21 The Chairman: None that I know of. Is there any?

22 Mr. Myers: There is none.

23 Senator Heinz: We could achieve the same effect of just  
24 having the warning sounded if these checks are about to go  
25 out late. A warning is not a bad idea. I am not sure I

1 like --

2 The Chairman: Who would you warn?

3 Senator Heinz: Congress.

4 The Chairman: My mother?

5 Senator Heinz: That is one way to be sure you get the  
6 message.

7 [General laughter.]

8 Senator Heinz: That is probably true for all of us.

9 The Chairman: That is right.

10 Senator Long: It seems to me -- of course, we hope none  
11 of this is going to happen, and according to all of the  
12 estimates it should not happen, but assuming we have the same  
13 problem we had before, the estimates were just wrong, and  
14 then we have voted to fund this thing, and here we are back  
15 in trouble again.

16 So we would have to go pass this bill. And it seems to  
17 me that we just said that, well, if we do not have enough to  
18 go around, rather than hold up the checks, just reduce it,  
19 reduce it enough so that you can notify Congress that you  
20 cannot give the full cost of living increase because the  
21 money will not be there. So, you just mail the checks out on  
22 time. You just do not mail them for quite as much.

23 Now, the burden still comes to us. There will still be  
24 someone out there wanting us to amend bills, or to move to  
25 say, let us do something to restore the full COLA benefit.



1 And I would think ordinarily we would. But the question is,  
2 what happens if we do not do all of that, it seems to me,  
3 rather than just delay mailing out the checks. I think that  
4 will scare those poor old people to death if their check does  
5 not come. Rather than not mailing the check, I think we  
6 would be better off to pay what we could.

7 We voted a big increase. Let us pay what we can from the  
8 money we have to pay with. That means you will not get quite  
9 as big an increase in the COLA as you would have had  
10 otherwise.

11 Senator Heinz: Mr. Chairman, may I ask someone this  
12 question? There is one difference, it seems to me, and that  
13 is this. Under Senator Long's proposal, the checks would go  
14 out on time, assuming things got low, but they would be lower  
15 in amount, and as a result, there would be, for however long  
16 smaller checks went out, there would be, as I understand it,  
17 a permanent reduction in income to those beneficiaries.

18 I did not see any catchup provisions here. There may  
19 be. Whereas, at least if a check is delayed, you will  
20 eventually, as Congress acts, get your full amount. So, it  
21 seems to me this does assure some permanent cuts, even if  
22 Congress is just a little tardy in acting.

23 Is my interpretation correct?

24 Mr. Myers: Yes, it is.

25 Senator Durenberger: Mr. Chairman.

1 The Chairman: [Indicating.]

2 Senator Durenberger: I had three questions. One was  
3 just raised by John. First, to clarify a dialogue which took  
4 place here a little earlier that refers to the third  
5 paragraph of the proposal, it is the intention here to adjust  
6 the COLA for where primary benefits are being paid in excess  
7 of \$250. Is that correct?

8 Mr. Myers: On the amount above \$250.

9 Senator Durenberger: So the word "first" in that line is  
10 sort of irrelevant. Is that right?

11 Mr. Myers: I --

12 Senator Durenberger: I mean, do we ever get down to \$250  
13 and below?

14 Mr. Myers: I am not certain. I interpret it as meaning  
15 that you just reduce the COLA on the amounts above \$250.

16 Senator Durenberger: Is that the intention of the  
17 Senator from Louisiana?

18 The Chairman: [Indicating.]

19 Senator Durenberger: I am boggled by the word "first,"  
20 Mike. I do not know what came second.

21 Mr. Stern: What comes second is, if you are in a  
22 catastrophic situation, one could conceivably reduce all the  
23 people above \$250 to \$250 and still have to save money  
24 besides.

25 Senator Durenberger: After you have zerged out all of

1 the increases above \$250, if you were still short, then you  
2 would get to \$250.

3 Mr. Stern: That is right. That is what the word "first"  
4 meant.

5 Senator Durenberger: All right.

6 The second question is on the issue of payback. Is there  
7 a contemplated payback, or should there be?

8 Mr. Stern: Not under this proposal.

9 Senator Durenberger: The third is, does this or could  
10 this trigger apply to the HI trust fund as well? Do you  
11 contemplate all three funds?

12 Mr. Stern: This is designed only to relate to OASDI, and  
13 not the hospital fund.

14 Senator Durenberger: It would not be appropriate to add  
15 the hospital fund to it?

16 Senator Long: I am concerned if the Committee feels  
17 disposed to agree with this, I have no objection to using  
18 this principle on the HI's. You have raised this other  
19 point. It slips my mind what the previous point was that you  
20 mentioned.

21 Mr. Stern: About the \$250?

22 Senator Long: Yes. As far as I am concerned, how the  
23 Committee wants to handle this part. He had another point  
24 just before he brought that one up. You had two points.  
25 After the \$250, I believe you raised another point.

1           Senator Durenberger: I said, if your shortage was such  
2 that you eliminated all of the COLA's above \$250, would you  
3 then start adjusting COLA's below \$250?

4           Senator Long: I would think you would want to, but that  
5 is up to the Committee.

6           Mr. Stern: That would be a pretty drastic situation. I  
7 would think that would be an example of when the Congress  
8 would probably want to act.

9           Senator Durenberger: I am not advocating. I am just  
10 asking about it.

11          Mr. Stern: As far as the hospital insurance account  
12 goes, you could decide to do that. I did not raise that  
13 question. It was in the context of cash benefits, but you  
14 could just as easily apply the same situation with respect to  
15 hospitals if you wanted to.

16          Senator Durenberger: Shall we put the hospital trust  
17 fund in there?

18          Senator Long: My thought is, if the Committee sees fit  
19 to agree to this, as far as I am concerned, I have no  
20 objection to adding the hospital trust fund. I would rather  
21 not complicate it with that.

22          Senator Durenberger: It is already complicated with  
23 interfund borrowing, so why do we not include it?

24          Senator Long: I do not understand enough about the  
25 hospital trust fund to know, frankly, Senator. I would like

1 to consider it on its merits, the hospital trust fund. If we  
2 want to do this, I think we might want to do that one, too,  
3 but I would rather ask the question, do we want to do this.  
4 If we do not want to do this, I do not think we would want to  
5 do that, either.

6 The Chairman: Bob, do you have any other suggestions?  
7 It seems to me it does not say we have to have 20 percent  
8 reserves. It just said reserves are now 10 percent or 15  
9 percent, 16 percent. Only when they start to decline, as I  
10 understand it, would this provision be operative. As long as  
11 they do not decline, they might go up to 15 and a half, 16,  
12 17 percent. But it is not operative until there is a  
13 decline, and then we are notified by the Secretary or whoever  
14 on July 1, which gives us that period, if we want to make  
15 other adjustments, and if those are not made, then the  
16 so-called failsafe or whatever comes into play.

17 Do you see any technical problems with the amendment that  
18 should be addressed?

19 Mr. Myers: No, I do not see any others that cannot be  
20 worked out between the staff.

21 Senator Moynihan: But this only pertains when the funds  
22 are below 20 percent.

23 Senator Boren: Below 20 percent and falling.

24 Senator Long: I should think it would be all right if it  
25 were above 20 percent.

1           The Chairman: Above 20, they decline. There is no  
2 problem. We have a floor, whether it is 15, 20, or 12, we  
3 have not decided, I guess.

4           Senator Eoren: Which is it? That is important. I think  
5 if you are saying it has to be below 12 and then falling, you  
6 are really in a disastrous situation. If it is below 20 and  
7 falling, you are doing something, I think.

8           The Chairman: If we can get it up to 20.

9           Senator Long: The point I am concerned with is where the  
10 Committee wants to put it. If you want to put it at 20, that  
11 is fine we me, as long as you have somewhere, anywhere from  
12 12 to 20, as far as I am concerned.

13          The Chairman: Well, Mr. Social Security, what do you  
14 think?

15          Mr. Myer: Personally, I would prefer a higher figure,  
16 like 20, because you may be down in 12, and the fund may be  
17 declining even that year, so that by the time you get to the  
18 COLA, you are in deep trouble, where, if you have it as high  
19 as 20, I think you would be able to prevent that.

20          Senator Durenberger: Mr. Chairman, before we go to a  
21 vote, can I go back and clarify this? Not being a Commission  
22 member or an expert on this, I am not sure at which point  
23 interfund borrowing gets triggered, so I have a deep concern  
24 for the HI trust fund. That is why I think the two are very  
25 intertwined, at least in the near term, because we are

1 talking about interfund borrowing. It makes a substantial  
2 difference in my head, for some reason or another, whether  
3 you include this or not, because for all other purposes we  
4 seem to be looking to the HI trust fund to help out the OASDI  
5 trust fund when it is in trouble.

6 I do not know whether you have substituted something for  
7 interfund borrowing here or not.

8 Senator Long: I do not change that. As I understand  
9 it --

10 The Chairman: Why do we not vote on this, and if it is  
11 adopted, you can offer --

12 Senator Chafee: This only applies to OASDI, does it  
13 not?

14 The Chairman: [Nods affirmatively.]

15 Senator Heinz: And that means that you would make the  
16 calculations exclusive of any borrowing from HI. You see,  
17 there is a calculation that has to be made.

18 Mr. Myers: Yes.

19 Senator Heinz: And I am unclear on how that calculation  
20 will in fact be made.

21 Mr. Myers: You would look at the actual assets of the  
22 OASDI trust fund. That is not counting taking out any  
23 loans.

24 Senator Heinz: And you would reduce it for any  
25 liabilities, would you not?

1 Mr. Myers: Yes, and you would also take into account  
2 some of the other stabilizing devices like this normalized  
3 tax treatment. You would use that first. This would be the  
4 last resort.

5 Senator Heinz: Does Senator Long understand that?

6 The Chairman: This is a last resort measure.

7 Senator Heinz: After we used normalized tax transfer.

8 Senator Moynihan: And after we use interfund borrowing,  
9 if that would solve the problem.

10 Senator Baucus: No.

11 Senator Boren: Is this after interfund borrowing? It is  
12 not after interfund borrowing.

13 Senator Moynihan: Will this put an end to interfund  
14 borrowing?

15 Senator Heinz: That is why I raised the question.

16 Senator Long: What do you think about that, Mike? What  
17 is your suggestion about that?

18 Mr. Stern: If you do it before interfund borrowing, you  
19 would probably not need any interfund borrowing, so this is  
20 really an alternative to that.

21 Senator Moynihan: That means we are in effect abolishing  
22 the interfund borrowing provision for the next six years.

23 Mr. Stern: And if you do it after interfund borrowing,  
24 of course, your percentage would change, because in lieu of  
25 doing something to the cost of living adjustment, you would



1 be borrowing money from hospital insurance. It may be  
2 academic after a few years, since the hospital insurance fund  
3 itself will not have any resources to borrow from.

4 Mr. Myers: When you get to interfund borrowing, there  
5 are certain limits we have put in it. You cannot interfund  
6 borrow from HI trust fund when it gets too low.

7 Senator Moynihan: Mr. Chairman, may I raise a point? I  
8 know some members of the Committee do not agree on this, but  
9 I think interfund borrowing is a sensible provision in Social  
10 Security. This is one tax called a Social Security tax, and  
11 when interfund borrowing makes sense, it is no larger  
12 problem, and in terms of the concerns of Senator Durenberger,  
13 the day is very close at hand when interfund borrowing will  
14 be for the benefit of HI.

15 Unless we are wildly wrong in our very near term  
16 forecasts, which I do not think we are, CASDI will be in good  
17 shape and HI will not. I think interfund borrowing is a  
18 sensible arrangement for the Social Security system.

19 Senator Long: Mike, did you say that in your opinion  
20 this should be before interfund borrowing or after?

21 Mr. Stern: I did not express an opinion. I simply said,  
22 if you do it before interfund borrowing, you probably will  
23 eliminate interfund borrowing, because you need additional  
24 money in order to make the payments. How do you do it? If  
25 you go the route of scaling back the next cost of living

1 adjustment, you will not have to borrow the money from the  
2 hospital insurance fund. If you say that you first borrow  
3 from the hospital insurance fund to the extent you can, you  
4 may not need to make any adjustment in the cost of living.

5 Senator Long: Why do we not just say it is after you do  
6 your interfund borrowing?

7 Mr. Myers: Senator Long, I would like to change my  
8 position on it. It should be after interfund borrowing.

9 Senator Long: After interfund borrowing. So by the time  
10 you get down to where you have nowhere else to turn, what do  
11 you do? Delay the checks or send out a lesser check?

12 Senator Durenberger: That is why I raised the issue.  
13 Then we get down to the point of there not being much left in  
14 the HI trust fund. If the OASDI is in trouble, where do we  
15 go? With HI, that is why I thought the trigger ought to  
16 apply to both of them.

17 Mr. Myers: Senator Durenberger, we do have a provision  
18 that you cannot borrow from HI beyond a certain point so that  
19 you will not run the HI trust fund into the ground first  
20 before you would use this.

21 The Chairman: Are you ready to vote?

22 The Clerk: Packwood.

23 Senator Packwood: No.

24 The Clerk: Roth.

25 Senator Roth: Aye.

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

1 Senator Baucus: Aye.

2 The Clerk: Boren.

3 [No response.]

4 The Clerk: Bradley.

5 [No response.]

6 The Clerk: Mitchell.

7 [No response.]

8 The Clerk: Pryor.

9 Senator Pryor: Aye.

10 The Clerk: Mr. Chairman.

11 The Chairman: Aye.

12 Senator Boren: May I be reported as aye?

13 The Chairman: On this vote, the yeas are 12, the nays  
14 are three. The amendment is agreed to, and the absentees can  
15 record.

16 Let us see now.

17 Senator Chafee: Mr. Chairman.

18 The Chairman: Yes.

19 Senator Chafee: I have a couple of very simple  
20 amendments that will be short.

21 The Chairman: Okay.

22 Senator Chafee: As you turn to your material and look at  
23 Item 12 under the tax provisions, you will see that we are  
24 taxing benefits. It says tax 50 percent of benefits for  
25 people with AGI plus half of benefits above \$25,000 and so

1 forth.

2 Mr. Chairman, I propose there be inserted a sentence  
3 there that in counting what is your income, that in addition  
4 to your adjusted gross income, you include tax exempt income,  
5 that tax exempt income be included. In other words, it does  
6 not seem to me fair that because someone has tax exempt  
7 income that would keep them -- would give them more than  
8 \$25,000 or the \$32,000, that that would not count in counting  
9 when benefits should be taxed, Social Security benefits.

10 Now, you might say, oh, how will you tell whether the  
11 people have tax exempt income? Well, we did that under the  
12 1982 provisions of TEFRA, with the improved reporting  
13 requirements.

14 The Chairman: Do you see any problem with that, Bob?

15 Mr. Myers: No, Mr. Chairman, I see no problem with that.

16 The Chairman: Is there any objection to that amendment?

17 Senator Moynihan: To the contrary, if I could cite to  
18 Senator Chafee, Americans self-assess their income, and they  
19 do so very well. If this is the law, we can be pretty  
20 confident people will obey it.

21 Senator Grassley: Would you be taxing indirectly income  
22 from municipal bonds, as an example?

23 Senator Chafee: Absolutely. You would not be taxing the  
24 bonds that would count toward. It would still be tax-free.  
25 But it would count as income in pushing you above the levels.

1 Senator Packwood: We have never counted it before.

2 Senator Long: Well, I would be willing to go along with  
3 your amendment if this does not involve taxing those state  
4 and municipal bonds. Do I understand that that problem is  
5 not involved here?

6 Mr. Myers: No, it does not do that. It just determines  
7 whether you will tax up to half of Social Security benefits.

8 Mr. Belas: Excuse me, Senator. The amount that will be  
9 taxed will still be limited to half of your Social Security  
10 benefits. It is just that in arriving at how much of that  
11 half of your benefits will be taxed, you will use the tax  
12 exempt interest in determining your income.

13 Senator Packwood: Which we have not counted before in  
14 the adjusted gross income.

15 Mr. Belas: That is correct.

16 Senator Long: I am afraid of that. I am afraid that  
17 comes very close to taxing the tax exempts. For example, if  
18 under the law we were saying you would use tax exempt income,  
19 income from state and municipal bonds, to fill up your  
20 personal exemption, I think that would be regarded as a tax  
21 on the tax exempts, because you are using up your exemption  
22 on that.

23 I am afraid, Senator, that that does get us into the  
24 question of taxing the income of state and municipal bonds.  
25 I do not worry about the principal. I worry about the

1 constitutional aspects. I do not like to be in a position of  
2 voting for a tax on the tax exempts.

3 Senator Chafee: You would not be taxing the tax  
4 exempts. What you are doing is counting that as putting  
5 people into the tax brackets where half of their Social  
6 Security would be taxable. It is only Social Security that  
7 would be taxable. It has nothing to do -- the income from  
8 the bonds would continue to be tax free.

9 Senator Long: Suppose you had a provision that said that  
10 if you have tax exempt income in the amount of your personal  
11 exemption, that you would not get the personal exemption, so  
12 that you would use up your personal exemption on your tax  
13 exempts first, and tax everything above that. The fact of it  
14 is then that you would be putting more tax on the other  
15 income by virtue of the fact that you would be making a  
16 person use up his exemption with the tax exempt.

17 I suspect that that puts you in the same position as if  
18 you are taxing the tax exempt.

19 Senator Chafee: I would be glad to involve Mr.  
20 Lighthaiser in this conversation. I do not see it that way.  
21 Here is the problem. People with tax exempt income of, say,  
22 \$50,000, would pay no tax on their Social Security, half of  
23 their Social Security. That does not seem very fair to me.  
24 As opposed to the person who has other income of \$25,000,  
25 which makes his Social Security taxable.

1           So, all we are saying is, in counting when your half of  
2 Social Security will be taxable, under that floor you include  
3 tax exempt income.

4           Senator Moynihan: If I could make a suggestion, I think  
5 an economist would say this merely affects the marginal rate  
6 of taxation on your benefits.

7           Senator Heinz: Could I go one step further? When I have  
8 been back in my state, I have had a number of people come up  
9 to me, and they have said, you know, there is a very good way  
10 to get around that proposal you fellows have to tax half the  
11 Social Security benefit. I say, what is that? They say,  
12 just get out of AT&T into Pennsylvania Water Authority, tax  
13 free bonds. I said, by golly, you are right.

14           All Senator Chafee's amendment does is keep this  
15 provision tax neutral. If we do not enact it, there will be  
16 a very great incentive for people to shift.

17           The Chairman: I can see the ads now.

18           [General laughter.]

19           Senator Heinz: From the same people who brought you 10  
20 percent withholding.

21           Mr. Diarmid: Senator Heinz, the Treasury Department  
22 visited last night and raised that very point.

23           Senator Heinz: They should have been with me a couple of  
24 weeks ago. It could have saved them.

25           The Chairman: Did they confirm with Senator Heinz's



1 staff?

2 Mr. Diarmid: That is correct.

3 Senator Long: Let me ask David Hardee. Do you think  
4 this involves a constitutional question, or does it involve  
5 the same principle as a constitutional issue, the taxation of  
6 state and municipal funds?

7 Mr. Hardee: At the minimum, it will have the effect of  
8 cutting back the Social Security benefits a little more, but  
9 I think the issue is whether it cuts back your Social  
10 Security benefits rather than whether it taxes the income  
11 from municipal bonds.

12 Senator Long: Let us vote on it.

13 The Clerk: Mr. Packwood.

14 Senator Packwood: No.

15 The Clerk: Roth.

16 Senator Roth: Aye.

17 The Clerk: Danforth.

18 The Chairman: Aye.

19 The Clerk: Chafee.

20 Senator Chafee: Aye.

21 The Clerk: Heinz.

22 Senator Heinz: Aye.

23 The Clerk: Wallop.

24 The Chairman: Aye.

25 The Clerk: Burenberger.

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

1 The Clerk: Mr. Chairman.

2 The Chairman: Aye.

3 Senator Boren: Aye.

4 The Chairman: Eleven yeas, four nays. The amendment is  
5 agreed to.

6 Senator Chafee: Mr. Chairman, hard on the heels of my  
7 success, I have another amendment, another discussion.

8 The Chairman: We did not get any revenue pickup on that,  
9 did we, Bob?

10 Senator Chafee: Sure we did.

11 Mr. Belas: There is some revenue, but at this point the  
12 joint committee cannot estimate it.

13 The Chairman: But I think we turned into a little gain  
14 what might have been a large loss, so we appreciate it.

15 Mr. Myers: I think it avoids losing money by people  
16 shifting.

17 The Chairman: Where can they shift now? That is the big  
18 question.

19 Senator Chafee: Mr. Chairman, just one point. It is my  
20 understanding that in the House bill and in the bill that we  
21 have before us that we are working from, obviously, we will  
22 go to conference, and it will be the law since there is no  
23 conferenceable item on it, that on all checks sent overseas  
24 there is a 15 percent withholding. Is that correct? How  
25 does that work, briefly?

1           Mr. Belas: That is correct, Senator. The law currently  
2 has a provision that says for non-resident aliens except for  
3 certain defined types of income there is a 30-percent  
4 withholding tax, a 30 percent tax, and it is withheld at the  
5 source, because these non-resident aliens do not file tax  
6 returns. Because you would be taxing half the benefits, you  
7 would be taxing 30 percent of half that amount.

8           The way the provision in the Ways and Means -- that comes  
9 out to 15 percent. The way the Ways and Means proposal and  
10 the proposal in front of you works is, there would not be a  
11 threshold amount of \$25,000 or \$32,000 because there is no  
12 way to calculate what their income is.

13          Senator Chafee: I am not sure I understood the  
14 explanation completely. All I know is, Mr. Chairman, I think  
15 we are into a real mare's nest on this taxation of aliens we  
16 passed this morning, and this is an example. My question to  
17 the staff would be, if we are withholding 30 percent, is that  
18 it, from aliens?

19          Mr. Belas: Yes, that is correct.

20          Senator Chafee: And we say they can only receive checks  
21 equal to their contributions plus interest. What constitutes  
22 their receiving their money back, the total or the total  
23 less? Do you deduct from that the taxes that have been  
24 withheld, or do you let them get the money plus the tax?

25          Mr. Belas: The way the proposal is currently stated,

1 there is no deduction for any amount that the employee alien  
2 has contributed, so that there would be a 15 percent tax on  
3 the whole amount that he receives at the time he retires or  
4 as he retires.

5 Senator Chafee: So therefore the alien receives what he  
6 contributed less 15 percent.

7 Mr. Belas: That is correct, Senator.

8 The Chairman: He probably should not do that, should  
9 he?

10 Mr. Belas: The proposal as it was originally included  
11 anticipated that the benefits to aliens had not been cut  
12 back, so there is in fact a disparity there.

13 The Chairman: That should be corrected.

14 Senator Moynihan: Let us just get rid of that, in terms  
15 of what we did this morning.

16 The Chairman: I do not think Senator Grassley intended  
17 that. You would not want to withhold 15 percent of the money  
18 they are entitled to have back from their contribution.

19 Senator Grassley: No.

20 The Chairman: No. So we can correct that.

21 Senator Chafee: All right. I am up to 66 percent.

22 The Chairman: That was two now.

23 Senator Chafee: Now let us get to the big one.

24 Mr. Chairman, it is my feeling -- I see there is  
25 discussion there. Is that concluded?

1 Mr. Lighthaiser: I am not sure we know what you decided  
2 to do.

3 Senator Chafee: As I understand it, we decided --

4 The Chairman: Not to recoup any of what they paid in.

5 Mr. Belas: Not to tax them the 15 percent on the  
6 benefits at all on any portion.

7 The Chairman: You are just going to give them back what  
8 they have paid in, as I understand it.

9 Mr. Belas: Plus interest.

10 The Chairman: Plus interest, so you do not withhold.

11 Mr. Weiss: That is \$900 million.

12 The Chairman: That does not affect those who are now  
13 receiving. The Grassley provision is prospective, is it not?

14 Senator Grassley: Yes.

15 The Chairman: We understand it. We will explain it to  
16 you.

17 Mr. Lighthaiser: It is a \$900 million revenue loss, Mr.  
18 Chairman.

19 Mr. Weiss: If you are talking about eliminating the whole  
20 15 percent withholding tax.

21 The Chairman: No.

22 Mr. Weiss: Okay.

23 Senator Chafee: What we are saying is, you still do the  
24 withholding, but in computing what they get back, you count  
25 it less the withholding, so that they continue to receive

1 until they receive their full amount they contributed.

2 Mr. Weiss: So you take account of after tax benefits  
3 when you are going the computation as to when they recovered  
4 their contributions plus interest.

5 The Chairman: Is that all right?

6 Mr. Belas: Fine.

7 Mr. Weiss: Fine.

8 Senator Chafee: In case there is any doubt, Mr.  
9 Chairman, if I had my druthers, we would get into this alien  
10 business at a separate time and try to understand it  
11 completely, but that is water over the dam, apparently.

12 Now, Mr. Chairman, it is my belief that this package,  
13 laudable though it is, does not solve the short-term problem,  
14 and I think we will be back here in 1985.

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1           What I am proposing is an extension of the freeze on the  
2 COLIA. If starting right off we have a freeze in the COLA of  
3 six months, that gets us from July to January 1st. It is my  
4 proposal that we continue that COLA freeze for another three  
5 months if the administrator informs us it is his anticipation  
6 that by January 1st the reserves will be below 15 percent.

7           The Chairman: Bob, would you comment on that?

8           Mr. Myers: That seems to be in conflict with the  
9 proposal made by Senator Long which was adopted. If you do  
10 the one, I don't see how you do the other two.

11          Senator Chafee: I don't know what his --

12          The Chairman: His is in '85.

13          Senator Chafee: His is not effective until 1985.

14          Mr. Myers: This would not be within the terms of the  
15 agreement, Mr. Chairman, in my view.

16          The Chairman: That is the point I wanted to make. I am  
17 certainly willing to debate it, but we have a number of  
18 amendments. This would be outside, as I understand it. I  
19 know the Commission can't dictate to us, but there was a  
20 fragile agreement put together, and I want to state for the  
21 record that as I interpret that agreement, this would be a  
22 bit outside the scope. That doesn't mean it can't be adopted;  
23 it just means hopefully it won't be.

24          Senator Chafee: Mr. Chairman, I am prepared to vote in  
25 30 seconds, and all I want to say is I just think we have a



1 lot of problems here. Ms. Weaver, I think you will support  
2 me. In your estimation -- well, I won't speak for you. How  
3 do you think this thing will work out in the short term?

4 Well, I won't put you on the spot. I will just say what  
5 I think. I think we are in a lot of trouble and I think it  
6 would be wise to do everything we can to make the savings,  
7 and this provides us a substantial amount of savings. In six  
8 months we save \$40 billion. This would probably give us  
9 another \$20 billion, which we will sorely need.

10 So, Mr. Chairman, I am prepared to vote.

11 Senator Grassley: I think it is pretty serious  
12 business. If we invite a response from a top staffer from  
13 the committee, that suggests we are in short-term problems,  
14 and that isn't brought out and we have a chance now to  
15 address it and we aren't address it.

16 The Chairman: We can address it, but --

17 Senator Grassley: Do we have a short-term problem or  
18 don't we, whoever you ask here?

19 Ms. Weaver: I would be happy to respond. Under the  
20 Commission recommendations, the consensus package, it is  
21 clear that if the economy performs as under the intermediate  
22 path, which assumes the economy performs on average better  
23 than in the recent past, the last five years, then the trust  
24 fund should be able to make it through the decade. That  
25 would be with clearly very thin reserves.

1           If the economy continues to perform as it has in the  
2 past, without normalization and without the additional  
3 protections provided by the Long amendment and others, it  
4 clearly would not make it through the decade.

5           Senator Chafee: I want to say something about the Long  
6 amendment. The Long amendment doesn't do anything specific.  
7 It just sends out a warning notice.

8           [A chorus of noes]

9           Senator Chafee: We are to be informed six months in  
10 advance and then the benefits are to be reduced.

11          The Chairman: If we ion't do anything.

12          Senator Chafee: If we don't do anything. We are not  
13 doing anything now to resolve that, it seems to me. What  
14 concerns me is we have a short-term problem here. The  
15 Commission estimated between \$150 billion and \$200 billion.  
16 At the same time, the Commission solution was \$165 billion.  
17 That is skirting it close.

18          That is nowhere near reaching the \$200 billion, and it is  
19 just barely over the \$150 billion, and as Ms. Weaver said, if  
20 things perform well, we will be all right, but if things are  
21 a shade below well, we are in trouble.

22          This proposal of mine gives us something to help us  
23 greatly that I am afraid we are going to need. It may well  
24 be we will need the Long solution in addition, but hopefully  
25 this will get us through it.

1           The Chairman: I may add, as the Commission has finished  
2 its work, as I understand in talking to Mr. Stockman, based  
3 upon the economic pickup they have already added about \$6  
4 billion to the pot, and we have picked up, actually, \$6  
5 billion just because of the administration's new estimates  
6 based upon whatever they are based upon. But it has helped  
7 the trust fund that much.

8           Senator Chafee: Isn't it also true we took a decline  
9 from what the Commission worked on between the time the  
10 Commission reported?

11          The Chairman: I don't think that is correct. I think  
12 the figures stayed the same. Is that --

13          Mr. Myers: The figure of \$165 billion, we had said \$168  
14 billion, that figure is based upon different economic  
15 assumptions. It assumes there won't be much inflation.  
16 Actually, the \$165 billion, if it is based upon the same  
17 assumptions the \$200 billion was based upon, the \$165 billion  
18 would have been \$190 billion.

19          In other words, the \$200 billion is based upon more  
20 inflation in terms of prices and wages than the \$165 billion.

21          Senator Chafee: Mr. Chairman, I don't want to debate  
22 this too long, but I will point out there is a fail-safe  
23 mechanism in that I have a 15 percent figure in there for  
24 reserves, which is a very modest figure. That is about 2-1/2  
25 months, 2 months, isn't it, Ms. Weaver? So that we are

1 hardly in robust condition if this takes effect. Frankly, we  
2 are in very skittish condition.

3 Ms. Weaver: The one thing added to this package before  
4 you is the normalization of tax transfers. When reserves are  
5 critically low, that would considerably improve the ability  
6 of the system to make it through the decade.

7 The Chairman: Is that all right?

8 Senator Chafee: I am ready to vote.

9 The Chairman: The Clerk will call the roll.

10 The Clerk: Senator Packwood.

11 Senator Packwood: No.

12 The Clerk: Senator Roth.

13 Senator Roth: No.

14 The Clerk: Senator Danforth.

15 The Chairman: No.

16 The Clerk: Senator Chafee.

17 Senator Chafee: Aye.

18 The Clerk: Senator Heinz.

19 Senator Heinz: No.

20 The Clerk: Senator Wallop.

21 The Chairman: No.

22 The Clerk: Senator Durenberger.

23 Senator Durenberger: No.

24 The Clerk: Senator Armstrong.

25 Senator Armstrong: Aye.

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

1           On this vote, the nays are 12, the yeas are 5. The  
2 amendment is not agreed to.

3           Senator Armstrong: Mr. Chairman, I would like to offer  
4 an amendment which consists of three items that I have  
5 circulated under the title of Work Promotion Strategy. The  
6 background of this amendment is this is a package of  
7 proposals developed by the American Association of Retired  
8 Persons, which is just what the name implies. It is a  
9 proposal which looks to incentives which encourage people to  
10 do things we believe socially desirable, that is, to work  
11 longer.

12           It doesn't necessarily respond to the question Mr.  
13 Mitchell asked about whether they are able to, but it  
14 encourages them to do so in basically three ways. The first  
15 way is to say that we are going to increase by 8 percent the  
16 amount of retirement benefit for each year that they choose  
17 voluntarily to delay retirement.

18           Second, to offset this, to provide a symmetry, we will  
19 reduce by 8 percent the amount of retirement benefit for each  
20 year prior to the normal retirement age that someone retires  
21 early. Third, we will do away with the retirement earnings  
22 limitation.

23           The notion of that, of course, is a very simple one, that  
24 this is probably the most unpopular single provision of the  
25 Social Security Code, the idea that you ought to have your

1 Social Security benefit reduced if you have post-retirement  
2 earnings. I could talk about it at length, but I think the  
3 proposition is quite simple.

4 I might mention this. In our contemplation of it, the  
5 impact on the trust fund is somewhere between break-even and  
6 slightly positive over the long term, depending upon how the  
7 safety net provision we have included is drafted. At worst,  
8 the actuaries tell us, it is a break-even. At best, it might  
9 pick up as much as .62 percent of payroll.

10 I just mentioned to Senator Heinz, .26 is about the  
11 amount necessary to pay for the earlier amendment, which I  
12 hope when we get to it again will be adopted. That is the  
13 long and the short of it, and unless there are questions, I  
14 would move its adoption.

15 Senator Mitchell: Could I ask a question?

16 Senator Armstrong: Of course.

17 Senator Mitchell: Are these being offered as a single  
18 package?

19 Senator Armstrong: Yes, unless there is a desire to  
20 break them into --

21 Senator Mitchell: Well, it seems to me you are making  
22 proposals that fall into two completely separate categories.  
23 Two of them do meet your description of encouraging people to  
24 work longer by creating positive incentives for them to do  
25 so. One of them, however, is not really an incentive for

1 people to work longer; it is, rather, by creating a  
2 disincentive to retire earlier.

3 I don't think it is fair to describe that as an incentive  
4 to work longer; it is a negative incentive to prevent them  
5 from retiring earlier. While I agree with the first two, I  
6 think the latter one really doesn't meet the general  
7 description which you described earlier. While I would  
8 support the first two, I think the third I would not. I  
9 wonder if you would be willing --

10 Senator Moynihan: I wonder if my friend from Maine would  
11 recall that the bill we have here does increase the incentive  
12 to continue work. It takes that up to a full 8 percent a  
13 year over time.

14 Senator Mitchell: It goes from 3 percent to 8 percent,  
15 is that not correct?

16 Senator Moynihan: That is correct.

17 Senator Mitchell: What is the difference, if I might  
18 ask, then, between Senator Armstrong's proposal on higher  
19 benefits? Is it simply even higher still?

20 Senator Armstrong: No. The difference in that respect  
21 is this. The National Commission recommendation embodied in  
22 the bill before us increases the delayed retirement credit  
23 from 3 percent to 8 percent over a 20-year period, 1990 to  
24 2010. My proposal, tied in with the two other elements of  
25 this package beginning in 1990 faces in the increase in



1 delayed credit from 3 to 8 percent in a five-year period. So  
2 it is a question of when you do it, primarily.

3 The reason I offered these as a package is simply because  
4 they were developed as a package by a large organization that  
5 has great expertise in this field.

6 As to the question of whether it is proper to describe  
7 one part of it as an incentive to work longer, I think that  
8 is a proper description. I didn't formulate the nomenclature  
9 here. As I said at the outset, the intellectual parents of  
10 this are the people at the AARP, but it is important to  
11 understand that over 80 percent of the people in this country  
12 who retire on Social Security do so prior to age 65.

13 Although we call age 65 the normal age of retirement, in  
14 fact the vast majority of people retire much sooner than  
15 that, so that I think it is fair to describe it just as they  
16 have termed it, a work promotion.

17 Senator Mitchell: I intended on criticism of the Senator.

18 May I ask one further question. When you say that the  
19 revenue effect is a wash, is that because the penalty for  
20 early retirement would pay for the other two? Would that  
21 statement be accurate if you separated them.?

22 Senator Armstrong: Let me give you the specifics of it.  
23 The higher benefits for delayed retirement, that is, the  
24 increase from 3 to 8 percent for each year of delayed  
25 retirement, costs .05 percent. The other piece of it costs

1 .14 percent. That is the earnings limit repeal. The  
2 combined total of those two is .19.

3 The part that saves is the early retirement disincentive,  
4 and that saves between .19 and .36, depending upon the nature  
5 of the safety net built into it. I might mention what that  
6 safety net consists of.

7 An issue you have raised, Senator Mitchell, which I have  
8 also considered at some length, is the question of people who  
9 retire early because of disability. Now, the 80 percent who  
10 retire prior to age 65, a very large proportion of them  
11 evidently do not retire because of health or inability to  
12 perform their jobs, but there are some who do. The  
13 suggestion is we formulate language which would take that  
14 into account.

15 I have some language which I have not circulated but  
16 which is in the backup material, which provides that. It  
17 keys chiefly in that age group to whether or not a person in  
18 these years only is able to continue to perform the work they  
19 have been regularly doing in the past, whereas at earlier  
20 ages when someone seeks disability retirement, they have to  
21 be tested against their ability to do work generally, and  
22 that goes directly to the question of the steelworker, the  
23 people in vigorous, physically demanding professions.

24 Senator Mitchell: Let me ask a question. I recall  
25 reading a report, and I cannot now identify it because I

1 don't have it before me, that of the 80 percent who retire  
2 early, a majority of them retire for health-related reasons.  
3 That is, they have not reached the stage of total disability  
4 which qualifies them under disability, but they have a  
5 health-related reason for retirement. They are somewhere  
6 between perfectly fit and totally disabled.

7 Is my recollection correct in that, Mr. Myers? Do you  
8 know anything on that score?

9 Mr. Myers: Yes, Senator Mitchell. First of all, between  
10 60 and 65 percent of people claim benefits before age 65.  
11 They don't all necessarily retire. Some may keep on  
12 working. Some haven't worked for years.

13 Senator Mitchell: So the 80 percent figure is actually  
14 60 to 65.

15 Mr. Myers: It is 60 to 65.

16 Senator Mitchell: Perhaps the Senator from Colorado  
17 would want to listen to this, because it bears on the  
18 amendment he has offered. He is making some comments bearing  
19 upon your amendment. You may want to listen to it.

20 Senator Armstrong: Were they favorable to the amendment?

21 Senator Mitchell: The first was. Maybe the second will  
22 be.

23 Mr. Myers: What I said first was 60 to 65 percent of  
24 people currently claiming retirement benefits are between 62  
25 and 65. I wanted to say not all of them are necessarily

1 retiring then. Some of them may have withdrawn from the  
2 labor market years ago, others may still be working at low  
3 enough earnings they will get full benefits.

4 The second part of the question Senator Mitchell raised  
5 was do these people have work-limiting disabilities? Here  
6 again, it is a difficult matter to say because all the  
7 surveys that are made just ask the people. There is no  
8 examination, and many people say they have work-limiting  
9 disabilities.

10 I think as I recall maybe 30 percent of them say they  
11 have work-limiting disabilities. Whether this would be  
12 proven if there was a medical examination, I don't know.  
13 Studies have not done that.

14 Senator Moynihan: A very large number say they also  
15 don't have any work.

16 Senator Myers: Yes, that is true.

17 Senator Armstrong: The nature of the safety net we  
18 contemplate is to make the disability determination for  
19 persons in this age group less vigorous than the way I have  
20 described. Any way you do it, there will be some element of  
21 somebody claiming to be disabled when they are not, or  
22 someone who may in fact be partially, I presume no more than  
23 partially disabled when in fact they can't somehow qualify  
24 because of a Catch-22.

25 That is true now. It will be true under any system I have

1 been able to contemplate. But it seems reasonable to me that  
2 if we are going to encourage people to work longer, we ought  
3 to provide some better way out for those who may not be able  
4 to fulfill their normal occupation. So that is the theory.

5 Senator Heinz: Could I ask the Senator from New York,  
6 Senator Moynihan, is it fair to assume the reason the  
7 Commission delayed implementation of the higher benefit, the  
8 delayed retirement not to commence until 1990 is because the  
9 financial crush is going to be most severe in the immediate  
10 years?

11 Senator Moynihan: That is correct.

12 Senator Mitchell: Is that why you would oppose this?

13 Senator Moynihan: Not only that, but to impose a penalty  
14 on people who are retiring early, who can't work or can't  
15 find work, in order to encourage them to work is not very  
16 logical.

17 Senator Mitchell: I agree with that, but I am talking  
18 about the delayed requirement. In other words, you favor  
19 that but simply feel the financial crunch right now means you  
20 can't put it into effect right now because of financial  
21 reasons.

22 Senator Moynihan: That is exactly right. It is the next  
23 five-year problem.

24 Senator Mitchell: Thank you.

25 Thank you, Mr. Chairman.

1 Senator Packwood: Bob.

2 Senator Pryor: Mr. Chairman, one question, if I might  
3 ask it, of Senator Armstrong.

4 The Chairman: Yes.

5 Senator Pryor: If a person is, let's say, 60 years of  
6 age, Bill, and they have decided 24 months from now to take  
7 retirement at 62 and they are in the system, they have made  
8 all their plans in this regard, is this going to be the  
9 signal to that person that they are going to be penalized?  
10 It is not going to affect that individual, is it?

11 Senator Armstrong: No, Senator Pryor. First, all of the  
12 elements of this package start phasing in in 1990. This  
13 particular provision you are referring to begins in 1990,  
14 phasing it over a four-year period. I don't think we are  
15 sending any signals to anyone. We are certainly not catching  
16 anybody unawares.

17 It is, after all, a voluntary decision. We are not  
18 telling anyone they cannot retire, and it is occurring, even  
19 the relatively modest disincentive we are talking about  
20 here, is occurring in an environment of rising benefit levels  
21 and rising replacement ratios.

22 So in a sense we are aiding some more options. We are  
23 adding three more options. We are saying: if you will retire  
24 a little later, we will give you a more than actuarial break  
25 on your later retirement because 8 percent is more than the

1 actuarial amount. If you retire a little early, we will  
2 penalize you a little more than the actuarial amount and we  
3 will get rid of that requirement earnings test, which is  
4 really a most unfair provision we all agree, I think.

5 Senator Fryor: The three legs of the triad, so to speak,  
6 in your proposal, Senator Armstrong -- I am sort of like  
7 Senator Mitchell. I think I like the idea, the concept and  
8 philosophy behind the first two. You stated the amendment  
9 was birthed by the AARP. Does that also apply to the more or  
10 less disincentive to retire early? Is that also a proposal  
11 by AARP?

12 Senator Armstrong: The package which AARP developed  
13 under the title Work Promotion Strategy is a four-part  
14 package. It is the later retirement incentive, the earlier  
15 retirement disincentive, the retirement earnings test, and  
16 the safety net provision. I don't claim it is perfect. In  
17 fact, if someone has a better suggestion, I am willing to  
18 look at it.

19 But it does seem to me, and maybe this is the moment, Mr.  
20 Chairman that I could just invite the attention -- could  
21 someone on the staff grab that one chart that shows the  
22 progress of the retirement age? You don't even need to set  
23 up an easel. Just turn it around so everyone can see it.

24 In the handout material -- no, I mean everyone in the  
25 committee, unless the audience wishes to vote on this.

1 [Laughter]

2 Senator Armstrong: In the handout material we have  
3 circulated three sets showing life expectancy: at birth, age  
4 20 and age 65. In the opinion of most experts, age 20 is the  
5 fairest age, but the other two are shown in your handout  
6 material. Bryan, will you turn it so Senator Mitchell and  
7 Senator Pryor can see it?

8 What it shows is that these life expectancies are rising  
9 very rapidly today. Someone at 71 has the same life  
10 expectancy that a person of age 65 had when Social Security  
11 came into existence. That is the general theory of why we  
12 want people to work longer. Yet consistent with earlier  
13 discussions, it is a question of how you get there.

14 This, we think, is a reasonable way of encouraging people  
15 to do so and giving them some incentives.

16 Senator Mitchell: Is there any medical evidence to  
17 support that portion of the chart that projects present  
18 trends into the future? It is obvious that increased life  
19 expectancy could not continue indefinitely at some level.

20 The Chairman: It is like Reaganomics; it will level off  
21 after a while.

22 [Laughter]

23 Senator Mitchell: And I wonder whether projecting the  
24 lines beyond the current date, whether it is supported by any  
25 medical evidence.



1 Senator Armstrong: Mr. Myers.

2 Mr. Myers: Senator Mitchell, on this point, I think that  
3 various actuaries have projected mortality and like that, and  
4 I think this is a reasonable projection. Some people might  
5 even go higher. Some might go lower. But this is the  
6 intermediate estimate and I think it is a pretty sound figure.

7 Senator Mitchell: There is one thing, Mr. Myers, we  
8 ought to have learned about the history of the Social  
9 Security problem: that is, our ability to predict future  
10 events, economic, demographic, employment or anything else,  
11 is extremely limited. Would you agree with that?

12 Mr. Myers: I would agree with that, particularly the  
13 economic. But on the demographic, actually, the estimates  
14 that were made in the early days as to how much longevity  
15 would improve, the actual longevity has gone beyond that.

16 The Chairman: Again, I think there are good parts to  
17 this package but I am not so certain. This is another area  
18 we wrestled with in the Commission for a long time. We just  
19 couldn't decide whether penalizing early retirees was the  
20 right way to go.

21 I would like to figure out some way to repeal the  
22 earnings test - there are at least some ideas floating  
23 around -- when we get to retirement age. So I think, Senator  
24 Armstrong, if you are ready to vote on this, we can vote and  
25 move on.

1           Senator Armstrong: I would be happy to proceed in  
2 whatever way you think best, Mr. Chairman. This seems to me  
3 to be a worthy proposal. If it is your desire to incorporate  
4 it into the retirement age proposal, I would be glad to do  
5 that, too. I don't care. I think it is a separate issue but  
6 one which, if it helps somebody get to the right conclusion  
7 on the retirement age, I am perfectly willing to do that.

8           The Chairman: I am not sure about the penalty for early  
9 retirement. I think that is the part that we just couldn't  
10 agree on in the Commission. There is some question about  
11 those who for a lot of reasons, low income or whatever,  
12 retire at an early age.

13           Senator Armstrong: Mr. Chairman, I just want to be sure  
14 we have reached a meeting of minds. I just wanted to be sure  
15 we had an understanding. Something you said a moment ago  
16 made me think perhaps there was a little slippage in our  
17 mutual understanding of this. Because of the fact this  
18 phases in well into the future, even someone who opted for  
19 early retirement under this slightly increased penalty would  
20 nonetheless have a higher benefit initially and over time  
21 than someone who retires now, presumably both in nominal  
22 dollars and in real terms because we are operating in an  
23 environment of rising benefits.

24           So under any circumstances, no one will really get hurt  
25 if they opt for this, and it is purely an option. It is a

1 choice they would determine.

2 Also included in my proposal is a disability safety net  
3 for someone for whom it isn't optional.

4 Senator Mitchell: Are we voting on the whole package or  
5 one at a time?

6 Senator Armstrong: I believe we are at the point where I  
7 will seek the Chairman's counsel as to how he would like to  
8 proceed at this point.

9 The Chairman: As I understand it, the work promotion  
10 package would increase the delayed retirement credit which is  
11 in the package; is that correct?

12 Senator Armstrong: Yes but, Mr. Chairman, in what I  
13 think is a significantly better way, in that it does it  
14 considerably sooner, it does it 15 years sooner. If this is  
15 a good idea, as I think it is, if the whole thing makes  
16 sense, we ought to get on with it because the Commission's  
17 recommendation, I believe, is not fully effective until the  
18 year 2020, Dr. Weaver -- 2010 -- whereas the proposal I am  
19 offering would begin to phase in in 1990 and would be  
20 completed in the phase-in in 1995.

21 The Chairman: And it repeals the earnings test between,  
22 what, 1990, 1994?

23 Senator Armstrong: If phased in again.

24 The Chairman: And it increases the penalty for early  
25 retirement from 20 percent to 30 percent at age 62. But for

1 those not seriously disabled, that is phased in over a  
2 four-year period.

3 Senator Armstrong: Yes. It contemplates a safety net  
4 for disabled persons, and the way we are working that out is  
5 that we would apply a test of the ability to do their  
6 customary employment to that age group. So it does respond  
7 to the concern so many have expressed: what about when,  
8 through voluntary means and otherwise, what about this group  
9 of people who are hod carriers, steel workers or who do heavy  
10 work and just can't do it?

11 Maybe they will live longer but they just can't do the  
12 work. Someone who is a computer operator may be different.  
13 But we are pinning it directly on that. As I say, at the  
14 worst, actuaries say, this is revenue neutral even with those  
15 generous provisions.

16 Senator Mitchell: Unless the author of the amendment  
17 objects, I move we vote separately on these. We have voted  
18 separately on many items before.

19 The Chairman: I wonder if it would be a better  
20 suggestion, Senator Armstrong, if we temporarily lay this  
21 amendment aside, and if we have a chance in a few minutes to  
22 discuss it, and move on to something else and come back to  
23 this, that is all right.

24 Senator Armstrong: That seems to me to be the wisest  
25 course. I sense we are close to working something out.

1           The Chairman: I hope so. I don't doubt the merits of  
2 the package, but I want to make certain a couple of things,  
3 one of which is the agreement of the Commission, and I need  
4 to discuss that Mr. Myers, and secondly, to make certain it  
5 is revenue neutral. I think it is probably phased in to take  
6 care of that.

7           But if it is all right with you, we will come back to  
8 that.

9           Senator Armstrong: [Indicating]

10          The Chairman: Is that all right?

11          Senator Armstrong: That is perfect. If someone else has  
12 an amendment, I would be glad to confer on that.

13          The Chairman: I think Senator Packwood has an amendment  
14 we can dispose of rather quickly.

15          Senator Packwood: Mr. Chairman, I move to strike out  
16 number 15 on the sheet, which is the broadened Social  
17 Security wage base, to include contributions to qualified and  
18 nonqualified deferred compensation plans, et cetera. This  
19 was not part of the consensus recommendation. It has been  
20 added by Ways and Means. I sense the fine hand of Stanley  
21 Surry in this amendment.

22          It is an attempt to tax fringe benefits not now taxed,  
23 and specifically day care being one. It is one we exempted  
24 from tax. We do not include it in the income base of the  
25 employee. We did that by law a number of years ago to

1 encourage employers to provide day care.

2 Now we are saying if that or other even tax exempt fringe  
3 benefits, let alone those which are not exempt by law, that  
4 we have imposed a moratorium on the IRS from issuing  
5 regulations. If they are part of the so-called cafeteria  
6 plan, they will be taxed.

7 One day we may want to full scale and full tilt get into  
8 the concept of taxation of fringe benefits, but this is not  
9 the place to address that subject. It was not seriously  
10 addressed. There have been no hearings on it here and I would  
11 simply move to strike that provision.

12 If the staff would be so good to explain the exception,  
13 which I am willing to accept.

14 Mr. Belos: As I understand Senator Packwood's amendment,  
15 it would be to strike from Item 15 cafeteria plans unless the  
16 cafeteria plan included as one of the possible fringe benefit  
17 options a 401K deferral.

18 The Chairman: That is my understanding.

19 Senator Packwood: That is right.

20 The Chairman: Without objection, that would be --

21 Senator Moynihan: Mr. Chairman, Senator Bentsen wishes  
22 to be recorded no on the vote.

23 The Chairman: All right.

24 Are there other amendments? I wonder if we might take a  
25 ten-minute break. Don't go too far away. We are down to an

1 The Chairman: Are we ready to vote?

2 Senator Armstrong: No, Mr. Chairman. I want to offer a  
3 substitute.

4 Senator Bradley: I would ask the Senator from Colorado  
5 please not to offer a substitute. Certainly he has that  
6 right, but we were taking votes to get up and down votes on  
7 particular amendments, and I would hope to get an up or down  
8 vote on this amendment.

9 The Senator is completely free at another time to offer a  
10 variation of this, or one that is a stronger one, if he views  
11 it as necessary.

12 Senator Armstrong: Mr. Chairman, the reason I want to do  
13 so is not for any reason of parliamentary maneuvering, but  
14 simply because in the logical sequence of events, there will  
15 be members of the Committee who will be uncertain of how to  
16 vote on your amendment until they have disposed of others,  
17 and I am one of them.

18 I want to offer a proposal which I believe to be  
19 completely right in principle, but which I frankly do not  
20 expect to pass. I do not want to belabor it, but I wish to  
21 offer it as a substitute. I hope Senators will vote for it.  
22 If they do not, I say to the Senator from New Jersey, it will  
23 certainly put into perspective exactly why what you now have  
24 on the table or something else ought to be adopted.

25 Senator Bradley: Why do you not offer it as an amendment

1 to this amendment, and not a substitute?

2 Senator Armstrong: Fine. I would be happy to do that.  
3 In fact, if the Senator cares deeply that I not offer it, I  
4 would be glad to withdraw it.

5 Senator Bradley: No, I just want a separate vote.

6 Senator Armstrong: Let me put it this way. I am trying  
7 to help you. That is what I am getting to.

8 In that case, and with that understanding, Mr. Chairman,  
9 I do offer as an amendment to the amendment of the Senator  
10 from New Jersey the proposal which I have circulated to  
11 simply delete the Commission recommendation for taxing  
12 benefits.

13 Now, in sort of the context of this meeting, that may  
14 seem like a very drastic proposal.

15 The Chairman: Excuse me.

16 Senator Armstrong: You previously voted to do this, Mr.  
17 Chairman -- it is all right -- along with every other Senator  
18 who voted on this subject, not once, but twice, and I believe  
19 it was unanimous both times, but the last time we voted on  
20 this issue, it was 96 to nothing. In fact, it was quite an  
21 emotional occasion.

22 I remember very vividly being summoned to the floor  
23 because there was some concern, some threat that someone  
24 might have a pipe dream about taxing benefits, and for 50  
25 years, one of the great principles of the Social Security



1 system was, we will not tax benefits.

2 So it was thought desirable in order to reassure  
3 beneficiaries who might have picked up an alarming rumor that  
4 we were going to tax benefits that we ought to have a sense  
5 of the Senate resolution, and that was the vote, 96 to  
6 nothing.

7 That is exactly the proposal I am offering, to delete the  
8 Commission recommendation for taxing benefits. The cost is  
9 \$26.4 billion over the period. It is not just because we  
10 voted on it last year, or that the House of Representatives  
11 voted 394 to one on this proposition that I offer it. I  
12 offer it because it is fundamentally wrong in my opinion to  
13 change the rules after the game is over, and that is exactly  
14 what you are doing by adopting a benefit taxation amendment  
15 in this way.

16 If we had before us a benefit taxation amendment that  
17 went into effect well into the future, so that people would  
18 have a chance to get their lives organized in a way that  
19 would permit them to make these plans, I would feel  
20 differently about it, but to me, it is just wrong.

21 I would also note, Mr. Chairman, maybe I have given away  
22 whatever modest tactical high ground I might have because I  
23 have already said I do not think it will pass, but maybe that  
24 will encourage some Senators to vote for it anyway, that the  
25 one thing that has sort of been the bottom line in every

1 amendment that has ever been offered prior to this is, we are  
2 not going to cut benefits for existing beneficiaries.

3 We may tinker around with retirement ages in the 21st  
4 century. We may adjust the rate of increase in the COLA's.  
5 Maybe we will address the eligibility standards issues. But  
6 we will not cut the benefits for existing beneficiaries. Yet  
7 that is exactly what this is, 100 percent, a benefit cut for  
8 existing beneficiaries.

9 I note the arrival of the Senator from Maine, who raised  
10 what I thought was a very worthy and important question  
11 yesterday when we discussed this. He said, how many people  
12 are affected? Seven percent is all of the Social Security  
13 beneficiaries who are affected.

14 And I think a lot of us feel that many of those high  
15 income beneficiaries, particularly those who are getting  
16 large Social Security benefits, and also have large amounts  
17 of other income, could afford to contribute something to the  
18 soundness of the system. And I am persuaded that that is not  
19 a bad idea, even though in principle I think it perhaps is  
20 questionable.

21 But the notion that somehow this will only affect a few  
22 has to be understood in the context that these thresholds are  
23 not indexed, and I have asked staff to give me a report of  
24 what these thresholds will mean out into the future based on  
25 various assumptions about inflation rates, and the bottom

1 line of that is, they will be irrelevant. The thresholds  
2 will be irrelevant in a few years.

3 Based upon a 5 percent rate of inflation, we will have 7  
4 percent of Social Security recipients taxed in 1984, 12  
5 percent in 1990, 18 percent in 1995, and 23 percent by the  
6 year 200.

7 Based on an inflation assumption of 10 percent, we will  
8 have 7 percent in 1984, 18 percent in 1990, 35 percent in  
9 1995, and 50 percent by the year 2000.

10 And, as you can see, under either a 5 or 10 percent  
11 inflation assumption, virtually everybody will be taxed in  
12 the entirety of their benefits, that is, the one-half that is  
13 proposed to be taxed, within the reasonably foreseeable  
14 future.

15 So, that is my proposed amendment to the amendment of the  
16 Senator from New Jersey.

17 The Chairman: Do you want a separate vote?

18 Senator Armstrong: Yes, sir.

19 The Clerk: Packwood.

20 Senator Packwood: No.

21 The Clerk: Roth.

22 Senator Roth: No.

23 The Clerk: Danforth.

24 The Chairman: No.

25 The Clerk: Chafee.

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

1       The Clerk: Bradley.

2       Senator Bradley: No.

3       The Clerk: Mitchell.

4       Senator Mitchell: No.

5       The Clerk: Pryor.

6       [No response.]

7       The Clerk: Mr. Chairman.

8       The Chairman: No.

9       Senator Grassley: Grassley votes no.

10      The Chairman: On this vote, the yeas are two and the  
11 nays are 15. The amendment is not agreed to, and the  
12 question arises on the amendment of the Senator from New  
13 Jersey, and I hope it will lose.

14      [General laughter.]

15      The Clerk: Mr. Packwood.

16      Senator Packwood: No.

17      The Clerk: Roth.

18      Senator Roth: No.

19      The Clerk: Danforth.

20      The Chairman: No.

21      The Clerk: Chafee.

22      Senator Chafee: No.

23      The Clerk: Heinz.

24      Senator Heinz: No.

25      The Clerk: Wallop.

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

1 The Clerk: Pryor.

2 [No response.]

3 The Clerk: Mr. Chairman.

4 The Chairman: No.

5 On this vote, the yeas are three, the nays are 14. The  
6 amendment is not agreed to.

7 Senator Bradley: Mr. Chairman, my second amendment would  
8 go to the failsafe provision of the bill. As you know, the  
9 Commission recommended that Congress develop a failsafe  
10 mechanism, although today we did approve interfund  
11 borrowing. I would like to suggest that we need a better  
12 failsafe mechanism, and although it is unlikely we will have  
13 to use it, I think it is important to send a message to 36  
14 million recipients and to those 116 million who are paying in  
15 that if there is trouble at any point on the horizon, their  
16 Social Security payments will be assured.

17 Therefore, what I suggest is an amendment that says, when  
18 the managing trustee determines that the reserve ratio is  
19 insufficient to meet benefit payments on a timely basis, he  
20 is authorized to borrow from the general funds sufficient  
21 revenues to pay the benefits.

22 In addition, the Congress shall develop a plan within six  
23 months of the date of the borrowing from general revenues for  
24 the repayment of such revenues. It simply says that if the  
25 trust fund gets down to, I would suggest 9 percent reserve

1 ratio, the lowest it is expected to get is 13 percent in the  
2 next decade.

3 But if it is worse because of a very severe economic  
4 downturn, this authorizes the managing trustee to borrow out  
5 of general revenue and then to develop a plan within six  
6 months to repay what is borrowed.

7 The Chairman: Do I understand that as general revenue?

8 Senator Bradley: That is right.

9 The Chairman: And I must say this is another matter that  
10 was considered and rejected by the Commission. I think there  
11 is a strong -- I think there are some who think we have  
12 already poured enough general revenues into the package, and  
13 we should not have a permanent -- or is this permanent? Is  
14 this permanent?

15 Senator Bradley: Yes.

16 The Chairman: A permanent provision, so I would hope we  
17 might not adopt the amendment.

18 Do you want a roll call?

19 Senator Bradley: Yes, I do.

20 The Clerk: Packwood.

21 Senator Packwood: No.

22 The Clerk: Roth.

23 Senator Roth: No.

24 The Clerk: Danforth.

25 The Chairman: No.



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

1 Senator Boren: No.

2 The Clerk: Bradley.

3 Senator Bradley: Aye.

4 The Clerk: Mitchell.

5 Senator Mitchell: No.

6 The Clerk: Pryor.

7 [No response.]

8 The Clerk: Mr. Chairman.

9 The Chairman: No.

10 Senator Bradley: That was close, Mr. Chairman.

11 The Chairman: On this vote, the nays are 15 and the yeas  
12 are one, but there are still some who have not recorded.

13 [General laughter.]

14 Senator Bradley: Are there 14?

15 [General laughter.]

16 Senator Bradley: Thank you very much, Mr. Chairman.

17 The Chairman: Thank you, Senator Bradley.

18 Senator Armstrong?

19 Senator Symms: Mr. Chairman, I have a series of four  
20 amendments, but in view of the process, I think I have two  
21 amendments I would just like to mention briefly, and not  
22 offer them, and probably offer them on the floor. One of  
23 them is the amendment which would encompass the bill that  
24 Congressman Schulze testified before the Committee on, on  
25 using Social Security bonds in allowing for an exchange.

1 For people who are more financially able to, they would  
2 voluntarily exchange their Social Security benefits and take  
3 revenue bonds, which would not be taxable as far as the  
4 interest on them is concerned. And that would save, in the  
5 short term, about \$7 billion, it is estimated.

6 I think the ground work probably has not been done on  
7 this, and rather than have a vote on it and have it voted  
8 down, I think it is a good idea, and there will be another  
9 opportunity to do that in the future, but I think many of you  
10 were here when Congressman Schulze testified. He and I  
11 introduced the bill last year. We introduced it this year.

12 I would hope the Chairman of the Social Security  
13 Subcommittee could assure me that we could have a hearing on  
14 that some time in the year, and then I will withdraw that  
15 amendment, if I can have an assurance from Senator Armstrong  
16 on that.

17 Senator Armstrong: You certainly can. I would be glad  
18 for you to have a hearing on that topic.

19 Senator Symms: This proposal would allow people to take  
20 bonds which would be inheritance tax free. It would not  
21 drain cash out of the trust fund. It would save us \$5  
22 billion to \$7 billion between now and 1990.

23 The other amendment I would like to just throw out to the  
24 Committee, there is a discussion on the proposal to establish  
25 a Social Security option account. This proposal would

1 contribute to the solution of the long-term solvency  
2 problems. I think we need to examine this further also.  
3 Just in concept, it would allow individuals who pay Social  
4 Security taxes to establish a special retirement account and  
5 then deduct annual contributions from their taxable income.

6 It would be similar to the Keogh's and IRA's that people  
7 now have, and the tax deductions would be limited to 20  
8 percent of the amount of income subject to Social Security  
9 taxes. Thus, the maximum individual deduction would be about  
10 \$7,000 today. In return, these individuals with these  
11 accounts would forfeit one-half percent of their Social  
12 Security retirement benefits for each \$1,000 contributed to  
13 the account.

14 I may offer these two amendments on the floor, but I will  
15 not belabor the Committee with them tonight.

16 I have two other amendments. One deals with the  
17 retirement age. I must say that I was certainly pleased with  
18 the vote that the House took last night. I thought that that  
19 showed considerable good judgment on the part of the House to  
20 make that direction to start recognizing that due to the good  
21 fortune of better medical care and better health in general  
22 of our population, we are now actually living longer.

23 So, the amendment I would like to offer would build upon  
24 that, but start immediately on a gradual, long-term program  
25 to allow for raising the retirement age. The amendment I

1 offer would raise the retirement age one month every year,  
2 starting in calendar year 1984, for the next 36 years, and it  
3 would bring the regular retirement age up to 68, and the  
4 early retirement age up to 65.

5 This amendment was needed as one of the measures to  
6 assure the long-term solvency of the Social Security trust  
7 fund. It would increase the retirement age gradually over a  
8 period of 36 years, and give today's workers adequate time to  
9 adjust to the plan for their own retirement.

10 Increasing the retirement age is well justified because  
11 of the longevity of Americans. When the Social Security  
12 system was initiated, the average life expectancy at the time  
13 of birth was 50 years. Those setting up a Social Security  
14 trust fund set the Social Security retirement age at 65.  
15 Today, the average life expectancy at the time of birth is 72  
16 years, yet the Social Security retirement age still remains  
17 at 65.

18 I think we we should bring this matter up to date not  
19 only to help ensure the long-term solvency of the trust fund,  
20 but so that the present inequities in the program can also be  
21 corrected.

22 I know there are many who are opposed to increasing the  
23 retirement age, and for a variety of reasons. Some of those  
24 reasons, I think, are correct. That would be people's bad  
25 health, a rapid change all of a sudden to change it too

1 suddenly, and that is why I am suggesting that the first  
2 question is, we are going to raise it one month every year  
3 for 36 years.

4 It will make no major serious change on the planning of  
5 any American who would be affected by it. It would virtually  
6 remove \$1 trillion or so from the long-term unfunded  
7 liability of the Social Security system, remove the necessity  
8 for continued payroll taxes in the future. I think it is  
9 really self-explanatory.

10 With respect to the health question, I would just like to  
11 mention that I think we all know that people are living  
12 longer. They are working longer. Keeping them involved in  
13 their life's work helps them maintain a better physical and  
14 mental health, and that of the country.

15 Also, it would mean that there would be a higher  
16 percentage of the population working and producing as opposed  
17 to what we have done now, where we have too few workers and  
18 not enough producers, and that is one of the reasons we are  
19 being beaten in many of the trade markets around the world,  
20 because we simply are not working and producing enough as a  
21 nation.

22 I would like to have a vote on this. I may not do much  
23 better than Senator Bradley did on his last amendment, but I  
24 feel it is a really worthy amendment. It would take care of  
25 the long-term problem I think we have failed to address and

1 the Commission failed to address adequately. This would just  
2 start a very gradual thing, raise the retirement age one  
3 month every year for the next 36 years.

4 Senator Mitchell: Mr. Chairman, can I ask a question?  
5 The Senator referred to the evidence on longevity, and that  
6 is clearly established, but he also said that people are  
7 living and working longer. Is there any evidence of which  
8 the Senator is aware to support the conclusion that people  
9 are able to work longer just because they live longer?

10 Senator Symms: I have read many articles where this is  
11 the case. I can say I have seen many instances of this in  
12 personal experience. I have seen people in my personal  
13 conversations with people in my state and other places. They  
14 indicate to me that they are still able to be very productive  
15 at age 65, but due to the system, they are forced into what  
16 they consider to be an early retirement situation.

17 I think we all have examples of this. Certainly, the  
18 rigors of the United States Senate, although there is no  
19 heavy lifting involved in the job, I must admit --

20 Senator Moynihan: No, we have to carry these.

21 Senator Symms: Carrying all of these papers around, as  
22 my good friend from New York points out, is sometimes heavy  
23 lifting. But I think it makes common sense.

24 I would also say when you talk to young people, most  
25 young people have no confidence. When I say young, I mean 30

1 years old and younger. They have no confidence there will be  
2 any Social Security system here when they get to that age.

3 Politically, people say, oh, that is a terrible hard  
4 thing to vote for, but I find the opposite, and I have taken  
5 this question to senior citizen centers and different places.

6 There are still built into the system protections for  
7 people who would have a disability and not be able to work.  
8 That would not be removed. But the people who chose to  
9 retire early would be 65 at the end of 36 years, and those  
10 who went to regular retirement would be 68. I think the  
11 actuarial charts point us in the direction that this is the  
12 case.

13 I think the answer to that question is, yes, there is  
14 evidence that people can work longer if they live longer.

15 Senator Mitchell: The Senator has advanced a very  
16 serious proposal, and I have attempted to study that issue a  
17 great deal.

18 Senator Symms: I would hope all the Senators would vote  
19 for it. If we did this, we would solve this problem for  
20 future Senates, Houses, and Congresses to deal with.

21 Senator Mitchell: The problem is, while it is  
22 undoubtedly true, we have all run across examples of  
23 individuals who can work much beyond the ordinary average  
24 person, we have also all encountered examples of people who  
25 cannot, especially those who are engaged in heavy physical



1 labor.

2       Although the United States is now in the middle of a  
3 major social transformation from an industrial to a service  
4 society, there are still millions and millions of Americans  
5 engaged in heavy physical labor. I have not encountered any  
6 substantial medical evidence or studies to that effect, other  
7 than the individual anecdotal evidence you suggest that  
8 supports the theory that people can work in heavy physical  
9 labor just because they live longer.

10       What may be occurring is an extended period of frailty  
11 for a large segment of our society.

12       Mr. Myers, was there any evidence on this subject,  
13 testimony on this subject before the National Commission?

14       Mr. Myers: Senator Mitchell, we did have testimony on  
15 this, and it was really inconclusive. Some people believe  
16 that there was evidence of that, and others say there was  
17 not. The difficulty is, it is easy to measure mortality, but  
18 hard to measure whether people can continue to work, and a  
19 lot of the studies that have been made on this have been by  
20 asking people's opinions. Are you able to work longer or  
21 not? And what people might say may or may not be the case.  
22 It is very hard to measure.

23       Senator Mitchell: Are you aware of any studies that were  
24 sound, broadly based medical or scientific studies bearing on  
25 this particular subject, that is, the ability of people to

1 work longer because they live longer?

2 Mr. Myers: I do not think there is. Frankly, I do not  
3 think there is any good scientific study on either side of  
4 this issue. So much is based upon the individual's  
5 perception of whether they can or cannot work.

6 Senator Symms: Senator, I might say that one thing that  
7 has happened is, the number 65 that came out in the first  
8 place -- I think Senator Moynihan enlightened me on that  
9 earlier, and I may have to ask him to correct me, but did not  
10 the number 65, did you not make mention that it came from  
11 Bismarck?

12 Senator Moynihan: Bismarck was 70. It was assumed that  
13 everyone would be dead by then, I think.

14 Senator Symms: So they set it at 65 in Germany, and that  
15 is how we got 65 in the first place.

16 Now, I would just say to my colleagues that we do have a  
17 disability system for those people who would be incapacitated  
18 and unable to continue to work. Secondly, as we watch  
19 technology make a change in our society and in our world, 70  
20 percent of the American economy is becoming more highly  
21 technology, and a service-oriented society.

22 So, I do think that if you make a very gradual change  
23 like this, it is not a radical amendment in any sense. It is  
24 a serious amendment, but it addresses the long-term problem  
25 of the American security system for old age citizens, and it

1 does it in a very gradual way. So, it would only change  
2 someone's life plan by one month, two months, six months,  
3 whatever, as a period of years goes on, so that people could  
4 mentally have time to adapt to the fact that they are going  
5 to continue to work a little longer.

6 I just think it is a good way to go. I do not believe  
7 this is a difficult vote politically, and I know that Social  
8 Security is a sensitive issue politically, but I do not  
9 believe this is a difficult vote to make, because it is a  
10 gradual change.

11 Senator Mitchell: My questions were not directed at  
12 that. I think we all want to try to do what is right. I  
13 wish the Senator or someone was able to present some evidence  
14 to support the conclusion that because people live longer,  
15 they can work longer, really, no matter how, and I have asked  
16 a great many people the same question. No one has ever come  
17 up with any substantial evidence to that effect, and that is  
18 what really troubles me.

19 I agree with you. This is a difficult problem, and you  
20 are trying to address it seriously.

21 Senator Moynihan: I wonder if the Senator from Maine  
22 would let me observe that on the question of work effort, the  
23 work force participation rate in the United States today is  
24 the highest in its recorded history. More Americans are in  
25 the work force as a percentage of the population than ever

1 before.

2 But what Dr. Myers said is, the testimony we heard that  
3 in the geriatological community, there is just not yet any  
4 real judgment about what is the case, but the possibility  
5 that what you said is so is strongly felt by some members.  
6 It is a legitimate debate, not settled, and I do not think we  
7 can act as if we have knowledge.

8 Senator Mitchell: What is the Senator's position?

9 Senator Moynihan: I could not agree to that. It seems  
10 to me it would be wrong to accept a very stringently advanced  
11 age of retirement until we learn more about whether people  
12 are just having more extended age of frailty, as you said,  
13 than an extended work period.

14 Senator Symms: I would say to my colleagues, I hear the  
15 concern, and I appreciate the concern. There is one way we  
16 can look at this. If this amendment and the amendment that I  
17 will offer next, which deals with the short-term problem,  
18 which is the cost of living adjustments, I would say if those  
19 two amendments were passed by the Congress, signed into law  
20 by the President, that you would see a massive resurgence of  
21 the long-term capital markets of this country and a  
22 restoration of real long-term non-inflationary growth,  
23 because it would restore confidence to the capital markets  
24 that the Congress has solved the problem.

25 Now, if your fears, which -- I respect your concern about

1 this, and I am sorry I do not have more substantial evidence  
2 to present, other than just my own sentiments that if life  
3 expectancies are growing, people are healthier and so forth,  
4 Congress could always come back to this, say, in 20 years,  
5 and say, it appears we are raising this age up to a point  
6 where maybe we should reconsider what Congress did and go  
7 back the other way, and say maybe 67 and a half is far  
8 enough. That would be 18 years down the road.

9 Congress could always come back and revisit this issue,  
10 but you would have solved the problem that is haunting the  
11 long-term investors in this country today, because it would  
12 give a certain confidence to anybody who wanted to go out and  
13 invest in a long-term capital market that we have taken care  
14 of a problem staring us in the face of this massive  
15 trillion-dollar, whatever it is.

16 We have heard witnesses here during the hearings -- I do  
17 not remember the numbers, but it is so far out in the reach  
18 in terms of trillions of dollars of unfunded liability in the  
19 future, that we have solved that problem, and we could go  
20 back and revisit it, or another Congress could go back and  
21 revisit that question.

22 So, I do not really think that the proposition has  
23 anything but positive aspects for the American public if it  
24 were accepted by the Congress. This issue was not an  
25 original of mine. I must say that my former colleague in the

1 House, Jake Pickle, used to talk about this when he was  
2 chairing the Social Security Subcommittee over in the House,  
3 that the way to solve this problem was by a gradual change of  
4 one month every year for 36 years, or 20 years, or 40 years,  
5 or whatever, so that we are gradually making the change  
6 toward this, and then people's psyche and determination could  
7 gradually begin to realize that they are not at a retirement  
8 age at 65, that you do not become a senior citizen until you  
9 are 66, so to speak.

10 I really think it has benefits to offer the American  
11 people, because it complements the productive capability of  
12 those people who have had a lifetime of experience, and often  
13 times their experience makes up for whatever physical  
14 reductions they might have had through the aging process,  
15 because they have a better understanding of how to do the job  
16 in an easier fashion, whatever it is that they do.

17 Senator Grassley: We obviously must think that people do  
18 have the capability of working beyond 65, or we would not be  
19 so anxious for age discrimination, to do away with mandatory  
20 retirement, and when we had all of those discussions up,  
21 there was never the point of view suggested, well, what  
22 difference does it make, because people do not have the  
23 capability of working beyond that point.

24 I think generally we tend to be very arbitrary in these  
25 things anyway, because when we reduced from 65 down to 62 for

1 early retirement, one of the motives for doing it was not  
2 that people were not able to work to 65. It just has not  
3 been the center of the discussion, and I do not think it is  
4 probably any more appropriate now than it has been in the  
5 past.

6 What we need to do is look in terms of what that  
7 individual maybe wants to do. We are not precluding early  
8 retirement. We are not saying you have to work until 68. He  
9 has the opportunity to do it, and he should not be  
10 discriminated against for doing it, I think, is the general  
11 posture.

12 Senator Mitchell: Are you suggesting that Senator Symms'  
13 proposal will not alter the date for early retirement that is  
14 presently at 62?

15 Senator Grassley: It does raise that, too, does it not?

16 Senator Symms: The way I had the amendment worded, it  
17 does raise the age for early retirement. Also, it might be  
18 interesting if this is voted down that maybe we should  
19 consider when it comes to the floor to leave the early  
20 retirement age, maybe only raise the early retirement age six  
21 months every two years instead of going the full month -- I  
22 mean, raise it two weeks every year on the low end of it.

23 But you would then have the problem to face that you had  
24 a bigger gap between early retirement and the further out  
25 retirement. Then, I think if you do that, a future Congress

1 will have to address an incentive for people not to opt out  
2 early.

3 But I do not think there is substantial evidence on  
4 either side to say people are not able to live and work  
5 longer because of improved health in the country. People are  
6 simply able, due to modernization technology, the tools and  
7 equipment that have been developed over the time period, to  
8 do much heavier work with mechanical means which they do not  
9 actually have to do the physical labor. They did 40 years  
10 ago.

11 Senator Grassley: I have a proposal that leaves it at  
12 62, but I would have a greater penalty at 62.

13 Senator Mitchell: But that is not what we are voting on  
14 now.

15 Senator Grassley: There are two differences between my  
16 proposal and his. I start mine in 1990, and go up for 36  
17 years to age 68, and then I would leave it at 62 but have  
18 more of a penalty for retiring at 62.

19 The Chairman: Do you want a roll call?

20 Senator Symms: Yes, please.

21 The Chairman: The clerk will call the roll.

22 The Clerk: Packwood.

23 Senator Packwood: N.

24 The Clerk: Both.

25 Senator Both: No.



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

1           [No response.]

2           The Clerk: Boren.

3           Senator Boren: No.

4           The Clerk: Bradley.

5           [No response.]

6           The Clerk: Mitchell.

7           Senator Mitchell: No.

8           The Clerk: Pryor.

9           [No response.]

10          The Clerk: Mr. Chairman.

11          The Chairman: No.

12          Senator Symms: Mr. Chairman, if I can offer my last

13 amendment, I will be out of your hair.

14          Senator Chafee: Chafee votes no.

15          The Chairman: With Chafee voting no, the nays are nine,

16 the yeas are three.

17          Senator Symms?

18          Senator Symms: Thank you, Mr. Chairman.

19          My next amendment I will offer tonight, which I do intend

20 to continue to pursue next week on the floor, would be an

21 amendment which would take care of the short-term problem,

22 meaning the problem between now and 1990. I would like to

23 offer an amendment which would freeze COLA's for two years

24 except hold harmless those people on SSI, so that the low

25 income people would not be affected by the freeze, just the

1 Social Security recipients.

2 And the two COLA's of July, 1983, and 1984, would be  
3 dispensed with, and then in the future the lower future COLA  
4 increases would be, the lower of wages or prices beginning  
5 with a payment in December, 1985, and December thereafter.

6 There are two sets of assumptions. If we use the 2(b)  
7 proposal, this will save \$106 billion over the next six  
8 years. If we use the Number 3 assumption, the proposal would  
9 save \$125 billion over that six-year period.

10 Mr. Chairman, over the past two years, the senior  
11 citizens who receive Social Security have received a 20  
12 percent increase in their benefits, while most of the people  
13 who are earning wages have either received minimal increases  
14 or no increase at all, and in many instances have actually  
15 taken cuts in wages.

16 Over the last ten years, wages have risen 125 percent  
17 while retirement benefits have been increased -- provided by  
18 the public sector have increased over 200 percent, 205  
19 percent. I have seen figures showing it a little higher than  
20 that, actually. But we have been paying out benefits faster  
21 than we have been collecting taxes, and I do not think we can  
22 ask the wage earners to pay higher taxes when their wages are  
23 not rising fast enough to compensate for the loss of income.

24 Mr. Chairman, increasing COLA's and using the CPI as an  
25 index strikes in my opinion right at the issue of fairness.

1 A clause in the CPI created the issue of fairness when it  
2 comes to evaluating the automatic federal COLA. Erosion in  
3 the value of entitlement benefits from inflation is rightly  
4 decried by the government, even though the government is  
5 primarily the reason we have inflation.

6 However, it is not fair to overcompensate the recipients  
7 for inflation under the inflation protection rationale for  
8 which the COLA's were designed. Virtually every expert, all  
9 the experts are in agreement that the CPI has not been an  
10 accurate gauge of the inflation in recent years, and it has  
11 overstated increases in the cost of living for people who  
12 already own their own homes, who act rationally to conserve  
13 energy when energy prices rise, and who pay attention to  
14 price swings in the supermarket by choosing what they buy  
15 week to week.

16 My amendment simply would bring the wage earner, those  
17 paying for Social Security at the current time, and the  
18 retiree, those receiving Social Security benefits, in line  
19 with one another.

20 Senator Boren: Would the Senator yield for a question at  
21 that point?

22 Senator Symms: Yes.

23 Senator Boren: You are saying use either the wage index  
24 or the CPI, whichever is lower, as the permanent amount of  
25 the formula?

1 Senator Symms: Yes.

2 Senator Boren: As I understand it, the package only  
3 applies that if the reserves fall below a certain level.

4 Senator Symms: I think that is what the Armstrong  
5 amendment may do. I do not think the package does that. It  
6 does it after 1988. I would start that program in December,  
7 1985.

8 Senator Boren: Is it made permanent after 1988, or only  
9 if the reserves are at a certain level?

10 Ms. Weaver: If reserves fall below 20 percent.

11 Senator Boren: So, Senator Symms, you are saying you  
12 would make it that under all conditions, whatever the  
13 reserves are.

14 Senator Symms: Yes, but the first payment will come in  
15 December, 1985. There would be no COLA.

16 Senator Boren: I wonder if you would consider dividing  
17 your amendment. I would not support a two-year freeze, but I  
18 certainly support your idea of using either -- the lower of  
19 the wage index or the CPI as a permanent way of determining  
20 the formula.

21 Senator Symms: I would be happy to do that, unless  
22 someone else would offer that amendment separately.

23 Senator Boren: I know of no one who would offer that  
24 separately, and I think you have a good proposal.

25 Senator Grassley: Do you have payback provisions in your

1 formula?

2 Senator Symms: No. I just think this is a fair  
3 amendment. I can give you a personal example of this. In my  
4 own family, my father -- and I have told the Chairman this  
5 many times -- and mother are receiving nearly \$15,000 a year  
6 from the Social Security Administration, and their home is  
7 paid for, their house is paid for, and they are in fortunate  
8 circumstances, I suppose, if you compared them with the  
9 average, but they are not what you would call super wealthy  
10 people.

11 Yet on the contrary, they have grandchildren that are  
12 working, having a difficult time earning as much as they draw  
13 from the Social Security Administration, and if you go back  
14 and analyze it, people who are going on Social Security  
15 today, if they paid in the maximum since the beginning, paid  
16 in about \$14,000, and the first year they get back \$14,000,  
17 so it literally makes people millionnaires if they are lucky  
18 enough to live long enough to get onto this system.

19 And then, in the last two-year period, they have gotten a  
20 20-percent increase. I went out in my district over the  
21 Lincoln Day break and held town meetings all over, and most  
22 of the people who attended the town meetings -- there were  
23 over 1,200 people attending several of these meetings that I  
24 talked to personally -- were senior citizens. We kept an  
25 inventory. Most of the people who came during the day to the

1 meetings were senior citizens.

2 I asked the question at every meeting. I said, I am  
3 proposing to offer an amendment to dispense with the COLA's  
4 and then go in on a wage index versus the cost of living.  
5 How many people in this audience would be severely stressed  
6 if we removed SSI so we hold harmless the lower income  
7 people? And to a person, they said, that is what you all in  
8 Congress should do.

9 I do not understand what all the controversy is about. I  
10 know this is viewed by many as a reduction in benefits, but I  
11 think we have to face reality. In the last two-year period,  
12 the working people in the country are not getting pay  
13 increases at the rate that non-working retirees are. It  
14 ought to be addressed right now, and it would remove the  
15 necessity to have as many payroll tax increases in the future  
16 that we are probably building into the system.

17 I think if we did this, it is the right thing to do, and  
18 we will be shocked and pleasantly surprised, I think, at the  
19 political response of the American people. If the Congress  
20 would just address the long-term problem and solve it, and  
21 address the short-term problem and solve it, then we can  
22 start with some imaginative proposals to allow people to  
23 start buying, owning, and investing in their own retirement  
24 accounts.

25 Another thing we would be able to do is the subject I

1 mentioned earlier. Capitalism will not work without capital  
2 markets. We need long-term capital markets. This would  
3 restore long-term capital markets. If this passed this  
4 Committee tonight, you would see a rally on the bond market  
5 tomorrow. Just that kind -- a little faint hope would help.  
6 And that would help us get people back to work in the  
7 country, and I think it would be well.

8 I have said plenty, Mr. Chairman. I would just like to  
9 have a vote on my amendment.

10 Senator Packwood: Any further discussion?

11 Senator Boren: Would you be willing to divide it and  
12 vote on the two-year freeze as one and the CPI and wage index  
13 as a separate vote?

14 Senator Symms: The first amendment will be just on the  
15 two-year COLA, and the second amendment will be the payment.  
16 When the payment did start, it would be the wage index or  
17 price index.

18 Senator Packwood: The first vote will be on a two-year  
19 COLA freeze.

20 The clerk will call the roll.

21 The Clerk: Packwood.

22 Senator Boren: No.

23 The Clerk: Both.

24 Senator Both: No.

25 The Clerk: Danforth.



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

1           The Clerk: Boren.

2           Senator Boren: No.

3           The Clerk: Bradley.

4           [No response.]

5           The Clerk: Mitchell.

6           Senator Mitchell: No.

7           The Clerk: Pryor.

8           Voice: No.

9           The Clerk: Mr. Chairman.

10          The Chairman: No.

11          On this vote, there are eleven nays and two yeas.

12          Senator Symms: Mr. Chairman, just to make it clear, what

13 we are voting on next, in deference to my colleague, we

14 divided the question, and since the first amendment was voted

15 down, I would like to yield to Senator Boren to pick the date

16 of when his amendment starts, because the way I had my

17 amendment written, the date started in December of 1985. You

18 may wish to have it start in December of 1983.

19          Senator Boren: I would think that would be appropriate,

20 to start on this basis.

21          Senator Symms: December, 1983?

22          Senator Boren: 1983.

23          Senator Symms: We are voting for the wage index or price

24 index, whichever is lower.

25          Senator Boren: Whichever is lower.

1           Senator Symms: In December, 1983, and that would put it  
2 in line with the Commission's recommendation.

3           Senator Boren: [Nods affirmatively.]

4           The Chairman: Let me check, if I can. Again, I have no  
5 personal problem with the amendment, but I am a member of the  
6 Commission. I worked out a compromise, and I think this  
7 would be, as far as I am concerned, in violation of the  
8 compromise. Is that right, Mr. Myers, or Caroline?

9           Mr. Myers: That is correct, Mr. Chairman. The consensus  
10 agreement said we would begin it for January, 1989, checks,  
11 and also there was the fund. It also had a test of how hard  
12 the fund was, and it also had a payback.

13          The Chairman: And you have also looked at Senator Long's  
14 amendment, and that does not violate any?

15          Mr. Myers: No. In my opinion, Senator Long's proposal  
16 does not violate it any more than Mr. Bradley's did, the one  
17 that was voted on to have a failsafe device, borrowing from  
18 general revenues. Those are all within the consensus, which  
19 merely said there should be a failsafe device without saying  
20 what kind.

21          The Chairman: Senator Armstrong?

22          Senator Armstrong: Mr. Chairman, I just wanted to ask  
23 Senator Boren if his amendment is conditioned on trust fund  
24 balances. In other words, does this trigger on and off?

25          Senator Boren: No. I appreciate the compliment, but

1 this is still Senator Symms' amendment. Not that I would not  
2 want to claim it, because I think it is a very good  
3 amendment. It would simply say that that would be the way --  
4 That is the formula you would use in all circumstances.

5 I voted for a similar provision on the floor of the  
6 Senate. I was told I would receive a lot of criticism for  
7 it. I received a massive avalanche of three letters. I  
8 answered those three letters, and received two back from two  
9 of the three saying they agreed with me.

10 On reflection, I did not hear from the third person. I  
11 have not met up with him yet. But I have polled senior  
12 citizen groups, and nearly every group feels it is fair.  
13 They do not want to be put in a better position than their  
14 children and grandchildren who are working and paying into  
15 the system. They say, if we are protected by the CPI, if it  
16 happens to be lower than the wage index, that is enough. If  
17 the CPI is higher than the wage index, we want to be treated  
18 on an equal footing with our children and grandchildren, and  
19 not have it go up faster than the wage index.

20 I found personally, in my own meetings with senior  
21 citizens, very, very strong support for that proposition.

22 Senator Armstrong: Mr. Chairman, I think there is great  
23 wisdom in what the Senator from Oklahoma has said, but it  
24 appears to me his line of reasoning overlooks one factor.  
25 That is, if this is a permanent change in the basis on which

1 the COLA is computed, the retirees fall behind coming and  
2 going. I could very easily support this kind of an amendment  
3 if it were perceived as a measure during times when the trust  
4 fund balances were below a safe level of 20 percent or 25  
5 percent. But if it is in perpetuity, what would happen is  
6 this.

7 Over time, if the normal pattern of wages outstripping  
8 prices was in existence, they would get the lesser of the  
9 two, and if year after year you get the lesser of the two  
10 with no catchup, eventually retirees would be at a serious  
11 disadvantage, or at least so it seems to me.

12 I sense this may not pass anyway, so my vote probably  
13 would not be decisive, but I could not vote for it unless it  
14 were conditioned on the trust fund balance in some way, or in  
15 some way was alleviated over a long period of time.  
16 Otherwise, I am afraid beneficiaries would seriously suffer.

17 Senator Heinz: If the Senator would yield, he is  
18 entirely correct, and it is even more serious than that,  
19 because those would be most affected would be the oldest  
20 people. It would be your 85-year-old widows who would be  
21 trying to get along with a good deal less in the way of  
22 purchasing power than someone who is 65 or 68, and the result  
23 would be, at a time when their expenses will be highest, they  
24 will have the least purchasing power. So, I think it is a  
25 very bad idea.

1           The Chairman: Are you ready to vote, Steven?

2           Senator Symms: Mr. Chairman, the only thing is, if it  
3 ever comes out as the Senator from Pennsylvania is talking  
4 about, I think that means we will be in an absolute  
5 depression, and if that is the case, we are going to have  
6 more problems with the Social Security trust fund than we can  
7 dream of right now, because what I am trying to do is address  
8 the problem in a two-fold manner.

9           Number One is, and the Senator knows this better than I,  
10 the problem that faces America today is, we have destroyed  
11 the long-term capital markets. That is what is dragging this  
12 recovery. And if we would do this, we could come back and  
13 address it in two or three years, but you will send a signal  
14 out of here that will be like a bullet going to the target at  
15 the National Rifle Association marksmanship contest that will  
16 be positive to the markets, and get people back to work, and  
17 then, you know, maybe we could tie this to the trust fund.

18           And then, if the trust fund is in good balance, you could  
19 let them have the higher instead of the lower. But I am  
20 saying, if we do some of these things right right now, make a  
21 hard political vote or two if necessary, but I find Senator  
22 Boren's response has been equal with mine. I have been  
23 talking about this all over my state for two years, and all I  
24 get is praise from senior citizens. They say that is what I  
25 ought to do.

1           Yet when I come down to Washington, this seven square  
2 miles is not in tune with the reality of the rest of the  
3 United States. People know what is wrong with this. We are  
4 trying to tax young workers who cannot afford it, and we are  
5 spending money at the tune of \$15,000 to \$18,000 a minute  
6 faster than it is coming in, and people say, why do you let  
7 that keep going?

8           If you are right, Senator Heinz, we can fix it in two  
9 years.

10          Senator Boren: Let me ask Senator Symms this question,  
11 in light of what Senator Armstrong said, and the other  
12 questions that have been raised. Let us suppose we use the  
13 32 percent payback figure. I am a little concerned about  
14 this kicking in only at 20 percent, because in a sense it is  
15 kicking in after there is already a problem. Let us suppose  
16 we made it 25 percent as a threshold, with a payback at 32  
17 percent, and made it start in December of 1983 instead of  
18 waiting.

19          That might be a fair way, Senator Symms. If we could  
20 modify it, we could set the threshold at 25 percent on the  
21 reserve, the payback at 32 percent, and start it in 1983,  
22 December of 1983.

23          Senator Symms: It is so modified.

24          The Chairman: The clerk will call the roll.

25          The Clerk: Packwood.

1       [No response.]  
2       The Clerk: Roth.  
3       [No response.]  
4       The Clerk: Danforth.  
5       The Chairman: No.  
6       The Clerk: Chafee.  
7       Senator Chafee: No.  
8       The Clerk: Heinz.  
9       Senator Heinz: No.  
10      The Clerk: Wallop.  
11      The Chairman: No.  
12      The Clerk: Durenberger.  
13      Senator Durenberger: No.  
14      The Clerk: Armstrong.  
15      Senator Armstrong: Aye.  
16      The Clerk: Symms.  
17      Senator Symms: Aye.  
18      The Clerk: Grassley.  
19      Senator Grassley: Aye.  
20      The Clerk: Long.  
21      Senator Long: No.  
22      The Clerk: Bentsen.  
23      [No response.]  
24      The Clerk: Matsunaga.  
25      [No response.]



1           The Clerk: Moynihan.  
2           Senator Moynihan: No.  
3           The Clerk: Baucus.  
4           [No response.]  
5           The Clerk: Boren.  
6           Senator Boren: Aye.  
7           The Clerk: Bradley.  
8           [No response.]  
9           The Clerk: Mitchell.  
10          Senator Mitchell: Aye.  
11          The Clerk: Pryor.  
12          Senator Pryor: No.  
13          The Clerk: Mr. Chairman.  
14          The Chairman: No.  
15          On this vote, the nays are nine, the yeas are five. The  
16 amendment is not agreed to.  
17          Senator Grassley: Mr. Chairman.  
18          Senator Long: Mr. Chairman.  
19          The Chairman: I recognize Mr. Long, and then Mr.  
20 Grassley.  
21          Senator Grassley: Let me ask the staff to explain this.  
22 It has to do with a person who has worked for a long time  
23 under Social Security and has more than the minimum amount of  
24 coverage under this double dipping provision.  
25          Mr. Stern: The present law formula is skewed to pay a

1 higher level of replacement rate for persons with low average  
2 earnings than those with high. The way it does that is, the  
3 first \$255 of average monthly earnings, the replacement is 90  
4 percent. And then it is 32 percent for a large range above  
5 that.

6 This has the effect that if a person has lower than  
7 average earnings because they worked a substantial amount of  
8 time in government employment, let us say, that was not  
9 covered, they get the advantage of this skewing. The House  
10 bill and S-1 have a provision that would take away the  
11 advantage of the skewing by saying, instead of getting 90  
12 percent, you get a lower percentage than that for the first  
13 part of your earnings.

14 This is designed to get at the case of a person who has a  
15 short period of time of earnings under Social Security and a  
16 long period of time in some other retirement system, and so  
17 they get a government pension. However, you can have the  
18 case where a person really has worked for a substantial  
19 amount of time in private covered employment, and they are  
20 still affected adversely by this.

21 So, this modification being suggested would say that if  
22 you have worked for at least 30 years under covered  
23 employment, you will not be affected by this windfall  
24 reduction provision at all, and if you have worked for 29  
25 years, you will be affected somewhat, and 28, and so on. By

1 the time you get down to 24 years of covered employment, you  
2 would have no advantage compared with the provision in  
3 general. This will affect quite a small number of people,  
4 and the cost is negligible, but it will protect the case of a  
5 person who has really spent most of his working lifetime  
6 under covered employment.

7 The Chairman: As I understand, this has been gone over  
8 by Mr. Myers, Caroline, and others, and we do not see any  
9 problem with the amendment.

10 Ms. Weaver: That is correct.

11 Mr. Myers: I think it is an excellent refinement of what  
12 is in the markup here.

13 The Chairman: Does anyone else have comments?

14 [No response.]

15 The Chairman: Without objection, it will be agreed to.

16 Senator Long: May I offer this amendment, which I think  
17 will be somewhat significant? I do not believe it breaks  
18 your agreement at all.

19 I would ask Mr. Myers, is it not correct that this does  
20 not violate your agreement? In fact, I think it helps solve  
21 a problem which was left unsolved, and I hope this will be  
22 the answer to it.

23 Here is the proposal. In order to assure that the Social  
24 Security trust fund's shortfall would never make it necessary  
25 to stop or delay monthly benefit checks, the bill before the

1 Committee should be modified to add a true contingency plan.  
2 Such a plan would never come into play if the current  
3 legislation is successful in restoring the solvency of the  
4 program.

5 However, if economic conditions disappoint our  
6 expectations, the plan would allow the department to carry  
7 out its responsibilities in a way which does not threaten the  
8 continued payment of benefit checks.

9 Under the proposal that the Secretary finds that the fund  
10 reserves are beginning to decline, he would be required to  
11 scale back the next benefit increase. He would pay as much  
12 increase as could be paid without causing the reserve to  
13 decline. In scaling back benefit increases under this  
14 proposal, the Secretary would first reduce benefits for  
15 people getting more than \$250 per month.

16 Before implementing this provision, the Secretary would  
17 be required to notify the Congress by July 1 of the benefit  
18 increase which would have to be reduced. He would notify us  
19 on July 1 that it would be necessary to reduce a benefit  
20 increase. This will allow Congress six months to act on  
21 legislation to provide necessary additional funds to pay the  
22 full increase, or take whatever action Congress determines  
23 appropriate.

24 The alternative of that situation would be that the  
25 administrator would simply have to delay -- this is existing

1 law -- delay sending out the checks. As between the two, it  
2 seems to me it would be better that he would simply scale  
3 back the benefit increase.

4 Senator Chafee: That is the COLA you are talking about.  
5 When you say scale back the increase, you mean the COLA?

6 Senator Long: The cost of living increase. Hopefully,  
7 according to all of the estimates, this would never be  
8 necessary, but if it should become necessary, this would  
9 permit him to continue to send out the checks on time rather  
10 than going into a situation where we would face what we have  
11 now, the prospect of having to delay mailing out the checks.

12 The Chairman: I wanted to ask Mr. Myers.

13 Senator Long: I wish you would.

14 The Chairman: I have asked Mr. Myers so the record would  
15 be clear. I have an obligation to fulfill the Commission's  
16 recommendations, but I do not believe this would violate even  
17 the spirit. This was an area we could not agree on. We left  
18 it open and said, if someone can come up with a failsafe that  
19 has support, it is satisfactory. Is that correct?

20 Mr. Myers: That is correct, Mr. Chairman. I think this  
21 is clearly within the consensus agreement that said there  
22 should be a failsafe device of some sort or another that will  
23 work, and this device will certainly work. I think there are  
24 a few technical things about it. For one thing, it says if  
25 the trust fund ratio decreases, it would go into effect. I

1 think if you had a trust fund ratio as high as --

2 Senator Moynihan: One hundred and fifty percent.

3 Mr. Myers: Yes.

4 Senator Moynihan: And you were going down 149.

5 Mr. Myers: Yes, that is just what I was getting to,  
6 Senator. I would suggest it be some sort of trigger, like if  
7 the trust fund ratio is 20 percent or 25 percent.

8 Senator Long: As far as I am concerned, the staff can  
9 fill in the details of it, or however the Committee wants to  
10 do it, but basically my thought is, when it goes down to a  
11 certain point, at whatever point you want to fix it, when it  
12 gets down to a certain point, rather than delay sending out  
13 the check, you simply notify Congress that you will not be  
14 able to send out the full cost of living increase.

15 Senator Moynihan: May I speak to this, Mr. Chairman?

16 The Chairman: [Nods affirmatively.]

17 Senator Moynihan: In terms of the consensus, I think I  
18 would have to record my understanding that there would have  
19 been at least five members of the Commission who would not  
20 have been for this, and I cannot be for it.

21 I do not disagree that the majority probably would have  
22 been for it, but I do think, if I can say to my good friend  
23 from Louisiana, what he means here is, if they are beginning  
24 to decline below the point where it would not be possible to  
25 meet obligations.

1 The Chairman: Right.

2 Senator Moynihan: And that is down around 10 percent. A  
3 drop from 80 percent to 70 percent will not make any  
4 difference to anyone.

5 Senator Long: That is all right with me.

6 The Chairman: That is how you interpret it, is it not,  
7 Bob?

8 Mr. Myers: Yes.

9 Senator Moynihan: If this is going to be enacted, as I  
10 fear it might be, then I would like to be very specific.  
11 What is the percentage point, Mr. Myers, that you think would  
12 be appropriate for this, the beginning to decline, and  
13 therefore not able to pay?

14 Mr. Myers: I think it should not be done at the last  
15 moment, when the fund is just about to go out, because you  
16 need a little safety. I would say a 20 percent ratio.

17 Senator Moynihan: Well, 20 percent is the ratio of our  
18 stabilizer, so if it has to be done, let it be done in  
19 consistent ratio.

20 Senator Long: All right.

21 The Chairman: Are there other technical changes? I am  
22 not certain how the members feel about this.

23 Senator Heinz: Mr. Chairman, I would like to ask a  
24 question about it.

25 The Chairman: I think he has already spotted some. Are

1 there other technical areas?

2 Mr. Myers: Just one other one. I presume that when  
3 Senator Long talks about a benefit of \$250 a month, that you  
4 are only going to reduce the COLA's above that. You are  
5 referring to the primary benefit, and not looking at  
6 individual beneficiaries who might be getting only fractional  
7 benefits.

8 Senator Long: That is right.

9 The Chairman: That is right.

10 Caroline, did you have something else?

11 Ms. Weaver: No, I think these are things we can work out  
12 with the minority staff.

13 The Chairman: I think Senator Heinz has some questions,  
14 too.

15 Senator Heinz: If you set this at 20 percent, the trust  
16 fund, how, under our assumptions, economic assumptions, at  
17 what point will the trust fund reserves be under 20 percent  
18 between now and the year 1990? What years will we be under  
19 20 percent?

20 Mr. Myers: Senator Heinz, there are two parts to this.  
21 The first is, if the trust fund ratios decrease, you might  
22 have them under 20 percent, as is shown in the estimates.  
23 They are under 20 percent for a number of years, but they are  
24 increasing.

25 Senator Heinz: Take it one at a time. Between now and



1 the year 1990, what years will we be under 20 percent?

2 Mr. Myers: Through about, I believe, 1987 or 1988.

3 Senator Heinz: So in 1984, 1985, 1985, 1987, and 1988?

4 Mr. Myers: Well, maybe.

5 Senator Heinz: Maybe. So there are five years where we  
6 are likely to be under 20 percent, and if for some reason we  
7 do not know, things should, instead of getting better, there  
8 should be one little dip, there would be a change in benefit  
9 checks which we would have to explain.

10 Mr. Myers: Well, the COLA's just would not be as large.

11 Senator Heinz: That is right, and people would write to  
12 all of the members of this Committee and ask them why, and we  
13 would have to remember that it was Senator Long's amendment,  
14 and I am not sure any of us have that long a memory. It is a  
15 joke.

16 [General laughter.]

17 Senator Heinz: Mr. Chairman, I am afraid I cannot  
18 support this amendment. I understand the effect and the  
19 intent, but I find it will be difficult to explain to  
20 people.

21 The Chairman: I think the concern is, Mr. Myers, that it  
22 would be effective right now.

23 Senator Long: Make it effective January, 1985. That is  
24 the date I was thinking of.

25 Mr. Myers: For the COLA's, it would be payable in 1985,

1 reporting to the Government Affairs Committee.

2 Senator Moynihan: Oh, well fine.

3 Senator Heinz: Yes.

4 Senator Armstrong: In other words, the notion is we  
5 adopt this and then the resolution or the amendment or  
6 whatever it is be referred to the --

7 Senator Roth: I would urge it be done as a separate  
8 proposal, rather than as a part of this general legislation,  
9 because otherwise we would not have time to consider it in  
10 Governmental Affairs.

11 Senator Armstrong: I think that is understood. At least  
12 from the earlier discussion, I believe that is Senator Heinz'  
13 suggestion. But you are saying that if this Committee acts  
14 upon his recommendation, that it be referred then for further  
15 disposition to the Government Op Committee?

16 Senator Roth: That is correct.

17 Senator Heinz: Let me see if I understand my colleague's  
18 desire. The study -- does the Senator want this amendment or  
19 does he want the study referred?

20 Senator Roth: If I understand what you are saying, you  
21 propose the creation of a commission to study whether or not  
22 it should be an independent agency, and the creation of the  
23 commission should go to Governmental Affairs.

24 Senator Heinz: I am unable to dispute that. That may be  
25 the case. I do not know. Is that in fact the case, that

1 Government Affairs has jurisdiction over all commissions?

2 Senator Roth: The creation of any reorganization of  
3 government, yes.

4 Senator Heinz: I do not debate the point with the  
5 Senator. He is Chairman of the Committee and I am sure he  
6 knows. I have no objection to referring this amendment, if  
7 we act favorably upon it, to his Committee.

8 Senator Roth: The problem is we do not want to delay  
9 consideration of social security. It is not a part? Is it  
10 separate?

11 Senator Heinz: We can separate it.

12 Senator Packwood: We can leave it out of this bill.

13 Senator Armstrong: Exactly.

14 Senator Heinz: It would be helpful if the Government  
15 Affairs Committee could take a look at it so we might take it  
16 up when we consider the social security bill on the floor.

17 Senator Roth: There would be no way that would be  
18 possible. That would not be practical. As I understand it,  
19 it is a separate resolution.

20 Senator Packwood: John, if we are going to report this  
21 tonight to go to the floor Tuesday, in fairness his Committee  
22 cannot.

23 Senator Moynihan: It has just become a separate  
24 resolution.

25 Senator Heinz: Then Pat, I think we could best handle

1 this differently.

2 Senator Packwood: Do you want to withdraw it for the  
3 moment?

4 Senator Heinz: I withdraw it.

5 Senator Packwood: Are there any other further social  
6 security amendments?

7 [No response.]

8 Senator Packwood: We will wait pending the Chair to see  
9 where he is on unemployment.

10 The Chairman: The unemployment people are coming in.  
11 Have we taken care of this?

12 Senator Packwood: Yes.

13 Senator Moynihan: Mr. Chairman, could I take this  
14 occasion to address the admiration and awe that Mr. Myers has  
15 been through 15 hours of this and is as fresh as the moment  
16 he walked in this morning. We thank you very much, sir.

17 Mr. Myers: Thank you, Senator.

18 The Chairman: I want to make that same point, as well as  
19 all of the other staff members.

20 Do not leave yet, Bob. Someone may think of something  
21 between now and the time. But I do think, unless there is  
22 some objection, we will give the staff authority in the  
23 Medicare area and social security area to make technical  
24 changes and any other changes that they may deem, and being  
25 brought to the members involved so everyone will not be

1 surprised when they see the language later on.

2 Mike, are you satisfied there are no other areas to be  
3 addressed on the social security side?

4 Mr. Stern: [Nods negatively.]

5 The Chairman: Mr. Myers, Mr. Goss?

6 [No response.]

7 The Chairman: I know we are going to work on the SSI  
8 thing. If in fact you can think of some better language  
9 between now and the time the draft is prepared, you can do it  
10 that way.

11 All right. Now the next matter is the unemployment.  
12 While the unemployment group is taking their place, I might  
13 suggest one area we have been trying to address and we have  
14 not yet come to any agreement was some coverage for the  
15 unemployed as far as health care is concerned. We hope to  
16 work on that over the weekend. We just have not had enough  
17 time.

18 It is a difficult thing to put together, but we have had  
19 a meeting with Mr. Stockman. We have met with other Senators  
20 who have an interest in that. We are trying to figure out if  
21 we can accomplish something in that area that would be  
22 helpful and still keep in mind the impact it might have in  
23 the budget. So we have not given up on that.

24 Senator Armstrong: That would not be in this bill,  
25 though?

1           The Chairman: No. It could be offered as an amendment,  
2 but it will not be in this package, no.

3           Senator Bradley?

4           Senator Bradley: I wondered if you were proposing to  
5 amend it as a Committee amendment from the floor?

6           The Chairman: That is a possibility, if we can find  
7 something to agree on and can get 11 members to agree to  
8 propose it as Committee members.

9           Who is the unemployment leader? Cindy? Rodney?

10          Cindy, we all have these explanatory sheets. I think you  
11 have had an opportunity to visit with staff, nearly all the  
12 Senators. And we do not want to shut anyone off, but I think  
13 we have a fair agreement on the proposal. Maybe we can run  
14 through it quickly and respond to questions.

15          Ms. Olson: Senator, the proposal is on your long sheet,  
16 which should read "Revised" at the top. What we have done is  
17 extended the life of the federal supplemental compensation  
18 program for six more months. It is scheduled to expire at  
19 the end of March. It will go to September. We have revamped  
20 the tiers for state eligibility. There is provided  
21 additional weeks for people who exhaust their benefits before  
22 the end of March.

23          We have also provided phaseout benefits for people who  
24 are receiving FSC benefits at the end of September, but have  
25 not completed their entitlement. Under this proposal they

1 get 50 percent of their remaining weeks after September 30th  
2 when the program expires.

3 The costs are listed. There is a difference between the  
4 Department of Labor's estimate and CEO's estimate.  
5 Basically, I understand that is a difference in IUR's in  
6 their assumptions.

7 The Chairman: Along with this is there not some -- we  
8 have tried to have some of the states who have told us about  
9 the problems they have with interest payments and the cap,  
10 and I understand it became such a frustrating experience on  
11 the House side the Ways and Means Committee decided not to  
12 try to do anything at this time.

13 I think we do have some suggestions that may not go as  
14 far as the Governors of the states want to go, but at least  
15 move in that direction of providing some relief. Are those  
16 sheets available?

17 Ms. Olson: Yes. It is a four-page package of short  
18 paper stapled.

19 The Chairman: Pod, is that yours or Cindy's? Could you  
20 explain that?

21 Mr. De Arment: Cindy will explain it.

22 Ms. Olson: We allowed for a longer deferral period for  
23 interest due by the states on their loans. When interest  
24 becomes effective, if the state takes action toward closing  
25 the gap in the difference between their benefit costs and

1 their tax costs they can receive a deferral of interest over  
2 a five-year period.

3 They are required to make a payment of 20 percent of the  
4 interest due this fiscal year. Then if they demonstrate they  
5 made state law changes bringing their program to solvency, we  
6 will provide them with that deferral.

7 The Chairman: I think Michigan had a special problem  
8 that Senator Baucus and I have discussed with you.

9 Senator Baucus: That is right, Mr. Chairman. Michigan  
10 people I understand, because of the even more stringent steps  
11 they have taken, are not eligible. And as I understand it,  
12 the staff has worked out some arrangement with the Michigan  
13 folks to take care of that situation.

14 Mr. De Arment: That is correct, Senator Paucus. In the  
15 case where a state has taken action like the State of  
16 Michigan has and can meet a standard of 50-80-90 that sort of  
17 follows in this material -- that is, they have reduced their  
18 benefits or increased their taxes by 50 percent, 80 percent  
19 or 90 percent -- they would be entitled to basically a one  
20 percent discount on the interest that they would pay, so they  
21 would pay one percent less than the otherwise applicable  
22 interest rate.

23 Senator Baucus: That would apply to the State of  
24 Michigan, then? So long as they meet the criteria you  
25 mentioned, they would be entitled to a one percent discount,



1 is that correct?

2 Mr. De Arment: That is correct.

3 Senator Baucus: Thank you.

4 Senator Chafee: Mr. Chairman.

5 Senator Heinz: Mr. Chairman.

6 The Chairman: Senator Chafee, then Senator Heinz.

7 Senator Chafee: Under B here, the additional FSC  
8 benefits, if you take the item 1, a state, 8 weeks in a state  
9 with an above 6 percent, does that mean an unemployed person  
10 could thus be 26 weeks in the state, 13 weeks with extended,  
11 if he had 14 weeks in a state that's above 6 percent, item A,  
12 and then an additional 8 weeks?

13 Ms. Olson: Senator, the only people who get the  
14 additional 8 weeks under B are those who exhaust their FSC  
15 benefits before April 1st.

16 Senator Chafee: But some people have.

17 Ms. Olson: And they will receive a larger chunk of  
18 benefits. Those people will have received possibly up to 15  
19 weeks under the current FSC program.

20 Mr. De Arment: You could get up to 62.

21 Senator Chafee: You could have up to 63 weeks?

22 Ms. Olson: That is correct, in the high unemployment  
23 stats.

24 Senator Chafee: We have never done that before.

25 Senator Moynihan: Those are pretty seriously unemployed

1 people.

2 Mr. De Arment: We have gone up to 65, Senator Chafee.

3 The Chairman: What was the suggestion?

4 Senator Chafee: It was not a suggestion. I was just  
5 asking.

6 But I do have a suggestion in connection with states  
7 giving unemployment benefits to employees of educational  
8 institutions, and I would like to know -- presently we cover  
9 those who are educators in an educational institution, do you  
10 not?

11 Ms. Olson: Yes.

12 Senator Chafee: What we are doing is, we require those  
13 states to deny the benefits to those who are working during a  
14 school term and have worked in the prior term and have a  
15 reasonable assurance of working in the next academic terms,  
16 the teachers. I think we ought to extend that to the other  
17 employees performing services in connection with an  
18 educational institution.

19 So we are talking school bus drivers, for example, who  
20 are working for a school year and have assurances of being  
21 reemployed the next year, and that is what the job is. Then  
22 they go down and collect unemployment compensation in the  
23 summer, which the school system has to pay for them, when  
24 that was never the design of the program.

25 The Chairman: Is there any objection to that?

1 [No response.]

2 The Chairman: Without objection.

3 Senator Chafee: I was wondering, if that was the  
4 concept, if that could be worked out in your language.

5 The Chairman: We are down to ten members. We have one  
6 in the back room who must leave in about five minutes. So if  
7 we can take care of any amendments during that time, we would  
8 like to report the bill out.

9 Senator Boren: Vote.

10 Senator Baucus: Vote.

11 Senator Boren: Does this have a provision on payback of  
12 loans to states? Has it changed?

13 The Chairman: Cindy?

14 Mr. De Arment: It has a provision. The provision with  
15 respect to the loans to the states is, the changes here --  
16 essentially, the change, Senator Boren, is for a state that  
17 meets standards in terms of tightening up the state law, we  
18 will permit them to defer the interest that is due over a  
19 four-year period.

20 Senator Boren: Over a four-year period?

21 Mr. De Arment: That is correct.

22 Senator Heinz: But there is no forgiveness.

23 Senator Boren: No forgiveness in this?

24 Mr. De Arment: There is no forgiveness. And as we  
25 previously indicated, there is some additional relief for

1 states such as Michigan.

2 Senator Boren: I was curious if there was forgiveness.  
3 I have no problem with that, Mr. Chairman.

4 Senator Heinz: There is no interest on interest, is  
5 there, in it, Mr. Chairman?

6 Mr. De Arment: Yes. To the extent that a state deferred  
7 its loan there would be compounded interest.

8 Senator Heinz: There would be interest on interest? Are  
9 you saying we will allow the states to stretch it out over  
10 --

11 Mr. De Arment: Stretch out their loans and not pay  
12 interest over four years, but there would be interest due on  
13 the deferred interest, that is correct.

14 Senator Boren: On the deferred interest.

15 Senator Heinz: So you would be paying interest on  
16 interest.

17 Mr. De Arment: That is correct.

18 The Chairman: We tried to work that out.

19 Senator Bradley: Kind of like the banks do when they  
20 loan to Brazil and Mexico and they repay the bank. You know  
21 that subject.

22 Senator Heinz: Yes.

23 Mr. Chairman, let me just say this. I do appreciate the  
24 effort the Chair has gone to to try to help high unemployment  
25 states. And clearly, this is a lot better than no help at

1 all. There are some parts of it I will have problems with  
2 it, but I will certainly not oppose it.

3 The Chairman: We did make an effort. We met with the  
4 representatives of the states and the Governors. We know we  
5 have not done enough. And as I said, the House finally gave  
6 up trying to do anything, and I am not certain the  
7 Administration supports what we have done. I am afraid to  
8 ask. No, I will go ahead and ask anyway.

9 Senator Heinz: Mr. Chairman, let us move right along.

10 The Chairman: I think it is fair to say the  
11 Administration has some reservations, is that right?

12 Mr. Van Erden: Yes.

13 Mr. Mantho: Yes.

14 The Chairman: Is that a fair statement? I do not want  
15 the record to be silent.

16 Mr. Mantho: Senator Dole, we would prefer existing law.

17 The Chairman: Right. Thank you.

18 Is there any objection to adopting this package?

19 [No response.]

20 The Chairman: If not, it will be adopted. And is there  
21 any objection to reporting the bill? Perhaps we should have  
22 a roll call.

23 Senator Boren: Before you have a roll call on reporting  
24 the bill, Senator Pryor asked me in voting his proxy to  
25 report the bill to state that, while he votes to report the

1 bill, he reserves the right to make a final decision whether  
2 to vote for or against it at a later time. I would make the  
3 same statement on behalf of myself as well.

4 The Chairman: Right.

5 Senator Bradley: Does this package include the amendment  
6 discussed with staff about the loss of unemployment benefits  
7 for a day of jury duty or a day of hospitalization?

8 The Chairman: I asked that to be included in the  
9 package.

10 Ms. Olson: We have discussed that and it is acceptable  
11 to the Administration as now drafted.

12 The Chairman: Senator Armstrong.

13 Senator Armstrong: Mr. Chairman, I was out of the room  
14 for a moment. In the UC section, I have an amendment which I  
15 would like to raise, and I will not press it if it is  
16 controversial. But it simply responds to a needed  
17 clarification in the law to allow those states who wish to do  
18 so to means test their unemployment compensation benefit  
19 programs.

20 Some states do so. The question has arisen. It seems to  
21 me that is something that ought to be within state  
22 jurisdiction, particularly at a time when some of these state  
23 UC funds are in very tough financial shape. If they have a  
24 desire to target their benefits to those who are the most  
25 needy in some way, it should not be up to us to say to the

1 contrary.

2 So my proposal specifically is to allow the states to  
3 means test all unemployment compensation benefits, including  
4 the basic state unemployment compensation program, extended  
5 benefit program, and the temporary federal supplemental  
6 compensation program. Unless there is objection to that, I  
7 would like to include that in the package.

8 Senator Bradley: Mr. Chairman, I would object. If we  
9 are going to do it, I would just take a vote.

10 Senator Chafee: Mr. Chairman.

11 Senator Moynihan: This is a huge proposition with  
12 respect to a respected social insurance system that has been  
13 in place for 50 years.

14 Senator Armstrong: Mr. Chairman, I see there is  
15 objection. It is not a radical step. It clarifies what has  
16 been the practice and about which a question has recently  
17 arisen. But it is not my desire to raise a big issue. The  
18 fact of the matter is, states have done this in the past and  
19 it had not been thought to be controversial, but now someone  
20 is threatening to withdraw the certification of these  
21 programs.

22 Maybe staff could explain this at greater length.

23 Ms. Olson: Minnesota is using a means test at this time  
24 and I understand the Department of Labor is looking into  
25 whether it would be a certification issue.

1           Senator Armstrong: Well, let me do it this way, Mr.  
2 Chairman. As I said at the outset, this is not something I  
3 want to fight over at this point, and I do not want to get  
4 anyone frozen into a position they might not take if they had  
5 a chance to look at it more carefully. May I invite Senators  
6 to look at it.

7           If we are ready to report the bill, I would like to make  
8 a brief statement to compliment the Chairman and all who have  
9 taken part. I think this is a vastly better bill than it was  
10 this morning, and in fact I think it is very easy -- maybe I  
11 am the only one who has this sensation, but I think it is  
12 very easy to be quite cynical about Congress and the  
13 willingness of members of the Senate to make difficult  
14 decisions, particularly those that are politically  
15 unpopular.

16           But I believe that yesterday in the House and today in  
17 the Senate Finance Committee that we have somewhat vindicated  
18 the faith of people that, occasionally at least, we will rise  
19 to the level of making some of those decisions. So I am  
20 pleased with the day's work. I will vote to report the  
21 bill.

22           I expect to offer amendments on the floor. There is  
23 still much progress that needs to be made in my opinion,  
24 particularly in reducing the enormous burden of taxation  
25 propounded by this bill. But we are moving in the right



1 direction and I am eager to get on with it.

2 The Chairman: I appreciate that. So we will not take up  
3 that amendment at this time. You withdraw the amendment?

4 Senator Armstrong: But I do ask my friends on the other  
5 side to look at it. It is not, so far as I am aware, a big  
6 controversial deal and I do not want to make it that. So if  
7 you can take it when we get to the floor, fine, and if you  
8 cannot.

9 Mr. De Arment: There is one technical matter Treasury  
10 has asked us to raise with respect to the definition of  
11 "wage" for FUTA purposes. It would be convenient if we could  
12 conform that with the definition we used for FICA purposes,  
13 beginning January 1st, 1985. We have talked to the Labor  
14 Department.

15 The Chairman: Is that the way it should be done?

16 Mr. De Arment: That is the way it should be done. It  
17 requires some double computer calculations because of slight  
18 differences.

19 The Chairman: Without objection.

20 Are there any other?

21 [No response.]

22 The Chairman: As I indicated, the same in this. We give  
23 the staff working on this area the authority to make  
24 technical corrections. If there are some other corrections  
25 that are determined that must be made, then consult with the

1 members involved as well as the Chairman and ranking member  
2 of the Committee.

3       Senator Chafee: In that amendment I submitted in  
4 connection with school employees, we may have to give the  
5 states an effective date to put it in operation. And if you  
6 would give us some latitude, I was thinking perhaps April  
7 1st, '84, something like that. We will look into it.

8       The Chairman: The Clerk will call the roll on reporting  
9 the bill.

10       The Clerk: Senator Packwood.

11       The Chairman: Aye.

12       The Clerk: Senator Roth.

13       Senator Roth: Aye.

14       The Clerk: Senator Danforth.

15       The Chairman: Aye.

16       The Clerk: Senator Chafee.

17       Senator Chafee: No.

18       The Clerk: Senator Heinz.

19       Senator Heinz: Aye.

20       The Clerk: Senator Wallop.

21       The Chairman: Aye.

22       The Clerk: Senator Durenberger.

23       Senator Durenberger: Aye.

24       The Clerk: Senator Armstrong.

25       Senator Armstrong: Aye.

1       The Clerk: Senator Symms.

2       Senator Armstrong: Mr. Symms instructed me to cast his  
3 vote no by proxy.

4       The Clerk: Senator Grassley.

5       Senator Grassley: Aye.

6       The Clerk: Senator Long.

7       [No response.]

8       The Clerk: Senator Bentsen.

9       Senator Moynihan: Aye. Forgive me. Mr. Long votes aye  
10 with reservations.

11       Mr. Bentsen votes aye.

12       The Clerk: Senator Matsunaga.

13       [No response.]

14       The Clerk: Senator Moynihan.

15       Senator Moynihan: Aye.

16       The Clerk: Senator Baucus.

17       Senator Baucus: Aye.

18       The Clerk: Senator Boren.

19       Senator Boren: Aye.

20       The Clerk: Senator Bradley.

21       Senator Bradley: Aye.

22       The Clerk: Senator Mitchell.

23       Senator Mitchell: Aye.

24       The Clerk: Senator Pryor.

25       Senator Boren: Aye by proxy.

1 The Clerk: Mr. Chairman.

2 The Chairman: The Chairman votes aye.

3 Did I vote Danforth's proxy, and Wallop's proxy and  
4 Packwood's?

5 Mr. Lighthizer: Yes, sir.

6 The Chairman: And I should have stated before the vote  
7 that under this unemployment package no state will get less  
8 than four weeks. Is that correct?

9 Ms. Olson: That is correct, Senator.

10 Senator Bradley: Mr. Chairman, before the vote, on  
11 behalf of the whole Committee may I thank you, Senator  
12 Moynihan, Senator Armstrong, and Senator Heinz for your work  
13 on the Commission. I think it was representative of the  
14 quality that is on this Committee.

15 The Chairman: We thank you very much, Senator Bradley.  
16 And I think it was a great experience. It shows what  
17 happens. The vote is 18 to 1, with Senator Matsunaga not  
18 recorded, and I assume he may vote in the affirmative.

19 We appreciate the staff's effort and thank the Committee  
20 members for staying. Thank you.

21 [Whereupon, at 11:15 p.m., the Committee was adjourned.]

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