RETIREMENT BENEFITS: ARE THEY FAIR AND ARE THEY ENOUGH?

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RETIREMENT BENEFITS: ARE THEY FAIR AND ARE THEY ENOUGH?

SATURDAY, NOVEMBER 8, 1980

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Fort Leavenworth, Kans.

The committee met, pursuant to notice, at 9 a.m., in the Eisenhower Auditorium, Fort Leavenworth, Kans., Hon. Nancy Landon Kassebaum presiding.

Present: Senator Kassebaum.

Also present: David A. Rust, minority staff director; Betty M. Stagg, minority professional staff member; Susan Hattan, legislative assistant to Senator Kassebaum; and Kathleen L. Makris, minority office manager.

OPENING STATEMENT BY SENATOR NANCY LANDON KASSEBAUM, PRESIDING

Senator KASSEBAUM. First I would like to say how appreciative I am of General Richardson and the staff at Fort Leavenworth for all of their assistance with the hearing today. I would also like to thank Colonel Willis of the Army liaison in Washington for his help in making the arrangements.

I would like to introduce the panelists who are here for the first panel, and some will be here also for the second.

Hon. William Driver, Commissioner of the Social Security Administration, from Washington, D.C.

Dr. Thomas Woodruff, Executive Director of the President's Commission on Pension Policy, from Washington, D.C.

Michael Nave, president of the National Association of Retired Federal Employees, Washington, D.C.

William Miller, president, Kansas Federation, National Association of Retired Federal Employees, Chanute, Kans.

Sylvia Hougland, secretary, Kansas Department on Aging, from Topeka.

Reba Caldwell Litman, retired Army sergeant, from Lansing, Kans.

It is a special pleasure for me to be able to welcome them this morning.

As you know, the subject of the hearing is "Retirement Benefits: Are They Fair and Are They Enough?"

For my opening statement, I would just like to outline a few of the thoughts I have had on this subject and to review the reasons I feel this hearing is important.

As America grows older, retirement income security is a policy issue of great importance to us all. We cannot continue to put our heads in the sand and wish away some difficult decisions.

If we continue to procrastinate, we will have lost the opportunity to shape a sound and equitable pension policy and we will find ourselves in the middle of a crisis over which we have little control.

I felt it was important, holding this hearing in Kansas, to further explore those issues which seem to be of greatest interest.

I hope that we can also come to a better understanding of the complexities of the retirement income questions that Congress will be facing.

The panelists today are uniquely qualified to addess these issues, and I am pleased and very appreciative that they have agreed to share their time and knowledge with us.

Briefly, I would like to mention three factors which I feel have most significantly influenced thinking about retirement income programs.

As a people, Americans have tended to regard our Nation as being one with vast, infinite resources. The fuel shortages of the past several years caused a radical change in our thinking, leading perhaps, for the first time, to a recognition that unlimited supplies of any number of things are simply not available. This is especially significant in programs funded with the taxpayer dollars.

The concept of equity and adequacy—which have shaped the structure of public retirement programs since their initiation—are seen in a new light. At a time when a large working population was supporting a relatively small retired population, no one really needed to worry about this issue. We are now trying to discover whether or not our public and private retirement programs are fair, are adequately funded, and whether they offer enough support to retirees. To what extent is this responsibility the role of Government and to what extent should individuals make provisions for their own retirement?

The extremely high rates of inflation that we have experienced in recent years have had a devastating impact on all segments of society. Older persons are deeply concerned about their ability to make ends meet—even in cases where they made what they believed would be adequate preparation for retirement.

Inflation has had a significant impact on the financing of public retirement programs, which are adjusted in changes in the Consumer Price Index. For example, the trustees of the social security system indicated that abnormally large cost-of-living increases were the primary reason that a short-term deficit is projected for the system between now and 1985. The cost to the social security system of each 1-percent increase in the Consumer Price Index is $1 billion a year.

We can hope that inflation will turn out to be a short-term problem. At this time, we cannot be certain that this will be the case. We can be sure, however, that regardless of the future rate of inflation, we will be facing complex questions simply due to changes in our population.

Individuals aged 65 and over comprise 11 percent of our population today. In 40 years, 1 of every 5 Americans will be 65 or over. At the same time that life expectancies are increasing, we are seeing individuals taking earlier and earlier retirements. Currently, only about 20 percent of the over-65 population remain in the work force. This figure has changed little in the past several years for men, although the number of older women remaining in paid employment has been steadily increasing. Only 30 years ago, over half of all men over 65 continued working. Several study groups have recommended raising the normal retirement age as a means of reversing this trend. Yet, other studies show that many retirements at age 65 or younger are due to poor health, mandatory retirement, and loss of job.

As we analyze retirement benefits this morning we will be focusing on the following areas:

(1) We know that in order to be adequate total retirement income must consist of a combination of social security, public or private pensions, and personal savings and assets. What portion of this total retirement package should be met from publicly funded sources? (2) At what age is it appropriate for an individual to expect full benefits from a publicly financed retirement program? (3) What should public and private policy be with respect to cost-of-living adjustments in retirement benefits? (4) To what extent does the variety of retirement programs create windfalls for some and coverage gaps for others? What are the advantages and disadvantages of some of the proposals designed to deal with these situations, such as universal social security coverage, national pension plans and benefit offsets? (5) What is the most effective way to assure that the social security system will be able to continue paying benefits when the baby boom generation reaches retirement age?

We need to keep an open mind with respect to appropriate responses to changing circumstances, critically examining fresh ideas in the full context in which they are presented. Certainly America will never turn its back on the needs of its senior citizens. The task before us is finding the best possible means for translating our goals and intentions into positive action.

I would like to explain briefly the format of the hearing. After the panelists have given their presentations, I will open the questioning. Then, I would like to encourage an exchange of questions among us. I hope no one will hesitate to ask questions to other panel members, because I think that will help us have a more open exchange.

I would like to call on Commissioner Driver for his statement.

I would also like to request that panelists summarize their prepared statements. Full prepared statements will be included in the record at the appropriate place.

STATEMENT OF WILLIAM J. DRIVER, WASHINGTON, D.C., COMMISSIONER, SOCIAL SECURITY ADMINISTRATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Driver. Thank you very much, Senator Kassebaum.

Good morning, ladies and gentlemen. I am indeed pleased to be here this morning and participate in this generous agenda that Senator Kassebaum has placed before us.

Certainly the issue is a lively one. I hear about it wherever I go in the country. I think that we have started a great national debate, now, that won't end until we do place some firm guidelines on a national pension policy. I think there are a number of reforms that are necessary and I will just briefly touch on a few of the things that seem to me to be uppermost in the minds of people, when they look at social security and the impact on our Nation.

Just briefly, I would like you to think of these three or four sets of figures, as we go along.

Today, 90 percent of all people 65 and over draw some form of social security benefits, and 21 percent of all people 65 and over, in addition, have a private pension that they can turn to. Ten percent have a Government pension, and this includes all retired military personnel, and 10 percent also draw some form of public assistance because their income is below the poverty level.

The Senator mentioned, properly so I think, that a point of departure in considering all of this is a question of equity of pensions and their adequacy. When we look at social security and realize that there is a tilt to give a greater return to people who are working at the minimum wage level and a lesser return for workers working at a higher rate of earnings, we have to realize the differences between each end of the scale. For example, a minimum wage earner we estimate needs approximately 80 percent of preretirement earnings in order to maintain that minimum standard of living. Today, depending on whether the person who is drawing social security is a single worker or a worker with a spouse, a couple, in other words, the replacement rate is between 57 and 85 percent of preretirement income.

At the top of the scale, these figures for a single worker are 25 percent, and with a spouse, 38 percent. These replacement rates are of gross income.

In the middle, the replacement rate ranges between 44 and 65 percent. So we go from an 85 percent replacement for a minimum-wage worker with a spouse to a 38 percent replacement rate for a single maximum-wage worker with a spouse. Obviously, the people at the top of the income level must, in order to come somewhere in the range of 60 to 80 percent replacement, be able to supplement their social security payments with some form of private retirement income, either a private pension or income from dividends or something of that sort.

In maintaining the delicate balance between equity and adequacy, and it is delicate, I think that we probably have stretched the difference between the top and the bottom about as far as it can go. If we were to take moneys from the bottom to give a greater replacement rate at the top, obviously we would be placing more people at the bottom in poverty, and I think that this is unacceptable.

The same thing can be said if we take more from the top and put it at the bottom. I think we create so many dissatisfied customers at the upper end of the scale paying into the system that it will create more problems than it will solve.

So I think we have reached the point in the redistribution of income where, from a practical standpoint, we must look for other solutions. As I said, there are 21 percent of those over 65 who are drawing private pensions. If we are to raise that figure, moneys have to be found from some source in order to do it. If we don't raise the figure, I believe the pressures will be on to increase social security benefits. The average benefit today is in the $300 a month range and that, for many, is still fairly modest, even though social security has a cost-of-living feature in it. This cost-of-living feature certainly has been essential when you think of the inflation that has been with us in the last several months, indeed several years. If we are to maintain this system, with pressures to increase, then there is a definite need for finding sources of income.

Today, the social security program is financed totally from a payroll tax. This has been criticized by some as having a negative impact, especially on low-wage earners who, in a regressive situation such as this, pay at the same rate as those in higher income brackets. There is a good deal of criticism of that.

There are some pressures to consider other sources of income.

There is a great deal of talk today about the fact that the social security system does need an improvement in its financing picture. It is no secret that in the next 15 months or so the old age and survivors fund, the one that is the largest of the three trust funds, will be desperately short of funds unless some additional revenue is put into it. One of the solutions people have suggested is to finance the medicare—hospital insurance—fund, which takes now just a little bit over 1 percent of the payroll tax, totally from general revenues and to put the 1 percent, the 1.05 percent to be exact, into the old age and survivors fund, as the solution to the long-term financing problems of the social security system.

This has merit, and perhaps we will talk more about that as the program moves along. But this 100-percent reliance on general-fund financing for hospital insurance is a major departure. Similarly, the use of substantial general revenues in the old age and survivors insurance part of social security would be a major departure in this 45-year-old program, from the way it has been funded in the past. Such a proposal, therefore, is bound to generate considerable debate over the relative merits of doing this, versus either raising payroll taxes or decreasing benefits. These, it seems to me, are the basic decisions that have to be made if we are, indeed, to make the kind of permanent improvements that are necessary under this program.

Thank you, Senator.

Senator Kassebaum. Thank you very much, Commissioner Driver. Your prepared statement will be entered into the record at this time.

[The prepared statement of Mr. Driver follows:]

Prepared Statement of William J. Driver

Madam Chairman, I welcome the opportunity to appear before you and this panel today to discuss our Nation's retirement system.

The topics your committee has identified for discussion today—the level, scope, and financing of retirement benefits now and in the future—concern fundamental social issues of the greatest importance to our country. These issues involve choices that are so broad that they concern not only our retirement income system, but also basic national social and economic policies which have profound implications for each of us. There are no simple, easy answers to such fundamental issues. What I propose to do today is to present some of the pertinent facts and considerations and indicate some areas where we need more information and debate.

By raising these issues through this hearing, this committee is doing a great service to the country. The views of people from all walks of life and from every area of the Nation are essential to the consideration of the future structure of America's retirement system. Many of the basic questions that need thorough examination have been highlighted by this committee for discussion today. Perhaps the most fundamental deals with the roles of the public and private sectors in providing retirement income. To what extent should Government programs be expected to meet an individual's retirement income needs, and, conversely, to what extent should people be expected to make provisions, either through their employment, personal savings, or other means, to meet their own needs?

RETIREMENT SYSTEM

As you know, Madam Chairman, America has a strong and vital commitment to her elderly, which reflects our concern that aged Americans should share in the fruits of the social and economic progress that they have helped this Nation achieve. This commitment was formalized 45 years ago when President Roosevelt signed into law the original Social Security Act. The programs created by that act have established the framework for today's retirement income system.

The retirement income system that we have built—and are still building—consists of three major elements: (1) Social security, (2) programs of income assistance for the aged, and (3) private pension and asset accumulation programs. Each of the elements has its own unique structure and each has its own particular role to play in the retirement income system. Yet each must complement the others so that, taken together, the three elements will produce a rational and effectively organized retirement income system that assures adequate retirement income for the Nation's aged.

As Commissioner of Social Security, I am directly responsible for two major pieces of the retirement income system. The Social Security Administration administers the old-age, survivors', and disability insurance programs which, together with the medicare program, are the social security element of the system. We also administer the supplemental security income program, which is this Nation's most important program of income assistance for the aged.

Today, I want to focus primarily on the roles of social security and private pensions because it is the interaction between these two components of the retirement system which most directly affects the equity and adequacy of retirement income for most older Americans.

THE ROLE OF SOCIAL SECURITY

Social security provides the foundation upon which the other elements of the retirement income system rest. It has proved to be one of the most enduring and efficient programs in American history. Indeed, many consider it to be the Government's most successful social program. It reflects a continuing national determination to protect the vast majority of citizens against the major risks that can disrupt earning capacity. The program has been shaped and expanded by nearly every Congress and administration since the 1930's, and has become a permanent social institution with strong bipartisan support.

Social security is a nearly universal program of contributory social insurance. Workers currently in employment covered by social security—and their employers—pay tax contributions that finance benefits to current beneficiaries. In return, as a result of their work in covered employment, these same workers are earning a right to social security cash benefits for themselves and their dependents when they retire, become disabled, or die.

Social security affects virtually every American either by providing benefits today or by providing protection against possible loss of income tomorrow. No other Government program reaches so many people. Today, about 115 million workers are building protection for themselves and their families and over 35 million beneficiaries are receiving some $125 billion in social security cash benefits this year. Of this amount, $102 billion goes to older Americans. More than 95 percent of those who now turn 65 are eligible for social retirement benefits.

From social security's beginning, the benefit formula has been designed to provide social security retirement benefits which more nearly approximate full wage replacement for lower wage workers than they do for higher wage workers. This deliberate design—a balancing of adequacy and equity—provides higher benefits and a higher standard of living to lower earners than they would have if benefits were strictly proportional to earnings. Social security explicitly recognizes that lower paid workers are less likely to be able to substantially supplement their social security benefits, while higher paid workers are more able to save for retirement and are more likely to have worked in employment that provides them with private pension income.

Long-term studies have verified that this is in fact what happens—workers at lower earnings levels have consistently lower savings and less in the way of pension income than do higher paid workers. Higher wage workers, to a much greater extent, do supplement their social security benefits with income from private sources. The social security benefit formula leaves room for income from such private supplements. In turn, the design, funding, and operation of private pension plans generally take account of the social security benefits to which workers will be entitled, and the social security program encourages private efforts by disregarding such income in the computation of social security benefits. In sum, the role of social security in providing earnings replacement for the aged depends upon the earnings history of each individual worker.

In assessing the extent to which social security benefits are fair and meet the income needs of our Nation's elderly, it is important to reiterate that social security combines two goals: adequacy and equity. Neither of these two concepts can be defined with precision, but it is clear that each has a different emphasis. If all the emphasis in social security were on the goal of equity, we would be moving toward a strictly proportional benefit formula which would tend either to produce benefits that are inadequate for low-wage earners or to produce benefits which are much larger than present law benefits for high-wage workers. Putting more emphasis on the adequacy goal would weaken the link between benefits and earnings. The private sector is a more appropriate vehicle for providing retirement benefits based on pure equity principles, and means-tested programs the proper avenue for meeting current needs without regard to past work effort. What makes social security effective is that it blends and balances the two objectives.

To assess the adequacy of the benefits available under the retirement income system in general, and the social security program in particular, a commonly accepted measure is the percentage of preretirement earnings replaced. The most common tool to measure earnings replacement is the ratio between benefits provided under social security to a particular kind of worker and the gross earnings of that worker immediately before retirement. We can get an idea of the role social security plays in achieving our retirement income goals by calculating the wage replacement rate provided by social security for hypothetical workers and comparing it to the approximate wage replacement rate needed by those workers to maintain fully their preretirement standard of living, as measured by net (after tax) earnings. For this purpose, I will focus on projections of the social security replacement rates for some hypothetical workers retiring at age 65 in 1982.[1]

A single individual who retires in 1982 at age 65 and who consistently had earnings equal to the Federal minimum wage is estimated to need an 80-percent replacement rate to maintain preretirement living standards. Such a worker will receive social security benefits that replace 57 percent of preretirement gross earnings. But if such a worker has a 65-year-old, nonworking spouse, they jointly will receive a social security benefit that replaces 85 percent of gross preretirement earnings, which is roughly equivalent to full replacement of the net earnings of such a couple.

A single individual retiring at age 65 in 1982 after having always earned the average wage under social security will receive a benefit that replaces about 44 percent of his or her preretirement gross earnings. A 70-percent replacement rate is estimated to be needed by such a worker for full earnings replacement. A similarly situated worker with 65-year-old nonworking spouse would receive benefits equal to about 65 percent of gross retirement earnings, or just 10 percentage points less than the 75-percent figure estimated to represent full net earnings replacement for the couple.

Workers who have had high earnings are most likely to be able to substantially supplement their social security benefits with their own savings and private pensions. Thus, a worker retiring at age 65 after having always earned the maximum amount taxable under social security can expect a 1982 social security benefit which replaces some 25 percent of gross preretirement earnings. Such a worker is expected to need about 60 percent of prior earnings to maintain his

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[1] We focus on 1982 retirees because 1982 is the first year in which age 65 retirees will have their benefits computed under the new computational system that was enacted in 1977.

or her preretirement standard of living. If such a worker has a 65-year-old dependent spouse, the 1982 social security replacement rate will be about 38 percent.

As you can see, social security more fully replaces prior disposable earnings—particularly for couples—at lower earnings levels than at higher earnings levels. It leaves more room for supplementation from private sources for those who can be expected to be able to supplement their social security benefits. For those who cannot be expected to have significant supplementary income, it provides benefits which more nearly provide full earnings replacement by themselves.

Another yardstick for measuring social security benefits is whether workers receive an appropriate return—in the form of benefits received and insurance protection—on their payroll tax investment. It is obviously impossible to assure every individual worker that he or she will receive more than he or she pays in, because we can't know how long any individual will live, how much an individual will earn over the course of a lifetime to come and therefore how large the benefit will be, or whether the worker will have dependents who also will be able to collect benefits. However, the 1979 Advisory Council, the group that most recently examined this question, found that on average those now entering the labor force—and who will pay higher taxes than did those now retiring—will receive at least as much as they pay in even if they never have dependents. A man or woman who has dependents and who earns wages each year equal to the national average for all workers will receive, on average benefits worth more than three times what he or she pays in taxes. And of course those retiring today receive considerably more.

THE ROLE OF PRIVATE PENSIONS

The primary source of supplementary private retirement income is private pensions. While the highest paid workers do tend to be covered by such plans—as anticipated when social security was enacted—in total only 28 percent of currently retired workers actually receive private pension income. The private pension system has expanded over the past 40 years (although the rate of increase in the number of jobs covered by private pensions has virtually ceased in recent years). Today, about 43 percent of all workers are in jobs covered by private pensions. Of these workers, about half have worked long enough to be vested. That is, roughly one-quarter of current workers have acquired rights to future benefits that would not be forfeited if they quit their current jobs. This percentage of workers with vested pension rights will increase in the future as those in jobs that offer pension plans work longer. These vested rights have been substantially strengthened under the Employee Retirement Income Security Act. Thus, as a result of the growth of coverage in private plans and the extent of vesting, some future increase can be expected in the proportion of retired workers who actually will receive private pensions. It is clear, however, that gaps remain in private pension coverage—particularly for women and minorities.

One difficulty facing the private pension system is that private pensions are usually not portable. Workers who are not vested lose protection when they change jobs and the jobs are covered by different pension plans. Among workers who are vested, the lack of portability when changing jobs can produce pension benefits based on outdated earnings. Hence, even with vesting, workers who move from job to job may receive private pension benefits that have limited economic value at retirement.

The lack of portability of private pensions has particularly concerned the President's Commission on Pension Policy which President Carter established to perform a comprehensive review of the public and private pension systems in the United States. The Commission has concluded that serious consideration should be given to the establishment of a universal portable private pension system to supplement social security. The Commission has made it clear, however, that such a system's effect on workers, employers, and the economy, and how to coordinate it with existing retirement plans, will need to be analyzed very carefully. The Commission has, therefore, directed its staff to conduct a series of cost and policy studies of how such a system would work.

Perhaps the biggest problem facing retirees is inflation. Social security benefits are adjusted annually to keep pace with inflation as measured by the Consumer Price Index (CPI). This is one of the great advantages of social security. The indexing of social security benefits to the cost of living has helped protect millions of the most vulnerable of our citizens against the ravages of inflation. They can look to the future with the confidence that there will be no erosion in the purchasing power of at least that portion of their retirement income derived from their social security benefits. Private pension benefits are not as fully protected from inflation as social security benefits. While the benefit a worker receives when he or she retires is often based on recent earnings and therefore is up to date and reflects current economic conditions at the point of retirement, private pension benefits paid after retirement almost never are fully adjusted to take account of subsequent inflation. Consequently, private pensions after retirement have been seriously eroded by high inflation rates in recent years.

To demonstrate the potential effect of inflation on private pensions, let's assume a monthly benefit of $200, about equal to the average private pension benefit today, and no adjustment of the pension for inflation. If we were to assume an annual inflation rate of 5 percent, then the real value of $200 in benefits would decline to $156 after 5 years and to $76 after 20 years. An annual rate of inflation of 10 percent would reduce the real value of a $200 benefit to $124 in 5 years and to $30 after 20 years.

These examples, of course, represent the extreme case. In practice, many private pension plans make some periodic ad hoc adjustments for inflation, although the adjustments are generally less than the full amount of inflation. Few plans, however, are automatically—adjusted and virtually none is fully adjusted as social security is. For private pensions, then, inflation results in an increasingly less adequate benefit for the retired worker. It is theoretically possible for private pensions to be kept up to date with post-retirement inflation, but only at significant cost to employers, workers, or the general public. In short, this is a serious problem that is badly in need of imaginative solutions.

LONG-RANGE PERSPECTIVE

I have discussed thus far several aspects of our retirement income system which have profound meaning for those persons retiring now and in the near future. My discussion of the vital issues in retirement policy would not be complete, however, if I did not turn my attention to problems which arise after the turn of the century, when today's generation of workers prepares to enter retirement.

We are all aware, I'm sure, of the coming demographic shifts which will present challenges throughout society. Current projections for the next century show a sharp rise in the number of elderly persons as the baby boom generation reaches retirement age in 2010 and after. In addition, because of the decline in the birth rate in the last several years there will be fewer young workers entering the labor force to support these large numbers of retired persons. Coupled with these factors, there has been a rise in life expectancy and a trend toward earlier retirement, so that aged persons are in retirement for increasingly longer periods of time. As a result, we now project that the ratio of retirees to workers will decrease from one to three today to one to two in about 2020, and that retirees will live longer once retired. Because the social security system is financed on a current cost basis, the costs to future workers of supporting the increased proportion of retirees at benefit levels comparable to today's will be greatly increased.

As recent Social Security Board of Trustees' reports have indicated, these demographic shifts are projected to result in an actuarial deficit for social security, especially from 2030 to 2055. There are two points to bear in mind about these projections. First, they are projections, not certainties; they represent the best guess of capable actuaries and economists based on all the information available to us. Imagine, if you will, the prospects of people in 1905, 75 years ago, predicting what social and economic conditions would be like in 1980. This gives you some idea of the uncertainties we face when we make social security projections for 75 years into the future. The second point is that if circumstances in the next century do turn out to be anything like those we are currently projecting, the issue will not be just a social security issue. We will be faced with a fundamental shift in the makeup of our society, with broad social, economic, and political implications.

Despite these many uncertainties, there seems little doubt that a major demographic shift is underway. It is therefore important for us to consider what might be done to provide adequate retirement income for a relatively larger aged population in the 21st century. One thing is clear: If we are to preserve present standards of retirement income adequacy the costs to society will be the same whatever mechanisms—public or private—are used.

Other societies have already experienced the demographic shift we are projecting for America's future. European countries, when faced with similar social security financing problems, have generally opted for paying higher taxes rather than reducing benefits. West Germans, for example, already facing a worker/retiree ratio of one to two, now pay a combined employer-employee tax, similar to our payroll tax, of 18 percent. The Swedes, Dutch and Italians pay over 20 percent. Of course, we need not take the particular route chosen by the European countries. It is worth noting, however, that a survey sponsored by the National Commission on Social Security showed that, given the choice of higher social security taxes or lower future retirement benefits, 63 percent of the American people chose higher taxes.

An alternative to raising the payroll tax is to infuse general revenues into the social security system. This would not change the overall cost to our society, but would to some degree redistribute it among the taxpaying population. The general revenue approach has both strong advocates and strong critics. While most other social security systems in the world use substantial general revenue financing, it has been debated for many years in this country and I would expect the debate to continue for quite some time before the issue is resolved.

If our society ultimately chooses not to increase financing to support the present social security system, but to reduce its cost instead, there is a wide range of ideas about selective or general benefit reductions which are now being discussed in various forums. One proposition being widely discussed is to raise the retirement age by a few years, so that the ratio of workers to retirees would be higher than now expected. Recently, for example, an article in Newsweek suggested raising the retirement age in a manner much like that considered by the 1979 Advisory Council on Social Security. Such a proposal would gradually change eligibility ages from 62 to 65 for reduced benefits, and from 65 to 68 for full benefits.

Advocates of postponing payment of retirement benefits generally maintain that this is a fair way of restraining future program costs because of increases in the life expectancy of the elderly. A normal retirement age of 68 in the year 2000 would provide future retirees with the same number of years of full retirement benefits as was envisaged for the first social security beneficiaries retiring at age 65 in 1940. Opponents argue, however, that raising the age would break faith with persons now working under social security, since even the youngest workers have made contributions to the system in the expectation of retirement at age 65. It is also suggested that workers in arduous occupations should not be asked to extend their work lives.

Proposals advanced so far to raise the retirement age would not by themselves solve the entire long range social security financing problem. Furthermore, if the age were going to be raised, people who would be affected should have years—perhaps as many as 20 or more—to modify their life and work expectations in accordance with the new retirement policies.

Current trends continue to run in the direction of earlier, rather than later, retirement. The number of people claiming early retirement benefits under social security continues to climb, and after a very slight, and possibly insignificant. drop in 1978 and 1979. the fraction of workers who claim their benefits before age 65 appears to be increasing again in 1980. Moreover, Labor Department statistics through 1978 show that labor force participation has declined sharply among men 60 and 61 years old. The cause of this latter trend is not yet clear.

Clearly the trend toward early retirement is deeply entrenched in our society. It is an attitude that has in the past been encouraged by labor, business, and government for various and sometimes similar reasons. On the other hand, many people are concerned that older people should have the opportunity to work if they want to, which led to the recent increase of the mandatory retirement age to 70.

The future may well bring other changes to the workplace that may alter today's trends. For example, because the number of new entrants to the labor force will be shrinking, pressure for retirement as a way to create new openings for younger workers and advancement opportunities for midcareer workers may lessen. Perhaps employers will want to retain experienced older workers and will increasingly provide more flexible job arrangements. Older workers may take advantage of these new arrangements if better health allows them to have more productive years than people of the same age had in the past.

Other changes in demographic or economic conditions may induce older people to work more in the future. Our society might conclude that as part of an overall national policy on retirement, some adjustments should be made in the social security system to provide more incentives for longer worklives. Social security, though, is only one piece of the whole picture, albeit a very large and important piece with a significant influence on retirement behavior. It may be true that 65 was an essentially arbitrary choice for retirement age when social security was established, but the fact that it has been endorsed for so long has established that number as a given in the public mind. Before any decision about changing it can be wisely made, a great deal more study and discussion of the issue needs to take place. This will require cooperation and open discussion among government, representatives of workers, employers, the aging, and others.

SUMMARY AND CONCLUSION

The problems of balancing the needs of our aged population now and in the future with the resources available for this purpose are international in scope and are being discussed around the world. The future of social security, and the entire public and private retirement system, is intricately linked to events and decisions related to such subjects as health care, economic growth, productivity, the composition of the labor force, fertility, and social services. These interlocking issues will require serious and extended debate with the broadest possible participation. These may well be among the highest priority social issues facing the country in this decade. We have the recent report of the Advisory Council on Social Security to consider and will have two more contributions to this debate in the near future—the reports of the National Commission on Social Security and the President's Commission on Pension Policy. I am confident that when these issues are resolved, the social security programs, which have been so successful and so widely accepted by the public, will continue to be the mainstay of this Nation's policies for economic security. This hearing is a welcome contribution to the debate. Thank you for allowing me to participate.

Senator KASSEBAUM. Dr. Woodruff.

STATEMENT OF DR. THOMAS C. WOODRUFF, WASHINGTON, D.C., EXECUTIVE DIRECTOR, PRESIDENT'S COMMISSION ON PENSION POLICY

Dr. WOODRUFF. Thank you, Senator.

I think you gave a very fine opening statement that summarized a number of issues that the President's Commission has been working on over the past 2 years, which indicate we have very serious long-term problems in all of our retirement programs. We hear a lot about social security and its problems, but we believe that, partly because of funding and partly because of demographic and other social changes in our society, that a number of retirement programs are in serious need of reexamination, in the long term.

I thought, however, rather than going into my full prepared text this morning, that I would answer each of the five questions that Senator Kassebaum asked in her opening statement.

The first one concerns the extent to which a public retirement program should meet an individual's income needs and to what extent should we expect individuals to provide for their retirement income.

I would like to go back to Bill Driver's opening statement where he was talking about replacement rates. We have studied the issue of how much income does someone need in retirement to maintain their preretirement standard of living. We have given quite a bit of thought to this question and this would apply to either public or private sector retirees.

Our own research indicates that individuals need between 79 percent down to 51 percent of their preretirement, final income, in order to maintain their standard of living. The reason there is a range is primarily because of our tax structure and preretirement expenses and some expectation that individuals at higher income should, at least, provide some of their retirement income through individual savings. So that, at the lower income levels, say for people retiring at around $7,000, we would expect that they would need about 80 percent of their final pay and that couples would need around 86 percent of their final pay, in order to maintain their standard of living. When a person earning, say, $50,000, retired, because of a change in the tax structure and work expenses and other things, he/she might need only as much as around 50 to 55 percent to maintain his/her preretirement standard of living.

Now, the question is, where should this income come from? In our own work we have sort of tentatively concluded that at the lowest income level that it is unrealistic to expect that individuals can rely on individual savings, as a supplement to retirement income. So we, in looking at possible solutions to our retirement income dilemma, have tried to look at solutions that would take a combination of employee pensions and social security to bring individuals up to their preretirement standard of living, not assuming savings. However, as we go up the income scale we are beginning to have higher expectation that individuals would supplement that with savings and we hope in our final report, Senator, to try to quantify this, try to show what the relative role of social security, employee pensions and savings should be for different income levels.

I would like to differ a bit, or at least, provide another perspective on the figures that Bill Driver gave on the replacement rates under social security.

He is absolutely correct that the system, as it is now designed, does provide a much higher benefit tilt for lower income individuals and in particular low-income couples with full careers. However, the data that we have been able to find, that has mainly been provided by the Social Security Administration and other researchers, indicate that the social security system actually replaces a much lower standard of living for most low-income individuals. One of the reasons for this is that women outlive men by about 7½ to 8 years and men frequently marry women who are about 3 years younger than they are. I think the figures that Bob Myers, a former social security actuary has come up with is that a woman can expect that once she is widowed that she would be living by herself for about 18 years.

Now, this raises a very serious problem in income replacement for women in retirement. About 72 percent of the elderly poor are women and in our look at the social security system we find that there is a great need for reform in the way that women are treated in the social security system. That we can discuss later, if that is of interest.

The next question is, at what age is it appropriate for an individual to expect full benefits from a publicly financed program? The issue of retirement age is probably one of the more controversial ones that we have had to address. We feel very strongly that it is unfair to change the rules on people in the middle of the game. That it certainly is unfair to tell someone about to reach retirement age that their retirement age is going to be moved upward. However, the Commission feels very strongly that in the future we should expect that the social security normal retirement age should be increased. Two weeks ago, in its last full Commission meeting, the Commission endorsed the formula that has been endorsed by a number of other groups: To keep the normal retirement age as it is now, but starting in the year 2000, and this primarily would only affect those in the so-called baby boom generation, that the retirement age should slowly be increased so that by the year 2012 the normal retirement age under social security would be age 68.

We also have looked at the civil service retirement age and private pension retirement ages and believe that similar adjustments should be made in those systems.

In the private pension area the Commission has endorsed a recommendation, that the social security retirement age increases so should the permissible normal retirement age under the ERISA law that governs private pensions, so that on a voluntary basis private pensions would be allowed to increase their normal retirement age up to age 68, by the year 2012.

The Commission also feels that similar principles should be adopted for nonhazardous duty, nonuniformed public civil servants, as well. It is unrealistic for young workers entering the work force to expect to retire at such early ages.

Now, the next question about the cost of living. Our Commission has not yet looked at the question, Senator, that I know you have been interested in concerning the frequency of cost-of-living adjustments and public civil servants. However, we looked at the social security cost-of-living adjustments and the Commission, 2 weeks ago, voted to not change the current cost-of-living adjustment process in social security. They did indicate, however, that we do want the Bureau of Labor Statistics to study the issue of whether there should be a separate consumer price index for the elderly. As you know, many of the elderly groups have indicated that they think the cost of living for the aged increases more rapidly than for the rest of the population. Some other groups have indicated that they don't think it goes up as much. We have done a quick study, on our own, and believe that based on what we see it probably wouldn't make much difference in the long term, but in any case we have asked the Bureau of Labor Statistics to conduct this study on that.

One of the other areas that you have asked us to comment on is the issue of windfalls for some and coverage gaps for others and specifically mention the issue of universal social security coverage. We still have this issue under study, but our Commission has tentatively indicated a preference for requiring all new employees, not current employees or current retirees, but all new employees in the Federal programs and State and local government programs to be included in the social security system. Again the Commission feels that it would be unfair to change the rules on people who currently are either in the system or currently retired under staff pension systems. They did not want to indicate by this tentative recommendation would be anything like a merger, as has been discussed. That there would be two independent systems. One, the social security system that would continue as it does now and the other a very good and strong staff pension system with some degree of funding as it has now.

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Your final question is: What is the most effective way to assure that the social security system will be able to continue paying benefits, when the baby boom generation reaches retirement age?

In my prepared remarks I refer to a number of statistics about pension coverage in the private sector and Bill Driver referred to some of those in his remarks. The fact is that a large number of workers are not covered by pension plans and even more workers do not receive pension benefits.

Our forecasting models indicate that we cannot expect, under any of the current scenarios, more than 30 percent of the private work force to retire receiving private pension benefits. This indicates that either we need to dramatically extend coverage in the private sector, in particular, or we can expect that in the future more demands will be placed on the social security system.

Therefore, our Commission in its first interim report and also in our second interim report, that will be issued in a few weeks, indicate that it is giving serious consideration to a requirement that all employers would have to establish or pay into an advance funded employee pension for all of their employees.

Another reform that we have suggested is the raising of the retirement age, which would have a significant effect on the long-term actuarial deficit in the social security system. We think also that there needs to be a dramatic change in the work opportunities provided for older workers. That we need to work very hard on the issue of age discrimination for older workers and we need to begin now to change the expectations of people in their 20's and 30's about the age at which they plan to retire.

Thank you.

Senator KASSEBAUM. Thank you very much, Dr. Woodruff. I will insert your prepared statement into the record at this point.

[The prepared statement of Dr. Woodruff follows:]

PREPARED STATEMENT OF DR. THOMAS WOODRUFF

Madam Chairman, members of the committee, I am pleased to be a panel participant here today.

The President's Commission on Pension Policy has spent a good deal of its time and resources focusing on the questions you have posed here today. The central question facing our retirement income system is how to coordinate the current fragmented retirement income system to insure equitable, adequate, and efficient delivery of benefits to older Americans.

There are two key elements to the coordination of benefits: First, retirement income goals must be set, and second, we must determine the relative roles of the retirement income sources in meeting those goals.

In its May interim report, the Commission tentatively endorsed the goal that retirement income from all sources should enable retirees to maintain their preretirement standard of living.

The Commission has also developed several recommendations dealing with the roles of the traditional sources of retirement income—social security, employer pensions, and savings—as well as earned income, which has recently been added to the discussion of how to provide an adequate income for the aged population. While not formally a part of the pension system, changes in the opportunities for older Americans to continue to earn income could influence the shape of the pension system itself.

And, while the Commission has not yet made any specific recommendation on the role of welfare and in-kind benefits in providing retirement income, it should be kept in mind that these benefits are currently a major source of income support for the aged. These programs have grown in importance in recent decades, in part due to the failure of the primary retirement income programs to provide adequate benefits for a significant portion of the aged population.

Before I review the proposals made by the Commission, it is important to have an understanding of the relative roles in retirement income sources over the past several decades.

Total retirement, disability, and survivor benefits have grown from 2 percent of GNP in 1950 to over 8 percent in 1975. As this growth was taking place, the relative roles of the public and private sectors shifted considerably.

Social security paid 27 percent of all retirement, disability, and survivor benefits in 1950 and doubled its share of benefit payments by 1976 while the share of the benefits paid by public and private employee pension plans decreased. By 1976, Federal programs accounted for 76.2 percent of benefits paid, private plans 17.3 percent and State and local plans 6.5 percent.

The growth in social security benefits has been a function of both an increase in the basic level of benefits as well as an increase in the number of people entitled to benefits. On this latter point things can be expected to get worse.

Over the next two to three decades, the number of people 65 and over will increase sharply in proportion to the younger population. And this population will be living longer in retirement. Thus, a smaller shrinking active work force in the future will be required to support a larger growing aged population. And, pension payments will be stretched out as greater numbers of retirees continue to draw benefits for longer periods of time. For pay-as-you-go systems, this shifting age structure could cause severe financial problems.

Furthermore, we can project that the automatic inflation adjustment of social security benefits will tend to insure the continual growth of these benefits relative to the other pension programs that do not fully index their benefits to inflation, thus adding pressures to the system in the future.

Retirement program coverage has grown dramatically since 1940. Social security has grown from covering only about half of all paid employment in 1940 to over 90 percent today. State and local pension programs have also grown, and now cover 87 percent of all State and local employees. While private pension plans grew dramatically until 1960, this pattern has come almost to a standstill. Today, only 42 percent of the private sector work force participate in private pension plans. For males in the private sector, the participation rate is 51 percent; for females the rate is about 22 percent. And, of that number only about 54 percent are eligible for benefits. This means that about one in four private sector workers is actually eligible for a pension.

Who are these noncovered workers? Our research shows that:

—Many of the noncovered are mainstream full-time workers earning a moderate income that place them in or near the middle of the earned income distribution.

—Only 28 percent of the noncovered earned below $4,999 in 1979; approximately 37 percent earned between $5,000 and $10,000; and 28 percent earned between $10,000 and $20,000 in that year.

—Ninety-one percent of the noncovered workers are nonunion.

—And, many noncovered workers are employed by small firms—nearly 58 percent of the noncovered work at establishments employing fewer than 100 workers.

These figures pinpoint a number of concerns the Commission has about the private pension system. Clearly, the near universal coverage of social security and the lack of broader coverage of employer pensions is creating a two-class system of retirement income; one class fares relatively well in retirement because they have social security as well as a private pension. Others who receive only social security are more likely to be in poverty.

I might add at this point, the Commission is also dismayed over the benefit gaps and overlaps that are caused by the lack of universal coverage of social security.

The Commission wants to insure a balanced program of employer pensions, social security, and retirement savings for all workers. The Commission has endorsed the current role of social security in providing a minimum floor of protection for all aged. The Commission generally believes that equitable means exist to extend coverage to all future workers. But the Commission recognizes that social security does not provide the level of benefits which are, by themselves, adequate. Nearly one-quarter of all retirement income recipients are relying on social security as the only source of income. Of that group the mean total income is about $3,100. This benefit inadequacy has placed greater pressure on the Federal Government to provide in-kind benefits such as food stamps, energy assistance, and housing assistance.

The Commission believes that other programs to supplement social security's basic floor of protection must be substantially increased in order to provide an adequate retirement income. The Commission believes that voluntary saving for retirement should be encouraged through new approaches to tax and other policies. The current tax treatment of retirement contributions and benefits is needlessly complex and inconsistent. In addition, current policies do not encourage retirement savings for those in most need: low- and moderate-income wage earners. Workers who are participants in plans are not encouraged by the current tax laws to lessen the impact of inflation on their retirement income by supplementing employer contributions with their own.

Commission staff research shows that individual savings play a negligible role in retirement income at the lowest income levels and it is generally believed that this is not likely to change. Although about 50 percent of all people age 65 and over received property income in 1977, over half of these received less than $1,000 and 90 percent received less than $6,000.

Thus, while tax incentives may help, by themselves they may not substantially increase the savings or the participation of low- and moderate-income workers and workers employed by small businesses in employee pension plans. Moreover, given demographic trends, it may not be wise for this country to rely so heavily on the pay-as-you-go social security system to provide all income for workers and their families.

Therefore, the Commission also recommended that serious consideration be given to the establishment of a universal minimum advance-funded pension system. Such a program could be thought of as an advance-funded tier of social security that would permit contracting out to pension plans that wanted to meet its standards or as a universal employee pension system with a central portability clearinghouse. Obviously, many questions need to be answered before this Commission could formally recommend such a system. Such a system's effect on workers, employees, and the economy will need to be analyzed very carefully. And there is the question as to what the size of that supplement needs to be to attain national goals.

Another area under consideration by the Commission is increased work opportunities for older Americans. The Commission presented testimony to this committee earlier this year on the effect of early retirement trends on retirement plans and the need for increased employment opportunities for the elderly. The policy options tentatively adopted by the Commission include:

—Elimination or modification of the social security earnings test in conjunction with the taxation of benefits.

—Alternative work patterns, including staggered work hours, sabbaticals, work-sharing arrangements; and

—Retraining older workers and increased educational opportunities to accomplish the same purpose.

In addition, the Commission tentatively endorsed the position that the normal retirement age for social security should be raised in the future. While the Commission stated firmly that the retirement age for social security should not be raised now out of a recognition that there is a social contract with working people today who are approaching retirement age, the Commission pointed to improved longevity, demographic projections, and future financing costs of retirement income programs as factors emphasizing the need for an increase in the retirement age.

The roles of the various income sources will vary for different income levels. Before any definite roles are assigned certain questions must be answered.

If social security should not fill the entire role, if savings is unlikely as a supplement for lower income retirees and if in-kind benefits are an inappropriate supplement, employee pensions will have to fill the role as a supplement to social security that will bring lower paid employees up to an adequate level of retirement income. The question remains as to what the size of that supplement needs to be to attain national goals.

Another question that arises is whether all retirement contributions up to the level needed to meet retirement income goals should be afforded similar tax treatment or whether, at a certain level, savings or earnings other than those earmarked specifically for retirement should be expected to play a role in meeting retirement income goals.

One final point, while retirement programs may be able to provide protection against moderate rates of inflation, they cannot be expected to adequately protect against prolonged high rates of inflation. Effective national economic policy provides the only true protection for retirees against prolonged high rates of inflation.

The Commission believes that at this time the greatest public policy emphasis should be placed on increasing pension coverage to all people rather than providing full inflation protection to the relativley few people covered by private pensions. Therefore, the Commission would encourage inflation adjustments for employee pensions but, does want to require indexing at this time. However, the Commission believes that employees should be given the opportunity of taking reduced benefits initially with subsequent cost-of-living increases.

Our current haphazard retirement income system presents a serious challenge to policy makers. There is great confusion over the purpose of our retirement programs; there are major inconsistencies even within retirement programs; and there is little public confidence in these programs.

This hearing addresses a number of vital questions which cannot be left on the back burner any longer. The issues are complex. The solutions will not be easy and will grow increasingly difficult the longer we ignore the problems before us.

Thank you.

Senator KASSEBAUM. Mr. Nave.

STATEMENT OF MICHAEL C. NAVE, WASHINGTON, D.C., PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Mr. NAVE. Thank you, Senator.

Madam Chairman, for nearly 60 years our association has represented the interest of retired Federal workers, their spouses and survivors, and for many of them the past 2 years has been a nightmare of threats and proposals to deprive them of the hard-earned benefits they have. So we welcome the interest your committee is showing in the issues that affect our people.

I am satisfied, from the comments that we have heard here this morning from two of the top experts here in the field, Mr. Driver and Dr. Woodruff, that the more we discuss these issues, the more the facts in the case will emerge and we are satisfied that as they emerge they will support the position of our association. We support wholeheartedly social security for the purpose it serves, but we think that these services and this system should continue to be kept separate and apart from the civil service retirement system, as it has been for the past 45 years.

I would like to address myself, in the limited time I have here, to four key points that affect our people very much.

We heard a lot in the beginning of these discussions that advocates of universal coverage considered the lack of portability of retirement credits for civil service workers who leave Federal employment before retirement, a major gap and that this warranted merger. But here again universal coverage is not the only solution.

Our association has repeatedly pointed out that if Congress so desires this matter can easily be resolved by corrective legislation within the framework of each system. We are glad to note that members of the Universal Coverage Study Group point out in their report that portability of credits between the two systems could be provided by changing the law that permits civil service retirement funds being used to purchase equivalent credit under social security for workers who leave the civil service retirement system before they retire. We think that is an equitable solution. We don't want to deprive workers of any continuity of service. This would provide it.

Another thing that we heard very much about are windfall benefits we got gratis, the appellation of double-dipper that was anything but complimentary to Federal retirees. The advocates of universal coverage would have us believe that there is something sinful about a person receiving social security benefits and in addition a civil service annuity, and that the only remedy is universal coverage.

Not only is the remedy wrong, but they are also zeroing in on the wrong target. The culprit is the social security formula. You have heard the experts testify about the need for change in that formula, which is so skewed to meet the objectives of social adequacy that it robs Peter, at the top of the wage scale, to pay Paul at the bottom.

Happily more and more people in Government are coming to the conclusion that if a person has earned a benefit under the terms of existing law then it cannot be called a windfall. It is an obligation on the Government that must be honored.

Since Congress has frozen the controversial minimum benefit this issue is no longer as great as it once was. Over time this action will have the effect of phasing out the existence of this provision and I hope that that will bring an end to this so-called double-dipping and windfall benefits.

Another item that we hear a lot about is the equity of universal coverage. We keep hearing that it would be no more but fair to put Federal workers under social security so they can share equally in its costs. Boy, would I love to see those costs equally shared by labor and people that get their income from other than a working source. The people whose incomes comes from stocks and bonds and investments and inheritances are not paying 1 cent toward the social security burdens in this country, and I think it is about time that they were brought into the act.

In my view, many of the costs of social security have little or nothing to do with retirement benefits. Forcing another 6.5 million Federal, State, and local workers under social security would not reduce these costs, it would compound them.

Second, the social security program should be reformed before it is enlarged. There is an inherent conflict between the goals of individual equity and social adequacy which more members would not solve. I want to go back to the history of this thing. Mr. Driver has been into this work for a long time.

Going back from 1962 to 1977 we've had a 600-percent increase in social security taxes, but the cost of maintaining the social services even exceeded that. So when you get down to this point, you wonder what is the limit of taxation that people can stand to provide these benefits.

Third, the notion that Federal retirees are escaping a tax burden would be outright funny, if the accusation didn't hurt us so much. Let me illustrate.

In calendar year 1979 social security paid out $87.6 billion on old-age and survivor benefits. This was not taxable at any level of government. In the same fiscal year 1979, the civil service retirement fund paid out $12.6 billion in annuity. We are just a drop in the bucket compared to social security. Yet 10 percent or $1.26 billion was returned to the Federal Treasury and 6 percent or $756 million was returned to State and local treasuries as income taxes. In my view it would make more sense to reform the tax laws, as they relate to the older workers, than to beat the drums for universal social security coverage.

Than we get to the subject so dear to our heart in these recent days, the cost-of-living adjustments.

All Federal benefit programs are indexed to the increase in cost of living with some adjusted annually and others semiannually.

In recent times serious overtures have been made to partially offset these adjustments by such things as 75 percent cap of the CPI and more lately we were stunned when we were told that maybe they should be tied to the same increase that the workers get. Three Presidents, to my knowledge, have put a cap on what employees should get so that at the present time the workers are 15 percent behind. I don't know what the rationale is in getting everybody behind the eight ball. It's bad enough for the workers and it would be tragic for the retirees, because they have no place to go. There is no escape hatch for the retiree; he or she has to take what they dish out and like it. He or she can't get another job.

So we feel that the indexation is a realistic way to deal with inflation, and if you don't believe this I ask you to look at the size of some of the social security adjustments that were made before indexation in election years, under the previous political methods. You had some fantastic increases and the net was it exceeded the CPI, and you know something, they always got them just before election time.

We believe that the twice a year indexation is reasonable and equitable in that it protects the older person from inflation, which he or she did not cause. In case you haven't heard, President-elect Reagan shares our views in this matter. He has assured us, in a letter, and I quote, "I do not favor abandoning the present semiannual indexing." While we are on that subject, Madam Chairman, NARFE would be less than grateful if we didn't publicly acknowledge your vote in this last session of Congress on the Hollings-Bellmon amendment, which would have placed our COLA on an annual basis if you hadn't come to our support and we really and truly appreciate your vote on that.

We think semiannual adjustment is fair because it reduces the time a retiree must wait to obtain relief from prices that have already gone up. Perhaps this is why the Advisory Council on Social Security recommended that social security benefits be adjusted twice a year, and let me add, Senator, knowing how vital this is to our people, I testified before your Senate subcommittee that social security also be given. When you are at the bottom of the totem pole and you are 15 months behind the cost of living, we can sympathize with the people in that category. It is an impossibility in this day and age to keep abreast of increased costs and I think that they should be properly compensated. They shouldn't be made to wait as long as they do.

In conclusion, Madam Chairman, the theme of my remarks and the basis for my association's opposition to universal coverage are very apparent. We do not want to see a good retirement program dismantled. The civil service retirement system is an excellent one. We don't want to see it scuttled, as part of an ill-conceived plan of propping up the social security program. I am sick and tired of hearing about the concept of social security being, and that you must supplement it with your savings from income. Somebody should tell us, in this day and age, how in the blazes we can get the savings to supplement it, when you can't even keep up with the cost of living.

We have more than $70 billion in assets in our fund and the Board of Actuary feels that under the present funding arrangements receipts will exceed disbursements for at least 100 years, and I don't want to think beyond that. We have enough in our fund and we are happy with it. Merger would cost more, for today's new contributors to social security would become tomorrow's liability.

Finally, Madam Chairman, I would leave this thought with you.

Recommendations to mandate coverage of Government workers under the social security system are as old as the system itself, and I am darned near as old as the system. So in my lifetime, between 1938 and 1978, this issue has surfaced in Congress eight times, and eight times Congress has had the good judgment to reject it. We honestly hope that Congress, when the ninth time comes along, will so definitely reject this idea that it will never again threaten the peace of mind of Federal workers and retirees.

Let me leave this final thought with you.

A person that is retired, I think, has earned the right to be free from fear that the Government they served is going to deprive them of some of their benefits at a time when they can't do anything about it.

Just stay with us, Nancy, on that and we'll love you.

Senator KASSEBAUM. Thank you very much, Mr. Nave.

You certainly know how to make a point. Your prepared statement will be entered into the record now.

[The prepared statement of Mr. Nave follows:]

PREPARED STATEMENT OF MICHAEL C. NAVE

Madam Chairman, I am Michael C. Nave, president of the National Association of Retired Federal Employees. For nearly 60 years, our association has represented the interests of retired Federal employees, their spouses, and survivors. We have a dues paying membership of 425,000, representing the concerns of 1.5 million Federal annuitants. In the past year, our membership has increased by nearly 60,000—a figure I believe is indicative of a growing concern among Federal retirees throughout the country about the future of their retirement system. We welcome the interest of this committee in exploring these issues of such importance to so many Americans.

As I begin, I want to make a point which I feel will place our discussions in an appropriate context.

I believe that any commitment made by an employer to employees to provide a specific retirement program must be regarded as a sacred and binding obligation on the part of that employer. Anything less constitutes a serious breach of faith. A promise is a promise. The word of an employer to his employees must be held inviolable. This is particularly essential with regard to public employers where employee rights and benefits are often trampled for the sake of political expediency, while retirement income is regarded more as a gift of benevolent taxpayers than an earned right.

For the remainder of my remarks, I would like to focus on the questions of "gaps" and "windfalls" resulting from a variety of retirement programs, and whether universal social security coverage or benefit offsets are needed to eliminate them, and the importance of cost-of-living adjustments in retirement benefits.

UNIVERSAL COVERAGE

Our association opposes any form of social security coverage for present or future employees of the Federal Government. Furthermore, we vigorously object to any and all proposals which would offset or effectively deny any retirement benefit which has been earned by active or retired workers under public or private retirement plans, or under social security.

Since 1938, I have seen this issue surface seriously in Congress on eight occasions. Each time, after studying the facts of the issue, Congress rejected the idea. As recently as last spring, the Republican National Committee announced that after a careful review, it would oppose mandatory universal social security coverage. And even more recently, the Secretary of HHS, after reading the Bartlett Commission report to Congress, rejected Mr. Bartlett's personal recommendation for universal coverage and issued the report without taking a position. I am confident that after examination of the facts, others may come to a similar conclusion.

Permit me one important observation, which I feel puts this question into perspective.

Our opposition to having our retirement system combined with social security is based on the fact that social security is not a retirement program. A retirement program pays out proportional benefits strictly on the basis of career contributions and years of service. A retirement program is one which rewards those who work. The longer one works, the better the benefits. Retirement income is not a gift, it is a benefit earned from long faithful service.

The issue here is not universal coverage. The real impetus behind current public debate is fundamental uncertainty over the basic purpose of the social security program. Madam Chairman, your committee could render no greater service to this country than to propose a specific overhaul of the social security program to give it future direction and definition. Until there is some general political consensus on this point, there is no rational way to determine whether the program should be "universal" in scope.

While social security contains some of these aspects, it also embodies programs designed to provide social adequacy—many of which are unrelated to retirement.

Eventually, Congress must address the issue of social security reform. The country simply cannot afford to continue to maintain social security's retirement aspects through the same mechanisms as it does the social adequacy components. The Carter administration has admitted that the program's funding mechanisms are inadequate and in need of bailing out.

Alicia Munnell, a vice president of the Federal Reserve Bank in Boston, and a rising star in the social security field, believes "that so long as the social security program hovers between goals of individual equity and social adequacy, it will remain prone to inefficiencies and inequities because it will contain aspects that are irrational to the attainment of either goal."

If the financial condition of the social security system is not enough cause for concern, the political nature of the benefit structure surely is. Under social security, employees have no rights. The old adage, "What Congress giveth, Congress can taketh away," is quite literally the fact under social security. No worker can be certain that he or she will actually receive the benefits which have been promised. Workers have no legal claims to these benefits. In fact, I am sure you are aware of a recent Lou Harris poll which indicated that 42 percent of the people questioned said they had "hardly any confidence at all" that they would get promised benefits when they retired.

To date, I have seen no analysis of this issue which indicates that social security coverage could be implemented for Federal employees without either a reduction in benefits or increased costs to the worker, the employer, and the American taxpayer. Furthermore, I have seen no evidence that universal coverage will

(1) improve the long-term financial stability of the social security system, or (2) not jeopardize the integrity of the Federal Retirement System funds. Furthermore, I seriously question whether bringing additional participants into the social security system will not further compound its present financing deficiencies in the future.

The Federal retirement system, which is one of the oldest in the country, continues to be sound and stable. Its funds are now at $75 billion and increasing each year. Private sector consultants in March 1977 confirmed that under the present financing structure, this system will continue to meet its obligations for the next 50 years, which is as far as any actuary is willing to forecast.

As recently as April of last year, Robert Bynum, Acting Deputy Commissioner of Social Security, told Congress: "The notion of bringing Federal employees into the social security system as a windfall * * * to the social security system to keep it from going broke * * * is just not factual. This would move the social security trust fund levels just a bit to the plus side or the negative side in the next 50 years but not a great deal of money on either side of that zero base * * * it would bring in about what was paid out in benefits in the next 45 or 50 years. The same would apply if only future Federal employees were brought into the system. It's not much of a plus or minus according to our estimates." When asked if universal coverage would relieve social security's funding problems, his answer was, "No, it would not."

According to Thomas Tinsley, recently retired Director of the old Civil Service Commission's Bureau of Retirement Insurance and Occupational Health, social security coverage of Federal employees "will cost somebody an arm and a leg."

Whereas civil service annuities are taxable at all levels of Government, social security benefits are not. In fiscal year 1979, civil service retirees paid taxes on $12.6 billion in retirement benefits received. Social security on the other hand, paid out more than $87.6 billion in tax-free benefits.

The independent actuarial firm of Edward H. Friend & Co. has estimated that the average Federal civil service retiree pays 10 percent of annuity in Federal income taxes and 6 percent of annuity in State-local income taxes. Based on 1979 disbursements, Federal civilian retirees paid an estimated $1.26 billion in Federal income taxes and $756 million in State-local income taxes. If civil servants are brought under social security, tax collectors at the Federal, State, and local levels would have to look elsewhere for these revenues.

Finally, if the two systems were merged, the Government as a major employer would have to supplement social security with some sort of retirement plan for Federal employees as is the custom in private industry. Based on a $45-billion payroll, a supplemental plan costing 2 percent of payroll would come to $900 million per year; one costing 4 percent of payroll would come to $1.8 billion per year. This in addition to the employer's social security tax obligation.

Portability

Advocates of universal coverage consider the lack of portability of retirement credits for civil service workers who leave Federal employment before retirement, a major "gap." But here again, universal coverage is not the only solution. As NARFE has repeatedly pointed out, if Congress so desires this matter can easily be resolved by corrective legislation within the framework of each system.

Members of the Universal Coverage Study Group point out that portability of credits between the two systems could be provided by changing the law to permit civil service retirement funds being used to "purchase" equivalent credit under social security for workers who leave the civil service before retirement.

"Windfall" Benefit

Advocates of universal coverage argue that it is improper for an individual to receive dual benefits from Federal retirement and social security as a result of secondary employment under social security. Such dual benefits are characterized as "windfalls," and recipients as "double-dippers."

If a retiree has earned social security benefits for employment before, during, or after Government employment, he or she is entitled to receive such benefits. Since contributions to social security are mandatory, benefits must be considered earned for any worker who meets the requirements. Any offset of these benefits is a basic violation of the integrity of this system.

The accusation of "windfall" is in itself an admission of a fundamental flaw in the social security benefit formula which pays the highest relative benefit (70 percent income replacement) to the worker who has contributed the least, and the lowest relative benefit (30 percent) to the person who has contributed the most. If benefits were keyed to actual earnings and contributions, no "windfall" would exist.

If benefits were keyed to actual earnings and service, the civil service annuitant with low social security credits would receive a minor benefit, and the person with high credits would earn a major benefit.

Of course, the magnitude of this issue is no longer as great as it once was as Congress has frozen the controversial minimum benefit. Over time, this action will have the effect of phasing this provision out of existence. The fact that Federal retirees could qualify for this benefit was one of the primary reasons cited by our critics for bringing Federal employees under social security. But in a few years, the quarters required to qualify for social security will be such that this argument will no longer have any basis.

Equity

Advocates of universal coverage say that Members of Congress and civil servants who administer the social security program should be covered by it. They consider it unfair that these groups should escape the tax burden of social security.

This logic evades the basic issue that the social security tax, as the system is presently administered, is an inequitable tax. It is unfair to those who currently pay it, and would be no more fair imposed upon others.

Social security does not reward the contributor in proportion to what he contributed or his length of service. Furthermore, the major portion of the tax pays for the overwhelming welfare aspects of the system rather than for retirement benefits. To extend the social security tax to additional workers would only aggravate an already ailing situation.

Civil service retirement and social security are so fundamentally different that merging them is comparable to mixing apples and oranges.

Civil service retirement was designed to provide an adequate retirement income for a career Federal employee. When created in 1920, there were few retirement plans in private industry, and only 10 percent of the work force was protected by a pension program. Civil service retirement provided Federal employees a genuine retirement plan based on length of service, age, and level of employment.

Social security was conceived as an old-age income base only for the majority of nonpensioned workers with an understanding they would supplement this retirement income floor through personal savings, investment, or membership in an independent retirement plan.

Although social security originally offered only old-age benefits, it has been expanded to include many nonretirement benefits of a social welfare nature. In 1939, benefits for dependents and survivors were added. Disability benefits were added in 1956, and benefits for dependents and survivors of disabled persons were added in 1958. Medical benefits were offered in 1965 to those 65 and older, along with special benefits for certain persons aged 72 and over. The program was again expanded in 1972 to include supplemental income benefits for the aged, with entitlement based on need.

These expanded benefits have enlarged the original concept to a point where social security favors the needy at the expense of the achiever. Experts warn, as I have mentioned, that any program designed to serve both pension requirements and welfare requirements is doomed to financial trouble.

Madam Chairman, social security and Federal retirement have been kept separate and apart for 45 years as a matter of policy. Our association urges that this policy be maintained.

SEMIANNUAL COST-OF-LIVING ADJUSTMENTS

It is the position of my association that the present twice-a-year indexing of civil service annuities is realistic, reasonable, and fair. We make no apologies for it. It is an equitable system, which should be continued. In fact, the most recent report of the Social Security Advisory Council has recommended that semiannual indexing be extended to social security recipients during periods of high inflation.

The importance of adequate cost-of-living adjustments was verified in a 1970 Harris Poll on American attitudes toward pensions and retirement in which a nearly unanimous 93 percent said they thought it "very important that pension plans provide benefits that go up with the cost of living." The survey indicated "many feel they simply will not survive without it * * * they feel they cannot make it in retirement if they cannot at least sustain the standard of living they have while working. Significantly, 82 percent of the financial and pension executives surveyed agree with the rest of the people on this important point."

Under current law, Federal retirement benefits are indexed twice-a-year—once in March for increases in the Consumer Price Index for the preceding July through December; and again in September for CPI increases occurring during the preceding January through June. The average Federal annuity is approximately $10,484 a year, while the average survivor benefit is $4,044 a year. Assuming the present 12-percent inflation rate, the average annuitant stands to lose $325 in actual income by a shift to a once-a-year COLA next year, while the average survivor will lose $182.

The principal rationale for maintaining the present semiannual COLA is that which I touched on at the beginning of my remarks—commitment. The Federal Government, through Congress, made a commitment to provide this semiannual adjustment in annuities to help protect the purchasing power of this retirement income.

Some argue that the semiannual COLA overcompensates Federal retirees, that the present system is 'excessive" and "unnecessary." The facts do not support this contention. Madam Chairman, every penny of Federal retirement income is subject to full taxation at all levels of Government. On closer examination, it becomes quite obvious that our twice-a-year adjustment is roughly comparable to a once-a-year tax-free adjustment.

A General Accounting Office representative has testified before a Senate committee that the semiannual COLA does not overcompensate Federal retirees. A representative of the Office of Management and Budget told a House committee: "The indexation of Federal retirement programs and benefit programs is fully justifiable on grounds of equity."

Furthermore, Madam Chairman, the automatic indexing of benefits has the effect of taking the indexing process out of the political arena and placing it in a regular objective system. Analysis of comparative rates of growth in the social security program suggests that in the absence of automatic cost-of-living adjustments, discretionary increases in these programs tend to exceed the rate of inflation. For example, between 1967 and 1972, Congress increased social security benefits by half again as much as the CPI increased in the same period. Not surprisingly these increases nearly always came just before election time.

In conclusion, Madam Chairman, let me say how much we in NARFE appreciate your interest in these issues, and your giving us the opportunity to make our views known in a public forum. Let me also take this opportunity to thank you personally for your vote last summer against the Hollings-Bellmon amendment, which would have placed our COLA on an annual basis. We are very grateful.

Also, Madam Chairman, with your consent, I would like to place in the record [1] copies of four publications prepared by the Research Committee of an organization known as FAIR (Fund for Assuring an Independent Retirement). FAIR is a coalition of all the major public employee and retiree organizations, and has conducted extensive research in the area of Federal retirement and social security. These findings are quite revealing and, I believe, shed a great deal of light on a very complex subject.

Senator KASSEBAUM. Mr. Miller.

STATEMENT OF WILLIAM R. MILLER, CHANUTE, KANS., PRESIDENT, KANSAS FEDERATION OF NARFE CHAPTERS

Mr. MILLER. Thank you, Senator.

A copy of my prepared remarks have already been submitted.[2] I have others here that I would like to utilize at this moment, if I may.

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[1] See appendix, item 1, page 65.

[2] See page 26.

It is a delightful opportunity to be able to appear before your committee in Leavenworth, Senator, and we in Kansas are delighted to have the chance to express our views on retirement benefits.

Considering retirement is one of the most crucial times in an adult's life. It is a most difficult decision. It is almost like getting married, so many things have to be considered.

Planning retirement is somewhat different though, but decisions are just as difficult. Some of the questions that go through one's mind may be like as follows: What will the annuity be in dollars and cents? What will I be able to live on or will I be able to live on that annuity? What will be my retirement benefits? What about life insurance and health benefits? Finally, will my survivors be protected and have some type of income after my death?

These are a few of the questions that must be answered when planning or even considering retirement, whether industry or from Government.

Next follows a review of all those decisions and, then, the additional decisions that were related, that are related to setting the date and the time of the year, once you have made up your mind. That great day arrives, you have made your decision, you have made your announcement to your boss, and you listen to all the encouraging and discouraging words, and how very lucky you are to be eligible, at this time.

You take the first official step by filing your application to retire. Numerous consultations follow and much advice is given by those who have not yet retired and by those considering it, but lack the nerve. Actually they all have their eye on your position and can hardly wait for you to leave.

You fully realize the process has started when the personnel manager begins to fully explain your annuity, your benefits and, then, suddenly the bombshell. You learn for the first time that your department or your agency has not been making its agreed-to contributions for several years. That certain areas of your health benefits and your life insurance coverages have changed. That the board of directors or the Congress have changed or even reduced the amount of your expected annuity. That inflation adjustments have been altered, one of which is to be delayed to help balance the budget and that serious consideration is being given to eliminating them entirely.

Also, because your benefits are considered so much better than those in other organizations the two programs might be combined and you would receive the lesser amount of the two. By combining the two, both organizations would save lots of money and boast of the surplus, at your expense.

Does all of this have a familiar ring?

In recent years, the administration has decided that retirement is costing too much. The retiree is living too well. That the retiree retired too young or the retiree is receiving too many benefits. The list goes on and on, but I am certain you are getting the picture.

Why, all of a sudden, all this attention toward the retiree? Perhaps part of the answer might be that we were thought to be unorganized and ineffective in our political strength. That we would collapse under political pressure.

Basically, the administration, I think, saw an opportunity to obtain accumulated funds from our retirement program and transfer them into a failing system, and by so doing, the two systems could successfully fail together. The greatest single enemy of all retirees is inflation. If just half of the time that has already been spent on investigating retirement programs had been spent toward combating or eliminating inflation perhaps a solution would now be near. The retiree is not the cause of inflation. They are the victims of it.

In my letter to you, Senator, on April 18, I stated:

> Americans everywhere would rally behind drastic measures to curtail inflation. The President and all Americans know that inflation is our No. 1 problem. All Americans, except the President, know the volunteer method of control has never been successful. Jawboning or pressure are very poor compliance methods. Every modern day President has attempted the volunteer system of control and each program has failed. To halt inflation, drastic governmental action is needed. The runaway inflation is evidence that industry itself is unable to cope with it or control it, and quite obviously they have no desire to do so. Therefore, it becomes necessary that a freeze be placed on all goods, services, interest rates, wages, prices, fuel, food, hospital, housing cost, yes, even credit card moratorium for, at least, 6 months. All actions imposed on industry must likewise be strongly imposed on all government agencies and activities.

When inflation is stopped in its tracks, would you believe the cost-of-living adjustments disappear. As has been so strongly professed by so many in Congress and the administration, there would be an immediate savings of over $500 million, just by stopping inflation. The retiree would gladly give it up, plus Congress would not have to act on the topic of cost of living, but strong congressional action is necessary to initiate it.

I say, why not do it. Let Congress lead the way. Show us your actions by reducing wasteful spending, contract overruns, consultant fees, excessive staffing, foreign aid, foreign oil imports—turn our own experts loose—just to name a few. Americans everywhere will follow, strong, positive, drastic action that will get to the heart of inflation causes.

Bear in mind, we, as retirees, will not accept being singled out as the cause. Likewise, we will support equitable and fair and reasonable adjustments in all segments to end the inflation spiral. It cannot continue, it must not continue. Show us your efforts in Washington and we will show you our efforts out here.

Thank you, Senator.

Senator KASSEBAUM. Thank you. Your prepared statement will be entered into the record at this point.

[The prepared statement of Mr. Miller follows:]

PREPARED STATEMENT OF WILLIAM R. MILLER

I am William R. Miller, from Chanute, Kans. I am president, Kansas Federation of NARFE (National Association of Retired Federal Employees) Chapters. Retired Federal employees in Kansas exceeds 16,000.

Thank you Senator Kassebaum for the opportunity to appear before your committee.

In your letter of October 15, you listed five questions to which you wished information or answers. I will speak to those questions and respond accordingly.

Question No. 1. To what extent should public retirement programs be expected to meet an individual's income needs, and what should be the extent of personal provision of retirement income?

Response. A public retirement program should meet an individual's income needs based on the last 3 years of an employee's average salary. This would give them about 60 percent of their earned income, providing that they have had full employment of at least 30 years of public service. If an individual wants to live above the means which the above formula provides, he should plan accordingly by preparing for this during their working years by sound investments, etc.

Question No. 2. At what age is it appropriate for an individual to expect full benefits from a publicly financed retirement program?

Response. An individual should expect full benefits from a publicly financed retirement program by age 60.

Question No. 3. What should public and private policy be with respect to the provision of cost-of-living adjustments in retirement benefits and how are these adjustments best structured?

Response. Cost-of-living adjustments tend to keep the employee and the retiree, public or private, close to his original dollar purchasing power at the time of retirement. With the inflation rate running as rampant as it has these past few years, COL adjustments have made the difference in survival for many. All retirees should have a cost-of-living adjustment as part of the overall retirement benefits. Many unions obtain their COLA through contract agreement. Further, COLA should be protected, by law, to prevent promiscuous tampering by administration officials and the Congress.

Several years ago, the Congress established the Consumer Price Index for measuring the impact of inflation. This CPI is used by industry and Government alike as their standard, which involves raising prices and wages. It is considered a reasonable standard of measurement. No index should be structured so as to deprive an employee or retiree of something less than the rate of inflation.

Cost-of-living adjustments should be made within 30 days following the report of the CPI inflation rate. At present, there is a 6-month period for accumulating the CPI data; then, there is a 3-month dead time period before the adjustment finally reaches the retiree. Therefore, COLA adjustments should be made each 6 months for all retirees and employees alike. To do otherwise causes the employee and retiree to fall further and further behind the rate of inflation. In reality though, all COLA's could be eliminated if drastic action were taken to curtail the rate of inflation.

Question No. 4. "To what extent does the variety of retirement programs create 'windfalls' for some and coverage gaps for others? What are the advantages and disadvantages of some of the proposals designed to deal with these situations (i.e., universal social security coverage, national pension plans, benefit offsets)?"

Response. First, lets define "windfall"; Webster says, "Anything blown down or off by the wind, as fruit from a tree or the tree itself; an unexpected legacy, or other gain."

As currently being interpreted by the press, the radio, and certain administration officials, it implies something for nothing, or, something illegal, neither of which is correct. The only "windfall" that occurs is in behalf of the Federal Government because of the inflation rate has pushed the average income into higher income tax brackets causing higher income taxes to be paid.

By definition and by fact you can see there is no windfall for the Federal retiree; there is no fruit from the tree and certainly no unexpected legacy or other gain. In fact we are just trying to stay even in purchasing power. The average retiree-annuity in Kansas is $727 per month; the overall average annuity in Kansas is $617 per month; the average survivor annuity in Kansas is $320 per month; Consider if you will, the cost of living; since 1969, the cost of living, due to inflation, has climbed to 249.6 percent; meaning that it now takes $249.60 to purchase what cost $100 in 1969.

Because of the inflation factor, higher salaries are now being paid to all industry employees and to all Government workers, including Members of Congress. Recall the tremendous increase in October 1979? The labor unions and all levels of management have likewise increased their hourly rates or salaries, just to stay abreast of inflation. To handicap any retiree with a 1969 retirement income means they would starve at today's prices. Thus, you see there is no windfall for any retiree as some would have you believe.

Concerning "coverage gaps for others." This, I presume to mean such items as a "survivor benefit," medical and disability benefits, supplement income benefits, as well as benefits for dependents and survivors. Again, I presume this second part of question No. 4 is intended as a comparison between an independent retirement system, to the benefits paid under the social security system.

First may I say, all Federal retirees as well as our National Association of Federal Retirees, strongly and definitely oppose any comparison between our system of retirement and that provided by social security. Further, we wish to be on record strongly opposing any and all attempts to integrate our retirement system and benefits into the system of social security.

The biggest single advantage to all the proposals you mentioned in your letter, such as universal social security, national pension plan, and the benefits-offset provisions, would be to begin to slowly starve every retiree into an early grave by denying him certain means of survival for which he has worked and earned. You can be certain the overall costs would go down dramatically and would certainly discourage anyone from retiring from either industry or from the Government. This, obviously would be to the delight of many administration officials as a way of reducing costs and who are constantly chipping away at our retirement benefits. The very term "universal social security coverage" is misleading and misunderstood. There would be those who would be exempt by enactment of any such legislation. It could only be universal if the President of the United States, all Members of the Congress, all staff members and all employees of all branches of Government, including the judicial, administrative and legislative persons were included. Also, the presidents of all companies and corporations and all staff/middle management, etc., were included. It would also have to include all State, county, and local government. In other words, no one would be excluded.

If separate retirement plans are established within the Government and industry, they should operate as separate elements within themselves. No retirement plan should contain a "benefit-offset" provision that would limit an amount from one plan just because the retiree receives benefits from another plan. When a person, as a retiree, has qualified for the benefits of one plan and then proceeds to qualify himself for benefits under another plan, he should not be victimized by any type of "offset" provision. A person with two savings accounts receives the interest earned by each, the interest from one account certainly does not offset the interest of another account.

Many present day proposals are aimed at sacrificing a good retirement plan to bolster or save a sagging social security system. The civil service retirement plan has operated successfully since its enactment in 1920. Its employee contributions alone now exceed $64 billion and the Government's contribution, as the employer, which has not been paid, is now over $130 billion. The CSRS has not been a give-away program, that's why it is successful.

The largest single disadvantage of any retirement plan is the specialized treatment in terms of income tax paid or not paid on the retirement income and benefits. Social security income and the railroad retirement income are both totally exempt from Federal and State income taxes. Whereas every independent retirement system, including the retired Federal employee, must pay income taxes on the annuity received. It is my opinion that all income from a retirement plan should be exempted from income taxes. Taxes should be paid on income earned by other means, such as investments. This type of income merely supplements any retirement annuity a retiree may receive.

Question No. 5. What is the most effective way to assure that the social security system will be able to continue paying benefits when the baby-boom generation reaches retirement age?

Response. First, let's briefly review the social security system as we know it today. Social security was enacted in 1935, offering only retirement benefits (old age insurance) at the outset. In 1939, benefits for dependents and survivors were added. In 1956, disability benefits were added. In 1958, benefits for dependents and survivors of disabled persons were added. In 1965, medical benefits offered to those 65 and older, with special benefits for certain persons aged 72 and over. In 1972, supplemental income benefits for the aged, with entitlement based on need, were added.

None of the social security income or benefits received are subject to Federal or State income taxes. This applies to a survivor, also, who may have never contributed into the social security system.

When the social security program was established in 1935, there were few retirement plans in private industry, and less than 10 percent of the industry work force was protected by a pension plan. Social security was intended to fill that gap and to serve as a base upon which employee plans could be developed.

In contrast, the civil service retirement program had been in existence for 15 years, and because it provided coverage to nearly all Federal civilian employees, it was assumed that Federal workers had sufficient protection under their own system; this is still true today.

As you may know, employers and employees, under social security, each pay an equal share of social security taxes based on the employee's wages. In 1978, the rate for employers and employees was 6.05 percent of the employees wages, up to $17,700, and will continue to increase; in 1990, both the employer and the employee each will be paying 7.65 percent. The rate for self-employed persons will also increase to 9.30 in 1981 to 10.75 percent in 1990. Hospital insurance will also increase from 1.05 percent in 1979 to 1.45 percent in 1986.

The Government's share of the cost of supplemental medical insurance and certain other social security costs comes from general revenues, not from social security contributions.

At least one possibility exists that would assure that the social security system will be able to continue paying benefits when the "baby boom" generation reaches retirement age; return the social security system to its original concept as developed in 1935. In addition, locate and remove from the present program those items related to welfare, medical provisions, and other items not related to the basic intent of the social security program. Such removed items could be specifically handled by funding from the general tax revenues.

No doubt there are other ideas that could be done to effectively assure the benefits for those in the future. Congress should solve the problems within the social security system itself, and should not integrate a sound retirement system into the social security system merely to bolster it and Band-Aid it for a short period, then both would be defunct.

If serious consideration is ever given toward the integration of a public retirement system into social security, then likewise serious consideration must be given to doing likewise with all independent retirement systems that exist in private industry and all unions with such independent retirement system.

The Government is an employer, just as is General Motors, Westinghouse, or any other company in the free enterprise system. When an employee and an employer agree to the conditions and benefits of employment, even through retirement, the employee has a right to expect the employer to meet those conditions when the employee has fulfilled the employer's requirement.

Thank you.

Senator KASSEBAUM. It does not seem fair that the two women should be at the end of this panel discussion, but we saved the best for last.

Sylvia Hougland.

STATEMENT OF SYLVIA HOUGLAND, TOPEKA, KANS., SECRETARY, KANSAS DEPARTMENT ON AGING

Ms. HOUGLAND. Thank you.

My original thank you was to Senator Kassebaum for giving us the opportunity to be here, but I would really like to thank her for that last comment. Women are certainly best.

Truthfully, though, we do appreciate being here in Fort Leavenworth to discuss this issue.

The Kansas Department on Aging has also been grappling with, as we hear from you, what those issues of income and income security are.

My focus today is on the issue of adequacy as well as support of an adequate minimum floor. In Kansas, as throughout the United States, we do have a major concern and that is how do we, through our pension policy, establish an adequate level of retirement income for those groups who historically have not been adequately served by our present policies.

Although I do not really believe that we must continually define the problem, at least at the expense of solving it, I do believe it is necessary to examine who is not adequately served. For a significant portion of older people, retirement incomes, private pensions, and public benefits are inadequate.

So, when we look at those policy questions we have to look at long-range policy questions, policy questions that take into account idiosyncratic events, things like the baby boom. But we also have to look at short-term policy questions, recession, and unemployment.

Some of the issues that have been raised—like overpensioning, replacement rates, voluntary savings and tax policy—are irrelevant for a large segment of retirees. Underserved groups are, and have been, well identified: Women, for the most part, are not adequately served by our social security or pension policies. Their work patterns and type of work, low earnings, as well as inequities in the system, leave them at an inadequate level to maintain themselves sufficiently. Minorities are not adequately served and today's generation of people over 75, especially the rural elderly, are also inadequately served.

So the questions, then, are somewhat different. We can't talk only in terms of percentage of replacement rates, because a percentage of nothing is essentially nothing.

So what I am talking about today is an adequate minimum level for a substantial proportion of retirees.

The Kansas Department on Aging recently conducted a statewide needs survey and our needs survey showed that 34 percent of elderly Kansans earned less than $4,800 a year, and that close to 53 percent of older Kansans earned less than $7,200 a year. That figure was for all people over 60, all races, both sexes.

When we look at the figures even more closely, when we look at that figure for women, minorities, and people over 65, the figures are raised substantially. Forty-one percent of the women retirees make less than $4,800, and 51 percent of the minorities make less than $4,800. In our survey, there was no one over the age of 75 who made over $4,800. I am willing to concede there might have been a few sampling errors on that last one, but basically I think that it does show you that a substantial proportion of older Kansans make a level of earnings that is not or barely above poverty level.

I would further like to illustrate the relationship between social security benefits and low income. The interim report says substantially, I believe, that the majority of people have other sources of income besides social security, and that holds true for most Kansans. Only 23 percent have social security as their sole source of income. However, when we look at those special groups of people who earn less than $4,800, 49 percent of that group has social security as their sole source of income.

Contrary to the interim report, we would like to point out that there are substantial special groups who only have social security as their retirement income. Because their work patterns are as they are, they are unable to save. They do not worry about tax policy, and private pensions do not affect them.

The majority of women are not in employment that is covered by private pension plns. The majority of minorities and those people 75-plus are also not in the kinds of systems where they get two pensions. So it is obvious to us that there is a significant portion that don't have an adequate income in retirement.

So, what is an adequate income and how do we provide for it? I don't know how we provide for it. I can tell you that we know what is not an adequate income. Poverty level is not an adequate income. It seems incongruous that SSI provides 88 percent of poverty level for a single person. Although there may be disputes about what is adequate retirement, we know that $3,000 a year and even $3,600 is not adequate.

I am not going to talk about the Bureau of Labor Statistics and moderate- and low-income budgets here, but again the other kinds of issues, whether those kind of programs like food stamps and medicaid can also be used, viewed as income supports, we really do have to remind everyone that older people are very independent and very proud and for the most part, in Kansas, do not participte in those kinds of, what they consider to be welfare programs. We also believe that they should have a right not to have to view themselves in old age as dependent on welfare.

The question of to what extent should public retirement programs be expected to meet an individual's income needs partially depends on what capacity the individual or special group has to receive adequate pay during their lives. The special groups in society who are presently unable to participate fully in high-paid work, to be covered by the present pension system or who are discriminated against by our social security policies and pension policies, should receive, in some way, changes in policy that will them receive that adequate level.

I have a section here on women as a group. I am not going to talk about it but will provide it in my written testimony.[1] There is a change going on now in women's work patterns. Basically we know there is increasing participation of women in the labor force, that older women are returning to work, that there are more two-earner families and there is an increasing recognition that homemakers perform valued work through their life. Although I have a section in my written material where I talk about some of those inequities and how they should be resolved, one of the points that I want to make is that a social security system that deals with that group, as if they were still in the 1930's, is not valid. The 1980's are different from the 1930's and we want to suggest that in our social security policies we do have to look at those kind of inequities.

Because of time, I want to mention one more issue.

In the interim pension policy report, work was mentioned as a solution as well as raising the retirement age. In our survey we came out with some very clear data and that data essentially shows that 15 percent of the people over 65 were employed. Another 10 percent said they would like to be employed, primarily in part-time work. Close to 89 percent of the people who did not work, said that they could not, did

[1] See page 32.

not, or were unable to work. When you looked at the special groups it is even more startling. People over the age of 75 are either unable and choose not to work. In the 65 to 75 age group about 11 percent of the group that didn't work, wanted to work.

We have to look at not only needs of the system but also the needs of the people. We believe in keeping the options open for work, but our survey tends to show that the majority of people over the age of 65 are unable or do not choose to work.

Some of the things identified by older Kansans is a view that there are disincentives to working. Those disincentives are the reduction in social security, although only a 2-for-1 reduction. But social security is viewed emotionally as well as rationally. It is viewed as regular and secure. It is predictable as a source of income. Work is often viewed as temporary, unpredictable, at the mercy of the economy, and susceptible to the health of the worker. People are often frightened when you say, it's only a 2-for-1 reduction and you will earn more. But they are still apprehensive on what that means over time if their health, and so forth, does not hold up.

So recommendations to increase retirement income by encouraging work have to be looked at cautiously.

I am going to stop my speech now. We have not dealt with systems and changes. It is obviously much easier to define problems than to deal with system change. We caution you to not overcorrect nor overrespond to unique occurrences as the present recession. Social security is valuable and provides security for the majority of older Americans. Our first concern is providing an adequate income level for those special groups who are presently uncovered.

Our recommendations includes recognition of those special groups and their needs, changes in social security rules to reflect various work patterns, elimination of disincentives for older people to work, including an allowance of higher earned income levels. Increased portability of pensions and reduced vesting time, and allowing higher IRA contributions during a work career.

For many groups, then, private sources are unavailable and so we do have to look at the social security system as the prime provider.

I would like to thank Senator Kassebaum for giving KDOA the opportunity to appear.

Senator KASSEBAUM. Thank you very much, Your prepared statement will be entered into the record at this time.

[The prepared statement of Ms. Hougland follows:]

PREPARED STATEMENT OF SYLVIA HOUGLAND

I'd like to thank Senator Kassebaum for giving me the opportunity to appear before the Senate Special Committee on Aging. The Kansas Department on Aging is pleased to be here in Fort Leavenworth and to present this testimony to Senator Kassebaum who has been a long-standing supporter of older Kansans.

My focus today is on the issue of adequacy and support of the provision for an adequate minimum floor. In Kansas, as throughout the United States, we have a major concern: How do we, through our pension policy, establish an adequate level of retirement income for those groups who historically have not been adequately served by our present policies.

Although I do not believe that we must continually define the problem, at least at the expense of solving it, I do believe it is necessary to examine who is not adequately served: For a significant proportion of older people, retirement incomes and benefits are inadequate.

The questions of overpensioning, replacement rates, voluntary saving, and tax policy are irrelevant. These groups are and have been well identified:

(1) Women are not adequately served by our social security or pension policies. Their work patterns, type of work, low earnings, and inequities in the systems leave them with an inadequate level.

(2) Minorities are not adequately served. Type of work, low earnings, and lack of coverage leave many with inadequacies.

(3) Most people 75 plus.

The Kansas Department on Aging conducted a statewide needs assessment survey in 1980. Our survey showed that 34 percent of older Kansans make less than $4,800 per year (6 percent of those make less than $2,400), and that 19 percent earn between $4,800 and $7,200 per year. Over half of older Kansans make less than $7,200. The largest category of older Kansans falls in the $2,400–$4,800 range.

Those figures apply at all ages (60 plus), to both sexes, and all races. When the figures are examined more closely, one can see major income declines for women, people 75 plus, and minorities 41 percent of the women make less than $4,800; 51 percent of the minorities make less than $4,800; and no one in our sample of 75 plus made over $4,800.[1] These statistics clearly illustrate that there are major subgroups in Kansas that have inadequate retirement incomes—similar to those in the entire United States.

I would like to illustrate the relationship of income level to the sources from which income is derived. Statewide, 23 percent of the people have social security as their sole source of income; but, of those who made $4,800 or less, 49 percent had social security as their sole source, 36 percent of the females had social security as their sole source, and 46 percent of minorities had social security as their sole source of income. Contrary to the interim report, we have a substantial proportion of elderly who have social security as their sole support.

It is obvious that a significant portion of the elderly do not have an adequate income. What is an adequate floor? How should an adequate minimum be provided? Well, we know what is not an adequate minimum. Poverty level is not an adequate minimum. Below poverty level is even less adequate. It seems incongruous that SSI provides 88 percent of poverty level for a single person. Although there may be disputes about what is adequate retirement income, there is little doubt that $3,600 a year is inadequate to meet daily necessities, let alone any extraordinary costs.

I believe that an adequate minimum level should reflect a BLS mod income retired couple budget (plus 75 percent for a single person). The current SSI program should be changed to insure this minimum through moderate liberalization of the income disregard and asset limits. Presently SSI recipients do not participate in many other programs.

The question of to what extent should public retirement programs be expected to meet an individual's income needs partially depends on what capacity the individual/or subgroup has to receive adequate pay during their worklives. The subgroups in society who are presently unable to participate fully in high-paid work, to be covered by the present pension system, or are discriminated against by our social security and pension policies should receive an adequate minimum level.

Who are these groups, and what social or public policies, work patterns prohibit them from fulfilling their own adequate needs? Generally, women, minorities, and retirees over 75 receive inequitable treatment and have, as groups, a higher proportion of inadequate retirement income.

Women, as a group, have general difficulties in developing adequate private retirement income. Women receive relatively little from private pensions. They do not qualify because of their work patterns—they often stay home, are in and out of the work force, and work in industries that remain uncovered by pension plans. Most private pension plans require long-term job continuity, and women often lose pension benefits because of breaks in service. Because of the long vesting periods and lack of portability, women's private pension benefits are negligible.

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[1] May be because of smaller sample.

Social security policies also adversely affect older women's retirement income. Social security benefits determined on 20-year basis works negatively. We suggest that the way social security is computed be reviewed to reflect women's work patterns—perhaps a Federal retirees' model of highest years.

There have been major changes in the roles of women and social security has not been cognizant of those changes; the 1980's are not the 1930's. Patterns have been changed.

(1) There is an increasing participation of women in the labor force; (2) there is an increase in older women returning to the labor force; (3) there is an increase in two-earner families; (4) there is increasing recognition that women homemakers perform valued work; and (5) there is a rising divorce rate and changes in family structures.

Women's work patterns are considerably different than the patterns men have and what social security has been based on. Their earnings remain 59 cents lower for every $1 earned by men.

Further inequities exist for homemakers, who work in neither valued employment nor covered by social security, and for two-earner families who contribute more and may receive less than one-earner couples; working women who contribute to the system often earn little more in their own right than what they would have received as nonworking women.

Additional policies that adversely affect women are: (1) Lack of survivor protection for spouses in private pension plans; (2) inflation because it is most severe on older women who live longer than men; and (3) survivors benefits in social security need to be reviewed for women in their late 50's who may have work discrimination problems.

A substantial proportion of minorities are not covered by private pensions and when they are, they receive less; coupled with social security policies on determining benefits, minorities are discriminated against in both private and public pension policies.

Work is often viewed as a panacea. The KDOA needs assessment shows that 15 percent of people 60 plus work; and that only 10 percent would like to work.

[Figures in percent]

	Would like to work—		Unable to or don't want to work
	Full time	Part time	
Age 65 to 74	1	10	89
Age 75 plus	0	4	96
Men	3	10	87
Women	1	7	92
Minorities	5	15	80
$4,800 or less	1	8	91

It may be that the disincentives to work in social security are viewed as too great. Many older people view the reductions in social security as a threat to their security. Social security is viewed as regular and predictable. Work is viewed as temporary, unpredictable, at the mercy of the economy, susceptible to the health of the worker, and their values about freedom and flexibility. Present disincentives include viewing earned income as different than unearned income in reducing social security.

Recommendations to increase work include a higher earnings level, reinstitution of monthly earnings test to allow for seasonal and part-time work and higher proportional increases in social security benefits for those who work beyond age 65 plus.

KDOA has not dealt with systems and changes. Our first concern is providing an adequate income level for those subgroups who are presently uncovered.

Our recommendations include the following: (1) Adequate minimum level and recognition of special subgroups of the aging population; (2) changes in social security rules to reflect various work patterns; (3) elimination of disincentives for older people to work, including allowance of higher earned income levels; (4) increased portability of pensions and reduced vesting time; and (5) allowing higher IRA contributions during a work career.

I'd like to thank you for the opportunity to present this to the Special Committee on Aging; we hope it has been of value. I would especially like to thank Senator Kassebaum for inviting me to be here today.

Senator KASSEBAUM. The next panelist is not only a retired Army sergeant, but she is also doing a lot of active work with the area agency on aging and retired citizens.

Reba Caldwell Litman.

STATEMENT OF REBA CALDWELL LITMAN, LANSING, KANS., SUPPORTIVE SERVICES COORDINATOR, WYANDOTTE/LEAVENWORTH AREA AGENCY ON AGING

Ms. LITMAN. Hon. Senator Kassebaum, members of the committee, fellow panel members, and ladies and gentlemen.

I am Reba Caldwell Litman, supportive services coordinator for the Wyandotte/Leavenworth Area Agency on Aging, and a retired staff sergeant from the U.S. Army.

It is an honor and a privilege to testify today on "Retirement Benefits: Are They Fair and Are They Enough?"

Senator Kassebaum, we, the elderly of Kansas wish to thank you for your concerns and contributions.

I speak for many thousands of retired when I answer, no, the retirement benefits are not fair and the benefits are not enough.

Donna Schafer, an administrative assistant at Kansas University's Gerontology Center stated, "When you talk about retirement you are talking about all of us, because some day, God willing, we all are going to be there."

For most, retirement comes at the age of 65. Some retire earlier, some later, depending on the worker's professional status and his employer's policy.

I address the question, to what extent should public retirement programs be expected to meet an individual's income needs and what should be the extent of personal revisions of retirement income.

Financial pressures are a major cause of stress among the retired. For many, retirement involves a large reduction in income. Walter Crockett, psychology of aging instructor at Kansas University says, "Only about one-half the workers in the United States have a consistent retirement plan over and above social security."

Retirees are hardest hit by inflation. Because of fixed income, the retired cannot keep their standard of living. Many cannot afford the bare necessities of food, health services, and utility bills.

The elderly are speaking out. Retirees have learned the secret of getting action on issues, concerns and problems of the aged. They are uniting in one voice, using senior power and securing what they need.

Older Americans found that by sheer strength of numbers, they are growing into a powerful political force and demanding by ballot.

May I quote? The 1980 Census Bureau report showed nearly 25 million, or 11 percent of the population, are aged 65 or over. By the year 2030, 3 million, or 17 percent, will be part of this group.

Retirees have voiced their senior power and developed programs in groups such as the Gray Panthers, the American Association of Retired Persons, Retired Teachers of America, and many other groups.

These groups are organized and respected by all segments of local, State, and Federal Government. The retired population speaks in one voice and are making progress on concerns, issues, and problems.

Citizens must start early and plan their retirement. Man does not wait to take out life insurance on his deathbed. Each person who plans to retire must participate in preretirement planning. Educational institutions, from junior high school to postgraduate, must develop curriculums with courses which include preparations for retirement. The Federal Government must recognize the need for preparation for retirement and assume partnership with educational institutions and with public and private industry by funding research and training programs and sponsoring retirement seminars, classes, and workshops.

In closing, permit me to share with you what 800 elderly in Kansas City, Kans., placed as top priority in formulating recommendations for the Advisory Board of the White House Conference on Aging, convening in 1981, lack of funds for the bare necessities of life, food, health care, and utility bills.

When money is placed above the key to life for retirees, which is service, we can agree that, no, is an honest answer that retirement benefits are not fair and are not adequate.

I thank you very much.

Senator KASSEBAUM. Thank you very much.

We have gone a bit past the breaktime and—as someone noted—have raised far more questions than we will have answers. I want to share a couple of thoughts before we have a brief break. Following the break, we will continue with the three remaining statements and then go right into some questions.

Bill, you questioned why retirees are receiving so much attention. I would just like to say that while this is very important to you and to all of us here, it is even greater concern to our children and grandchildren. We are giving attention to this subject today in an effort to assure the well-being of future retirees.

I feel, personally, this is one of the most important public policy issues before us. It is one that could set the generations warring against each other if we do not begin to shape and mold some policy directions right now.

I could not agree with you more that retirees are not the cause of inflation; they are the victims of it. As a member of the Budget Committee, I have found that it is not easy to try and balance priorities in order to get our budget under control while also addressing the obvious needs and concerns that we share. For these reasons, I think it is very important that we have a good and open discussion of ways in which we can address problems facing retirement programs in both the short and long run. We need to be looking ahead 20 or 30 years, identifying changes which may be needed. In this way, we can begin to phase in any required changes without disrupting the plans and expectations of those who have already retired or are nearing retirement. It will be my children who will be operating under those changes, but they cannot make adequate preparation unless a clear policy direction is set. For instance, my 18-year-old son sees money withheld from his paycheck for social security and wonders if, indeed, it will be around when he reaches retirement age.

Thus, these issues and the manner in which they are addressed by Congress in the next 2 years are of interest to all of us. The decisions we make now will determine how well our policies serve future generations.

When we come back, I think we all have some questions as far as tax structures, universal coverage, and indexing. These subjects should lend themselves to a lively discussion.

We will only take a break of about 10 or 15 minutes because we are running a little behind.

Thank you.

[There followed a short recess.]

AFTER RECESS

Senator KASSEBAUM. We will go ahead and get started. I know that we have quite a few questions to ask each other. If things move quickly enough, I will be glad to open the panel to questions from the audience.

With that, I would like to introduce the three new panelists that are joining us at this time.

I would first like to hear from Harold Orbach, who is an associate professor of sociology, Kansas State University, Manhattan. Dr. Orbach has done a great deal of work in the area of retirement and pension programs.

Dr. Orbach.

STATEMENT OF DR. HAROLD L. ORBACH, ASSOCIATE PROFESSOR, DEPARTMENT OF SOCIOLOGY, KANSAS STATE UNIVERSITY, MANHATTAN, KANS.

Dr. ORBACH. Thank you.

I wish to apologize for the brevity of my statement.

Senator KASSEBAUM. I think that is just fine.

Dr. ORBACH. After more than 20 years of research and concern with the issues of retirement and pension policy, I am gratified that the many complex and vexing economic, social, and political issues have become the subject matter of serious concern. At the same time, I am most aware of the impossibility of doing justice to them in the short time at our disposal.

I want, first of all, to commend the work of the President's Commission on Pension Policy, whose reports I have followed with great interest this year. The comprehensive and searching examination they have embarked upon has been long overdue and represents a fitting culmination of prior efforts by the Senate committee and its predecessors, as well as the invaluable contributions of the Social Security Administration's research staff.

The reports and papers of the President's Commission have raised the discussion of retirement and pension issues to a needed level of serious public consideration by bringing together all issues relating to the problem of retirement income systems both public and private.

Let me state at the outset that the most important issue for some time has been the existence of glaring inequities in retirement income provisions because of the lack of a unified and comprehensive examination of this question as a matter of public policy. The major consequence of this has been the attention to specific problems in isolation from each other and an attempt to deal with them without full consideration of their interlocking implications. Thus, problems of protection of existing private systems and their reform have proceeded without concern for those lacking such benefits and problems of the growth and development of the social security system have not been linked to the panoply of public and private pension systems.

On the whole, I find myself in agreement with the major recommendations of the President's Commission as to areas of needed attention and policy change, as well as topics requiring further examination if we are to develop a meaningful public policy.

I also find myself in agreement with the broad outlines of their recommendations, so far as they have been presented, although having some differences in detail and having some concern about their conclusions in some instances. Thus, I concur with their assertion that "public policy should be directed toward insuring that total income for the aged from all sources is sufficient to maintain their standard of living in their later years."

I support their highlighting of the establishment of a universal minimum advanced funded pension system through a universal private pension coverage corporation, and agree with the option 3 outlined there. The lack of job-related pensions for almost half of the private labor force is one of the most serious problems, one of the most serious sources of inequity—in income provision for retirement. Additionally, the problem of immediate participation and full vesting with portability of earned rights is a major problem that requires addressing it if immediate and future generations of older persons are not to be denied equality of retirement income provisions.

There is no more serious issue than the existing inequities of pension coverage that allow some older persons to look forward to retirement with the fear of poverty while endowing others with a relatively prosperous period of respite from work.

The primary issue is one of social equity in retirement income. In line with this, attention must be directed toward existing inequities that allow such practices as double-dipping and well-endowed pensions coexisting with continued full-time employment. I have no simple or easy answers to these problems, but attention should be directed to eliminating all tax benefits and incentives to pension systems, whether private or public, that promote such practices.

I also endorse the President's Commission's emphasis on adequate standards for replacement rates for preretirement disposable income and their suggested relation of such rates to the amount of preretirement income.

One goal of the UPPC system should be to enable the attainment of such standards with private saving through other means providing additional income based on individual decision. Public policy should develop means to enable individuals to insure a secure retirement income level. It appears that the most feasible way to accomplish this is through a combination of social security benefits and a form of universal job-related pension for all persons.

In line with this objective, it seems proper that universal social security coverage, so far as it is constitutionally feasible, should be adopted.

The existing tilt toward lower income groups under social security should be maintained to meet this objective and concern should be directed toward additional assistance to specified target groups, such as single workers, especially women, widows, and two-worker families. Rather than across-the-board general increases that provide greater benefits to higher income groups, the social security system should be used to improve the benefit levels of lower and middle-income individuals consonant with its character as a mechanism of general welfare policy.

The existence of a universal private pension scheme would allow the social security system to address itself to the many special problems of specific categories of older persons.

One area of dissention from the President's Commission's recommendations concerns the age of entitlement to social security benefits. I would not endorse the suggestion of raising the normal age to 65. The reasons are varied and complex. Most fundamentally, the idea that normal retirement age is set in terms of the proportion of adult life to be spent in retirement fallaciously assumes that some such proportion can be determined. This flows from speaking of changes in average life expectancy of older persons. The problem is that average life expectancy is just that, an average, and does not take into account that this fictitious figure will fall far short for many individuals whose shorter life expectancy helps to create this average. In general this penalizes men, particularly nonwhite men, as well as many other categories of individuals whose worklife has served to shorten their expected years.

Studies of retirement have shown over the past two decades that problems of health are a major determinant of choice of retirement age. As one, who 20 years ago called attention to the growing trend of early retirement before the normal age of 65, and to the special issues associated with that topic, I would suggest instead that in light of current policy to prevent forced retirement before age 70, that attention be directed to changing policies that encourage or allow such early retirement through removal of tax benefits and incentives for employers and employees. There are many problems associated with such a policy direction and I cannot go into them here. However, many inequities and inequalities arise from favored treatment by many private and public pension systems of very early retirees, including much of the problem of double-dipping.

Federal retirement systems are especially guilty of this fault, but private employers have also used such devices to reduce labor force size. The result has often been to create a favored class of retirees that accentuates the problem of other older persons seeking work.

One other area is that of the lower ages of retirement realized under social security for women, which in the light of their greater average life expectancy creates additional problems. Obviously there is a need to distinguish the problems of nonworking widows and wives from the situation of single working women and working wives. The social security system has been and is dealing with these issues, but these need to be considered in any suggestion to change normal ages for social security benefit receipt.

Early retirement on account of health and disability should be retained. I do not wish to suggest any policy to prevent individuals who choose to retire early from so electing. In certain situations of extremely arduous and hazardous employment, earlier retirement ages are clearly justified, with tax benefits and incentives to assist this process obviously appropriate. However, public policy should not provide such benefits where these types of considerations do not apply. Reducing and eliminating such situations seems a sounder approach than the raising of the normal age of social security entitlement.

The push to later retirement ages has been fueled by considerations of the cost of social security taxes necessary to meet future funding projections. There are many aspects to this question, including the question of the cost due to the mechanism of adjustment of benefits to increases in the cost of living. I will not address this question in detail except to state that the various suggestions of the President's Commission for research on developing a more adequate system of indexing seem to be both timely and necessary. I pretend to no answer to this question. However, it is clear that any change should be carefully examined as to its implications for the relative income position of retired persons.

The question of the implications of future population changes, however, is one that has been somewhat overdramatized. Many of the projections include assumptions that need closer examination and also, unfortunately, omit consideration of certain issues.

I do not believe that one can discuss the relative costs of providing retirement income for retired workers without taking into consideration the total cost of providing for all nonactive persons in the population.

The total dependency ratio of both children and aged persons in relation to the total labor force will decline from now until the year 2010 from a figure of 114 dependents to 100 members of the labor force, to 103, and rise to 112 in 2020 and 115 in 2040, according to estimates made by Mark Rosenblum and Dennis Johnston. By the way, these are lower than the figures for 1975, which was our all-time high of dependency.

These estimates show the labor force growing by about 30 percent rather than the 6 percent cited by the President's Commission in its study of "Demographic Shifts and Projections, the Implications of Pension Systems."

The problem is complicated by the fact that the cost for social security is borne by the Federal Government, while the costs for rearing children are borne by individuals and State and local governments in the main. It is further complicated by the fact that there is little agreement or clear evidence on the relative cost of rearing children versus supporting retired persons. However the declining birth rates mean a smaller number and proportion of younger persons and associated costs for their rearing, both directly to parents and to local and State government. There are also associated reductions in costs due to the indirect costs of a high proportion of young persons, for example, crime control, which is largely associated with youth. The basic issue is one of clarifying what total societal costs are and not just what the costs of one Government program, social security, may be.

The decision on how to allocate our money and for what purposes is a political and moral question that public policy must address itself to with all the relevant considerations clearly understood. Whether or not we can afford increased costs, whatever their actual amount, for maintaining the income of retired persons is, in the last analysis, a value decision.

The underlying economic ability to make such provisions is a question of the viability and productivity of our economy. For some, the cost of social security and of all Government programs of social welfare have always been too great. The particular mechanisms of taxation are also not simply technical questions, but matters of choice. It is clear that were we to reduce unemployment to half the present level and maintain such a level, the contributions from individuals to the social security system would eliminate present funding problems and allow some reduction in the level of taxation. In this light, it seems appropriate that general tax revenues be utilized to pay some of the costs of funding retirement income whenever unemployment levels are above a certain figure. This is not a new idea, but the question of the effect of unemployment and its impact on social security funding cannot be ignored when one makes projections of the cost of social security in the future.

Without ignoring the implications of future population changes, I wish to point out again that those implications can be and have been overdramatized on the basis of projections that omit certain aspects of the question and combine themselves with questions of cost in a narrow technical fashion.

The President's Commission has dramatized increased costs on the basis of age 62 as the norm for retirement. This is the actual age at which the majority of people retire. It has, at least in its population study, shown that these costs are greatly reduced if age 65 is the norm. Before moving to increasing, then, the normal age to 68 or beyond, attention should be directed to steps that can lead to a norm of 65 and the overall tax savings this would result in providing, savings in the form of increased tax revenue as well as social security costs.

The general objective of retirement policy in a free society should be to insure maintaining individuals in their standard of living in accordance with a socially desirable norm of worklife and retirement years. It should also permit individuals to be able to choose by their own efforts to create their own choices.

Thank you.

Senator KASSEBAUM. Thank you very much.

The next panelist is Mike Bellinger. He is the business agent of Local 322, Retail Clerks International Union, AFL–CIO, Wichita.

It is nice to have you here.

STATEMENT OF DAVID MICHAEL BELLINGER, WICHITA, KANS., BUSINESS AGENT, LOCAL 322, RETAIL CLERKS INTERNATIONAL UNION, AFL–CIO

Mr. BELLINGER. Thank you very much, Senator Kassebaum. I would like to thank you for giving me the opportunity to participate in this meeting.

I have outlined my statement to answer several of the questions that were posed by Senator Kassebaum.

On the retirement income topic, I would express the following: Under the topic of public retirement programs, I find a growing concern among my membership, and the membership of various other locals, as to the percentage of our wages that we pay into this pension fund and the return we are getting.

I think that one must realize that, in essence, these programs are funded from the wages of the worker and the employer, and that the primary amount that is paid to the retiree is based on what he paid in and not necessarily a combination of what he and State paid in.

Therefore, it would seem that the extent to which an individual's income needs are covered by participating in a public fund should rest on the requirement that the public fund pay a return on his investment not less than that which he could have earned by placing the same amount of his wages in a private investment plan or pension fund.

I get a good amount of feedback from our membership that our pension funds are producing a much higher rate of return for a lower percentage of their wages than what social security is currently paying.

On the topic of the age of retirement, because of the fact of automation moving into the labor area and such a decrease in the available jobs, we find that we feel that it would be more beneficial to have a lower retirement age and open up these jobs for the younger people, rather than keeping them out of the work force.

On the issue of cost of living, be it public or private funds, one must consider that when benefits begin to be paid to a retiree, the contributions by the retiree cease being paid to the fund. Therefore, if the fund grants a retired individual a cost-of-living increase, it agrees to pay more than the calculated schedule of benefits of return on his investment. Therefore, placing an unnatural financial burden on the fund. Consequently, that person should receive the schedule of benefits according to his investment, unless, however, he is willing to pay additional percentages of his wages to build in an escalator clause which would guarantee him a cost of living.

Under the topic of benefit offsets in relation to windfalls for some and coverage gaps for others, my position would be that no one should have his pension benefits decreased because he was able to vest in several funds or to use offsets.

I feel very strongly that if an individual pays into social security and at the same time utilizes his ability through the collective bargaining arrangement to develop another pension program, then the oncoming years, when he retires, he should not have anyone interfere with either one of the plans, trying to make a combination of the two. He has paid in money to both firms. It is his money, his investment. I think there should never be any offsets to balance out what he receives versus the rest of society. I think anyone in society has the opportunity to progress themselves equally.

Under the topic of securing the social security system, I think that perhaps it would be of utmost importance to make actual studies of the plan itself and determine what amount of money is needed to pay the oncoming liabilities. From that point, adjust the income by increasing the participation contribution rates and adjusting benefits to oncoming retirees either by increasing or decreasing them, whichever is more fiducially possible.

Thank you.

Senator KASSEBAUM. Thank you very much.

Really, the next panelist needs no introduction in this area. I certainly have enjoyed knowing Mr. Wujcik. He does his best to keep me in line and informed. It is a real pleasure to introduce Joe Wujcik. He is the president of the Leavenworth chapter of the National Association of Retired Federal Employees.

Mr. Wujcik.

STATEMENT OF JOSEPH B. WUJCIK, PRESIDENT, LEAVENWORTH, KANS., CHAPTER, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Mr. WUJCIK. Thank you, Senator.

I would like to at this time add to what Mr. Nave said and express my thanks for your recent action on the COLA. We have talked about this a number of times. I am very pleased to see this.

I am going to restrict my comments to just a very few points. I will let my prepared statement[1] stand upon its own. These points are the cost-of-living allowance.

I think any cost-of-living allowance should be adequate enough to permit the retiree to maintain the purchasing power he or she earned on their initial annuity. People who do not have to live on a fixed income have the impression that an annual increase is adequate, that such an increase makes it possible for the retiree to maintain that purchasing power, but that is not true. Because of the gap of 3 months between the reckoning date and the date that the COLA increase is implemented, you start the new period automatically 3 months behind. At the end of the new period, you are 9 months behind if you are on a 6-month schedule, and you are 15 months behind if you are on a 12-month schedule. You never make up for that gap that you lose within that period.

Some people argue that COLA itself; that is, the cost-of-living allowance increases, causes inflation, but the actual fact is that the inflation precedes COLA. This is not a question of which came first, the chicken or the egg. It is a fact that inflation got so bad that Congress had to implement the COLA system to give us retirees an opportunity to maintain some semblance of purchasing power.

As an aside, I would like to stress at this time that in my opinion it is the responsibility of Congress and the administration to control inflation, not the senior citizens.

As to comparing social security versus civil service, there is really no comparison. The systems are entirely different. They weren't meant to be the same. Social security is not a full retirement system, where civil service is. Congress itself recognized this when within the last few years it passed laws permitting the Keough plan and the individual retirement accounts to be established so that people who were solely covered by social security could set aside a certain amount of their income on a tax-free basis and have this as additional income to supplement their social security at a later date.

On double-dipping, I agree wholeheartedly with the gentleman that preceded me here, that anyone who earns an annuity deserves it. You

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[1] See page 45.

take a millionaire that goes down and buys a million dollars worth of money market certificates. The law doesn't say that he cannot draw social security; it doesn't say that he can't draw any other annuity he has. Why should a person be penalized if they have earned both social security and civil service, or military and civil service, or military and social security?

Part of this, I believe, will eventually evaporate, part of this problem will, because a lot of us today had an opportunity to work both under social security and then we went into the Government when it expanded drastically back in 1940, 1941, 1942, and we had credits on both sides. Now as we pass on, I believe the numbers of double-dippers, so to speak, will gradually decrease.

The last item may be a little touchy to some people. You know President-elect Reagan says that a recession is when your neighbor is out of work and a depression is when you are out of work. Well, this is important to a lot of people, yet it is not important perhaps to a majority of the people. But it is illustrative of the type of legislation which denies a retiree annuities which he anticipated or rather benefits which he anticipated.

We used to have what we called a retirement income credit. This was a very simple thing. You started out as an individual, and I will use this because it is simple to explain, with a $2,500 credit and you were allowed to deduct from your taxes 15 percent of that amount minus what you earned in social security. In other words, if you started out with $2,500 and you earned $2,000 social security, you only got 15 percent of the $500 difference, or $75. Well, they took that away in the Tax Reform Act of 1976, and brought in the credit for the elderly program instead. The credits for the elderly program says the same basic thing except for one thing. It puts an earning limitation on a person 65 and over. It says that you can make $1 million when you are 64 and take that credit for the elderly, but when you are 65, if you have an income of $10,000 or more, if you are married filing jointly, or $7,500 if you are single, that $2,500 credit is reduced $1 for each $2 above $10,000 or $7,500. In other words, a man married and filing jointly with his wife, if he has an income of $15,000 and becomes age 65, he loses that retirement income credit, something that he banked on to help him out as he went along when he initially retired, but he loses it now merely because he becomes 65.

Unfortunately, this 1976 Tax Act follows the tax thinking of many legislative bodies that you always tax the more successful and you put obstacles in the paths of achievers. A lot of these people have got a lot of ability and a lot of experience, but the more they make the more they lose. Those who invested wisely and retired and have an above-average annuity find that they are punished when they get to age 65 in being denied this credit.

Briefly—and I told you I was going to be brief—that is it. I appreciate the opportunity of having a few moments. I want to thank everyone here, not only the panel, but also the many members of the audience who are from out of town and are coming here to Leavenworth to visit the city. We like to say that this is where the history of the West began.

Don't we, Mayor Brown?

Thank you, again.

Senator KASSEBAUM. Thank you, Joe. Your prepared statement will be inserted into the record at this point.

[The prepared statement of Mr. Wujcik follows:]

PREPARED STATEMENT OF JOSEPH B. WUJCIK

I do not have access to many current statistics, so I am not in a position to quote a lot of impressive figures for you. I will leave that to those who may have such figures readily available. Suffice it to say that as far as I can learn, if we Federal retirees and retiree spouses were supposed to have become rich as a result of retirement, someone forgot to implement the plans to bring this about. For example, here in Kansas, as of October 1, 1979 (the last detailed figures I have available), the average monthly annuity for the 4,481 survivors on the rolls was only $320 a month, hardly a princely income. The retirees fared better. For the 12,088 annuitants on the rolls at that time, the average was $727 per month.

Let me now address myself to the specific topics mentioned in your October 22 letter.

A public retirement program should be designed to meet the retirees needs to the extent that they can enjoy their later years without constantly worrying about meeting expenses day in and day out. This should be predicated on years of service and average salary over a period of time, similar to our existing program. A cost-of-living increase factor should be built in. There should be provisions, just as there is now, for allowing extra credits for hazardous work, etc. The length of service should approximate 30 years except where age, physical condition, or separation of other than cause are the reason for separation. It is hoped that each employee will have access to counseling while employed and convinced of his or her responsibility to insure that through savings and investments they should provide for supplemental income after retirement to augment their public retirement annuity.

In my opinion, an employee should expect full benefits from publicly financed retirement at age 60 if they meet the service requirements.

Now as to the cost-of-living allowance. Retirees are only a small minority of the population. Are they primarily the cause for inflation? Should they suffer because there is an inflation? I wish that tomorrow someone could perform a miracle and stop inflation in its tracks. If that would happen, I know that I would personally be happy to have my income remain stationary. But should a small segment of the population be forced to bear an abnormal share of the burden caused by inflation? I think not.

We civil service retirees, the military retirees, and a few others now receive a cost-of-living allowance twice a year, while social security recipients receive theirs only once a year. Once a year doesn't sound bad to someone who does not have to live with such a program. Why just think, the social security recipient catches up every 12 months, don't they? No—they do not. Neither do we civil service retirees catch up either. Stop and think for a few minutes. I have to draw a simple picture so as not to confuse myself, so bear with me. Just for the sake of discussion, let us say that inflation is increasing a flat 1 percent a month, month in and month out. The increase that we receive with our October check was predicated on the cost of living as of June 30.

Already we are 3 months behind. To better illustrate just what transpires, I have prepared a simple chart to show how that illusive cost-of-living figure stays constantly ahead—no one ever catches up. Let us say that on October 1, 1978, all social security, civil service, and military retirees receive a cost-of-living allowance. For emphasis, I repeat that this amount, however, is based on the June 30 COL figure. Everyone is 3 percent behind when they start the new waiting period. Things get worse with time. The next month everyone is 4 percent behind, the next 5 percent, etc. The spread grows to 9 percent for civil service and military retirees before they get a COLA increase. That helps, but look at the ground that they have lost before that increase comes about. Even worse, look at the social security recipient. They are 15 percent behind before they receive a COLA increase. Look at the ground they have lost. Is this a fair burden to ask the elderly to carry? I think not.

One night last month, I was watching a documentary on TV they had on this man who had retired under social security who was drawing $370 a month. He was desperate. He was trying to find a permanent job but couldn't because employers would not hire him because of his age. He was on his second temporary job. There was fear and anxiety in this man's voice when he spoke. He could not keep up with the cost of living on his social security amount. He was forced to do something else. Yet, the more he earned from working the more social security income was taken away. He could not afford that. He was at his wits end. I felt for this man. He was on the verge of tears. What could he do? It is my contention that a 12-month waiting period in an inflationary period such as we have been having these past several years is wrong. That 3 to 15 percent lag places too much of a burden on the old.

It is the responsibility of the administration and Congress to control inflation. They cannot pass this responsibility on to the senior citizen. I am told that the Australian Government, which had had a 25 percent yearly inflation rate, has been able to reduce the rate by 5 percent yearly without any ill effects on the economy or increase in unemployment. How did they do it? Can't we learn from them and do something similar? It is unfortunate that the present executive department and some legislators have restorted to pitting one citizen against other citizens; social security recipients against Federal and military retirees. The unfortunate thing is that, as I said earlier, neither of the two groups have anything to do with the policies or laws which cause inflation. It is the inflation which is the basic reason for the need for cost-of-living increases. Unfortunately, certain groups are working to arouse the general public with half truths and misquotes. We need instead to educate workers so that they will understand the advantages and disadvantages of both systems. Additionally, those working under social security should be told the facts; that social security is not meant to be an all-inclusive annuity plan; that it is a cushion only. They must be made to realize that they must take steps during their working careers to save and invest in some plan so as to insure that they will have an income to supplement their social security pension.

Now I am asked, in effect, to compare our retirement system with that of social security. You cannot compare the two. They are entirely two different systems. The social security system was designed to be a cushion to help workers in their old age. The social security system was never intended to be a universal annuity plan. It was instead a base on which commercial employers were to establish pension programs for their employees. As such it has worked fairly well. A majority of private employers do have a pension system to augment social security.

Congress itself has recognized that social security was not meant to be a full annuity system. In the recent past, Congress has authorized the Keogh Plan and the Individual Retirement Act so that employees who are covered by social security alone can save a portion of their salary or earnings without paying tax on that amount and thereby set up a supplementary retirement income source to help ease the burden of old age when they retire under social security.

I am no expert on the ills of social security, but it appears to me that too many programs have been added on to the initial program without any additional income to pay for them. Stop paying welfare, etc., out of social security. Those expenditures have sapped the social security fund. The condition of that fund is the concern of today's workers.

Under social security, the individual paid only a small percentage on a limited amount of earnings each year. This began at a very small percentage and on only a small amount of the worker's earnings. It has been gradually increased. I do not have the figures as to past percentages or amounts but suffice it to say that the amount withheld under social security was much less than that paid by the civil service employee. Additionally, the social security program has increased its coverage from only a limited number of workers at the beginning to almost all workers of the private sector over the years.

As to civil service, this program was meant to be a full retirement program from the very beginning. It began in 1920, about 15 years before social security. The program specifies the age and service requirements, how the annuity is to be computed, how the survivor benefit plan works, etc. The spouse of the retiree is not paid an annuity when she reaches a certain age as are those under social security. The Federal retirees must make provision for coverage of their surviving spouse and take a reduced annuity. The spouse receives no benefits until the retiree dies at which time she receives 55 percent of the annuity base on which the annuitant chose to take deductions.

Federal civil servants have always contributed a percentage of their entire salary to the CSC retirement program with employing agencies contributing a like amount. For example, we have been paying 7 percent of our entire salary into that fund since 1969. At all times, our deduction has been in excess of what those under social security have been paying. The Federal civil servant does not receive free medical insurance, he must pay, and he pays for most fringe benefits. As a result, the Federal employee has contributed a much larger amount into his retirement fund until that fund has grown to over $64 billion as of September 30, 1979. I might also add that Federal retirees pay Federal income taxes on their annuities after they recover their contributions. Social security retirees do not pay Federal tax on their benefits.

Much has been written and said about double-dipping and triple-dipping. After World War II, we were offered an opportunity to remain in the Reserves when we were discharged from the service. Many of us decided to do so. We exposed ourselves to recall to active duty at any time. Many were recalled during the Korean War. We put in many a night or weekend attending classes, performing various duties, etc. Shall we now be denied retirement annuity we earned while in the Reserve? Are we breaking a law? No. Then what is wrong? As to social security, here, too, Federal retirees worked under social security, either before they came to work for the government, during such employment, or immediately after such retirement. They contributed to the social security system just as did other employees. Why shouldn't they be entitled to social security after retirement from the Federal service if they are otherwise eligible? After all, employees who retired under social security also could have, and did, stay in the Reserves and are today drawing both Social Security and Reserve retirement benefits. Why not? Again, is that in violation of law? No, it is not. Again, it goes back to the question; should a minority group, the Federal retiree, be restricted as to alternatives available to them while others do not have the same restrictions? Some Federal retirees go on working because they want to remain active. These are the energetic ones; those whose energies the Nation needs. Shall they be prohibited from working? Can we as a Nation refuse to utilize their intelligence, their drive, and their experience. And finally, is not most of this double-dipping caused by an abnormal situation, i.e., the fact that employees worked under two different systems due to the great increase of Government employment during the war and immediately after further complicated by the availability of military reserves as an option thus enabling some people to qualify for three retirements? Will this not work itself out over a period of time? Are we seeing a hurricane when we have only a small whirlpool?

While I am on the subject of annuities, let me bring up what I consider to be an unconstitutional law. Prior to 1976, the IRS had on the books a program called "retirement income credit." This authorized a credit for the retiree who was drawing an annuity under a public retirement system and not under social security, so as to equalize things since no Federal income taxes are paid on social security. Basically, you started with a credit of $2,500 and your tax credit was 15 percent of that amount reduced by whatever was received under social security. It was that simple. Then along came the "Tax Reform Act of 1976" which eliminated the retirement income credit and substituted therefor the "credit for the elderly." Basically, it had the same objective, to give the taxpayer a tax credit where he or she does not draw social security. There is one major difference however. The new act states that if the retiree is 65 years of age or older and has a gross income of over $7,500 (single) or $10,000 (married filing jointly) that $2,500 credit is reduced by $1 for each $2 of adjusted gross income over those amounts. Thus a taxpayer, married and filing jointly, with a gross income of $15,000 is not eligible for the tax credit if he is age 65 or older. He can have an unlimited amount of income at age 64 but immediately he becomes 65, "that's all folks." To me, this is a tax because of age and is unconstitutional, but I cannot get anyone to take up the fight on this. Perhaps now I can. Unfortunately, this Tax Act follows the tax thinking in our legislative bodies, always tax the successful and put obstacles in the path of the achievers. Those who invested wisely or succeeded through hard work and have an above-average annuity find themselves punished for that success when age 65 is reached. Is this equitable tax treatment?

Finally, I do not feel qualified to suggest how best to revitalize the social security system so as to assure paying benefits when the "baby boom" generation reaches retirement age. I believe that we should look to "actuarial experts" for such advice. My only suggestion is that only retirement benefits be paid from social security. All other programs should be supported from general revenues.

I appreciate the opportunity to testify and hope that my comments have been beneficial.

Senator KASSEBAUM. I would like to start off the questions and then let it go from there. We have talked a lot about what we would like to see done and what we feel should be continued, but we also have to recognize that all these things bear a cost which someone must pay. In addition, we should consider the particular financial situations faced by different systems.

I would like to address the first question to Tom Woodruff regarding his thoughts on the long-term financial status of various retirement programs. Then I have a followup question to ask after he completes his remarks.

Dr. WOODRUFF. As I mentioned in my opening statement, I agree with those people who argue that we should not single out any one group for special attention. Part of our work has been to look at all retirement systems. Our conclusion is that we have very serious problems in all of them in the future. I would like, if I could, to just run through a few numbers to give you an idea what I mean by that. Then I can enter the complete numbers into the record.

For example, Mr. Nave mentioned the civil service retirement system. Currently that system, and you may have slightly more current numbers, as of June, it had about $63 billion in assets. According to the actuarial report on that system, it also had about $403 billion in unfunded liability. That means that in the future about $368 billion will have to be raised to pay expected benefits out of that system.

Currently, the system is financed by an employee contribution of 7 percent. Then the rest of it has to come from either the agency or the Federal Government at large. The employee share is 7 percent and the rest—if you were to consider it on what is called a normal cost basis, that is to say, the amount needed to cover those benefits have been earned in that year—must come from the Government. Currently, on a normal cost basis 30 percent in addition to the 7 percent employee contribution is necessary in order to just meet the benefits being earned each year.

Now, current forecast of this civil service retirement program show that for the time when the baby boom will be retiring the percent of payroll that will be necessary to support that system will be 42 percent.

In the military retirement system, we have a totally unfunded system. In other words, it is pay as you go, much like to social security system. Currently, the unfunded liabilities of the military system equal approximately $360 billion.

Currently, the normal costs, meaning the earned rights or earned credits each year in the system, equal 50 percent of the basic pay. The actuarial forecast for the military system shows that by the time the baby boom begins to retire, it is expected that about 70 percent of basic pay will go out each year in military retirement benefits.

Now, under the social security system, we have a wider range of possible shortfalls, primarily because no one yet can anticipate what the baby boom will do in terms of fertility rate. We can reasonably expect, in my opinion, that the necessary additional payroll tax, once the baby boom begins to retire, will be an additional 10 to 14 percent of pay above the tax rates that we are currently seeing; 14 percent is the outside limit that is currently forecast by the social security actuaries under what they call their pessimistic assumptions. Bill Driver might correct me, but I believe under the optimistic assumptions the shortfall during that period is something like 6 percent of payroll tax.

Now, this may sound sort of a pessimistic note on public plans, but we must remember that under private pension plans, even though they say they are advanced funded and they do meet funding standards established by the Employee Retirement Income Security Act of 1974, they are currently paying about 11 percent of payroll into their programs, but most of these programs are not indexed for inflation and their funding does not reflect that fact while the public plans generally do. We can expect, even under private plans, and even though they are currently funded, that because of the pressure in the future to increase benefit levels that even they may be in serious trouble.

Now, what does this mean for us? I think, for one thing, it means it draws back the issue of universal social security coverage. I agree with NARFE and the other retiree groups that it is completely unfair to single out civil service or military retirees for special attention. However, by being separate from social security and by not having your own strong employee pension plan on top of a social security system that everyone else participates in, I think by definition you are singling yourselves out. And when the taxpayers of the future begin to see these very high payroll costs for the retirement programs, my fear is that it will make that program even more vulnerable than you may feel it is now. Private sector workers have employee pensions on top of social security. We are encouraging at the Commission that all private employers provide employee pensions on top of social security. We think that the retirement benefits of Federal workers would be even more secure if you participated in social security on the same basis, along with the private sector employers.

Thank you.

Senator KASSEBAUM. Thank you.

I would like to ask you if you could give some estimates of the average monthly payments to individuals who are retired with coverage from only one retirement program. In other words, how much would the average person receive with only social security, only civil service, or only railroad retirement? Do you have any figures which are broken down this way?

Dr. WOODRUFF. Bill may have it, but I believe the average retirement benefits for those who only have social security is something like $3,100 a year. In 1978, the average annual Federal retirement benefit, I believe, was around $10,000. I believe it is very close to that. The average private pension benefit was around $3,600. Those are 1978 dollars.

Senator KASSEBAUM. Does anyone have estimates for the railroad retirement program?

Dr. WOODRUFF. I don't right off. We can get that for you.

[Subsequent to the hearing, Dr. Woodruff supplied the following information:]

As of June 1980, the average regular monthly railroad retirement benefit was approximately $511, about $6,600 per year. The table below further details benefit payments under that system.

BENEFITS AND BENEFICIARIES, JUNE 1980

	Amount	
Retirement—Survivor:		
Total benefit payments:		
Regular	$407,096,000	
Supplemental	10,048,000	
	Number	Average
Annuities being paid end of month, total	1,202,000	
Retired employees:		
Regular	451,000	$511
Supplemental	187,000	53
Spouses	233,000	234
Aged widows/widowers	291,000	360
	Unemployment	Sickness
Unemployment—Sickness:		
Benefit payments	$10,140,000	$3,985,000
Beneficiaries	31,000	16,000
Average payment per week	$125	$125

Source: The U.S. Railroad Retirement Board Monthly Statistics, Aug. 12, 1980.

Senator KASSEBAUM. Mr. Nave, you may want to respond.

Mr. NAVE. Senator, I did want to respond to Dr. Woodruff's remarks here. They are very pertinent to us. The average, incidentally, of the civil service retirement system is around $795 now, thanks to this last 7.7 percent cost-of-living allowance.

We mentioned the unfunded liability and there has been a growing obsession and preoccupation with this subject. I might say that we were born with an unfunded liability under our civil service system. Also nobody mentioned unfunded liability in social security, which is about $4 trillion, Mr. Driver, something like that. You also have two different bases of trying to compute these things.

The civil service system is faulted for an unfunded liability because we are on an actuarial basis, yet social security, which is at least 20 times greater than we are, has a Government-funding mechanism based on a trust fund, the equivalent of 1 year's cost of the system, and that recently was reduced to 50 percent of 1 year's cost.

When we mention this unfunded liability, what are we talking about? We are talking about projections of at least 40 or 50 years in the future. We have lived with an unfunded liability from the time that the system was born and it dosen't affect the balance in the pension fund at all.

I am glad that Governor Reagan is coming in. They addressed this question of unfunded liability in the State of California in connection with the teacher's pension fund. Its problem is almost identical with ours. The history of the unfunded liability is the failure of the Government to meet its own obligations to that fund.

For instance, here in the civil service fund, for the first 8 years the Government didn't contribute a penny. Then until 1959–69, they didn't contribute the amount they should. Every Director of the Budget that came along looked at what we had in the fund and it was enough to pay the annuities of our pensioners. My good friend, Maurice Stans, when he became the Director of the Budget for Eisenhower said, "Ike wants a balanced budget, and where else can I get $300 million as easy as this?"

More and more the thinking in recent years on the part of actuaries and the American Association of Certified Public Accountants is that in an ongoing institution like a Government pension fund or annuity system, that it need not be funded 100 percent. In California, the dean of the business school at Stanford pointed out that there should be a relationship between the inflated salaries and also the inflated unfunded liability. If you have a certain percentage and control it at that point, it would be more than adequate.

The Government is an ongoing institution, you are not going to have a run on the bank like when you run out of funds in a bank, or you are not going to have a firm go bankrupt. If this Government goes bankrupt, regardless of what the unfunded liability is or the balance is, we all go down the drain. Any system here is just as good as the faith we have in the U.S. Government backing it.

I would say this, that it is long overdue that we look at the question of unfunded liability along the lines that they did here in California just a few years ago, and perhaps if you reduce this unfunded liability to a controllable amount, we will be saving the American taxpayers billions of dollars in the interest they are now paying on the unfunded liability. That interest accumulates and we turn it over to the balance in our fund and we turn around and loan that right back to the U.S. Government.

Yes; we are in a beautiful position, Senator, and I think something ought to be done about it.

Senator KASSEBAUM. How did California reduce their unfunded liability?

Mr. NAVE. Well, the last I heard, California was thinking in terms of a controlled unfunded liability. The teachers paid 8 percent. During the depression, the school districts weren't collecting their real estate taxes so they reduced that to 2½ percent instead of sharing equally. Then somebody woke up in 1959 and said, "My God, we have a terrific unfunded liability."

Well, when they tried to raise the real estate taxes back to provide the funds, the taxpayers revolted so the legislature phased it in over a period of 5 years. The thought was reflected that, look, if you have a controllable unfunded liability in Government there is nothing wrong with it. I am glad to see that kind of thinking. I tried to get Mr. O'Neill interested in this, Tip O'Neill. I also tried to get Mr. Derwinski interested on the Republican side. He showed considerable interest in it.

I would like to see Congress address the issue of unfunded liability, Senator, very much. Let's get rid of this red herring, that every time we talk of certain retirement benefits somebody comes up with this unfunded liability.

Senator KASSEBAUM. That is a problem with all of our retirement systems. We do have to come up with some answers, whether it be phasing in a tax increase or taking some other course of action.

Mr. NAVE. Senator, how good is an actuarial guess 50 years from now when we find out on social security that what they were proposing was going to take care of it for 40 years, and 6 months later Alice Rivlin came screaming, look, we need more money.

Senator KASSEBAUM. I would now like to turn to the problems of social security. One of the things that it seems to me is plaguing us with this program is the great increases that have occurred in medicare disability benefits. I would like to ask Commissioner Driver about the possibility of paying for medicare out of general revenue moneys, which I believe you mentioned in your statement. This proposal has received a lot of discussion and is of interest to me. I would like you to mention some of the strengths and weaknesses that you would see from using general revenues to finance medicare and/or disability benefits.

Mr. DRIVER. All right. Financing clearly is the principal problem in all of these discussions we are having. That is where I ended when I opened this morning. I would like to end there again today.

I indicated that, in the current debate, some shift from payroll taxes to general fund financing is a solution that appeared to be emerging to solve social security problems. It seems to me, with regard to the benefits that are related to a person's earnings—disability or retirement or survivor's benefits, as opposed to hospital insurance benefits—that these program costs legitimately should come from payroll taxes, the disability included, Senator.

The medicare benefit, however, hospital insurance, which takes 1.05 percent of payroll today, under social security taxes is not related to prior earnings. The costs of a hospital episode for an appendectomy, for example, are the same regardless of a person's earnings history. Therefore, it seems to me that the philosophy behind funding that particular cost is more appropriately associated with general revenues. This is the preferred solution that seems to be emerging, but I think just the general idea of using general revenue financing will cause a considerable debate.

I would also like to point out that the SSI program, the supplemental security income program, which is moneys paid to people based on an income test, is totally funded from general revenue. Therefore, people who do have income from other sources, dividends and interest, for example, are helping to finance welfare payment programs today through this particular fund. It probably is the best vehicle to increase payments to people who are at the bottom of the income earnings scale while they are working and, therefore, at the bottom of the income scale from social security benefits when they retire.

Much has been made today of the fact that young people paying into social security wonder whether the benefits will be there when their turn comes and why they should pay increases in this tax—the taxes scheduled under the social security system under present law for the next 10 years—1981–90—represent a 1-percent increase. Take, for example, a young worker entering the work force in 1980, a woman or a man, 28 percent of all of the women and 40 percent of all of the men who begin working today will die or become permanently disabled before they reach age 65. That is why the social security program is of vital importance to them for the benefits and the guarantee that it gives them of support when they are disabled and unable to work, and of support for their survivors when they die prematurely.

The next question that will have to be addressed in connection with the financing, general revenue or not, will have to be the question of women. Women are mistreated in the economy generally. What happens under social security is a mirror image of what happens in the economy. They work for less in the same jobs and they get less under social security under the same rules. They live longer than men, and therefore, because they are treated in a lesser fashion they are in a poorer income status for a longer period of time. Women and single workers are the two categories that fare least well under social security and clearly these issues will have to be faced in connection with the financing discussion that will come up, I think, in the very near future.

Senator KASSEBAUM. Do you have any good suggestions for correcting these inequities?

Mr. DRIVER. For women, yes. We have analyzed the women's situation. In the late 1930's when social security was enacted, it clearly was a breakthrough, but they considered women in the status they were then as principally a keeper of the household and a raiser of the family.

Fifty percent of the worker's benefit works out fine as for an intact couple. It still is a pretty good deal. But women have changed. They are in the work force more and more now; 50 percent of them are working. That figure will continue to increase, and because they work for less, they are going to get less under the present system.

An earnings sharing system whereby a married couple would combine their earnings credits under social security and split them 50/50 from the day they are married, as long as the marriage lasts, seems to be fair.

In addition to that, since women outlive men on the average, inheritance of all the earning credits of the marriage would seem to be fair. This would help solve the woman's problem. It would cost a substantial amount of payroll, but it does seem to be a solution to head toward, at least in part, in the near future.

Senator KASSEBAUM. Thank you. I have another question I would like to ask unless someone would want to add to Commissioner Driver's remarks.

Dr. WOODRUFF. Yes; I would just like to underline the last couple of statements that Commissioner Driver made.

We concur with him in wanting to find an earnings sharing approach to social security to try to get around some of the inequities that exist in the system, because work patterns are changing, marital patterns are changing.

The model one-earner couple is becoming an extinct species, so we are concurring with him and, in fact, have been working with some of the staff at the Social Security Administration to try to see what feasible ways we can approach this problem.

Senator KASSEBAUM. I certainly concur as well. Ms. Hougland, do you have something to add?

Ms. HOUGLAND. We would just like to suggest one more inequity that should be looked at in pension policy and that is often the lack of survival protection for spouses in private pensions. We think that, also, has to be dealt with.

Mr. DRIVER. That is what I was referring to in terms of inheritance of earnings credits under social security. The survivor would inherit and, therefore, be in a much better position than today. I don't know how that would work out in private pensions. Maybe Tom could comment.

Dr. WOODRUFF. Yes; we have recommended tentatively that upon divorce that pension credits under social security and employee pensions should be considered as property. We currently have a project with some actuaries and attorneys to try to see how, in our current legal system, we could apply that principle to employee pensions.

One sensible way seems to be that if the couple chooses to split the earned pensions at the point of divorce that it could be included as a property settlement at that time. Or, if they chose to wait until the receipt of the benefit, the divorced spouse would then be entitled to a share of the final approved pension upon reaching retirement age.

The administration of it is very tricky in the private pension area. The Federal role is also questionable, because of the priority of the States to deal in domestic matters.

We are currently preparing a report on guidelines in this area that we will be issuing soon.

Senator KASSEBAUM. Mr. Nave, you mentioned something that I think is of interest to us all as we look at pension programs as a whole, and that is the differences in the tax treatment among the various systems. You suggested that we should reform our tax laws.

Tax treatment of retirement income is something that interests me a great deal too. I am wondering if you would favor making civil service retirement and other taxable retirement benefits tax-free, like social security, or would you favor making social security benefits taxable?

Mr. NAVE. Overwhelmingly, our people will say, "Make civil service retirement benefits tax-free."

Senator KASSEBAUM. I felt sure of that answer.

One suggestion has been made that taxes be deferred on payments to all retirement programs, as is now the case with individual retirement accounts—IRA's. Perhaps someone would like to comment on that concept.

Mr. NAVE. I want to follow up that thought, Senator, on tax for the elderly. We are wishing, just like everybody else does, for the benefits somebody else has, and we would like to have them.

We realize that is going to take some doing, it may take some time, but there is something you can do in the very immediate future. In the restructuring of the 1977 income tax laws, we had in Congress a bill to increase the benefits of the tax credits for the elderly.

This is a real humane need to help them with the inflationary increases and the demands on their income. This would help a lot of the elderly, a lot of the retired people, both Federal and otherwise, and it should be applied to them.

We passed that bill in the House, 358 to nothing. There was no opposition in the Senate. It goes to conference and the word comes from the White House that you must restructure this income tax law to compensate the workers under social security for the increase in social security tax. So our bill went down the drain.

Well, hurrah. We are glad they are thinking about the worker, but how about the retirees under a deal of that kind?

Let us be sure in any restructuring of income tax laws, to do something about updating the tax credit benefits for the elderly. We realize we can't have a whole loaf of bread, but we sure would like to have that half, and it would go a long way toward relieving the problems of the people in the lower brackets of the retirement income. This would be a tremendous help to them.

So bear that in mind when the next tax bill comes up and it is going to come up pretty soon. Throw in that tax credit for the elderly and we would appreciate that consideration.

Senator KASSEBAUM. I hope everyone will feel free to add any thoughts they have.

Dr. WOODRUFF. On the point of tax treatment, it is a very messy one and because we are dealing with retirement programs you have to start planning now for 20 and 30 years from now.

We agree with the position many groups have taken, that you can't change the rules on people once they have already been in a system for a number of years.

But we think that in the future we just have to eliminate this mess, and that to describe what we currently have in the tax treatment and for all the different retirement programs.

We prefer to take the tax deferral approach for all programs. That would mean for the future, not for people currently retired, but for the future workers that would receive a tax deduction for contributions to pension plans. That would include your civil servants, who currently pay their 7 percent in after-tax income.

It would apply to the payroll tax for social security as it currently applies to private pension contributions. Further, any employee contribution to a pension plan or a targeted retirement plan should also receive a tax deduction and that would encourage, we hope, retirement savings among the middle and upper income individuals.

Now there is another side to that, one that people don't like to look at, and that is once you have gone through a work career having these tax deferrals, then we would include all income equally as taxable income, so we could then go about making some other reforms that are needed.

For example, we would then remove the earnings test under social security completely. The only justification for that test now is that some people fear that high income individuals will somehow get a windfall.

We think it is unfair; it discourages work. We should be encouraging work for the people who are now in their twenties and thirties, when they begin to reach what is currently considered retirement age, and we would eliminate it completely.

We think this simplification in the long run would be much fairer to everybody and would help us deal with these current tax inequities we now have.

Mr. DRIVER. I feel that it is unrealistic to look for a general increase in the ages at which people retire as a result of elimination of the retirement test. For example, all of our studies indicate that early retirement is by far preferred, and it gets more preferable every year.

The tendency is for people to retire prior to age 62. That is on the increase. More and more people, somehow, make it from 60 to 62 with no social security income, but they retire early. That figure is getting bigger every year. I think it is unrealistic to look to a longer working life before retirement. Therefore, I don't have much faith in the fact the retirement test will really produce a change in the normal retirement age.

If the retirement test were eliminated, certainly today, it would be very unpopular with the younger population that is paying the payroll taxes to support retirees under social security. Why should they pay for a nontax payment to somebody who is probably drawing a higher salary? Everyone could draw up his own preferred list of people who would immediately be eligible for a social security benefit tax free, whose income would be considered by them to be astronomical.

So I think the elimination of retirement test is certainly popular with some people, but it is not a solution to anything and would be a deterrent to the continued full faith and support of the social security system from the younger workers that is essential to the system.

Senator KASSEBAUM. Any further thoughts? Dr. Orbach?

Dr. ORBACH. I would like to endorse that comment very strongly. I think it is not fully recognized what would happen if the retirement test were repealed.

In the first place, it is obviously known to most older people that there are not a lot of employers running around looking for older people to work.

With the high level of general unemployment in our society, in fact, if older people are looked for as workers, it is, in part, situations to undercut wages for younger workers.

Unfortunately, the retirement test has been confused very often between two different things. One is increasing retirement income for older workers who have retired and are unable to find part-time employment and whose benefits are insufficient to maintain their standard of living.

The other is those few privileged older persons who are able to continue working until past the age of 65, or even past the age of 70, in full-time employment, very often with relatively high incomes.

The cost a number of years ago of repealing the retirement test was estimated at some $4 billion. That was about 3 or 4 years ago. With inflation it would be even larger.

The point is this amount of money can be better put to use raising, in particular, the low incomes of certain specified target groups.

The retirement test, is one of those types of issues which is very often confused without any real relationship to what its costs and implications are for the average older person. It sounds very good in the abstract, but in reality, because of the low rates of work for older persons and because of the situation of their income, it would have very little effect.

There also is a further piece of policy that makes this a rather contradictory point of view with respect to public policy today.

That is, with the passage of the Pepper bill 2 years ago which prevents forced retirement before the age of 70. It had the objective of increasing the number of persons between the ages of 65 and 70 who wish to continue to work.

Repealing the retirement test, in effect, would be contradictory to the Pepper bill's intention, because you would be saying that older people who could continue to work at full salary could also continue to draw their full social security benefit.

I don't want to pick out Governor Reagan as a kind of example, but you might consider the fact that since he is 69, he could presumably, if the retirement test were repealed, be collecting the full social security benefits in addition to the salary he will be receiving, come January 20. I think that small sum of money he would be receiving could be better put in helping other older people whose incomes are not sufficient.

Senator KASSEBAUM. I think we have a reply.

Dr. WOODRUFF. Yes; I have a reply, since I think my statement on the earnings test was taken a little out of context.

I said if—only if—we phased in a different tax treatment for the receipt of social security benefits can we eliminate the earnings test. It doesn't make sense to repeal the earnings test for the very reasons you raised. They are currently wrong for the system. The high income individuals would receive a windfall.

I would also like to point out that under current law in 1982, I believe, President-elect Reagan will be eligible to receive social security benefits because he will be age 70 and the earnings test, because of an amendment that takes effect in 1982, will no longer apply to him.

Mr. DRIVER. January 1982.

Dr. WOODRUFF. So in January 1982 he will be eligible to receive full benefits anyhow.

The other issue is there have been some studies that indicate that individuals restrict their earnings, currently, in order to receive full social security benefits.

A study by Prof. Anthony Pellechio showed, and I believe it was over a 12-year period, that each time the limit on the earnings test was raised, the reported income of people went right up to that limit and then stopped, indicating there are a large number of people out there who are already receiving full social security benefits and are restricting their work in order to be eligible to receive those full benefits.

I think the estimates of cost also need to take into account that currently we are encouraging people into a kind of underground economy and I don't think it is healthy and is something we should probably eliminate in the future.

Senator KASSEBAUM. Ms. Hougland?

Ms. HOUGLAND. There are two questions I have for Dr. Orbach and Dr. Woodruff. You both sort of presented two assumptions on the dependency ratio.

When we talk about building a future system, we talk a lot about the baby boom years and I think someone once described the baby boom years as a snake with a big bulge in the middle and every time that bulge hits some critical point in society, whether it was schools or colleges, we responded by overbuilding a system.

What I am concerned about is that we are overbuilding a system to take care of primary or primarily a 30-year period. I know both of you would probably like to respond to that.

Dr. WOODRUFF. If I may, I never like to think of myself as a field mouse in the stomach of a snake. We like to use a tidal wave analogy because it doesn't seem quite as unappealing.

Again, I meant to say we were talking about long-term changes that need to be made in all of our programs, because of the problem of employer and employee taxes or contributions, however you want to call them, in the future, and general revenues burdens.

Even with these long-term changes that we see, there still may be a need to have short-term problems taken care of. Even if we were to adopt earnings sharing and social security so that women would be treated better under the system and even if we were to next week establish a universal employee pension system for workers entering into Government service we would still have huge gaps for 15 to 20 years before those programs became effective.

I think even though we may see these bulges or whatever you want to refer to them as, off into the future, we do need to take care of some problems that I think are very manageable in the next decade or two.

Senator KASSEBAUM. It might be helpful to define the term "baby boom." Those are persons who are in the 16-to-34 age group today. Now you can judge the ages of those of us who are smiling or nodding up here and those of us who are not.

It is a large group and, of course, it will be several years before they need retirement benefits. However, we must obviously take these statistics into account as we plan for the future.

I would like to ask Mr. Bellinger a question. You made an interesting statement indicating you felt benefits should be paid out in proportion to contributions to retirement funds. I assume that you question the structure of both civil service and social security.

Under your pension plan, or any plan negotiated under labor contract, don't you have the opportunity to negotiate for those increases where individuals covered under public plans do not have that much of an opportunity to do so?

Does this fact influence your views regarding the relationship between contributions and benefits?

Mr. BELLINGER. I understand what you are saying and you are right. The more percentage of the wages paid in by our people, the higher return they get.

Three years ago, when I started, under the pension in Kansas, people paid in 22 cents and they got a return of $14 per year of service. Now they pay 52 cents per hour and they get a return of $30 per year of service.

Senator KASSEBAUM. But you are, of course, able to negotiate for the higher wages?

Mr. BELLINGER. Right, and what I was saying, what I meant by my statement was as a percentage of their wages that they pay into the social security tax goes up, the membership is becoming more conscious of, "What return do we get?"

What I was trying to emphasize is the working class of people continuously shows a higher grade of intelligence and they know that dollar they receive, regardless whether some of it is split off into social security and some of it into health and welfare, or some of it into personal pension, is all their money.

As long as you are going to take 12 percent of their wages, they want to know, "Hey, what return do we get?" Maybe it is because you are seeing more of a selfish attitude developing among the people in the United States, and it is "What do I get for what I put in," but it is an apparent thing in the membership, because they know we spent a great deal of money and time on politics. They present these questions to us.

"What do you think we can do to get more of a return on our 12 percent, because we know for 2 percent we are getting $30 for year of service and we know the average social security payment is about $358 a month." That is basically what I was relating to.

Maybe I can go a little further. If you are asking me if our funds became insolvent, we naturally could go back and negotiate more money to make them solvent. If that is what you are asking, the answer to that question, as you know we come under the Riss Act, and we are required to keep certain amounts of revenue that will fund the benefits we tell these people we have negotiated for them.

What I am saying is, if we tell them at 52 cents they are going to get $30 per year of service, at the end of 20 or 30 years of service, by law, we are required to have enough reserve to cover that, and it is not necessary to go back then and negotiate increases.

The only negotiating of increases we do is a projection for a higher return. If the membership says, "We don't feel that 10 years from now we can live on 20 times the number of years of service. We know we are going to need another $10," then we negotiate that increase.

We feel we are required sufficiently by law to hold out enough reserves where we are always accountable to what promises we've made our people. Consequently, most of us know we would go to jail if the funds aren't there.

Senator KASSEBAUM. All right.

Dr. WOODRUFF. I would like to ask Mr. Bellinger, in your plan, do you have eligibility and vesting requirements?

Mr. BELLINGER. The vesting is 10 years and there is one exception. When we organize new units and we bring new groups into the fund, if a person has 10 years of service with that company, he only has 3 years before he is vested.

Dr. WOODRUFF. One of the reasons there is such a difference in what you see as your return, well I don't know what the turnover is in your industry, but under defined benefit employee pensions like yours, if you have 10-year vesting, a number of workers end up not receiving a benefit. I don't know what your turnover rate is. What would it be each year?

Mr. BELLINGER. Last year it ran 22 percent.

Dr. WOODRUFF. OK, 22 percent. In other words, 22 percent of the workers each year leave; they have to be there for 10 years before they get any benefit.

Under social security, you don't have that eligibility requirement. I think that is largely one reason why people look at the alternative costs and it looks like social security isn't a good buy. You see, I am both a critic of the system and a defender.

You can see there are a lot of other benefits there, disability, survivor benefits you need to take into account, health insurance protection and the fact that you accrue an entitlement to that pension throughout your whole working career. You don't lose it if you change employers. I think that is one of the main benefits of the system.

Mr. BELLINGER. On that 10-year vesting, our plans are also set up where we have reciprocity across the Nation. Say you worked 2 years in Kansas and you moved to California, we have a nationwide reciprocity agreement.

So anyone who really wants, can vest in our plans. We have a lot of kids who start when they are 16, and by the time they work their way through college and the kids are 24, if they would remain in the stores for another 2 years, if only they are working 10 hours a week, that way they get vested.

At age 55, they can come back and draw on the plan. We have a fairly high percentage of vesting.

Senator KASSEBAUM. I think reciprocity is very important.

It might be interesting to know what return on investment exists under the different plans. Mr. Driver, do you have an estimate for social security?

Mr. DRIVER. We don't look at it as a return on investment, actually. Social security is not fully funded or partially funded. The social security system, as I am sure most of you know, is a tax-turnaround program that guarantees a certain economic stability to every individual worker. It's totally portable, it goes from one job to another, as Tom indicated. There is no gap possible under that kind of system and, therefore, what you get is a three-pronged economic security base to build on for retirement, for disability, and for a survivor benefit on death.

Therefore, that is the return. People who suffer the loss get the benefit. Thousands of people work a full working career under social security, pay all the taxes, and never draw a nickle. That's why the tax payments are so low and the benefits so high to so many people to whom the economic condition arrives; happily retirement, unhappily early disability, or certainly unhappily early death.

Those that suffer the loss get the benefit. Those that suffer the greatest loss get the greatest benefit. That is the principle that underlies social insurance and that is what this program is.

So it is not a case of investing, having it accumulate and build with a guaranteed return to either the individual who makes the investment or a survivor.

There can be and there are many, many cases of absolutely no return.

Senator KASSEBAUM. Dr. Orbach.

Dr. ORBACH. There are two points, I think. Mr. Driver's point that one should not attempt to compare social security to a private or public pension system, because it is based on an entirely different principle and serves entirely different purposes.

It is, as he pointed out, a tax turnover plan. It is not funded. It makes no profit. In the past, when there were surplus funds, they were loaned to the Federal Government at the lowest rate of interest, which meant that while the social security system was not making much money, taxpayers were not paying very much for the money the Government was borrowing.

With respect to the problem of private pension plans, I think a number of issues were brought out in part but not fully clarified. One of the reasons there is such a great unfunded liability is not private pension plans, and also in many public pension plans, is that the funds that were presumably in the past committed to be set aside and to be invested were not set aside and invested.

One of the reasons they were not set aside and invested is the actuarial systems that were then in, employment was based upon the assumption that a very large proportion of those who were employees would never be vested and never remain around to collect those benefits.

It is a consequence of the reforms taken by ERISA, beginning in 1975, that private pension plans must begin to become fully funded in the future. But in fact, most of them today have tremendous unfunded liabilities, so that unless your defined benefits plan is one where, in fact, for each week, or month, or year of employment, the employer actually puts aside a certain amount of money and puts it into some investment vehicle—whatever that may be: stocks or other forms of equities—in fact, there is no real return upon what you presumably are investing.

It is only in those types of retirement plans where a direct payment is made on each payday, whatever that may be, or where the employer and employees both jointly contribute and that money is earmarked to a special fund that, in fact, some investment of that sort takes place.

The problem with all private pension systems today, and there are no real exceptions to this—although some suggestions have been made and this is really a question that was asked and we haven't addressed ourselves to—is that there is no way possible that past investments can keep up with current rates of inflation, because the chosen instruments for most investment systems with pensions in the past have been stocks, bonds, and other long-range equities that return rates of investment that are far below current markets.

So in order for a private pension plan to keep up with the rate of inflation, it must make additional kinds of contributions over and above whatever was pledged.

There has been no satisfactory solution to this problem at present, and many actuaries estimate that with a general rate of inflation over 6 percent and certainly over 8 or 9 percent, it is impossible in the long run for private pension plans to keep up with inflation.

It is only under Government or public plans where, on the one hand, public employers are legally bound to pay these pensions they agreed to pay, because they can't go bankrupt and go out of business; or in the Federal Government, where its obligations must be met as a matter of public policy, that inflationary increases can be kept up with.

The Federal civil service is an example of this sort. I don't wish to criticize the Federal civil service system, and I certainly don't wish to criticize the Federal civil servant, but if all private pension plans had the generosity of their employers as the Federal Government makes to the Federal civil servant in keeping up with the rate of inflation, a lot of the problems of retired persons would disappear.

There are many cases in Federal civil service where persons who have retired are now receiving a higher income in retirement then they had when they were working, as a consequence of the fact that the Federal civil service cost-of-living adjustment system in the past has been one of the best in the country.

Now the problem is that this money has to come from somewhere, and I think as Dr. Woodruff has pointed out, if one looks at the unfunded liabilities of the Federal civil service system, it amounts to, what, 42 percent of payroll?

Dr. WOODRUFF. Yes, it eventually will be that within 10 to 15 years.

Dr. ORBACH. Well, the 7 percent which comes from employees does not take care of the other 35 percent. That comes from the Federal Government, which ultimately means all of us as taxpayers.

The biggest problem I think we face today with respect to retirement policies is the problem which the President's Commission has correctly highlighted. That is half the private labor force has no job-related pension at present and must live entirely on social security.

The problem that faces us is to create a mechanism that will insure to all members of the labor force, to all persons entering into retirement, some form of adequate income that is something that approaches that which more privileged individuals have.

I often feel that as a faculty member of a State university, I am one of the privileged elite. That is, I have a good pension system. It is one that is fully funded and fully vested.

Unfortunately, in the State of Kansas, that is not quite as good as the one offered in the State of Iowa, or in Indiana, but it is better than the type of pension than perhaps three-quarters or 80 percent of most other persons receive.

So in one sense, it is incumbent upon those of us who are more privileged to be concerned about those who are less privileged and be concerned about the issue of providing and seeking to provide mechanisms by which persons who do not currently, as a consequence of not having private pension plans, enjoy adequate retirement income provision can achieve such provision.

Senator KASSEBAUM. Thank you. Mr. Nave, I think you have a comment.

Mr. NAVE. Yes; I would like to say something about that. Ideologically, I would like to comment on some of these remarks that have been made.

Ideologically, as a society, we are not going to find anything wrong with some of these concepts. You see, this Nation was born and prospered under a humanitarian form of government.

But lately, this humanitarianism on the part of the Government has been submerged by the dollar sign, and that affects all of us. So when you are affected by it both ways in earning your own annuity and paying taxes for somebody else's, we are hardnosed enough about this question to say, "Yes, we agree with all of that, but we also must insist that this is not a privilege on the part of everybody that is born in this country, that a pension is something you earn by long service, whether it be in the Government, whether a corporation, or with a company."

We are just hardnosed enough to say, "An annuity, a pension, must be earned. It isn't a gift. There is no free lunch." The bottom line is who pays the cost.

We have paid our dues in living with a system, in living with a Government plan for years, when the salaries were way below par, which in turn then reflected in way below par annuities and, yes, we are proud of the fact we stayed with it and we tell these other people that are looking at us now, "You stay with your firm. You stay with your form of employment. You earn it over years of service," and we will meet you more than halfway on that.

Senator KASSEBAUM. I would like to say, Mr. Miller, you mentioned at some point in your prepared statement that you felt the President, Members of Congress, and all of the employees on Capitol Hill who are not under either social security or civil service should be covered by social security. I strongly support you in that.

It is not a large number of people. Extending coverage to these groups is certainly not going to save the social security system, but I do think there should be required coverage.

Does anybody else have any comments they would like to make? It is 12 o'clock and I know that everybody has some questions that we have not addressed today.

As someone said, we could probably spend the whole morning on women.

Ms. LITMAN. I would like to address this question to Dr. Woodruff. I am a disabled veteran and I've had quite a few of the veterans approach me. They are awarded a VA compensation for service-connected disabilities.

Then that amount is subtracted from their Army pension. I would like to know if this is going to continue, or is something in the making to do away with this. I know it is tax free, also.

Dr. WOODRUFF. We are currently preparing a report on the hazardous duty in uniformed service pensions. The Commission really hasn't concluded anything on that.

We are looking, in particular into the coordination of benefits question, but we haven't taken a position yet.

Senator KASSEBAUM. I certainly want to thank you for coming. I hope you feel it has been beneficial to hear several different points of view. I personally feel this is the kind of debate we need to be having all over the country. This kind of discussion helps us all recognize the complexities and problems that face us and is extremely useful to those of us who are trying to develop some legislative solutions. It also promotes a better understanding of the variety of proposals to be considered by Congress.

It is your input that is absolutely essential, and that is the reason we have distributed forms for your comments. Your responses will be helpful to me, and I will share them with the other members of the committee as well.

If you feel you have the time and interest, we would greatly appreciate receiving your comments and suggestions.

Thank you so much for your participation. I would also like to thank, of course, those on the staff who did the organizational work on this hearing. David Rust, who is the minority staff director of the Senate Special Committee on Aging, has given a lot of guidance to this hearing. I would also like to extend my appreciation to Betty Stagg and Kathy Makris, of the staff of the Senate Special Committee on Aging. Particular thanks go to my staff, Susan Hattan and Eileen Greenawalt. I know Susan has visited with many people here, and in Kansas, about this issue, and Eileen comes to Leavenworth frequently from my Johnson County office. You probably think she is the Senator. Eileen has been a valuable help to me and keeps me well informed of the views of individuals in this area. My Kansas administrative assistant, Mike Harper, and Teresa Aquino of my Johnson County office, have also contributed to this effort.

A special thanks to all who helped arrange this hearing, and to the panelists who have shared their time. I really do appreciate it. Thank you.

[Whereupon, at 12:10 p.m., the hearing was adjourned.]

APPENDIX

MATERIAL RELATED TO HEARING

ITEM 1. FACT SHEETS FROM THE FUND FOR ASSURING AN INDEPENDENT RETIREMENT, SUBMITTED BY MICHAEL C. NAVE,[1] PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

FAIR FACTS No. 1.—WHO'S ESCAPING WHAT BURDEN?

Advocates of universal social security coverage maintain that it is unfair for public employees, including those who administer social security, to escape the burden of the costs of social security.

Research conducted by FAIR, a coalition of organizations comprising the Fund for Assuring an Independent Retirement, proves the viewpoint to be unfounded.

1. While FAIR fully recognizes that social security is an essential element of our society, and that it should be continued, the system contains some problems and costs that should be addressed. Bringing another 6.5 million beneficiaries under its coverage would compound the problems that exist now, and would ultimately cost the taxpayers more. There is the ever-present danger that the public may be lulled into a false sense of security by believing that an expedient action may be helpful, when in fact it could prove harmful.

What is needed is reform of the social security program, not more members.

Social security began as a program to provide a floor of protection which must be supplemented by a retirement plan, investments, or the personal savings, if any, of persons reaching retirement age. The plan has been expanded, however, to embrace many benefits of a social nature that have no bearing on retirement, and the money to pay for these supplements has not been provided.

Inasmuch as the social security benefit formula is tilted to meet social objectives, the person who has contributed most gets the least relative benefits, and the person who has contributed least gets the relatively largest benefit. This may be good social policy, but it may be unsound retirement policy. Government employee retirement systems and social security are exactly opposite in this respect, for the public employee's annuity is keyed exactly to length of service and earnings.

2. Federal employees were excluded from social security at the outset because they were already covered by a good retirement plan. Other public employees were excluded for various legal and constitutional reasons. To place them under social security now would necessitate reducing future retirement benefit levels (without any corresponding gain from social security), or paying more to bring their social security benefits up to the level of their present retirement benefits.

The Assistant Commissioner of Social Security has testified to Congress that bringing Federal civilian employees under the coverage social security would not solve social security's financial problems, and would not make it possible to defer the scheduled increases in the social security tax.

FAIR research indicates that in the end, merger would cost the taxpayers more, not less. Today's contributor becomes tomorrow's liability to social security. And if Government were to provide supplementary retirement, as is the case with company plans, taxpayers would have to absorb the cost of the additional plan.

[1] See statement, page 17.

3. Public employees who are exempted from social security coverage actually pay more taxes than persons with corresponding incomes who are covered by social security. While working, both are taxed on their income, including the dollars paid either to social security or their retirement plan. But after retirement, ex-public employees from every level of government continue to pay taxes—to every level of government—on their annuities. Social security benefits are tax-free.

The independent actuarial firm of Edward H. Friend and Co., engaged by FAIR, has determined that retired public workers pay approximately 10 percent of their annuities in Federal income taxes. Taking Federal retirees alone, this means that on the basis of disbursements in 1979, Federal retirees paid an estimated $1.26 billion in Federal income taxes.

FAIR Facts No. 2.—What Time Bomb?

Scare headlines on editorial pages across the country warn that the financial condition of the Federal civil service retirement fund creates a "time bomb, waiting to explode" on the tax-weary public.

Professional research by FAIR, a coalition of organizations formed to support the Fund for Assuring an Independent Retirement, proves that the assertion is pure hokum.

FAIR research reveals the following facts:

1. The civil service retirement fund has total assets of $64,276,100,950. This reserve is earning interest at the same rate that you would receive on a portfolio of 4-year Treasury bonds. Employees are paying 7 percent of their entire salaries into the fund, the Government is matching employee contributions, and the joint contributions are earning interest.
2. Receipts by the fund last year from all sources were $20.5 billion; disbursements, $12.6 billion. Receipts have exceeded disbursements in each of the 60 years of the fund's existence.
3. The independent board of actuaries of the civil service retirement system has projected that under the present financing method, receipts will exceed disbursements for at least the next 100 years.

With the truth self-evident, what is the basis for the doomsday predictions?

Critics are deeply concerned that the Government is currently contributing more to the fund than employees are contributing; and this disparity will continue with inflation.

There are two primary reasons for this differential and Federal workers are not to blame for either:

—Inflation is costly because it leads to active worker pay raises, which result in higher annuities. Also, inflation drives the cost of living upward, and this triggers badly needed cost-of-living adjustments, which add to the size of the unfunded liability (future objections).

—When Congress amended the Retirement Act in 1969 to assure the continued health of the retirement fund, it made the Government responsible for: Amortizing, in 30 equal annual payments, the cost of any increase in retirement benefits resulting from legislation enacted in or after 1969. The only increase of any significance has been larger annuities resulting from inflation-driven (catch up) pay raises. Paying interest (not principal) on the unfunded liability, beginning at 10 percent per year and reaching 100 percent in 1979.

As a result of inflation and the requirements of existing law, the Government's contribution to the fund in 1979 was $12.865 billion, as compared with the employees' contribution of $3,446 billion.

Before one registers shock over these figures, there are several facts that should be considered:

—The Government is entirely responsible for the unfunded liability on which it is now paying interest. In most of the years from 1920 to 1957, the Government failed to match employee contributions, with the result that employees contributed an aggregate of $2 billion more than the Government contributed during 40 of the first 60 years of the system. But this is only a small fraction of the cause of the unfunded liability. From the beginning, the Government has obligated itself to pay all retirement costs not met by employee contributions, but it has failed to pay enough into the fund to meet costs as they accrued. Rather, it has deferred making the necessary payments until some date in the indefinite future. In 1969, Congress bit the bullet and the Government is now making the payments which were deferred for so many years.

—Federal retirees return an estimated 10 percent of their annuities to the Treasury in the form of Federal income taxes (social security benefits are tax-free). Based on disbursements of $12.6 billion last year, Federal annuitants paid an estimated $1.26 billion in Federal income taxes.

—Now that Government is finally paying the full interest on the unfunded liability, Government contributions to the fund would literally level off if inflation were brought under control. Should inflation continue at its present pace, however, Government contributions to the fund will be in large numbers of dollars, but they will be greatly devalued dollars.

Government and the economy are responsible for inflation. Federal retirees are not. Like all aging persons, they are its victims.

FAIR Facts No. 3.—Windfalls and Double-Dippers

One of the reasons advanced most often for bringing public employees under social security is that the social security fund is being ripped off by public workers who qualify for dual benefits.

Advocates of universal social security coverage contend that it is costing the social security fund big dollars to pay benefits to retired public workers. The benefits are called "windfalls" and the recipients "double-dippers."

Research conducted by FAIR, a coalition of organizations comprising the Fund for Assuring an Independent Retirement, exposes the notion for what it is; psychological gimmickry.

DOUBLE-DIPPING EXPLAINED

Double-dipping has been defined as a circumstance in which an individual receives "undeserved" retirement income from more than one Federal retirement program.

Accordingly, the term is a misnomer when applied to Government retirees who receive both retirement and social security benefits.

First, both benefits have been earned, so neither can be characterized as "undeserved."

Second, social security is a national income-adequacy program and not a Federal retirement system, with all benefits correlated to a specific benefit formula.

Therefore, the term "double-dipper" is not only demeaning, it is a dangerously misleading explanation of a very complex matter.

WINDFALLS EXPLAINED

The social security benefit formula is constructed in such a way as to provide "social adequacy." The person whose income has been low over a career covered by social security, and the person with minimum quarters of coverage regardless of earnings, both receive a relatively higher benefit than the person who has had high earnings over a long career of covered employment. Many of the public sector retirees who qualify for social security benefits do so on the basis of minimum or near-minimum periods of employment under social security, whether their earnings have been high, medium or low.

FACTS OF THE MATTER

FAIR research proves that the resentment against former public employees receiving social security benefits is unfounded for the following reasons:

1. No public sector retiree qualifies for a social security benefit without working and paying for it—under the terms of the law—whether his contributions to social security were made before, during, or after his public sector employment.
2. Denial of a social security benefit that has been earned under the law would itself violate the law. Whether the recipient has earned a different retirement benefit, from Government employment or private sector employment not covered by social security, is immaterial. The fact is that an earned benefit is an earned benefit which must be paid.
3. In at least two respects, the receipt of a so-called "windfall" benefit from social security could be justified as a partial recompense for other benefits denied.

Federal employees have had their pay raises "capped" by three consecutive administrations, even though the law says their pay should be comparable with salaries paid in the private sector for like work. But because of pay "caps," their aggregate pay has increased by only 72.9 percent in the decade of 1969–79 while private sector pay climbed 92.2 percent and the cost of living increased by 103.7 percent. The same general pattern has prevailed in State and local government; a new BLS report shows that State/local employee pay increased by only 5.8 percent last year, while inflation soared by 13.3 percent. Since Federal pay raises lagged 20 percentage points behind private sector pay raises, and since the same general pattern prevailed among State and local governments, the end result is that annuities earned in a period of pay "caps" are smaller than they would otherwise have been.

Retired public workers pay substantial taxes on their retirement income, while social security benefits are tax-free. The independent actuarial firm of Edward H. Friend and Co., under a research contract with FAIR, has determined that Federal retirees pay an estimated 10 percent of their annuities in Federal taxes and 6 percent in State taxes. Data for State and local government workers are less precise because of the differences in tax laws pertaining to local public workers, but their tax bite is still significant.

At best, the annuity losses resulting from pay "caps" and inequitable taxation would be only partially offset by "windfalls," even if all public retirees were the recipients of windfalls.

THE ISSUE OF FAIR CRITICISM

FAIR finds it inconsistent but not amusing that retired public employees who receive "windfall" benefits are criticized, while others are not.

It is an established fact that self-employed persons receive a 25-percent discount on the total contribution to the social security trust fund. When viewed against others who receive benefits from the fund, the self-employed clearly receive benefits in excess of the standard contribution rate. Yet nobody complains that they are ripping off the taxpayers.

Similarly, individuals who use "nonearned" income, such as dividends on investments and capital gains from business transactions, for part of their working lifetime do not pay a social security tax on such nonearned income. No argument has been advanced to suggest that "windfalls" or "unintended subsidies" acquired in this manner should be eliminated.

CONCLUSIONS

FAIR concludes that looking at windfalls alone is a very narrow approach. There are more fundamental issues that should be addressed, and in light of evidence shown in this paper, retired public employees are not waxing fat off windfall benefits.

But if one persists in believing the taxpayer is being ripped off by windfalls, he can take heart: In a few years, the quarters required to qualify for old age benefits from social security will be such that "windfalls" will diminish if not disappear.

However, the denial of benefits to public employees, through active worker pay caps and through inequitable taxation, shows no signs of going away. Pay caps which reduce wages, and thus, annuities, have a lifetime effect on the individual's earnings.

FAIR FACTS NO. 4.—WHAT MAKES YOU SO DIFFERENT?

In the summer of 1980, the Director of the President's Commission on Pension Policy posed a fundamental question to the chairman of FAIR, the Fund for Assuring an Independent Retirement.

He asked in effect: What makes Federal employees and/or the State/local government employees not covered by social security so different from other working men and women that they should continue to be excluded?

FAIR responded that the question begs the real issue, and that, until the real issue is addressed, thoroughly, the burden of proof is on those who want social security coverage to be universal—to demonstrate that social security plus a modified staff retirement plan could more effectively serve the needs of workers, Government, and the American taxpayer than do the present independent retirement systems.

To date, no such proof has been shown.

Therefore, the FAIR chairman responded, we who are or were Government workers, exempted from mandatory social security, do not view ourselves as different from our private sector counterparts except that we belong to a full and comprehensive retirement plan which was and is designed to meet the total needs of its participants.

If the Commission decides to recommend universal coverage, FAIR continued, such a recommendation would only be defensible if the Commission could explain how such a change would best serve the interests of all Americans, both private citizens and governmental employees.

THE ISSUES DEFINED

Based on research conducted by FAIR, the following questions have been framed and answered to provide a better understanding of the real issues at stake.

Question. What makes the Federal civil service retirement system, and independent State/local government retirement systems, different from social security?

Answer. The Federal retirement system, and most State/local retirement systems, are just that—retirement systems—as opposed to being social insurance plans. For 60 years, the civil service retirement system has served as an effective component of Federal personnel policy. It has induced well-qualified people to make careers in Federal service and has enabled the Government to compete effectively for the finest talent available. It has been a useful management tool by authorizing retirements which created opportunities for promotion and mobility within the service. It has eased reorganization and necessary reductions in force. It is financially sound, and according to actuarial experts, will continue to be sound for the next 100 years under the present financing arrangements. Similar advantages can be found in many State/local public employee plans.

Social security, on the other hand, has many aims and purposes which go beyond the scope of a retirement plan. Its essential characteristic is social insurance rather than retirement. Inherent in its objectives is the element of social adequacy as opposed to individual equity. Its retirement benefit formula is intentionally skewed to favor the person whose service, earnings, and coverage have been lowest, and in this sense, it takes on the features of an income distribution system by awarding the highest relative benefit to the lowest contributor, and vice versa.

While FAIR believes that that social security program can and should be improved, it is among the first to acknowledge that social security fills a void where retirement systems are either inadequate or nonexistent, and its benefits have been a godsend to millions.

Federal employees, along with many others, were exempted from social security coverage at the outset because they did not need the system. Their retirement systems were adequate. There was no void to fill then, and this is as true today as it was in 1936.

Question. If the civil service retirement system is financially sound, then why is it necessary for the Government to contribute more than employees contribute to its present costs?

Answer. The two fundamental reasons are: (a) The Government is finally facing up to obligations which were too long deferred, and (b) inflation.

Under the 1969 amendments to the retirement act, the Government is now:

—Amortizing in 30 equal annual payments the cost of any benefit increase authorized by legislation enacted after October 1969 (the only such benefit increase of any consequence is larger annuities resulting from inflation-driven pay raises).

—Paying the cost of crediting military service toward civil service retirement; and

—Paying interest on the existing unfunded liability, caused entirely by the Government's failure year after year to pay into the fund the amounts that would have been sufficient to cover accruing costs.

As indicated, the other basic reason is inflation, which drives annuity adjustments which add to the unfunded liability on which the Government pays interest.

Federal workers are not responsible for the Government's failure to meet its obligations in the past, and they are not responsible for inflation.

Question. Is it fair for Federal workers and other public employees not covered by social security to escape the costs of the redistributive aspects of social security?

Answer. Those who feel this way obviously consider that the redistributive aspect of social security imposes a tax designed to meet a social need. When the matter is viewed in this light, public employees cannot fairly be accused of escaping for the following reasons.

—Federal employees have always paid more for retirement coverage (now 7 percent of entire salary) than have workers covered by social security.

—Their own retirement plan is subject to a strong redistributive feature—not imposed by the retirement act but by the tax laws. The person who receives the highest annuity pays the largest tax, and vice versa, whereas social security benefits are tax-free.

—Because their annuities are taxable at every level of Government, retired public employees help to pay for the total costs of Government, including supplemental security income and social programs outside of the scope of social security. In the latest year of record, retired Federal workers returned an estimated 10 percent of their annuities to the Federal Government as income taxes (i.e., $1.26 billion) while paying an additional 6 percent of annuity in State and local taxes.

Viewing the matter in a different light, FAIR concurs with reliable authorities, including the Social Security Advisory Committee and the Comptroller General of the United States, who hold the present social security computation formula is *not presently producing* the intended redistribution in a generally satisfactory manner.

If the sharing of the redistributive costs of social security is offered as an argument for bringing public employees under social security, then the argument will remain hollow as long as that flaw is uncorrected, as long as Federal employees pay more for their retirement benefits, and as long as they must shoulder a heavier tax burden.

Question. How do worker contributions to social security and to public retirement systems compare?

Answer. More precise information is available on Federal workers than on State/local workers. Federal workers, from the very beginning, have contributed a larger percentage—and a larger percentage of *entire salary*—to their retirement plan than non-Federal workers have contributed to social security. The approved increases in the social security tax will bring social security contributions closer to the percentage paid for Federal retirement, but traditionally, public employees have bought and paid for better retirement benefits by paying more for their retirement.

CONCLUSIONS

1. The question posed by the Director of the Pension Commission would imply that it is unfair for public employees to be exempted from social security. FAIR not only disagrees, but feels it would constitute a complete abdication of responsibility to its public employee members for FAIR to even consider support of mandatory social security coverage before the present deficiencies of that system are corrected by the Congress and the President.

2. The idea that a sudden influx of public employees into the social security system would solve its problems has been totally discredited. In fact, the Deputy Commissioner of Social Security has testified that bringing Federal employees under social security would not reduce social security costs, would not reduce the social security deficit, and would not slow planned future increases in the social security tax. And the incumbent Commissioner of Social Security has expressed the view that "the time has not come" to extend social security coverage to Federal and other Government workers.

3. If equity is the main concern of those who advocate universal coverage, FAIR would encourage the Pension Policy Commission and all kindred groups to consider two points which are equally basic to the men and women represented by the organizations which comprise FAIR:

—Public sector annuities are taxable at every level of government while social security benefits are tax-free.

—Active worker salaries limited by one "pay cap" after another result in smaller annuities in retirement. While the spending power of an annuity may be protected from inflation by indexation to the CPI, the worker never recovers the income and retirement benefits lost through pay caps.

4. FAIR concludes that all parties concerned would expend their energies more productively by helping to cure inflation, which is the real enemy, rather than by grasping at straws to justify universal social security coverage.

ITEM 2. STATEMENT OF EDITH L. STUNKEL, M.S.W., ASSISTANT DIRECTOR, CENTER FOR AGING, MANHATTAN, KANS.

As a social gerontologist, into my 11th year of my chosen career, I have a keen interest in the topic of employment and the older person, particularly with regard to retirement. I have seen two generations in my own family deal with retirement, and I have seen how the degree of choice has critically influenced both my grandfather's and father's experience of retirement. It is the widespread absence of individual choice both in employment, but especially in retirement, which I would like to address in this report.

Created over 40 years ago to solve pressing economic and social problems, retirement is a social institution which has outlived its usefulness. What kind of life awaits my 3-year-old daughter when she is 70, 80 or 90? Most likely during those years she will have full mental if not physical abilities. Are we to tell her she has to limit a career to 40 or 45 years and then suddenly assume a new lifestyle for again as many years? If retirement will be inevitable for most people, we should immediately incorporate in the public school system, from kindergarten on, the positive attitudes toward free time which will allow retired people to enjoy many, many, many years of it. The educational system which prepares people for their careers is woefully lacking in ability to prepare people for their leisure.

On the other hand, why should retirement be inevitable at all? Retirement is for many older people what we call unemployment for younger ones, without the requirement of job-seeking, and without the substantial unemployment checks. I am troubled by the inconsistencies in our terminology toward people who do not work and support those who consider such differential labeling a form of age discrimination.

Upon close scrutiny, the term "retirement" is actually a euphemism for unemployment, disability, earned or unearned leave. The common denominator of retirement and employment is that they are both a form of individual use of time. Retirement is simply a form of free time which happens to occur at the end of one's life. What cardinal rule requires us to have all that free time at the end? It may have been convenient in the 1930's to lump most of a person's free time at the end of life; whether or not we choose to continue this system today should be based on weighing the relative values of the convenience versus the problems which have arisen since then—problems which gave cause for this hearing in the first place.

Time is a resource, but it can't be produced. It can only be exchanged and given to individuals for different purposes. Presently, retirement is an allocation of time to thousands of individuals, but this method of distributing free time is a drain on the economy, not to mention on individuals. How many of those individuals would choose to be economically productive now or in the future if the social and economic system were set up to accommodate them? RSVP is a token gesture toward such a system, but tokens can't change the fact that retirement is a very poor method of dealing with the resource of time.

In my research I have discovered a couple of proposals for the redistribution of free time. One is academic sabbatical leave—a variation of which would encourage other occupations to have regularly spaced leaves also. Unfortunately, academic leave does not eliminate the inevitability of retirement: Universities still have mandatory retirement ages and professors emeriti. Another proposal is called cumulative earned leave (CEL).[1] This would be a type of cyclic life pattern. The CEL system would cover all people now under social security. An individual would accrue time off from work in addition to regular vacation allotments; the rate of CEL for an individual would be based on national productivity increases and individual work schedules. CEL would be transferable between jobs and could be saved indefinitely. Employers and employees would determine the schedule for using CEL just as vacations are now scheduled. Funded equally by employers, employees and the Federal Government (based on

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[1] Suhm, Lawrence L.: "Cumulative Earned Leave: New Tool for Economic Planning." In Robert Theobald, ed.: "Social Policies for America in the Seventies: Nine Divergent Views," 1969, Garden City, N.Y., Doubleday & Co., Inc., pp. 101–128. As proposed by Suhm, CEL would only rearrange patterns of employment/unemployment for the commonly defined labor force (through age 64).

increased productivity per person hour), an individual on leave would draw up to 80 percent of working time earnings. Seniority and other employee job benefits would be retained by individuals on leave.

The advantages of a system like CEL would be: (1) To update and upgrade skills of the entire labor force (by using CEL for continuing education); (2) to provide more equitable distribution of economic and free time benefits for all ages; (3) to create temporary job openings for the unemployed and nonparticipants in the labor force; (4) to allow greater individual control over the distribution of free time during one's life; and (5) to support attitudinal change toward free time as a reward for all who work rather than a punishment for those who do not.

Perhaps a simpler way to envision a system of redistributing free time throughout one's life would be to see how many years people are expected to live after retirement. In the case of my 3-year-old, if she chooses to enter the labor market in 15 or so years, she might be counseled about actuarial data regarding her life expectancy. Supposing that the average life expectancy for 18-year-olds in 1991 will be 86 years, if retirement were still required at age 70, then she would likely have 16 years of enforced free time after 52 years of work. Why couldn't we conceive of letting her choose when during her adult years she would use that free time? Instead of society and its institutions deciding the lifetime allocation pattern for free time, an individual could map out 50 or more years of vocational and avocational pursuits.

One of the arguments against such a comprehensive system of individual self-determination goes like this: If there were no such thing as retirement age, one's departure from the labor force would either depend on choice to use something like CEL or on disability. Employers would have to devise firm criteria to dismiss workers who don't work up to capacity, and such dismissals could be the equivalent of certificates of uselessness. My answer to this argument is that businesses are now hurting themselves by not having or consistently using standards of performance evaluation for all employees regardless of age; in my experience in civil service jobs, all too often I saw the agencies bide their time while a less than able employee approached retirement age. I would suggest that peer review or job evaluation be instituted at the onset of every person's employment, not as an afterthought retroactively to rationalize overdue dismissal. For those employees who are dismissed for incapacity of some sort, I would envision the government, as it does now, determining whether or not that person is permanently disabled or unemployed and able to seek another kind of job.

If the free time now called retirement were shifted into individually chosen spaces throughout adulthood, I believe that not only would the "problem" of retirement disappear, but also our economy would be bolstered by a more energetic and enthusiastic citizenry.

CEL, of course, is a longitudinal approach. Like social security, it would take 40 years to realize its full impact. I would like to recommend that all interim steps taken, prior to massive reorganization of the labor market, be complementary to such a reorganization. Thus, I would not advocate any programs or policies which serve to separate aged and youth in employment, essentially pitting them against each other. Rather, all people should be encouraged to view employment as an option among several at all points of their adult lives.

In conclusion, I would make the following additional recommendations:

(1) Federally funded education programs should integrate into them components which support positive social attitudes toward leisure. Social contributions made by individuals in their leisure time should be valued equally with their actual or potential productivity in employment.

(2) Token programs of prolonging productivity for elders (e.g., RSVP, foster grandparents, SCORE) should be absorbed into a comprehensive system which not only permits but encourages cyclic life planning.

(3) Cyclic life planning should be viewed as an opportunity and right of all persons of every age.

ITEM 3. STATEMENT OF CAP ECONOMIC OPPORTUNITY FOUNDATION INC., KANSAS CITY, KANS.

CONCERNS OF THE LOW-INCOME ELDERLY RELATIVE TO PUBLIC AND PRIVATE RETIREMENT PROGRAMS

(1) Locally, social security benefits range from $153 to $643 per month. The supplemental security income program supplements social security to assure that no qualified person receives less than $258 per month ($238 for those not eligible for social security). These programs are a definite help to elderly persons. Unfortunately, the minimum monthly allotments are not sufficient to allow many elderly people to live dignified, self-sufficient lives because of raging inflation. These people must often go without food to pay utilities or vice-versa. They are sometimes unaware of or reluctant to take advantage of existing social service programs, seeing them as welfare.

All elderly people deserve to live their remaining years in dignity, and any public retirement program should guarantee an income that will allow them to do so. Such a program should be administered on an individual basis and provide an income that is at least average, as opposed to minimum. Ideally, no elderly person should receive an income that places them below existing poverty guidelines.

(2) Cost-of-living adjustments in social security should more closely reflect existing economic trends. These increases should not mean an automatic increase in rent, as is done in most federally subsidized housing, or a decrease in food stamps or other State assistance.

(3) Elderly people who are planning to retire should have some type of individualized "preretirement counseling" to enable them to make a smoother transition into the ranks of the fixed income. This program should be broad in scope, including job counseling, budgeting, and orientation over Federal programs for which the person may be eligible.

(4) There is much obvious waste in the social security system. Persons in prisons and State mental institutions are receiving social security, as are able-bodied guardians of minor children whose primary source of support is deceased. There are many other instances of this type of waste that should be eliminated. This would make millions of dollars available for the elderly who need the program and should not cost an exorbitant amount to enforce.

(5) The feasibility of restructuring the social security program to allow for voluntary contributions should be seriously investigated. A compromise program which allows for minimum mandatory contribution could be considered. The individual could then elect to put the remainder of their retirement money into social security or a private retirement program.

(6) When possible, surviving spouses who become eligible for social security should be able to draw on their benefits as well as those of the deceased spouse, so that there will be no major disruption in their lifestyle at a time when there are few alternatives open.

ITEM 4. "THE PRECARIOUS OUTLOOK FOR MILITARY RETIREMENT," PAPER SUBMITTED BY JOHN HARGETT, LEAVENWORTH, KANS.

This paper involves a situation that all present military retirees and particularly those who expect to retire from the military in the future should seriously consider. It is demonstrably evident that fiscal irresponsibility on the part of the U.S. Congress may effectively reduce the military retiree's entitlement to an uncollectable bad debt. The Congress has demonstrated total ineptitude in managing pension and retirement programs. If present trends continue, the question will be "how soon" and not "if" the crunch will come.

The military retirement system is different from many other systems in that it is not funded. Funding is simply the setting aside of moneys to cover future obligations as the obligations accrue. Private insurance contracts and private pension plans are required by law to be fully funded. That is, they are required to have sufficient funds set aside to meet their obligations as they come due. If New York Life never sold another policy, it could readily meet all obligations on policies in effect.

The social security system and the civil service retirement system are said to be funded. Social security is funded but only in a very limited sense. Actuarially, the term funded implies fully funded, and the social security system is certainly not fully funded. As of December 31, 1979, the social security trust fund had assets totaling $43.5 billion.[1] During calendar year 1979, social security paid out a total of $128.4 billion.[2] In other words, the social security trust fund contains only 4 months in benefits. It is estimated that the total obligation of the system to people already covered is $4.5 trillion.[3] In other words, the trust fund amounts to less than 1 percent of the future obligations to which the system is already committed. In essence, the system is no different from a glorified chain letter, except that individuals are not forced to participate in chain letters.

This writer does not know the exact condition of the civil service retirement system. Hopefully, it is at least in somewhat better condition than its social security counterpart.

Even if these systems were fully funded, Government funding is dubious at best. The Government immediately borrows and spends all moneys which are set aside in its trust funds and replaces the moneys with its bonds or "IOU's."

Military retirement does not even have the benefit of this pretense. It is not funded at all but is totally dependent on annual appropriations. It is doubtful whether Congress could fund the program even if it wanted to since article I, section 8, clause 12, of the U. S. Constitution authorizes Congress: "To raise and support armies, but no appropriation of money to that use shall be for a longer term than 2 years."

But, it might be argued, the retiree's benefit is based on the credit of the U.S. Government, and that credit is good. Let's examine this argument. The official debt projected for the year ending September 30, 1980, is $887 billion,[4] and the current level of spending is budgeted at $616 billion. Based on this official debt figure, it would appear that at current spending levels our expenditures are 17 months ahead of our revenue. While this would certainly be cause for concern it should not engender panic. The problem is that the official national debt figure is a very misleading figure based on "funny" accounting at best and deliberate deception at worst. It includes only amounts paid out in excess of Government receipts, to date. The official debt is only a miniscule portion of the total national debt, in that it does not include obligations which the Government is already committed to pay in the future. Any private corporation that applied the same accounting techniques in its published financial statements would doubtless be the subject of prosecution by the Securities and Exchange Commission.

The true accrual basis debt is $9.8 trillion.[5] This means that at the current level of spending, our expenditures are 15 years and 11 months ahead of our revenue. This is cause for great alarm. It should also dispel any comfort derived from the good-credit argument.

After an objective analysis, there can be little doubt that the collectability of military retirement will come into serious question in the not too distant future unless corrective steps are taken. The only possible corrective action known to this writer is to elect a majority—hopefully a solid majority—of hardcore fiscal conservatives to the Congress. Given the present political climate this may be a real possibility in the 1980 election. A little extra determination might well cinch the job.

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[1] This information was obtained by a telephone call to Mrs. Linda McMahon (202-224-4416) of the U.S. Senate Finance Committee on Aug. 25, 1980.

[2] Ibid.

[3] This information is from a detailed report prepared by the National Tax Limitation Committee. A copy of this report is in my personal files but is not available at Fort Leavenworth. I can obtain a copy of the report.

[4] This information was obtained by a telephone call to Mr. George Pieler (202-224-7017) of the U.S. Senate Finance Committee on Aug. 25, 1980.

[5] National Tax Limitation Committee. op. cit.

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