

# FUTURE DIRECTIONS IN SOCIAL SECURITY

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HEARINGS  
BEFORE THE  
SPECIAL COMMITTEE ON AGING  
UNITED STATES SENATE  
NINETY-THIRD CONGRESS  
FIRST SESSION

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PART 1—WASHINGTON, D.C.

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JANUARY 15, 1973



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**Part 1. Washington, D.C., January 15, 1973.**

**Part 2. Washington, D.C., January 22, 1973.**

**Part 3. Washington, D.C., January 23, 1973.**

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# FUTURE DIRECTIONS IN SOCIAL SECURITY

MONDAY, JANUARY 15, 1973

U.S. SENATE,  
SPECIAL COMMITTEE ON AGING,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10 a.m. in room 1224, Dirksen Building, Hon. Frank Church (chairman) presiding.

Present: Senators Church, Fong, Percy, Domenici, and Hansen.

Also present: William E. Oriol, staff director; David Affeldt, chief counsel; Val Halamandaris, associate counsel; Kenneth Dameron, Jr., professional staff member; John Guy Miller, minority staff director; Robert M. M. Seto, minority counsel; Dorothy McCamman, consultant; Gerald Strickler, printing assistant; and Janet Neigh, assistant chief clerk.

## OPENING STATEMENT BY SENATOR FRANK CHURCH

Senator CHURCH. The hearing will please come to order.

Ever so often, Congress should pause and take a look at what it has done to advance the well-being of the people of the United States.

Today, the Senate Committee on Aging begins hearings on "Future Directions in Social Security."

Our goal is to take a reflective look—at a time when legislative units of the Congress have completed work on historic Social Security legislation—at the significance of recent accomplishment as well as actions that must ultimately be taken to build upon that accomplishment.

In terms of historical development of the Social Security system, it seems clear that 1972 should be ranked only behind 1935, the year in which the original social security legislation was enacted, and 1965, the year in which Medicare became law.

The most dramatic action last year was overwhelming congressional approval of a 20-percent across-the-board increase in Social Security benefits.

As the leader of the Senate effort for this rise, I was guided by new actuarial concepts which reduce dependency upon long-range reserves and place the system upon a yearly, current cost basis. This approach has been heartily recommended by the Social Security Advisory Council back in 1934 and 1935. It has taken us a long time to arrive at this stage, but here, finally, we are.

One direct result of the new approach is that the 20-percent increase caused no significant increases in employer-employee contributions. Even though Congress was acting under pressure—the 20-percent

increase, opposed by the administration, had been attached to a debt ceiling bill—we were able to add one other historic provision.

We specified that benefits will rise automatically with any future cost-of-living upswings. That mechanism, sought by Congress and the administration alike, is intended, at last, to make Social Security benefits inflationproof.

Later on in the year, Congress acted upon H.R. 1, now Public Law 92-603. Here again, historic changes were made in terms of protection for older Americans. To list just a few of the reforms:

Increased benefits for widows.

More equitable computation of benefits for men.

A modest but precedentmaking increase in benefits for those who work past age 65.

Some liberalization, but not enough, of the so-called retirement test, which specifies how much a Social Security recipient can earn before losing part of his benefits.

A special minimum benefit to be assured to low-income, long-term workers.

Important improvements were made in Medicare and Medicaid, but I must also add that several regressive steps were taken.

And, finally, a legislative breakthrough that would have received far more attention if it had been passed in any other year: A Federalized old-age assistance program with a minimum floor was finally established, and it will begin operation a year from now.

This new supplemental security income program for the needy aged, blind, and disabled takes us closer to two of my personal goals—elimination of poverty among the elderly, and abolition of a demeaning welfare payments system for those in great need—but here again, we still have work to do.

One measure of that work is the number of older Americans who still live in poverty—more than 3 million of them. That 3.1 million total, however, is misleading, because there is also a substantial amount of hidden poverty among the elderly.

Nearly 2 million aged persons are not classified as poor, simply because they live in families with incomes above the poverty threshold. If these persons were counted, the number of older people with sub-poverty incomes would be somewhere around 5.1 million, or almost one out of every four persons 65 or older.

Another way to measure deprivation among the elderly is to compare actual income with living standards, as described in the Bureau of Labor Statistics' intermediate budget for a retired couple.

BLS arrived at a figure of \$5,000 a year as a modest standard, but this total is well beyond the means of about two out of every five elderly couples.

Despite the challenges that still remain, this opening statement should recognize the magnitude of the accomplishments of 1972.

As our first witness, Social Security Commissioner Robert Ball has said:

The changes in social security enacted this year in two separate pieces of legislation have so significantly modernized our social security program that we can say in truth we have a new social security program—a program that provides a new level of security to working people of all ages and to their families.

Even when expressed solely in terms of increased benefits voted within the last 5 years, the change of which the Commissioner spoke is impressive.

A retired worker and wife together averaged \$144 in December 1967. In December 1971, it was \$222. And last month it was \$273.

A widowed mother and two children averaged \$224 in December 1967. It was \$320, 4 years later, and \$387 last month.

In December 1967, the average aged widow received \$75. In December 1971, \$114; and in December 1972, \$138.

I will not describe the other achievements. Our first witness and others scheduled next week are well qualified to deal with that subject.

But I will say that our Social Security system, not only the old-age insurance component but also its protection for younger members of the family, the disabled, and for those in need of medical care, is developing along many, if not most, of the lines envisioned by its original planners back in the early 1930's.

As for the economic protection in old age, most Americans think of Social Security as a personal form of insurance to which they have contributed, and something on which they can depend for their just return.

That attitude, that trust, is essential for continued effectiveness of Social Security. It is the purpose of these hearings to make a timely exploration of this and other essential features.

We are aiming, in fact, for an updating of public understanding about Social Security. When a system has grown so much, especially through very recent congressional actions, such an examination is not only timely, it is required.

This examination should, of course, pay special attention to increased contribution rates for cash benefits and Medicare.

That rate per individual was raised from 5.2 percent each, for employees and employers for 1972, to 5.85 percent for 1973 through 1977.

The maximum wage base was boosted from \$9,000 in 1972 to \$10,800 in 1973 and up to \$12,000 in 1974.

Once again, I will say that the 20-percent increase enacted last year was achieved without an increase in the cash benefits contribution rate. The increases that did take place were necessary to cover increased coverage or costs elsewhere, including a rise needed to keep the health insurance program on a financially sound basis, an action that was necessitated in large measure by soaring costs of medical care.

There is no doubt that the increased contributions rate is causing some alarm among workers who this month felt the first impact of the increased payroll tax. It is essential, therefore, that this committee hear from those who have suggestions for making this payroll tax more equitable for low-income and middle-income workers.

It is also essential, in my view, that the contribution system remain in effect. It is the basis of the almost universal confidence that Americans have in Social Security.

As a historical aside, I might add that this confidence seemed to have developed at a fairly early stage. In 1936, after the Social Security legislation had been enacted but before the contribution system was to go into effect, the payroll tax emerged as an issue in the Roosevelt-

Landon campaign. In some factories, placards went up just a few weeks before election day. They said :

You're sentenced to a weekly pay reduction for all your working life. You'll have to serve the sentence unless you help reverse it November 3.

Soon after, many employees found this message in their pay envelopes :

Effective January 1937, we are compelled by a Roosevelt "New Deal" law to make a 1 percent deduction from your wages and turn it over to the government. Finally, this may go as high as 4 percent. You might get this money back but only if Congress decides to make the appropriation for this purpose. This is no guarantee. Decide before November 3, Election Day, whether or not you wish to take these chances.

Well, we know what the final returns were in the 1936 election, and it appears that workers, despite attempts to scare them, were not about to be stampeded.

In 1937, newspapers and magazines were chock full of stories talking about the new payroll tax bite, and the probable dissatisfaction that this would cause.

These stories usually dealt only with the increased contribution and dealt only glancingly with the improvements in benefits and overall protection.

Nevertheless, debate about the payroll tax can be healthy. It can also lead to us to new reforms.

For example, the study group that drafted most of what later became the Social Security law firmly expected that a Federal contribution out of general revenues would eventually be made to keep the overall system financially sound, without resort to huge trust funds.

That contribution has not yet been made on the scale envisioned in 1935. Perhaps the time has come for additional use of general revenues for specific, limited purposes.

In 1935, too, it was firmly expected that a national health insurance plan for all Americans would be enacted.

Historians tell us that Franklin D. Roosevelt firmly expected to make this goal a major issue in his 1940 campaign, but reluctantly gave up this goal because of the threat of war.

We had to wait 25 years before we got even the limited protection afforded by Medicare.

In these hearings on Social Security, I will invite testimony on gaps in Medicare coverage, as well as other health-related issues, because I believe that genuine security in old age is impossible without real protection against medical crises that even yet wipe out family savings.

Older Americans are now paying almost as much in out-of-pocket health care costs as they were before Medicare was enacted.

Obviously, something is wrong.

At our hearing today, and at hearings next Monday and Tuesday, the committee will hear from a small number of highly informed witnesses who will give us an overview of where we stand in Social Security today.

To begin, I have asked Robert Ball, Commissioner of the Social Security Administration, to testify.

Mr. Ball has been with the Social Security Administration since 1939. He has been Commissioner since 1962.

It is safe to say that he ranks high among those who have contributed to the success of the present system. He is an effective, professional, and nonpolitical public servant.

For these reasons, it came as a surprise when President Nixon decided on January 5 to accept Mr. Ball's resignation.

I offer for the record an editorial from the New York Times of January 8. It sums up the concern felt by so many Americans when news of Mr. Ball's impending departure was announced.

(The article follows:)

[From the New York Times, Jan. 8, 1973]

#### DEFENDER OF THE AGED

In his decade as Social Security Commissioner, Robert M. Ball has demonstrated both administrative competence and social imagination of a high order. He came into the vast Federal insurance program for protection of the aged and disabled not long after its establishment in 1937. His subsequent career entitles him to rank alongside the late Arthur J. Altmeyer, the first head of the Social Security system, as an official who knew how to translate dreams into an efficient, corruption-free program.

The distinction of Mr. Ball's service makes it difficult to understand President Nixon's decision to speed his departure from Government just when massive new administrative problems are about to descend on the system in connection with the Social Security changes voted by Congress last year. We share the hope voiced by Chairman Mills of the House Ways and Means Committee that the dropping of Mr. Ball does not signify an Administration desire to "politicalize" Social Security. Perhaps his greatest contribution was keeping that multi-billion-dollar program totally free from any taint of politics.

Senator CHURCH. Mr. Ball will continue as Commissioner until a successor is named and confirmed, and therefore he is still the Federal official most directly concerned with the subjects to be considered at these hearings.

I can well understand why Mr. Ball might feel that he cannot discuss long-range administration policy at this session.

Nevertheless, because of his long experience and unique perspective, Mr. Ball is in an excellent position to discuss those points I asked him specifically to cover when I first extended the invitation well over a month ago.

These topics are the significance of the 1972 enactments and factors that must be considered in the implementation of the Supplemental Security Income Program I mentioned earlier.

The Commissioner has made intensive preparations for his presentation, and I will call upon him as soon as we have heard from Senator Fong or any other committee member who wishes to make an opening comment.

We will now hear from Senator Fong.

#### STATEMENT BY SENATOR HIRAM L. FONG

Senator FONG. This morning's hearing begins a most welcome review of Future Directions in Social Security.

It could have major significance for every American citizen, young and old, and for millions as yet unborn.



It is my hope and expectation that these extensive hearings, which will very properly give special emphasis to needs of older Americans, will make a major contribution to the effectiveness of Social Security for all.

America's 35-year-old Social Security system badly needs in-depth review by Congress to make sure it will continue to serve the needs of our people without breaking the workingman's wallet.

With Social Security taxes on both workers and employers having just taken a big increase, Congress should look at the future of Social Security programs and their evergrowing impact on our national economy.

Social Security in one way or another touches every American. Ninety percent of all workers pay Social Security taxes, so do their employers. Consumers, too, are affected because the taxes are passed on to them in higher prices.

In addition, 30 million persons will be receiving old-age, survivors, and disability insurance cash payments and health insurance in excess of \$62 billion this year. There will be hundreds of millions of future beneficiaries.

It is time Congress took a real searching look at where we are in Social Security and how we can keep this a healthy program responsive to the people.

As I have stated on numerous occasions, Social Security is not only vital to millions of persons, it is also the biggest single business operation directly affecting individual lives of the American people.

I have emphasized my view that its size and its impact on the economic life of all Americans is so great that Social Security should be the object of constant review and evaluation by an independent, bipartisan National Social Security Commission.

Within the next few days, Senator Paul J. Fannin and I will reintroduce our Senate joint resolution to establish this permanent review board.

No matter how much new information and good ideas are developed during these hearings, or through a permanent, independent commission, members of this committee are already fully aware of shortcomings in the Social Security system which deserve immediate attention.

Other members and I shortly will be introducing a number of bills for these purposes. They are necessary despite the great progress made during the past 4 years.

To cite one bill which I will introduce shortly, there is serious need for further liberalization of the earnings test under Social Security.

Even with the change enacted at the close of last session, which now permits up to \$2,100 annual unpenalized earnings by Social Security beneficiaries, the law imposes excessive hardship on many older Americans who want to continue work after 65, either full time or part time.

My personal preference would be for total elimination of this unusual tax on workers between 65 and 72.

I recognize the practical fiscal problems which now make this difficult of accomplishment. I can, however, see no reason for penalizing those who earn less than \$3,000 a year and shall continue my efforts to change the act accordingly.

There are, of course, other improvements in Social Security needed now.

One is the need for more equitable treatment through fairer benefits to couples, both of whom work, and thus are subject to dual Social Security taxation.

Another relates to inadequacies in health services for the chronically ill.

Also needed is elimination of the requirement that a Medicare beneficiary be hospitalized for 3 days in all cases before admission to a nursing home.

Medicare changes in the 1972 Social Security Amendments make this prior hospitalization unjustified for at least some patients entitled to benefits.

Some of these questions will be discussed today and in the two hearings next week.

The five witnesses scheduled for today and next Monday and Tuesday are all distinguished citizens and well qualified experts.

I anticipate they will contribute much to our understanding of issues in Social Security.

We would be unrealistic if we ignored the differences of opinion about Social Security's future to be found among the experts in the field.

To be sure that the full range of viewpoints is made available to the committee, the series of hearings which begins today will be long.

Knowing the dedication of our distinguished chairman, Senator Frank Church, I am confident that he will call on many more witnesses in the weeks ahead to address the controversial questions regarding Social Security, and develop a record that will be helpful in possible innovative changes which may make the system a more effective servant of the people.

This morning, of course, I look forward to hearing from a very distinguished witness. Commissioner Ball's service covering the last 35 years and his insights as Commissioner of Social Security for the past 10 years, make him a most welcome witness.

I am especially interested in his report on the work that has been done under his direction in preparing for implementation of the new Supplemental Security Income Program adopted by the Congress and approved by the President as part of Public Law 92-603, Social Security Amendments of 1972.

This major amendment to the Social Security Act which creates an older Americans income assurance program, with national standards and simple administration offering maximum dignity for the individual, represents a real new beginning in a realistic effort to eliminate poverty among older Americans.

Even its minimum provision of \$130 a month for individuals, and \$195 for couples, is a major step forward in income security for hundreds of thousands of persons past 65, blind persons, and the totally disabled.

These levels will be \$150 and \$215 for Social Security beneficiaries.

The disregard of all earnings up to \$65 a month, and half of those above \$65 in computing contributions will, of course, permit supple-

ments for persons receiving such earned income so that their total income may reach up to and beyond \$215 for individuals and \$280 for couples monthly.

This program will be financed 100 percent by the Federal Government, but the States will be encouraged to make additional supplementary payments as necessary in keeping with the needs of their own citizens.

In my own State of Hawaii, the effect of the new program will be to make roughly \$3 million, the total State contribution to the old-age assistance, aid to the blind, and aid to the permanently and totally disabled public assistance programs, available to the State for other uses.

If these funds are applied to the benefit of persons now receiving payments under these programs they would, of course, receive higher payments than they do now.

I feel insufficient attention has been given to the full implications this new income assurance program will have for low-income older Americans.

I trust that Commissioner Ball will add to our enlightenment on this today.

Commissioner Ball, it is a pleasure to see you again.

Senator CHURCH. Thank you very much, Senator Fong.

As I look down the dais here, I see our next three Senators have either been elected or reelected, and Senator Fong and I look with particular envy on all three.

We want to extend our congratulations, first of all to Senator Percy, who has been a splendid member of this committee, and we welcome him back.

Did you have any remarks to make, Senator?

Senator PERCY. I will yield to my senior colleague Senator Hansen.

Senator CHURCH. Senator Hansen, our congratulations to you on your reelection, and welcome back to the committee.

#### **STATEMENT BY SENATOR CLIFFORD P. HANSEN**

Senator HANSEN. Thank you very much.

I thank my distinguished colleague, the Senator from Illinois, for his comments.

Let me say the only place I outrank the senior Senator from Illinois is on the official roster which for some reason ranks me ahead of Senator Percy.

I have admired him for many, many years as most people do who know him, and I appreciate also the intensive effort that he has given to this problem and to related problems that are of such great concern to all Americans.

I happen to have had the unique opportunity of working very closely with Commissioner Ball for the last few years because of my membership on the Finance Committee, Mr. Chairman, and I would only add that all of the very laudatory things you say about Commissioner Ball are reflected in the thinking of this committee, and in the high esteem he is held by members of the Finance Committee.

He certainly has made a very great contribution.

I share the dismay you earlier have expressed in noting his probable departure. I know of exchanges of letters that have occurred between him and the President, and I regret that he has taken this time to leave Government service.

Nevertheless, I am certain that what he can bring to this hearing and to other hearings will indeed be most significant, because I know of no one who understands the system better than does the Commissioner.

I know of no one better able to articulate and come up with information that I suspect probably no one other person in America may have so readily at his fingertips.

I compliment you, Mr. Chairman, for the statement you made. Generally I am in accord with the things you say. I am sorry you had to go back to 1937 to dig up a political reference that I think does not necessarily add to the light that I hope would pervade this committee's deliberations.

I could not help thinking, as a Republican, that for a long time all that was necessary for Democrats to do was to run against Herbert Hoover. The memory that people had of unemployment, back in the early thirties, was sufficient to propel any Democrat into office. I do think that you concluded it was necessary to make the observations you did, and so may I say that I think your observations are all right.

I would have to point out that the members of the Finance Committee agree completely that older persons, blind persons, and disabled persons are not to be on welfare.

We recommend that they be incorporated as the Commissioner knows full well, into the Social Security system, and I think we have been as aware as have been most Americans in the unfairness of a system which does things after the fact.

By that, I mean that payments that go to older people and welfare payments. Practically all of those general areas that could be categorized as welfare or as Social Security have reacted after people have been hurt.

Inflation takes its toll, and then sometimes later, oftentimes, all too much later, we find adjustments made in Social Security payments, and I compliment you, Mr. Chairman, for the leadership you have taken in working out a system that ought to obviate some of the problems we have had in the past.

Nevertheless, there are very real problems that we will face, and simply to provide the mechanism that has been suggested here does not resolve all the problems that I think should be faced up to by the Congress.

In the first place, it is my opinion that Congress can deplore the usurpation of legislative authority by the executive department all that it wants to, but until Congress learns to add as well as those other abilities which it so oftentimes demonstrates, then I do not think we really have too much reason to damn the President and damn the system by which there has been a gravitation of power from the legislative to the executive branch.

I say when we come up with budgets that are balanced, when we come up with holds on spending by the Congress, then we certainly

will have more reason than we now have to deplore this recent usurpation of power that has been noted by some with considerable dismay.

I would hope that we can learn a lot today. I am sure there is much to learn. I compliment you again, Mr. Chairman, for having brought the one person that you believe possibly knows more than any one other man about these problems that mean so much and that touch the lives of so many people so deeply as does Social Security. I welcome, along with you, the presence this morning of Commissioner Ball.

Senator CHURCH. Thank you very much, Senator Hansen, and I thank you for your statement.

I was a little bit worried at first, but by the time you finished, I came out pretty well.

The historical reference remains on the theory it never does us any harm to remember our history, and this Social Security program has had a very significant history from the time of its origins, as you know.

Now, Senator Percy, you are next.

#### STATEMENT BY SENATOR CHARLES H. PERCY

Senator PERCY. Commissioner Ball realizes he is witnessing the frustrations of a Senate that has been out of session for a long time, but I would like to join very much in welcoming you, Commissioner Ball.

Certainly, Senator Hansen knows why he outranks the other members of his class.

We came into the Senate together, but he served as a Governor which automatically gives him status, and anybody who can get through a governorship as scandal free as he did deserves to outrank everyone else. But I say that any public servant such as yourself, Commissioner Ball, who has administered a program of \$40 billion a year without a breath of scandal, with an efficient administration, and who is held in high esteem by both Democrats and Republicans, should receive tribute. We are grateful for your being here this morning, and I hope your expertise will always be available to this committee. We would like to be able to call upon you from time to time.

I think it is most appropriate that you be the leadoff witness for this series of hearings as I think you can look ahead with us to changes in Social Security. I also commend the chairman and our ranking minority member, for their foresight for scheduling these hearings, and for their very capable staff in arranging for them. And I welcome Senator Domenici to this committee.

I have found younger people sometimes have been most dedicated in the field of aging, and I think he can make a very valuable contribution to this committee.

I have never heard quite as much concern by the community about how Social Security taxes have gone up in the last few months, and this is not really, Mr. Chairman, from the people who fought against every Social Security change and improvement that Government instituted.

These are from pretty dedicated people, who feel that taxes are getting too high, and the Social Security system is taking over enough retirement income, that they should take this into account in their own pension plans, and I think what they are saying is that it is a very large part of their costs, and that we have to combine it into the entire scheme of costs, as we have to stay competitive.

I have been very surprised that I have not heard too much criticism, maybe we will get it this week as it comes out of the paycheck, but we have not heard too much criticism, at least I have not, from the workers who are paying increased taxes.

I think this is great testimony to the fact that workers today look upon the Social Security system as a very sound investment for themselves, and they recognize that if they did not have it, they would have the burden of the support of their parents on their backs at a time when they can least afford to do it. So I think the American public has taken a very broad-gage look at Social Security, and is looking to us to help improve the system. These hearings, I think, can explain where we are going and what we are trying to accomplish.

I have never heard such a claim by retired people for an increase in Social Security, never did there come a time when it was more appropriate, never was it more needed, and never did the Congress exert its initiative in a more responsive fashion than the Congress did last year when it raised benefits. I think Senator Church, this committee, and its staff had more to do with the 20-percent increase than probably any other group of men and women. I think these hearings will enable us to take a good look at where we are going. That is just what is needed. We have started on a pretty solid base, we have an exceptionally fine system, and it is up to us now to take a look ahead.

One aspect of our work that we will be dealing with separately in the Senate is the commitment we have from the joint leadership, which I received on the floor, very early in the session, to take up private pension plans reform. I think the reason people believe so deeply in Social Security is that, contrary to the warnings that were issued in 1937, it has come through, every month, on time, and it has been there as it has been pledged. And we have increased it as the cost of living has increased, whereas private pension plans have been a terrible disappointment to millions and millions of workers. Plans that they thought they had, retirement income they felt they were building up, for some reason was not there because the company failed; it was not there because they did not accrue seniority; it was not there because they were fired a few years before they were to be retired, and they might have been 20 or 30 years in the company. We have a tremendous responsibility now to say, by law, that these pension rights are inherent rights of workers. We must invest them fast; we must make them portable so they can be moved and not enslave a person to a company.

This Congress will give a great deal of attention to the rights of workers, and it is very appropriate that we start with the fundamental base underlying retirement, the Social Security system.

The Social Security Administration has to face another tremendous challenge in the massive job of administering the new supplemental security income law which was enacted by Congress last year, and I

know there is some reason to believe that certain features of the law may actually decrease the income of some of the needy elderly citizens of the country. We want to probe to see whether that will happen or not, and if so, what we can do about it. Once again, I extend appreciation to our chairman and to our ranking minority member for scheduling these hearings, which I think are most appropriate.

Senator CHURCH. Thank you very much, Senator Percy, for your fine statement, and I want to welcome Senator Domenici from New Mexico, newly elected and new member of this committee, and I invite him to make a statement.

Senator HANSEN. Mr. Chairman, if I could interrupt you for a moment, let me say, if there are two breeds of dogs whose names are difficult to pronounce, it is the Danes and the Italians.

I believe after having been corrected several times, maybe I could be helpful. I believe our new member's name is pronounced Doménici.

Senator DOMENICI. That is correct.

Senator HANSEN. Thank you very much, Mr. Chairman.

#### STATEMENT BY SENATOR PETE V. DOMENICI

Senator DOMENICI. Thank you very much, Mr. Chairman. I guess I have all kinds of problems, not only my name, but I am also as far down the line as possible, even in my own party. Because most of those elected to the Senate either were Governors or Members of the House, and since I did not so serve, I am junior to everyone. I am especially delighted to serve on this committee.

Senator CHURCH. We are going to learn to pronounce your name correctly to begin with. I took the precaution of asking two members of the staff to tell me how it was pronounced.

Senator DOMENICI. It really does not matter, Mr. Chairman. I am sure we will all get to know each other.

I would say this, it may seem strange to have a young man from a State like New Mexico, and with not too many old people, but, on this committee I would say there is some historic precedent for my being involved.

I think we would all agree that the man who retired in my State, Senator Anderson, though he is not a member of my party, from New Mexico, will go down in the annals as helping solve the problems of the aging of the United States, and for his significant participation in legislation providing health care for our senior citizens.

I know if he were here, Commissioner Ball, he would have kind remarks to say about your tenure and your involvement in the very serious problem of taking care of Social Security of this country.

I would add only one other comment. Indeed, I just came off a campaign trail, as our good chairman indicated, and I was one of the lucky ones that won. I would say this, the citizens are quick to complain about taxes, and about Government confusion and the many things we all are concerned about, but whether young, middle aged, producing, retired, or old, they are all quick to conclude that we must do more for senior citizens, and we must involve ourselves more in taking care of the problems of the aging.

I agree with them that, with all of the problems that we have, all of the concerns that we have, that this is a very high priority item. I will concern myself on this committee with a mandate from my citizens in my small State of New Mexico, to try to separate out from the confusion some priority of performance by me; and I can assure you, Mr. Chairman, that I will commit myself to the problems of the aging as a very high priority, as a U.S. Senator. Thank you.

Senator CHURCH. Thank you very much, Senator.

We are pleased to have you on the committee.

Now, Mr. Commissioner, you certainly do rank high in the estimate of this committee. They made that plain this morning.

We all feel badly that you are leaving the Social Security Administration, but you will leave knowing you have done a very fine job through the years, and you leave in plenty of company.

There seems to be quite an exodus these days. I understand you do not have a prepared statement.

Commissioner BALL. That is correct, Mr. Chairman.

Senator CHURCH. Well, then, do you have a way that you would prefer to make your statement, your presentation?

Commissioner BALL. Mr. Chairman, I have a series of charts that I wanted to present to the committee.

As I understand it, my major assignment at the beginning of these hearings is to give the committee a refresher on where the program is today, taking into account all of the recent legislation, so that from the base of the discussion this morning, you can go into the future.

I, of course, want to be also responsive to any questions or comments about the program as I go along.

Senator CHURCH. Then why do we not take our lead from you, and you commence your presentation, and then doubtless the questions will occur from the members of the committee as you go along, and we will ask them as they crop up.

#### STATEMENT OF HON. ROBERT M. BALL, COMMISSIONER OF SOCIAL SECURITY

Commissioner BALL. Mr. Chairman, I wonder if I could ask, with your permission, if the Republican side would for this purpose, move over to the Democratic side, so they could see the charts better.

While the changes are taking place, could I take the opportunity to thank you and the other members of the committee for the very fine and very generous remarks about my own service in the Government, and to assure you that it is my intention to be available for whatever help I can be to the Congress at any time in the future.

What I have in mind here is a presentation in two parts, two major parts: First, to go through the basic Social Security and Medicare program, the contributory system, and then as a separate presentation, following that, to review the new supplemental security income program. First, are these charts going to be visible?

Senator CHURCH. I wonder if you could bring the charts forward a little, just a little.

Commissioner BALL. As I said, Mr. Chairman, I think it is best if you just interrupt as I go along.

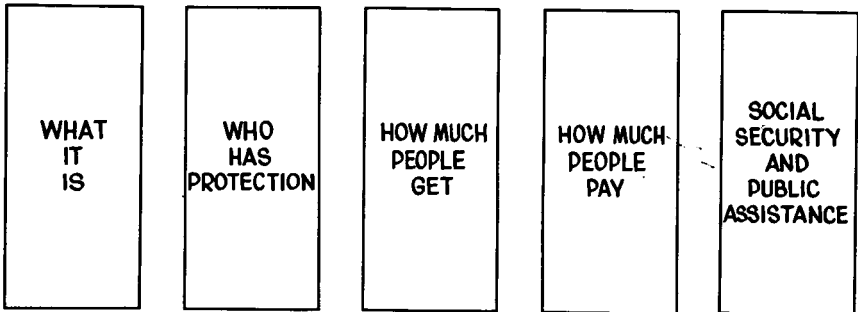


If I have a chart related to your question that is coming along a little later, with your permission I will feel free to say that it is coming later.

Now, the order of presentation on the Social Security program is shown on this standing chart (see chart No. 1).

CHART NO. 1

## OUTLINE OF PRESENTATION ON SOCIAL SECURITY PROGRAM



The presentation is going to be in five parts. First, I want to say in very general terms what the Social Security program is, who has protection, how much people get, and then the interrelationship between Social Security and public assistance, which is kind of a transition into the new section on supplemental security income. So first then, what is the Social Security program.

The concepts of social insurance in detail gets confused, I suppose; the law is a very big law. But the fundamental idea is so simple that I think it is important to return to it from time to time. It was essentially an invention of the 19th century in Europe, and it is one of those simple social inventions that has really changed the world.

All there is to the program, the whole idea of the cash benefit program, is that while people are earning, employers and their employees and the self-employed will take a small part of those earnings, and contribute it into a fund. (See chart No. 2.) In this case it is two separate funds. The Old-Age and Survivors' Insurance Fund and the Disability Insurance Fund. When the earnings are lost or greatly reduced because of retirement or disability or death, then out of these funds workers and their families get benefits. That is absolutely all there is to the Social Security program.

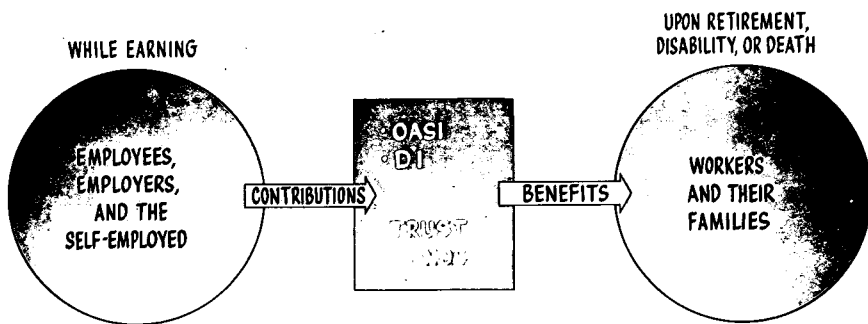
You can sum it up in your mind as what Arthur Larson called income insurance. It is insurance against the loss of earned income much

like your insurance against the loss of a car or a house. Workers pay in while earning and they get benefits partly replacing those earnings when the earnings stop or are reduced.

CHART NO. 2

## THE BASIC IDEA OF THE CASH BENEFITS PROGRAM

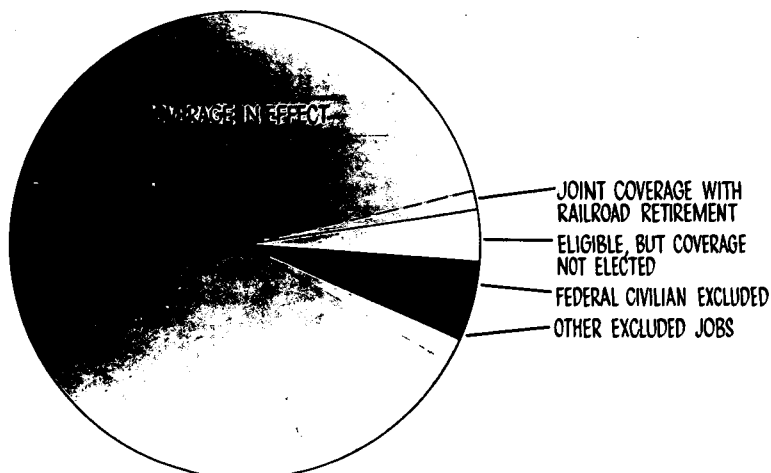
### REPLACEMENT OF LOST EARNINGS



Now, if we could turn, Mr. Chairman, to the first part of who has the protection, we will look at this topic in several different ways. (See chart No. 3.)

CHART NO. 3

## 9 OUT OF 10 JOBS ARE COVERED



From the standpoint of who has the coverage at any given time when you look at workers, now about 85 million jobs are covered so that at any single point in time, about nine out of 10 jobs are covered under Social Security. All people who are paying in are building protection for the future.

I have included, as if they were covered, some 620,000 railroad workers, because there is an interchange arrangement with the railroad system that works almost as if the railroad system were buying the lower part of their coverage from Social Security; you can think of them as being covered.

Now, actually, as you undoubtedly remember the report of the Commission on Railroad Retirement calls for some changes in that arrangement that would cover railroad workers under Social Security just like everybody else and move the upper part of railroad protection into an arrangement that is supplementary to Social Security, similar to the protection that is so common in private industry in general.

Now, within the whole cut here that represents only 10 percent of all jobs, this smaller cut shows people who are eligible for coverage, but coverage has not been elected. We have special arrangements for State and local employees where the coverage is by contract, an agreement between the Federal Government and the State. Almost three-fourths of the State and local employees are covered under Social Security, but there still remains a substantial number for whom the State has not elected coverage. A few nonprofit employees are included here because coverage is also elective for them.

Now, Federal civilian employees are the big group not under Social Security. Federal civil service employees have their own system, and there is just no coverage under Social Security. There is a continuing problem related to those changing jobs, who are for part of their working lives partly in regular employment under Social Security and in Federal employment for a part of the time. Once again the Social Security Administration has been asked by the Ways and Means Committee to make a report on how this situation could be improved. I just want to indicate that although most of the coverage problem has been solved over the years, you still have two big areas that need attention.

Senator CHURCH. May I ask here, with respect to a person on the Federal civil service payroll, if he had established an eligibility by private employment for Social Security benefits, or if he establishes an eligibility through income that may qualify for self-employment purposes, he is entitled, is he not, to the Social Security benefit in addition to the pension benefit; it would not be regarded under the law as double payment?

Commissioner BALL. He will get both. In fact, although in some situations many people do not have enough in the way of retirement income, there are other situations in which people are eligible for several pensions that when added together are more than what they have been earning. One reason, not the main reason, but one reason to coordinate civil service coverage and Social Security is to have a civil service system that takes into account the fact that people are getting

Social Security, since Social Security has a weighted benefit formula.

If you are only in it a short time, you get a break, as though you were a low-wage earner.

Senator PERCY. Commissioner Ball, could you give us the theory on why Senate employees are excluded?

I think it is embarrassing to impose a tax by a vote on someone else, and say, "Well, that is fine, but we will exclude ourselves," because we do not pay Social Security, our employees do not pay Social Security, and all Federal employees do not. Why is that?

Commissioner BALL. I think the explanation is largely historical. That the Federal civil service retirement system preceded Social Security, so when Social Security was set up, it was assumed that civil service employees were taken care of, and the Social Security system applied to employment that, by and large, did not have a plan. But there is, nevertheless, a real problem because there is great movement between private industry and government. It is the rule rather than the exception. The exception is for somebody to come in and stay throughout his career.

Now, the reason, in my judgment, that the relationship has not changed over time is that there is a tendency for career employees with a big stake in the civil service system to be concerned that if they came under Social Security, the congressional reaction would be that, Well you have Social Security, and this supplementary plan, and would be less likely to respond to their urging to liberalize the supplementary civil service system.

I would say by and large, as in any organization, any part of industry or government, the people who represent the employees tend to be representing those who are there for a long while, and there is not a great deal of interest in the inner-and-outer, who is the one that needs the coordination more than the long-term employee, so there is not a big push for change.

Senator FONG. Would you recommend they be tied together?

Commissioner BALL. Yes; I think it is quite important that the person who comes from private industry and works for a while in government, not fall between chairs, as it were; that is, he may not be in long enough to get adequate protection under the civil service system, and yet he has lost out at least in part under the regular Social Security system. At the minimum, I would like to see an exchange of credits between the two systems.

Now, ideally, I think it would be good to extend coverage and modify the civil service system, to make it supplementary, like some other private systems, but it may be that we have passed the point where that would be practical. It would cost a great deal of money to do that and protect everybody's right. An exchange-of-credit plan may be more practical.

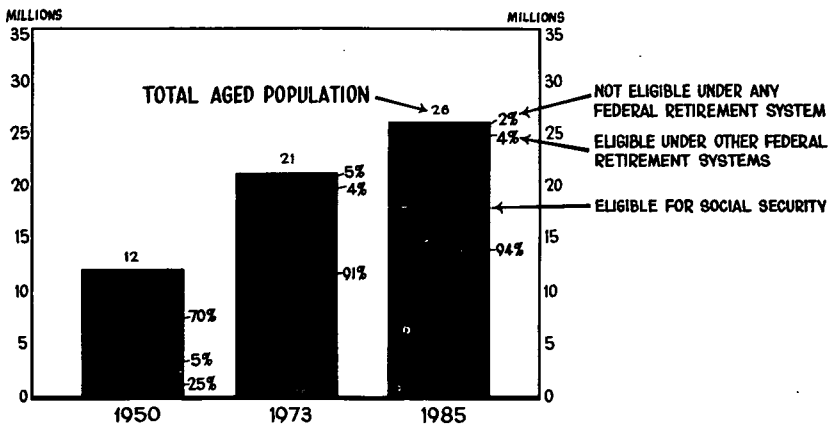
Now, finally, a few occupations are excluded largely for administrative reasons. In a few occupations you have to meet certain earnings tests. In other words, a self-employed person can get Social Security credit if he has net earnings of \$400 in a year. A household employee is covered only if he gets from one employer \$50 in cash wages in a quarter, and there are similar provisions for agricultural work.

Now, if instead of looking at this employment at one point in time you look at it over a year, then you would have almost 100 million contributors, because people change jobs. If you look at it over a lifetime, a very high proportion of those excluded at any one time will get at least minimum coverage under Social Security, because for part of their working lives they will be under Social Security.

Now, here we look at who has the protection under Social Security from the standpoint of the older population. This chart shows (see chart No. 4) how effective the program is in giving protection to

CHART NO. 4

## PROTECTION FOR OLDER PEOPLE \*



\* AGE 65 AND OVER

people already old. You see what a tremendous change has taken place in the last 23 years.

Going back here to 1950, this later cut at the bottom is the proportion of people over 65 who are eligible for Social Security. Only 25 percent of the population, 65 and over in 1950 were eligible for Social Security benefits—either getting them, or eligible if they retired.

This cut in here at 5 percent is the percentage of those who are eligible under the other Federal systems, that is civil service or railroad, so you can see that 30 percent had protection under a Federal system back there in 1950, and then this big 70 percent, this dark purple at the top are those who had no protection at all in 1950.

Look at what happened in just these 23 years.

Now, 91 percent of all of the people 65 and over are protected under Social Security and another 4 percent of the population are covered under these other Federal systems, and only 5 percent are without some form of protection from the Federal Government in retirement.

All this has occurred of course at the same time, as the total aged population has almost doubled. We are talking here of 21 million people in comparison with 12 million.

And the same trend is continuing. By 1985, only 2 percent of the aged population will be without protection from one of the Federal retirement systems.

Senator CHURCH. Let me ask this, would not that 2 percent in 1985, or the 5 percent today be covered by the income supplemental payment?

Commissioner BALL. If they meet the test of need.

Senator CHURCH. So that those few who are excluded, the needy among those who have been reached by this supplemental payment?

Commissioner BALL. That is correct, Mr. Chairman.

Remember, we are not talking about only workers or their wives. These may be aged widows, they are all covered under Social Security.

CHART NO. 5

## SURVIVORS PROTECTION

### 115 MILLION PEOPLE ARE INSURED FOR SURVIVORS BENEFITS



*INSURANCE PROTECTION FOR A WORKER WITH A WIFE AND TWO CHILDREN WHERE THE WORKER'S AVERAGE EARNINGS ARE \$600 THAT HAS A PRESENT VALUE OF \$89,480 AND IS GUARANTEED INFLATION PROOF*



JANUARY 1973

Now, we turn to another aspect of who has the protection. (See chart No. 5.) Even though the committee has focused on the aged, I think it is still important to keep in mind, as we think about Social Security, that it is not a program just for older people, it is a program also for survivorship and disability protection: 115 million workers in the United States have contributed long enough so that right now their families will be eligible for survivor benefits in the

event of their deaths; 95 out of 100 of young children and their mothers would get monthly benefits in the event of the death of the worker of the family.

This part of the chart shows how much the survivors protection can be worth in cash benefits. You take a young man with two young children and a wife, earning about the average amount of \$600 a month; if he were to die, they would collect a total, over their lifetimes, of about \$90,000.

There is little question that for a very large number of these young families, this is the most valuable thing they have—this protection which provides monthly benefits for the young wife and children. This protection relates back to what some of the members of the committee were discussing earlier about the reaction of the younger workers to contribution rate increase.

I am not sure there is a realization throughout the country that Social Security provisions have this valuable protection for the young workers' family, both in survivorship and as we will see in a minute for disability. If you go down the street and ask people what do you mean by Social Security, they will say it is something for old people. This is in spite of a lot of effort we have put in to try to get the idea of survivorship and disability protection across: I think public awareness is improving. But, nevertheless, the reaction of a young worker is often, "Why should I contribute all of this money for something that will happen 35 or 40 years from now. I need the money now."

Senator CHURCH. He says maybe I will not even live to be 65.

Commissioner BALL. Right. I think it is very important to bring in the disability and survivorship protection, even though the committee is mainly concerned with problems of the aged.

Senator CHURCH. May I ask two questions about survivorship, for the dependent children, the payments cut off now at age 21?

Commissioner BALL. Up to 22 if the children are in school, between 18 and 22.

Senator CHURCH. That is a recent change?

Commissioner BALL. 1965.

Senator CHURCH. And what about the widow, if she should remarry?

Commissioner BALL. If a young widow remarries, the benefits stop on remarriage.

Senator CHURCH. Do they continue for the children?

Commissioner BALL. Yes.

Senator CHURCH. In that situation?

Commissioner BALL. Yes.

Senator FONG. If she is 60, she is all right?

Commissioner BALL. If she is getting a widow's benefit, and she remarries after age 60, she is not treated as a widow any longer, but as a wife; she gets a benefit, as a wife based on the earnings of either her former husband or her new husband if he is a beneficiary.

Senator FONG. She also gets the highest?

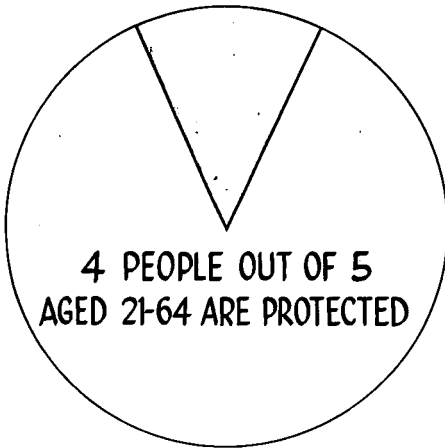
Commissioner BALL. That is how it works.

The next chart (see chart No. 6) deals with disability protection. The requirements for being insured for disability are more strict than the requirements for being insured for the retirement and survivorship protection.

CHART NO. 6

# DISABILITY PROTECTION

## 78 MILLION PEOPLE ARE INSURED FOR DISABILITY BENEFITS



JANUARY 1, 1973

In order to be protected for disability, the worker not only has to be fully insured, but he has to meet a test of substantial recent covered work. As a result, not as many people are protected under the disability program as under the survivorship program. Nevertheless, four people out of five in the ages between 21 and 64 would be eligible for monthly benefits in the event of the breadwinner's total disability.

Looking now at who has protection from a different standpoint, this chart (see chart No. 7) shows the number of people who actually get benefits, and, as you see, every month over 28 million people get checks from Social Security today. That is one out of every eight Americans that are getting a monthly check from Social Security.

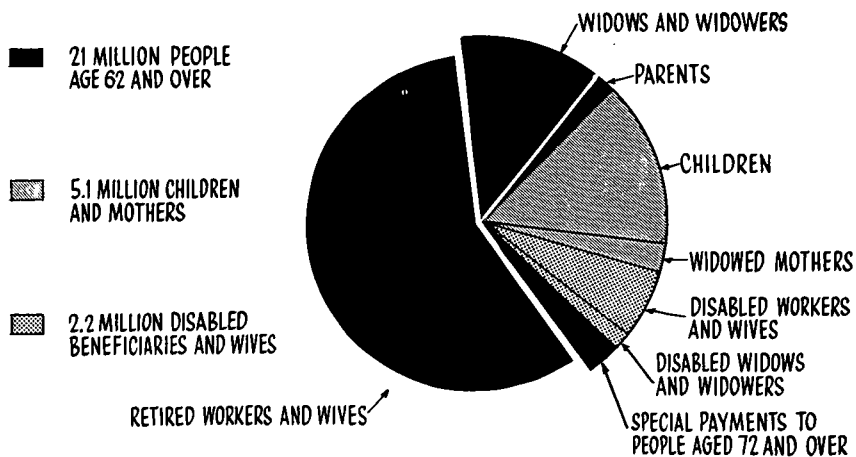
This large purple cut on the left represents retired workers and their wives, and this smaller purple cut are also older people, widows and widowers, so you have a total of 21 million out of this 28 who are aged 62 and over. I think the benefits for older people are better known perhaps than the fact that 4½ million young children are getting benefits from Social Security every month; they are represented by this green cut.



These are children and the mothers of those children—over 500,000 young widows are getting benefits. Then there are also the disabled widows and widowers, and this small cut here relates to a very special provision that pays the people 72 or more. This provision has gotten to be known as the Prouty amendment because it was Senator Prouty who proposed it on the floor some time ago.

CHART NO. 7

## 28.3 MILLION PEOPLE GET BENEFITS EACH MONTH (1 OUT OF 8 AMERICANS)



Senator CHURCH. What happens to the Prouty amendment, when the special supplementary program takes effect?

Commissioner BALL. That just stays. It continues, because there is no test of need attached to Prouty.

In the age-72 provision, you get a payment if you are not eligible for Social Security, and do not have a higher retirement from any other Government system. It is paid regardless of income and resources, so that stays even though we do have the new program.

Senator FONG. Any person over 65 will get a minimum income of \$130 a month under supplemental security income?

Commissioner BALL. Yes.

Senator FONG. So everyone will have a minimum income of \$130 a month.

Commissioner BALL. Yes. Everyone will have an income of at least \$130 a month. If a person's total income from other sources is not at least \$130, and, of course, he meets the asset limitations of \$1,500

for an unmarried individual and \$2,250 for a couple, then he would get a supplemental Social Security income payment to bring his income up to that. Social Security benefits will be more than that for most people.

Now, there is another provision that we will get to a little later, that exempts \$20 of any income that you have, so in effect, Social Security beneficiaries are really guaranteed \$150. They could ignore \$20 of their Social Security and still be eligible.

Senator FONG. So you can go in and tell any older person you are entitled to \$130 at least?

Commissioner BALL. The monthly income of every eligible person 65 or over would be at least \$130.

Senator FONG. Beginning when?

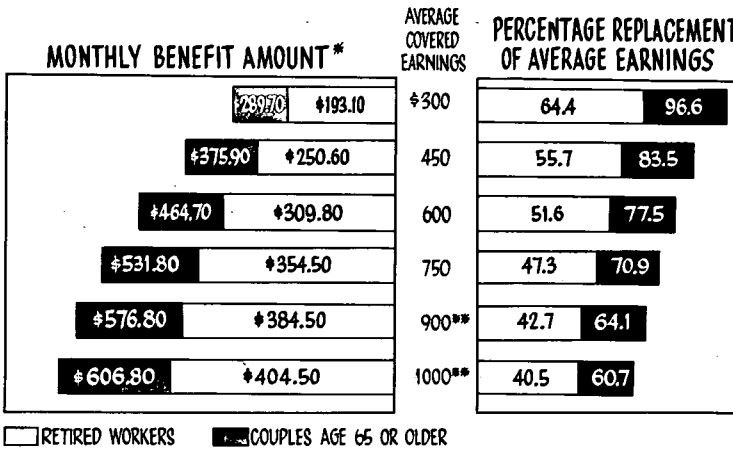
Senator CHURCH. This begins next year?

Commissioner BALL. Right, January 1974.

Now, to go into the next subject of "How Much People Get," this chart (see chart No. 8) is intended to show how Social Security bene-

CHART NO. 8

### BENEFIT AMOUNTS ARE RELATED TO AVERAGE MONTHLY EARNINGS



\* IN THE FUTURE, BENEFIT AMOUNTS WILL BE AUTOMATICALLY ADJUSTED TO REFLECT INCREASES IN PRICES, AND THE MAXIMUM ON COVERED EARNINGS WILL BE AUTOMATICALLY ADJUSTED TO REFLECT INCREASES IN WAGE LEVELS

\*\* MAXIMUM ANNUAL AMOUNT OF EARNINGS COVERED: 1973 \$10,800 - 1974 \$12,000

fits, the amounts, are determined. Down through the center of the chart, we have selected some average earnings. The way benefits are computed under Social Security, you will remember, is that you average people's earnings, typically since 1950 up until the year in which they die or become disabled or reach retirement age, and you average the earnings over that period, and then you look at the law, and you see a benefit table that tells you how much is paid related to these average earnings.

Remember, the basic point of the program is to partly replace the earnings that people lose when they retire, become disabled or die, so

you measure that loss by determining what their earnings are, and having determined what he has been earning, you then relate the benefits to those average earnings.

You will notice on the left side, you have the amount in dollars; and on the right side, the percentage replacement; that is, the proportion of the earnings the benefit represents.

Now, the dark shade is the benefit for the retired worker himself, and the lighter color is for a worker and his wife.

You will note—you can tell from the percentage replacement—that this is a weighted benefit. The worker with low average earnings gets a higher proportion of his earnings replaced by the benefit, although, of course, he gets a lower benefit in absolute dollar amounts.

He pays the same percentage in contributions—everyone has a flat percentage in contributions—but he gets more for his money, he gets a higher percentage of his earnings, than does the higher paid worker shown down here on the chart. Because it is a weighted benefit, at \$300 a month, which is not far from the minimum wage, a couple gets almost as much as they got while they were earning, taking his average covered earnings as the measure.

Average monthly earnings, as used for Social Security benefit purposes, are somewhat artificial, in that they are based on years from 1950 up until now, and are limited by what the maximum earnings base has been in the past.

The base was \$3,600 in 1951. It was \$9,000 last year. This year it is \$10,800, so this is a somewhat artificial concept.

If you related the benefits to the last year that a person had been working, or the last 5 years, you would get much lower percentages than those shown on the chart.

I would not want anybody to think that the program is really as generous as these percentages would make one think, if one conceives of these earnings as something the person would actually have received in a given year.

This is an average over a long time, and typically wages have increased, so the benefit is a smaller proportion of recent earnings than it is of average covered earnings.

Now, where the asterisk is down here at the bottom, we also have an artificial situation. The law shows these high benefits amounts based on high earnings, but it will be a considerable period of time before retired workers have average covered earnings that are as much as \$900 or \$1,000. This is because we have only started to count earnings this high for benefit purposes, and it will take a long time to get an average of covered earnings up to this level.

Senator CHURCH. Commissioner, could you just read them down for the committee, please?

Commissioner BALL. Let me pick out a few. For the worker at the minimum of around \$300 average wage, his own benefit is \$193.10; and a couple, \$289.70.

That is approximately two-thirds of the previous earnings for himself, and 96.6 percent for the couple.

If you skip then to say \$600 a month, which is pretty close to an average earner today, the benefit is \$309.80, and for a couple, \$464.70, and the replacement is a little over 50 percent for the worker himself, and a little over three-fourths for the couple.

If you go to pretty much what would be the maximum earner at the present time, the benefits would be \$354.50, and for a couple, \$531.80, and the percentages would be 47.3 percent and 71 percent for the couple.

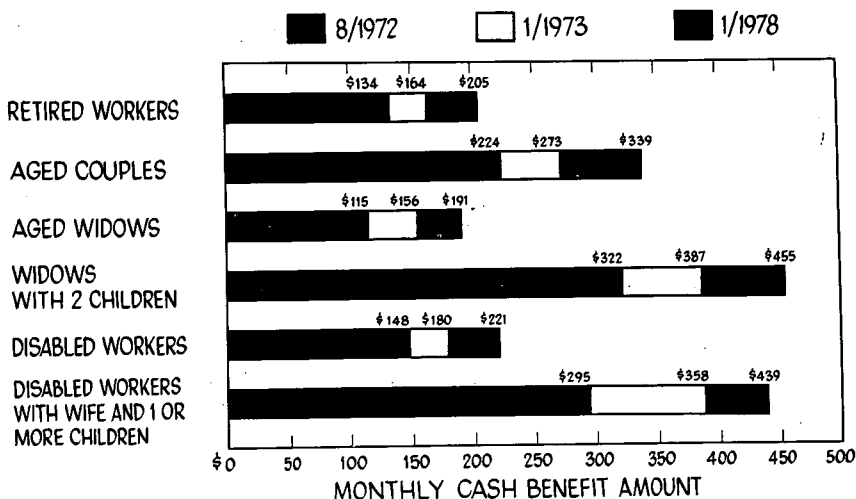
Now, at the minimum, I would like to emphasize that the figures I am giving you are more typical of people coming onto the rolls today, and for the future than for people now receiving benefits.

The benefits now being paid are not nearly as good as this. They tend to be held down by the wages that current beneficiaries had a long time ago, and the minimum benefit as you know, is a little under \$85.

The next chart (see chart No. 9) shows the average people are receiving now.

CHART NO. 9

## AVERAGE CASH BENEFITS



Senator CHURCH. This chart does demonstrate one thing that is not often mentioned, and that is that although the tax is based on earnings up to \$10,800 this year, and has often been criticized as falling hardest on those least able to pay, that is, being regressive in nature, the benefits are skewed the other way, so that the people with lower incomes actually receive a higher benefit in proportion to their wages than those of the higher, so you do have some compen-

sation there, do you not, for the incidence of the tax in terms of the benefits later paid?

Commissioner BALL. Mr. Chairman, that is absolutely correct, and it seems to me a very important point to be understood.

This system is not just another Government program paid for out of taxes. In my judgment, it is not proper to consider the financing primarily in terms of good tax policy separate from the benefits. This is a single system, contributory in nature, that pays out benefits that are related to earnings, as are the contributions. It is like a broad group insurance and pension program, with a relationship between the contributory idea and the benefits that are paid out, and as you say, one of the main points made clearly by this chart is that although lower paid workers pay the same percentage as higher paid workers, they get much more in the way of protection related to what they contributed than the higher paid.

The higher paid get more in absolute dollars; the concept it seems to me is a very good one.

The concept is simply this, that in retirement, or in disability, the higher paid worker can get along with retirement or disability payments, that are a smaller proportion of prior earnings than the very low paid worker. The same holds true for survivors benefit.

If you make the program so that people do not have to turn to assistance, you have to replace a very high proportion of the very low wage earner's earnings, and that is not necessarily true for middle or higher earnings levels.

Now, as you mentioned in your opening statement, Mr. Chairman, one of the most important changes of last year was to make these benefits inflation proof. (See chart No. 10.) We have the particular

#### CHART NO. 10

## **AUTOMATIC ADJUSTMENT OF BENEFITS TO PRICES**

### **IN ABSENCE OF CONGRESSIONAL ACTION TO INCREASE BENEFITS**

- 1. WHEN THE CPI INCREASES AT LEAST 3 PERCENT**
- 2. INCREASES NO MORE OFTEN THAN ONCE A YEAR**
- 3. FIRST INCREASE POSSIBLE FOR JANUARY 1975**

dollar amounts related to these earnings written into the law, but we also have a provision that automatically increases that table.

It is not just a guarantee of inflation-proof benefits for those on the roll. When the CPI increases 3 percent, it applies also to future bene-

ficiaries. It is true, those on the rolls will get an increase proportionate to the increase in the cost of living, as long as it is at least 3 percent. At least equally important is the fact that, the way the Social Security law now is, this basic table we are talking about in the law is itself rewritten so that for the same average earnings, you will get a higher benefit in the future.

The young worker contributing today gets more protection when benefits have increased because the CPI has increased. And then, as his earnings rise, his potential benefits also rise. You put those two things together, and the program for the contributor is really more than inflation proof. He gets a benefit over the years which has been somewhat more than kept up to date with the cost of living.

Senator PERCY. Could you comment on how relative the CPI is to the average family's cost of living, taking into account lower income people spending a much higher percentage of their income on food, medical costs, all of which is more susceptible to much more rapidly increasing costs than appliances and other things which are rated in the CPI?

Commissioner BALL. Senator Percy, we did quite a bit of work on that question, when this proposal was first under discussion, and came to the conclusion that the distinction was not really very great.

Now, the points you are making are correct, but one major difference between the aged person and the younger worker is in medical care costs, and since older people have Medicare—

Senator PERCY. Medicare covered only 43 percent of their medical costs, so it is not accurate to say that Medicare covered all of the costs.

Commissioner BALL. Yes, but 43 percent is more than nothing. I am not sure that more work could not be done on the point you made, but it was carefully examined. I am not saying there was not some difference, but not enough difference to justify the construction of a separate index.

Now, as I indicated earlier, the chart we were looking at before (chart No. 9), showed how the benefits are related to average earnings. Here we see what different beneficiary categories are actually receiving at different points in time, and this chart also brings out the changes that have taken place.

In the first part of the bar, we have a figure that shows how much they were getting before the amendments of last year.

For the retired worker the average was \$134, and then by January of 1973, after the 20-percent increase, and other increases that are in H.R. 1, that \$134 average was increased to \$164.

Because of the increases in earnings and other automatic provisions, it is expected that by January 1978 the average will be \$205. This reflects the built-in escalator which we never before had in Social Security.

For aged couples, the average was \$224, it is now \$273, and it is projected in 5 years to be \$339, for aged widows, it was \$115, it is now \$156, and in 5 years it is projected to be \$191. For disabled workers with a wife and one or more children, the monthly benefit is projected on the average to go to \$439.

Now, in addition to the automatic provision on the benefit side—something that I do not think is as well understood—but is really just as important, is that the new law has in it automatic provisions that raise the maximum earnings' base. (See chart No. 11.)

## CHART NO. 11

## AUTOMATIC ADJUSTMENT OF MAXIMUM EARNINGS BASE

1. MAXIMUM INCREASED BY PERCENTAGE INCREASE IN AVERAGE WAGES, ROUNDED TO NEAREST \$300
2. MAXIMUM CAN BE INCREASED AUTOMATICALLY ONLY FOR A YEAR IN WHICH AN AUTOMATIC BENEFIT INCREASE IS EFFECTIVE
3. FIRST INCREASE POSSIBLE : FOR 1975

When the law started out, the maximum amount that was counted for Social Security, both for benefits and contributions was \$3,000, but that \$3,000 back in 1937, when contributions were first started, included the full earnings of well over 95 percent of regular full-time workers.

Now, from time to time, the base has been increased. It now is \$10,800. Next year it is going to \$12,000. That will mean, if I remember correctly, about 85 percent of all of the workers will have their entire earnings counted for Social Security next year at \$12,000. Then that proportion will be kept up to date automatically. That \$12,000 will go up as earnings go up.

It will not change the relative position. The same proportion of payrolls will be taxed, the same proportion of workers will have all of their earnings counted, but the dollar level will keep going up, and that is important for two reasons. It is important because if you did not do that, as wages rise, the average and above average earner would not have as much protection in terms of replacement of his earnings. As his wages go up, his protection as a proportion of his earnings would just decline, unless the base went up.

The maximum earnings base also determines the whole financial base of the program—the proportion of the country's payrolls that supports Social Security. Unless you keep that earnings base up, your basic resource is reduced, so this was also a very important change in the Church amendment last year.

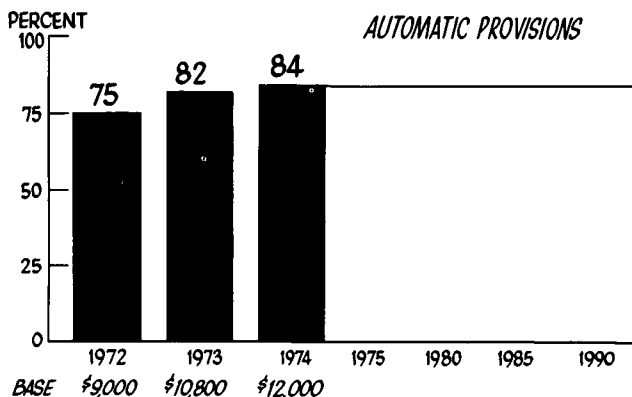
Senator PERCY. You say this is an automatic adjustment to try to continue to make the Social Security system more progressive rather than regressive?

Commissioner BALL. It maintains the same relative position as wages rise.

If you did not do that, it would become more (see chart No. 12) regressive. It just stays the same under this provision. At \$9,000, 75 percent of all of the workers had all of their earnings covered. Now,

CHART NO. 12

## PERCENT OF ALL WORKERS IN COVERED EMPLOYMENT WITH ALL EARNINGS COVERED



at \$10,800, 82 percent, and at \$12,000, 84 percent, and it will be maintained automatically, so that in the future, it will stay the same.

Now, the next chart (see chart No. 13) is still related to the issue of

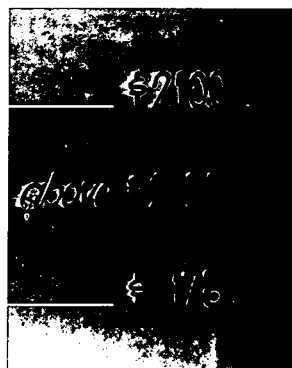
CHART NO. 13

## THE AMOUNT A BENEFICIARY CAN EARN . . . and still get benefits

ANNUAL EXEMPT AMOUNT\*

\$1 FOR \$2 REDUCTION

MONTHLY EXEMPT AMOUNT \*



\* FIGURES ARE FOR 1973;  
WILL BE AUTOMATICALLY  
INCREASED IN FUTURE  
AS EARNINGS LEVELS RISE



how much people get. It is a presentation of the so-called retirement test, which I guess is the most controversial of all of the provisions of the Social Security law; more bills get introduced on this subject every year than practically anything else.

I would like to make two or three points: If we go back to the first chart, and you accept the idea as I do, that the fundamental purpose of the program is to partly make up for wages that are lost when people retire, lost completely or reduced, then you need some kind of a test so that you can roughly say there has been a loss, before you make a payment.

If you abolish the retirement test altogether, then you will pay people who reach 65, who have full-time jobs and are earning just as much as when they were younger. If you abolish that test, you will pay mostly full-time workers, and it will cost about \$4 billion a year.

You have to increase the combined employee-employer contribution rates about 1 percent a payroll, and most of that money will go to full-time workers.

I think the test that was in effect before the change in H.R. 1 was correctly subject to a lot of criticism. There was a situation in which a person could actually be worse off in terms of net income by working more and earning more, because there was a dollar for dollar reduction of benefits above a certain level of earnings.

That has been changed. Now, there is no reduction at all in Social Security benefits if earnings are less than \$2,100, but the real reform is that for all earnings above \$2,100, only \$1 in benefits is withheld for each \$2 of earnings. So you can now say to everybody, the more you work and earn, the higher your spendable income will be. There is no longer the disincentive to employment that there was in the old test.

Here on the chart there is shown a point, that frequently gets misunderstood.

There is an overriding provision, that says, regardless of annual earnings, if in any month you earned less than \$175—or if you are self-employed, and you do not engage in substantial gainful activity—you get your benefits for that month.

The removal of the work disincentive, reflecting the President's recommendation, was adopted by the Congress, and I think it quite well solves what has been a persistent problem in the test. Now beneficiaries will be better off, the more they work and earn. I guess I am pleading with you not to eliminate the test completely; I think the money would go in the wrong direction.

Senator FONG. What salary must one have before he loses every dollar?

Commissioner BALL. That would depend on the benefits that he was drawing, because, you see, it is \$1 for \$2 reduction in his benefits, so it is possible now for a man and wife getting higher amounts to get some Social Security benefits, even if he is earning up in the \$7,000 and \$8,000 level. A person getting very low benefits, of course, would no longer be getting benefits at lower earnings levels.

Senator PERCY. Mr. Chairman, and Senator Fong, I think we might take a minute here on this particular point, because as the Commis-

sioner says, this is the area where more legislation has been introduced, and I think it is the area where there is an honest difference of opinion between the House and the Senate.

I think it is our feeling that when a person works all his life, and then he is a recipient of Social Security payment that is below the poverty level, that it is degrading for that person to then have to make application for welfare payments, and get a welfare check and a Social Security check, when it comes out essentially of the same pocket.

Our feeling has been that we ought to move the payment up at the low end to remove the possibility that a person who has worked all his life, paid into Social Security, remains below the poverty line. We know many elderly cannot exist on what they are getting. They are eligible for welfare and have to go through the degrading experience of applying for it, or they are so proud they do not want to apply. They are, therefore, living on an income at a level which is below adequacy for survival and well-being, and their poverty ends up in creating high health costs and other problems.

Could you give us your feelings and guidance on whether we should continue to persist in this area of raising that earnings limitation, not to necessarily benefit those who are working and earning a living, but to press very hard at the low income area to see that we remove the disincentive to continue to earn, when they need to earn, to bring their earnings up to an adequate level for survival?

Commissioner BALL. Senator, I am 100 percent in agreement with your objective, but I do not think you could do it this way. The problem is that most people who are in need of income after 65 are not able to go out and get a job. Liberalizing the retirement test is not the way to help them.

The way to help them is through improvement in Social Security generally. In this way you would pay the money to people who do not and cannot work, as does the supplemental system which we will be discussing in a few minutes.

First of all, nobody over 72 is affected by the test, and the great majority you are talking about who are below 72 do not work. They have been retired by their employers, or they themselves think they are unable to work. Many are disabled to the extent where they do not feel they can get a job. Even when they think they can work where employers have retired them, they usually cannot get other jobs, so that I would say that the overwhelming group of retired older people with low income would not be helped at all by changes in the retirement test.

Very few people are holding back from working after 65, on the ground of the retirement test—for most of them the problem is that they cannot get a job.

Senator CHURCH. Now that we have this up to \$2,100, it does provide a cushion for those that can and do work to raise themselves above the poverty level, if they can find work?

Commissioner BALL. Yes; if you are thinking of just the poverty level, as Senator Percy indicated, you are absolutely right, Mr. Chairman. There is no effect on the benefit at all, for the first \$2,100, and even above that, the reduction is only \$1 for \$2.

Senator CHURCH. There is one argument against this retirement test that I found very impressive, and that has to do with working people who feel that the program discriminates in favor of people who have income from other sources besides their own work.

In other words, if you happen to be advantaged and have a rental income, or have income from dividends, or from bonds, that does not count.

You can have all of that income and get your full benefit of your Social Security besides, but if you have to work for the additional or supplemental income, then you are subject to this test, and very much limited in the amount you can supplement your income before you have to pay a penalty.

The argument is the present system tends to favor the advantaged to have other sources of income and work against people who must work.

Commissioner BALL. Mr. Chairman, I think you have raised a point that really goes to the fundamentals of the system.

If what you are trying to do is provide insurance against the loss of earned income, because of retirement, disability, or death, what you want to do is to partially replace that earned income, and then you have a program that can serve as a base to which you hope people will add their own income from savings. You hope that private pension plans will be added to it.

But if you start to take into account whether people have dividends or money in the bank or private pension plans, you are into a welfare program, and you discourage people saving on their own.

Why would a private employer have a pension system, if the result would be that the pension would count under the retirement test so that nobody would get his Social Security? Why would an individual save up and buy stocks and get dividends, if the result would be he would not get his Social Security?

The genius of the Social Security approach is to not have an income test and to thereby encourage private pensions and individual savings. The risk insured is loss of earnings and benefits are paid when earnings are lost or greatly reduced. Income, such as dividends, that was paid before retirement and after retirement is just not part of the loss of earned income and shouldn't be part of a retirement test. It should be taken into account only in an assistance program.

I am aware of this criticism just as you are, but I really think it misrepresents the fundamental nature of the program. If we go that way, we are into a regular welfare system.

Senator FONG. What would it cost if we were to eliminate the earnings test entirely so that between ages 65 and 72 you can get all you can earn?

Commissioner BALL. It would cost about \$4 billion a year.

One thing people say sometimes is, "I have paid for it. At 65, why don't you give it to me?" The point is, what they have been paying for is not an annuity at 65; you have to think of it as an insurance against the loss of income due to retirement. If they do not retire at 65; then they do not get the payment until 72; there is an absolute annuity at 72.

Senator CHURCH. People have come to regard Social Security as a kind of annuity, rather than as an insurance against loss of income.

Commissioner BALL. If you made it an annuity program at age 65, it would be more expensive, \$4 billion a year more expensive. Do you want that \$4 billion to go to about a million and a half people, mostly full-time workers among the aged, when you could instead use that \$4 billion to improve benefits for people who cannot work after 65?

Senator CHURCH. May I ask at this point, I think it fits in here well, as I understand it, since we have enacted H.R. 1 at the end of the last session, the rate of contribution by the employer and employee has been stabilized at 5.85 percent, and by virtue of the other provisions of the law, that is to say the automatic provision due to cost of living, and the automatic adjustment in the level of wages covered, it is contemplated that that fixed 5.85 percent will not be increased further for a good long while to come.

Now, do you feel confident this will actually occur, or can we expect other payroll tax increases other than those already on the books?

Commissioner BALL. Senator, could I turn to this chart (see chart No. 14) so the members of the committee could see those figures, and then I will respond.

CHART NO. 14

## COMPARISON OF CONTRIBUTION RATES UNDER PRE-1972 LAW AND TODAY EMPLOYER-EMPLOYEE, EACH

CALENDAR YEARS	OASDI		HI		TOTAL	
	PRIOR LAW	PRESENT LAW	PRIOR LAW	PRESENT LAW	PRIOR LAW	PRESENT LAW
1972	4.60%	4.60%	0.60%	0.60%	5.20%	5.20%
1973-1975	5.00	4.85	0.65	1.00	5.65	5.85
1976-1977	5.15	4.85	0.70	1.00	5.85	5.85
1978-1979		4.80	0.70	1.25	5.85	6.05
1980			0.80	1.25	5.95	6.05
1981-1985			0.80	1.35	5.95	6.15
1986			0.80	1.45	5.95	6.25
1987-1997			0.90		6.05	6.25
1998-2010						6.25
2011+		5.85				7.30

Senator CHURCH. Yes, please. I think we should put this on the record, because we probably will receive a good deal of mail from working people as they feel the impact of this 5.85-percent rate, and I would like to have a forecast of whether that will actually hold, or whether the Commissioner feels it will not.

Commissioner BALL. Now, this is a comparison of the contribution rates under the old law, pre-1972, and today. This takes into account both the changes that were made in the debt ceiling bill amendment and H.R. 1, and it is separated between the cash benefit program and the hospital insurance program and also shows the total.

I have separated it, because the situation is a little different for cash than it is in hospital insurance.

For hospital insurance, I think any forecaster will tell you, you are going to have to have increases in the rates, and the projection shows that. But in the cash program, which is what you are largely referring to, Mr. Chairman, the rate that people are paying today, 4.85 percent, the employer pays that and the employee pays that—actually drops just a little bit, in 5 years to 4.80, and then remains level until 2011. So you can think of this being at a level rate well into the next century. This financing is enough, not only to meet all of the benefit costs and administrative expenses that fall due during this period, but to pay for those increases related to the cost of living, and higher earnings as I previously described it.

The wage base will go up, but these rates will be sufficient to carry the program through this period. I have a lot of confidence in that.

Senator CHURCH. That is up to year 2011?

Commissioner BALL. Yes. The population situation here is important. The relatively low rate, of 4.8 percent up to 2011 is possible because of the fact that the program has now achieved, and will continue to have during this period, a relatively stable balance between the proportion of beneficiaries in the country and the proportion of wage earners who are paying in. In other words, the people paying in, and the people Social Security is paying, will on the average stay relatively in the same relationship during this whole period. These same percentage of payrolls will carry the cost, and if you take into account rising wages, you will get enough money to keep up to date with the cost of living.

Beginning about 2011, a problem arises because of the large number of children born in the 1940's and 1950's. In the next century they become the retired population. But because of the lower birth rate since 1960 you will have a higher proportion of people drawing benefits, and a lower ratio of those paying in to those receiving benefits. Thus the contribution rate will need to be higher in the next century.

We have very considerable confidence, given the present program and its automatic provision, that there is no reason to raise the rates for the cash benefit program for the next 40 years. There is, built in, a considerable margin of safety in the actuarial estimates. It is actually a more conservative projection than what we think is most likely to occur.

We could have gotten a lower rate, if we said what is the most likely thing to happen in wages and prices. But we figured that, to be safe, let us put in an extra margin. Now, of course, higher rates will be required for any liberalizations beyond those in present law.

The hospital insurance program was very much underfinanced prior to the Church amendment, and a large part of the tax increase

that people are now paying, was to restore the hospital insurance program's actuarial soundness rather than for the cash benefit increase. Under present law, as you see, people are now going to be paying 1 percent for hospital insurance, which, when combined with the 4.85, is 5.85 up through 1977. Then there are relatively minor increases, all attributed to hospital insurance increases, on up for the rest of the century. The cash rate stays just about the same, but the hospital insurance rate is increased to 1.4 percent.

Senator PERCY. I think these assurances will be very, very helpful to those who are much concerned about where we are going with these rates, and they are worth the whole set of hearings alone.

I would like to make one last comment on the point that was raised before on exemptions for earned income.

I know of no point that older people are more sensitive on than this fact that unearned income is exempt, but earned income is discriminated against.

It is my belief this is a depression-born idea to force people off payrolls because of a lack of jobs.

If the economy stays as good as I think it will for several years ahead, we ought to have that disincentive for people who really need to work.

They are not going to work unless they have to. The tendency is for people, if they can, to retire earlier than 65. They are not going to work at 67 or 68 if they do not have to, I do not think, but when they do have to, to them to find a job that only pays them \$2,100 is tough; they cannot get such a job, and yet they have a real incentive to earn more.

Commissioner BALL. If they earn \$3,000 instead of \$2,100, then they are going to be able to keep \$450 of that extra earnings, so they are still better off.

Senator PERCY. They are still better off, but—

Commissioner BALL. Obviously they would have more incentive than under the old system.

Senator PERCY (continuing). Older people worry about a lot of things, and little tiny things upset their lives, and it is not a tiny thing to work that much and have the money taken away, on the assumption that they are getting by fine, when they have really no discretionary income.

I think there are more people than we may think that would like to work.

In Chicago, we just had the benefit of the Kirschner survey taken this fall. The study showed that 26 percent of the old people surveyed did not have enough money for food and clothing.

Now, that was an exhaustive survey, and yet, not wanting to go on welfare, only 5 percent of the older people are on welfare. Even though there is a demonstrated need. So I still think this is one area to work on. It is not the whole answer, of course, but I think the earnings limitation is one area of annoyance that we ought to keep working on, and see if we can increase this steadily and modestly. We need to get away from this situation where if you can have unearned income, you can have it unlimited, and no deduction from your Social Security, but if you earn more than \$2,000 you would pay a penalty. I think it is im-

portant to remove at least a part of that annoyance, and I want to make that point on the record, because I think we are going to persist on that area. Our majority leader feels very, very strongly about this.

Commissioner BALL. I would be interested if that survey had any way of indicating how many of that 26 percent thought they could work, and how many of them really had any chance for a job. If as I suspect it is not very many, then you ought to go after the problem of the 26 percent in another way.

Senator FONG. Let me ask a question.

How do you arrive at the escalation figure?

Commissioner BALL. How is that projected?

Senator FONG. Yes.

Commissioner BALL. The assumption is a 5 percent a year increase in general wages.

Of course, whatever the wages actually do will determine how much the base goes up.

We will look at all covered wages, and the percentage increase in covered wages they rise will be applied to the wage base. Thus, the base will be proportionately increased, rounded to the nearest \$300. But if you are asking what kind of a projection we make for our own estimate, it is a 5-percent a year increase over the long run.

Senator FONG. In other words, every year the wages go up 5 percent, and then the base amount is increased 5 percent?

Commissioner BALL. It only rises in a year in which there is a cost-of-living increase, and that is whenever there is a 3-percent increase in the cost of living then the wage base goes up by whatever percent average wages have actually risen.

Senator HANSEN. Commissioner Ball. I would like to raise a point. I can share, and indeed do, the concerned expression expressed by Senator Percy, reflecting the extreme interest in older people, those 65 and above, but less than 72, who now are forced to see their Social Security payments reduced \$1 for each extra \$2 that they have earned above the \$2,100 a year, as I understand it.

Commissioner BALL. That is right.

Senator HANSEN. Now, granted that there is that concern for those in the age group 65 to just under 72, I think we should note the impact that would result from the imposition of the extra \$4 billion cost of eliminating the work test. I understand you say it would put this program out of balance by that amount if we were to wipe out entirely the present limitation on earnings on those between the ages of 65 and 72.

Commissioner BALL. That is correct. You would have to change these contribution rates.

Senator HANSEN. And my guess is, if you were to come up with some projections, or some suggested schedules, that would do one of two things, or perhaps both of these things, one to increase the percentage contribution, and, second, to raise the maximum limit sooner, the \$10,800 where it is now, you would hear from another group of people who would voice some very real concern too.

I am thinking about young people who are starting families, maybe they have two, three, four children, and they have a tough time now

trying to make ends meet, and I suspect we might find in trying to allay or to satisfy the concerns of those on the one hand, we would excite some very real concern of a great many people on the other hand; would you not agree that is right?

Commissioner BALL. Yes, Senator. My feeling is that these contribution rates have now gotten to the point where any further improvements in Social Security need to be very carefully considered. We ought to be absolutely sure that this is the thing we want to spend money on to get the most for the contribution dollar. This one change alone of dropping the retirement test would turn this 4.85 figure, I would guess, probably to about 5.35 and preempt whatever else you might want to do. Or else you would have to bring in general revenues or some other way of financing the changes.

Senator HANSEN. And, of course, while the chairman has pointed out there was speculation that general revenues would be called on in greater amounts than they are now, nevertheless, the whole concept of this program was, and generally speaking, in its broad concept is a program that has been self-supporting.

We have been able to fund the benefits by the taxes imposed on workers and employers, and on the self-employed.

Commissioner BALL. Yes, this is an entirely self-financed program. The exceptions are for special purposes, and really do not violate the concept of a self-financed system. There are things like free wage credits which were given to the Armed Forces and which are supported by general revenues, and some blanketing in of people over 65 for hospital insurance purposes when Medicare started. Leaving aside such very special purposes, this schedule produces a self-financed system.

Senator HANSEN. It seems to me important to keep in perspective the full picture. Though we can all agree that we would like very much to extend the added benefits that would accrue to those above age 65, who are employed, the advantages of the proposal to which Senator Percy addressed himself, we have to look at what it would do to people just starting out. As the Commissioner has pointed out, he feels before we raise these rates any more, we have got to be very, very certain that we are on the right course, and with that I agree completely.

Senator DOMENICI. Mr. Chairman, Mr. Commissioner, you indicated 50 percent of those covered are over 72, and you said a very small number of the rest would come within the exempt group seeking additional amounts.

Commissioner BALL. Most of the rest do not work at all.

Senator DOMENICI. What is the percentage that we are talking about; if you have a \$4 billion figure, you must have some idea about what percentage or some measurement of people?

Commissioner BALL. It is about a million and a half people, who are not now getting full benefits. If the test were eliminated, all these people would get full benefits. So you are talking about \$4 billion going to largely a million and a half people out of the 20 million or so aged.

Senator DOMENICI. Of course, we could never do anything but speculate on those that are annoyed, to use Senator Percy's language. We



do not have any surveys to show that they would work if they could earn more money.

Commissioner BALL. I think that the people who are bothered by this are those who have deliberately limited the amount of work that they do to stay under the exempt amount and those earning above that amount. The total figure you have is about a million and a half.

A million and a half people can make a lot of correspondence, but it is not the big part of the retirement program.

Senator DOMENICI. I have one other question, Mr. Chairman. You have addressed yourself in passing, using the words "widow, retired person, and widower."

I assume we have had some significant changes in the work habits which have some effect on women's lib and the like in terms of all of this problem. Are you going to address yourself to any of that, the differences between a widow concept a long time ago and a widow concept today in terms of work patterns?

I have had a number of complaints that widows are discriminated against significantly in the system. Are we going to talk about it now?

Commissioner BALL. We might as well talk about it now as any other time.

Senator CHURCH. Discrimination has actually been eliminated by the present law, has it not?

Commissioner BALL. The widow's benefit has been greatly improved. It has gone beyond the 20-percent general increase for everybody. Widows who became entitled to widow's benefits at 65 or later, are now going to get the same amount as the retired worker would have gotten.

Senator CHURCH. So there will be no reduction?

Commissioner BALL. There is a scaling down of a benefit paid to a widow who becomes entitled earlier than that. However, I think the attack on the program, concerning the treatment of women, is not really focused on the treatment of widows. It is more apt to be the question of whether workingwomen are treated fairly in relation to nonworkingwomen. That is probably the biggest argument. Many workingwomen say in effect, I am no better off having contributed myself than a wife or widow who gets her benefits on a derivative basis from her husband's contributions. The working wife says that she has gone to work, and has made these contributions, and she could have gotten just as much. And, of course, there are cases like this, where she could have gotten just as much as the wife.

Now, the theory has been that wives, and widows' benefits are paid because these individuals are dependent upon the earnings of the husband. Then, if the individual wife is actually out working to the extent that she gets a benefit in her own right that is higher than she would get as a wife or widow, she of course gets that benefit, but in itself it is a demonstration that she really was not fully dependent on the earnings of her husband, and so the system pays in effect the larger of the two.

I think you will be hearing continually about the question of treatment of workingwomen under the program, not so much widows, but workingwomen.

Senator CHURCH. I would like to ask you, Mr. Commissioner, a question we have got to cover sometime this morning, and it has been suggested by this line of inquiry.

Just what part of the Social Security program ought to be financed out of general revenues?

You have mentioned the rather minor parts that are now financed out of general revenues, but we are going to be adding very significant supplements to Social Security next year for, really, purposes of supplanting welfare, and we are trying to eliminate poverty among the elderly in this country.

We have one out of four living in this country in poverty, which I think is a scandal, and it seems to me through Social Security we have the best device to eliminate poverty of the retired elderly in this country, so I would like to get our own idea based on the system, of what part do you think, looking to the future, might be financed out of general revenues, without doing violence to the basic concept.

Commissioner BALL. Certainly, Mr. Chairman. The supplemental security income program that you have mentioned that goes into effect in January 1974, is an entirely different kind of program. It is based on a test of need, and to a large extent will take the place of the Federal-State assistance program. It will just be administered by the Social Security Administration. It seems to me that anything like that has to come from general revenues.

The principle upon which supplemental security income will be paid is solely, does this aged, blind, or disabled individual need the money?

The principles of social insurance, on the other hand, are, does he have a record of work and has he contributed? You are making up for those losses of wages, and it does not matter how much savings he has since it is income insurance. So I think that anything that has a test of need in it, should come from general revenues. My own personal view is that the next big important development in the area of income and Social Security for this country is most apt to be in the health area. I do think that we will need to raise the standard in the supplemental security income system. I do not think \$130 per month will turn out to be adequate. You have to push that up and that will cost more general revenue money. I think that the contributory cash Social Security system is in quite good shape. For at least the immediate future, I would not see major changes there. I would personally rather like to see the concept of contributions from general revenue held at least in the near future to the health insurance area.

It seems to me that as you develop further, either Medicare or a health insurance program of more general application, that you are not going to want to do it entirely from the contributions that workers pay and from the payroll tax on employers. As the last Advisory Council said: "A sound argument can be made for general revenues being infused into an expanded health system."

Now, in the cash benefit program, if you leave the program on the benefit side, with the level of protection we have talked about, and do not intend to greatly liberalize that, a logical point at which one might consider general revenues is way down the road, when the contribution rate has to go up.

Senator CHURCH. After 2011 it might be appropriate, but until then, it would seem we have a well balanced and well financed program for retirement income, but on the medical side, I have two questions. Last fall, the Senate adopted an amendment to cover prescriptions necessary for many crippling and life conditions, afflictions of the aged, it did not actually get finalized, but it will doubtless come up this year, and these out-of-hospital prescriptions for prolonged illnesses that require constant medicine, are often a very big burden on retired people.

What do you think of that proposal?

Commissioner BALL. I do not think that anyone can dispute the need for protection against the cost of out-of-hospital prescription drugs. I think what has been going on in the last few years is a combination of evaluating alternative drug coverage plans, both from the standpoint of feasible administration and social insurance policy. It is a difficult administrative problem. You are dealing with an average bill of about \$4 on prescriptions, and there are 300 to 400 million of them a year—as compared with the 40 to 50 million physicians' bills that we deal with—but I do not mean to say it is not feasible.

A major problem is making sure your administrative costs do not turn out to be as high as the benefits, and therefore, a good drug plan has to be very carefully designed and has to be a mechanized plan.

The other alternative is whether drug coverage ought to be handled in a different way, rather than added to social insurance, whether it ought to be a mandatory part of some other program, say, such as Medicaid.

Although the administration has not recommended this, I would personally favor over time that it be included as a regular part of Medicare protection.

Senator CHURCH. That would be my own preference, but I am concerned about the overall scope of Medicare protection.

In 1967, almost 50 percent of the cost of medical care was borne by the Medicare program. Today that has fallen to 42 percent. My question is why, and what should be done about it?

Commissioner BALL. I think the reason that the percentage has fallen, Mr. Chairman, is that the prices have gone up, and with co-insurance and deductible features, in both the hospital and supplementary medical insurance programs, people are having to pay more for themselves.

Equally important is that there is a real dilemma in this program where in order to control costs, we have in recent years taken quite a tough line on what increases the program will recognize, for example, in physician's fees.

Senator CHURCH. If I may interrupt right there, we are concerned about costs to the Government, and so we have taken a tough line on physician fees, and we have determined that only certain fees that represent a fair and reasonable fee will be paid.

What about the costs to the elderly person? The doctor takes that much from Medicare, and then he turns around and gives the patient a supplementary bill which the Government regards as excessive.

Commissioner BALL. Right.

Senator CHURCH. But which the patient must nonetheless pay.

Commissioner BALL. You have described the dilemma I have had in mind very well.

If the Government recognizes just any bill, obviously you exercise no cost control at all. If you go too far in trying to hold down physician's fee increases and therefore don't recognize a substantial proportion of a doctor bill, then the financial burden is switched over to the patient, as you say.

Now, one guide to whether you are turning in the right direction is the extent to which there is a shift from the so-called assignment method to direct billing of the doctor to the patient. As you recall, under the assignment method, the physician has to accept the Government's determination. He is not allowed to bill the patient additionally. Around 60 percent of doctor bills have been submitted under this assignment method for some time now.

My concern has been that if we hold down too much the recognition of physician fee increases, more and more physicians will drop the assignment method and put themselves in a position where they can bill the patient for the additional amount.

Senator CHURCH. Why could not we write the law in such a way the physician would have the option of accepting the patient on Medicare and accepting the amount that is paid, or simply not participating in the program, so that people would know what doctors do participate in the program, and they will know in going to those doctors, they will not be charged over and above what the program pays for given services.

Commissioner BALL. Part of that is possible now.

A patient can ask his physician ahead of time if he will use this assignment method. If the physician says yes, that is a guarantee that he will not charge more.

Senator CHURCH. But most people do not do that. Most people are confused about Medicare, and it is very complicated the way it works, and they have not the slightest notion they can go to a doctor and find out in advance whether he intends to charge them more.

The do not shop around. They find out afterward that they owe \$125 additionally to the doctor.

Commissioner BALL. Would you go so far, Senator, as to refuse to reimburse at all for patients who go to a physician that will not agree to accept a Government determination of reasonable charges as full payment?

Senator CHURCH. I do not know what the answer is, but I am trying to reach for one.

It seems to me that we are not doing the job for the elderly when we leave such a big opening in Medicare as to permit doctors to bill the elderly supplementary over and above what they receive from Medicare, and the amounts they receive from Medicare are very generous, I mean, that we have committees set up in each community to determine what the normal rate is for the services that are rendered, the billing rate, and so they are not being penalized in any sense in terms of the Medicare coverage, but the problem with Medicare and the growing costs of medical treatment is that we do not have a system that in any way regulates or maintains that cost.

It just pays off the top, and the costs keep going up everywhere, and the result is that the percentage that the Government can pay keeps going down, and so we have gotten to the point where we are less than half of the Medicare costs for elderly people we intended to protect by Medicare is borne to the Government.

We are not doing the job. Medicare is failing to accomplish its purpose, and we have to correct the system.

Commissioner BALL. Let me make two points on that. It is not that I disagree with the major thrust, but I'd like to put it in some perspective.

Actually, Medicare reduces about 10 percent of the amounts billed to it. That does not mean that all of that 10 percent is then charged to the patient. If he has an assignment, the patient cannot be charged.

The other thing is that the Medicare law was not written with the objective of paying 100 percent of every medical expense incurred by a beneficiary. I am not saying it should not have been, but it was not. Medicare does not cover drugs; it does not cover long stays in nursing homes—it only covers short-term type of stay. It does not cover dental care, it does not cover eyeglasses; and there are a whole series of other exclusions.

Senator CHURCH. What incentive is there in the present Medicare system for a doctor to handle patients on assignment, except out of the goodness of his heart?

Commissioner BALL. The main incentive, Senator, is that he knows he will get paid.

Senator CHURCH. Yes, but he knows he can get paid, even if he does not take it on assignment.

Commissioner BALL. He does not get it from Medicare. If he does not take the assignment, he bills his patient, thus, he takes his chances on whether the patient pays him or not. To get paid directly is quite an incentive to accept assignment. Physicians are accepting assignment in 60 percent of cases. Particularly where expensive procedures are involved, they really like the assignment method. If it is a \$400 or \$500 operation, they can bill the Government and the Government will pay them.

If they take another route, they may or may not get paid.

Senator CHURCH. If they take the other route, Medicare will pay the patient.

Commissioner BALL. And the physician has to collect from the patient.

Senator CHURCH. But I think under those circumstances, they are more likely to get more by not going the assignment route, than by going the other route, and it seems to me, the people we are not actually protecting, are the people we intend to protect.

There is an awfully big hole in this program.

Commissioner BALL. What I am trying to say, Senator is that, most of the hole does not result from reasonable charge determinations which leave responsibility for some portion of a physician's bill with the beneficiary. Most of the hole is the lack of coverage for dental care, for drugs, and so on, and the fact that there are deductible and coinsurance features.

Senator CHURCH. For the purpose of our record, I think the 60 percent being covered by the assignment method is somewhat misleading, because it varies from State to State.

There are States where most of the doctors do not take the assignment, but elect to preserve their right to charge the patient more than Medicare will compensate.

Commissioner BALL. There is a big difference among States.

Senator CHURCH. And I think it would be helpful if you would supply for the record a State-by-State breakdown.

Do you have those figures?

Commissioner BALL. I can easily get them.

Senator CHURCH. So we would have a better idea how this will vary from State to State.

Senator FONG. Does that cover the cost of doctors' fees and costs of drugs, the breakdown?

Commissioner BALL. We can give you the information that is related to the assignment rate of physicians' bills by State, Senator. Since there is no coverage of out-of-hospital drugs, there is, of course, no comparable information in the drug area.

Would that be helpful to you?

Senator FONG. And categorize it, doctors' fees and drugs.

Commissioner BALL. I believe we can do that.

(The information follows:)

*All claim assignment rates<sup>1</sup> by State, fiscal year 1972*

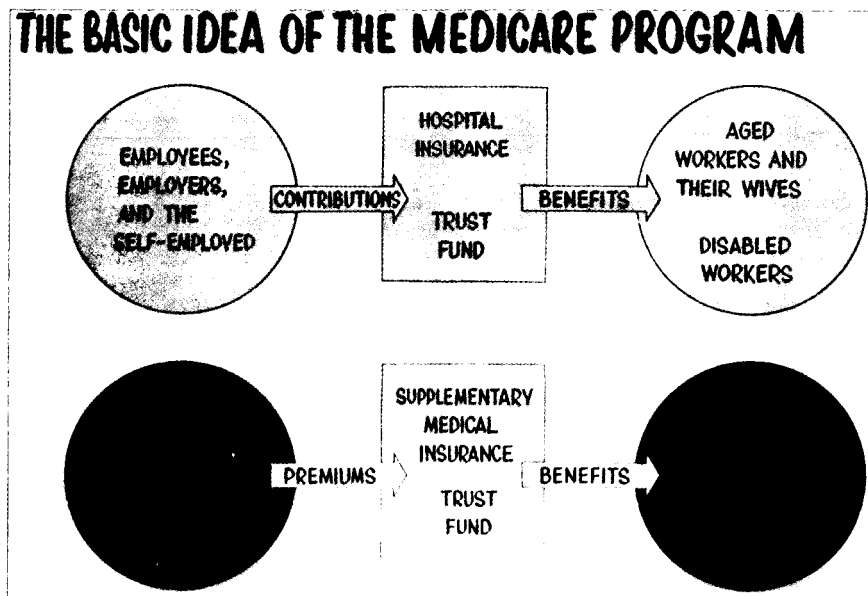
Area	Percent	Area	Percent
National average-----	60.6	Dallas region:	
Boston region:		Arkansas -----	60.9
Connecticut -----	76.3	Louisiana -----	62.1
Massachusetts -----	81.4	New Mexico -----	60.9
New Hampshire -----	67.6	Oklahoma -----	69.1
Vermont -----	75.6	Texas -----	70.0
Rhode Island -----	79.2	Kansas City region:	
New York region:		Iowa -----	44.8
New Jersey -----	57.6	Kansas -----	70.6
New York -----	50.5	Missouri -----	60.6
Puerto Rico -----	62.9	Nebraska -----	54.3
Virgin Islands -----	47.4	Denver region:	
Philadelphia region:		Colorado -----	72.0
Delaware -----	60.1	Montana -----	35.4
District of Columbia -----	54.6	North Dakota -----	59.9
Maryland -----	64.1	South Dakota -----	42.8
Virginia -----	60.5	Utah -----	54.5
Pennsylvania -----	65.5	Wyoming -----	42.9
West Virginia -----	65.2	San Francisco region:	
Atlanta region:		Arizona -----	35.3
Alabama -----	77.7	California -----	64.7
Florida -----	41.6	Hawaii -----	38.6
Georgia -----	76.5	Nevada -----	49.0
Kentucky -----	76.1	Seattle region:	
Mississippi -----	82.7	Alaska -----	54.7
North Carolina -----	68.2	Idaho -----	42.0
South Carolina -----	70.8	Oregon -----	40.9
Tennessee -----	64.8	Washington -----	55.9
Chicago region:		Other:	
Illinois -----	55.5	Railroad Retirement Board—	
Indiana -----	43.6	all States-----	54.7
Michigan -----	68.9	Social Security Administra-	
Minnesota -----	46.8	tion—direct reimburse-	
Ohio -----	38.1	ment—all States -----	100.0
Wisconsin -----	59.1		

<sup>1</sup> Definition: All claim assignment rates = ((number of assigned SSA 1490's received plus number of SSA 1554's and SSA 1556's received) ÷ total number of claims received) × 100.

Commissioner BALL. Mr. Chairman, we were just at the point where I was going to remind you of what the Medicare program now provides. We have discussed what it does not provide at some length. In relation to the things we have been talking about, you remember that

hospital insurance is similar to the cash benefit program in its whole approach. (See chart No. 15.)

CHART NO. 15



People pay for it while they are at work, and then they have the protection automatically at 65. That is the way it is set up. It is deferred insurance toward which they contribute throughout their

CHART NO. 16

## MEDICARE ELIGIBILITY

### HOSPITAL INSURANCE AND SUPPLEMENTARY MEDICAL INSURANCE

#### PERSONS AGE 65 AND OVER

- ALL PERSONS ELIGIBLE FOR MONTHLY CASH BENEFITS
- UNINSURED PERSONS "BLANKETED IN" IN EARLY YEARS OF PROGRAM
- OTHER UNINSURED PERSONS WHO PAY FULL COST FOR HI PROTECTION (\$33, EFFECTIVE 7/1/73)

#### PERSONS UNDER AGE 65

- ALL PERSONS RECEIVING MONTHLY CASH DISABILITY BENEFITS FOR 24 CONSECUTIVE MONTHS
- CERTAIN CHRONIC KIDNEY DISEASE PATIENTS WHO ARE FULLY OR CURRENTLY INSURED OR ARE RECEIVING MONTHLY SOCIAL SECURITY BENEFITS (OR WHO ARE DEPENDENTS OF SUCH PERSONS)

working lifetime. Under the present law, the individual typically has his full hospital care paid for after paying a deductible which is now \$72. (See charts No. 16 and No. 17.)

## CHART NO. 17

# HOSPITAL INSURANCE

## *Covered Services:*

### INPATIENT HOSPITAL CARE

- 90 DAYS PER BENEFIT PERIOD
  - 60 DAY LIFETIME RESERVE
- DEDUCTIBLE — \$72  
 COST SHARING — PATIENT PAYS \$18 PER DAY FOR 61<sup>ST</sup> THRU 90<sup>TH</sup> DAY  
 — PATIENT PAYS \$36 PER DAY FOR EACH OF LIFETIME RESERVE DAYS USED

### POST-HOSPITAL EXTENDED CARE

- 100 DAYS PER BENEFIT PERIOD
- COST SHARING — PATIENT PAYS \$9 PER DAY FOR DAYS BEYOND 20

### POST-HOSPITAL HOME HEALTH SERVICES

- 100 VISITS

Most hospital stays are within the 90 day benefit period, and only 2 percent or so run up to a point where there has to be any coinsurance, so most people have their actual hospital care insurance paid for after a \$72 deductible. In addition, after you have been in a hospital for at least 3 days, there is a provision for 100 days of post-hospital extended care, in what we call a skilled nursing facility, but only 20 days of extended care are paid for in full. There is co-insurance after the first 20 days, there is also provision for posthospital home health services—including skilled nursing services and other types of skilled care that can be provided in the home. This is essentially what the hospital insurance part of Medicare is about.

In addition, the supplementary medical care program (pt. B) is a voluntary program. This whole program is kind of an aberration in social insurance. It is voluntary, you may elect to enroll when you are 65, and you pay a premium that is matched by the Government. (See chart No. 18.)

You remember that every year, the Secretary promulgates a premium that is estimated to be sufficient when the Government's matching contributions are added to carry the program in the following fiscal year. People are presently paying \$5.80—beginning next July, it will be \$6.30. This is primarily for physicians' fees, which you and I were talking about a minute ago. Under part B there is a deductible of \$60 in the calendar year, and then the plan reimburses 80 percent of what has been determined to be reasonable charges.



As you see, when you put these two parts of Medicare together, quite a few things are left out that are nevertheless matters that are part of the total health bill for people 65 and over, and that is what accounts for Medicare reimbursing less than half of total expenses—the deductibles and coinsurance, the lack in coverage in drugs, long-term nursing care, and so on.

CHART NO. 18

## MEDICAL INSURANCE

DEDUCTIBLE-- \$60 PER CALENDAR YEAR

COINSURANCE-- PATIENT PAYS 20%

### *Covered Services*

PHYSICIANS' AND SURGEONS' SERVICES

OUTPATIENT HOSPITAL SERVICES

HOME HEALTH SERVICES

•100 VISITS A YEAR (*WITH NO COINSURANCE*)

OTHER HEALTH SERVICES

### Includes:

• OUTPATIENT PHYSICAL THERAPY AND SPEECH PATHOLOGY • CERTAIN CHIROPRACTIC SERVICES • LABORATORY SERVICES • PROSTHETIC DEVICES • RADIATION THERAPY • AMBULANCE • DIAGNOSTIC X-RAYS

*ENROLLEE PAYS \$5.80 PER MONTH (\$6.30 PER MONTH AS OF 7/1/73)*

Senator CHURCH. One of the problems of this setup, it seems to me, Mr. Commissioner, is that this coinsurance can easily become a racket.

Any number of people are paying out premiums for coinsurance, thinking that anything that is not covered by their Medicare will be covered by their private insurance, and quite apart from those who cannot afford to carry private insurance, those who have to rely basically on Medicare, many of the people who do carry it, find after they get their bills, their insurance covers a very small part of any additional amount they have to pay, in other words, that there is an awful lot of misunderstanding here, and a lot of insurance premiums being paid that do not give effective coverage to the people that rely on them.

Commissioner BALL. I am sure that there are some policies like that, Mr. Chairman, but many supplemental policies do fill in. About half of the people over 65 have private insurance giving supplementary protection. They buy it from Blue Cross/Blue Shield, or from commercial companies, and these policies do fill in the various cost-sharing expenses that we have been talking about.

Senator CHURCH. I was talking about the medical gap.

Commissioner BALL. I sometimes thought maybe the premiums were a little high on some of these policies but I was not aware that there was a major problem of failure on the part of the companies to come through with the protection.

Senator CHURCH. I think the confusion is that many people continue to carry Blue Cross and other coverage they have had before they reached 65, and continue to pay premiums on it, and so on, and then they find out that their coverage is not what they expected it to be, after they actually get sick.

Commissioner BALL. What Blue Cross and Blue Shield have done is to redesign a plan beginning at 65 to cover just what Medicare does not cover and to fill in these gaps.

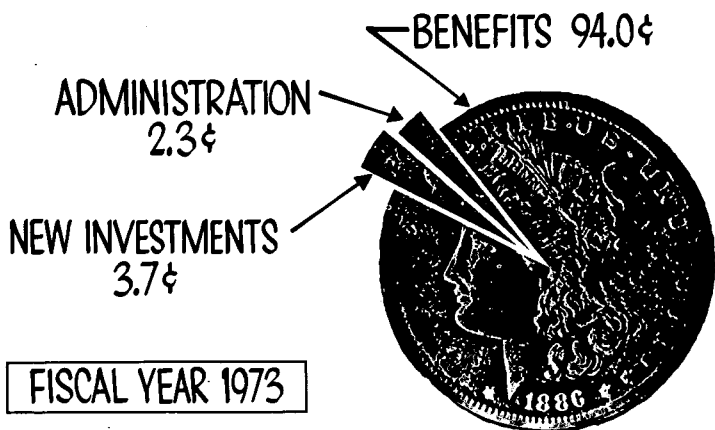
Senator CHURCH. Those plans are good, but an awful lot of people do not have them, and what they do have is not adequate for their needs. I do not know how the Government can cope with that, but I do know that there is a lot of confusion.

Commissioner BALL. About half do not have supplemental protection at all. You are right, Mr. Chairman.

Now we have talked about some of the contributions—this chart indicates what they go for. (See chart No. 19.) In the course of a par-

CHART NO. 19

## HOW THE SOCIAL SECURITY DOLLAR IS SPENT



ticular year, like fiscal 1973, out of every Social Security dollar that comes in, 94 cents goes out in benefits, and 2.3 cents will go for administration, which I think is remarkably low. It compares very favorably with any comparable sort of system. The least that goes for administration within limits, the more there is for people.

Three and seven-tenths cents goes into new investments. We have not gone off the idea of having a contingency reserve. The method of financing has changed in that we no longer project a growth of a huge earnings reserve, but nevertheless the reserves do grow sufficiently to

provide a reasonable contingency against anything that one could project in the way of large scale unemployment, and, as you see, in this fiscal year, 3.7 cents out of every dollar was going to build the reserve.

Senator FONG. What kind of return are you getting from the investments?

Commissioner BALL. The investments are almost entirely determined by a formula in the law that relates to the amount which the Government as a whole is getting on its long-term investment.

The overall return is 5½ percent. Now, it is as low as it is because many of the investments were made many years ago, when interest rates on long-term Government investments were lower. New investments are drawing at the rate of 6 to 6½ percent, but the average is about 5½ percent.

Senator CHURCH. Does the law restrict you to investments in Federal bonds?

Commissioner BALL. Investments are restricted to Federal securities, and to securities guaranteed as to principal and interest by the Government.

Now, the trustees can go into the open market, and buy Federal securities, but most trust fund investments are special issues issued to the trust fund. The interest rate on these issues is set according to the formula that I have broadly described.

Now, this chart (see chart No. 20) shows in dollars the contribu-

CHART NO. 20

## PROGRESS OF THE TRUST FUNDS AFTER 1972 LEGISLATION

( in billions )

CAL. YR.	INCOME			CAL. YR.	OUTGO		
	CASH	HI	TOTAL		CASH	HI	TOTAL
1972	\$ 46.2	\$ 6.3	\$ 52.5	1972	\$ 43.2	\$ 6.8	\$ 50.0
1973	54.7	11.3	66.0	1973	53.7	8.4	62.1
1974	61.0	12.9	73.9	1974	56.7	10.3	67.0
1975	66.0	14.0	80.0	1975	62.0	11.8	73.8
1976	69.7	14.9	84.6	1976	65.1	13.3	78.4
1977	75.4	16.0	91.4	1977	71.5	15.0	86.5
CAL. YR.	NET INCREASE IN FUNDS			CAL. YR.	ASSETS, END OF YEAR		
	CASH	HI	TOTAL		CASH	HI	TOTAL
1972	\$ 2.9	\$ -0.5	\$ 2.4	1972	\$ 43.4	\$ 2.6	\$ 46.0
1973	1.0	2.8	3.8	1973	44.4	5.4	49.8
1974	4.4	2.6	7.0	1974	48.8	8.0	56.8
1975	4.0	2.3	6.3	1975	52.8	10.3	63.1
1976	4.6	1.5	6.1	1976	57.4	11.8	69.2
1977	3.8	1.1	4.9	1977	61.2	12.9	74.1

tions we were talking about earlier. I have divided it into cash, hospital insurance, and total.

This shows the income and the outgo of the funds and the assets in the trust funds at the end of the year by calendar years.

As you can see, the total outgo of the system in calendar year 1974 will be \$67 billion without counting outgo from the supplementary medical insurance.

This special voluntary program brings it up to \$70.7 billion.

On the other hand, the contributory program will be taking in almost \$74 billion, so you will be increasing the reserves of these funds by \$7 billion, to assets of about \$56.8 billion at the end of 1979 on up to a little over \$74 billion 5 years from now.

So the point I am making here is that the big change to contingency reserve finance was that we no longer have rates written into the law that show the accumulation of huge funds into the next century of several hundred billion dollars.

It is clear this was not going to take place anyhow, but when we switched over to a contingency reserve we aimed at having the reserve roughly somewhere between 75 and 125 percent of the next year's outgo.

Senator CHURCH. Are you certain that is sufficient to take care of any downturn in the economy?

Commissioner BALL. It seems to me without question it is sufficient.

A reserve equal to the next year's outgo would last you through almost any conceivable size of a recession.

Senator CHURCH. Mr. Commissioner, there is a story in the Associated Press, that I want to get to before we conclude our hearing, and that is, it really has to do with your forthcoming resignation, and it goes on to say that the White House had announced that there will be new direction in the operation of the system in the future, a system which now provides benefits to one of every nine Americans. Do you have any idea what these new directions may be?

(The article follows:)

[Idaho Statesman, Jan. 6, 1973]

#### SOCIAL SECURITY FACES REVAMP BY WHITE HOUSE

WASHINGTON (AP)—The White House confirmed Friday that Robert Ball is stepping out as Social Security administrator and promised "there will be new direction" of the vast social insurance system.

Press Secretary Ronald L. Ziegler said Nixon has accepted Ball's resignation "with appreciation for his services and contributions" in his decade as head of Social Security.

Ball's successor was not announced, but Ziegler said "there will be new direction" in operation of the system which provides benefits to one of every nine Americans. Ziegler also announced the President has accepted "with deep regret" the resignation of Andrew E. Gibson as assistant secretary of commerce for domestic and international business.

Commissioner BALL. No; I do not.

Senator CHURCH. That Mr. Ziegler referred to?

Commissioner BALL. No, not the slightest. I was surprised to read that.

Senator CHURCH. You are no better informed than the Congress.

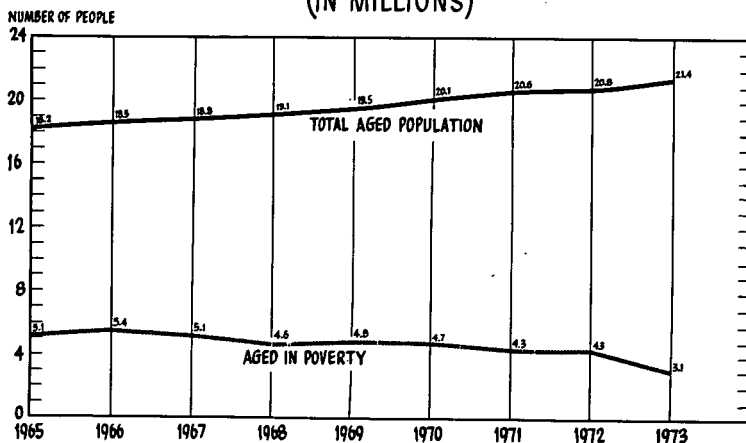
Commissioner BALL. No.

Senator CHURCH. All right.

Commissioner BALL. Mr. Chairman, what this chart (see chart No. 21) indicates is what has happened to the numbers of old people in

CHART NO. 21

## COMPARISON OF NONINSTITUTIONALIZED AGED IN POVERTY WITH TOTAL AGED POPULATION (IN MILLIONS)



poverty. Remember, this is just absolute numbers. This is a scale on the left that goes from zero to 24 million, and it is not a proportion. The total number of aged has been growing too, of course, but in 1965, we had 5.1 million older people below the Government's official poverty level, and that has been very, very slowly declining over the years, as a result of the most recent changes in Social Security. This will drop in 1973 to about 3.1 million older people still in poverty, and that is related to a total population of 21.4 million 65 and over. It is still obviously not good enough, but we have been making progress.

Senator FONG. What is the poverty figure?

Commissioner BALL. The 1972 poverty figure is \$1,980 for a single person and \$2,520 for a couple.

The number of people on old age assistance has been gradually going down until it is now about 1.8 million; the number on Social Security, of course, has been correspondingly increasing (see chart No. 22).

As this next chart shows, in 1950 you had 22 percent, 220 out of a thousand, 22 percent of the aged on old age assistance; that is, had to go to a needs test program. Today you have somewhat less than 10 percent.

Senator CHURCH. With the supplemental income program, do you expect that nearly all these people can be moved off of the welfare rolls?

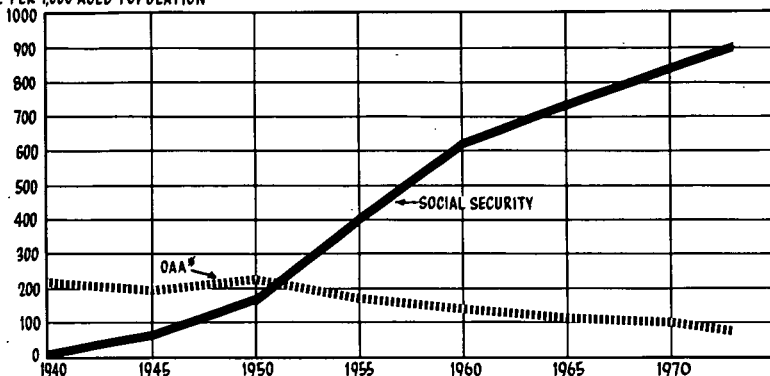
Commissioner BALL. I have to agree that the supplemental program is an assistance program, and as a matter of fact, because of certain features of the Federal program, there will be more people on it,

because there will not be some of the restrictive features that some States now have, and if we could perhaps turn to that—

CHART NO. 22

## PEOPLE AGE 65 AND OVER SOCIAL SECURITY AND OAA\*

RATE PER 1,000 AGED POPULATION



\* OLD AGE ASSISTANCE

Senator CHURCH. You might move into that. That was to be the concluding phase of this hearing this morning.

Commissioner BALL. The principle of this supplemental security income program is that it is a basic payment from the Federal Government, of \$130, from general revenues (see charts No. 23 and No. 24).

CHART NO. 23

## OUTLINE OF PRESENTATION ON SUPPLEMENTAL SECURITY INCOME PROGRAM

WHAT  
IT  
IS

WHO  
IS  
ELIGIBLE

HOW MUCH  
PEOPLE  
GET

HOW WE  
WILL  
OPERATE

The program is to be administered by the Social Security Administration; it is not, of course, a part of the Social Security program except for administration. States with standards higher than the Federal standards will be encouraged to supplement the Federal payments. I think it is important to think of the Federal payment and the State supplement as a single program, which Social Security will administer in a State as if it were one program. A State which has a higher level of payments—for example, \$200—will reimburse the Federal Government for the additional amount above \$130, so instead of having \$130, a person may have \$200.

## CHART NO. 24

## **SUPPLEMENTAL SECURITY INCOME FOR THE AGED, BLIND, & DISABLED**

1. A FEDERAL BASIC PAYMENT FINANCED FROM GENERAL REVENUES
2. NATIONAL ELIGIBILITY STANDARDS
3. ADMINISTERED BY THE SOCIAL SECURITY ADMINISTRATION
4. STATE REIMBURSES FEDERAL GOVERNMENT FOR PAYMENTS ABOVE THE FEDERAL BASIC AMOUNT MADE FOR THE STATE BY SSA
5. EFFECTIVE JANUARY 1, 1974

Senator CHURCH. What happens in a State where the level of payment is above the Federal level, established in this program, but the State does not elect to pay the additional amount, would the recipient then suffer decrease in the level of payment?

Commissioner BALL. He would, yes. There is no provision for this situation, except that the States are encouraged to maintain their higher levels, by reason of the Federal Government holding them harmless in relation to their expenditures in 1972.

States will be able to maintain their supplemental payment and their higher level without additional expenditures, because the Federal Government guarantees that the State will not have to spend any more than it did in 1972; the Federal Government will pick up the rest of the cost.

Now, basically, of course, aged means age 65 or over. For the blind and disabled, the law provides for the same definitions used in Social Security in the disability program to be used for the definitions of disability and blindness, although people who have already been determined on the State programs to be disabled or blind will be blanketed in. If you look to the future, however, this provision may

mean that some people who would have been eligible under a State program will not be eligible under the Federal program. (See chart No. 25.)

CHART NO. 25

## BASIC ELIGIBILITY CONDITIONS

- **AGED** OVER 65
- **BLIND  
DISABLED** } DISABILITY INSURANCE DEFINITIONS
- **INCOME** BELOW \$130 A MONTH FOR AN INDIVIDUAL  
\$195 FOR A COUPLE  
*(NOT COUNTING \$20 A MONTH OF RETIREMENT INCOME AND  
\$65 PLUS HALF OF REMAINDER OF EARNED INCOME)*
- **RESOURCES** \$1500 FOR AN INDIVIDUAL  
\$2250 FOR A COUPLE  
*(NOT COUNTING A HOUSE, CAR, PERSONAL EFFECTS)*

The Federal insurance system has tended to be more strict than most State assistance programs, so a little tightening up may be visible in the future. (See chart No. 26.)

CHART NO. 26

## BASIC PAYMENTS

\$130 FOR AN INDIVIDUAL

\$195 FOR A COUPLE

- If no income — full payment
- For retirement income above \$20 — deduct \$1 for \$1
- For earned income over \$65 — deduct \$1 for \$2\*

\* IF NO RETIREMENT INCOME, EARNED INCOME EXEMPTED BECOMES \$85



Now, very importantly, in addition to the \$130 and \$195, you do not count \$20 per month of almost any kind of income. Thus, in effect, all Social Security beneficiaries, and those who have other income, are guaranteed a level of not \$130 but \$150, and not \$195 but \$215. Also, there is an additional disregard of earned income of \$65, and above that, the deduction for earned income is \$1 for two, so adding the \$20, you can disregard \$85.

Then there are uniform tests of assets \$1,500 for an individual, and \$2,250 for a couple. You do not count a home that a person lives in, as long as it is of reasonable value. You do not count a car, his household goods, and his own personal belongings.

As I indicated, people who meet the definition of disability or blindness in the States will be blanketed in (see chart No. 27), and when

#### CHART NO. 27

## **GRANDFATHERING DECEMBER 1973 STATE RECIPIENTS\***

- **DISABLED AND BLIND WHO CONTINUE TO MEET STATE DEFINITIONS**
- **HIGHER STATE RESOURCE LIMITATIONS CONTINUE**
- **HIGHER STATE INCOME DISREGARDS FOR BLIND CONTINUE**

### **\* MUST MEET OCTOBER 1972 STATE PLAN**

they are reexamined later to see if those who were blanketed in, are still disabled or blind, the old State definition will be used. Higher State resource limitations and income disregards for the blind can continue for the people now on the rolls. (See chart No. 28.)

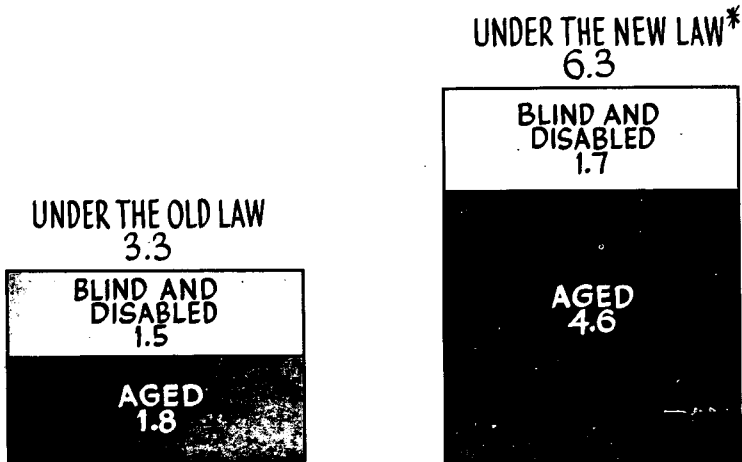
Now, this is the point, Senator, we were at a few minutes ago, where I said that the new Federal program will actually bring more people into this program than are now receiving payments under the Federal-State programs. Under the old law, 3.3 million people would be estimated to get benefits under the Federal-State programs next January. That includes 1.8 million aged, and 1.5 million blind and disabled. It is expected this new program will be paying about 6.3 million persons.

There are two areas where some States have restrictive provisions which discourage older people from applying. One of these is the lien law provision. Under a lien law, an individual is allowed to live in his home until he dies, but he has to sign it over to the State. When he dies, the State will sell it to recover whatever they have paid him. A

lot of older people just will not do that. They will not apply, as their house is the only thing they own, and they want to leave it to their children. Thus, the lien provision discourages a lot of people from applying.

CHART NO. 28

# JANUARY 1974 RECIPIENTS



\* Includes recipients of State supplements who are not eligible for Federal payments because of their income

The other thing is that many States have what they call relative responsibility. They apply a certain means test not only for the individual, the older person, but also test whether his son or daughter, for example, could support him. Many older people will not apply if it means subjecting their relatives to an income test. Therefore, it is our conclusion that since the Federal program does not have those two provisions and since it is administered through Social Security—which will remove some of the stigma of going to a welfare office—more eligible persons will apply.

Senator CHURCH. You are taking into consideration that there are a lot of people desperately in need, just too proud to take welfare, that would take something administered through Social Security, because to them that has a different connotation.

Commissioner BALL. I think that will help. The overall result is that there will be about 3 million more persons next January that will be receiving assistance.

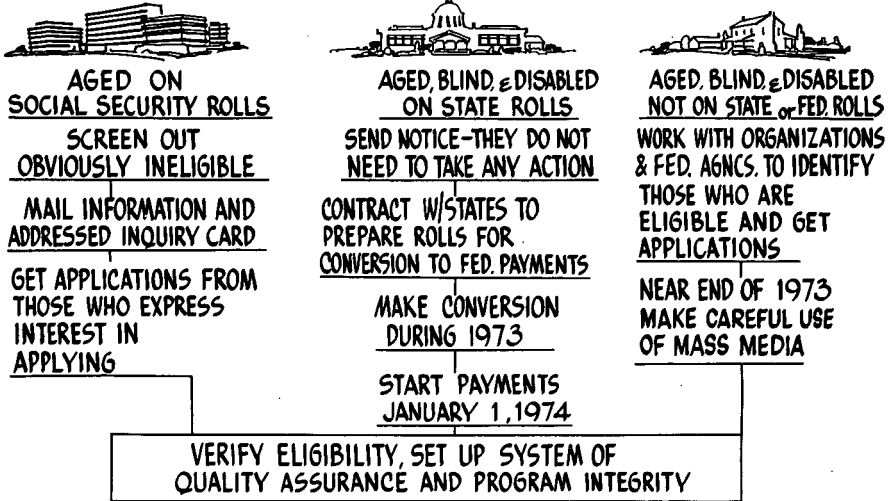
Senator, since in your letter to me you were particularly interested in what we planned to do to administer this, I will skip over these charts showing examples of how to compute payments, and move to this chart which deals with the point.

Here older people are divided into three separate groups for the purpose of getting them on the rolls. (See chart No. 29.)

First, there is the very large group of those on Social Security. Then there are the 3.3 million who are already on the State rolls. And then there is a group who are not on either.

CHART NO. 29

## BASIC PLAN FOR ENROLLMENT



I will take the middle line first. For the 3.3 million people who are on the State rolls, it is a matter of transferring them over and a matter of getting the records that the States and localities have into the form needed to continue administration by the Social Security Administration. One thing we want to do is to make sure that people are reassured that they will be taken care of and not have to do anything about it.

We will actually contract with the States for them to remake their records, under our direction and we will pay them for this. This will help assure that we can absorb current recipients into the kind of system that we will be setting up. This will be going on all during 1973. Through 1973, the States will have to continue to administer the programs as they are at present, and then they have the additional job under contract with us of preparing for this conversion, so that we can start the checks in January of 1974.

Now, of the other 3 million people that are going to be added, most are people 65 and over. I would say 90 percent are receiving Social Security benefits. Therefore, this can be approached in a controlled way.

The Social Security Administration is in contact, as it were, with about 90 percent of the people who will be newly eligible. If they are not getting cash benefits, at least, they are on Medicare. Practically everybody 65 or over, has applied for the supplemental voluntary medical insurance.

Social Security plans to whittle down the 20 million or so on whom we have records, and for whom we have addresses, to about 8 million, by screening out the obviously ineligible.

These are mostly people who have Social Security benefits that are so high that they would not be eligible for supplemental security income or people who are working, or who have been working. The intention is quite soon, probably during the spring, to mail out to 8 million people a return address inquiry card with information about the program. This in effect can be a self-screening device which can tell them what the basic eligibility criteria are, and they can return the cards. Many of the 8 million will for example rule themselves out for one reason or another. They may have too high assets. Then using volunteers as well as our own staff and working with some of the senior citizen groups and voluntary organizations, we can move in 1973, to get the essential information on income and assets which is needed to make a determination of eligibility in order to start the payments in January 1974.

Fortunately, we are not only in contact with these individuals, but we have their proof of date of birth so we know they are over 65, because we have had to get proof for Medicare or cash benefits purposes. The main thing is to get this additional information, and we will be taking 8 or 9 months to do this in a controlled way for the very large bulk of them.

Now, there may be 200,000 or 300,000 people we cannot reach that way.

To reach them, we will make use of general informational materials and work with organizations that are in touch with older people, the blind and disabled, and with nursing homes, just as we did in Medicare, where I think we were able to reach almost everybody before that enrollment period was over. A very widespread effort will be made to make sure that everybody knows about the opportunity to file if he wants to. If people do not want to file, they will not be urged to do so. But we think there is an obligation to make sure the people know about the program, know the conditions of eligibility, and know what they have to do to get the payments if they want to. That is a big change from the way assistance programs have tended to be in the past. There has not been that kind of outreach.

Senator CHURCH. And you will have a kind of surveillance responsibility in this program that you never had in Social Security, will you not, that is, since it is based on a needs test, you will have to scrutinize each case, and you will have to followup, do what you can do to protect yourself against abuses, and the kind of thing that welfare is engaged in, that you have not had to worry about.

How is that going to add to your administrative costs?

Are you going to get the necessary employees to handle the job?

Commissioner BALL. To take the last part of your question first, Mr. Chairman, I feel very good about the response of the Office of Management and Budget, and the executive branch generally, to the request for staffing for this program.

It is clear that throughout the administration there is a full appreciation of the difficulty of this job, and we will be coming to Congress

with a request that should be fully adequate to put this program into effect in a good way.

It is true, as you suggested, that there are elements of eligibility that we have not had to worry about in Social Security that will be more difficult. There will be 100 percent verification of certain points in eligibility.

On the income side, we can check Social Security records easily by account number cross reference, to see whether people have earnings, and whether they are in the amount the applicant said.

We can cross-check income tax records since they are identified now by Social Security number, as well as Social Security and civil service retirement records.

It may prove to be worthwhile, where a record is in the possession of the Government and identified by Social Security number, to check it on a 100 percent basis.

Other elements will have to be checked on an intensive sample redevelopment quality control basis. Even in Social Security—though it does not have the income and assets tests—there are elements that have to be checked, and we have a continuing sample in Social Security of redevelopment of new claims, where we go into great depth, just to be sure our policies and procedures are working.

Senator CHURCH. Let us take an example, suppose you determine that a given applicant for this supplemental income has an income of let us say \$100 a month, total income from all sources for \$100 a month, and he implies, and he certifies, that this is his income, you are satisfied that the certification is accurate, then what would be his supplemental, if he is a single man, retired, 65 years or older, what would be the amount of supplemental income paid to him?

Commissioner BALL. He would get \$50 in that case, because you ignore \$20.

Senator CHURCH. Now, suppose that next year his income from other sources goes up to \$120.

How are you going to know that that change has occurred, so that you can reduce the supplemental payment to \$30?

Commissioner BALL. The responsibility is on him. He will be required by law to report a change in income. The closest thing to this that the Federal Government has ever done is the Social Security retirement test, where each year a person's earnings may change. It is somewhat reassuring to know that all but about 10 percent do report to us, and do it correctly.

Now, we catch the other 10 percent, because we have earmarked their Social Security records, and when their earnings are reported by their employer after the fact, we find out about that.

Now, as far as the case you gave is concerned, if it is earnings that have increased, we will catch it in the same way, but first of all, we rely on him.

Second, we will have the records in other parts of the Government earmarked, and beyond that, we will be sampling all the time to make sure there will be a large enough sample so that I think there will be a deterrent result as well as quality control.

Once on the rolls, the incomes of these adult recipients are not so apt to change as they are in the rest of the welfare program.

Senator CHURCH. You are satisfied to be able to meet the deadlines, and be able to put this into effect?

Commissioner BALL. Yes. It is going to be a very difficult job. I do not want to underestimate for a moment the job that we have. There are a large number of things to do.

I do not know if we have time to go through them, but I will be glad to supply these charts to the committee in small form. (See chart Nos. 30 through 34.)

## CHART NO. 30

**IMMEDIATE TASKS**

	<u>NUMBER OF CASES</u>
1. Convert State/County records in 1,152 jurisdictions	3.8 Million
2. Determine assets and income for new aged applicants	3.4 Million
3. Determine assets and income, make disability determinations for new blind and disabled applicants	.3 Million
4. Develop system for Federal payment	
a. Computer systems (including interface w/other systems)	
b. Policy, procedures, and forms	
5. Set up administrative mechanisms	
a. Recruit 9,000 new employees by 6/30/73	
b. Train new and old staff	
c. Expand Space and Facilities	
d. Establish new Telecom Networks	
6. Set up a program of quality assurance and program integrity	

## CHART NO. 31

**CONTINUING TASKS**

	<u>NUMBER OF CASES</u>
1. Determine income and assets and other conditions of eligibility for new old-age claims	1.3 Million
2. Determine income and assets and make disability determinations for new blind & disabled claims	1.1 Million
3. Maintain accuracy of the rolls	6.3 Million
<i>by:</i> a. PROCESSING REPORTED CHANGES (RECIPIENT INITIATED OR IN RESPONSE TO ANNUAL REPORTS)	9.9 Million
& 100% CHECKING THROUGH USE OF SSA AND OTHER GOVERNMENT RECORDS	ENTIRE ROLL
c. SAMPLE REVIEW AND OTHER QUALITY CONTROL	
d. FIELD INVESTIGATIONS OF FRAUD AND ABUSE	
4. Conduct hearings and appeals	.7 Million
5. Make Medicaid determinations requested by State	
6. Other major tasks:	
a. DETERMINATION AND MONITORING OF REPRESENTATIVE PAYEES	.1 Million
b. REFERRALS FOR SERVICES	
c. ANSWER PROGRAM INQUIRIES	7.6 Million
d. ISSUE SOCIAL SECURITY NUMBERS TO SSI RECIPIENTS	

## CHART NO. 32

**EXAMPLES****A. SINGLE PERSON GETTING SOCIAL SECURITY  
BENEFIT OF \$84.50**

	BASIC SSI	\$130.00	
COUNTABLE SOCIAL SECURITY		<u>-64.50</u>	
	SSI PAYS	\$ 65.50	←
SOCIAL SECURITY		<u>84.50</u>	
	TOTAL INCOME	\$150.00	

**B. SINGLE PERSON WITH EARNED INCOME OF  
\$250, NO RETIREMENT INCOME**

	EARNED	\$250	
		<u>-85</u>	
		÷2 <u>165</u>	
COUNTABLE		\$82	
BASIC SSI		\$130	
COUNTABLE EARNINGS		<u>-82</u>	
	SSI PAYS	\$48	←
	EARNED	<u>250</u>	
	TOTAL INCOME	\$ 298	

## CHART NO. 33

**C. COUPLE WITH RETIREMENT INCOME OF \$120  
AND EARNED INCOME OF \$180**

	RETIREMENT INCOME	\$120	
		<u>-20</u>	
	COUNTABLE RETIREMENT	\$100	
	EARNED INCOME	\$180	
		<u>-65</u>	
		÷2 <u>115</u>	
		\$ 57	
	BASIC SSI PAYMENT	\$ 195	
	COUNTABLE RETIREMENT	<u>-100</u>	
	COUNTABLE EARNINGS	<u>- 57</u>	
	SSI PAYS	\$ 38	←
	RETIREMENT	120	
	EARNED	<u>180</u>	
	TOTAL INCOME	\$338	

Senator CHURCH. Fine. Do that, and we will include it in the record.

Commissioner BALL. Just to give you an idea of the size of it, perhaps the recruiting of 9,000 new employees by June 30 gives you the sense of what we think is the magnitude of this. It may sound like a very large number, but the States are now using around 33 or 34 thousand people to perform the same job.

I am not saying this because we are much more efficient. It is because we will be using mechanized approaches. Three-fourths of the States and localities are using hand systems. Thus there is a massive job, both in transfer to a Federal system, as well as in getting new applications from the 3 million additional people.

Given the lateness of the hour and the great patience of the committee, I would propose not to run through each one of these points for you unless you want me to.

#### CHART NO. 34

## STATE SUPPLEMENTATION

- AN INTEGRAL PART OF THE NEW SYSTEM
- INTENDED TO MAINTAIN PRESENT PAYMENT LEVELS IN STATES WHERE LEVELS ARE HIGHER THAN THE FEDERAL SUPPLEMENTAL SECURITY INCOME STANDARDS
- INTENDED TO COMPENSATE FOR LOSS OF FOOD STAMPS
- FEDERAL ROLE:

FEDERAL GOVERNMENT WILL ADMINISTER FOR STATE AT FEDERAL EXPENSE

FEDERAL GOVERNMENT WILL PROTECT STATE AGAINST INCREASE OVER

1972 EXPENDITURES FOR ASSISTANCE PAYMENTS

Senator CHURCH. I think you have been very kind.

One of our members is just returning from lunch, but I think that completes my questions, Commissioner.

I think you have done an outstanding job this morning. I am sorry we kept you until past 1 o'clock. You had an awful lot to cover, and I would say this has been a kind of refresher course for the committee of the whole Social Security system as it has been modified by recent legislation, very helpful to us, and I must say you have done a splendid job in your presentation and your responses to our questions.

Senator FONG. I want to join the chairman and thank you very much for this very, very fine presentation.

Senator CHURCH. We will have two more hearings next week, following up on the medical aspects of the Social Security program, and then looking more closely at the present method of financing and considering some proposals for modifying that financing method in the future.

Thank you very much.

(Whereupon, the committee recessed at 1:15 p.m.)



# APPENDICES

## Appendix 1

### ADDITIONAL MATERIAL FROM WITNESS

Subsequent to the hearing, Senator Church, chairman of the committee, submitted additional questions in a letter to Mr. Ball. The questions and answers follow. Information to be supplied at a later date will be published in the appendix of future hearings.

*1. When you were questioned about possible modification of the Civil Service retirement system, you suggested that it could be made supplementary to Social Security or at least establish an exchange of credits between the two. Do you have specific suggestions as to how to bring this about?*

The problems resulting from the lack of coordination between social security and the CSR system have been the subject of much study over many years but the various solutions which have been proposed have proved very controversial and many have involved high costs. Of the various plans which have been proposed, the coverage-coordination approach, more than any other, has the potential for assuring a reasonable relationship between benefits and lifetime contributions and service in the case of people who shift between Federal employment and other work. Under this approach, social security coverage would be extended to employment covered under the CSR system with some reduction in CSR benefits and contributions to take account of the contributions and benefits of the social security system. One of the most significant features of this approach is that it would provide prepaid hospital insurance protection under the Medicare program for all Federal employees. The coverage-coordination approach has in the past been unacceptable to the principal organizations of Federal employees; they are opposed to an approach which would reduce benefits now provided under the CSR system on the basis that it would weaken the CSR system and would tend to limit future improvements in the protection of Federal employees to changes made in the social security program.

Another, more limited, approach would be to transfer earnings credits from the CSR system to social security where there is no benefit eligibility under the CSR system when the worker dies, becomes disabled, or retires. This approach would be less costly than coverage coordination and would fill the major gaps in protection of those who move between employment covered by the CSR system and jobs covered under social security.

The House Committee on Ways and Means has directed the Social Security Administration to give further study to ways in which limited coordination between social security and the CSR system could be achieved and to consult with the Civil Service Commission and Federal employee unions on what would constitute a workable proposal. We are now engaged in this study.

*2. In your response to Senator Percy's question about the use of the Consumer Price Index as the basis for the mechanism to make social security benefits "inflation-proof," you said that you had examined the possible unsuitability of using this index for older persons, "and came to the conclusion that the distinction was not really very great."*

*I would like additional information on the alternatives you analyzed and your findings.*

Although studies conducted by the Bureau of Labor Statistics and the Social Security Administration have reached slightly different positions, the result of the studies indicates that the net effect of any differences between the CPI and a special index for the aged would be negligible. (The results of several studies are attached.)

Even if a special index for the aged were established, it would not seem appropriate to use such an index as the basis for adjustment of all social security benefits, since one-quarter of the beneficiaries are not aged. On the other hand, the use of two indices—one for the aged and one for young beneficiaries—would not seem desirable or feasible. It should be noted that the CPI has provided an effective means of adjusting annuities under the civil service retirement system to increases in the cost of living since 1962.

[3 Attachments.]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,  
October 13, 1969.

Mr. ROBERT M. BALL,  
*Commissioner of Social Security.*

JOHN J. CARROLL,  
*Deputy Assistant Commissioner,  
Office of Research and Statistics.*

Use of Special Index for the Aged instead of CPI for Automatic Adjustment.

It was agreed in a meeting at the Bureau of the Budget on September 29 that we would investigate the views of the Department of Labor concerning creation of a special index for adjustment of OASDI benefits. This summary and the background material attached should suffice for any questions which arise during the hearings about the feasibility of using an index other than the CPI.

Mr. Robert E. Johnson, Deputy Assistant Commissioner, Office of Price and Living Conditions at BLS, has had his staff review the matter carefully. The attached memoranda may be summarized as follows:

(1) Several studies of a special index for the aged have shown that there is little difference from the CPI. The differences which have been identified are not consistently higher or lower than the CPI. A special BLS estimate for the post-Medicare period, prompted by examination of a paper by Paul Courant of the Council of Economic Advisers, shows results which do not agree with his. The BLS specialists conclude that "each of these studies has its own efficiencies. . . . We are of the opinion that differences in price movements between elderly and the general population is not significant."

(2) If it were considered desirable, BLS would be prepared to make an extensive effort to construct a price index for retired social security beneficiaries based upon 1960-61 consumer expenditure survey data. The cost would be approximately one quarter million dollars.

(3) If a longer time were allowed for study of the matter, BLS could tie the review of an index for the aged into its routine reexamination of the CPI. BLS is about to launch a six year study which could be supplemented by specific material on expenditures of retired persons. It is estimated that the additional cost to BLS would be approximately one million dollars.

MEMORANDUM

OCTOBER 13, 1969.

To: Mr. JOHN J. CARROLL,  
*Social Security Administration.*  
From: ROBERT E. JOHNSON,  
*Bureau of Labor Statistics.*

Subject: Prices and the Proposed Amendments to the Social Security Act.

We have reviewed the proposed amendment to the Social Security Act with the proposal to tie future increases in benefits to the Consumer Price Index of the Department of Labor (BLS). We have no serious concern with the proposal.

The Consumer Price Index (CPI) is a statistical measure of changes in prices of goods and services bought by urban wage earners and clerical workers, including families and single persons. Although it is frequently referred to as such, it is not strictly speaking a cost-of-living index. It measures price change, the most important cause of changes in living costs, but does not indicate how much families actually spend to defray their living expenses. The index covers prices

of everything people buy for living—food, clothing, automobiles, etc. It includes sales, excise, and real estate taxes, but does not include income or personal property taxes. Since the CPI is defined to include price changes for employed workers in specified occupational categories, it does not include elderly and/or retired persons.

A brief description and results of an estimated CPI for the elderly is attached. It shows little difference from the CPI, rising at a slightly faster annual rate over the test period—2.1 compared with 2.0.

The results of a previous study, prepared by Lenore Epstein of the Social Security Administration, agree in a general way with our present estimate. They show that a CPI for the elderly tends to rise somewhat faster than the CPI.

A third study, conducted recently by Paul Courant, Staff Economist, Council of Economic Advisers, produced results different from ours. His estimated index rises more slowly than the CPI after adjustment is made in 1966 for the Medicare program. Our estimate shows exactly the same increase from July 1966 through August 1969 as does the CPI.

A paper prepared by Helen H. Lamale at the International Gerontological Seminar, Markyard, Sweden, August 6-9, 1963, contains some comparison of price changes between 1950 and 1960 for consumer units headed by persons of varying ages. In general, the price increase was greater for each successive age group, but did not vary much from the youngest to the oldest group. The units, headed by persons 65 years and older, showed a somewhat greater overall increase in prices than for the units with heads under 65.

The cost of the intermediate level of the Retired Couple's Budget (RCB) was estimated at four periods between Autumn 1966 and Spring 1969, affording an indicator in changes in prices. Except for the period between Autumn 1968 and Spring 1969, when the percentage change in the cost of the budget was considerably less than for the U.S. urban Consumer Price Index (CPI), the change in the cost of the budget was close to that of the CPI. Between Autumn 1968 and Spring 1969, mortgage interest rates, which are not included in the RCB, increased substantially, accounting for much of the difference. The Retired Couple's Budget contains a list of goods and services, representative of the manner of living and consumer choices in the decade of the 1960's, for a self-supporting couple, living independently, and made up of a husband age 65 and over and his wife.

Each of these studies has its own deficiencies in our opinion. We are of the opinion that differences in price movements between the elderly and the general population is not significant.

It would be possible to construct a price index for the retired social security beneficiary. In about a year, and with the expenditure of nearly a quarter of a million dollars, we could go back into the 1960-61 Consumer Expenditure Survey and select those respondents over 65 years of age and study their expenditure patterns, develop weights and, using the item and outlet samples of the CPI and the pricing techniques of the CPI, construct a somewhat better index.

We are about to launch a six-year study to revise the CPI. It would be possible to augment that study to provide the specific material necessary to produce a price index for retired people or the elderly, with the appropriate weighting diagrams, item and outlet samples, and necessary pricing. We estimate that this would cost in the neighborhood of a million dollars in addition to the regular revision costs. We should have completed the work by the fall of 1975.

[Attachment.]

MEMORANDUM

OCTOBER 13, 1969.

To: Mr. JOHN J. CARROLL,  
*Social Security Administration.*

From: ROBERT E. JOHNSON,  
*Bureau of Labor Statistics.*

Subject: Estimated Consumer Price Index for the Elderly.

Following is our estimate of a consumer price index for the elderly, by month, from January 1953 through August 1969. The index was constructed by weighting together ten CPI index series on weights designed to reflect expenditures for current consumption by households having a head 65 years of age or older. The technique for aggregating the component indexes was the standard procedure for combining indexes using relative importance data as shown in the *Monthly Labor Review*, for example in the November 1961, Technical Note.

Three sets of relative weights were derived from the Consumer Expenditure Surveys of 1950 and 1960-61 representing consumer units with heads 65 or over. The 1950 weights were updated to December 1952 on the relative change in the indexes and were used for combining component indexes from January 1953 through December 1963. Weights from the 1960-61 survey were adjusted for price change up to December 1963 and used to combine component indexes from January 1964 through July 1966. Relative weights as of July 1966 were adjusted to reflect the impact of the Medicare program. This adjustment consisted of reducing the expenditure weight for medical care by 40 percent. The magnitude of the reduction reflects that portion of medical care expenditures paid for by Medicare, as determined by the Social Security Administration.

The ten CPI component index series used are: food at home, food away from home, housing, apparel and upkeep, private transportation, public transportation, personal care, medical care, reading and recreation, and other goods and services.

Over the entire span, the Consumer Price Index rose 38.7 percent while the estimated index for the elderly advanced 40.8 percent. Assuming that both indexes maintain the same percentage margins over a year ago at the end of this year as were evident in August, the annual rates of increase for the whole 17 year period are 2 and 2.1 percent respectively. The faster rate of increase in the index for the elderly is evident only in the years prior to Medicare. From January 1953 through July 1966, when the weighting adjustment was made, the CPI rose 22.1 percent while the index for the elderly rose 24 percent. However, from July 1966 through the end of the period, both series showed identical increases of 13.6 percent.

The table below compares annual average percentage changes in the CPI with those in the estimated index for the elderly.

	Annual average percent change CPI all items	Annual average percent change estimated CPI- elderly
1954.....	0.4	0.5
1955.....	.3	.2
1956.....	1.5	1.6
1957.....	3.5	3.4
1958.....	2.8	2.9
1959.....	.8	1.0
1960.....	1.6	1.6
1961.....	1.1	1.3
1962.....	1.2	1.2
1963.....	1.2	1.3
1964.....	1.3	1.3
1965.....	1.7	1.7
1966.....	2.9	3.2
1967.....	2.8	2.8
1968.....	4.2	4.2
1969 (8 months).....	4.4	4.4

3. In your reply to my question about Medicare coverage of certain out-of-hospital prescription drugs, you said you would favor over a time that it be included as a regular part of Medicare protection. Would you provide details as to timing and the items to be covered?

The most significant factor in the continuing consideration of proposals to provide coverage of drugs under Medicare will be the high expense of such coverage. For example, the limited-drug-coverage approach included by the Senate in H.R. 1 (covering only drugs used in treatment of certain chronic conditions with a \$1 copayment per prescription) would have cost \$740 million in calendar year 1974. Covering all drugs for the aged and disabled, with a \$1 copayment, would have cost about \$2.6 billion for the same period.

Given the present fiscal constraints, it seems unlikely that fully comprehensive coverage can be made available immediately. The urgent task at this time would seem to be to develop an order of priority—both in terms of the type of drug to be covered and proportion of expenses to be reimbursable—so that the relative advantages of a drug proposal can be intelligently evaluated in relation to funds

which may become available to the Medicare program. Of course, one has to recognize the probability that there would be strong pressure to expand any limited approach to drug coverage, such as the one adopted by the Senate last year, and that such expansion would have significant effects on Medicare financing.

*4. In our discussion of problems related to nonassignment, you asked whether I believed that reimbursement should not be given for patients who go to a physician who will not agree to accept a Government determination as full payment. I sensed from your question that you felt that this question poses a major policy issue fundamental to future development of Medicare. Do you have recommendations for action in this area?*

My question was raised only to point out that one of the harsh consequences of requiring physicians to accept assignments is the total nonreimbursement by the Medicare program of beneficiaries or physicians in cases where physicians would not accept a Government determination regarding what constitutes a reasonable charge. As you may recall, in considering the original Medicare legislation, the Congress explored methods used by other third-party payers in the field of health care to pay for physicians' services. Experience indicated that some physicians might choose not to participate in Medicare if a mandatory-assignment approach were adopted. Thus, the beneficiary's choice of a physician might be severely limited, particularly in those areas of the country where there is a shortage of physicians.

It is of course true that where Medicare reimburses for a physician's fee on the basis of a figure lower than the billed amount, the patient may be called upon to make up the difference, but this occurs only in a minority of cases. If the physician accepts assignment of the claim and sends his bill direct to Medicare, as he does nationally in approximately three out of five cases, he must, as you know, accept as his full charge the amount set as the reasonable charge for Medicare purposes. It is also worth noting that physicians generally accept assignment in cases where the bill is particularly high or the beneficiary has a low income. In the other cases, where the physician bills the patient and looks to him for payment, with the latter making claim to Medicare, the patient may be asked to pay any difference between the reasonable charge set for Medicare purposes and the amount of the physician's bill. In practice, in some of these cases the physician does not ask the patient to pay the difference. In the cases where the physician does ask the patient to pay the difference, I would hope that the patient would be able to discuss the bill with the physician and arrive at a mutually acceptable solution.

At the present time specific changes in this area are not being recommended. If alternative reimbursement procedures are to be considered, however, I would hope that every effort would be made to assure that beneficiaries continue to have the widest possible access to physicians' services.

*5. One of our witnesses on January 23 was John Brittain of the Brookings Institution. In his recent book—entitled "The Payroll Tax for Social Security"—he proposed as an alternative means for financing the program to restructure the payroll tax by means of exemptions and deductions similar to those used for the income tax. The Federal income tax law, as you may already know, provides a \$750 personal exemption deduction and \$1,300 low-income allowance. What is your reaction to the Brittain proposal?*

The present social security program, with its variable benefits related to the worker's prior earnings under the program and paid as a matter of right earned through work in covered jobs and without a test of need, has won widespread public acceptance and support as the preferred way of maintaining income in this country when the family breadwinner retires, becomes disabled, or dies, largely because the program is contributory. People know that all who get regular monthly social security cash benefits under the program are either workers who have contributed a part of their earnings toward the cost of the program or are the dependents or survivors of such workers. The tie between contributions and benefits is the thing that most people like best about the social

security program. It seems to them to be only fair and right and just that the people who benefit under the program should help support it. Also, the contributory nature of the program avoids any implication that the benefits are a form of Government assistance or public charity with the result that beneficiaries accept the benefits as a matter of earned right and with a sense of dignity.

Mr. Brittain proposes to restructure the social security tax along the lines of the Federal income tax because the social security tax is regressive. But the social security tax is regressive only when it is considered by itself and solely as a tax. When the social security program is considered as a whole and the benefit side of the program is considered along with the contribution side, there is a considerable amount of progressiveness in the program. The worker with low average earnings gets a monthly cash benefit that is a higher percentage of his preretirement earnings than does the worker with high earnings. And, of course, under the hospital insurance program, the protection provided for each insured worker is the same regardless of his earnings; a person who has had the minimum amount of coverage required to be insured and has paid minimum contributions is entitled to the same amount of hospital insurance protection as a person who has paid maximum contributions over a full working lifetime.

With reference to Mr. Brittain's proposed exemptions for dependents, the number of dependents a worker has is a good index of how much protection the present social security system gives him during his working lifetime. The benefit side of the social security program is systematically preferential to those with dependents. There would seem to be little justification for allowing dependent exemptions for people for whom preferential treatment is built in on the benefit side.

The weakening of the contributory nature of the social security program that would result from the adoption of the proposal to restructure the social security tax along the lines of the Federal income tax, and the elimination of all ties between benefits and contributions that would result from the complete general revenue financing of the social security program that Mr. Brittain sets forth as his goal, could ultimately lead to a social security program that provides flat-rate benefits unrelated to prior earnings and payable only upon the meeting of a test of need. If a large group of people were able to get benefits under the program without having paid anything toward the cost of those benefits, as would be the case if Mr. Brittain's proposal were adopted, it would seem that it would be only a matter of time, and probably only a short time, before someone raised the question of why benefits were being paid to those among the noncontributors who, even though they may have had low paying jobs, are not in need. The obvious answer would be to provide a needs test for these people, but that would likely be followed by the adoption of a needs test for all beneficiaries in response to the larger question of the propriety of using general revenues to pay monthly cash benefits to people who have substantial amounts of non-work income. A needs-tested program primarily intended to meet current needs would of course have benefit amounts determined by those needs instead of by past earnings; there would no longer be earnings-related benefits. In the end, the social security program would give way to a national welfare program under which people could not get benefits unless they proved they were in need. All the advantages of the present social security program would be lost.

*6. In July the premium charge for part B of Medicare will be increased from \$5.80 to \$6.30 a month.*

*A number of proposals have been suggested to relieve the elderly from the premium charge. For example, it has been recommended that the part A hospital insurance program and the part B supplementary medical insurance program be combined and financed by (1) employer contributions, (2) employee contributions, and (3) general revenues. Would you support such a proposal?*

This is the kind of proposal endorsed by the 1971 Advisory Council on Social Security. The Council recommended that the combined Medicare program be financed by equal contributions from employees, employers, and general revenues. The President's proposal to the 92d Congress was somewhat different—part B of

Medicare would be financed entirely through social security contributions, in the same way as the hospital insurance program is financed.

There is some concern—and justifiably so—about the social security contribution rate and its impact on low income workers. The case for a general revenue contribution toward the financing of the costs of the Medicare program takes on an added weight since Medicare benefits are not wage-related, as are cash benefits, but rather, the benefit package is identical for all beneficiaries regardless of the size of their contributions. However, the question on whether or not general revenue financing should be introduced into the program ought not to be considered in purely economic terms. Social security contributions are looked upon as something different from income taxes and other kinds of taxes—they are contributions paid in advance, during the individual's working years, toward protection against various risks. The whole complex subject of how best to finance the social security program—including Medicare—is one to which we all will want to give a good deal of attention and careful study.

*7. On the matter of work load in Social Security offices, Theodore Schuchat recently wrote an article for Oasis Magazine\* describing how the responsibilities for district managers have increased dramatically, particularly within recent years. Could you tell us how much more we can expect the district offices to take on? This issue also reminds me that at the White House Conference on Aging about 13 months ago, President Nixon said that he would "direct the Social Security Administration to provide an information center in each of its 889 district and branch offices to help explain all Federal programs which aid the elderly." This is a big job. How has it been going?*

Social Security offices have already begun to take on tremendous additional workloads as a result of P.L. 92-603. Both as a result of changes to existing programs, such as the extension of Medicare coverage to 1.7 million social security disability beneficiaries and the increase in benefits to 3.8 million widows and widowers, and the establishment of the Supplemental Security Income Program, the workloads of social security offices will increase enormously.

We will closely monitor the impact on our offices to determine changes required to meet the challenges of these workloads. In the past we have anticipated and responded to new and increased workloads by changing the organization and types of positions used in our offices, expanding EDP systems, increasing the number and types of facilities providing service, and by other innovative and responsive management actions to assure continuance of the level of service to which the public is entitled. This will be done in connection with the impact of the recent amendments.

We are already pursuing a Bureau of District Office Operations proposal to decentralize additional authority and responsibility to enable the highest possible level of responsiveness at the point of public contact. Their proposal involves strengthening the ability of regional offices to provide support to district and branch offices over a broader range of areas without significantly increasing management overhead at the regional level.

In connection with the impact of the 1972 amendments, and in anticipation of future changes, there are of course a number of alternatives which will be studied individually and in combination to enable social security offices to provide service to increasing numbers and types of beneficiaries. These include specialization of functions in district offices, restructuring workload and job organization, expanding EDP systems capability, reorganizing management structures, and, through legislation, simplification of existing programs. The ability to make these changes would of course be qualified and limited by the appropriateness of added functions to the assigned mission of the Social Security Administration and the availability of planning time and adequate resources.

As a result of the President's directive that the Social Security Administration provide information centers in each of their district and branch offices to help

\*See appendix 3, p. 90, for full text of article.

explain all Federal programs that aid the elderly, immediate actions were initiated to expand the existing information and referral capabilities of these facilities. Our initial objective in this regard was to standardize the methods of providing information and referral service and to provide training to interviewing personnel in the specialized techniques necessary to insure that the quality and depth of service was in keeping with the objectives outlined in the President's message. These initial objectives have been met. The construction of comprehensive information resource files in the offices, and the initial training of district and branch office interviewers for I and R purposes have been essentially completed.

We have now turned our efforts toward:

1. Implementation of a system for measuring and evaluating our I and R services.

2. Studying the advantages and advisability of employing older people to enhance our I and R services. (On January 8, we started a demonstration project under which senior citizens will be hired on a special appointment basis to serve as I and R aids in 30 district and branch offices throughout the country.)

3. A continuing emphasis on the quality and improvement of I and R services.

4. Insuring that our activities are in harmony with and support, rather than overlap or supplant, the activities of existing public and private I and R agencies on the local level.

8. *An article in the January 11 New York Times says that it may cost \$135 million a year to provide—as enacted in H.R. 1—Medicare coverage for those who have chronic kidney failure. Even though that estimate was later criticized as being too high, the possibility of an “open-ended” rise in costs does exist. But do you think that this very fact will encourage the field of medicine to find new ways to reduce the high cost of renal dialysis?*

There is no question that the costs of providing Medicare coverage to persons with chronic kidney disease who have been brought into the program by P.L. 92-603 will be substantial and will increase as more and more patients become entitled who previously could not obtain access to the medical care they need to sustain their lives. To forestall, to the extent possible, the “possibility of an ‘open-ended’ rise in costs” to which you referred, we are working closely with experts in the field of kidney dialysis and transplantation to find ways to control the costs of these procedures.

We plan, for example, to encourage wherever feasible the use of dialysis in the patient's home, where the cost is much lower than in a hospital or a free-standing facility. Where there are no medical or nonmedical contraindications, physicians in the field generally agree that home dialysis is the medically optimum level of care. Another way in which we believe costs can be controlled is by discouraging the growth of more hospital centers than are needed to take care of patients who can benefit from kidney transplantation, through careful exercise of the authority granted the Secretary in the law to limit reimbursement under Medicare for kidney transplant and dialysis to kidney disease treatment centers which meet such requirements as he may by regulation prescribe. These requirements must include, as you know, a minimal utilization rate for covered procedures and a medical review board to screen the appropriateness of patients for the proposed treatment procedures.

We are also exploring innovative methods for paying for the medical care of renal disease patients, such as the possibility of reimbursing physicians who care for patients on dialysis on the basis of a fixed monthly amount per patient, with safeguards to discourage physicians from undertaking responsibility for more patients than they can adequately manage.

9. *Recently some of my constituents have complained about the long delay before receiving their initial social security checks. In many cases, the delay has been several months. Specifically, I would like to know why it may take a couple of months—or in some instances several months—to receive the first social security check after an individual becomes eligible? Secondly, is there anything that can be done to shorten this long delay?*

While in the great majority of cases, even those involving initial benefit checks, social security benefits are paid without delay, there are unfortunately some cases where there is a delay in payment of several months. The primary reason for the



long delays in initial payments is the difficulty that the claimants sometimes encounter, even with the help of the social security office personnel, in producing definitive evidence that they meet all of the conditions of eligibility. The Social Security Act sets out in detail the conditions of eligibility for each type of benefits and proof is required that each condition is met before payment can be made.

Another factor that can affect processing time is the fact that the more complicated claims benefits must be processed manually. For most claims the processing is automated, but the more complicated ones—for example, those where the claimant is entitled to benefits on more than one earnings record—cannot be handled this way. Latest figures show that 82 percent of initial claims are processed through the automated program: the average total processing time for these cases is 37 days. The balance of the cases are processed manually. The average total processing time of these cases is slightly longer. In any case, though, under the law a benefit check must be sent in no less than 90 days after the date on which such payment is to be due or the date on which the claimant furnished the last information requested, whichever is later. It should be pointed out also that the Social Security Administration has special procedures to make benefit payments where hardship exists. Under these procedures, benefit checks are normally sent within 4 working days from the receipt of the request from the local office for hardship processing.

We are of course concerned about any delay in payment and are continuing to evaluate our claims-taking and awards procedures so that we can get all monthly benefit checks to people as soon as possible. We are emphasizing in our informational program that people should come to the local office prior to their retirement and establish their eligibility early, so that they can receive their first checks promptly.

At the request of this Committee, the California Rural Legal Assistance Office of the National Senior Citizens Law Center has prepared a list of questions asking for detailed information about the implementation of the Supplemental Security Income Program. You have already discussed several of the points raised by CRLA, but I would like to submit them to you now for a written reply in as much detail as is necessary to deal with their following questions.

## TITLE II: PROVISIONS RELATING TO MEDICARE, MEDICAID, AND MATERNAL AND CHILD HEALTH

### A. Administrative Questions:

*1. What do you anticipate will be the result of the introduction of "prior authorization" into the Medicare program? Based on the experience with that concept in the Medicaid program, do you anticipate that there might be a decrease in service and appropriate utilization of health services and facilities by Medicare beneficiaries, with obvious decrease in costs? Will health care providers and facilities increasingly refuse to treat Medicare patients (as has happened in the Medicaid program) because of this requirement?*

The President's Budget for FY 1974 calls for improvements in utilization effectiveness under Medicare that will result in reductions in Medicare benefit outlays by reducing unnecessary utilization of Medicare services, but the Department of Health, Education, and Welfare has not yet approved the specific changes in the review of Medicare utilization that are intended to achieve the objective set forth in the Budget. It can be noted, though, the approaches to "prior authorization" under Medicare need not necessarily be modeled on "prior authorization" programs under Medicaid. For one thing, at least some "prior authorization" and other similar "utilization control plans" under Title XIX appear to be designed to achieve the full application of special State benefit limitations that have been adopted from time to time to keep the program within State budget constraints. The improvements in Medicare's utilization effectiveness required under the FY 1974 Budget are not intended to restrict the program's coverage but only to eliminate utilization that is clearly unnecessary. For this reason, we believe that the Medicare program will continue to be accepted by the professional community.

2. What do you anticipate will be the effect of the introduction of monthly premiums, co-insurance and deductibles into the Medicaid program in terms of appropriate utilization of medical services by the very poor?

(Information to be supplied at a later date.)

3. What do you anticipate will be the combined effect on health care services for the poor of the repeal of both the maintenance of states' efforts in Medicaid and the requirement that states must move toward a comprehensive program?

(Information to be supplied at a later date.)

**B. Questions Relating to Specific Code Sections:**

1. *Limitation on Liability of Beneficiary Where Medicare Claims are Disallowed: Section 213: In limiting liability to individual beneficiaries what criteria will be used to determine when the individual "did not know and could not reasonably have been expected to know that payment would not be made . . . ?"*

Insofar as the beneficiary is concerned, there will be a presumption that, in the absence of evidence to the contrary, the individual had no knowledge that the services were not covered or that the intermediary would not pay for the services furnished. Evidence to the contrary would exist if in a prior situation involving the same or similar services the beneficiary had been informed either by the intermediary or the facility's utilization review committee that such services were not covered. In any particular stay in an institution, notice by the intermediary or utilization review committee that a noncovered stay, in whole or in part, is involved, waiver of beneficiary liability would not apply to services furnished during that stay after the receipt of such notice.

2. *Advance Approval of ECF and Home Health Coverage Under Medicare: Section 228 (h) (1) (i) (1) (C) : Will "guidelines" applicable to periods of limited coverage under presumed eligibility be spelled out in regulations or otherwise made public information?*

The advance approval provision, Section 228 of Public Law 92-603, authorizes the Secretary to establish in regulations limited coverage periods, according to medical condition, during which a patient would be presumed to require a covered level of post-hospital extended care or post-hospital home health services. Accordingly, regulations are presently being developed which will contain the guidelines for presumed eligibility under this provision and specify the periods of coverage.

3. *Part B—Professional Standards Review Declaration of Purpose: Section 1151: What is the relationship between and among Professional Standards Review Organizations and Utilization Review Committees, county medical societies, carriers-intermediaries, Bureau of Health Insurance, Program Review Teams?*

The PSRO legislation envisions distinct responsibilities for (a) PSROs, (b) utilization review committees, (c) medical societies, (d) carriers and intermediaries, (e) the Bureau of Health Insurance, and (f) provider review teams.

Each of the organizations mentioned in your question will have specific responsibilities under the PSRO program.

(a) PSROs will assume the responsibility for assuring that all claims for benefits were medically necessary and provided in the proper setting according to professionally acceptable standards. In carrying out its responsibilities with respect to institutional services, PSROs are authorized to accept the findings of institutional review committees where they are found to be effectively performing their duties.

(b) Utilization review committees would continue to carry out the "in-house" reviews required as a condition for their participation in the program. In addition, where the PSRO judges the committee to be providing effective review and accepts its findings, committee members would be required to participate in the overall review activities conducted by the PSRO. In this manner, physician participation in PSRO activities will be broadened and the expertise of the "committee" will be made available to the entire community.

(c) County medical societies, along with other qualified professional organizations, may sponsor PSROs.

(d) Although the roles of carriers and intermediaries will change under the PSRO program, they will still be processing Medicare claims for payment and

making determinations of reasonable charges and costs. They will also take on new responsibilities in providing data to PSROs. They will be responsible for maintaining a claims review function on a "standby basis" while a PSRO is operating on a "conditional" basis, and will also perform claims review activities for those services for which a fully qualified PSRO in their area has not undertaken review responsibility.

(e) The Bureau of Health Insurance will be responsible, under the direction of the Secretary and the PSRO Director, for those areas of PSRO policy and implementation that directly affect the Medicare program.

(f) The law authorizes the use of program review teams to review cases where it is suspected that excessive, inferior, or harmful services have been furnished; and to review and report on statistical data on program utilization. However, the law also authorizes and recommends use of a PSRO in lieu of program review teams wherever feasible.

*4. Norms of Health Care Services for Various Illnesses or Health Conditions: Section 1156(a) (b) (c) (1 and 2) (also Section 1166): Will norms of care, diagnosis and treatment be made public information? Or will they be similar to the informal and secret guidelines now used by fiscal intermediaries and carriers in retroactively denying coverage?*

The PSRO's norms of care would serve as standards that the area's physicians could use as guides in assessing the appropriateness of health services. It is anticipated that the norms will be taken into account by physicians in caring for patients as well as in the course of carrying out PSRO review activities. Thus, it is anticipated that the norms would be provided to the professional community.

*5. Requirements of Review Approval as Condition of Payment of Claims: Section 1158(a): What criteria will be used to determine that the claimant is without fault?*

This provision denies the use of Federal funds once a PSRO has made its decision disapproving the services furnished and informed the provider and the beneficiary of this disapproval, except that if the beneficiary is without fault payment may be made. This ties in with waiver of beneficiary liability in section 1879 (section 213 of P.L. 92-603) and the policy we develop under that section will be a basis for the policy to be developed under section 1158(a).

*6. Limitation on Liability for Persons Providing Information and for Members and Employees of Professional Standards Review Organizations, and for Health Care Practitioners and Providers:*

*Section 1167(c) (1) (2): (a.) What are the implications for the quality of medical care and for physician accountability when doctors of medicine or osteopathy are given freedom from civil liability "on account of any action taken by him in compliance with or reliance upon professionally developed norms of care and treatment applied by a Professional Standards Review Organization. . .?"*

We doubt that quality of care will be affected because a physician is held harmless when in the furnishing of services he takes action in compliance with professionally accepted norms of care and treatment. This "hold harmless" provision operates in favor of a physician only if he in effect exercises due care. We do not believe that such a provision will operate to lessen the quality of care. In fact, it assures that quality of care will be furnished since it pinpoints the existence of a civil liability on the part of the physician if for any reason his services fall below professionally accepted norms of care and treatment.

*(b) How will the regulations relating to this section be spelled out?*

Regulations on this provision will be issued in conjunction with all other regulations in the PSRO area. Just what they will contain is now under study.

### TITLE III: SUPPLEMENTAL SECURITY INCOME FOR THE AGED, BLIND AND DISABLED (AND RELATED SECTIONS OF TITLES IV AND VI)

#### A. Administrative Questions:

*1. How many offices are you planning to have throughout the country to administer this program, and how does that number compare to the number of offices currently administering the various state welfare programs? How do you arrive at the number of offices that will be needed to make the program easily accessible to the aged, blind, and disabled persons in this country?*

By January 1, 1974, approximately 1,300 full-time offices will be open to provide the full range of services offered by SSA. This compares with approximately 3,300 offices currently administering state welfare programs.

In deciding where to locate new offices, a number of factors are considered. Among them are population characteristics, such as income and educational levels; size of population; number of beneficiaries to be served; and workload. Even when the factors indicate a need to extend service, we are sometimes limited by available resources.

In our attempt to make the best use of our resources, while still remaining readily accessible to the largest number of people, we operate approximately 3,400 part-time contact stations. At these 3,400 rural and urban locations, social security representatives are available to the public on a regularly scheduled, pre-announced basis.

*2. Have you initiated discussion with the various states as to their intent with regard to State Supplementation? If so, what is your analysis as to how many states (and which ones) intend to supplement?*

The Administration has initiated discussions with the various States as to their intent regarding State Supplementation. The Bureau of Supplemental Security Income hosted a conference of State welfare directors in December, 1972. Representatives of the Bureau participated in two conferences for State legislators and legislative staff during January, 1973. These conferences were sponsored by the Council of State Governments. Social Security Administration representatives also participated in a State budget directors' conference. At each of these meetings, State supplementation was a major topic of discussion.

We have contracted with the American Public Welfare Association to determine each State's assistance levels in effect for January, 1972. Once these data have been developed, the States will be better able to determine their intent with regard to State supplementation.

The twenty-six States which, according to the most recent estimates, had assistance levels in January, 1972, which were higher than the Federal benefit level are: Alaska, California, Colorado, Connecticut, Delaware, Hawaii, Idaho, Illinois, Iowa, Massachusetts, Michigan, Minnesota, Nebraska, Nevada, New Hampshire, New Jersey, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Vermont, Virginia, Washington, and Wisconsin.

*3. Do you plan to hold public hearings on your proposed regulations? Because of the importance of this program to the aged, blind, and disabled persons throughout the country, it is critical to hold public hearings so there can be a clear understanding of the impact of your proposed regulations.*

We can appreciate the concern that there be assurance that those interested can have an opportunity to understand and react to proposed regulatory interpretations. This concern to a large degree has been faced by Social Security in its administration of the programs it has been responsible for.

Even though agencies administering benefit programs are not subject to the Administrative Procedures Act provision (5 U.S.C. 553) requiring public participation in the rule making process, it is the policy of the Administration, in line with Department policy, to provide members of the public an opportunity to express their view on proposed regulations. In addition, during formulation of the policies to be reflected in the regulations, various concerned organizations, groups, and individuals are consulted and their views considered on important substantive issues before proposed regulations are published in the *Federal Register* with an invitation for submission of written comments. In view of the fact that the general public is not a part of the *Federal Register* audience, the Administration also issues a press release describing the proposed regulations, the reasons for the policy they reflect, the impact of the proposal and invites comments. Comments received both before and after final promulgation are given careful consideration and where indicated revisions or amendments are made to the regulations. The same rule making process will be followed for regulations implementing title XVI.

Because of the added problems and concerns involved with the title XVI program, we plan to have extensive consultations with interested groups and individuals before and after promulgation of implementing regulations. In view of these extensive consultations, we do anticipate that there will be a need for public hearings.

#### B. Questions Relating to Specific Code Sections:

*1. Resources—"Exclusions from Resources": Section 1613(a)(1, 2, 3): In the listing of "exclusions," there is in each instance the proviso "value does not exceed*

*such amount as the Secretary determines is reasonable." Can we assume that you will look to the current state programs and use as a basis the most liberal program? Or will you devise a formula of your own?*

When determining the limit below which the value of a resource must fall in order to be excluded, we will look to current State plans for guidance. However, limitations under current State plans will not be controlling; they will be only one of many factors that go into determination of a reasonable limit.

The Supplemental Security Income program does contain a provision (section 1611(g)) which would allow present recipients of assistance under a State plan to continue using the exclusions from resources as specified in the State plan. Thus, those individuals who received assistance under a State plan where exclusions from resources were more liberal than under the Federal program could continue to receive the advantage of those more liberal provisions.

*2. Meaning of Terms—"Aged, Blind or Disabled Individual": Section 1614(3)(A): Can disability be based on a combination of illnesses, one of which, standing alone, would not be a cause for such a disability determination?*

The definition of disability relating to new claims under the above provision is essentially the same as that for adults under the title II disability provisions. The evaluation guides for title II provide that all medical impairments (illnesses) which are more than slight or minimal will be considered in determining whether an individual is or is not able to engage in substantial gainful activity. Accordingly, all impairments (unless slight or minimal) are evaluated to determine whether the individual is disabled, and an individual need not be disabled entirely or primarily by any one impairment or illness.

Consistent with the title II definition, it is contemplated that under title XVI, the evaluation of both adult and childhood claims will be based on all of an individual's impairments (illnesses) which are more than slight or minimal. Hence, no one impairment need be disabling by itself, i.e., all impairments (illnesses) which are more than slight or minimal will be considered in combination to determine whether the individual is under a disability.

*Section 1614(3)(B): Please explain the implications of the statement: "work which exists in the national economy means work which exists in significant numbers either in the region where such individual lives or in several regions of the country."*

Section 1614(3)(B) provides that an individual shall be determined to be under a disability only if his physical or mental impairment or impairments are of such severity that he is not only unable to do his previous work but cannot, considering his age, education, and work experience, engage in any other kind of substantial gainful work which exists in the national economy, regardless of whether such work exists in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work. The statute also specifies that "work which exists in the national economy" means work which exists in significant numbers either in the region where such individual lives or in several regions of the country.

This provision, which is identical to a title II provision, is intended not only to make it clear that jobs need not be available in the region in which the individual lives, but also that a type or types of jobs that exist only in very limited number or in a relatively few geographic locations may not be said to exist in the national economy. This, therefore, will assure that an individual will neither be awarded benefits simply on the basis of lack of jobs in the region in which he lives nor denied benefits on the basis of the presence in the economy of isolated jobs which he could perform.

*3. Meaning of Terms—"Determination of Marital Relationships": 1614(d)(2): What criteria will be used to decide if a man and woman are found to be "holding themselves out to the community in which they reside as husband and wife?"*

Where a man and a woman are living together and representing that they are husband and wife, for title XVI purposes, they will be considered to be married. A man and a woman are representing themselves as married if they use the same surname (i.e., Mr. and Mrs. X), if they are listed as husband and wife in deeds, credit accounts, leases, and other documents, or if they are considered to be husband and wife by relatives, friends, neighbors, or tradespeople with whom they do business. Normally, it will not be necessary to obtain statements from these people if the parties indicate that their relatives, friends, etc., consider them to be husband and wife. However, where an individual applying for title XVI payments indicates that he (or she) is not married to the person with whom he is living, and a determination that this person is a spouse could affect

the right to (or amount of) the payment, each of the parties living together will be asked to answer the following questions:

1. By what name or names are you known?
2. How did you introduce the other party to friends, relatives, and others?
3. How is mail addressed to you? To the other party?
4. Are there any deeds, installment contracts, or other papers showing the two of you as husband and wife?
5. Is the home (apartment) in which you reside owned or rented by one or both of you? If both, furnish the names on the deed or lease.

If the answers to these questions show that the parties represented themselves to others as husband and wife, they will be considered as such despite their denials. On the other hand, if the answers show that the parties do not use the same name, and never represented to others that they were husband and wife, they will not be considered such.

*4. Meaning of Terms—Income and Resources of Individuals Other than Eligible Individuals and Eligible Spouses: Section 1614(f)(1): What criteria will be used in determining the amount of income and resources which the ineligible spouse will be able to retain for his/her own use? Again, will the experience of the states be looked to in making the program as liberal as possible?*

The alternatives we are developing for the Secretary's consideration do take into account that some of the ineligible spouse's income must be available to meet his or her own needs and that not all can be considered available to meet the needs of the eligible husband or wife. We have researched State experience for relevant parallels in this area. We also have considered how various criteria which might be applied to the income of the ineligible spouse would affect their total income when both become eligible and how the criteria would situate that couple in comparison to a title XVI eligible couple with the same income pattern.

Since the resource limitation for couples is, by law, the same whether one or both are eligible (section 1611(a)), the range of the Secretary's consideration of treating the resources of the ineligible spouse is not so broad as in the case of income. We are inclined to recommend that resources be considered in such a manner as to result in the same exclusions from the \$2250 resource limit as would occur if both marriage partners were title XVI eligibles.

*5. Rehabilitation Services for Blind and Disabled Individuals: Section 1615(a): Will such quarterly review of disability be made in person by the recipient regardless of his physical disability? If so, will provision be made for transportation and other related expenses? Will there be vocational services offices located in sufficient proximity to the recipient to make it feasible for him to utilize such services?*

In determining whether and when an individual's disability or blindness will be reviewed, the Administration will consider the nature of his physical disability, that is, his medical condition and other factors such as work activity. The law provides that the Secretary shall review an individual's blindness or disability not less often than quarterly, except in such cases as he may determine. For those individuals whose medical condition is expected to improve, the Administration will review their disability in the month in which medical recovery is expected to occur. For those individuals whose medical condition is not expected to improve, a medical review will not be scheduled. Of course, the Administration will promptly review any case in which an event occurs which raises a question of whether the individual continues to be blind or disabled.

Regarding an individual's transportation and other expenses related to the review of his disability, the Administration will make provision for the payment of reasonable and necessary expenses.

The State Vocational Rehabilitation Agencies and Agencies for the Blind are so organized as to be able to make vocational rehabilitation services available to the disabled and the blind regardless of their place of residence. It may be necessary, however, in many instances, in consideration of the specific services required by a particular individual, to send him to a facility located in another community. For example, the blind may need to be helped in an adjustment training center located elsewhere, a medical service may require hospitalization in a medical center, and the choice of a training program may necessitate attendance at a specific school away from the home area. All of these situations do arise. The plans for all services, however, are usually developed through joint planning between the client and the VR agency.

It is anticipated that all of the costs of these services would be provided at no cost to the disabled individual.

*Section 1615(c): What is the meaning of the phrase "without good cause"? Must he follow the recommendations for rehabilitation even if it means utilizing risky medical procedures, or if it violates his religious principles?*

An individual will be considered to have good cause for refusing vocational rehabilitation services if his refusal is reasonable in light of all of the circumstances that exist in his particular case. If an individual refused vocational rehabilitation services because of religious principles, he would be considered to have good cause for refusal. If an individual refused vocational rehabilitation services because the services required him to undergo risky medical procedures, he would be considered to have good cause. Other examples of good cause include cases where the individual's impairment is terminal, or so rapidly progressive that it is likely to outrun any restorative measures.

*6. Hearings and Review: Section 1631(c)(2): What is the time limit for cases involving the existence of a disability?*

The provisions of Public Law 92-603 pertaining to hearings and review under the Supplemental Security Income program provide that a decision shall be made within ninety days after the individual requests the hearing, except where the matter in disagreement involves the existence of a disability. Thus, there is no statutory imposed time limit within which a decision must be issued in these cases. Nonetheless, we are aware of our responsibility to hold hearings and issue decisions as promptly as possible. This is in keeping with our traditional concept of service to the public. It also recognizes that those filing for benefits under the Supplemental Security Income who claim to be disabled are as much in need as others filing under that program. We are now in the process of formulating policies and procedures to ensure that all requests for hearings will be processed as expediently as possible. This will, of course, include those cases in which the existence of a disability is involved.

*Section 1631(c)(3): What is the interpretation of the phrase: "except that the determination of the Secretary after such hearing as to any fact shall be final and conclusive and not subject to review by any court"? Is this phrase to be interpreted as identical to that existing in the appeals procedure for OASDI and Medicare?*

The statutory language providing for the judicial review of final decisions of the Secretary under the new Supplemental Security Income program in general provides that such decisions shall be subject to judicial review to the same extent as are final decisions of the Secretary under the OASDI program. However, the specific language dealing with the scope of judicial review under the new program is not identical with the language under the OASDI provisions. We are now working with the Office of the General Counsel to determine what position the Secretary will take concerning the interpretation of this phrase.

*7. Procedures; Prohibitions of Assignments; Representation of Claimants: Section 1631(d)(2): What will be the qualifications of the persons appointed as hearing officers?*

Persons now appointed to conduct hearings (administrative law judges) under the OASDI program are appointed pursuant to section 3105, of title 5, U.S.C. by means of registers established by the U.S. Civil Service Commission. The prime qualification for an applicant is that he must be an attorney authorized to practice law. Although we contemplate modification of the specific experience requirements now prescribed by the Civil Service Commission, we anticipate that in all instances an administrative law judge appointed to conduct hearings under the SSI program will have demonstrated his ability to conduct hearings in a dignified, orderly, and impartial manner and his experience should enable him to determine the credibility of witnesses; sift and analyze evidence; apply agency and court decisions; and prepare clear and concise statements of fact and law.

*Section 1631(d)(3): What will be the fee schedule for persons representing clients? Will there be any formal qualifications, other than good character?*

The criteria for determining what constitutes a reasonable fee for the representation of a claimant for the Supplemental Security Income Program are exactly the same as those applicable in connection with claimants under the retirement, survivors, disability, and health insurance programs. There is no specific schedule of fees as such. The criteria may be found in Regulations No. 4, Subpart J. Section 404.976(b) which reads as follows:

(b) Factors Considered in Evaluating a Petition for Fee.—In evaluating a request for approval of a fee, the purpose of the social security program—to provide a measure of economic security for the beneficiaries thereof—will be considered, together with the following factors:

- (1) The services performed (including type of service);
- (2) The complexity of the case;
- (3) The level of skill and competence required in rendition of the services;
- (4) The amount of time spent on the case;

(5) The results achieved. (While consideration is always to be given to the amount of benefits, if any, which are payable in a case, the amount of fee will not be based on the amount of such benefits alone but on a consideration of all of the factors listed in this section. The benefits payable in a given claim are governed by specific statutory provisions and by the occurrence of termination, deduction, or nonpayment events specified in the law, factors which are unrelated to efforts of the representative. In addition, the amount of accrued benefits payable in a given claim is affected by the length of time that has elapsed since the claimant became entitled to benefits.) ;

(6) The level of administrative review to which the claim was carried within the Social Security Administration and the level of such review at which the representative entered the proceedings; and

(7) The amount of the fee requested for services rendered, excluding the amount of any expenses incurred, but including any amount previously authorized or requested.

Likewise the qualifications of a representative of a claimant under the Supplemental Security Income Program are the same as for representatives of claimants under the other social security programs and are described in section 404.972 as follows :

**404.972 QUALIFICATIONS OF REPRESENTATIVE.**—(a) Attorney.—Any attorney in good standing who (1) is admitted to practice before a court of a State, Territory, District or insular possession or before the Supreme Court of the United States or an inferior Federal court, (2) has not been disqualified or suspended from acting as a representative in proceedings before the Social Security Administration, and (3) is not, pursuant to any provision of law, otherwise prohibited from acting as a representative, may be appointed as a representative in accordance with § 404.971.

(b) Person Other Than Attorney.—Any person (other than an attorney described in paragraph (a) of this section) who (1) is of good character, in good repute, and has the necessary qualifications to enable him to render valuable assistance to an individual in connection with his claim, (2) has not been disqualified or suspended from acting as a representative in proceedings before the Social Security Administration, and (3) is not, pursuant to any provision of law, otherwise prohibited from acting as a representative, may be appointed as a representative in accordance with § 404.971.

*8. Applications and Furnishing of Information: Section 1631(c)(2): What will be the interpretation of the phrase "except where the individual was without fault or good cause for such failure or delay existed"? Will the educational background, language ability, and competence of the individual be considered in such a determination?*

The question relates to the \$25, \$50, \$100 penalties prescribed for failure to report events and changes in circumstances which affect eligibility and payments under title XVI.

We do not anticipate any difficulty with this provision. We intend to rely on Senate Report No. 92-1230 on H.R. 1, page 391, paragraph (b) under PROCEDURAL AND MISCELLANEOUS MATTERS which (agreeing with a similar comment made in House Report 92-231, page 342) states in pertinent part:

*"(b) Beneficiary reports.*—Beneficiaries would be required to report any changes in circumstances, as the Secretary deems necessary, to determine continued eligibility or any necessary changes in benefit amounts. An individual's willful failure to submit reports requested by the Secretary, or willful delay in submitting such reports, would be cause for the Secretary to reduce the individual's benefit by \$25 in the case of the first such failure or delay, \$50 in the case of the second, and \$100 in the case of the third or subsequent failure or delay."

Since willfulness will be the criterion used, all the factors mentioned by the Committee will be considered along with ability to remember, physical ability to comply, and so forth.

As we do under title II, the requirements for affording claimants procedural due process will provide for verification of the fact of overpayment, consideration of waiver or adjustment or recovery of the overpayment, and consideration of good cause before the \$25, \$50, or \$100 penalty is imposed. (If our experience with the Special Age 72 claimants is any guide, these \$25, \$50, and \$100 penalties will be relatively few.)

*9. Limitations on Fiscal Liability of States for Optional State Supplementation (as found in Title IV: Miscellaneous): § 401:*

*(a) Does this mean that the Secretary will only enter into agreements with states for those individuals who are eligible for the federalized program except*



*for income? What if, for example, a State has a program with a more liberal interpretation of disability, and that state chooses to continue such a program, would the Secretary refuse to enter into an agreement to administer such a program, and force the state to pick up the entire cost of such a program? How many people could potentially be adversely affected?*

It is not clear whether the law intended that Federal administration would be applied to individuals who are not required to be supplemented since they are not title XVI eligibles because of reasons other than their income, but who were, or would have been, eligible under the State's January 1972 programs. Section 401 indicates that a State may be protected by the limitation on fiscal liability for its supplementary payments if the level of the State's payments to individuals does not exceed the State's January 1972 payment level, adjusted as described in the law. The section further provides that the fiscal limitation would not apply to supplements paid to individuals who are not title XVI eligibles and who would have been ineligible (for reasons other than income) under the State's own plan in effect for January 1972. Section 401, though, does not establish conditions for Federal administration of a State supplementary program.

Section 1616(b) specifies that any Federal-State agreement for Federal administration of State supplementary payments will provide that supplementation will be paid to all title XVI eligibles. We have interpreted this to mean that, as a minimum, all individuals eligible for SSI (or those who would be eligible except for their income) within the three categories, must be supplemented. This section also provides that the agreement shall include such other rules as the Secretary finds necessary to achieve efficient and effective administration. Because cases involving only State criteria for eligibility could differ substantially from the rest of the caseload, there are questions concerning the administrative difficulty and cost involved in attempting to add them to the Federal administrative system.

Analysis and evaluation of the whole subject is proceeding actively at the Federal level and policies should be established in the near future.

We have not prepared estimates of the number of persons potentially affected by these questions. It would be true in any case that Federal policy in this matter would not be the final determinant of how recipients would be affected; action taken by the States involved would, in the absence of Federal action, determine the number of people affected.

*(b) It is our understanding from the statute that "special needs," e.g. attendant care, which are part of the state plan as of January, 1972, could be covered in such an agreement. If such is not your understanding, what is your estimate of the potential hardship to the client population?*

The statute is not explicit with regard to the treatment of "special needs." The Report of the Committee on Ways and Means on H.R. 1 stated that States could "pay an additional amount on an individual case-by-case basis to recompense the special needs cases." No subsequent legislative history has been found that amplifies or clarifies this.

However, the language of Section 401 raises a question concerning special needs. In determining the "adjusted payment level" for January 1972, Section 401(b) (1) requires that we first determine "the amount of the money payment which an individual with no other income would have received" in January 1972. It is not clear whether the "money payment" was intended to include special needs. In an effort to ascertain January 1972 State practices with various kinds of "money payments" and the potential effects of alternative definitions of the adjusted payment level, SSA is now completing a visit-survey of several States. The results of this survey are expected to provide the basis for the establishment of a Federal policy position regarding special needs in the near future.

Regarding the potential effect on the client population, we do not have sufficient information at this time to make any estimates. In addition, State policies may be a major determinant of the effect on recipients of any Federal policy regarding special needs.

*10. State Plans for Services to the Aged, Blind, or Disabled (as found in Title VI): §§ 602, 603: What are the services which can be included in such a State Plan? Would specific services, such as homemaker's services, be allowed? Would reimbursement for such concrete services be at the 75% rate?*

(Information to be supplied at a later date.)

## Appendix 2

### INFORMATION FOR INITIAL HEARINGS: "FUTURE DIRECTIONS IN SOCIAL SECURITY"\*

JANUARY 15, 22 AND 23, 1973

#### CONTENTS

Information about witnesses.  
Information About Social Security Today.  
Summary of Books Written by Two of the Witnesses.

#### PART ONE

##### INFORMATION ABOUT WITNESSES

Robert M. Ball, Commissioner, Social Security Administration ----- 10 A.M. Monday, January 15, in Room 1224, New Senate Office Building.

Mr. Ball has served as Commissioner since 1963, and he joined the Social Security Administration in 1937, just two years after the Social Security legislation was enacted. He will continue as Commissioner until a successor is named and confirmed by the Senate (see p. 5 for New York Times editorial for commentary on President Nixon's decision to accept his resignation).

For his testimony on January 15, Mr. Ball has been asked by the Chairman to deal primarily with two matters: the significance of Social Security legislation enacted during 1972, and plans to implement the Supplemental Security Income Program for the Aged, Blind, and Disabled, as enacted under H.R. 1 (now P.L. 92-603) and to be effective in January 1974.

Nelson H. Cruikshank, President, National Council of Senior Citizens----- 10 A.M. Monday, January 22, in Room 1224, New Senate Office Building.

Mr. Cruikshank served as Director of the Department of Social Security, A.F.L.-C.I.O., from 1953 to 1965. He took an active role in the development and enactment of Medicare, as well as major improvements in the overall Social Security system. He was a member of the Social Security Advisory Councils in 1948-1949; 1958-1959; and 1964. He also served on the Health Insurance Benefits Advisory Council from its inception until this year.

He has been asked to focus his testimony for the most part on two issues: Unresolved health care problems and the poor prospect for genuine retirement security until those problems are resolved and an interpretation of the stage of evolution at which the Social Security system now stands.

John A. Brittain, Senior Fellow, Brookings Institution Economics Studies Program----- 10 A.M. Tuesday, January 23, in Room 1224, New Senate Office Building.

Mr. Brittain is author of a new Brookings study, *The Payroll Tax for Social Security* (see Part Three for additional discussion). He is also author of *Corporate Dividend Policy* (1966) and a paper, "The Real Rate of Interest on Lifetime Contributions Toward Retirement under Social Security," for the 1967-1968 Joint Economic Committee Compendium on Old Age Assurance.

The Chairman has asked Mr. Brittain to discuss his contention that payroll tax inequities affect low-income Social Security contributors disproportionately, and studies made by him and others of lifetime tax-benefit ratio, with his interpretation of the effect of recent legislation on the findings of these studies.

J. Douglas Brown, Provost and Dean of the Faculty, Emeritus, Princeton University----- Approximately 11 A.M., Tuesday, January 23, in Room 1224, New Senate Building.

\*Briefing material prepared for the use of members of the Senate Special Committee on Aging.

Dean Brown was called in August 1934 to serve in the old age security section of the Staff of the Committee on Economic Security, a fairly small group which then considered unemployment insurance its major concern. The old age section, however, produced recommendations which became the guiding concepts of today's enormous Social Security system.

His new book, *An American Philosophy of Social Security; Evolution and Issues*, describes the evolution of this system (see Part Three for additional discussion of the book).

Dean Brown has served on every Social Security Advisory Council since the first one met in 1937. At Princeton he also serves as an Associate at the Industrial Relations Section.

For his testimony, Dean Brown will deal primarily with features of Social Security that have persisted since the 1930s, and he will present a summary of recommendations for the appropriate form that a direct Federal contribution could take.

William L. Mitchell, Former Commissioner,  
Social Security Administration-----

Approximately 12:15 P.M.,  
Tuesday, January 23, in  
Room 1224, New Senate  
Office Building.

Mr. Mitchell was named as Assistant Executive Director, Social Security Administration in 1937 and later served as Deputy Commissioner before becoming Commissioner from 1959-1962. He is now a member of the board, American Association of Retired Persons, and a consultant to AARP and the National Retired Teachers Association. NRTA/AARP will make a major presentation later during the hearings.

## PART TWO

### INFORMATION ABOUT SOCIAL SECURITY TODAY

#### I. SUMMARY OF SOCIAL SECURITY AMENDMENTS IN 1972

Landmark changes were made in the Social Security law in 1972, vastly modernizing and improving the program.

A 20 percent across-the-board increase was enacted<sup>1</sup> in July, providing the largest dollar boost in benefits in the entire history of the Social Security Act. On an annual basis this measure will provide an additional \$8.5 billion in 1973 for 28 million Social Security beneficiaries. Particularly noteworthy, this legislation will remove nearly 1.9 million Americans from poverty, and without the necessity of resorting to welfare. A major innovation in this proposal is cost-of-living adjustments to protect the elderly from inflation. This new automatic escalator will come into operation, provided (1) the consumer price index increases by at least three percent, and (2) legislation raising Social Security benefits had neither been enacted nor had become effective during the previous year.

H.R. 1<sup>2</sup> produced further significant improvements for widows, low-income wage earners, the disabled, and others. Among the major provisions in this \$5.4 billion package:

*Increased Benefits for Widows and Dependent Widowers:* A widow (or dependent widower) whose benefits start at age 65 or after will receive either 100 percent of her deceased husband's primary insurance amount (the amount he would have been entitled to receive if he began his retirement at age 65) or, if his benefits began before age 65, an amount equal to the reduced benefit he would have been receiving if he were alive, but not less than 82½ percent of his primary insurance amount. The benefit for a widow (or dependent widower) who comes on the rolls between 60 and 65 will be reduced (5.7 percent for each full year before age 65) to take into account the longer period over which the benefit will be paid. In nearly all cases the actuarial reduction will be less than under prior law.

*Special Minimum Monthly Benefits:* A new special minimum monthly benefit—equal to \$8.50 multiplied by the number of years of covered employment beyond

<sup>1</sup> Public Law 92-336, approved July 1, 1972.

<sup>2</sup> Public Law 92-603, Social Security Amendments of 1972, approved October 30, 1972.

10, but not greater than 30—will be authorized for persons with low lifetime earnings and long periods of covered employment. The special minimum would range from \$85 a month (for persons with 20 years work experience) to \$170 (30 years of covered employment). The regular minimum is equal to \$84.50 a month.

*Liberalization of the Retirement Test:* Four basic changes were incorporated in H.R. 1: (1) the annual exempt earnings limitation will be raised from \$1,680 to \$2,100; (2) thereafter, \$1 in Social Security benefits will be withheld for each \$2 of earnings; (3) wages in and after the month in which a person attains age 72 will not be included (as under prior law) in determining total earnings for the year; and (4) future increases in the amount of exempt earnings will be adjusted automatically as average wages rise.

*Delayed Retirement Credit:* H.R. 1 provides for an increase in Social Security retirement benefits of 1 percent for each year after age 65 and before age 72 that an individual delays his retirement.

*Supplemental Security Income Program:* Beginning in January 1974, the existing adult welfare programs (aid for the aged, blind and disabled) will be replaced by a new Supplemental Security Income Program, administered by Social Security Administration and financed out of general revenues. The new program will build a Federal floor under the income of all older Americans—\$130 a month for single persons and \$195 for aged couples. Additionally, the first \$20 of Social Security or other income will be disregarded in determining eligibility for the supplemental payments. The effect of these two changes is to assure most elderly single persons that their monthly income will be at least \$150 (\$215 for couples). States wishing to pay an aged recipient in addition to the Federal supplemental payment would be free to do so. Perhaps participating in the new income supplement program will, however, lose their eligibility for food stamps or surplus commodities.

*Protection Against Loss of Medicaid:* Persons entitled to Medicaid will continue to be eligible, even if the 20 percent Social Security increase boosted their incomes above the State's qualifying income standards.

*\$4 "Pass-Along":* Persons receiving Old Age Assistance and Social Security will be assured of a \$4 increase in their net income as a result of the 20 percent hike in Social Security benefits.

*Medicare Coverage for the Disabled:* Nearly 1.7 million disabled Social Security beneficiaries under age 65 will become entitled to Medicare coverage in July 1973. To be eligible, a person must have been entitled to disability benefits for not less than 24 consecutive months.

*Contribution Rate:* To finance these reforms the contribution rate will be raised in 1973 from 5.5 percent to 5.85 percent. The maximum taxable wage base will remain at \$10,800 in 1973 and \$12,000 in 1974.

## II. WHERE WE STAND TODAY

Social Security benefits have increased by nearly 52 percent<sup>3</sup> during the past three years—the most rapid advance during the life of the program.

*Individual Impact:* On an individual basis, the three raises have had the following impact:

### MONTHLY SOCIAL SECURITY BENEFITS

[Rounded to nearest dollar]

	1969	1972
Maximum benefits, retired workers .....	\$161	\$259
Maximum benefits, retired couples .....	241	389
Average benefits, retired workers .....	100	162
Average benefits, retired couples .....	168	271
Average benefits, widows .....	87	138
Minimum monthly benefits, retired workers .....	55	85

*Reduction in Poverty:* Recent Social Security increases have had a dramatic impact in reducing poverty for older Americans. In 1969 nearly 4.8 million per-

<sup>3</sup> Congress approved a 15-percent Social Security increase for 1970, 10 percent in 1971, and 20 percent in 1972. These three raises add up to 45 percent. However, since each increase is a percentage on top of the last one, the total compounds to 52 percent.

sons 65 or older fell below the poverty line. In 1973 it is projected that this figure<sup>4</sup> will be reduced to 3.1 million—almost 35 percent less than in 1969.

*Aged poor (noninstitutionalized): Based on family income concept*

	[Persons in millions]
1969	4.8
1970	4.7
1971	4.3
1972 (estimated)	4.3
1973 (estimated)	3.1

However, there is also a substantial amount of hidden poverty among the elderly. Nearly 2 million aged persons are not classified as poor, simply because they live in families with incomes above the poverty threshold. If these individuals were also counted, the number of elderly in poverty would swell to 6.3 million in 1972—or almost one out of every three persons 65 or older.

AGED POOR (NONINSTITUTIONALIZED): BASED ON UNIT INCOME CONCEPT, 1972 AND 1973

[Persons in millions]

	1972 (estimated)	1973 (estimated)
Total	6.3	5.1
White	5.4	4.2
Nonwhite	.9	.8

Note: Figures for 1973 do not total 5,100,000 because of rounding.

*Comparison with Poverty Indexes:* Social Security benefits today—even with the 20 percent increase—still fall below the poverty threshold for many individuals. Average payments for retired workers now amount to \$1,944 a year—nearly \$40 below the poverty line<sup>5</sup> for single aged persons. Average benefits for elderly widows total \$1,656 a year—more than \$320 below the Government's own index. In 1973 average payments for widows will be boosted to about \$1,872 a year, when the provisions in H.R. 1 become operative. However, this benefit level will be approximately \$225 below the 1973 projected poverty standard for persons 65 or older.

Average payments for retired couples were raised to \$3,252 in 1972. This amount is \$732 above the poverty threshold, and it is just slightly higher (\$72) than the 1972 near poor index (Estimated to be \$3,180 for aged couples.)<sup>6</sup> (See following table.)

Social security beneficiary	1972 annual benefits (rounded to nearest dollar)	Poverty threshold, single person aged 65 or older, 1972	Poverty threshold, couple with a head aged 65 or older, 1972	Dollar difference: 1972 Social Security benefits to applicable poverty threshold	Percent of Social Security benefits to applicable poverty threshold
Maximum benefits, retired workers	\$3,108	\$1,980		+\$1,128	157
Maximum benefits, retired couples	4,668		\$2,520	+2,148	185
Average benefits, retired workers	1,944	1,980		-36	98
Average benefits, retired couples	3,252		2,520	+732	129
Average benefits, widows	1,656	1,980		-324	84
Minimum benefits, retired workers	1,014	1,980		-966	51
Minimum benefits, retired couples	1,522		2,520	-998	60

<sup>4</sup> The 1972 poverty index is projected by the Social Security Administration to be approximately \$1,980 for a single aged person and \$2,520 for an elderly couple. In 1973 it is estimated that the poverty standard will be \$2,100 for individuals 65 or older and \$2,640 for aged couples.

<sup>5</sup> See footnote 4 for poverty indexes for aged persons and couples for 1972 and 1973.

<sup>6</sup> The near poor index is 125 percent of the poverty threshold for aged persons and couples.

*Comparison with Bureau of Labor Statistics Intermediate Budget:* Income adequacy was one of the priority concerns of the 1971 White House Conference on Aging. Delegates at the Income Section, for example, urged that the standard be pegged to the BLS intermediate budget for a retired couple (Estimated by the Social Security Administration to be \$5,000 a year in 1972).

However, this modest standard of living is well beyond the means of about two out of every five elderly couples (based on 1970 Bureau of Census data). Even for retired couples with maximum entitlement, their Social Security benefits (\$4,668) are more than \$300 below this standard of adequacy. Social Security benefits for the average retired couple are almost \$1,750 below the moderate budget.

Social Security beneficiary	Annual Social Security benefits 1972	1972 BLS intermediate budget for retired couples (estimated)	Dollar difference: 1972 Social Security benefits to BLS intermediate budget	Percent of Social Security benefits to BLS intermediate budget
Maximum benefits, retired couples.....	\$4,668	\$5,000	—\$332	93
Average benefits, retired couples.....	3,252	5,000	—1,748	65

Note: For further information about the extent to which the elderly depend upon Social Security for over half or nearly all of their total income, see discussion on "Importance of Social Security."

#### HISTORY OF PERCENTAGE INCREASES IN SOCIAL SECURITY BENEFIT AND CONSUMER PRICES

Act	Date of enactment	Effective date	Across-the-board increases in benefits		Average increases for all beneficiaries		Increases in CPI <sup>1</sup>	
			Each amendment	Cumulative	Each amendment	Cumulative	Between the effective dates	Cumulative
1939.....	Aug. 10, 1939	January 1940						
1950.....	Aug. 28, 1950	September 1950	77.0	77.0	81.3	81.3	75.5	75.5
1952.....	July 18, 1952	September 1952	<sup>2</sup> 12.5	99.1	<sup>3</sup> 14.1	106.9	9.3	91.8
1954.....	Sept. 1, 1954	September 1954	13.0	125.0	13.3	134.3	.5	92.8
1958.....	Aug. 28, 1958	January 1959	<sup>4</sup> 7.0	140.8	7.7	152.4	7.9	108.0
1965.....	July 30, 1965	January 1965	<sup>5</sup> 7.0	157.6	7.7	171.9	7.9	124.5
1967.....	Jan. 2, 1968	February 1968	13.0	191.1	14.2	210.5	9.3	145.4
1969.....	Dec. 30, 1969	January 1970	15.0	234.8	15.6	258.9	10.8	171.8
1971.....	Mar. 17, 1971	January 1971	10.0	268.3	10.4	296.2	5.2	185.9
1972.....	July 1, 1972	September 1972	20.0	342.0	20.7	378.2	5.9	202.8

<sup>1</sup> 1957-59 plus 100 percent.

<sup>2</sup> Greater of 12.5 percent or \$5.

<sup>3</sup> 15.2 percent for old age beneficiaries

<sup>4</sup> Guarantee of 7 percent or \$3.

<sup>5</sup> Guarantee of 7 percent or \$4.

Source: Social Security Administration.

*Impact Upon Contribution Rates:* The contribution rates for cash benefits (Old Age, Survivor, and Disability Insurance) and Medicare (Hospital Insurance) was raised from 5.2 percent (each, for employers and employees) for 1972 to 5.85 percent for 1973 through 1977. The maximum wage base was boosted from \$9,000 in 1972 to \$10,800 in 1973 and will go to \$12,000 in 1974.

It is important to recognize that the contribution rate for the cash benefits program in effect prior to the 20 percent benefit increase amendment was scheduled to rise from 4.6 percent to 5.0 percent for 1973 (and remain at that level through 1975). The 20 percent Social Security increase enacted in July 1972 was achieved without an increase in the cash benefits contribution rate (although the maximum contribution and benefit base was increased as mentioned above). This welcome and seemingly astonishing result was possible because the 20 percent benefit increase was based upon a new financing policy and new actuarial assumptions—current cost financing and a rising wage assumption—recom-

mended by the distinguished 1971 Advisory Council on Social Security. The Medicare Hospital Insurance rate, however, was raised from 0.6 percent to 0.9 percent by the July legislation. This increase was needed to place the Hospital Insurance program on a financially sound basis.

The effect of the changes made by the July legislation was that the combined cash benefits and Medicare contribution rates would have been raised from 5.2 percent to 5.5 percent for 1973, rather than to 5.65 percent previously scheduled in the law. As a result, the overwhelming majority of low- and moderate-income wage earners—approximately 70 million Americans in all—would have paid lower Social Security contributions under the 20 percent amendment than they would have paid under the prior law. In fact, workers earning \$9,245 or less would have paid lower Social Security contributions from 1973 through the remainder of this century under the 20 percent amendment than under prior law. (However, because of the subsequent enactment of H.R. 1, these contribution rates did not take effect.)

Under H.R. 1 the combined cash benefits-Medicare contribution rate for 1973 through 1977 was raised from 5.5 percent to 5.85 percent. The maximum benefit and contribution base remained at \$10,800 in 1973 and \$12,000 in 1974.

With the change made by H.R. 1, a wage earner with \$10,000 in earnings will have his Social Security contribution raised from \$468 in 1972 to \$585 in 1973 and 1974. But under the law in effect before the July legislation, his OASDHI contribution would have been increased to \$508.50 in 1973 and 1974. Consequently, this wage earner would have a \$76.50 increase in his annual OASDHI contributions when compared with prior law for 1973 and 1974. However, the Social Security benefits for this wage earner and his wife at age 65 in 1975 will be increased by \$900 a year (compared to benefits payable before the 20 percent raise and the increase in the contribution and benefit base).

The median annual earnings for male wage earners under Social Security amounted to \$7,012 in 1972. The annual Social Security contributions for this wage earner will be increased under the new schedule from \$364 in 1972 to \$410 for 1973 and 1974. Under prior law his annual contributions would have increased from \$364 in 1972 to \$396 in 1973 and 1974. The Social Security benefits that this wage earner and his wife will receive at age 65 in 1975 will be increased by \$700 a year (compared with benefit levels before the 20 percent benefit increase).

Year	Maximum contribution and benefit base	OSDI rate (percent)	HI rate (percent)	Combined rate (percent)	Maximum contribution rates for employees
1969-70 .....	\$7,800	4.20	0.60	4.80	\$374.40
1971 .....	7,800	4.60	0.60	5.20	405.60
1972 .....	9,000	4.60	0.60	5.20	<sup>1</sup> 468.00
1973 .....	10,800	4.85	1.00	5.85	<sup>2</sup> 631.80
1974 .....	12,000	4.85	1.00	5.85	<sup>3</sup> 702.00

<sup>1</sup>About 25 percent of all covered workers under Social Security earned \$3,000 or more in 1972.

<sup>2</sup>About 18 percent of all covered workers under Social Security will earn \$10,330 or more in 1973.

<sup>3</sup>About 16 percent of all covered workers under Social Security will earn \$12,000 or more in 1974.

### Poverty rates by States (1970 poverty rates)

I. States with lowest rates:	Aged poverty rate
Connecticut .....	17
California .....	18
Massachusetts .....	19
New Jersey .....	19
Hawaii .....	20
District of Columbia .....	21
New York .....	22
Maryland .....	22
Nevada .....	22
Arizona .....	24

*Poverty rates by States (1970 poverty rates)—Continued*

II. States with 2d lowest rates:	<i>Aged poverty rate</i>
Illinois .....	24
Michigan .....	24
Delaware .....	24
Florida .....	24
Oregon .....	24
Wisconsin .....	24
Pennsylvania .....	24
Washington .....	24
Alaska .....	25
Rhode Island .....	25
III. States with 3d lowest rates:	
Colorado .....	25
Wyoming .....	25
New Hampshire .....	25
Ohio .....	26
Vermont .....	26
Utah .....	26
Indiana .....	26
Minnesota .....	27
Maine .....	27
Montana .....	28
IV. States with 4th lowest rates:	
North Dakota .....	28
Iowa .....	28
Nebraska .....	28
Kansas .....	29
Idaho .....	30
Virginia .....	31
Missouri .....	31
South Dakota .....	32
Texas .....	35
New Mexico .....	36
V. States with highest rates:	
Oklahoma .....	38
North Carolina .....	39
West Virginia .....	39
Kentucky .....	40
Georgia .....	41
Tennessee .....	42
South Carolina .....	43
Louisiana .....	43
Alabama .....	45
Arkansas .....	47
Mississippi .....	54

NOTE.—Because of rounding off of decimal points, some States—despite identical poverty rates in the table above—are not in the same “quintiles.”

## III. IMPORTANCE OF SOCIAL SECURITY

Social Security constitutes the economic mainstay for the vast majority of older Americans. Approximately two-thirds of retired single workers and half of aged couples depend upon Social Security for more than 50 percent of their income. Social Security benefits are almost the sole reliance (over 90 percent of total income) for 32 percent of retired single workers and 14 percent of retired couples.

Today very few retired workers collect private pension payments. Only 21 percent of the couples receiving Social Security benefits and 8 percent of the nonmarried beneficiaries also receive private pensions. Even when benefits from other Federal programs are considered, only 30 percent of the couples and 14 percent of the other beneficiaries have a second pension.



Social Security also keeps 12.2 million persons out of poverty. Without these benefits, millions of individuals would be forced on to the welfare rolls. Others would be required to depend upon relatives, many of whom would be financially hard-pressed to provide economic assistance. And without these payments, the great majority of Social Security beneficiaries would not even achieve a moderate standard of living.

Social Security is practically a universal system. About 91 percent of the elderly now receive or are eligible to receive payments when they or their spouses stop working. In 1972, 93 percent of those reaching age 65 were eligible for benefits. More than 9 out of every 10 persons in paid employment and self-employment are covered or eligible for coverage. And, 95 percent of the children under 18 and their mothers are covered if the wage earner should die.

### PART THREE

#### SUMMARY OF RECENT BOOKS WRITTEN BY TWO OF THE WITNESSES <sup>1</sup>

##### THE PAYROLL TAX FOR SOCIAL SECURITY

(By John A. Brittain, Senior Fellow, Economic Studies Program, The Brookings Institution, 1972)

As the title suggests, Dr. Brittain's study is an examination of the nature and impact of payroll taxes as the the method of financing the Social Security system. He prefaces his criticisms of the payroll tax with assurances that no criticism of the Social Security program itself is implied or intended. "A negative evaluation of major features of the payroll tax does not necessarily imply a desire to 'throw out the baby with the bathwater,' as is sometimes suggested." (p. 3)

The author, while recognizing that the regressive nature of the payroll tax is reduced by the benefit structure, believes "that the link between individual taxes and benefits is so weak that the tax can and should be examined independently and on its own merits." (p. 12) In justifying this approach, he says: "If the Social Security package is likely to have progressive impact on lifetime incomes, although benefits are not guaranteed, is it artificial to criticize the tax independently of the associated benefit structure? The answer to this lies in (1) the long lag between payments and receipts, and (2) the intergenerational nature of transfers under Social Security pension programs." (p. 253)

His study is therefore primarily an examination and evaluation of the economic effects of the payroll tax, focusing on the earning population that pays taxes and disregarding the retired population that receives benefits. "He argues that the half of the tax nominally paid by employers is actually borne by employees and that the tax is regressive, since no exemptions are allowed and the effective rate of taxation falls as earnings increase. Thus, he maintains, it works not only against antipoverty policy but also against the progressivity of the individual income tax. Moreover, he says, the payroll tax has often been increased, with perverse effect, in times of substantial slack in the economy, and it is ineffective as an automatic economic stabilizer." (p. vii)

There is, however, one chapter which takes into account the progressive nature of the benefit structure in offsetting the regressive effect of the tax. After reviewing earlier work on lifetime tax-benefit ratios, Dr. Brittain presents his preliminary projections of tax-benefit ratios and rates of return. He concludes that most participants will fare much better than have investors in fixed-dollar claims in recent decades but much less well than long-run investors in equity capital.

Dr. Brittain considers two broad classes of revision. His first proposal calls for internal restructuring of the payroll tax by means of exemptions and deductions similar to those used for the income tax. His second type of proposal involves more substantial reforms, including full replacement of the payroll tax by the income tax—a revision recognized as unlikely to be achieved in one step since full replacement would require an increase in income tax yield on the order of 45 percent. An alternative to substituting the income tax for the payroll

<sup>1</sup> Summaries prepared by Staff, U.S. Senate Special Committee on Aging.

tax would be to finance Social Security benefits from general revenues, a method that would not only entail increases in income tax rates, but would be less progressive than substitution of the income tax alone.

AN AMERICAN PHILOSOPHY OF SOCIAL SECURITY: EVOLUTION AND ISSUES

(By J. Douglas Brown, Provost and Dean of the Faculty, Emeritus, Princeton University, Princeton University Press, 1972)

Dean Brown has attempted the task of "distilling from the author's involvement in the planning of the Social Security system since its beginnings an organized series of concise essays which emphasize the broad sweep of evolution of the system and the major issues which have been resolved or are still to be decided."

One of his major points is that health care is "the expanding frontier of Social Security."

Other points made by the author:

*Persistence of Original Concepts:* Dean Brown describes President Roosevelt's original goal as prevention of long-range poverty:

"Just as drastic emergency measures had proved acceptable in a period of deep discouragement, it was the President's hope that drastic *constructive* measures for the protection of our old people against the hazards of unemployment, old age, and ill health would also be approved." With this mandate in mind, Brown and other members of the old age section attempted to devise a constructive mechanism which would *prevent* a vast load of dependency among the aged.

"From the very first," writes Brown, "it is our conviction that any old age insurance plan in the United States should be *national, compulsory, and contributory*, and provide benefits as a *matter of right*."

In spite of counter-proposals in 1934 and questions raised over the decades since, in Dean Brown's view, these concepts not only still apply, they are fundamental to future development.

*Need for a Federal Subsidy:* Even though Brown and his associates firmly supported the idea of employers and employees making identical contributions, they expected that the Federal government would make a contribution. The original target was that this contribution would be an amount sufficient to maintain an \$11 billion reserve once employers and employees had reached a contribution rate of 2½ per cent, perhaps in 1956.

Brown, in his new book, comments: "The provision for an eventual government subsidy to the system seemed to us to be the only possible way of paying reasonable benefits in the early years, and, at the same time, of avoiding a huge invested reserve. In our words at the time, this should not be a dangerous venture—provided the annual pension burdens are anticipated and planned for. *With both contribution rates and benefits now far higher than we had ever dreamed, the issue of an eventual subsidy to the system is still unresolved.*" (Italics added.)

*Relationship of OASDI to Public Assistance:* From earliest beginnings, contributory old age insurance in the United States was meant to build a middle layer of protection between those who need emergency relief or assistance and those who have protection acquired by private initiative and by private mechanisms. Dean Brown believes that this 3-layer approach has become commonly accepted in principle. "but the precise boundaries of the three layers will continue to be open to debate."

Furthermore: "Like two wheels on a cart they (social insurance and public assistance) can effectively support a load if they are reasonably matched. If they are not so matched, the cart lunges to the weak side and the stronger wheel cannot save the cart from disaster. The difficulty of determining the lower limit of social insurance protection is not, in the main, a problem of social insurance policy. It is rather a long unrecognized problem in the financing and administration of public assistance in a nation in which social standards and human resources can no longer be left to sporadic local concern. The firm foundation of an adequate, national system of public assistance would permit the OASDI system of contributory social insurance to perform more effectively in its own area of protection."

*Issues of Financing:* "The actuarial history of the OASDI system has been one of moving from a long-run theoretical actuarial balance in financing to a pragmatic application of shorter-run actuarial analysis," writes Brown, in his discussion of the trend to what is now called current cost financing. He adds that Congress has assumed for many years that the OASDI system will continue to be financed by payroll taxes alone, but that the employee and especially the self-employed are bound to weigh their increasing tax payments against the protection gained:

"This will be increasingly true as contributions increase. In the absence of any contribution by government to the basic OASDI system, the planners of the system must, therefore, design a careful course in a time of mounting current costs in balancing the level of the protection desired by the people concerned and their willingness, year by year, to meet the cost of that protection through payroll taxes. This will be, essentially, a political judgment, but it will necessarily be based on accurate estimates of that cost."

*Health Care and Social Security:* Dean Brown describes Medicare as a bifurcated, clumsily financed system. He concludes: "The further development of Medicare involves many problems. The implementation of the lessons learned under Medicare in the development of *general* health insurance for all will involve many more. The greatest problem in both is an obsolete and disorganized national system of distribution of health care. The social insurance problems of *financing* the average per capita costs of adequate medical care for all could be readily mastered if the leaders of the medical profession of the country would cooperate in the organization of the health services to be financed. Without such reorganization, a critical area in the protection of our people through social insurance will remain beyond our reach."

## Appendix 3

### ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

#### ITEM 1. "HE HAS A LOT ON HIS MIND" REPRINT OF ARTICLE FROM OASIS MAGAZINE, A SOCIAL SECURITY PUBLICATION, NOVEMBER 1972\*

##### HE HAS A LOT ON HIS MIND

Will the title, district manager, earn one a special place in heaven? District Manager Karl Saenger, Miami Beach, Fla., thinks it should. Smiling, he says:

"If a district manager writes a memo, it's too long. If he sends a teletype, it's too short. If he doesn't make a phone call, he's lazy.

"If he reprimands an employee, he's butting in. If he doesn't, he's a shirker. If he criticizes an employee, he's insulting. If he fails to criticize an employee, he's slipping.

"If he asks for advice, he's incompetent. If he does not he's bullheaded.

"If he writes his reports complete, they're too long. If he condenses them, they're incomplete.

"Ashes to ashes, dust to dust, if others won't do it, the district manager must!"

Jesting aside, the district manager's job has evolved into one of the most complex and demanding positions in SSA. Ask any veteran district manager when his head first began to swim, and chances are he'll say around 1965. Were all managers stricken by selective virus at the same time? No . . . not exactly.

It was about that time that computer technology, the advent of Medicare, and a greatly expanded Social Security program swept us into a new age, radically altering the roles of virtually all SSA people—the district manager in particular.

But let's go back, way back to the 1930's, and see just how drastically things have changed. "Generally," states District Manager Bill Nixon, Columbia, S.C., "early district office workloads consisted of issuing Social Security numbers and getting employers to submit correct wage reports, taking claims, and informing the public about the new program."

Remembering, Bill says: "The old-age insurance program in the initial Act of 1935, which became operative in 1937, was indeed a lean program compared to our present program of retirement, survivors, disability, and health insurance. Coverage was limited to wages from commerce and industry. And, old-age benefits weren't scheduled to be paid until 1942—almost 7 years after the original legislation and 5 years after the program officially began.

"Our office had a staff of eight people from 1937 to 1940," says Bill. "Good shoe leather and thick soles were an asset. A number of pairs of good shoes were worn thin in the door-to-door contact program which was necessary to educate employers about their rights and responsibilities under the law, to spot delinquent employers, and to resolve coverage problems.

"Public relations then as now was an important factor in every aspect of our work in the field," states Bill. "Personal contact was the most effective way to inform individuals and groups of their rights and responsibilities under the Act and to win cooperation, if not approval. The difference now is that there are fewer personal contacts proportionately and more use of the major media of press, radio, and television. There was no television, of course, but we made extensive use of the press and radio. Some newspaper editors, however, were opposed not only to the old-age insurance program but to the companion program of unemployment insurance as well. One prominent South Carolina newspaper for years refused to print any Social Security releases, and with most newspapers, a working relationship and understanding had to be established by frequent contacts."

\*See p. 69 for earlier discussion.

Claims began coming in in 1937. Since monthly benefits were not scheduled to begin until 1942 and coverage ended at age 65, these were lump-sum claims filed by workers reaching 65 or survivors of workers who died. As Bill recalls: "Claims in 1937 were not our principal workload; only 79 claims in the whole State of South Carolina had been cleared to Washington by June 30 and only 10,000 nationally."

The picture in the field was altered considerably with the passage of the 1939 amendments. By moving the date for initial payment of old-age benefits from 1942 to 1940, and providing survivors benefits for the families of insured workers, Congress brought the American public closer to the program. Public reaction became overwhelmingly favorable, Social Security had greater meaning.

District Manager Clair Flaten, Salem, Oreg., paints this picture of the district manager's job in 1940: "My first office was in La Grande, Oreg. As I remember, the area served was about 47,000 square miles—about the size of New York State. The office staff included a claims assistant, a clerk-steno, and myself.

"Compared to 1972, of course, the claims load and benefits-in-payment status were unimpressive. As manager, I found myself directly involved in all the functions of the district office. Frequently, I was required to travel 4 to 5 days each week carrying out a variety of contacts both in and out of contact station points—taking claims, developing supporting proofs, investigating earnings discrepancies, identifying missing or incorrectly reported earnings items, and conducting a variety of public information activities."

Flip the calendar to the 1950's. At the start of the decade Social Security monthly benefits were being paid to about 3.5 million people at a rate of almost \$126 million per month.

As the decade moved on, benefits were raised to bring them more nearly in line with living costs; coverage was extended to self-employed businessmen, domestic and farm workers, professional people, and State and local employees; and a new program—disability insurance—was launched.

These were the years when amendment followed amendment, and workload records were established 1 day only to be broken the next. Besides assimilating all the changes themselves, district managers were kept busy planning, training, shifting staff, etc., to meet the new demands. When looked at in retrospect, however, these demands were only a foretaste of what the 1960's were to bring—Medicare and even greater expansions of the Social Security program.

Another flip of the calendar and it's 1972. The picture and the job of district manager have really changed. Just listen to the everyday jargon used in SSA offices today: direct input, teleclaims, intermediaries, microfiche, Black Lung, data review technician, simultaneous development, labor relations, Medicare. . . . Unfamiliar, or even unheard of only a few years ago, they're standard terms in the vocabulary of all of SSA's 637 district managers.

And Social Security today is very much in the public eye because of its tremendous economic impact on the Nation. In September 1972, for instance, 28.1 million beneficiaries received almost \$4 billion in benefits monthly. And, during fiscal year 1972, \$8.4 billion was paid out in Medicare benefits. From the public relations standpoint, the district manager's job has become even more difficult as the American worker has been asked to make larger contributions to finance the expanding program.

By 1974 our district managers will be coping with a much enlarged program. As this issue of the OASIS went to press, the 1972 Social Security bill had just been signed by the President. It contains, among other things, provisions raising widows' benefits, enlarging Medicare, boosting payroll taxes, and creating a new national program to provide financial assistance to needy people who have reached 65 or are blind or disabled.

To be successful in meeting current and future demands, the district manager today must be a unique combination of leader, resources manager, administrative technician, program expert, and public affairs specialist. Making a case for reclassification, SSA told the Civil Service Commission:

*As the person who represents Social Security to the public, today's manager must have the knowledge to speak authoritatively about a program much more complex and comprehensive than it was even in the mid-sixties. He must be skillful in dealing with the "sensitive" questions and problems of doctors, hospital administrators, Medicare carriers and intermediaries, and State health and welfare agencies, as well as with the questions and problems of the ever-*

*growing beneficiary population in his district. He must be able to work smoothly with community and minority-group leaders. On occasion, he is called on to serve as on-the-spot representative for other programs of the Department of Health, Education, and Welfare, and for related programs [such as Model Cities or Project FIND].*

Perhaps the single greatest factor affecting the role of the district manager in the past few years has been the impact of Medicare. Back in 1965-1966, when the program was in the get-ready stage, it was thought that district offices would not play a major role in day-to-day Medicare administration.

The carriers and intermediaries were expected to handle the vast bulk of the claims and public contact workloads, while the central and regional staffs of the Bureau of Health Insurance were to be responsible for resolving technical problems and for negotiation and liaison with carriers, intermediaries, State agencies, and the medical community at large. These expectations, if fulfilled, would have left the DO with little else to do than process initial claims for Medicare entitlement, answer an occasional question, and refer problems to other components and organizations.

Contrary to expectations, the administration of Medicare has produced massive workloads in the district office and has thrust tasks on the district manager that weren't ever imagined. The public—used to coming to district offices for help with Social Security matters—has turned to the DO's with Medicare questions and problems as well. The local news media look to the manager to provide quick and authoritative responses to their questions. The district manager, as the "man on the spot", also bears the brunt of the problems and complaints of the local health service community. Intermediaries and carriers have come to depend on district offices for informal day-to-day liaison, and for help with problems.

In Columbia, S.C., for example, District Manager Bill Nixon reports that "the volume of health insurance workloads has caused us to get up a special 'Medicare Unit' within the DO." The Columbia office is parallel to Blue Cross-Blue Shield of South Carolina, which is Part A intermediary and Part B carrier for Medicare in South Carolina.

"The service we provide for the carrier-intermediary," states Bill, "ranges from securing correct HI numbers to resolving code rejects, establishing buy-in eligibility for State Welfare clients, resolving individual problem cases where Medicare claims have been erroneously denied, and providing consultation on procedural innovations to improve the Medicare claims process within the State.

"In order to efficiently accomplish these duties," continues Bill, "training needs in the office must take into consideration the vast amount of detailed knowledge necessary for our Medicare responsibilities to be fulfilled with a high degree of quality."

*As the man who must decide how best to deploy SSA's local resources in serving the public, today's manager has a much wider range of options than his counterpart of yesteryear. He must have the knowledge, imagination, and innovative ability to come up with the optimal "mix" of branch offices, telephone service, employer assistance in claims filing, etc.*

Again, to elaborate, we look to Columbia, S.C. When Bill Nixon reported to work there in 1937, Columbia was a Class VI office with eight employees. Presently, it is a Class I office with 48 employees on duty. In addition, the district has two branch offices—one at Orangeburg with 10 employees, the other at Sumter with 9. And, Bill says that plans are being made to open a third branch in Camden.

In Columbia, the parent DO exercises general supervision of branch office operations mostly on a postaudit basis, thus, as Bill puts it, "giving our branch managers sufficient freedom to make most operational decisions within the framework of general instructions." Daily telephone communications are maintained with the BO's, however, and Bill states: "We are always alert to any administrative problems so that we may give our branches assistance when needed. There is the need to give continuing attention to staffing, detailing employees to process peak workloads, and training."

Branch offices aren't the only operations a modern district manager must take into consideration when he's determining the best ways to serve the public in his area. Increased use of telephones and employer assistance in filing claims are two other means through which SSA is reaching the public. Both mark a change in the traditional way SSA has been providing services.

In years past, reliance was placed on the across-the-desk interview in both the claims taking and postentitlement areas. Public information messages were aimed at getting people to "Visit Your Social Security Office." In today's changing world, the traditional face-to-face service might not be appropriate for many people. Asking a person to drive to a district office, find a place to park, and wait to be referred to an interviewer to transact business that might have been handled by mail or telephone is an imposition and not the best or most economical public service. So today, people are encouraged to "Phone Your District Office."

This type of service places increased demands on management. Managers have had to become knowledgeable about the telephone systems available so the most effective and economical can be selected. In some offices, special units have been set up to handle the telephone business, further segmenting the office and requiring greater skill in managing the operation—training, keeping the specialists fully occupied, and compensating for absences.

In Salem, Oreg., for example, where there are 34 SSA employees on duty, District Manager Clair Flaten reports that there are two teleservice units staffed by two claim reps and two claims development clerks.

In the employer assistance programs, employers help their employees complete Social Security claims at work and assist them in gathering necessary proofs. It's up to the district manager and his staff to identify employers who might be willing to participate in the program, demonstrate the advantages to the employer and his employees, and work out mutually satisfactory arrangements. For these arrangements to work well, the district manager must extend training beyond his immediate staff and maintain close and continuing communication between the employer's personnel office and the DO.

It's plain to see that today a person doing business with SSA has a choice of options. He can come to a district office, branch office, or contact station; he can use his telephone; he can use the mails; and, in some instances, he can use his employer as an intermediary. The district manager also has options. No longer tied to a uniform, nationwide policy of doing business face-to-face, he can use his own initiative and skills to arrive at a service package best suited to the peculiarities of his district.

*As the person responsible for managing district office resources efficiently and effectively, today's manager faces a far more complex task than his predecessor in the days before advanced data processing techniques, specialization, reorganization, and development of formal equal opportunity and labor relations programs within SSA. He must know enough about computer systems to use them well—and to be sure that people in new computer-related positions are performing satisfactorily. He must be able to provide individual, specialized training in the complexity of the health insurance and disability insurance programs. He must be able to interpret voluminous and complicated policy instructions. He must be able to reconcile effectively competing demands upon his office. Particularly because SSA is one of the most comprehensive and "visible" social programs of the Federal Government, he must be persuasive and resourceful in implementing SSA's equal employment and fair housing programs—sometimes in the face of resistance from his community or even from his own employees. He must deal with newly organized employee unions responsibly yet firmly.*

In recent years, two fundamental changes have taken place in the DO. The district office is now the point of final authorization and it is a point of access to the computer systems in central office.

Today, about one-third of retirement and survivors awards, because of certain "conspicuous characteristics" which tend to make them error prone, are authorized by the payment center. In the other two-thirds, the entitlement decision (in many instances involving over \$50,000 in benefits over a period of years) is made in the DO, and payment is authorized without further review in the payment center (except for a quality appraisal sample group).

And, in the post-entitlement area, the DO, via teletype, directly feeds into the system more than 85 percent of all changes of address, death terminations, and student conversion notices. In addition, DO's recently began direct input of work notices and all other suspension and termination events.

And as technology advances, so too will the type of data processing used by DO's. In the not-too-distant future, DO teletype machines will be replaced with more sophisticated input terminals, which will not only speed up transmission of data but will also help reduce errors. And, eventually, a real time system will

be installed so that DO's will be able to get instant answers from the computer at headquarters.

All this means faster, better, tailor-made service to the public. And, it also puts a larger responsibility on the DO and the district manager. While he is not expected to be intimately familiar with the inner workings of EDP, he must be sufficiently acquainted with the various processes and alternatives available to enable him to make sound decisions.

The technological revolution, the many changes in the Social Security program and ways of processing workloads, have wrought one more change on district office operations. What once was a staff of generalists has evolved into a staff containing a number of specialists. New positions have been established to cope with the changes. Today, for example, the DO has data review technicians to verify all claims and postadjudicative data for accuracy, format, and reliability prior to entering it into the EDP system.

There are others, but the fact remains that in the old days the district manager supervised a rather homogeneous group of clerical and technical employees. Today there are more technical employees performing more technical functions, and fewer clerical employees. And many of these employees require specialized training to perform their tasks. In addition, the absence from work of one of these specialists presents a formidable challenge to a district manager, since little or no backup is available through other office personnel. All of this places heavy demands upon the manager to expand his knowledge for training and for effective utilization of his manpower.

We have only scratched the surface in describing the role of the district manager of the 1970's. But, back to our original question. Will the title, district manager, earn one a special place in heaven? That's a debatable question. Here on earth, however, the title and the men and women holding that title have a very special place—not only within the Social Security Administration but within the lives of this nation's 200 million citizens.

