

# **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 5—WASHINGTON, D.C.**  
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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

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THURSDAY, JULY 26, 1973

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

The committee met, pursuant to notice, at 10 a.m., room 1114, Dirksen Office Building, Hon. Frank Church, chairman, presiding.

Present: Senators Church and Fong.

Also present: William E. Oriol, staff director; Elizabeth M. Heidbreder, professional staff member; John Guy Miller, minority staff director; Robert M. M. Seto, minority counsel; Dorothy McCamman, consultant; Patricia G. Oriol, chief clerk; Gerald Strickler, printing assistant; Yvonne McCoy and Ann Todaro, clerks.

Senator CHURCH. The hearing will come to order. This is the 2d day of this series of hearings on Future Directions in Social Security.

The committee is making the subject matter of these hearings a major matter of study during the current year. This morning our first witness is Mr. Cyril Brickfield, who is the legislative counsel of the National Retired Teachers Association and the American Association of Retired Persons.

His organization has made a major effort in preparing a statement. The total complete statement is 154 pages in length, but in order to accommodate the needs of the committee due to the limitations on our time, I understand Cy, that you have a summary version that you will read this morning, and I am sure there will be questions.<sup>1</sup>

Senator FONG. Mr. Chairman, I am glad to welcome the witnesses. I don't think I will have time to read the 154 pages now, but I will read the summary. I'm sorry I will not be able to remain long because of a conference with the House on an appropriation bill that will begin at 10:30 a.m., so I will read your statement.

Mr. BRICKFIELD. Thank you. We know you as a good friend of the associations. When we have meetings here in Washington and elsewhere, you have always been kind enough to come to them and to support us in our legislative efforts and we appreciate it.

Senator FONG. I am getting old.

[Laughter.]

Senator CHURCH. That's a universal problem with us.

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<sup>1</sup> See appendix, p. 319, for complete statement submitted by Mr. Brickfield.

Mr. BRICKFIELD. We appreciate John Guy Miller, too, Senator Fong. We call on him from time to time and, I don't know, he must have an in with you some way, because, through him, you have been most helpful to us.

Senator FONG. Thank you.

**STATEMENT OF CYRIL BRICKFIELD, LEGISLATIVE COUNSEL, THE NATIONAL RETIRED TEACHERS ASSOCIATION, AMERICAN ASSOCIATION OF RETIRED PERSONS, ACCOMPANIED BY HON. JOHN MARTIN, CONSULTANT AND FORMER U.S. COMMISSIONER ON AGING; JAMES HACKING, LEGISLATIVE REPRESENTATIVE; HON. WILLIAM MITCHELL, CONSULTANT AND FORMER SOCIAL SECURITY COMMISSIONER; PETER W. HUGHES, LEGISLATIVE REPRESENTATIVE; AND TOM BORZILLERI, ECONOMIC CONSULTANT**

Mr. BRICKFIELD. I am Cyril F. Brickfield, legislative counsel to the country's largest organizations of older Americans—the affiliated, non-profit National Retired Teachers Association and the American Association of Retired Persons. The combined membership of our associations presently exceeds 5.5 million.

I might say as an aside, Senator, hopefully by the end of the year we will be at 6 million members.

I am accompanied this morning on my immediate right by Mr. John Martin, who is the former Commissioner of the Administration on Aging; and to his right by Mr. William Mitchell, who is a former Commissioner of Social Security. Both these gentlemen are consultants to our association.

Senator FONG. What is the ratio of teachers to other retired persons in your group?

Mr. BRICKFIELD. We have about 375,000 members who are members of the National Retired Teachers Association, and about 5,300,000 members of the American Association of Retired Persons, so that's 375,000 teachers and 5,300,000 of other retired people which combined brings us to over 5½ million total combined membership of both organizations.

I am also accompanied this morning, Mr. Chairman, and Senator Fong, by Mr. Peter Hughes, an associate of mine on the far end, and by Mr. Tom Borzilleri and Mr. James Hacking, who did the yeoman work in preparing this document for us this morning.

I would like to begin by expressing our associations' appreciation for the opportunity to participate in this second phase of hearings on future Social Security directions.

#### RETIREMENT INCOME SECURITY

If you will examine the table of contents of our prepared statement, which, with the permission of the committee, I shall now introduce for inclusion in this hearing record,<sup>1</sup> you will find that it treats,

<sup>1</sup> See appendix, p. 319.

in some considerable detail, a broad spectrum of retirement income security topics, including the present income situation of the elderly and prospects for the future, old age, survivors, and disability insurance, supplemental security income, private pensions, employment, the retirement income credit, and the need to coordinate existing public pension systems. Time constraints precluded our treating adequately health care and property tax relief (both of which substantially erode retirement income), consequently, these items were not included.

Senator CHURCH. You may incorporate the statement at this point. [See appendix, page 319, for complete statement.]

Mr. BRICKFIELD. Also, touching upon the revision of the income credit, now by way of introduction, I would like to say that today I was speaking to Mr. Mitchell this morning on this particular subject and I asked him, "How is it that they haven't been able to obtain this before?" And he told me that he feels that a great number of our people just don't earn enough income to pay enough tax that will support a large enough benefit payment when they do retire, and you have Mr. Mitchell here, as you can see, Senator, and if you want to supplement my remarks as we go along, it would be fine.

Mr. MITCHELL. I think that's the reason.

Senator CHURCH. That's been aggravated, has it not, immeasurably by the continuous inflation.

Mr. MITCHELL. A great deal, yes, Senator.

Senator CHURCH. So that large dollars have gone in and smaller dollars come out.

Mr. MITCHELL. Right.

Senator CHURCH. Which has, I think, been the chief underminer of the Social Security program.

Mr. MITCHELL. Probably the single greatest problem, as I see it, that needs to be licked at the present time.

Senator CHURCH. Yes.

Mr. BRICKFIELD. Mr. Chairman, I would like to point out the increasing concern of our associations with the development of the Medicare and Medicaid programs and the level of care they presently provide. Instead of progressing with respect to health care for the elderly, we may well be regressing. The enactment of the administration's Medicare cost-sharing proposals would tend to reinforce this trend.

#### ENCOURAGED BY CONGRESSIONAL CONCERN

I would, however, add that we are encouraged by congressional concern with improving the health care situation. We certainly commend the chairman and Senator Mondale for expressing their sense of concern through Senate Resolution 124.

Because the scope of the material contained in our prepared statement is so comprehensive and exhaustive, we shall confine our remarks this morning to: Present and future retirement income needs; old age, survivors, and disability insurance, with respect to future standards of adequacy for the replacement of earnings lost due to retirement, the financing of Social Security, the retirement test, and the need to establish a bipartisan Social Security board; revision of the increasing economic necessity to retain older persons in the labor force; and

the need to better coordinate this country's basic public pension systems.

Today, it is generally accepted that over the years the Social Security program has actively attempted to provide an adequate minimum level of income support for the aged; and to provide a retirement benefit that will prevent a serious decline in income due to earnings loss.

As we attempt to demonstrate in part 1 of our prepared statement, while the Social Security system has made great progress since its inception, an adequate floor of income protection remains elusive for large numbers of elderly Americans.

Moreover, the second goal of preventing a serious decline of income due to retirement also has a long way to go. The lack of complete success in achieving these two goals may derive from the attempt to use a single mechanism, OASDI, to accomplish separate objectives.

However, now that the goal of providing an adequate income floor will be primarily the responsibility of the SSI program, it is hoped that the income adequacy problem of the elderly will be alleviated.

Divested of the income support function and, hopefully, of the "floor of protection" philosophy, OASDI can now function primarily as a mechanism to replace an adequate degree of earnings lost as a result of retirement, disability, or death.

The awareness of aging population trends should motivate the planning necessary to accommodate the income security needs of the future aged. Not only must we anticipate that the aged population will continue to increase in terms of sheer numbers, but taking into account such factors as improved health care, ever-earlier retirement policies and practices, and estimates of diminishing labor force participation, we must also anticipate that they will be living longer and spending more years in retirement.

Moreover, since the aged of tomorrow will be better educated, more skilled and more sophisticated than the aged of today, they appear far less likely to accept the lower standard of living which presently attend retirement.

The projected dimension of the future aged population and the assumed unwillingness on their part to accept in retirement a standard of living below that experienced prior to retirement really define the challenge which confronts us here today.

#### SOCIAL SECURITY AND EARNINGS REPLACEMENT

Now, as to the standard of adequacy for the replacement of earnings lost due to retirement, since Social Security will probably remain the primary instrument of earnings replacement for the foreseeable future, the optimum degree of earnings to be replaced through Social Security should be determined now in order that the modifications in the benefit structure and financing mechanism may be carried out in time to accommodate future needs in the most efficient manner.

Basically, our associations believe that the living standard of the future aged should be related directly to a standard of living experienced prior to retirement.

Moreover, the standard selected should not, in any case, result in a post-retirement living standard appreciably lower than that enjoyed immediately prior to retirement.

Prof. James H. Schulz of Brandeis suggests that the appropriate standard could be based on the average highest earnings in 10 of the 15 years immediately prior to retirement and this is Professor Schulz's suggestion, the 10 of the 15 years immediately prior to retirement.

Others have suggested standards based on average earnings in 5 of the 15 or 20 years immediately preceding retirement, the average of the highest earnings in any 5 years, or in any 10 years.

Senator CHURCH. Excuse me. The present law bases the retirement benefit upon the average earnings over the entire period?

Mr. MITCHELL. Since 1950.

Mr. BRICKFIELD. 1951.

Mr. MITCHELL. Yes, since 1951, and dropping out the 5 years of low or no earnings.

Senator CHURCH. That would be the average, did you say, 1950?

Mr. MITCHELL. Yes, sir.

Mr. BRICKFIELD. You average all the years since 1951, dropping out, however, the 5 lowest years.

Senator FONG. What you are really suggesting here is that there be more general fund money?

#### SEEKING A FAIR AVERAGE

Mr. BRICKFIELD. As you can see, Senator, there are many problems involved. Professor Schulz, in seeking a fair average, believes in taking 10 of the last 15 years. He feels that you need a broader spread for a fairer average and that's why he takes 10 as against 5 of the last 15 years. He feels that in many cases one would have too many sharp peaks and too many sharp valleys, and if one spread it over a longer period of time, one comes out to a truer average, if that's a proper phrase.

Senator FONG. You are referring to Social Security number of years?

Mr. BRICKFIELD. That's right, yes, sir.

Senator CHURCH. Here again, if you go back over too long a period to obtain an average, you run smack into the inflation problem once more.

Mr. MITCHELL. That's right.

Senator CHURCH. And lower salaries over the years.

Mr. MARTIN. The problem really is, when you say "take an average" and you talk about replacement, you should really be talking about replacement of earnings at the time of retirement, but you are really using the average to determine replacements and you are talking about replacement of a much smaller amount than was the case at the time of retirement.

Senator CHURCH. Yes, you build in a lag, a timelag into the system that reduces the retirement benefit very markedly; but Senator Fong raises the question of how another test like any of these that you have suggested would be financed, and I think you get into that in your statement.

Mr. BRICKFIELD. Yes, we get into it later in the statement.

While our organizations tend to agree with the recommendation of Professor Schulz, we also believe that a standard based on average lifetime earnings adjusted, however, to account for cost-of-living and real wage increases, has considerable merit.

However, the administrative burden and attendant cost consequences of such a standard may be so onerous as to render it unfeasible.

Once an appropriate preretirement living standard is selected, the percentage of earnings to be replaced by the public and private mix of retirement income mechanisms in order to maintain that standard must be determined. Professor Schulz has estimated the appropriate replacement rate to be from 60 to 65 percent. Others have suggested higher rates.

So that you may understand me clearly, Senator, Professor Schulz feels that you should take the average of the 10 highest of the last 15 years; for example, if your average is \$10,000 over the 10 best of the last 15 years, then your yearly retirement income from all sources should be between 60 and 65 percent of your preretirement income, or \$6,000 to \$6,500 per year. In other words he thinks that you can get along adequately on two-thirds of what you were making prior to retirement. This two-thirds figure includes income from all sources.

While our associations concede that private pension plans will assume an increasingly significant role in the earnings replacement function for the future aged, we even tend to believe that Social Security will continue in its present capacity as the primary earnings replacement mechanism. An appropriate rate for Social Security must, therefore, be determined.

Professor Schulz suggests an optimum earnings replacement rate of 55 percent, in other words, if you should have a total amount of 60 to 65 percent, he maintains that 55 percent of that 65 percent should come from Social Security benefit payments.

While our associations are unwilling to commit ourselves to the 55-percent figure without further study, we do not find this figure to be unreasonable.

Members of this committee will recall that we appeared here 3 years ago and took a position on what we call an adequacy of income test in which one takes the last years of a person's earnings before retirement, say, the last 5 years, and averages it out and that 50 percent of that average should be paid in retirement as Social Security benefits.

For example, if a person's last 5 years averaged \$10,000, we felt then that the Social Security benefits should range around \$5,000 per year.

Senator CHURCH. In determining the percentage to be contributed by Social Security, you take into account the fact that Social Security income is tax free?

Mr. BRICKFIELD. Yes, sir.

Senator CHURCH. Very well.

Mr. BRICKFIELD. On the financing of Social Security, in recognition of the increasing burden which the Social Security payroll tax is imposing on the active working population, our associations have adopted the following position:

We urge the enactment of legislation to lessen the existing regressivity of the taxes imposed by the Self-Employment Contributions Act and the Federal Insurance Contributions Act.

In view of the regressive impact of the payroll taxes on lower income groups, our associations would support initially, limited reform within the existing tax structure, provided, however, that the contributory principle is not broken.

If the Social Security is to be used as the primary earnings replacement mechanism to permit the future aged to maintain in retirement a preretirement standard of living, more fundamental reform of the tax structure would seem to be required.

Without increasing the tax rates and taxable wage base to prohibitive levels, we doubt that the present structure could, by itself, generate enough revenue to finance an adequate earnings replacement ratio.

Within the limits of our present policy position, we could support a change in the payroll tax structure to provide a system of exemptions or allowances designed to reduce substantially the payroll tax burden on lower income groups. Such relief should be subject, however, to some minimum percentage contribution designed to preserve the contributory principle.

We believe that the cost of such internal reform would be modest and could be offset by increases in the tax rates and/or the taxable earnings base.

We would, however, hope that any exemption formula would tend to concentrate the benefits of exemptions among lower-income units and phase out such benefits as the family income increases.

#### SOME GENERAL REVENUE FINANCING NEEDED

To accomplish more fundamental reform, the use of general revenues, even if only as a supplement, appears necessary. A number of limited proposals have been suggested, including the use of general revenues to pay benefits to "late arrivals," as for example, those who were self-employed, and the use of general revenues to finance the hospital insurance program. John Brittain, of the Brookings Institution, has suggested that a system of payroll tax exemptions could be financed from general revenues at minimal cost.

Wayne Vroman, an economist with OEO, has suggested the use of general revenues to finance the already anticipated revenue needs of Social Security as an alternative to the payroll tax rate increases scheduled for 1978.

Other more radical proposals for increased reliance on general revenues have also been made. For example, it has been proposed that payroll tax contributions should constitute a credit against Federal income tax liability with any contributory amount in excess of such liability treated as an overpayment of income tax. Any such overpayment would be refunded to the taxpayer.

In the view of our associations, the complete financing of Social Security through general revenues is simply not feasible at the present time. Moreover, since the distribution of the tax burden under the income tax is far from equitable, it is an unsuitable vehicle on which to cast the full burden of Social Security. More limited reliance, however, should be considered to meet additional Social Security revenue needs in the immediate future.

On the retirement test, our associations favor the further liberalization of the retirement test to \$3,600. The cost estimates for this proposal range from \$1.2 to \$1.4 billion annually. Since the chairman's bill, S. 632, is within the scope of our position, we support it.

In our view, the liberalization of the retirement test is an emotional, as well as philosophical and economic issue. This was clearly demonstrated at the 1971 White House Conference on Aging and continues to be reflected in our membership correspondence. We must be mindful that though it has been argued that only a minority of the aged would actually be affected by further liberalization, this "minority" is in fact a great number of people; namely, 1.5 million elderly. I might say, Mr. Chairman, that we receive more complaints on the earnings test than any other single matter in our office. People simply want to be able to work and earn more money without suffering benefit losses under the Social Security payments.

Senator CHURCH. I think that's true of my mail, too.

Mr. BRICKFIELD. We must be mindful that the American retiree continues to feel abused by the retirement test and he argues that he should not be deprived of his benefits because he engages in paid employment, particularly in the light of the fact that his nonworking neighbor, with income from stocks and bonds, receives a full pension.

To the older American, this is discrimination in favor of the well-to-do and reward for idle living. Since the test penalizes productive work, he considers it a violation of the work ethic. No amount of logical argument as to cost or the need to make way for younger workers is likely to dissipate this feeling.

Senator CHURCH. I think you put your finger on the major reason for the complaint. Working people who do not have significant income in retirement from dividends or from savings, interest on savings, or from rates, but have to work to supplement their retirement income feel themselves to be very strongly discriminated against as opposed to those who are much more advantaged and have no need for work and the advantaged can get their full retirement benefit funds under Social Security while the working man has to either refrain from working or take a reduction in his Social Security benefits, and you are quite right, no matter how you argue the case—and it can be strongly argued and needs to be taken into consideration—but the elimination of the retirement test would be very costly to the Social Security system and the major benefit would go to those less in need.

#### ELIMINATION OF RETIREMENT TEST?

You still get around to this feeling of discrimination that exists in the present system. What is the position of your organization in connection with the elimination of the retirement test altogether?

Mr. BRICKFIELD. Well, 2 years ago, we were in favor of eliminating the retirement test altogether. We knew we had an uphill battle. Happily, there have been great changes made in the Social Security benefits recently.

As you remember, only a few short years ago one could only earn up to \$1,680 before he started to lose Social Security benefits. Recently this has been increased to \$2,100, and I think most recently—

Senator CHURCH. \$2,400.

Mr. BRICKFIELD [continuing]. \$2,400 that one can earn before losing benefits. In addition, there are a number of bills in Congress today that would increase that limitation to \$3,000. Our present position is that we would like to see that limitation raised to \$3,600.

Once the \$3,600 level is reached then the question is: How many people are in fact affected by the earnings test? While we are far from through with our study of the matter, we have some figures indicating that only 6 percent of the people on Social Security would be affected by an earnings limitation set at this level.

Senator CHURCH. Who would really be affected by it?

Mr. BRICKFIELD. Yes. Then one next gets to the question of counterbalancing expenses on the one hand and income on the other. What are the administrative costs involved in managing this program? I am sure they run into the hundreds of millions of dollars. This expense can be largely saved if the earnings limitation is eliminated.

On the other hand, you have to consider how much increased benefits the Government will be paying out to those earning over \$3,600 and who no longer will be losing those benefits. All of these factors are mixed together for consideration. Then, there is still another factor: These people who will then be working and who would be earning unlimited amounts will also be paying income taxes to the Federal Government, which, in a very real sense, reduces the Government's burdens.

As I say, in our study we are trying to consider all of these factors, and I am hopeful that the study will show, through counterbalancing factors, that elimination of the earnings limitation is economically feasible. Then we can go back to the basic proposition that you have enunciated, Senator, that it's basically wrong to tell a person that he can't work simply because of an earnings limitation.

Our associations feel that a person should work, if he wants to, needs to, once he is able to work. Those should be the limitations: His ability, his needs and his desires, not some arbitrary money figure that is set as an earnings limitation which, when you reach it, deters your work effort. The earnings test is inherently discriminatory because the person who needs money the most is the first to suffer by the cutback and the one who needs it the least and who doesn't have to work gets the full benefit.

#### WHEN HAS A PERSON RETIRED?

Senator CHURCH. This is the hard part, and on the other hand, if Social Security is to continue to function as a retirement system, then there is the other question that you have to face, namely, when has a person retired? And the elimination of the test completely, I should think, would mean that Social Security has become an annuity program rather than a retirement program.

Mr. BRICKFIELD. Senator, we believe in phased retirement. I don't want to get into another area but pertinent to your observation is the the so-called mandatory retirement problem. Today in many employment contracts at some arbitrary age, 65 or 62 or 70, whatever the age may be, a person must retire because it's mandated in his employment contract.

We think this is basically wrong. In fact, it could well be unconstitutional because mandatory retirement provisions discriminate against a class of people solely on the basis of age. Our organizations feel that a person has a constitutional right to continue to work and also a right to retire, too.

I would point out, also, that mandatory retirement provisions affect principally employees: There are many people such as lawyers, doctors, and dentists, or whatever, who on reaching age 65 continue to work and are in no way hobbled by these restricting provisions.

Senator CHURCH. Right. Since there is no mandatory requirement of Social Security program, the question you really face is, should there be any measure of retirement required, voluntary retirement required in order to trigger the benefits of what was originally intended as a retirement income program?

I suppose that's kind of indicating the horns of a dilemma on the one hand where the retirement test does discriminate in favor of the people that have sources of unearned income to look to in retirement. On the other hand, do we want to convert Social Security into a kind of annuity program with the benefits triggered by age alone even though the lawyer or the doctor, as the case might be, continues to actively practice beyond that age. I would like to ask Mr. Martin if he has a view on this and also Mr. Mitchell?

Mr. MARTIN. Yes, Senator; I think that we are coming as a people to a conclusion that older people ought not to be cut off at 65; that they ought to be encouraged, actually encouraged, and given incentives to stay in the labor force as long as they are able and certainly at least until they are 70. The Federal Government does this. The Federal Government has no mandatory retirement age until age 70. That means the people can stay in the program, can continue to be productive for another full 5 years.

That means they can draw a much larger benefit when they retire. It means that they have those earnings over the years to improve their situation and it means that generally speaking the whole country would be better off because we would have their services.

That doesn't mean that we should try to force anybody to work but if you for example paid an actuarial increased benefit to people who stayed in the system until age 70, their benefit would be much more comparable to what they need to maintain their preretirement standard of living, and there would be the other benefits that I mentioned.

#### MANDATORY RETIREMENT

I think that the mandatory retirement age of 65 or the retirement age of 65 which was fixed in the Social Security Act was really fixed at a time when we were trying to drive people out of the labor market, we were trying to get rid of them. Now, we ought to be trying to keep them in the labor market.

Senator CHURCH. The original act was or became law in 1934?

Mr. MARTIN. 1935.

Senator CHURCH. We were still in the midst of a very serious depression.

Mr. MARTIN. People were trying to get jobs for younger people. Now we have a new approach to it. You have just passed the Older Americans Community Service Employment Act which emphasizes the fact that older people ought to be given an employment opportunity. Some of them, even at 103 years of age, are functioning under the Operation Mainstream. I think we are moving to a new approach as to how this whole question of mandatory retirement should be approached.

Senator CHURCH. Mr. Mitchell, do you have a view on this?

Mr. MITCHELL. Senator, you have to a large extent expressed my feeling with respect to the earnings test by pointing out all the alternatives to the elimination of the retirement test. To almost eliminate the test is to eliminate one of the basic objectives that was involved in the original act—that is the partial replacement of lost earnings as a result of retirement.

I recognize there are both social and economic considerations involved here. I think the incentive objective is a very important and a very strong one and that people should be permitted to work and should receive an incentive to continue to work if they can.

But this is a social insurance program in the final analysis; you have a limited amount of money to provide for benefits and the social end of it is designed to place those benefits where they are most socially needed.

Now I think it would be contrary to the social implications of the program when you don't have a benefit structure as high as you would like or you have other needs for different types of people who should receive benefits from this, to place a number of your total limited funds in an area that is not a tremendously demanding social need, in other words, the limited money should go for the social need.

Another consideration here is that in an insurance program the actuarials have included no increase as time has gone along, and more money is going to people who are working. The people who are demanding this increasing liberalization have not contributed at all as an insurance premium to the additional benefit they are receiving from the program.

My feeling is the classical position of the Social Security Administration—that liberalization for this purpose is undesirable.

There is also the question, of course, of how much are you willing to pay socially for continuing an incentive, a special incentive for people to work? This isn't the only incentive that people have to improve their economic situation. It is only one. Certainly at the present time not every one of the 1½ million, I believe, who are receiving such benefits, are people who are earning as much as the \$2,400 limit of the present test.

So there is no special incentive so far as they are concerned; they are working for what they can get.

Senator CHURCH. Now under the present law we have in effect eliminated the retirement test for all persons 72 years of age.

Mr. MITCHELL. Yes, sir.

Senator CHURCH. And in your own opinion you think we should go no farther in liberalizing the test?

Mr. MITCHELL. Yes, I think so.

Senator CHURCH. Between age 65 and 72 you think we have already gone far enough?

Mr. MITCHELL. Yes.

Mr. BRICKFIELD. I have emphasized that our associations strongly support extended liberalization of the earnings test. But there is another approach that should be considered, Senator, and it's relevant

to the whole question of whether or not you wish to eliminate the retirement test. On the one hand, there is the earnings limitation rising from \$1,680, to \$2,100, to \$2,400; on the other hand, at 72 years of age or older, you can earn unlimited income.

So the approach can be from two directions while the earnings limitation goes up from \$1,680 to \$2,400, you can come down on the age side from 72 to age 70, or age 71, on unlimited earnings.

Senator CHURCH. It's to be approached from either direction. Well, I have a few experts on Social Security here. I wonder if you could educate me on another point. Does the Federal law protect Social Security beneficiaries from the taxation of their benefits from all levels of government? In other words, is it possible under the present state of the law for a State or a municipality to impose a tax on the Social Security benefit?

Mr. MITCHELL. I haven't had that question before. I do not think it is possible.

Mr. HACKING. As far as I know, Senator, this has never been done.

Mr. BRICKFIELD. Is this your question; can a State tax Social Security?

Senator CHURCH. That is right, that is my question; or a municipality.

Mr. HACKING. As far as I know, it's never been done. We have never really investigated the question, although it has come up in discussion from time to time. I don't think that a State would ever attempt to tax Social Security because of the retaliation that might ensue from the Federal level.

There are just too many Federal statutory concessions available to the States or to the States and municipalities. For example, there are the special income tax preferences with respect to bonds. I don't think State and local governments would risk losing these concessions and preferences by tampering with Social Security benefits and thereby frustrating congressional intent.

The Federal Government's reaction to that would probably be quite vigorous. I think the Congress would respond to complaints from constituents. However, I don't know of any court test on this, but as I say, we have not investigated this matter either.

Senator CHURCH. It just hasn't happened?

Mr. BRICKFIELD. No, as far as we know.

Senator CHURCH. All right, we might as well not wrestle with a phantom problem, since we have so many.

Mr. BRICKFIELD. Of course it's done by indirection, Senator, I mean, in many instances where one gets an increase in Social Security, the political state or subdivision may cut down benefits. Now that's not taxation but it's a loss, a very real loss indirectly.

Senator CHURCH. I appreciate that.

#### BENEFITS SIPHONED OFF

Mr. HACKING. I might add, Senator, that while there may be a 20-percent increase in the Social Security benefits given with the one hand, the municipalities often reassess property values or raise property tax rates, thus siphoning off some of the additional Social Security

income with the other hand. This is an indirect way of taxing Social Security benefits. I would not be surprised to find that no State has attempted to tax directly Social Security benefits. Why should one? The State or local government can accomplish the same thing by indirection.

Senator CHURCH. Thank you.

Mr. BRICKFIELD. I now come to the establishment of a bipartisan Social Security Board. Our associations believe that steps should be taken to assure the type of continuity with respect to supervision, direction, and development in Social Security that the country enjoyed in the past.

#### BIPARTISAN SOCIAL SECURITY BOARD

We think one important step in this direction would be a return to the former three-member bipartisan board form of administration which, in our judgment, contributed so importantly to the early success of the system and to the public's confidence in its administration.

Now that the Social Security Administration has the responsibility for supplemental security income as well as the old age, survivors, disability and health insurance programs, we believe that a three-member bipartisan board would best assure integrity, competence, and impartiality and provide protection against purely partisan political intervention.

We recommend that two of the three members be from the majority party and that all three be named by the President with the advice and consent of the Senate. The President could select the chairman and all members would serve for fixed terms. The board would be concerned primarily with policy formulation but would operate through an executive director who would have to qualify under Civil Service rules and serve at the pleasure of the board.

And I would like to pause at this time for such observations as Mr. Mitchell would care to make, Senator, as he is a former Commissioner of Social Security.

Senator CHURCH. We would like to hear your observations.

Mr. MITCHELL. I would presume that the committee has some concern about certain questions involved in this. One is the matter of moving from a single administrator to a board and its effect on the efficiency of the administrative operations.

In that respect I think something has to be sacrificed in straight efficiency of operation in order to take advantage of the other favorable results of such a change.

Senator CHURCH. Couldn't the board, if the board is empowered to employ the director, maintain a relationship similar to that which exists between a board of directors, a corporate board of directors, and the president of a company? In other words, the administration of the program?

Mr. MITCHELL. Right.

Senator CHURCH. And the day-to-day basis would be the responsibility of the director?

Mr. MITCHELL. Right.

Senator CHURCH. But matters of policy that affect the whole system would have to be brought to the board for its approval and the board would exercise a continuing oversight role on the program?

Mr. MITCHELL. Exactly, and that's what I would like to see developed as a means of protecting the system and protecting the people by assuring a continuity of service in the system. I think it's a tremendously important thing.

I feel that the elimination of Robert Ball, the former Commissioner of Social Security, has been a highly disruptive factor. The loss of the kind of expert services that such a person can give to the organization is almost irreplaceable.

Senator CHURCH. I agree with that and I think that the dismissal of Mr. Ball is very unfortunate, as was said at that time. But how would we preserve the independence and continuity of the board itself? On the one hand it is proper that the President should fill vacancies subject to the confirmation by the Senate, and I think that if the board were a three-man board, it would be appropriate to stipulate that no more than two members should be members of one party to preserve bipartisan makeup on the board. But wouldn't it also be wise to set up a term of years for each board member and make it rotational, that once appointed, a man would know that he could serve and exercise his judgment and be protected by at least the term?

Mr. MITCHELL. Right.

Senator CHURCH. The term for which he had been appointed and confirmed in the absence of misconduct, of course, but that would mean the appointments would be filled on a rotational basis as vacancies occurred and the board would at no one time be dominated completely.

Mr. MITCHELL. Yes, sir, I think that would be a desirable refinement of the former arrangement, yes, sir.

Senator CHURCH. It's common that quasi-judicial boards are made up this way.

Mr. MITCHELL. There is another consideration that raises some questions in certain peoples' minds, and that is the matter of having a board reporting within an executive department. To what extent does it influence the overall responsibility and authority of the Cabinet officer in charge? That problem of course had to be met in the 4 years of board operation when it was in the Federal Security Agency, but the situation there I think was somewhat different historically in that Almyer who was the chairman of the board at that time, was sort of a father of Social Security and had a status all of his own.

Moreover, President Roosevelt, according to Mr. Almyer, said that he didn't want any change in his relationship with Almyer. He wanted Mr. Almyer to report directly to him on all policy matters, as had been done in the past.

#### SEPARATE ORGANIZATIONAL STATUS

Now I think the difficulty might also be overcome by writing into the law more specifically, more definitely, the authority of the board and the matter of its relationship within the Department, but of course my feeling would be that that problem should be eliminated by giving

the board separate organizational status and have the board report directly to the President.

After all, Social Security is now such a tremendous thing involving the lives of every person in the United States and involving tremendous sums of money requiring integrity and all the rest of it, that it certainly has achieved a status that would be deserving of separate status.

Moreover, the relationship of the board in the present arrangement is so frequently, so tenuous in relation to the other organizations that are in the Department that the original theoretical idea of bringing all those programs having a common cause together so that they could be better coordinated doesn't fully stand up in practice.

I would say for example that the Social Security Administration probably has more intimate and more frequent relationship with the Treasury Department than it does with HEW on a substantive basis. I feel, therefore, that the desirable thing is to give the board separate status.

Senator CHURCH. Would you break it out entirely from HEW and give it an independent status of its own?

Mr. MITCHELL. It would be my feeling that that's desirable.

Senator CHURCH. And then subjected to the overall control of the board as we have discussed, with the board choosing the executive director?

Mr. MITCHELL. Yes, sir.

Senator CHURCH. And the board would respond and report to the President himself?

Mr. MITCHELL. Exactly.

Senator CHURCH. It's a very interesting notion. Now, let me ask you this: I would like to do whatever we can to take the politics out of Social Security and in the main. I think Social Security has been administered through the years without much taint of politics, but Presidents have from time to time used Social Security increases for their political advantage by sending a personal message with every check in the envelope.

Mr. MITCHELL. The Congress itself may also have done the same thing.

Senator CHURCH. Congress could be guilty of doing the same thing.

Mr. MITCHELL. Yes, sir.

Senator CHURCH. But whether it's done by Congress or whether it's done by a President, an incumbent President, I think it's an undesirable political intervention in the system and if we had such a board, any notices of that kind could, as a matter of law, be issued by the board itself rather than anyone seeking reelection to high office.

Mr. MITCHELL. Yes, sir.

Senator CHURCH. And I think that that would finally immunize the Social Security program from attempts to derive political benefit from it on the part of elected officials.

Well, that's a very interesting proposal. I am going to ask the staff to look into the possibilities of drafting legislation along these lines.

Mr. BRICKFIELD. Last year we all rejoiced when H.R. 1 became the law of the land.

Senator CHURCH. Yes.

## FAR-REACHING PROVISIONS

Mr. BRICKFIELD. And it has far-reaching provisions relating to Social Security and Medicare. We are really, Senator, at a very crucial time in the initial implementation and executions of those provisions and we need a commissioner of Social Security now more than ever. This is a crucial period and I don't know how long it's been since the Administration, the Social Security Administration, has been without a permanent leader.

Mr. MITCHELL. About 6 months.

Mr. BRICKFIELD. About 6 months.

We think, too, that an independent board somehow would, through public relations, bring about more exposure to the public on what's happening in the Social Security Administration and we think all in all, it would be a good thing.

Mr. HACKING. Senator, with respect to this bipartisan board, it's treated in greater detail in the prepared statement of ours. You might want to refer to that.

Senator CHURCH. Yes, we will do that.

Mr. BRICKFIELD. And going on, the retirement income credit: Retirement income credit of section 37 of the Internal Revenue Code was designed to help relieve part of the tax burden of those retired people who are living on taxable retirement income such as pensions, annuities, rents, interests, et cetera, and equalize their tax treatment with that of retirees receiving Social Security and railroad retirement benefits which are basically tax exempt.

Since 1964, when the credit was last amended, there have been substantial liberalizations of Social Security benefits with the result that the present maximum amount of income eligible for the credit is considerably below the maximum Social Security primary insurance amount.

In addition, the complexity of the credit prevents it from providing the full measure of relief intended. To claim the RIC, the taxpayer must fill out a separate page on the income tax form with 19 possible calculations.

This is in addition to his regular tax schedule computations. As a result of these complexities, it has been estimated that as many as 40 percent of all those eligible for the RIC either fail to claim it or else make errors in calculating their credit.

In order to restore tax equity in the treatment of retirees, the amount of retirement income eligible for credit computation, which is now at \$1,524, should be increased to the present maximum primary benefit under Social Security, \$2,500, but at least to \$2,500.

We further believe that the credit's limitation on earned income should be liberalized to correspond with the Social Security retirement test. In this respect, we would support the chairman's bill, S. 1811. Moreover, computation of the credit should be simplified.

## AGE CREDIT PROPOSAL

We note that Treasury Secretary Shultz proposed, in testimony before the House Committee on Ways and Means, a simplified substitute called the age credit. We have examined the age credit proposal and have attempted to estimate its impact.

Unfortunately, the age credit would not be available to those who are retired and under age 65 and presently eligible for the RIC. In other words, 130,037 returns presently eligible would be cut off. This represents over \$23,818,000 in lost tax benefits, or nearly 10 percent of all returns requesting the RIC at the present time.

To some of these people, the RIC benefit comprises as much as 4 percent and 5 percent of their adjusted gross income. For people making less than \$7,000 per year, this age credit would be a hardship.

Senator CHURCH. Did this age credit proposal come from the administration? You say, "We note that Treasury Secretary Shultz proposed;" I take it this is an administration proposal?

Mr. BRICKFIELD. It is, yes, sir. I was referring to his testimony, as spokesman for the administration, but it is an administration proposal, yes, sir.

Senator CHURCH. And you say in there, if it were adopted, it would benefit elderly people with incomes of \$7,000 or more but actually be a hardship to those with smaller incomes; is that right?

Mr. BRICKFIELD. Essentially, that's true. The big soft spot I think in the proposal is that a person is under age 65 and retired, he doesn't get the benefit of this new age credit legislation. Today, if you are under 65 and retired, you do get the benefit of the retirement income credit. The further point is when the elderly lose out under the age credit proposal as against the retirement income credit, they lose nearly \$23 million a year that they are now getting credit for under retirement income credit.

This is the big problem. To the lower income people this could be most meaningful because they could suffer adjusted gross income losses of up to 4 or 5 percent.

Senator CHURCH. Is there any way—you mentioned here that the number of people will fail or failed to take full advantage of the present retirement income credit because of the complexity of forms and the difficulty of correcting and computing it. I don't suppose that the Internal Revenue Service could examine income tax returns to see if enough taxes were paid and would review the tax returns of elderly people to see that they have taken full advantage of retirement credit; have you ever heard of that happening?

Mr. MARTIN. They will give you help in preparing it.

Senator CHURCH. If you ask them?

Mr. MARTIN. If you ask them.

Senator CHURCH. But have you ever heard of a kind of review of a number of tax returns from elderly people of low income to make certain they have taken full advantage of the retirement credit? I haven't. I don't imagine that happens. Are there ways to simplify this computation so that people will be more aware of it and more easily enabled to use it?

#### INCOME CREDIT DROPPED FROM H.R. 1

Mr. BRICKFIELD. We believe so. By way of background, last year the Congress in H.R. 1, before it was enacted into law, did provide for, among other things, a simplification of computing the retirement income credit. It was in the House version and in the Senate version, but something happened, Senator, in conference and the entire retirement credit provision was dropped from H.R. 1.

There wasn't any disagreement between the Houses on the provision and we didn't believe it could be subject to change in the conference, but somehow it was dropped. We were greatly disappointed because this would have been a great benefit to the elderly. It would have simplified computation. It would have raised the \$1,524 to a higher figure. I have forgotten precisely what the figures were, but it would be beneficial. Chairman Mills promised, however, that he would review it again this year when his committee took up the general review of the tax laws.

So this is where we stand; we have a complex retirement credit law which needs improvement in benefits and vast simplification as to form.

Senator CHURCH. And it's very confusing. Yes, I have tried to use it myself in connection with making out my mother-in-law's income tax returns. I have had some personal experience with it. Having tried to figure it out and in one case having made the computation incorrectly myself, I understand the problems that taxpayers face in trying to do it, trying to get through that maize of calculations.

One thing is unclear and remains unclear to me. Perhaps you can help me find an answer to this: I am not certain as to what kinds of income are presently considered under the retirement income credit. Is it confined to earned income under the income tax law or is it, that is to say, is it confined to pensions, Federal retirement income and that kind of thing or does it include what might be considered unearned income from interest from dividends and rents and that kind of thing?

Mr. BRICKFIELD. As I understand it, they are really talking about income that is not actually earned through work. That is, income that you are not actively and physically working for at the present time. It would be income from pensions which you have earned in the past and have a right to. It would be income for rents which you don't actually go out and work for. It would be income from interest and dividends. This is classified as unearned income because you don't actually go out and work for it.

Mr. HACKING. I would also add that in addition to passive income—

Mr. BRICKFIELD. That's a better word.

Mr. HACKING [continuing]. That is really what retirement income is—the statute also allows you to take into account certain amounts of earned income from employment. Moreover, the statute contains a retirement test. If a person who is eligible for the credit and is age 65 or over, he can earn up to \$1,200 without any reduction in the amount of retirement income that can be taken into account for purposes of computing the credit. Between earnings of \$1,200 and \$1,700, he must reduce the maximum \$1,524 that can be taken into account by \$1 for every \$2 of earnings. Above the \$1,700 figure the reduction is on a dollar-for-dollar basis. Obviously there is some earned income component in the calculation and, of course, it adds to the complexity.

Senator CHURCH. The Assistant Secretary of the Treasury Department admitted he couldn't figure the retirement income credit himself.

#### COMPLEXITY RESULTS IN FAILURE

Mr. HACKING. When the credit was originally incorporated into the 1954 code, the intent of Congress was of course to provide rela-

tively equal tax treatment with Social Security. Congress made the credit relatively analogous to Social Security. They included an eligibility test and a retirement test which takes into account earned income. It may very well be that now we can get away from some of these Social Security analogies. They may not be necessary, moreover, because of the complexity that they add—complexity that results in the failure of some 40 percent of the people who are otherwise eligible to use the credit—they seem unjustified. It's just not worth the effort to a retiree to go through these calculations. They are simply not capable of doing it.

Senator CHURCH. I think that's so and I think that's sad. I hope we can find—I have a bill pending that would try to bring the retirement income provision up to date and make it do what was originally intended to do, but I think that we ought to consider adding provisions to that bill that would simplify the calculation because we are effectively denying it, it seems to me, to a great many people who should be getting its benefits simply because they can't understand it. They don't know how to compute it.

Mr. HACKING. Senator, we are in favor of your bill; we support it. It would bring the amount of retirement income, taken into account for purposes of computing the credit, up to the present maximum primary benefit of Social Security; however, in our testimony before the House Committee on Ways and Means in the tax reform hearings this year, we made a suggestion that went somewhat further. We said that instead of specifying a fixed dollar amount as a maximum amount of retirement income which can be taken into account for purposes of computing the credit—\$2,000 or \$2,500 or whatever—the statute could simply state that the maximum amount for any calendar year would be the maximum primary insurance benefit under Social Security determined for that year.

By doing this we would not have to repair to Congress repeatedly to ask that the law be amended to adjust the maximum amount. We hope that the Ways and Means Committee will give our suggestion their consideration.

Senator CHURCH. I like your suggestion and if you keep the provisions up to date, automatically there will be no need to come back to Congress for further legislation. Each time you have to do this, you have to educate the Congress again on what the retirement income credit is all about.

Mr. BRICKFIELD. That's right.

Senator CHURCH. And then how do you compute it? It's a long hard process, so I like your suggestion.

Mr. BRICKFIELD. There is an alternative approach. It could be used as an interim measure until such time as the law is changed.

#### ELDERLY TAUGHT HOW TO FILL OUT FORMS

Some 3 years ago we met with the staff of this committee and with one staff member in particular whose name is Ira Funston, a retired assistant solicitor of the Labor Department. With him, Mr. Miller, and Mr. Oriol, we worked out a way of helping the elderly with their regular income tax return problems.

Others did it, too. In any event, we taught a selective group of elderly how to fill out income tax returns so that they in turn could

help other elderly people. The Treasury Department thought it was a great idea, so that today, there is a program largely administered by the Treasury Department whereby selected elderly people are instructed as to the intricacies of the tax returns and they in turn help other elderly people fill out their forms. This could be most beneficial in the difficult area of retirement income tax credit.

As a matter of fact, there is pending legislation which would, I think, give out-of-pocket reimbursement to some of these people who do this work.

Senator CHURCH. There is a bill pending, I know.

Mr. BRICKFIELD. This could be a helpful measure.

Senator CHURCH. All right, let's proceed. I will be looking to you, to your organizations, for whatever assistance you can give us in preparing an adequate bill to both bring this credit up to date and keep it up to date and simplify the procedures for computing it out. We could get out of that this one bill and we might do the job properly.

Mr. HACKING. I would add to that, if there were a bill specifying that the amount of retirement income taken into account will be fixed at the maximum primary Social Security benefit in any 1 year, the dollar amount would have to be specified on the tax return form itself so that the retiree would know the correct amount in a given year.

Senator CHURCH. That's right. Very well.

Mr. BRICKFIELD. Now, Senator, I would like to turn your attention to our long statement. In it is a chart, it's called chart D.

What I can do, Senator, is read the relevant paragraph in the summary statement and ask Mr. Hacking to explain it.

Senator CHURCH. Very well.

Mr. BRICKFIELD. The chart itself has six columns. The first two columns relate to the present law. Columns three and four relate to the House and Senate versions of H.R. 1, last year and the last two columns relate to the age credit proposal which is what the administration is proposing and what Secretary Shultz addressed himself to. Then along the left-hand column is the adjusted gross income. With that background, I will read from the summary statement.

Chart D, which appears in our prepared statement, indicates rough percentages of where the benefits under various proposals would be applied. Specifically referring to the last two columns, five and six, we see the age credit to be a program which would tend to unduly benefit persons in the higher income brackets.

For example, only 43 percent of total age credit finances would go to returns having an adjusted gross income of less than \$10,000.

#### BENEFIT DISTRIBUTION

We have examined the Senate and House proposals contained in their respective versions of H.R. 1, last year. While they would allow for as much as 80 percent of the benefits to go to those with incomes under \$10,000 and are therefore preferable to the age credit, nevertheless, according to our projections in chart D, the benefit distribution under the Senate and House proposals would be of less advantage to lower-income groups than under present law.

Obviously, in the opinion of our associations, it is the less well-to-do members of society who are in need of Federal assistance of this

nature, and programs which actually assist those in need are to be favored over those which do little to correct a bad situation.

As we get to the chart, Senator, I would like to say in short, we oppose the age credit proposal. We have mixed feelings about the Senate and House proposals of last year. While we feel the present system provides the best alternative, it is nonetheless necessary to raise the amount of retirement income for computation purposes to at least \$2,500, the maximum primary benefit under Social Security. For this reason we support your bill, S. 1811.

In other words, we are against the age credit bill, we have mixed feelings about the proposal of last year. We think that the present system is the best of the lot at the present moment, but we do recognize that the retirement income computation ceiling must be raised from \$1,524 to \$2,500. You have a bill that will do just that, Senator, and we support it.

Senator CHURCH. I don't know why the administration proposal always seem to come out where it does the most for those who need it the least and the least for those who are most in need. That seems to be a pattern.

Mr. HACKING. That's what this chart basically deals with. It measures the distribution of the tax benefits among individuals by income class under the present law and under the age credit. From our projections, it would appear that more of the benefits under the age credit would go to higher income people than to lower income people as compared to the present benefit distribution under the existing retirement income credit.

Senator CHURCH. I am going to ask the staff to see that your prepared statement appears as an appendix following your testimony, and that the chart you have extracted is placed here to supplement what you have testified to.

Mr. BRICKFIELD. Yes.

[Chart D, referred to above, follows:]

CHART D

Adjusted gross income (dollars per year)	Percentage of total returns receiving retirement income credit	Percentage of total retirement income credit dollars received	Percentage of total House credit dollars received	Percentage of total Senate credit dollars received	Percentage of total returns receiving age credit	Percentage of total age credit dollars received
0 to \$2,999.....	9.31 (9.31)	4.71 (4.71)	1.82 (1.82)	2.26 (2.26)	2.05 (2.05)	.....
\$3,000 to \$4,999.....	31.76 (41.07)	26.25 (30.96)	28.02 (29.84)	27.70 (29.96)	19.18 (21.23)	8.44 (8.44)
\$5,000 to \$6,999.....	21.00 (62.07)	23.74 (54.70)	26.51 (56.35)	26.00 (55.96)	17.81 (39.04)	11.55 (19.99)
\$7,000 to \$9,999.....	16.82 (78.89)	18.98 (73.68)	25.95 (82.30)	24.75 (80.71)	19.18 (58.22)	22.67 (42.66)
\$10,000 to \$14,999.....	10.82 (89.71)	14.67 (88.35)	8.96 (91.26)	9.93 (90.64)	13.70 (71.92)	17.33 (59.99)
\$15,000 to \$19,999.....	4.38 (94.09)	4.95 (93.30)	3.37 (94.63)	3.66 (94.30)	8.22 (80.14)	11.55 (71.54)
\$20,000 to \$49,999.....	4.77 (98.86)	5.42 (98.72)	4.44 (99.07)	4.61 (98.81)	15.07 (95.21)	21.33 (92.87)
\$50,000 to \$99,999.....	.81 (99.67)	.91 (99.63)	.64 (99.71)	.66 (99.57)	3.42 (99.63)	4.89 (97.76)
\$100,000 up.....	.31 (99.98)	.36 (99.99)	.29 (100.00)	.32 (99.80)	1.36 (99.99)	2.22 (99.98)

Mr. BRICKFIELD. Now moving to employment, we refer to the employment section of our prepared statement. We believe that the elderly ought to have the option to continue to work as long as they are able and willing.

Within this older age group, there are many who are being forced to retire, despite their willingness to stay in the labor force and despite their work capacities.

Apart from the social and psychological reasons for a re-examination of the current retirement and employment policies, the longer persons are retired, the more thinly will available retirement resources be spread and the greater will be the demands for pensions on employers.

As we move increasingly away from a large proportion of manual workers in our labor force, the developing industry-occupation structure could allow continued employment of a larger portion of our "younger" aged.

If current retirement trends continue, the attainment of an adequate retirement income goal may be impossible. By encouraging the older person to remain employed, we would also be making it possible for more persons to be covered by better private pension and to receive increased Social Security benefits. Furthermore, the retiree will have additional years of earning and be less dependent on pension resources.

Now, Mr. Chairman, former Commissioner Martin has a great interest in this and I would ask permission if he would complement this with a few words of his own.

Senator CHURCH. Sure.

#### HIGH LEVEL OF INFLATION

Mr. MARTIN. Mr. Chairman, the problem that we face is that even with Social Security income and with private pensions so far we can foresee, at least into the reasonably near future, there is not going to be, there are not going to be total payments sufficient to enable people to retire and maintain something close to their preretirement standard of living. This is a serious thing because we not only have a very high level of inflation which makes life more difficult for these people, but we don't want—we shouldn't be talking just about keeping people up to the poverty level.

We should be talking about keeping people up to some kind of a standard of living that's comparable to the standard of living they had before they retired, and there is a great deal of difference. It's our judgment that if you rely entirely upon Social Security and pensions, private pensions, you are not going to be able to reach that level and that, therefore, it becomes increasingly important for older people to at least have the option of staying in the labor market and continuing to add earnings to whatever they are getting by way of public and private pensions.

Now the question is how are we to do that? Unless we give some incentives for that purpose, we are not going to achieve it.

One suggestion that has been made merits consideration. We recognized in H.R. 1 last year a new policy direction when we provided that you should get 1 percent more in Social Security income for

each year that you continue in the labor market. That's miniscule and that doesn't amount to what would normally be an actuarially determined return.

The suggestion that has been made, and it seems to me that it has merit, is that older people who are willing to stay in the labor market and continue to earn ought to be able to get an actuarially increased Social Security benefit just as much as they get actuarially reduced Social Security benefit if they retire before they reach age 65.

Senator CHURCH. The longer they defer retirement, the higher their retirement benefit would be.

Mr. MARTIN. That would be a big incentive for people. You may say, well, maybe we won't have jobs enough for everybody, but that takes us to the fact that for these older people the Government is going to have to assume a responsibility to enable them to, in my judgment, to work and earn if they are able and willing and desire to do so.

It appears to me that this is a social judgment that we have to come to and that I mentioned a little while ago.

Senator CHURCH. That really takes us back to the discussion we had earlier this morning on the retirement.

Mr. MARTIN. Yes, it does.

Senator CHURCH. And your own panel is not fully agreed on this, I mean, you have differences of opinion on your own panel. I think it's not an easy question to resolve. Yesterday Wilbur Cohen testified and among other things, he challenged the idea of a blanket arbitrary retirement age. He spoke, for example, of the 16-week sabbatical that might be worked into our way of life so that people might have leave of their work at earlier ages and not to wait until they become 65, as we do today.

#### ENFORCED EARLY RETIREMENT

You have mentioned in your statement this morning that the combination of higher benefits from Social Security and enforced early retirement will result in a reduction of the percentage of males in the labor force.

What about this question of enforced retirement; how does it affect you? You were telling us—now is it true—we are going to have more and more enforced retirement by virtue of retirement, special retirement plans in large business.

Mr. MARTIN. The private plans all pretty much have a cutoff date and tend in the direction of mandatory retirement so that you are out of the labor market and I think that relates to the fact that they are negotiated with labor unions who really want to clear the tracks for younger people. When you get to 65, you are finished.

Senator CHURCH. You are saying that instead of compulsory retirement plans enforcing more and more elderly people to retire at 65, we should be more in favor of permitting them to supplement their income in part-time work?

Mr. MARTIN. Absolutely. If they are going to have any kind of a post-retirement standard like their preretirement standard, they have got to be encouraged to earn.

Dr. Juanita Kreps has an interesting suggestion which is set forth in the longer prepared statement. She suggests the possibility of encouraging work for 45 years instead of 40 years, another 5 years, on a 35-hour a week basis instead of a 40-hour week basis. In other words, the same amount of work but spread over a longer period of time. It would reduce the earnings in the earlier period by one-eighth, but apply them to the last 5 years, and she points out what the advantages of that would be and of course there are quite obvious benefits, including increased satisfaction.

I think it's worth some very careful thinking as to how we are going to meet the problem of adequacy rather than the problem of meeting poverty levels.

Senator CHURCH. Well, I think the point is going to become more and more acute as larger numbers of elderly people are forced into retirement against their own will.

Mr. MARTIN. There is also a tendency in the other direction. There is a tendency of earlier retirement and there is a tendency which is tied to the demand for bigger and bigger pensions.

Well, the bigger and bigger pensions are going to involve greater and greater contributions, so this works in the other direction. The load on the pension system, the private pension system is going to get heavier and heavier and if the general trend toward voluntary older retirement goes on, you will have less and less workers supporting more and more workers in the upper brackets, in the retirement brackets.

So the pressures on the pension systems, the private pension systems are going to be increasingly acute and the difficulties in raising those pensions are going to be increasingly serious. So we have got to look for a bigger mix or earnings or of income sources, that's what I am saying.

#### NEED TO COORDINATE PENSION SYSTEMS

Mr. BRICKFIELD. Finally, Mr. Chairman, there is a need to coordinate the various public pension systems, Social Security and other public pensions.

Multiple eligibility for basic retirement benefits can be costly. While such an overlap is understandable and indeed desirable in some cases, such as military retirement and private pensions, because of the need to recruit and retain personnel, multiple eligibility for basic retirement benefits under public pension systems can create inequity and injustice.

Now let me state in my own words—the leadership for federally coordinating these various systems should come from the Congress. It should set the example. I could be raising a parliamentary or jurisdictional problem, but I don't intend it. But when I speak to Members of Congress and to the members of this staff about various areas of needs relating to the elderly, they oftentimes say, "Well, you might go to the Armed Services Committee or the Veterans Committee or some other committee."

The military today, for example, have tens of thousands of retirees and more and more legislation affecting them is getting into the general social benefit areas. The military today receive Social Security retirement benefits. In addition, after their medical benefits under CHAMPUS are terminated, they come under Medicare.

So the question is posed: Are not these matters, affecting the military, a proper subject matter for this Committee on Aging.

We have the railroad retirement fund. It's a separate fund from the Social Security fund. The railroad retirement fund is almost in bankruptcy. It's in dire straits. It needs help. Yet, it's part of the entire pension system and ought to be looked at in the light of all the systems not just in its own light, and one committee could perform this function.

We take the position that since your committee is not essentially a legislative committee but one that investigates and evaluates and makes recommendations to other committees, that it could properly look into the retirement needs of the military, the retirement needs of the veterans and other special groups, and consider them as factors and as inputs of needs of elderly people generally, and in the end make better recommendations to the legislative committee.

What I am saying is we feel that this committee could properly look into all areas of elderly people—military, the veterans, the railroad retirees, and others, and perform a more useful function in seeking to eliminate duplications, overlaps, gaps, and other shortcomings, and thereby bring back a more coordinated system of benefits for the elderly.

Senator CHURCH. Thank you. I think the point is well taken and is one that this committee should explore. It's a new suggestion but there is a conspicuous lack of coordination between the various systems and I think at one point last year, there was a proposal before the Congress which, if it had been enacted into law, could have keyed military retirement income to current contemporary increases in active pay and that the total cost, projected cost of that proposal would have eaten most of the income of the Federal Government by the end of the century.

#### PROJECTED COST IS STARTLING

Since we spend a great deal of our time fighting wars and enlisting enormous numbers into the military, this had a ballooning effect that was startling in its projected cost.

So that just underscores the point that there needs to be more coordination and more consideration given to the totality of your retirement plans and they should be looked at as they exist and as they may either coincide or conflict with one another.

Mr. BRICKFIELD. That's our point, Senator, and that ends our presentation.

Senator CHURCH. Thank you very much. Again, I asked you questions I had in mind as you testified. Mr. Oriol, do you have any questions?

Mr. ORIOL. I would just like for the record to ask whether the proposed Social Security Board would be responsible for administering Medicare and all parts of OASDI cards?

Mr. MITCHELL. I would so propose this as an individual. I haven't checked that with the association, but I presume they would.

Mr. ORIOL. And another question to Mr. Hacking: You suggest that regional variations in the benefit levels be seriously considered in the supplemental security income program. How could this be justified program?

Mr. HACKING. The idea there is that SSI is going to provide a minimum floor of protection. Let's say for the moment that they were able to determine what the poverty level is and were able to measure changes over the time. We already know that the poverty level for an urban family living in New York City is very different from a family living in a rural area in Mississippi.

If the thrust of SSI is to provide a minimum level and this minimum is measured at different amounts in different parts of the country for different sized groups, family units and so forth, then it seems that, rather than having a uniform benefit, it would be better to keep the benefit at that certain level depending on the area or the region of the country.

Now obviously there are tremendous problems. One of the major problems is determining the poverty level in a manner that takes into account all of the important variables. There are all sorts of conflicting views as to the proper standard that should be used to poverty.

The Government itself is divided on that question. Once you do arrive at a particular poverty level for a certain area, you must then adjust it for subsequent developments—cost-of-living increases—for example. But even here there are problems. Do you simply adjust the poverty level for increases in the CPI or do you have to use some other way or take other factors into account as well?

#### ACROSS-THE-BOARD ADJUSTMENT

For example, I understand that there is a budget for older people that's really based on food costs. Well, if in any one year the rise in the cost of food happens to equal the use in the CPI, that's fine. There would be an equal adjustment across the board. But if the food cost factor in CPI is above the average, do you take account of that factor and do you adjust the poverty level for the rise in the cost of food or for the smaller rise in the CPI?

There are tremendous problems obviously involved in measuring the minimum level of poverty in a manner that takes into account a substantial number of regional variations and family circumstances.

Mr. ORIOL. Mr. Chairman, this is an intricate question we would like to explore it.

I would also like to direct a question to Commissioner Martin concerning Wilbur Cohen's suggestion yesterday for Administration on Aging educational programs and perhaps we could get a response by mail or even now.

Mr. MARTIN. Well, I haven't had a chance to study it very carefully but I certainly think that more can be done than is being done in the way of retirement education, education for retirement. My experience with the Office of Education was very poor. They were not doing anything in this field and as far as we could see, they didn't propose to do anything in the field.

I think that a program under the guidance of the Administration on Aging would have interest behind it and would be a considerable advantage. One of the problems that we have had of course with private companies is that they don't like to talk about retirement unless

they have a good retirement pension ; otherwise, they tend not to want to get into discussion of retirement or that's it.

Senator CHURCH. It was a long time to get me on the gold watch syndrome.

Mr. MARTIN. There are a lot of things to be overcome that are not obvious on the surface.

Mr. MILLER. Mr. Chairman, I have many questions in my mind and I think the witnesses have indicated that they recognize how many unresolved questions there are as reflected in their very fine statement. I went through it twice after 4 o'clock yesterday afternoon and I think it is a very fine document and develops a great many areas that they recognize and we all recognize as needing further exploration.

Senator CHURCH. I want to say in that connection that you have approached this task with great seriousness of purpose and the material you have supplied us, together with the recommendations made, are going to be extremely helpful in charting these new directions for Social Security.

Mr. BRICKFIELD. Thank you very much.

Senator CHURCH. Thank you all for coming.

We have one further speaker, Mrs. Barbara Marks.

**STATEMENT OF BARBARA F. MARKS, ACTING DIRECTING ATTORNEY, NATIONAL SENIOR CITIZENS' LAW CENTER, ACCOMPANIED BY RICHARD MICHAEL DULL, ATTORNEY-AT-LAW**

Mrs. MARKS. I thank you very much, Senator, and the other gentlemen for inviting me to testify this morning at your hearing on new directions in Social Security. I am Barbara F. Marks, acting directing attorney of the Washington, D.C., office of the National Senior Citizens' Law Center.

The gentleman to my right is Mr. Richard Michael Dull, an attorney in my office.

I represent a segment of the elderly, Senator, who are the most dispirited and the most downtrodden, that is the elderly poor. Many of our clients' needs correspond with the needs of all elderly persons and many of their problems correspond with those of their peers.

Senator CHURCH. May I suggest, you speak so well, that we insert your prepared statement in the record, because it is now noon, and then you can summarize for me in your own words, the principal points you want to make, and then I will have questions that might be saving us time and we might also do a better job of getting to the particulars that you want to emphasize.

Mrs. MARKS. Thank you, sir, very much. I would like to paraphrase Senator Ervin: "I'm an old-time country lawyer and I know when the judge gets hungry, you don't want to plead your case too long."

I just want to mention that our center is funded by the OEO and we are a backup center. Part of our job is to provide routine backup service to 2,500 legal services programs attorneys, and the other aspect of our work is to sensitize those attorneys to the needs of the poor, senior citizens in America who have been least served by the legal services programs. The fault, of course, lies on both sides. The clients are pas-

sive and the attorneys generally speaking are younger and are not quite attuned to all the problems that face old people.

#### PUBLIC LAW 92-603 IMPROVED

The main point that I would like to emphasize to you this morning is that in spite of all the excellent improvements that were enacted in the Renegotiation Act of 1973 which improved Public Law 92-603, we found that there was one area that might need a little more attention from this committee.

If you remember, section 401 of the law, Public Law 92-603, provided old age assistance to the elderly at a rate higher than the proposed \$130 and \$195 to be paid beginning January 1, 1974. Each State will have to supplement under SSI up to their December 1973 payment to the recipients who are on the rolls in December 1973, under the 1973 amendments.

However, there will be recipients coming on the rolls in January 1974, February 1974, and so forth, who may find themselves in a position of receiving a lesser supplementation than those who were lucky enough to have been on the rolls in December 1973.

The mechanism that is provided in section 401 of Public Law 92-603 is that first there will be the Federal subsidization of \$130 and \$195. Next, there will be an expenditure by the State of moneys that it had expended per recipient in the calendar year 1972. In short, a part of the State's savings program that they have generated from the Federal basic payment will be used for State supplementation of the Federal SSI. Add to those payments, if you can visualize it as a cylinder with layers, the Federal Government supplementation up to the State's adjusted payment level as of January 1973. The Federal Government will hold the State harmless for that sum of money. These will be Federal dollars exclusively.

Above that, if the State gave any benefit such as cost-of-living increase or just a flat increment as they did in some States, the State once more will have to pay that sum of money out of its own treasury.

Now we think that possibly your committee might want to look to raising the adjusted payment level so that the States will be held harmless as of, say, January 1973, or December 1973 for all other future recipients, beyond those on the rolls in December 1973.

I know this is an area that really can't be heard quickly, but knowing your familiarity with the law, I will leave further discussion of it until your question period.

The other point we make is that we are very concerned with the social services regulations which you now have delayed until November 1, 1973, under the Renegotiation Act.

There are many areas in which legal services for the elderly have been diminished under those regulations. Especially, the commitment has been reduced from an elaborate scheme under the present regulations to a supersimplified scheme, which I set out in my paper.

We feel that if you view the elderly individual as being on a continuum from self-sufficiency, to some type of supervision, to guardianship, or to an advanced situation where he must be hospitalized and finally committed to an institution, by making commitments carelessly, you are reducing his rights and you are increasing the duties and the expenditures of the State.

Therefore, we would like this committee to focus on the area of providing legal and social services to prevent wholesale warehousing of the elderly, particularly the elderly poor in the commitment field.

Beyond that, sir, I would reserve any further discussion until you have questioned me.

Chairman CHURCH. Well, thank you, very much, and your entire statement will be inserted in the record at this point.

PREPARED STATEMENT OF BARBARA F. MARKS

Gentlemen: Thank you for inviting me to testify this morning at your hearing on "New Directions in Social Security." I am Barbara F. Marks, acting directing attorney of the Washington, D.C. office of the National Senior Citizens' Law Center. The gentleman to my right is Mr. Richard Michael Dull, an attorney in my office.

Our center is funded by OEO and was designed to serve two purposes. Our first mission is to provide routine back-up to the 2,500 legal services program attorneys; that is, we provide research assistance on legal issues and serve as cocounsel on complex and difficult cases. The other goal is to sensitive legal services attorneys to the needs of the elderly poor, and to guide the lawyers in the delivery of services to that important but neglected segment of our population. When it was discovered that, although the elderly comprise 20 percent of the population who live in poverty in America, only 6 percent of the legal services are delivered to our senior citizens, the OEO established our special center to identify legal issues which affect the elderly and to disseminate this information to legal services attorneys and other interested citizens. We have 11 attorneys on the center's staff. Our main office is in Los Angeles and we have two other offices in California, one in San Francisco and the other in Sacramento. The Washington office, which represents the center on the east coast, concentrates on Federal legislation. We, in the Washington office, regard as propitious the circumstance that our office was opened in October 1972, 1 month before you gentlemen passed, as part of H.R. 1, a bold innovation in adult welfare programs, the supplemental security income program.

Five months from now on January 1, 1974, all existing Federal and State programs of aid to the aged, blind, and permanently and totally disabled will be replaced by SSI, administered by the Social Security Administration. No longer will the stigma of "welfare" be attached to payments, nor will there be any carry-over of the past State-to-State differentials in eligibility standards, payment levels or corollary laws, such as paupers' oaths, automatic liens or relative responsibility laws. A floor has been placed under the income of every aged person in the United States. \$130 will be paid to each individual with no other income and \$195 will be paid to couples. When you passed the Renegotiation Act of 1973, you amended that floor upward to \$140 and \$210, respectively, to be paid after July 1, 1974. Such a raise reflects the fact that food stamps were written out of the original program and that inflationary pressures have raised the cost of living. If the inflation continues upward, you may need to amend again to provide an additional increment to the SSI payment.

The standard payments of \$140 and \$195 are above the level of average payments to old age assistance recipients that are provided in 32 States.<sup>1</sup> Those States would probably not supplement, as there is no need for them to do so in order to keep their current recipients at the December 1973 level.<sup>2</sup>

By the terms of the Renegotiation Act of 1973 amendments to the SSI program, all States must supplement sufficiently to bring every recipient up to the level that he will receive in December 1973. To complete the picture, certain

<sup>1</sup> Alabama, \$103; Arizona, \$118; Arkansas, \$105; Delaware, \$130; District of Columbia, \$113; Florida, \$114; Georgia, \$91; Hawaii, \$132; Indiana, \$100; Iowa, \$117; Kansas, \$108; Kentucky, \$96; Louisiana, \$100; Maine, \$123; Maryland, \$96; Mississippi, \$75; Missouri, \$85; Montana, \$111; New Mexico, \$116; North Carolina, \$115; North Dakota, \$125; Ohio, \$126; Oklahoma, \$130; Oregon, \$123; Pennsylvania, \$138; South Carolina, \$80; Tennessee, \$102; Texas, \$119; Utah, \$112; West Virginia, \$123; Wisconsin, \$128; and Wyoming, \$104. Department of HEW, Assistance Payments Administration, Internal Memo, dated November 1972.

<sup>2</sup> There are roughly three States which pay slightly above the \$140 level. They are: Washington, \$141; Colorado, \$142; and Illinois, \$143.

States<sup>3</sup> will be required to supplement substantially, and some will have to contribute above their hold harmless level.

Under the SSI program, those States that must supplement to reach their December 1973 level have certain options. One is to pay all administrative costs and all benefits up to the December 1973 level out of State funds. The alternative is to elect to have the Federal Government administer the entire program or some categories of it, at no cost to the State. The additional benefit to the State in the latter option is that it will be held harmless for (1) the basic Federal SSI payments, and (2) any moneys it expends above and beyond the aggregate number of dollars it expended in calendar year 1972 up to the adjusted payment level for any benefits it must pay to the recipient in order to keep him in order to keep him in a State of parity with his December 1973 benefit payment.

As you may recall, section 401 of Public Law 92-603 addressed itself to a limitation on fiscal liability of the States under State supplementation of the SSI program, but, in effect, imposed a ceiling on Federal payments. That ceiling is the adjusted payment level, defined in the law as the money payment which an individual with no other income would have received in January 1972 under his State plan except that a State can increase such adjusted payment level by a payment level modification and the bonus value of food stamps available in that State in January 1972. Therefore, if an individual must receive a benefit above the January 1972 level, e.g., the December 1973 level, the State alone will have to provide the increment. Many States, California for one, have provided cost of living increases and flat increments to their welfare recipients. The effect of the increases meant that by the terms of the SSI laws prior to amendment, many recipients would be faced with a decrease in their benefits after January. However, the solution offered by the amendments may have introduced additional problems. By the terms of the amendment, each State is now required to supplement up to its December 1973 benefit payment. However, this mandatory supplementation is required only for those who will be recipients under a State plan in December 1973. Anyone coming on the SSI rolls as of February 1974 may find that his SSI benefit is augmented only to January 1972 levels in his particular State. If Congress decides to amend SSI benefits in the future; it may wish to change the date of the adjusted payment level for all persons eligible for SSI after January 1, 1974 to a December 1973 date.

Our office has received calls seeking information about the impending implementation of SSI. In responding to such inquiries, we rely upon a quotation from a letter from Frank Carlucci, Undersecretary of Health, Education, and Welfare, to the editor of the Washington Post, published in June 1973, which stated that "the Social Security Administration is on schedule, and will start to take applications from newly eligibles this month, 6 weeks before the program is due to start." We also lean on the work of Mr. Weinberger who stated before the Finance Committee on June 19, 1973, ". . . we can and will be ready to offer complete implementation of the program by January 1, 1974 . . ."

Much apprehension exists because the regulations for the SSI program have not been forthcoming from the Social Security Administration. Two weeks ago, an inquiry of officials in the agency elicited the response that changes due to enactment of the Renegotiation Act of 1973 have caused an additional delay in the publication date of the regulations. Meanwhile, the legislatures of 29 States and officials in charge of the District of Columbia await more concrete definitions, dates and criteria from HEW. Everyone is waiting—State governments, State employees and those who can least afford the delay, the recipients, themselves.

One unknown that troubles our center is the lack of public discussion concerning methods of contacting the eligibles not presently on old age assistance. There are between 3 and 5 million potentially eligible people who need to be apprised of this program. If the Social Security Administration uses routine publicity channels, it is possible that thousands of potential recipients (those who were precluded from seeking old age assistance because of lien laws, relative responsibility regulations, and so on) will never learn that they are eligible

<sup>3</sup> Alaska, \$250; Connecticut, \$238; California, \$183; Massachusetts, \$189; Nebraska, \$182; Vermont, \$192; Rhode Island, \$170; New York, \$159; Michigan, \$184; Idaho, \$182; South Dakota, \$180; Nevada, \$162; New Hampshire, \$173; New Jersey, \$162; Minnesota, \$158; and Virginia, \$152.

for a subsistence stipend. Perhaps those of you who publish newsletters can begin to notify your senior citizens of the benefits that they may gain from this new program.

As you are well aware, other Federal programs are deeply intertwined with income maintenance. Medical care is a high priority need of the elderly, as are housing, better nutrition, transportation and social services.

Our office is concerned with all aspects of the maintenance of self-sufficiency by the elderly. One aspect that has been touched upon in the new social services regulations (which you have postponed to an effective date of November 1, 1973) is the provision of legal services of the elderly under a new simplified definition of protective services, as set out in section 221.9(b) (15).<sup>4</sup> The current regulations, presently effective, provide for elaborate safeguards in commitment proceedings, including the use of social service workers by the court.

Our long term goal is to seek the independence of our elderly—including prolonging the time before institutionalization. We regard the elderly as being on a continuum from complete self-sufficiency to increasing need for supervision, possibly in the form of guardianship to hospitalization and, finally, to actual commitment. Each step on that continuum represents a diminution of their rights and places increasingly burdensome duties upon the State.

There are many solutions to maintenance of independence of the elderly and you might wish someday to turn to a program such as the samaritan program in Sweden where the government pays workers to assist the elderly so that they may retain their own household. Or, perhaps, you would think in terms of AFDP—aid for dependent parents—a program which would provide household help on an intermittent or regular basis to families who care for their elderly parents in their homes.

To conclude, let me state that the new SSI program will bring a vast improvement to at least half the aged recipients, and the amendments to the Renegotiation Act of 1973 will benefit the other half of the current recipients. The amendments have covered the needs of the essential persons living with aged spouses, and they have also paved the way for new and improved "new social services regulations." I have not discussed the Social Security changes, but I would like to note that the cost of living increase in Social Security benefits which you moved forward in time to a date which more closely resembles the reality of the current inflation will protect the elderly in the area of most need.

President Nixon in his message to this Congress<sup>5</sup> said, "The general population over 65 is a very special group which faces special problems—it deserves very special attention." It is this committee which ably articulates that goal for 20 million persons over 65 years of age. Step by step, a new day is coming for the Nation's greatest repository of wisdom and experience—our senior citizens.

Senator CHURCH. I think our objective in passing the supplementary income provision and making that a part of the responsibility of the Social Security system was to try and put an end to poverty for the elderly.

Now we have fallen short of that because we haven't established the supplementary income level high enough to assure elderly people of a total income, that is, either at or above the poverty level and I think we should correct this.

If we are going to do this job, we should do it right and we should make certain that the supplementary income is sufficient to at least pull these people up out of poverty.

Now as to what the Federal obligations should be to take care of the States, any additional payment that particular States may make, I am uncertain. I think this is another question that needs to be looked at very carefully. It is an intricate question and in your suggestions, this will certainly be taken into consideration.

<sup>4</sup> To quote the law accurately, this section reads as follows:

"This means identifying and helping to correct the hazardous conditions or situations of an individual who is unable to protect or care for himself."

<sup>5</sup> March 23, 1972.

But I do think that if we have a proper supplemental income system administered by Social Security, we can finally end poverty among the elderly people and that in itself would be a great accomplishment.

#### INNOVATIVE STEP FORWARD

Mrs. MARKS. We considered this program that you gentlemen enacted last year as a great innovative step forward. In spite of the 1971 White House Conference on Aging admonition that it would cost \$4,100 per year to keep a couple above the poverty level, we all agree that the SSI benefit level is low. Mr. Hacking illuminated the issue of the rural versus the urban poor and their needs in his able discussion, for example.

Your solution was to provide optional supplementation by the States and to provide it in such a fashion that the Federal Government would enter the scene and hold the States harmless for the increased number of recipients coming on their rolls.

Senator CHURCH. The problem I face with this is that the States are really I should think going to realize an immense saving by virtue of the Federal intervention, and just utilization of part of that saving to pay supplementally still puts them way out ahead I would think, and why under these circumstances it should once more fall to the Federal Government to hold each State harmless is a little difficult for me to accept.

Mrs. MARKS. Well, I think, Senator, that it goes back to the old problem of the Federal Government having to do what the States will not do. Very often you find that unless there is a Federal program and a Federal system, the matter lies with the State legislatures and very often lies fallow there. We have come over the past 20 years to then look to the Federal Government for solutions.

Senator CHURCH. Yes, it seems to me the standard for the Federal Government's participation should be whatever may be necessary to raise the income to a minimum that ends the poverty situation for the elderly people concerned, but whether it should be the Federal responsibility then to pay for each State's supplemental program as the differing cost-of-living may require is another proposition.

Mrs. MARKS. One of the things we found, sir, is that when you set up this system, it must have been observed by you that there are hidden recipients. Therefore, you provided supplementation by the States. There are people who have never come forward to receive old age assistance, either because they are too proud to accept the stigma of welfare or because they will be at the mercy of the property lien laws for relative responsibilities acts. For example, the State of Indiana phoned us and told us that they think there are close to 100,000 new recipients coming into the SSI program there.

#### BACKS SSI PROGRAM

Senator CHURCH. That's why we went to this supplementary income system because, at least my own championing the program, all that I could do to move it along was because I thought it was an indignity for elderly people to have to rely on welfare and I saw this supplemental program as a means for taking these people off of welfare

and furnishing them with an adequate minimum income through the Social Security system which does not have this stigma and which should at least, if properly administered, reach all of the people who presently have refused to resort to welfare and the condition of life that many of these people face because they are too proud to take welfare.

And so, it's this very problem, I think, one of the major reasons that we have sought to eliminate, if we can, any further need for welfare for the elderly and bring them within the embrace of the Social Security system that is adequate to meet their needs.

Mrs. MARKS. Well, needless to say, we agree entirely that if a solution can be found that would raise the stipend under SSI above the poverty line and obliterate all other schemes which cause these differentials and so much confusion across the country. That would be a prime goal.

Senator CHURCH. That's the approach I would take.

Mrs. MARKS. Yes, sir, of course, sir.

Senator CHURCH. Well, thank you very much for your testimony. I just want to say one word before you leave about the work you do in attempting to make legal services available to the people of low income.

I think this is the greatest thing that has happened to the law profession in the time that I have been a lawyer, and I hope we can keep the program going and improve it and make it work.

I know it's been experimental, it's been controversial, it's been limited in its scope, but all of you that are associated with it, I commend very highly. The great defect in our laws and in our courts and in our system of justice has been through the years all of the apparatus has been available chiefly for those who can pay for it and not for those who couldn't.

And this is the first attempt to rectify that great inequity, and I have nothing but admiration for those of you, mostly young people in the law, who are attempting to correct this glaring deficiency and I wish you well.

Mrs. MARKS. Thank you, sir, we appreciate your support.

Senator CHURCH. Well, that concludes our hearing for this morning.

[Whereupon, at 12 :20 p.m., the hearing adjourned.]

**APPENDIX**  
**PREPARED STATEMENT**  
**OF THE**  
**NATIONAL RETIRED TEACHERS ASSOCIATION**  
**AND THE**  
**AMERICAN ASSOCIATION OF RETIRED PERSONS**  
**ON**  
**FUTURE DIRECTIONS IN SOCIAL SECURITY**  

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**THE PRESENT INCOME SITUATION**  
**OF THE ELDERLY AND**  
**PROSPECTS FOR THE FUTURE**  
  
**SUBMITTED TO**  
**THE SPECIAL COMMITTEE ON AGING**  
**UNITED STATES SENATE**

JULY 26, 1973

The Social Security Act of 1935 marked the entry of the Federal Government into the provision of insurance services, services which had previously been in the domain of the private sector. This legislation grew out of the recommendations of Roosevelt's Committee on Economic Security and originally provided for transfer payments to compensate participants in the program for loss of income due to unemployment, old age retirement or the death of the principle family wage earner. Over time however modifications have been made which not only changed the level and nature of the benefits, but the essential character of the Social Security System as well.

The most fundamental revision in the system which clearly marked a turning point in the programs historical development, occurred with the amendments of 1939. Whereas the original system stressed the insurance concept and the idea of individual equity, i.e. that a person would get back from the system at least as much as he contributed to it, these amendments stressed larger welfare goals, concentrating on coverage and "social adequacy". Certain dependants and survivors of workers were brought into the system, payments were scheduled to begin 2 years before they were originally planned for (before contributors had built up enough "individual equity") and perhaps most importantly, benefits were tied to average earnings over a minimum covered period thus breaking the link between total lifetime contributions and benefit levels.

Other changes over the years have been liberalized benefit amounts with proportionately larger increases for wage earners at the bottom of the earnings scale, changes in the tax rates, changes in the nature of the benefits (Medicare for example), and increases in the covered population to the point where coverage under OASDHI is practically universal. Today, it is generally accepted that the Social Security program has actively pursued (and to some

extent is still pursuing) two separate and perhaps incompatible goals: (1) to provide a minimum level of income support for the aged and (2) to provide a retirement benefit that will prevent a serious decline in income for the non poor aged.<sup>1</sup> Let us just look at how well the system has accomplished its first goal

#### The Income Position of the Elderly

The elderly derive income from a number of sources besides Social Security: earnings, private pensions, public pensions and assets. The relative importance of each of these items in the income of an elderly person is very much a function of marital status and income level and aggregation only serves to obscure this essential fact. For this reason three tables are presented below which were taken from a recent H.E.W. survey of persons awarded new retirement benefits in 1970.<sup>2</sup>

Table 1  
Shares of Aggregate Income  
Married Men and Their Wives, 1970

Income	Social Security	Earnings	Private Pensions	Public Pensions	Asset Income	Other
500-1499	82	8	1	1	4	3
1500-2499	69	16	2	2	6	5
2500-3499	57	21	7	3	8	4
3500-4499	48	22	12	6	9	4
4500-5499	40	25	14	6	10	4
5500-6499	34	27	17	6	12	5
6500-7499	29	27	18	8	13	4
7500-8499	25	31	17	10	13	4
8500-9499	23	33	18	8	14	4
9500-12499	17	39	15	7	16	5

1. J. Pechman, H. Aaron, M. Taussig, Social Security: Perspectives for Reform P. 55 (2d ed. 1968).

2. Social Security Administration, Office of Research and Statistics, Preliminary Findings from the Survey of New Beneficiaries, Report #10, (June, 1973).

Table 2

Shares of Aggregate Income  
Non Married Men, 1970

Income	Social Security	Earnings	Private Pensions	Public Pensions	Asset Income	Other Income
500-1499	77	8	0.005	1	4	10
1500-2499	62	15	3	3	6	12
2500-3499	46	19	10	6	9	11
3500-4499	37	18	19	8	9	8
4500-5499	29	18	26	9	12	6

Table 3

Shares of Aggregate Income  
Non Married Women, 1970

Income	Social Security	Earnings	Private Pensions	Public Pensions	Asset Income	Other Income
500-1499	77	9	1	1	4	7
1500-2499	62	16	4	3	8	8
2500-3499	45	23	9	5	8	8
3500-4499	35	25	14	7	13	6
4500-5499	29	23	14	11	17	6
5500-6499	23	24	12	14	23	5

As should be clear from the tables, the lower income classes depend quite heavily upon Social Security for a large amount of their incomes. In fact, the lowest income classes derive around 80 percent of their total incomes from this source and given the fact that average benefits have increased by 35 percent since 1970 (from \$118.30 to \$162.35) the percentage is even higher today.

As to the income level of the elderly, the most recent figures given by the Bureau of the Census<sup>3</sup> indicate that 3,738,000 elderly persons currently

<sup>3</sup>Current Population Reports, Consumer Income, Series P-60 #88, Bureau of Census.

have incomes below the poverty level. This translates into 18.6 percent of the total population 65 and above and contrasts strongly with the incidence of poverty for the non-aged population (approximately 11.4 percent of this group live in poverty.)

In 1970, the median annual rates of income for Social Security recipients were as follows:

Married Men, age 65	5,780
Married Men, age 62	5,140
Married Women, age 65	6,000
Married Women, age 62	5,330
Non-Married Men, age 65	2,850
Non-Married Men, age 62	2,120
Non-Married Women, age 65	2,380
Non-Married Women, age 62	1,910

In 1970, poverty thresholds were defined to be \$2,350 for married persons, 1,880 for non-married men and 1,860 for non-married women. If we convert the above figures into the percentage of recipients whose total incomes leave them below the poverty level, the following obtains.

Percent of group below the Poverty Level :

Married Men, age 65	8%
Married Men, age 62	16%
Married Women, age 65	13%
Married Women, age 62	9%
Unmarried Men, age 65	27%
Unmarried Men, age 62	44%
Unmarried Women, age 65	35%
Unmarried Women, age 62	49%

Since benefits have increased by 35 to 40 percent since the date of this study, the incidence of poverty is not as high today as these figures indicate. The fact remains however that 18 percent of the elderly population have incomes below the poverty level. The 1971 Advisory Council on Social Security recommended that "benefits to low-paid regular workers... be high enough so that aged beneficiaries will not be below the poverty"

level".<sup>4</sup> Peter Henle has pointed out in his recent study<sup>5</sup> "...this objective has been achieved with respect to a retired couple if the breadwinner retires at age 65 with a wife of the same age. It does not apply however to a single person, nor to a couple if the breadwinner retires before reaching 65 or if his wife is below this age. Moreover, the OASDHI benefits for a retired couple equal about 71 percent of the lower level Retired Couples Budget." For large numbers of elderly Americans, the provision of an adequate income floor by the Social Security System is something less than a reality.

#### Replacement Income

The second goal generally ascribed to the Social Security System is the provision of a retirement benefit that will prevent a serious decline in income for the non poor aged. According to the Office of the Actuary, Social Security Administration, benefits as a percent of earnings in the year prior to retirement for a man 65 years old were as follows:

Low earnings (\$3744 per year)	1972
Retail Trade	45
Services	42
Manufacturing	34
All Private Industry	34
Construction	32
	24

4. Sec. of H.E.W., Report of the 1971 Advisory Council on Social Security, H. Doc. No. 80, 92d Cong. 1st Sess., 13 (1971), (hereinafter referred to as 1971 Advisory Council Report).

5. Peter Henle, Recent Trends in Retirement Benefits Related to Earnings, "Monthly Labor Review", (June 1972).

It is clear that for single men at least, Social Security benefits fall short of preventing the serious decline in income mentioned above. The study by Henle sheds a bit more light on replacement rates. He calculated earnings distributions over time for a number of industries and then related their earnings to benefits for individuals in various circumstances. The results of his study are quite important.

Social Security Benefits As A Percent Of Earnings,  
January 1, 1972

	Low Earnings	Retail Trade	Services	Manuf- acturing	All Private Industry	Construction
Single, 65, Male	45	42	34	34	32	24
Single, 65, Female	46	43	36	35	33	24
Single 62, Male	35	32	26	26	25	18
Single, 62, Female	36	33	27	27	26	19
Married Man, 65 Wife 65	68	63	51	51	48	35
Married Man 65 Wife 62	62	57	47	47	44	32
Married Man 62 Wife 62	51	48	39	38	36	27

There have been numerous estimates of the replacement rate necessary to permit an individual to live as well in retirement as he did prior to it. For an elderly couple with 2 children, the Bureau of Labor Statistics estimates a requirement of 51 percent of pre-retirement income. Dr. Henle on the other hand, has calculated a required replacement rate between 70 and 78 percent depending upon the income level at the time of retirement.

Using the lower figure of 51 percent a glance at the table confirms the fact that for most people Social Security benefits do not meet this standard. If a person is 65, married, with a 62 year old wife and have had a low earnings history, Social Security benefits will replace 68 percent of his low income-level. On the other hand if this person is single, age 62 with a construction work history, benefits will replace only 18

percent of previous earnings.

It is true that the elderly receive income from sources other than Social Security, but inclusion of these sources does very little to change the conclusion. A person who is married, working until age 65 and has a private pension would find that his combined benefits would replace at least 60 and perhaps 75 percent of his previous earnings. If he is single however, and applies for OASDHI benefits at age 62 and has no private pension his replacement rate may be as low as 20-25 percent.<sup>6</sup>

As Henle points out<sup>7</sup>: " Public and Private Retirement systems in the United States have matured to the point that taken together they can provide a married couple a level of living close to what they had before retirement. However most retirees do not find themselves in a position to take advantage of this possibility, either because they are not covered by a private industry pension plan or are forced to apply for public (Social Security) benefits before they are 65 thus reducing their annuity under the Old Age, Survivors, Disability and Health Insurance System."

It would appear then with respect to the second goal of Social Security, that of preventing a serious decline in income, the system has a long way to go.

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6. ID., Henle page 18

7. ID., Henle page 12

## The Theory Of Economic Policy

It is fair to say that Social Security has not fully accomplished either of its two goals. For the elderly, replacement rates vary between 20 and 75 percent and there are still some 4 million elderly living below the poverty level. Perhaps one of the reasons for the systems shortcomings is to be found in the theory of economic policy.<sup>8</sup>

A widely held first principle of economic policy holds that given  $n$  specific variables to each of which we wish to assign a definite target value (i.e. the income floor and the retirement income replacement rate) we will usually have to have at our disposal at least  $n$  policy instruments if the desired result is to be achieved. Although the presence of  $n$  instruments is neither necessary to achieve  $n$  targets (we could achieve them by accident) nor sufficient (some goals may be out of reach) it is none the less true that policy should be structured so as to achieve equivalence between instruments and target variables.

Now that the provision of an adequate income floor will be primarily the responsibility of the S.S.I. Program, future developments in Social Security must focus strongly on replacement rates, employment for those who need it and more generally for a more satisfying retirement. The following tables yield some information as to the direction future policy must take.

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8. Jan Tinberger, *On the Theory of Economic Policy*, Amsterdam: North Holland 1952.

	Percent of <sup>9</sup> Population 65+	Median <sup>10</sup> School Years 65+	Labor Force Participation Rates <sup>11</sup>	
			Males	Females
1970	9.8	8.7	26.8	10.1
1975 <sup>E</sup>	10.3	8.9	23.9	9.7
1980 <sup>E</sup>	10.5	9.7	22.7	9.2
1985 <sup>E</sup>	10.6	10.9	21.8	9.1
2000 <sup>E</sup>	10.1	11.9		

By the year 2000, there will be roughly 29,000,000 persons 65 and over. The combination of higher benefits from Social Security and enforced early retirement will result in a reduction in the percentage of males in the labor force to 21.8 per cent. Of these elderly people, 60 per cent will be women and roughly 9 per cent of them will be in the labor force.

Given long term trends in the incidence of poverty among the aged and the existance of S.S.I., it is likely that the income adequacy problem will be solved. The problem of aging will not. It is a matter of fact that no Western, industrialized society has yet come to grips with the problem of aging or more generally what to do with members of society who are no longer as productive as they once were. In the long run, it appears as though the age old problem of economic scarcity will be solved. By the year 2000 there will be nearly 30 million people 65 years of age and older who are better educated, more accustomed to higher standards

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9. Source: U.S. Census Bureau, Current Population Reports; Series P-25, # 481, 483, 493.
10. Source: U.S. Census Bureau, Current Population Reports; Series P-25 # 476, 477.
11. Source: U.S. Dept. of Labor, Handbook of Labor Statistics, 1971 Page 29-30, Estimates from Manpower Report of the President March 1972.

of living and in all likelihood with strong political power. There is no doubt but that our current approaches to the problems of income adequacy, income maintenance and aging in general will have to undergo major modification if solutions to these problems are to be found.

The awareness of aging population trends, demonstrated herein should be sufficient to motivate the extensive and comprehensive analysis and planning which will be necessary to accommodate adequately and at lowest cost the income security needs of the future aged. Not only must we anticipate that the aged population will continue to increase in terms of sheer numbers and population percentage, but, taking into account such factors as improved health care, ever earlier mandatory retirement policies and practices, and estimates of diminishing labor force participation, we must also anticipate that they will be living longer and spending more years in retirement. Moreover, since the aged of tomorrow will be better educated, more skilled and more sophisticated than the aged of today, they appear far less likely to accept the living standard reduction consequences which presently attend retirement status. The projected dimensions of the future aged population and the assumed unwillingness on their part to accept in retirement a standard of living below that experienced prior to retirement define the challenge which confronts us here today.

Our organizations do not believe that the income needs of the future aged can be accommodated within the limitations of the existing mechanisms currently contributing to retirement income security. In order to provide, in an orderly and

equitable manner, the substantial, intergenerational transfer of income that will be required to meet future needs, the unfunded, pay-as-you-go public pension mechanisms must be expanded, perfected, and if necessary, restructured. Moreover, they must be coordinated with each other in order to minimize the inequity, duplication and waste that presently exists. In order to assure a substantial, reliable, and hopefully universal private component in the mix of future retirement income, personal savings must be encouraged, private pension plans must be comprehensively and extensively regulated and the assets necessary to discharge fully the obligations accruing under such plans must be accumulated. Finally, economic necessity will probably require a gradual reduction in employment disincentives and a gradual introduction of employment incentives.

On behalf of our organizations, we shall address ourselves to some of the more important mechanisms which will be relied upon to contribute to the income security of the future aged. As the "nearly universal base on which protection for the Nation's families is built against loss of income due to retirement, disability, or death of the family earner."<sup>12</sup> the Old Age, Survivors and Disability Insurance Program must occupy our attention first. Although OASDI has become an accepted and permanent institution of extraordinary dimensions, important questions yet remain as to the adequacy and equity of both its benefit structure and its financing mechanism.

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12. 1971 Advisory Council Report, supra note 4, at 1.

We shall address ourselves to the Supplemental Security Income Program which we hope will render unnecessary the continued performance by OASDI of functions inappropriate to an earnings replacement program. We shall look at the present and projected performance of private pension plans and their potential for significant contribution to future retirement income security. The future economic necessity for the employment of older persons and some of the disincentives and incentives to such employment will also occupy us. Finally, we shall treat another element which, while of lesser importance in the scheme of future retirement income security, still merit our attention and is germane to the scope of this hearing. The retirement income credit of section 37 of Internal Revenue Code.

Official Federal Low Income or Poverty Guidelines  
1972<sup>1</sup>

<u>Family Size</u>	<u>Farm</u>	<u>Non-Farm</u>
1	1,774.00	2,109.00
2	2,296.00	2,724.00
3	2,830.00	3,339.00
4	3,643.00	4,275.00
5	4,302.00	5,044.00
6	4,851.00	5,673.00
7	5,947.00	6,983.00

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1. Source: Advance Report on the Characteristics of the Low Income Population, 1972, Bureau of the Census, Series P-60, #88

Median Income, Persons 65 Years of Age  
and Older, 1947-1972<sup>1</sup>

<u>Year</u>	<u>Males</u>	<u>Females</u>
1947	956.00	551.00
1948	998.00	589.00
1949	1,016.00	516.00
1950	986.00	531.00
1951	1,008.00	536.00
1952	1,247.00	654.00
1953	1,150.00	659.00
1954	1,268.00	694.00
1955	1,337.00	700.00
1956	1,421.00	738.00
1957	1,421.00	741.00
1958	1,488.00	776.00
1959	1,577.00	797.00
1960	1,698.00	821.00
1961	1,758.00	854.00
1962	1,910.00	920.00
1963	1,993.00	920.00
1964	2,037.00	952.00
1965	2,052.00	980.00
1966	2,162.00	1,085.00
1967	2,304.00	1,123.00
1968	2,652.00	1,311.00
1969	2,828.00	1,397.00
1970	3,076.00	1,522.00
1971	3,444.00	1,706.00
1972	3,746.00	1,899.00

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1. Source: Bureau of Census, Series P-60 Report's #1 thru 85.

Labor Force Participation Rates,<sup>1</sup> Persons 65  
Years of Age and Older, 1947-1985<sup>2</sup>

<u>Year</u>	<u>Male</u>	<u>Female</u>
1947	47.8	8.1
1948	46.8	9.1
1949	46.6	9.6
1950	45.8	9.7
1951	44.9	8.9
1952	42.6	9.1
1953	41.6	10.0
1954	40.5	9.3
1955	39.6	10.6
1956	40.0	10.9
1957	37.5	10.5
1958	35.6	10.3
1959	34.2	10.2
1960	33.1	10.8
1961	31.7	10.7
1962	30.3	9.9
1963	28.4	9.6
1964	28.0	10.1
1965	27.9	10.0
1966	27.0	9.6
1967	27.1	9.6
1968	27.3	9.6
1969	27.2	9.9
1970	26.8	9.7
1971	25.5	9.5
1972	24.4	9.3
1975E	23.9	9.2
1980E	22.7	9.1
1985E	21.8	8.9

1. The labor force participation rate is the percentage of persons in the full time or part time labor force, whether actually employed or not.

2. The source for all data, including the estimates for 1975, 1980 and 1985, is The Manpower Report of the President, March 1973

Unemployment Rates, Persons 65 Years of  
Age and Older, 1947-1972<sup>1</sup>

<u>Year</u>	<u>Male</u>	<u>Female</u>
1947	2.8	2.2
1948	3.4	2.3
1949	5.1	3.8
1950	4.8	3.4
1951	3.5	2.9
1952	3.0	2.2
1953	2.4	1.4
1954	4.4	3.0
1955	4.0	2.3
1956	3.5	2.3
1957	3.4	3.4
1958	5.2	3.8
1959	4.8	2.8
1960	4.2	2.8
1961	5.5	3.9
1962	4.6	4.1
1963	4.5	3.2
1964	4.0	3.4
1965	3.5	2.8
1966	3.1	2.8
1967	2.8	2.7
1968	2.9	2.7
1969	2.2	2.3
1970	3.3	3.1
1971	3.4	3.6
1972	3.6	3.5

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1. The source for these rates is The Manpower Report of the President, March, 1973.

OLD AGE, SURVIVORS AND DISABILITY INSURANCEI. FUTURE STANDARD OF ADEQUACY FOR THE REPLACEMENT OF LOST EARNINGSA. OASDI and the Earnings Replacement Function

It would appear from the foregoing that the use of OASDI to perform the function of basic income support has rendered it less effective than it might otherwise have been in performing the function of earnings replacement. In their comprehensive, 1968 analysis,<sup>1</sup> Pechman, Aaron and Taussig cited the use of OASDI to accomplish divergent goals as the basic dilemma confronting the system.

"...the United States has attempted to solve two problems with one instrument--how to prevent destitution among the aged and poor and how to assure to people, having adequate incomes before retirement, benefits that are related to their previous standard of living. The earnings replacement function calls for benefit payments without an income test. Basic income support...can be carried out most efficiently if payments are confined to households with low income.

"Two separate systems are needed to accomplish the two functions at the lowest cost. The earnings replacement function should continue to be performed by the social security system...The income support function should be transferred to a negative income tax system or to a comprehensively reformed system of public assistance."<sup>2</sup>

In January 1974, the existing federal-state, public assistance programs of Old Age Assistance, Aid to the Blind and Aid to the Permanently and Totally Disabled will be replaced by a single, uniform federal program, Supplemental Security Income, administered by the Social Security Administration and financed out of general revenues. Since we shall comment

<sup>1</sup> J. Pechman, H. Aaron, M. Taussig, Social Security: Perspectives for Reform, (2d ed. 1972). (Herewith referred to as Pechman, Aaron, Taussig, Social Security: Perspectives for Reform.)

<sup>2</sup> Id. at p. 215.

extensively on SSI at a later point, it is enough for our present purposes to observe that the new federalized program has the potential to assume completely the function of income support on a needs basis for the aged, blind and disabled.

Divested of the income support function and, hopefully, of the "floor of protection" philosophy, OASDI can now function solely as a mechanism to replace an adequate degree of earnings lost as a result of retirement, disability or death. Since OASDI will continue to be relied upon as the primary instrument of earnings replacement, the optimum degree of earnings to be replaced through OASDI with respect to the future aged population should be determined now in order that the modifications in the benefit structure and financing mechanism necessitated thereby may be carried out in time to accommodate these future needs in the most efficient and least costly manner.

B. Selection of the Standard with which to Measure Adequacy of Earnings Replacement

Our organizations believe that the living standard of the future aged family unit (spouses) should be related directly to a standard of living experienced prior to retirement. We expect the public and private sources of retirement income to replace a certain proportion of earnings lost as a result of the termination of employment.

The preretirement standard of living should be used to measure the adequacy of earnings replacement by public and private sources of retirement income. However, before an adequate pension/earnings ratio for all sources of retirement income or any one source in particular can be determined, the appropriate, preretirement standard of living must be selected. Moreover, the standard selected should not in any case result in a post-retirement living standard appreciably lower than that enjoyed immediately prior to retirement.

A family unit's living standard generally fluctuates during preretirement. This obviously complicates the selection process. Since the standards are based on earnings, the alternative standards include a standard base on earnings in the year(s) immediately prior to retirement, a standard based on the highest year(s) earnings, and a standard based on average earnings over a given period of years.

For a family unit whose earnings increase throughout the pre-retirement period, a standard based on the earnings in the years immediately prior to retirement would also represent the highest standard attained. However, in the case of a family unit whose earnings were highest in years remote from retirement, the most recent pre-retirement standard experienced would not coincide with the highest standard attained.

To avoid problems resulting from different family unit earnings patterns, a standard based on average earnings over

a stated period of years could be selected. To preclude any incentive to inflate artificially earnings during the years used for purposes of the standard, a small number of years should be avoided. On the other hand, the larger the number of years, the more likely a standard based on average earnings over those years will differ from the standard of living enjoyed in the years just prior to retirement. Moreover, the use of average lifetime earnings tends to produce a standard well below the most recent and/or highest pre-retirement living standard.

In selecting the appropriate standard, one final point merits consideration. Any standard based on earnings in years other than the years immediately prior to retirement will be distorted unless adjusted for subsequent changes in prices and economic growth.

Professor James H. Schulz of Brandeis University, on whose work this discussion is based, suggests that the appropriate standard could be based on the highest earnings in ten of the fifteen years immediately prior to retirement. His suggestion is predicated upon the simplicity of the standard and its relative immunity to the manipulation and earnings pattern problems which might otherwise be encountered. Pechman, Aaron, and Taussig have suggested standards based on the earnings in five of the fifteen or twenty years immediately preceding retirement, the highest earnings in any five years, and the highest earnings in any ten years.<sup>3</sup>

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<sup>3</sup> Id. at pp 98, 219, 226.

While our organizations tend to agree with the recommendation of Professor Schulz, we also believe that a standard based on average lifetime earnings adjusted, however, to account for cost-of-living and real wage increases, has considerable merit. However, the administrative burden and attendant cost consequences of such a standard may be so onerous as to make a standard based on the highest earnings in ten of the fifteen years immediately prior to retirement clearly more desirable.

C. Determination of the Proportion of Earnings to be Replaced

Having selected the appropriate pre-retirement living standard, there remains to be determined the percentage of earnings to be replaced by the public and private mix of retirement income mechanisms in order to maintain the living standard selected. While a single earnings replacement rate would seem appropriate in most cases, it would obviously be inappropriate in the cases of low or high income family units. Such cases, however, could be subject to minimum and maximum benefit levels.

Taking into account such factors as the preferential, federal income tax treatment available to older persons, the cessation of any further need to save for retirement and the somewhat reduced personal and living expenditures, a 100% replacement of earnings would not seem to be required to maintain the selected pre-retirement living standard. Using the

equivalent income scale developed by the U.S. Bureau of Labor Statistics for families of different size and age, Professor Schulz has estimated the appropriate earnings replacement rate to be from 50 to 65 per cent. This includes the tax savings as estimated at 4 to 6 per cent, the allowance for the discontinuance of retirement savings estimated at 19 to 21 per cent and that for the personal and living expenditure reduction estimated at 12 to 14 per cent.

D. Determining the Appropriate OASDI Earnings Replacement Rate

While our organizations concede that private pension plans will assume an increasingly significant role in the earnings replacement function for the future aged, we firmly believe that OASDI will continue in its present capacity as the primary earnings replacement mechanism. The absence of universal participation by workers in private pension plans, the disparity in benefit levels paid by such plans and the absence of any uniform means of adjusting private pensions for cost-of-living increases underscore the need for continued reliance on OASDI.

At the present time, OASDI benefits are related to pre-retirement earnings up to a specified ceiling. Changes in the benefit formula, the creditable earnings ceiling and the period of average earnings upon which benefits are based effect benefit computation. The Office of Research and Statistics of the Social Security Administration estimates

that, in the case of a single male who was a full-time industrial worker with average earnings in manufacturing and who retired at age 65 in 1968, OASDI replaced 29 per cent of his earnings in the year before retirement. With a wife who was age 65 or over and who was receiving a spouse benefit, the replacement rate was 44 percent. If the measure of pre-retirement earnings during the years 1950-1968 (excluding the 1950-1955 years of lowest earnings) rather than the earnings in the year prior to retirement is used, however, the replacement rate for the same single male worker is 38 per cent.

In attempting to determine upon a optimum earnings replacement rate for OASDI, Professor Schulz projected the ratio at retirement of old age benefits to pre-retirement earnings (defined as the average earnings of the five years immediately preceding retirement) for U.S. couples retiring during the period 1960 through 1980. Only in earnings groups below \$4,000 was a majority of couples found to receive at least 50 percent earnings replacement. In the group with average earnings between \$8,000 and \$8,999, only 6 per cent of the couples were found to receive at least 50 per cent replacement. On the basis of his findings and his conclusions as to the unreliability of other earnings replacement mechanisms, Professor Schulz determined that the optimum OASDI earnings replacement rate should be 55 per cent.

While our organizations are unwilling to commit ourselves to an OASDI earnings replacement rate of 55 per cent, we do not find this figure to be unreasonable. If a selected pre-retirement living standard is to be maintained in retirement, an OASDI earnings replacement rate of 50 per cent or more may indeed be necessary.

## II. THE FINANCING OF OASDI

### A. Dimensions and Revenue Potential of the Payroll Taxes

The taxes imposed by the Self-Employment Contributions Act<sup>4</sup> and the Federal Insurance Contributions Act<sup>5</sup> as the means of financing the Old Age, Survivors, Disability and Health Insurance programs qualify as the leading growth taxes of the post World War II era and are now the second largest source of federal revenue.<sup>6</sup> Payroll tax revenues at the federal level have increased from \$5.9 billion in 1950 to \$55.9 billion in 1971.<sup>7</sup> Whereas these taxes represent 2.1 per cent of GNP in 1950, they represent 5.5 per cent in 1971.<sup>8</sup>

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<sup>4</sup> I.R.C. § 1401.

<sup>5</sup> I.R.C. §§ 3101, 3111.

<sup>6</sup> J. Brittain, The Payroll Tax for Social Security, 88 (1st ed. 1972) (Hereinafter referred to as Brittain, The Payroll Tax for Social Security).

<sup>7</sup> W. Vroman, "Social Security: What Should It Be?" May 28, 1973 (paper used in connection with a presentation at the National Conference On Social Welfare in Atlantic City, N.J. (Hereinafter referred to as Vroman, "Social Security").)

<sup>8</sup> Id.

Not only have payroll taxes increased in absolute terms, but in relative terms as well. While total federal tax receipts increased from \$49.8 billion in 1950 to \$199.1 billion in 1971, the proportion generated by the payroll taxes over the same period increased from 11.8 per cent to 28.1 per cent.<sup>9</sup>

The Federal Insurance Contributions Act imposes taxes at equal rates on both employer and employee with respect to employee wages. This year, each will contribute, according to Table II-1, 5.85% on the employee's wages up to \$10,800. Wages in excess of that amount are not subject to tax. Next year, the employer and employee will contribute 5.85% with respect to the employee's wages up to \$12,600.

As reflected in Table II-1, a self-employed person must contribute 8% with respect to \$10,800 of earnings in 1973 and 8% with respect to \$12,600 of earnings in 1974. Earnings in excess of the applicable ceiling are not subject to tax.

TABLE II-1

SOCIAL SECURITY TAX RATES  
FOR  
EMPLOYERS, EMPLOYEES AND THE SELF-EMPLOYED

		OASDI	HI	TOTAL %	OASDI	HI	TOTAL %
Law Prior To							
Pub. L. 92-336:	1972 <sup>1</sup>	4.60	.60	5.20	6.90	.60	7.50
	1973-5 <sup>1</sup>	5.00	.65	5.65	7.00	.65	7.65
	1976-9 <sup>1</sup>	5.15	.70	5.85	7.00	.70	7.70
	1980-6 <sup>1</sup>	5.15	.80	5.95	7.00	.80	7.80
	1987 <sup>1</sup>	5.15	.90	6.05	7.00	.90	7.90
Law After							
Pub. L. 92-336:	1972 <sup>1</sup>	4.60	.60	5.20	6.90	.60	7.50
	1973-7 <sup>2</sup>	4.60	.90	5.50	6.90	.90	7.80
	1978-85	4.50	1.00	5.50	6.70	1.00	7.70
	1986-92	4.50	1.10	5.60	6.70	1.10	7.80
	1993-2010	4.50	1.20	5.70	6.70	1.20	7.90
	2011-	5.35	1.20	6.55	7.00	1.20	8.20
Law Prior To							
Pub. L. 92-603:	1972 <sup>1</sup>	4.60	.60	5.20	6.90	.60	7.50
	1973-7 <sup>2</sup>	4.85	1.00	5.85	7.00	1.00	8.00
	1978-80	4.80	1.25	6.05	7.00	1.25	8.25
	1981-5	4.80	1.35	6.15	7.00	1.35	8.35
	1986-2010	4.80	1.45	6.25	7.00	1.45	8.45
	2011-	5.85	1.45	7.30	7.00	1.45	8.45

<sup>1</sup> Tax rates apply to earnings up to \$9,000.

<sup>2</sup> Tax rates apply to earnings up to \$10,800 in 1973 and \$12,600 in 1974; once the automatic benefit adjustment mechanism becomes operative in 1975, the taxable wage base will increase automatically to offset the cost of automatic, cost-of-living benefit increases.

Assessed at a flat rate up to a taxable maximum with zero taxes beyond that point, the OASDI Contributions are, by their very nature, regressive. As wages or earnings above the taxable maximum increase, the tax as a percentage of wages or earnings falls. Moreover, the OASDI payroll taxes are inequitable in their treatment of family units with equal earnings as well as in the relative burden which they impose on family units with different incomes.

John A. Brittain of the Brookings Institute, in comparing the payroll tax to the federal income tax, which he states is "often characterized as this country's 'fairest tax'" makes the following points:

"These main features of the current payroll tax are responsible for its tendency to counteract the progressivity of the income tax. First, while the income tax exempted in 1971 the first \$650 of income per person and embraced in 1970 a liberalized minimum standard deduction that virtually eliminates all income taxes on the poor, the social security payroll tax continues to tax low income without exemption and at the highest effective (average) rates of all taxes. Second, under the income tax, the higher the taxable income of the taxpayer, the higher his tax rate; in direct contrast, in 1973, the old-age, survivors, disability and health insurance (OASDI) tax rate is expected to drop to zero for incomes above \$10,800, and unemployment insurance (UI) tax rates will fall to zero after \$4,200 in most states....

"Finally, the payroll tax applies only to wages, salaries, and self-employed income--exempting property income, which looms largest in the high-income brackets most heavily assessed under the income tax....

"Clearly, . . . the payroll tax is highest in poverty-income ranges where the income tax rate is zero and then approaches zero for high incomes as the income tax rate approaches its maximum."<sup>10</sup>

In view of the regressive impact of the payroll taxes on lower income groups, our organizations would support initially, limited reform within the existing tax structure, provided, however, that the contributory principle is not broken. Indeed, the Legislative Council of our Associations has in this respect, adopted the following position:

We urge the enactment of legislation to lessen the existing regressivity of the taxes imposed by the Self-Employment Contributions Act and the Federal Insurance Contributions Act.

If the OASDI is to be used as the primary earnings replacement mechanism in the manner discussed in Subpart I hereof, in order to permit the future aged to maintain in retirement an experienced pre-retirement standard, more fundamental reform of the tax structure would be required. Without increasing the tax rates and taxable wage base to prohibitive levels, we doubt that the present structure could, by itself, generate enough revenue to finance an adequate earnings replacement ratio. In view of the widely accepted conclusions as to the incidence of the employer and employee taxes imposed by the Federal Insurance Contributions Act, the limited reform that we support as an immediate objective and the more fundamental reform that we recognize as a more distant necessity to compliment desirable improvement in OASDI benefit levels become all the more imperative.

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<sup>10</sup> Brittain, The Payroll Tax for Social Security, supra note 6, at pp 88-89.

B. The Incidence of the Employer-Employee Taxes Imposed by the Federal Insurance Contributors Act

The attempt to determine the incidence of a particular tax is simply an attempt to determine who ultimately bears the burden of that tax. The ultimate burden may rest on groups or persons other than those who nominally pay the tax in question. Whenever an individual can avoid a tax which he nominally pays, the tax is said to be shifted; the incidence or burden devolves on someone else.

There appears to be general agreement among economists that the incidence of the employee portion of the payroll tax devolves upon the employees themselves. There also appears to be substantial agreement that employers largely or completely avoid the portion of the payroll tax that they pay. While employers nominally pay the tax, the burden of the tax is thought to be shifted by some combination of wage restraints (backward shifting) and piece mark-ups (forward shifting).

It is John Brittain's conclusion, after exhaustive and systematic analysis, that both the employee and employer portions of the payroll tax are borne by labor.

"...the total real compensation that can be extracted for a given amount of labor is fixed.... If this premise is accepted, and in addition, the aggregated labor supply curve is completely inelastic, both payroll taxes are clearly borne by labor, and there is no effect on the cost of labor or aggregate employment.

\* \* \* \*

"While it may be difficult for employers to cut the basic money wage, they have more leeway in a dynamic economy when productivity is rising. They can grant regular wage increases while restraining the pace of the advance to a level below that which would be justified by using productivity in the absence of the tax. The balance of the shifting can be accomplished by cuts in real wages through product price increases."<sup>11</sup>

Brittain's arguments are persuasive; his findings onerous. If indeed labor bears the burden of both employer and employee portions of the OASDHI payroll tax, the tax rate on wages and salaries at the present time is 11.7% up to the taxable maximum of \$10,800. It follows from the conclusion that labor bears the tax, that its burden on low-income groups is greater than generally realized and indicates a lower rate of return on contributions to participants in social security than would otherwise be the case.<sup>12</sup>

Even if the employer portion of the payroll tax is shifted forward, in whole or in part, it lowers the real income of all families but especially for those with lowest incomes where consumption expenditures are higher relative to income level. Whether the employer portion of tax is shifted backward, forward or in some combination of both, the effect of this large and growing tax is to increase the regressive element in the U.S. tax structure and the burden on the low-income family unit.

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<sup>11</sup> Id. at pp 38, 46.

<sup>12</sup> Id. at p. 81.

C. The Payroll Taxes in the Context of Benefits

Those who have been most resistant to change in the OASDHI financing structure have argued tenaciously that the payroll tax should not be analyzed or criticized separately and independently. They argue that analysis should proceed in the context of the benefits to be derived by workers in the future. Our organizations are of the opinion that the payroll tax should be considered both on its own merits and in the context of the benefits to be derived from the system in the future. Since the payroll tax affects only the current active working population who are separate and distinct from current benefit recipients, it is appropriate to consider the incidence of the tax apart from the incidence of the benefits. However, since it is also essential to evaluate the OASDI program in comparison with other means of providing retirement income -- through individual savings for example -- it is also necessary to deal with the lifetime rates of returns which can be expected by those who are currently contributing payroll taxes.

Unfortunately, definite evaluation of the lifetime rate of return is rendered difficult at best because of the ambiguity with respect to the ultimate incidence of the employer portion of the payroll tax. The Social Security Administration has rejected the conclusion that the employee bears the employer portion of the tax assessed with respect to his wages. However, the Social Security Administration has not apparently rejected

the conclusion that labor as a whole bears the burden of the employer's portion of the tax. John Brittain has summarized and analyzed the S.S.A. criticism. Since the conclusion that labor bears the burden of both employer and employee portions of the payroll tax is critical to a discussion of lifetime rate return, we shall quote the relevant portions of Brittain's book, The Payroll Tax for Social Security.

"...the criticism by the SSA of the imputation of the employer tax to each employee, as stated in 1967 by the chief actuary, does not imply a rejection of the argument...that labor as a whole bears the tax. Its criticism was on a different basis:

"Even though it is true that the employer contribution in the final analysis is borne in considerable part by the employees either because they receive lower wages than they otherwise would or because as consumers, they pay higher prices than they otherwise would, it does not follow that the incidence of the employer tax falls on wage earners in exact proportion to the earnings on which the tax is paid....The employer tax, therefore, may be looked on as being for the use of the system as a whole, and not as a matching contribution that is to be credited to each particular employee on the basis of the amount he paid."

"On this ground, the employer's tax was disregarded by the chief actuary in his 1967 memorandum suggesting that most earners are scheduled to get 'more than their money's worth.' However, even if it is agreed that precise imputation of the burden of the employer tax to individuals is not possible, omission of this part of the tax is bound to produce seriously misleading results. Even if the proceeds are 'for the use of the system as a whole,' it does not follow that the tax is a burden to no one. In other words, the concern here is with the cost of tax to the individual worker and not with the cost to the system of the ultimate benefits paid to that worker. It is difficult to understand an analysis which agrees that the employer tax 'is borne in considerable part by employees' and yet ignores it in evaluating the tax paid by individuals. If it is paid by employees

as a group, it must also be paid by them as individuals, and it is apparent that refusal to make any kind of imputation would build a large bias into the analysis -- understating the tax on employees by 50 percent, on the average.

"Another implication of the exclusion of the employer tax should be noted. The Myers memorandum mentioned above discusses the tax on various earnings levels. Not imputing the employer tax to a group of earners, such as the substantial group paying the maximum employee tax, implies that lower-income earners bear more than their proportional share, if it is agreed that the tax is borne by employees as a whole. If so, the lower-income employees as a whole would pay even more than double the employee tax, and their 'deal' would not be nearly as good as suggested in the memorandum. Since there is no reason to expect that this anomaly exists and since the employer tax cannot be realistically ignored, the best approach seems to be to impute to each employee an employer tax equal in amount to the employee tax -- that is, the amount of the employer tax actually paid in the name of the employee."<sup>13</sup>

With many of the conclusions which Brittain derives from his analysis of lifetime rates of return, our organizations must agree. Some beneficiaries of OASDI have an advantage relative to others with respect to lifetime rates of return. The relatively high rate of return to lower income groups under OASDI appears consistent with federal income tax policy which imposes a low tax burden upon them.<sup>14</sup> The relatively high rate of return to couples where only one spouse worked in covered employment may well be accomplishing some income redistribution to the needy; however, it may be that, as Brittain points out, non-working wives tend to be concentrated among high income groups.<sup>15</sup>

<sup>13</sup> Brittain, The Payroll Tax for Social Security, supra note 6, at pp 156-158.

<sup>14</sup> Id. at p. 174.

<sup>15</sup> Id.

Those who began work in covered employment at a later age tend to fare better with respect to lifetime rates of return than those who began work earlier. Since these "late starters" may often be college graduates or higher degree recipients who tend to earn relatively high incomes while being subject to tax for fewer years, OASDI is a relative bargain.<sup>16</sup> Brittain's proposal to ameliorate this discrimination in favor of late starters by increasing the tax rate and/or ceiling sufficiently to allow exemption of earners under age twenty-five from the OASDI taxes merits attention.<sup>17</sup>

If the employee does, in fact, bear the burden of the employer contribution with respect to the employee's wages, the self-employed must be identified as another group that fares relatively well in terms of lifetime rates of return. The rate of tax paid with respect to earnings from self-employment in 1973 is only 8 per cent; the combined employer-employee rate on wages and salaries is 11.7 per cent.

While our organizations would readily assent to the proposition that the lower income wage earners have received, and may expect to receive, in benefits more than they contribute in taxes, other groups are doing, and may expect to do relatively well also -- and with less justification. Moreover, with respect to the lower-income wage earners, the progressivity of the benefit structure may not be adequate to compensate for the substantial diminution of their earnings

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<sup>16</sup> Id. at p. 167.

<sup>17</sup> Id. at p. 175.

during their working years. We must agree with Brittain that the "heavy and regressive burden of the present payroll tax structure on the working poor deserves recognition."<sup>18</sup> We believe that limited reform within the existing tax structure should be undertaken now and more fundamental reform contemplated for the future. Even though lower-income family units should continue to be required to contribute to OASDI, even if that contribution is in the form of a minimum amount, we do not believe that they should continue to be subject to a substantial payroll tax burden, despite the probability that their anticipated lifetime rate of return will be relatively more favorable in comparison to that of higher income groups. These latter groups have far more ability to pay.

D. Limited Reform of the Payroll Tax Structure

Within the limits of the present legislative policy position of our organizations in favor of a lessening of the regressivity of the OASDI payroll tax, we could support the introduction into the tax structure of a system of exemptions or allowances designed to reduce substantially the payroll tax burden on lower-income groups. Such relief should be subject, however, to some minimum percentage contribution designed to preserve the contributory principle. We believe that the cost of such internal reform would be modest and could be offset by increases in the tax rates and/or the

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<sup>18</sup> Id. at p. 179

taxable earnings base. Minimally, such reform would lessen the regressivity of the payroll tax.

We would hope that any exemption formula legislated would tend to concentrate the benefits of exemptions among lower-income family units through a gradual phasing out of exemption benefits as family incomes rise.<sup>19</sup> The amount of exemption benefits should be determined on the basis of family income rather than on earnings in order to prevent the unintended receipt of exemption benefits by family units with substantial income from sources other than earnings. Employer contributions would continue to be made with respect to the wages or salaries of exemption recipients, and, such exemptions would be ignored for purposes of determining later OASDHI benefits.

#### E. Fundamental Reform of OASDI Financing

If OASDI is to be relied on in the future to provide an earnings replacement ratio adequate to render probable the maintenance in retirement of a selected pre-retirement standard of living, fundamental reform through the supplemental use of general revenues, generated through the mechanism of the federal income tax, will be necessary. Although the use of past earnings records to establish the right of an individual or a family unit to OASDI benefits is generally accepted, the desirability of using only the OASDHI payroll for financing

<sup>19</sup> See exemption formula 700A-1 proposed by Brittain and his projections with respect to it, The Payroll Tax for Social Security, supra note 6, at pp 115-150.

purposes should depend on its merits relative to other financing mechanisms or combination thereof.<sup>20</sup> Such desirability should not depend on any purported need to maintain an exclusive relationship between earnings and benefits.<sup>21</sup>

The use of general revenues for OASDHI purposes is not without precedent. A government contribution was incorporated in the Social Security Act under the Revenue Act of 1943<sup>22</sup> but was later eliminated by the 1950 amendments.<sup>23</sup> However, general revenue financing for social security purposes was accepted on a small scale as a source of funds to match the medical insurance premium and to provide special benefits for persons age 72 and over who lacked insured status.

A number of limited proposals for the use of general revenues to supplement the OASDHI payroll tax have been suggested. As OASDI coverage has expanded, benefits have been paid to those who contributed little or nothing to the system. In response, the use of general revenues to pay benefits to "late arrivals," as for example those who were self-employed, has been proposed.<sup>24</sup> The use of general revenues to finance the Hospital Insurance program has also received recent attention. John Brittain has suggested, as an alternative to any increase in the payroll tax rate and/or taxable earnings base, that a

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<sup>20</sup> J. Pechman, H. Aaron, M. Taussig, Social Security: Perspectives for Reform, supra note 1, at p. 173.

<sup>21</sup> Id.

<sup>22</sup> P.L. 235, Title IX, § 902 (1944).

<sup>23</sup> P.L. 734, Title I, § 109(a) (1950).

<sup>24</sup> Brittain, The Payroll Tax for Social Security, supra note 6, at p. 132.

system of payroll tax exemptions to provide relief to low-income workers could be financed from general revenues at minimal cost.<sup>25</sup>

Wayne Vroman, an economist with the Office of Economic Opportunity, has suggested the use of general revenues to finance the already anticipated revenue needs of OASDHI as an alternative to the payroll tax rate increases scheduled for 1978.

"...now is the time to plan for using income taxes in 1978 and in later years to finance scheduled future expansions in OASDHI revenue needs."<sup>26</sup>

Other, more radical proposals for increased reliance on general revenues generated through the federal income tax, usually combined with a reduction or elimination of the payroll tax, have been made periodically. For example, it has been proposed that payroll tax contributions should constitute a credit against federal income tax liability with any contributory amount in excess of such liability treated as an overpayment of income tax. Any such overpayment would be refunded to the taxpayer.<sup>27</sup> Obviously, to the extent general revenues are introduced into the financing of OASDHI benefits, the regressivity of the payroll taxes will be reduced or eliminated. However, John Brittain, in analyzing a complete shift from the payroll to the income tax for financing purposes, estimated that a complete substitution would require

<sup>25</sup> Id. at p. 142.

<sup>26</sup> W. Vroman, "Social Security: What Should It Be?" supra note 7.

<sup>27</sup> J. Pechman, H. Aaron, M. Taussig, Social Security: Perspectives For Reform, supra note 1, at pp 221-22.

an increase in the income tax yield of approximately 45 per cent.<sup>28</sup> This would translate into an income tax rate increase of 45 per cent. Admitting that a rate increase of such magnitude is simply not feasible, he suggests instead a 45 per cent increase in income tax revenue accomplished through a combination of rate increases and a broadening of the income tax base.<sup>29</sup>

In the view of our Associations, the distribution of the burden of taxes under the federal income tax is far from equitable in reality, although progressive in theory. We, therefore, consider it to be, at the present time, an unsuitable vehicle on which to cast the full burden of OASDHI benefit financing in the immediate future. We hope that forthcoming income tax reform legislation will accomplish a more equitable and more progressive distribution of the income tax burden. Such a redistribution would be an absolute prerequisite to the use of the federal income tax as the primary financing mechanism for OASDHI.

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<sup>28</sup> Brittain, The Payroll Tax for Social Security, supra note 6, at p. 143.

<sup>29</sup> Id.

### III. ADEQUACY AND EQUITY OF THE OASI BENEFIT STRUCTURE

#### A. Introduction

While the Congress has undertaken steps to provide the recipient of OASI payments with a more adequate level of retirement income, discriminatory factors, which prevent a more equitable distribution among specific beneficiary types, continue to exist under the program. Legislation has been proposed and enacted to assure that the increases in payments are shared by all participants and beneficiaries.<sup>30</sup> However, our Associations believe that further reform to eliminate remaining inequities must be proposed and examined. If OASI is to provide an adequate level of retirement income, then proposals to remove these discriminatory factors under the program must now be given increasing attention.

Inequities under the OASI Program stem from the focus of the Social Security Act. The generally accepted presumption of the law is that the man is the breadwinner who is responsible for the support of his wife and children.<sup>31</sup> Since its inception, OASI has expanded its scope, as the traditional role of the woman as the homemaker has changed to include

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<sup>30</sup> Under the Social Security Amendments of 1972 (P.L. 92-603), there were vast improvements in the OASDI Program, including provisions for a special minimum cash benefit, lowering the computation point for men, and increasing widow and widower benefits.

<sup>31</sup> Bixby, "Women and Social Security in the United States," Social Security Bulletin, 4 (September, 1972) (Hereinafter referred to as Bixby, "Women and Social Security in the United States").

substantial periods as a wage earner.<sup>32</sup> The major problem has been that OASI has not been able to adapt its mechanisms to the overlaps occurring in the roles of the woman.

The male is no longer the sole support of the family. Table III-1 shows that the number of women in the labor force doubled within a 25 year span. In particular, it should be noted that the number of married women in the labor force has almost tripled within this same period of time.

TABLE III-1

	WOMEN IN THE LABOR FORCE		
	1947 <sup>33</sup>	1950 <sup>34</sup>	1972 <sup>35</sup>
TOTAL	16,323,000	17,795,000	32,939,000
Single	6,181,000	5,621,000	7,477,000
Married	6,776,000	8,550,000	19,249,000
Other (Divorced, etc.)	3,366,000	3,624,000	6,213,000

<sup>32</sup> Reno, "Women Newly Entitled to Retired Worker Benefits: Survey of New Beneficiaries," Social Security Bulletin, 3 (April, 1973) (Hereinafter referred to as Reno, "Women Newly Entitled to Retired Worker Benefits".)

<sup>33</sup> Bureau of the Census.

<sup>34</sup> Id.

<sup>35</sup> H. Hayghe, "Labor Force Activity of Married Women," Monthly Labor Review (April 1973).

It has also been projected that the participation of married women and of mothers with young children, who are currently the fastest growing group in the labor force, will remain high and tend to increase slightly.<sup>36</sup>

Out of 53 million families in 1971 only 17.8 million or 37% derived their income solely from the earnings of the head of the family, regardless of the sex of the family head.<sup>37</sup> With the increasing presence of the wife as the secondary wage earner, issues have arisen regarding the woman's dual entitlement as a dependent and as an insured worker. Our Associations believe that unless OASI addresses itself to the realities which exist, inequities will continue.

#### B. The Working Wife

Under the existing OASI Program, a woman, as the spouse of fully insured worker, is entitled to 50 percent of her husband's PIA even though she made no contributions. The value of this social benefit for family protection should not be underestimated. Approximately one-half of the aged women receiving benefits at the end of 1971 were entitled only on their husband's earnings record.<sup>38</sup> A woman worker beneficiary is entitled to benefits based upon her own average monthly earnings. The working wife is always paid her retirement benefit, based on her earnings, and the wife's benefit

<sup>36</sup> Statement of Carolyn Bell on Women and Social Security Before the Joint Economic Committee, 93d Congress, 1st Session at p. 2 (July 25, 1973). (Hereinafter referred to as Statement by Bill).

<sup>37</sup> Id.

<sup>38</sup> Bixby, "Women and Social Security in the United States," supra note 31, at p. 7.

is reduced by that amount. In practice, the woman receives the larger benefit.

During a twenty-year span (1950-1971) the number of woman worker beneficiaries has increased more than twenty times from 302,000 to 6,447,000.<sup>39</sup> With the steady increase in the number of married women in the labor force, the inequities raised by this dual approach to entitlement must be examined and remedies considered.

Most working women are employed in low-paid occupations and industries.<sup>40</sup> For year-round, full-time employment, the median earnings of a woman amount to 58 percent of those of a similarly employed man.<sup>41</sup>

In 1969, 45% of the men but only 8% of the women at work earned more than the maximum wages taxable. Median earnings were \$5,880 and \$2,590 respectively.<sup>42</sup> Moreover, while many women periodically leave the labor force to raise children, such periods are included in the computation of benefits. Consequently, the average monthly earnings of the woman is much lower than those of the man. Frequently, the working wife may find that the benefits based on her earnings are less than or not much more than the benefits she is entitled to as a dependent.

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<sup>39</sup> *Id.*

<sup>40</sup> *Id.*, at p. 9.

<sup>41</sup> W. Bell, "Social Security: Society's Last Discrimination," *Business and Society Review*, 46 (Autumn, 1972), (Hereinafter referred to as Bill, "Social Security: Society's Last Discrimination".)

<sup>42</sup> *Id.*, at p. 47.

While the working wife may be entitled to greater benefits on her earnings, an inequity of costs/benefits between herself and the wife who was never employed may exist. The working wife may establish her own eligibility, but the marginal payment (difference between dependency benefits and retirement benefits) may not justify the contributions paid to the OAST fund. Thus the working wife often feels that she receives little or nothing for the taxes she has paid, since the non-working wife, under many circumstances, can receive approximately the same payments without paying anything.

It must be noted that the working wife is entitled to additional protection which is not available to the non-working wife, including disability insurance, lump sum death payments and possible monthly survivor benefits. The wife's benefit as a wage earner is predicated upon her own retirement, but her benefits as a dependent are payable only if both she and her husband are retired. The working wife may also receive a greater windfall than her spouse since the OASDI is designed to provide retirement benefits at a proportionately higher ratio to those with lower earnings.<sup>43</sup> However, our Associations believe that the claim of more benefits to the working wife has merit.

The working wife is contributing her energies to the nation's labor force and is also contributing to OASDI financing. Her contributions will add more and more to the OASDHI

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<sup>43</sup> Bixby, "Women and Social Security in the United States," supra note 31, at p. 11.

funds. Since the wife is a source of family income, the loss of these earnings, upon retirement, will have a greater impact upon the family unit. As we have stated in Subpart I hereof, the OASDI program should provide an earnings replacement ratio sufficient to enable the family to maintain, during retirement, a standard of living which is not below that achieved during employment years. While recognizing the importance of the woman homemaker, the Associations believe that the additional contributions of the working wife entitle these women to a more equitable distribution of benefits.

Approaches to eliminate this inequity confronting the working wife have been suggested. It has been proposed that the working wife receive benefits based on her earnings in addition to the benefit based on her husband's earnings. The obvious drawback to the establishment of such a proposal is the high cost involved. Another argument against the adoption of this proposal is that the working wife, earning a low income, would still be dependent upon her husband's earnings. If the woman's earned benefits provide sufficient retirement income, then she is not dependent upon her husband.

It has also been suggested that the tax liability for a worker with dual eligibility under the program be removed or reduced.<sup>44</sup> The working spouse could calculate potential benefits both as a dependent spouse and as a retired worker.

<sup>44</sup> Bell, "Social Security: Society's Last Discrimination," supra note 41, at p. 47.

If the dependent benefits exceed the benefits as a retired worker, then the social security tax liability would be voided. If the benefits as a retired worker exceed those as a dependent, then the tax liability would be reduced, depending on the amount of the difference.<sup>45</sup>

The problem with establishing such a mechanism to determine distribution of benefits is the uncertainty involved in calculating future earnings and benefits, notwithstanding questions regarding life expectancy and future marital status. The cost of administering the program and the prospects for substantial revenue loss diminish the feasibility of such an approach.

Other proposed alternatives should, however, be considered. OASDI could provide a per cent increment in benefits to a working wife, based upon her PIA, in addition to her dependency benefit. Each spouse could be credited with one-half the combined earnings every year during the period of marriage. A provision for splitting earnings credits would benefit the divorced worker but generally not the working couple who remain married.<sup>46</sup>

It has been suggested that working couples be granted the option of combining their earnings as the basis for the calculation of the PIA with 50% added as the spouse's benefit.

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<sup>45</sup> Id.

<sup>46</sup> Bixby, "Women and Social Security in the United States," supra note 31, at p. 10.

This proposal, which can eliminate the inequities with respect to the working wife, deserves serious consideration since it also directs itself to an even larger problem under OASDI. While a major purpose of the program is the income maintenance of the family, the focus, in the determination of benefits, is the individual, his earnings or status in the family.

Regarding the OASDI treatment of a working couple; the husband and the wife are regarded, as separate tax units.<sup>47</sup> The benefits each working spouse is entitled to is computed with respect to that individual's earnings. Therefore, the working husband and wife may contribute more to the OASDHI funds than a single worker whose income is equivalent to their combined earnings. In 1971, the median incomes for a working husband and wife were \$8,858 and \$3,325 respectively.<sup>48</sup> Under the existing tax rate the OASDHI contribution of the working couple would be approximately \$713.00 while the contribution of the single worker would amount to \$631.80.

It has been shown that where the combined earnings of a couple are below or slightly above the taxable maximum for one worker the sum of the benefits to which they are entitled is usually smaller than one and one-half times the amount to which a man, whose earnings are equivalent to their combined income, with a dependent spouse is entitled.<sup>49</sup>

<sup>47</sup> J. Pechman, H. Aaron, M. Taussig, Social Security: Perspectives for Reform, supra note 1, at p. 81.

<sup>48</sup> Statement by Bell, supra note 36, at p. 7.

<sup>49</sup> Bixby, "Women and Social Security in the United States," supra note 31, at p. 9.

There is an apparent question of equity whether family units, with identical earnings during employment years, should receive varying amounts of retirement benefits. Our organizations believe that this inequitable situation deserves to be corrected.

The overall effect upon OASDI by the implementation of such a proposal cannot be underestimated. It has already been pointed out that in 1971, 63% of the families had both an employed husband and wife. Consequently, there is a significant cost factor. It has been suggested that the option be limited to those family units in which both spouses have extensive covered employment after marriage.<sup>50</sup> Possibly, such a restriction would keep the costs of administering and financing such a proposal at a reasonable level. The advantage to this approach is that it recognizes the dependency of the low income family upon the combined earnings of the couple and the continued reliance of the unit upon the combined OASI payments during retirement.

Much the same problem exists with respect to survivor benefits. If family A consists of a father with average monthly earnings (AME) of \$275 and a working wife with an AME of \$275 and if both are killed, the two surviving children will receive approximately \$275.90. If the father of family B was the sole wage earner whose income was equivalent to the combined earnings of family A, then the children would receive \$432.60. The adoption of the family unit approach would eliminate this inequity.

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<sup>50</sup> Id., at p. 10.

The implementation of this proposal would entail the establishment of a new approach in the computation of benefits. The basis would no longer be the individual wage earner but rather the family unit and the combined earnings of those participants in the program.

C. Other Areas to be Considered with Respect to a New Interpretation of Dependency

The inequities in the distribution of benefits with respect to the working couple are not the sole consideration in any re-thinking of the basic-unit under the OASDI program. It has been claimed that the definition of the beneficiary unit is as crucial to the equitable operation of social security as the definition of tax unit for income taxation.<sup>51</sup> The treatment of other beneficiary types must be discussed if a more equitable system is to be established in the future which will be better able to moderate the impact of decreased income.

D. The Single Worker

Such a benefit formula (family unit approach) cannot be discussed without considering the impact upon the single wage earner family with a low income and the possible inequity that may arise. Under the present mechanisms, the program is designed to help meet the needs of those insured workers with a low earnings history. Increasingly, these low-level benefits,

<sup>51</sup> J. Pechman, H. Aaron, M. Taussig, Social Security: Perspectives for Reform, supra note 1, at p. 80.

with a higher replacement ratio, are going to working wives at all levels of the family income spectrum rather than to these single breadwinners.<sup>52</sup> It can be concluded that the family unit approach would eliminate the working wife from receiving the greater windfall while recognizing her contribution as a wage earner to the family income and the OASI funds.

There is a drawback to the implementation of this proposal which has an impact upon the single worker. Such a revision of benefit computation have a cost that may have to be met by tax increases for all covered workers.<sup>53</sup> Unless new approaches to financing the OASDHI funds are considered,<sup>54</sup> questions of equity in relation to the situation of the single worker will be raised.

#### E. Widow's Benefits

The payment of benefits to the surviving wife of an insured worker has always been an issue in any examination of the OASDI program. The concern had centered upon the fact that widows received lower incomes, possessed fewer assets and were less able to supplement their incomes. An effort was made to improve the adequacy of benefits to widows. Under the provisions of P.L. 92-603, the widow is now entitled to 100 percent of the deceased spouse's PIA at age 65, with

<sup>52</sup> Reno, "Women Newly Entitled to Retired Worker Benefits," supra note 32, at p. 3.

<sup>53</sup> Bixby, "Women and Social Security in the United States," supra note 31, at p. 10.

<sup>54</sup> New Directions in Financing the Social Security System are discussed in Subpart II of Part Two hereof.

the amount reduced if benefits are paid between 60 and 65 years of age.

The importance of these benefits is easily attested to by the fact that in 1971 the number of widows, aged 60 or over without children, who were receiving benefits based upon the deceased husband's earnings, totalled 3,363,000.<sup>55</sup> The value of the widow benefits is also suggested by the fact previously discussed, that the woman's PIA is generally lower than that of her husband. Since the working widow is granted dual entitlement, she receives the larger benefit, which, under most circumstances, would be based on the husband's PIA.

In 1971, the average monthly benefit paid to the retired insured woman was \$113.60 while the average monthly benefit for widows, including those with a beneficiary child, was \$110.80.<sup>56</sup> It should be noted that the average monthly benefit for the widow does not take into account the provisions under P.L. 92-336 and P.L. 92-603. An inequity with respect to cost/benefits between the working widow and the widow who did not contribute to OASDHI is evident and merits attention.

To raise benefits or lower the eligibility age would only provide a disincentive to the objective of phased retirement

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<sup>55</sup> Bixby, "Women and Social Security in the United States," supra note 31, at p. 7. (Table 2).

<sup>56</sup> Id. at p. 6. (Table 1).

and increase the inequity between the working woman and the dependent. A new approach is necessary in order to provide an adequate level of retirement income in the future without the adverse effects previously mentioned. Whether the proposed solutions to the problems with respect to the working wife and working couples are feasible must be determined.

The emphasis upon dependency with respect to widow's benefits must be modified to take into account the rapid increase in the number of wives who are wage earners, and, therefore, OASDHI contributors. Unless this trend is recognized, the inequities, such as exist regarding the working widow, will only be aggravated.

#### F. Male Dependents

Very few men receive benefits based on their wives' earnings. Only 12,000 husbands and widowers received dependency benefits in 1971, as compared with 7 million wives and widows.<sup>57</sup> A reasonable explanation for this small number is that men are more likely than women to have higher earnings. Another possible explanation is the fact that the man, in order to be entitled to husband or widower benefits, must be dependent upon his wife for one-half of his support.

While it has previously been concluded that the working wife would generally receive lower wages than her husband, it has also been shown that 63 percent of the families are

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<sup>57</sup> Statement by Bell, supra note 36, at p. 8.

supported by both spouses. The husband may not be dependent upon his wife for one-half his support; however, the loss of the wife's earnings may have an impact upon his standard of living. His ineligibility to receive widower benefits because of his disqualification under the dependency test may also have an adverse effect upon maintaining a level of retirement income comparable to that which he shared during employment years.

Our Associations believe that the male should not automatically be presumed to be the sole family earner. Such presumption disregards the future possibility of increasing male dependency on the earnings of the wife. The support may not amount to 50 percent. However, if the proposal to improve widow's benefits were seriously considered, to disallow the husband's eligibility for widower benefits, based upon a dependency test, while his wife is entitled without any showing, would aggravate an existing inequity.

G. OASDI Coverage of Non-Compensatory Employment

Under the OASI Program, the insured worker is a worker in paid employment. This criteria omits from the program a massive number of individuals who are in non-paid employment. It should be noted that non-paid employment is not confined strictly to wives and mothers. According to a 1972 analysis of this matter, of the 42 million women not in the labor force, 27 million have husbands, 6 million have never married,

and only 12 million have children.<sup>58</sup> If these individuals in non-paid employment are to be entitled to OASDI benefits, such entitlement must be their dependency upon an insured worker.

It has been suggested that the woman who is working in non-paid employment be entitled to establish social security credits on the basis of work performed rather than wages earned. The recognition of services as a basis for retirement benefits would be a radical departure from the existing emphasis upon earnings.

Admittedly, the services performed by women in non-paid employment, for example, housekeeping activities, are essential. However, to determine such credits may be virtually impossible. Questions concerning the value to be imputed to such work, the matter of contributions and the cost of such credits must be determined before the implementation of such a criteria can seriously be considered.

#### H. Conclusions

While the objectives of the OASI Program has been to maintain the income of the family upon the retirement or death of the wage earner, it has not been able to provide income adequacy. Our Associations believe that one of the explanations for this inability may be found within the program's mechanism for the computation of benefits.

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<sup>58</sup> Bell, "Social Security: Society's Last Discrimination," supra note 41, at p. 46.

The basic unit for the determination of benefits levels has been the earnings of the individually insured worker. Our Associations believe that present trends in the economic and social structure require that the basis of the benefit formula be reassessed. The argument for the review is best illustrated in the inequities caused by the overlaps in the roles of the woman as a wife and as a wage earner.

If the OASI Program is to accommodate itself to diverse and changing needs, it must give serious attention to this problem. Our Associations believe that the family unit approach is the more appropriate way to compute OASI payments. In any examination of this benefit formula, consideration should also be given to the other proposals offered to provide a more equitable distribution. Our Associations feel that discussion of these proposals to modify the program are only a part of the need to continually assess social security in the United States.

#### IV. The Retirement Test

In this subpart, our organizations intend to focus on the retirement test of OASOI and, to a lesser extent, on the program's impact on employment incentives. The issues have been most succinctly described by Pechman, Aaron and Tassig; as follows:

"The social security system may cause less work effort by the aged and encourage early retirement for three reasons. First, the non-work-related income provided by Old Age, Survivors, and Disability Insurance (OASDI) benefits makes retirement attractive for many workers. Second, the earnings test directly penalizes work effort. Third, OASDI may alter company retirement-policies or produce other social and economic pressures that evidently lead to withdrawal from the labor force. The evidence - though not conclusive - suggests that OASDI has weakened the work incentives of the aged.<sup>59</sup>

Much of the material contained herein with respect to the effects of the retirement test, the earnings to which the test is applicable, the arguments for and against the test, its legislative history and the summary of further legislative proposals was incorporated from a Congressional Research Services study of March 2, 1973, prepared by Francis J. Crowley and entitled "The Social Security Retirement Test."

##### A. The Retirement Test, Its Rationale And Its Effects.

The social security retirement test, as recently amended, permits older workers who are social security beneficiaries and under age 72, to earn up to \$2,400 a year without loss of benefits, but reduces benefits \$1 for every \$2 of annual earnings above that amount. The test of whether benefits will be reduced is applied annually, and both wages and self-employment income are included in the computation

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59. J. Pechman, H. Aaron, M. Tassig, Social Security: Perspectives In Reform, supra note 1, at 120.

of an individual's total earnings. This "retirement test" or "earnings test" is applied to the earnings of all those entitled to social security benefits, with the following exceptions: (a) disabled dependent widows and widowers; (b) disabled children age 18 or over; and (c) disability insurance beneficiaries whose rights to monthly benefits depends on their inability to engage in "substantial gainful activity."

The amount chargeable against an individual's earnings for any year is referred to as "excess earnings." The amount of retirement earnings allowed before the realization of "excess earnings" -- i.e., before the reduction of social security benefits -- has been changed a number of times over the years.

The 1971 report of the Advisory Council on Social Security sets forth the rationale for the retirement test as follows:

The social security cash benefit provisions are designed to provide protection against the loss of earnings from work due to retirement in old age, death, or disablement. One of the mechanisms used to determine whether a loss of earnings has occurred is the retirement test. The assumption underlying this test is that if a beneficiary's earnings from work are below a certain level a loss of earnings has occurred and social security benefits are then payable to partially replace the earnings that have been lost. 60

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60. Sec. of H.E.W., Report of the 1971 Advisory Council on Social Security, H.R. Doc. No. 80, 92nd Congress, 1st Session 1 (1971), (hereinafter referred to 1971 Advisory Council Report).

In effect, the retirement test is a tax on earnings of either zero or fifty percent, depending on the amount of annual earnings, until benefits are reduced to zero. As to the effect of the retirement test on employment incentive, Pechman, Aaron and Tassig make the following observations:

"Anyone who would have retired because of the income provided by OASDI retirement benefits cannot be affected by the earnings test. However, among aged persons who would prefer to continue in employment after becoming eligible for retirement benefits, the earnings test has a potential independent effect on work effort....  
In general,...both the income effect of OASDI benefits and the earnings test can by themselves cause complete retirement or, for persons who remain in the labor force, they can cause reduced work effort. 61

For illustrative purposes, the effect of the retirement test on two aged couples, assumed to have the same amount of annual earned income by the husband (\$3,600 in one example and \$6,000 in another) but eligible for different amounts of Social Security benefits, is shown on the following table. For couple A, the husband received \$84.50 a month and his wife \$42.30, or a combined monthly benefit of \$126.80, or \$1,521.60 a year. For couple

61. J. Pechman, H. Aaron, M. Tassig, Social Security: Perspectives For Reform, supra note 1, at 121, 123.

B, the combined husband-wife benefit is assumed to be \$270 a month (\$180 for the husband and \$90 for the wife), or \$3,240 a year.

IV-1 TABLE

Effect of Retirement Test with Husband's Annual Earnings of \$3,600 in 1974

	<u>Couple A</u>	<u>Couple B</u>
Annual benefits	\$1,521.60	\$3,240
Total benefits lost	\$ 600.00	\$ 600
Total benefits received	\$ 921.60	\$2,640

Effect of Retirement Test with Husband's Annual Earnings of \$6,000 in 1974

	<u>Couple A</u>	<u>Couple B</u>
Annual benefits	\$1,521.60	\$3,240
Total benefits lost	\$1,521.60	\$1,800
Total benefits received	0	\$1,440

In setting-forth the effects of the retirement test, its impact on dependents and survivors also merits attention. If the dependents of a retired worker are receiving benefits on the basis of the worker's earnings record, their benefits will be reduced if the retired worker exceeds the earnings limitations (even if the dependents, as to their own earnings, have themselves stayed within the earnings limits). In making such deductions, all the family's benefits are added together, and the reductions are made in the total family benefit as described previously. If a dependent (including the eligible dependents of a disability beneficiary) exceeds the earnings limitations, his benefit will be reduced, but the benefits of the other members of the family will not be affected. As shown in TABLE IV-1, if the husband and wife went over the earnings limit, both his and his wife's benefit would be affected.

#### B. Earnings to Which The Retirement Test is Applicable.

In determining for beneficiaries in the U.S. whether or not the earnings limitations have been exceeded, only "wages" and "net earnings from self-employment" are considered whether or not such wages or earnings are derived from employment covered by the Social Security Act. Income which is neither wages nor net earnings from self-employment is not counted. Thus, persons may receive any amount of income from investments (such as interest, dividends, and rentals from real estate), and any amount of income from pensions or annuities without having any reductions in OASDI benefits.

The reason why only "earned income" is counted in applying the test is generally related to the purpose of the program as providing an income in lieu of wages or self-employment income. Thus, the 1971 report of the Advisory Council explains that the Council considered but rejected including nonwork income in determining an individual's entitlement to benefits. The rationale for rejection was as follows:

The Council considered the issue of whether non-work income, such as income from investments, rents, pension, dividends, interest, and the like should be counted in determining income for retirement-test purposes. If the retirement test took account of income other than earnings from work, it would no longer be a retirement test but an income test. If it became an income test, the fundamental idea that social security benefits are intended as partial replacement of earnings from work would be diluted or lost. Income from savings, investments, and pension plans is not a base for

measuring the loss that the program insures against.

"Perhaps even more important, changing the retirement test would discourage individual thrift. Social security benefits would no longer be a base on which the individual could build through savings, investments, private insurance, and employer pension payments. In effect, retired workers would be penalized, through withholding of their contributory social benefits, for having tried to improve their situation.

"Another major result would be the undermining of the partnership between social security and private pension plans. Over 225,000 qualified corporate retirement plans (including profit-sharing plans), and a much larger number of other plans established by employers and individuals, are designed with the assurance that social security benefits would be paid without regard to the retirement income provided under the plans. If this assurance were removed and private pension payments or increases in these payments would result in reduction of social security benefits, employers would have little incentive to establish or continue pension plans or to increase pension payments.<sup>62</sup>

#### C. Arguments For and Against the Retirement Test

Proponents of the retirement test point out that the Social Security (OASDI) system has been designed since its inception in 1935 to protect against specific risks: the loss of earnings caused by death, disability or retirement of the head of the family. They argue that a basic principle of the system will be violated if an individual, upon reaching retirement age, is able to draw his full benefits even though he is substantially employed. In their view, the program is designed to provide social insurance against loss of earnings rather than to provide annuities at a fixed age, as in private insurance.

<sup>62</sup> 1971 Advisory Council Report, supra note 60, at pp 24-25.

Those who defend the test also point out that the great majority of older people who are eligible for benefits would not be helped by the elimination of the test either because they cannot work, earn less than \$2,400 a year, or are age 72 and over. Its repeal would pay a premium to people who are fortunate enough to be able to keep on working after retirement age, as opposed to those who are forced to retire because of health or other compelling reasons. In their opinion, it would be more advisable to use the limited money available to the system to pay as adequate benefits as possible to those people who are really retired rather than "to spread the money thin" by giving benefits to all individuals who have attained the minimum age of retirement under the law. Other spokesmen, including the representatives of organized labor, believe that automatic payment of benefits without an earnings test might depress wage levels. Social Security beneficiaries might be willing to work at less than the usual scale, if they also were in receipt of their benefits.

The proponents of the retirement test further state that the repeal of this provision, without reduction of other benefits, would add a substantial cost element to the program. In this regard, it has been estimated that elimination of the retirement test would increase the cost of the system by about \$4 billion in the first year. If the system is to be kept on an actuarially sound basis, an additional 1/4% in both the employees' and employers' taxes would be required in all future years, if the

test were eliminated.

Those who would eliminate the retirement test believe that Social Security benefits should be paid as a matter of right at the minimum retirement age. This, they argue, is consistent with the "insurance" concept of the system: benefits are related to the wages of the employee contributor and should be payable without an earnings test.

Those advocating the repeal of the test insist that the reasons which motivated its institution in 1935 are not valid today. They state that the policy of discouraging older workers from working past an arbitrary retirement age originated during the depression when it was necessary to increase job opportunities for younger workers. Today's high-employment economy does not need such restrictive measures. The retention of the retirement test, in their view, will keep many older persons from working, with a resultant loss to the country of valuable skills and productivity. They cite the fact that the age at which the retirement test no longer applies has been gradually lowered by Congress to age 72, thus illustrating the fact that, as economic conditions have changed, the retirement test has become less necessary. Moreover, the Federal Government, gerontologists, and others concerned with the health of the elderly, encourage the hiring and retention of older workers in all aspects of the economy. Indeed, as is pointed out in Subpart D hereof, economic necessity may require the retention of older workers in the labor force in the future.

Those against the retirement test maintain that the provision causes hardship for those individuals who must work to supplement their benefits. This is obvious, they point out, when one considers that the maximum amount payable to a man who retires at age 65 in 1973 is less than \$3,200 a year, that the minimum is only a little over \$1,000 a year, and that the average retirement benefit at the present time is less than \$2,000 a year. Thus, the retirement test causes inequities in a great number of individual cases where the individual has need for more income than Social Security benefits can provide. Furthermore, in practice, the test is complicated and difficult for the ordinary person to understand.

#### D. Legislative History of the Retirement Test

The retirement test has been the subject of considerable debate and legislation. Although Congress has always provided a retirement test in the Social Security program, it has modified the definition of retirement a number of times. Originally, the law prohibited a person from drawing a benefit for any month in which he had wages from "regular employment." The term "regular employment," however, was not defined. This test was never applied because the law was amended in 1939, and the first monthly social security benefits were not paid until January 1940. Under the 1939 amendments, a test was instituted under which a month's benefit was withheld for any month in which a beneficiary earned

more than \$14.99 in covered employment. The Social Security Amendments of 1950 raised the earnings limitation from \$14.99 to \$50.00 a month; and the amendments of 1952 further increased it to \$75.00 a month. The amendments of 1950 also eliminated the earnings test for beneficiaries aged 75 and over.

The 1954 Amendments lowered the age at which earnings were exempt from the test from 75 to 72. They also changed the earnings limitation from a simple monthly test to one that measured both monthly and yearly earnings. Under this test, one month's benefit was withheld for each \$80, or fraction thereof, that a beneficiary's earnings (from both covered and non-covered employment) exceeded \$1,200 a year. However, no benefit was withheld for any month in which the beneficiary both received wages of \$80.00 or less and did not participate in substantial self-employment. Thus, if a beneficiary earned \$1,200.01, he would lose one benefit check. If he earned \$2,280.01, he would lose two benefit checks (disregarding the monthly measure) and so on until all twelve checks were lost in a year in which a beneficiary earned more than \$2,080. The Social Security Amendments of 1958 increased the monthly measure -- the amount that could be earned in a month and still receive a benefit -- from \$80.00 to \$100.00

The 1960 Amendments changed the retirement test by eliminating the provision that a month's benefit be lost for each \$100.00 earned in excess of \$1,200.00 and substituted a provision that a beneficiary would lose \$1.00 in benefits for every \$2.00 of earnings.

The Social Security Amendments of 1972, effective January 1973, (a) increased the annual exempt amount from \$1,680.00 to \$2,100.00; (b) eliminated the \$1-for-\$1 reduction so that regardless of how much an individual earns, each \$2 earned in excess of \$2,100.00 a year will cause only a \$1 reduction in benefits; (c) permits payment of full benefits to a beneficiary, regardless of the amount of his annual earnings, for any month in which he does not earn wages of more than \$175.00, rather than \$140.00; (d) provides that in the year in which an individual attains age 72, earnings in and after the month in which he reaches age 72 will not be included (as under prior law), in determining his total earnings for that year; and (e) starting in 1975, the amount of exempt earnings will be automatically increased in proportion to the rise in the average earnings taxed for social security purposes each time there is an automatic cost-of-living increase in benefits.

The amendments to the Social Security Act which were appended to the bill to extend the Renegotiation Act, H.R. 7445, included a further liberalization in the retirement test. The amount of earnings permitted without penalty was increased by \$300.00 to \$2,400.00 per year.

#### E. Further Legislative Proposals

In every Congress, bills are introduced to repeal the retirement test. Such legislation would cost .48% of payroll on an average-cost basis (i.e., this is the amount by which the total

above \$1,200.00 and below \$1,500.00 and \$1.00 in benefits for every \$1.00 of earnings over \$1,500.00. This legislation eliminated from the retirement test the possibility, which existed in previous law, that a beneficiary might lose more in benefits than he realized in earned income over the \$1,200.00 limit.

The retirement test was changed by the 1961 Social Security Amendments by increasing from \$300.00 to \$500.00 the amount of earnings over \$1,200.00 that are subject to reduction at the rate of \$1.00 of benefits for every \$2.00 of earnings.

The 1965 Social Security Amendments (a) increased the annual exempt amount from \$1,200.00 to \$1,500.00; (b) increased the upper limit of the \$1-for-\$2 "band" from \$1,700.00 to \$2,700.00, so that \$1 in benefits is withheld for each \$2 of earnings between \$1,500.00 and \$2,700.00, with \$1-for-\$1 reductions above \$2,700.00; and (c) permitted payment of full benefits to a beneficiary, regardless of the amount of his annual earnings, for any month in which he did not earn wages of more than \$125.00, rather than \$100.00.

The 1967 Social Security Amendments (a) increased the annual exempt amount from \$1,500.00 to \$1,680.00; (b) increased the upper limit of the \$1-for-\$2 "band" from \$2,700.00 to \$2,880.00 so that \$1 in benefits is withheld for each \$2 of earnings between \$1,680.00 and \$2,880.00 with \$1-for-\$1 reduction above \$2,880.00; and, (c) permits payment of full benefits to a beneficiary, regardless of the amount of his annual earnings, for any month in which he does not earn wages of more than \$140.00, rather than \$125.00.

contribution rate would have to be increased on the basis of full long-term costs. In the early years, the cost would be about \$4 billion a year.)

As evidenced by the latest amendment of the retirement test, gradual modification or liberalization of the test rather than complete elimination appears within the realm of legislative possibility. Certainly, there is ample room for modification.

The present retirement test contains four elements:

1. the annual exempt amount,
2. the reduction mechanism,
3. the monthly measure of retirement,
4. exempt age (72 and over).

Within this basic framework, any or all of these elements may be modified so as to liberalize the effect of the test.

The following examples are illustrative of some of the many alternatives within this framework, together with their estimated level-cost on a long-range basis, both as a per cent of taxable payroll and in dollars annually.

1. Increase the Annual Exempt Amount

Provide an annual exempt amount of:

- (a) \$3,000 -- \$1 of benefits withheld for each \$2 of earnings above \$3,000.

Cost: .15% of taxable payroll; \$930 million annually.

- (b) \$3,600 -- \$1 of benefits withheld for each \$2 of earnings above \$3,600.

Cost: .23% of taxable payroll; \$1.4 billion annually.

- (c) \$4,800 -- \$1 of benefits withheld for each \$2 of earnings above \$4,800.

Cost: .34% of taxable payroll; \$2.1 billion annually.

- (d) \$6,000 -- \$1 of benefits withheld for each \$2 of earnings above \$6,000.

Cost: .41% of taxable payroll; \$2.5 billion annually.

2. Lowering Age at Which Retirement Test Will Not Apply

The original test had no termination date based upon age.

In 1950, the age at which the retirement test would not apply was established at age 75, and then lowered to age 72 in 1954. The following are three possible alternatives:

At age 70 -- cost .07% of taxable payroll; \$432 million annually.

At age 68 -- cost .17% of taxable payroll; \$1 billion annually.

At age 65 -- cost .43% of taxable payroll; \$2.7 billion annually.

3. Apply the Test on a Graduated Basis so as to Assure Each Individual a Specific Income before any Reduction

Provide an annual exempt amount equal to:

- (a) \$3,000 minus the annual benefits to which the individual is entitled with a \$1-for-\$2 reduction above the exempt amount.

Cost: negligible.

- (b) \$5,000 minus the annual benefits to which the individual is entitled with a \$1-for-\$2 reduction above the exempt amount.

Cost: .15% of taxable payroll; \$930 million annually.

- (c) \$6,000 minus the annual benefits to which the individual is entitled with a \$1-for-\$2 reduction above the exempt amount.

Cost: .27% of taxable payroll; \$1.7 billion annually.

- (d) \$9,000 minus the annual benefits to which the individual is entitled with a \$1-for-\$2 reduction above the exempt amount.

Cost: .43% of taxable payroll; \$2.7 billion annually.

Under proposals such as these, the provisions of present law would continue to apply in individual cases when a higher exempt amount would result.

#### 4. Apply the Test to All Income

Provide that in determining an individual's income, all income, except social security benefits, veteran's benefits, and need-related payments would be counted:

- (a) \$2,400 annual exempt amount with a \$1-for-\$2 reduction for income above \$2,400.

Cost: .03% of taxable payroll; \$19 million annually.

- (b) \$3,000 annual exempt amount with a \$1-for-\$2 reduction for income above \$3,000.

Cost: .14% of taxable payroll; \$864 million annually.

- (c) \$3,600 annual exempt amount with \$1-for-\$2 reduction for income above \$3,600.

Cost: .21% of taxable payroll; \$1.3 billion annually.

- (d) \$4,800 annual exempt amount with a \$1-for-\$2 reduction for income above \$4,800.

Cost: .31% of taxable payroll; \$1.9 billion annually.

- (e) \$6,000 annual exempt amount with a \$1-for-\$2 reduction for income above \$6,000.

Cost: .37% of taxable payroll; \$2.3 billion annually.

- (f) \$10,000 annual exempt amount with a \$1-for-\$2 reduction for income above \$10,000.

Cost: .41% of taxable payroll; \$2.6 billion annually.

F. NRTA-AARP Position with Respect to the Retirement Test

The legislative position of our organizations with respect to the retirement test was expressed by our Legislative Council as follows:

We urge that the Social Security Act be amended to permit annual earned income of at least \$3,600 without any reduction in benefits.

Within the limitation of our legislative position, our organizations are prepared to support S. 632,<sup>63</sup> a bill introduced by Senator Church to increase to \$3,000 the earnings which may be received without penalty per year.

In support of the position of our Associations, we would like to call the attention of the Committee to an analysis prepared for use at this hearing and appended to this prepared statement. This report concludes that an increase in the retirement test to \$3,600 per annum would probably result in slightly increased labor force participation by the aged but would certainly <sup>63</sup> S. 632, 92d Congress, 1st Sess., (1973).

have a greater impact in this respect than did the less substantial liberalizations which occurred under the Social Service amendments in 1960, 1965, and 1967. The proposal would result in average increased earnings for older working OASDI beneficiaries of \$375 and an increase in the mean income for this group of approximately 5%. The earnings group which would stand to benefit the most in terms of increased OASDI benefits would be those with earnings of about \$3,600. The total increase in benefits accruing to workers 65 and over would be approximately \$1.2 billion. This coupled with average increased earnings of \$375 on a total of \$1.2 billion ( $\$375 \times 3.2$  million workers) would yield additional income in the order of \$2.4 billion to the working beneficiary group.

The benefits that would be paid out to older workers who are OASDI beneficiaries would be the major cost consequence of the proposal. However, the cost of increased benefits paid out may not be a matter of simply looking at dollar figures. The question one must ask is what are the implications of giving more benefits to the employed segment of the 65 and over group. If the SSA has a budget constraint, then increased benefits to this group may imply lower overall benefits, than would otherwise be the case, to the remainder of the 65 and over age group. In other words, what may well occur is a redistribution of Social Security benefits away from the unemployed segment of the 65 and over age group in favor of the employed segment. This would be a desirable outcome if the economic status of the latter group is lower than that of the former. Although the income data alone would indicate that.

this is not the case, it may well be that the net worth of the employed older population tends to be less than that of the unemployed group. Unfortunately, the data with respect to the financial resources available to the aged for purposes of supplementing their incomes is crude and inconclusive. Precise data with respect to net worth could well establish the equity for increasing the retirement test to \$3,600. The very fact that those who would benefit from a further liberalization of the retirement test are employed persons seems to imply that their net worth is insufficient in most individual cases to supplement social security benefits and that earnings from employment are needed.

We recognize that the retirement test is not merely an economic or philosophical issue; it is also a highly emotional one as was demonstrated at the 1971 White House Conference on Aging. Moreover, we must keep in mind that though a minority of the aged would actually be affected by a further liberalization to \$3,600 -- this "minority might be as many as 1.5 million.

We must also keep in mind that the American retiree continues to feel abused and to complain that he should be deprived of his pension because he engages in paid employment, particularly in face of the fact that his neighbor doing no work and living well on income from stocks and bonds receives a full pension. To the older American, this is discrimination in favor of the well-to-do and reward for idle living. He feels this more acutely because

it is a disincentive to paid work on which his lifelong status has rested. It is a violation of the work ethic in penalizing productive work for which one is paid. No amount of logical argument is likely to dissipate this feeling.

The fact is that our present law is a compromise which reflects both the theory that Social Security is insurance against loss of earnings requiring a deduction from benefits when earnings occur on the one hand and our instinctive feeling on the other that we should encourage and not discourage the desire to work and be productive. Thus, we do permit some earnings without penalty or, to put it conversely, we do not penalize for all earnings. Furthermore, we do concede that at 72, we should provide no penalty for any earnings but should encourage as much self-support as possible.

The truth is that our unwillingness to go the whole way in recognizing that Social Security benefits are in fact a pension in the nature of an annuity and not subject to deduction for earnings is due to two factors -- cost and the desire of many groups to remove the oldest part of the work force to make way for younger workers. The latter reason goes back to the depression days of the 1930's when Social Security was enacted in part to enable older workers to get out of the labor market. In our view, this is still a motivating force in arguments for retention of the retirement test.

The argument for further liberalization of the test receives support from the need to encourage rather than discourage people from doing their best to support themselves by their own effort.

V. A. Bipartisan Social Security Board

The elderly have a special interest in the quality and economic and social soundness of the OASDHI system and in the integrity and objectivity of its administration. The system has grown rapidly and the dependence that millions of the elderly have placed upon it for their financial security and health protection has increased proportionately. The Associations believe that the time has arrived to take steps to assure the continuity of the type of supervision, direction and development of the system which the country has enjoyed in the past. We think that one important step in the furtherance of this objective would be to return to the three-member-bi-partisan board type of administration which, in our judgment, contributed so importantly to the success of our program in the United States and to the confidence which the public has in its administration.

The scope and technical character of our testimony is only one evidence of the diversity and of the social economic significance of the programs which make up the American social security system. Social Security legislation has been expanded and improved in the risks covered, in its coverage and the protection provided many times since its original enactment in 1935. Even since 1946 when the present Social Security Administration succeeded the bipartisan Social Security Board the scope of responsibilities has been extended to include social insurance protection against the costs of hospitalization and medical care for the elderly as well

as for the newly federalized public assistance program of Supplementary Security Income.

These programs when added to the earlier ones which provided social insurance income protection for the aged, for the survivors of workers who die and for the permanently disabled, present as formidable and as challenging a responsibility as exists in government.

These programs touch, very personally and intimately, the lives of practically every individual in the United States. They contribute in direct and important ways currently to the security, well-being and happiness of many millions of people of all ages and to the elderly in particular.

In view of considerations such as these and in the interest of providing the type of organization which could best assure integrity, competence and impartiality in the administration and development of the original Social Security Act of 1935, the Congress and the President agreed upon the three-member bi-partisan Board as the most likely organizational device for accomplishing these objectives. Moreover, as a further protection against undo political intervention and to foster a career service for competent personnel, ass staff were required to qualify under Civil Service.

From the enactment of the original social security legislation in August 1935 until 1939 the Social Security

Board functioned as an independent agency reporting directly to the President. In 1942 the Board together with the Public Health Service and the Office of Education (Reorganization Plan No. 1 of 1939) were placed within the Administrative jurisdiction of the Federal Security Agency. The Board, however, on essentially policy matters, was directed by the President to report directly to him. In 1946 the Board was abolished (Reorganization Plan 2 of 1946) and was succeeded by a single-headed "Administration" without change in function except that the Childrens Bureau was transferred to it from the Department of Labor. There was no break in the continuity of policy or direction since Arthur J. Altmeyer, the Chairman of the abolished Board became the Commissioner of the Social Security Administration.

To complete the sequence of organizational changes the Social Security Administration in 1962 was divested of its responsibility for the Federal-State program of public assistance but carried on with what was formerly the Bureau of Old Age and Survivors Insurance to which hospitalization and medicare has been added.

Convincing evidence of the success of the Board in the development of sound policy, in the creation of an efficient organizational structure, in the recruitment of an extraordinarily capable, well-trained and dedicated staff and in establishing a reputation for integrity and competence, is so generally accepted that success is no longer debatable.

There is little question but that these early beginnings laid the general ground work for the reputation which the Social Security Administration still enjoys.

It should be added that the circumstances which resulted in the abolition of the Board-type of administration, according to those on the scene at the time, had nothing whatever to do with the internal operations, policy, or management of the Board. Rather the change was the result of an attempt to rationalize the organization of government as a whole and to reduce the number of agencies reporting to the President.

This is not the occasion to go into detail regarding a Board and its functioning other than to stress the desirability of capitalizing on the successful experience of the past. We recommend a three member bi-partisan Board, two of the three being of the majority party, and all to be named by the President with the advice and consent of the Senate. The President would select the Chairman and all members would serve at his pleasure. The Board would be concerned primarily with policy formulation but would operate through an Executive Director. The Executive Director would have to qualify under Civil Service rules but would serve at the pleasure of the Board.

The Associations are aware of other and broader organizational questions incident to the formulation of a Board such as, whether it would become an "independent" agency reporting directly to the President or would take its place as a constituent

of an existing executive department.

The social security field is certainly large, important, and distinctive enough to justify separate organizational status. Even more so would this be true if other, closely related income maintenance programs, such as unemployment compensation and railroad retirement be added to it. However, we believe that a Board could operate effectively within a larger organization if necessary just as it did within the Federal Security Agency and as some other boards and commissions do at the present time. In this case it would be well to spell out, in the law, the full scope of the Board's authority.

The Board should be constituted as to enable it to provide continuity of policy and operations, to protect it against purely partisan political intervention and to make it promptly responsive to the interests of its constituency. Being bi-partisan and thus largely non-partisan the Board's objectivity might be less a matter of concern to some members of Congress than is the case with a single appointive Commissioner.

The Associations are aware of the importance of this recommendation and realize that it will need considerable study. We will be happy to render any assistance in this respect that we can.

## SUPPLEMENTAL SECURITY INCOME

Another area which we would like to discuss is the newly established Supplemental Security Income program. Our Associations actively supported and promoted the passage of this important new program and considered its enactment to be strong positive evidence of a continuing federal commitment to eliminate poverty among our elderly population. We feel that enactment of the Supplemental Security Income program illustrates a general agreement in this country as to the desirability of a three-level approach to income security for aged, blind and disabled persons. The first level consists of savings, private retirement systems and other benefit programs stemming from a lifetime of employment. The second level of protection is Social Security -- a universal system of publicly-administered retirement, survivors, disability and health insurance protection, contributory in nature and wage-related. The new Supplemental Security Income program will provide a third level of protection in the form of assistance for those who, taking all income into account, still do not have an income sufficient to meet their minimum needs.

We applaud the use of general revenues to accomplish what is basically a program of income redistribution and enthusiastically support the establishment of federal eligibility standards which will eliminate inequities resulting from variations in eligibility standards from state to state. We feel that the elimination of property lien and relative responsibility provisions and the exclusion of the an individual's home, car, personal effects and household goods and furnishings in determining the value of resources will support and enhance the personal dignity of those who receive Supplemental Security

Income payments. We further applaud the incentive to continued employment built into the SSI program.

Our Associations recognize that the Supplemental Security Income program has not yet been placed in operation and should probably be allowed to function for a reasonable period of time before any major alterations are made in its structure. Bearing this in mind, NRTA and AARP would like to suggest a few directions for change which this Committee may want to consider for the future.

First, it is our feeling that the income floor guaranteed by the Supplemental Security Income program should be pegged at or above the poverty level. The so-called "poverty threshold" developed by the Social Security Administration Office of Research and Statistics was set in 1972 at an annual income of \$2005 for an individual over age 65 not living on a farm and \$2530 for non-farm couple over age 65. The annual income floor provided by the Supplemental Security Income program beginning in January 1974 will be \$1560 for an individual and \$2340 for a couple. Although these amounts will rise to \$1680 for an individual and \$2520 for a couple in July 1974, the cost of living has already increased significantly since 1972 and can be expected to increase still further, so that these higher amounts will continue to fall far below the government-designated "poverty threshold."

We feel that it is not too much to ask that elderly, blind and disabled persons be guaranteed an income sufficient to lift them from poverty. SSI benefits should provide an income at least equal to the "poverty threshold," and the limited Social Security benefits and earnings which recipients are permitted to retain should be used to raise them to an income above this level.

Once the income floor guaranteed by the SSI program has been raised to a point at or above the poverty level, an automatic escalator mechanism should be put into effect, geared to increases in the Consumer Price Index. This would prevent the program from losing ground as the cost of living rises.

In addition our Associations feel that the Supplemental Security Income program should take better account of regional variations in the cost of living. We recognize that these regional variations create a complex problem and that the issue was discussed at length during the period of consideration preceeding the enactment of the SSI program. However, NRTA and AARP feel that the Special Committee on Aging might profitably devote further attention to this question.

At the present time there are no adequate statistics available to express regional variations in the poverty threshold. The figures developed by the Social Security Administration Office of Research and Statistics express only variations between farm and non-farm living costs and not variations from one state or region to another. However, we feel that it would be both possible and useful to develop these figures in some detail. The Bureau of Labor Statistics publishes an annual study entitled Three Budgets for a Retired Couple in Urban Areas of the United States which provides information on differences in living costs in communities across the nation at low, moderate and high budget levels. These budgets are expressed in terms of the amount of money necessary to maintain a given standard of living (broken down into expenditures for food, clothing, shelter, transportation, medical care, etc.) in selected urban areas.

In spring of 1970 the annual cost of the lower budget for a retired couple, (defined as "low" rather than a "subsistence" standard of living) varied from \$3558 in Hartford, Connecticut, to \$2797 in Baton Rouge, Louisiana, and \$4457 in Anchorage, Alaska. It appears reasonable to expect that these cost-of-living variations would be reflected, at least to some extent, in a subsistence budget as well.

Our Associations urge that the Special Committee on Aging undertake a study to determine whether or not state supplementation can adequately accommodate regional variations in the cost of living. If state supplementation proves to be insufficient in making this accommodation, the basic federal payment might be adjusted to reflect cost-of-living variations. In addition, states might be permitted to differentiate in state supplemental payments between the needs of persons living in urban and in rural areas.

With regard to the question of state supplementation, our Associations feel that states will find it politically unfeasible either to discontinue supplementation after 1974 or to deny supplementation to persons entering the rolls after December 1973. However, this is clearly a matter which the Congress should monitor closely. Without state supplemental payments, the federal SSI payment will be clearly insufficient in many areas of the country.

With regard to the food stamp and commodity distribution programs for recipients of Supplemental Security Income, our Associations feel that these programs are no substitute for an adequate income. However, until such time as the income floor guaranteed by the SSI program attains a level at or above the poverty level, our Associations feel that eligibility for the food stamp and commodity distribution programs

must be continued for SSI recipients. The Department of Agriculture has estimated that an individual with a monthly income of \$183 or less and a couple with a monthly income of \$240 or less will need food stamps in order to maintain an adequate level of nutrition. Until such time as the income floor guaranteed by the SSI program reaches at least these minimum levels, food stamps should be provided. We are deeply concerned by the recent actions of the House of Representatives in voting to deny eligibility for food stamps to elderly, blind and disabled persons. We cannot believe that the individuals who voted in this manner can have realized the full implications of their action.

Our Associations feel that the Supplemental Security Income program will have an important impact on the Social Security system because it will free Social Security to concentrate on a single goal -- that of providing income to replace earnings lost as a result of the retirement, disability or death of a family's wage-earner. It will no longer be burdened with the responsibility for providing a minimum level of income without regard to previous contributions to the system.

With the inauguration of the SSI program it may prove desirable to eliminate the concept of a "minimum benefit" under Social Security. The minimum benefit, now \$84.50 per month, was originally instituted on humanitarian grounds to provide a minimum level of income to individuals without any other source of income. The Supplemental Security Income program now provides an alternative means of guaranteeing this income level. Furthermore, many of the persons now receiving minimum benefit are eligible to do so because they worked largely under

another retirement system, such as the Civil Service system, and only marginally under the Social Security system. The individual's level of income is not taken into account in determining his eligibility for the minimum benefit.

Although our Associations feel that the minimum benefit is no longer essential, we continue to support the concept of the "special minimum benefit" for individuals who worked long years under the Social Security system but received low wages. We feel that the long term of employment should be given more weight in these cases than the level of contribution made by the worker.

## PRIVATE PENSIONS

I. Introductory Remarks

Despite the considerable progress made in recent years with respect to social security and other components of retirement income, the degradation of inadequate income persists as a frequent incident to the process of aging. Excluded from the labor force, the older person finds himself also excluded from participation in the standard of living made possible by the increased economic productivity to which he contributed his labor during his working years.

To ameliorate the impact of age on individual income, new sources must be utilized to supplement the basic, but inadequate retirement benefits provided by the public benefit systems. The need for such new sources is increasing. With a net increase of 3.5 million persons, age 65 and over, between the 1960 and 1970 censuses, one out of every ten persons in this country today is an older American.<sup>1</sup> Moreover, the 1970 level of 20 million older persons is expected to increase to 25 million by 1985, and to 28 million by the year 2000.<sup>2</sup> To accommodate the projected income needs of this increasingly substantial, yet least visible minority population, attention should be focused on encouraging personal savings for retirement and on utilizing more effectively the system of employee pension benefit plans.

Unfortunately, the performance of this country's system of employee pension benefit plans has been demonstrably inadequate. With intolerable frequency, the existing system has failed to provide expected benefits to retirees.

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1. H. Brotman, FACTS AND FIGURES ON OLDER AMERICANS: THE OLDER POPULATION REVISITED, H.E.W. (Social and Rehabilitation Service and Administration on Aging) Pub. No. 182, P. 1, (1971).
  2. H. Brotman, THE OLDER POPULATION: SOME FACTS WE SHOULD KNOW, H.E.W. (S.R.S. and AOA) Pub. No. 20005, p. 1, (1972).

Our Associations are convinced that if this system is ever to contribute effectively to the amelioration of the problem of insufficient income among our older citizens, it must become a reasonably reliable source of supplemental retirement income. We further believe that such reasonable reliability can only be predicated upon the enactment of comprehensive, Federal regulatory legislation that mandates minimum performance standards to which each employee pension benefit plan must conform. Only legislation that contains minimum standards with respect to vesting, funding, portability, termination insurance, disclosure and fiduciary responsibilities will be sufficiently comprehensive to achieve an acceptable degree of reliability and to assure thereby a performance by employee pension benefit plans commensurate with promise.

We are convinced that the abuses and inadequacies inherent in the present system cannot be corrected through the pursuit of a piecemeal, haphazard legislative approach. This, we believe, was the major deficiency of H.R. 12272<sup>3</sup> and its companion S.3012<sup>4</sup> which were introduced on behalf of the Administration during the 92nd Congress. Enacted standards which result in the expansion of employee coverage under employee pension benefit plans and the liberalization of vesting requirements under such plans will maximize the probability of private pension receipt by future retirees only if such standards are reinforced by an adequate funding standard and termination insurance program. As we said last June, in our pension reform testimony

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3. H. R. 12272, 92d Cong., 1st Sess. (1971).

4. S.3012, 92d Cong., 1st Sess. (1971).

before the Subcommittee on Labor of the Senate Committee on Labor and Public Welfare:

"Any legislation enacted by the Congress that includes standards for coverage and vesting but fails to include requirements for funding and insurance will be a legislative gesture designed more to assuage worker discontent than to provide retirement benefits."<sup>5</sup>

## II. The Justification for Pension Reform Legislation

### A. The System's Inadequate Protection of the Worker.

The inadequate performance of the existing system of employee pension benefit plans has been extensively documented in the Preliminary Report<sup>6</sup> and Statistical Analysis<sup>7</sup> of private plans undertaken by the Subcommittee on Labor of the Senate Committee on Labor and Public Welfare pursuant to Senate resolutions in both the 91st<sup>8</sup> and 92nd<sup>9</sup> Congresses.

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5. Hearings on S. 3598 before the Subcommittee on Labor of the Senate Committee on Labor and Public Welfare, 92d Cong., 2d Sess., Pt. 1, at 158 (1972) (hereinafter referred to as Hearings on S.3598).
  6. Subcomm. on Labor of the Senate Committee on Labor and Pub. Welfare, 92d Cong., 1st Sess., Preliminary Report of the Private Welfare and Pension Plan Study (Comm. Print 1971) (hereinafter referred to as Preliminary Report).
  7. Subcomm. on Labor of the Senate Committee on Labor and Pub. Welfare, 92d Cong., 2d Sess., Statistical Analysis of Major Characteristics of Private Pension Plans (Comm. Print 1972) (hereinafter referred to as Statistical Analysis).
  8. S. Res. 360, 91st Cong., 2d Sess. (1970).
  9. S. Res. 35, 92d Cong., 1st Sess. (1971); S. Res. 235, 92d Cong., 2d Sess. (1972).

The Preliminary Report disclosed that:

"Out of a sample covering a total of 6.9 million [pension plan] participants since 1950, [only] 253,118 or 4 percent have received any kind of normal, early deferred vested retirement benefit..." "For every two employees who received a benefit, one employee with more than 15 years of service forfeited. For every one employee who received a benefit, one employee with more than 10 years of service. . . , nearly three employees with more than 5 years of service. . . , [and] 16 employees with five years service or less forfeited."<sup>10</sup>

It is apparent to us that the present system has failed to provide a reasonable degree of pension security for the present generation of retirees.

More ominous, however, are the findings contained in the Statistical Analysis. About 13% of the plans studied therein did not provide for any vesting of benefits.<sup>11</sup> Eight percent of plans having vesting provisions expressed as a combination of age and service required, at least age 50 and 20 years of service for a vested right.<sup>12</sup> Of the plans which contained only a service requirement for vesting, over one-fourth required more than 15 years of service to qualify.<sup>13</sup> Moreover, although a majority of the plans studied were found to be well funded, a significant minority were found to be substantially underfunded.<sup>14</sup> Findings such as these lead us to believe that the past and current inadequacy in the performance of the existing system of employee pension benefit plans is likely to continue as increasing numbers of workers enter upon their retirement years, unless remedial legislation is enacted.

Although our Associations concur in the findings of the Senate Labor Subcommittee, our concurrence is motivated, at least in part, by the empirical evidence we have received over the years through correspondence

10. Preliminary Report, supra note 6, at 5.

11. Statistical Analysis, supra note 7, at 37.

12. Id.

13. Id.

14. Id. at 38.

from our members, among whom are many whose private pension expectations have been frustrated by the very inadequacies documented in the Statistical Analysis. No amount of data can adequately measure or describe the individual hardships worked upon the helpless victims of the present, insensitive, and often capricious, system. Repeatedly, members have described how the private pension, for which they worked so long and on which they based so much of their expectation for that added degree of income security necessary for a reasonably comfortable retirement life, was lost because of unreasonable vesting schedules, inadequate funding, corporate liquidations or reorganizations, breaches of fiduciary duties and other inadequacies.<sup>15</sup>

In the light of the findings of the Senate Labor Subcommittee's Report and Statistical Analysis and the corroborating, empirical evidence that has come to our attention through our membership correspondence, we are without doubt that Federal regulation is needed. But other factors also motivate our adherence to this position.

#### B. The Extent of the Federal Government's Interest

One of the factors that have contributed to the expansion of and continuing improvement in the system of employee pension benefit plans has been the extensive income tax subsidies offered by the Federal Government, through I.R.C. §§402, 403, and 501, to pension, stock bonus and profit sharing plans which meet the requirements of I.R.C. §401. The Revenue Act of 1921,<sup>16</sup> providing an exemption from current taxation of the income of a trust created

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15. See, e.g., Hearings on S. 4 before the Subcomm. on Labor of the Senate Committee on Labor and Pub. Welfare, 93d Cong., 1st Sess., Prepared Statement of Bernard E. Nash, Executive Director, NRTA-AARP (1973) (hereinafter referred to as Hearings on S.4).
  16. THE REVENUE ACT OF 1921, 42 Stat. 227 (1921).

by an employer as part of a stock bonus or profit sharing plan for the exclusive benefits of employees, marked the advent of a continuous Federal policy of favorable income tax treatment of qualified plans. Today, the Internal Revenue Code extends preferential treatment to employer pension, stock bonus, profit sharing, and bond purchase plans, provided such plans inure to the exclusive benefit of employees and their beneficiaries.<sup>17</sup> Subject to specific limitation, contributions to qualified plans, which constitute the bulk of private plans today, are deductible by the employer,<sup>18</sup> and excludable from the current income of the employee.<sup>19</sup> Until distributed to plan beneficiaries, the accumulated earnings and appreciation of plan assets are exempt from Federal income taxation.<sup>20</sup> Moreover, even employees with nonforfeitable, vested interests under such plans realize no income until distribution is made<sup>21</sup> and then at preferential rates.<sup>22</sup> In 1968, while private pension contributions by employers were aggregating 9.4 billion dollars,<sup>23</sup> and while payments from such plans were aggregating over 5 billion,<sup>24</sup> the loss to the Federal Treasury from this combination of tax concessions was almost 4 billion.<sup>25</sup>

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17. I.R.C. §401 (a) (2).

18. I.R.C. §404.

19. I.R.C. §§402(a), 403(a).

20. I.R.C. §501(a).

21. I.R.C. §§72, 401(a), 403(a).

22. I.R.C. §72(a), (c), (d), (n).

23. "Employee-Benefit Plans in 1968," 33 Social Security Bulletin 43 (Table 5 (April, 1970)).

24. *Id.*

25. Staff of the Treasury Department and the Joint Committee on Internal Revenue Taxation for use by the House Committee on Ways and Means, Estimates of Federal Tax Expenditures 5 (Preliminary Comm. Print, October 4, 1971) (Table 1).

In the light of the statistically documented inadequacies in the performance of employee pension benefit plans, a continuation of the present policy of preferential Federal income tax treatment of qualified plans would only be justified if effective regulatory legislation were enacted. It is absurd to perpetuate a substantial, annual revenue loss by continuing to treat preferentially plans which perform inadequately and ineffectively, the primary ends which that preferential treatment was designed to induce. Since the present performance of employee pension benefit plans is unacceptable, the only reasonable alternative to the enactment of comprehensive Federal regulatory legislation would be the revocation of existing tax concessions with the additional revenue generated thereby used in some other manner to provide retirement benefits.

Since the Federal Government has a substantial economic interest in the system of employee pension benefit plans, it has the right to mandate minimum standards of performance with respect to vesting, funding, portability and plan termination insurance. Since the Federal Government's annual economic investment is incurred for the benefit of the worker, and since <sup>the</sup> worker has not benefitted therefrom as expected, the Federal Government must exercise that right.

C. The Accumulated Reserve Assets of the Employee Pension Benefit Plan System.

To further justify the enactment of Federal legislation designed to regulate more closely the performance of employee pension benefit plans, our Associations, in their presentation before the Subcommittee on Labor of the

Senate Committee on Labor and Public Welfare last June stated:

"[P]rivate plans have accumulated reserve assets of over 130 billion dollars, which amount is expected to increase to 225 billion by 1980. ... [T]he private pension system [has become] a significant source of financial power, the economic impact of which directly or indirectly affects the daily life of each citizen."<sup>26</sup>

These accumulated reserve assets represent a substantial fund of underregulated investment capital. Under present law, contributions, even those made to trusts which qualify under I.R.C. §401(a), may be used by trustees within the limitation of the trust agreement and local law. Indeed, Reg. §1.401-1)b) (5) states:

"No specific limitations are provided in section 401(a) with respect to investments which may be made by the trustees of a [qualifying] trust."

Moreover, in the case of a qualified trust which provides benefits to employees, some or all of whom are "owner-employees" within the meaning of I.R.C. §401(c) (3), although the trustee is required by I.R.C. §401(d) (1) to be a bank, that paragraph specifically provides that a person (including the employer) other than a bank may be granted, under the trust instrument, the power to control the investment of trust assets, either by directing investments or by disapproving proposed investments.

Of course, I.R.C. §503 provides for the forfeiture of the tax-exempt status of an otherwise qualified trust if an investment made by trustees constitutes a transaction prohibited by I.R.C. §503(b). Of greater interest,

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26. Hearings on S.3598, supra note 5, at 164.

however, is I.R.C. §401(f)(1)(C)(i)(ii) which limits the investment of the funds of custodial accounts, which are treated as qualified trusts, to regulated investment company stock or to annuity, endowment or life insurance contracts issued by insurance companies.

Neither the Labor-Management Relations Act<sup>27</sup> nor the Welfare and Pension Plan Disclosure Act<sup>28</sup> has added significantly to the Internal Revenue Code's minimal regulation of the investments of, or performance by, employee pension benefit plans. The Labor-Management Relations Act provides certain guidelines designed to prevent the diversion of employee funds through collusion between labor and management administrators. The Welfare and Pension Plan Disclosure Act, which was amended in 1962 to make theft, embezzlement, bribery and kickbacks Federal crimes if they occur in connection with welfare and pension plans, relies on disclosures of information to the Secretary of Labor and to plan participants as the principal means of policing plan operation and administration.

### III. The Optimum Objective of Pension Reform Legislation

Our Associations are convinced that (1) the past and projected inadequacies in the performance of employee pension benefit plans, (2) the substantial annual Federal tax concessions to such plans and (3) the increasingly significant impact on the economy of the accumulated reserve assets of such plans to justify the enactment of Federal legislation providing minimum standards with respect to eligibility, vesting, funding, portability, plan termination insurance, disclosure and fiduciary duties. Only such comprehensive

27. LABOR-MANAGEMENT RELATIONS ACT, 61 Stat. 136, 157(1947), 29 U.S.C. §186 (1964).

28. WELFARE AND PENSION PLAN DISCLOSURE ACT OF 1958, 72 Stat. 997, 29 U.S.C. §§301-09(1964).

legislation would appear to have the potential to raise the performance of those existing plans, which are found to be deficient, to minimally acceptable levels and to guarantee that plans established subsequent to enactment will also perform acceptably. The enactment of such standards will define the degree of adequacy in pension benefit plan performance that will justify a continuation of the existing tax policy of preferential treatment.

We recognize that reasonable men will differ in their judgments with respect to the effectiveness of alternative formulations of the substantive elements of comprehensive pension reform legislation. We also recognize that reasonable men will differ in their judgments with respect to the effectiveness of alternative formulations of the substantive elements of comprehensive pension reform legislation. We also recognize that the resources available for the funding of pension benefit plans are limited and that these limited resources must be utilized to fund not only the increased obligations which would result from more liberal vesting provisions, but also those which result from the granting of past service credit and higher benefit levels. Obviously, the choice of statutory standards must be made with care and deliberation so as to respond to the precise dimension of the need and so as to minimize any retardation in the improvement of existing plans and any disincentive to the establishment of new ones. This should be the optimum objective of pension reform legislation.

#### IV. The Vehicle(s) for Pension Reform

Our Associations hope that comprehensive pension reform legislation will emerge from the legislative process of the 93rd Congress during its first session. However, even our most vigorous efforts in support of comprehensive pension reform legislation will not bring about enactment in the absence of a substantial commitment by the considerable cooperation between the various committees of the Senate and House having legislative jurisdiction in this area.

The pension reform bills which are before the Labor committees in both the Senate and House would attempt to effect comprehensive reform through a separate statute administered and enforced by the Department of Labor. We recognize, however, that pension reform could also be effected through Internal Revenue Code amendments, administered and enforced by the Internal Revenue Service.

Our Associations believe that the question of whether a separate labor bill or amendments to the Internal Revenue Code is the more appropriate vehicle for effecting pension reform is subordinate to, and follows automatically from, our determination of whether the Labor Department or the Internal Revenue Service is better suited on the basis of experience and function, to administer and enforce the minimum standards of pension reform legislation. We believe that, to the extent possible, administration and enforcement of minimum standards should not be fragmented but should be confined to a single agency.

It has been alleged that the Internal Revenue Service, because of the experience of its Pension Trust Branch in evaluating employee pension benefit plans to determine their qualification for preferential income tax treatment, is better qualified to administer and enforce minimum pension reform standards. We disagree. The primary function of the Internal Revenue Service is the protection of the federal revenues. In determining whether or not an employee pension benefit plan is non-discriminatory and therefore qualified for preferential income tax treatment, the Pension Trust Branch is primarily protecting the federal revenues against unwarranted deductions, exclusions and exemptions. The primary function of the Labor Department under the Welfare and Pension Plan Disclosure Act is the protection of the interest of participants in and beneficiaries of employee welfare and pension benefit plans.<sup>29</sup> We believe it to be easier to broaden the supervision of the Labor Department over private pension plans than to revise the purpose of the Internal Revenue Service in its function with respect to private plans.

We acknowledge the concern which has been expressed over the possible conflict and overlap of functions which could occur between the Internal Revenue Service and the Department of Labor if the latter agency were given the responsibility to administer and enforce minimum performance standards. The Associations believe the enactment of a comprehensive pension reform bill, produced by a labor bill, would constitute neither conflict nor duplication. The Labor Department and the Internal Revenue Service are presently performing supervisory functions over private pension plans. There is little or no

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<sup>29</sup> U.S.C. § 301 (1964).

conflict under the present scheme because the responsibilities delegated to these agencies under the various statutes differ in purpose.

If S. 4,<sup>30</sup> the Retirement Income Security for Employees Act, were enacted, the Internal Revenue Service, through its Pension Trust Branch, would continue to scrutinize the discriminatory/non-discriminatory nature of plans as condition precedent to qualification for preferential income tax treatment. The Labor Department, in accordance with enacted registration and certification procedures of that bill, would scrutinize plans for an entirely different purpose - to determine whether or not a plan conforms to enacted minimum performance standards designed to increase the probability of private receipt by plan participants at retirement.

Our organizations have suggested that any possible overlap or duplication of functions between the Department of Labor and the Internal Revenue Service could be precluded by amending section 401 of the I.R.C. to require certification by the Department of Labor as a condition precedent to qualification for preferential income tax treatment. Since the issuance by the Department of Labor of a registration certificate would be conclusive proof that a particular plan conforms with the enacted, minimum performance standards, the Internal Revenue Service would have no need to make a separate determination with respect to plan conformity.

While the procedure we have suggested would mean that, to some extent, tax consequences would be determined by an agency other than the I.R.S., we do not think such a procedure is without precedent.

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30. S.4, 93d Cong., 1st Sess. (1973).

If, in the alternative, the administration and enforcement of minimum standards were delegated to the Internal Revenue Service, the possibility of conflict and duplication of function seems to us to be more likely. The Welfare and Pension Plan Disclosure Act would remain operative, and under its statutory scheme, pension plan information would continue to be disclosed to the Department of Labor which would continue to discharge its responsibility for the supervision of the management of pension funds. The scheme of most of the major pension reform bills before the Congress would expand the information disclosed to the Labor Department and would expand upon that Department's enforcement responsibilities with respect to fiduciary performance. Expanded Labor Department activity in the private pension area will increase the probability of duplication of function, conflict and confusion.

To our organizations, full and meaningful disclosure is a necessary prerequisite to a realistic determination of not only initial plan compliance with enacted minimum performance standards, but subsequent and continued compliance as well. It seems illogical to require the disclosure of information to one agency, while another is charged with the responsibility for making determinations which can only be made in a realistic manner on the basis of the information disclosed. Requiring that the same information be disclosed to two agencies would place an onerous burden on individual plans and would increase their administrative costs substantially. If compliance with minimum performance standards is to be delegated to the Internal Revenue Service, then all information disclosed pursuant to the Welfare and

Pension Plan Disclosure Act and all amendments thereto, should be disclosed to the I.R. S. Moreover the responsibility for enforcing fiduciary standards should be delegated to that agency as well.

Despite our preference for a labor bill as the appropriate pension reform vehicle, our Associations recognize the issue of the proper pension reform vehicle has come to assume. We would, therefore, willingly abandon our once stated preference in an effort to agree upon some clear division of function with respect to administration and enforcement of pension reform standards between the Department of Labor and the Internal Revenue Service.

V. Comments on the Merits of the Major Senate Pension Reform Bills:

S. 1631, S. 1179 and S.4

A. Eligibility

Between the one year/age thirty eligibility requirement of section 321 of S. 1179, the three year/age thirty requirement of section 2(a) of S. 1631 and the one year/age twenty-five requirement of section 201 of S.4, our organizations prefer the latter. Ideally, we desire immediate eligibility to participate but we recognize the administrative burden which would be caused by short-term employees. We think that the one year/age twenty-five requirement of S.4 would avoid the administrative problem of short-term employee and enable workers to participate at the earliest feasible moment.

## B. Vesting

The position of our Associations with respect to the "rule of 50" vesting standard proposed by section 2(2) (2) of S. 1631 is clear. Before the Subcommittee on Labor of the Senate Committee on Labor and Public Welfare last June we stated:

"... [O]ur Associations must oppose any... standard which provides incentive for age discrimination in employment. While we recognize that the "rule of 50" approach would protect the pension rights of those workers who are approaching retirement, we feel that the protection provided by this approach, standing alone, would be counter-balanced by its tendency to promote discrimination in the hiring of older workers."<sup>31</sup>

We feel that the enactment of the "rule of 50" will promote unemployment among middle age workers.

With respect to the graded vesting approaches of section 322 of S. 1179, and section 202 of S. 4, we prefer the latter. Although we support the initiation of graded vesting after five years of plan participation as proposed in S. 1179, we think twenty years for full vesting is too long. We, therefore, prefer the fifteen year graded vesting schedule of S. 4 and believe that its retrospective application under section 202(a) thereof will provide the older worker adequate protection without the employment discrimination which would probably attend the enactment of a "rule of 50" standard. Moreover, the study of the cost of mandatory vesting provision,<sup>32</sup> prepared for the Senate

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31. Hearing on S. 3598, supra note 5, at 176.

32. S. REP. No. 127, 93d Cong., 1st Sess. 79 (1973).

Subcommittee on Labor, indicates that a fifteen year graded vesting schedule, even with retrospective application, would not be so costly as to render it undesirable.

#### C. Funding and Termination Insurance

All three bills recognize the need for a funding standard to assure, at the end of a twenty to thirty year period, full funding of all accrued liabilities of an employee pension benefit plan. We therefore, express no preference between them. However, we believe that a minimum funding standard should be reinforced by a requirement of plan termination insurance. If the Federal Government can insure the obligations of banks, it can undertake to insure the obligations of pension plans. The lack of any provision for plan termination insurance in S. 1631 is a serious deficiency.

#### D. Portability

Of the three bills under consideration by the Private Pension Plan Subcommittee, only S. 4 contains provisions to create a portability program as a welcomed reinforcement to a minimum vesting schedule.

#### VI. Tax Incentives to Encourage Savings for Retirement

In the view of our Associations, comprehensive pension reform includes within its scope a further element, legislative action which can be taken only by the tax-writing Committees. In our Associations' prepared statement,<sup>33</sup> submitted for the record of the 1972 hearings conducted by the House Committee on Ways and Means on Tax Proposals Affecting Private Pension Plans, we adopted the following position:

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33. Hearings on Tax Proposals Affecting Private Pension Plans before the House Comm. on Ways and Means, 92d Cong., 2d Sess., pt. 2, at 327-34 (1972).

"Since private retirement plans are an essential factor contributing to the retirement security of older persons, it is unreasonable to require a retiree to subsist on Social Security or other public benefit payments merely because he failed to receive coverage under a private plan, or if covered, failed to receive any benefits. The private retirement system should permit both employees and employers to provide for retirement security through a qualified plan. The right to use qualified retirement plans, with their incidental tax advantages, was extended to owner-employees in 1962 by the Self-Employed Individuals Tax Retirement Act; the extension of a similar right to [common law] employees is overdue. Each employee should be permitted to establish his own private retirement plan, irrespective of the wishes of his employer. . . . If properly controlled, such plans would function as a means of providing an additional measure of retirement security for the labor force and would readily accommodate the reality of labor force mobility.

"[Since] [o]ur Associations believe that existing law relating to savings for retirement purposes discriminates substantially against individuals who do not participate in a qualified private retirement plan, or who participate in plans providing only minimal benefits, . . . we support the proposal of section 3 of H.R. 12272 which would allow to individuals, a deduction in computing adjusted gross income for amounts contributed to individual retirement plans which they have established or to private retirement plans established by their employers."<sup>34</sup>

As our statement of last year indicates, we favor an extension of the privileged use of tax-qualified retirement plans to employed persons. We believe that present law constitutes a serious disincentive to saving for retirement and complicates the retirement income problem confronting that substantial portion of the labor force that has little or no opportunity to participate in employee pension benefit plans. We also believe that self-reliance in securing adequate retirement income should be promoted to the extent possible and recognize that the Internal Revenue Code could serve as the vehicle for introducing incentives designed to promote such self-reliance.

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34. Id. at 333-34.

Our Associations' position is not, however, without qualification.

First, we do not wish to appear as advocates of an irresponsible proliferation of tax incentives to accomplish social or related objectives, since the cumulative impact of such incentives may seriously erode the revenue-raising function of the tax structure. Second, we do not desire the creation of a new tax shelter to benefit primarily higher income individuals, since such tax shelters promote inequity in the distribution of the tax burden. Third, since the use of such a savings incentive requires the availability of sufficient disposable income, we find it difficult to ascertain the extent of the beneficial impact of a savings incentive on lower and moderate income groups. Finally, the annual revenue loss from this savings incentive must be considered and balanced against the projected cost benefits to be derived in the future.

With these reservations in mind, our Associations have, nevertheless, determined to adhere to our position in favor of an extension of the use of tax-qualified plans to employed persons. We believe that, on the balance, the advantages to be derived from such a tax incentive would outweigh the disadvantages, especially if its availability were limited to lower and moderate income groups and its mechanics took the form of a credit rather than a deduction in computing adjusted gross income.

In view of the position taken by our Associations with respect to section 3 of H.R. 12272 last year, we extend our qualified support to section 3 of S. 1631, and to section 342 of S. 1179. However, as between the deduction from adjusted gross income proposed by the former and the credit against income tax liability proposed by the latter, we prefer the latter. We believe it to be more equitable.

VII. Supplementary Social Security Program as an Alternative to Tax  
Incentives to Encourage Savings.

In recognition of the fact that 50 percent of the labor force is not presently covered under employee pension benefit plans, would, therefore not benefit from the enactment of minimum standards with which such plans would be required to conform, and may not benefit from the enactment of tax incentives designed to encourage savings for retirement because of a lack of disposable income, our Associations advocate the establishment of a supplementing social security program or a national pension fund corporation. Such a program or corporation would permit voluntary participation in one central pension system by workers who are not able to participate in employer benefit plans or who are able to participate only in plans providing minimal benefit levels. Pension credits accrued under such a program or corporation would be completely portable and less costly to administer. We believe such a program or corporation merits Congressional consideration as a feasible alternative to tax incentives designed to encourage savings for retirement.

## EMPLOYMENT

The problem which most older Americans face today is that available income is not sufficient to enable them to maintain a standard of living comparable to the standard enjoyed by them at the time of retirement. This is true even though social security protection now covers 91% of all our population 65 and over. Private pensions are an important supplement for some of these retirees but many have no private pension, and, even with both private and public pensions, some 40 percent are below or close to poverty level figures. Continued earnings, therefore, are much needed for substantial numbers of older people if living standards are to be maintained as discussed in Subpart I of Part II of this prepared statement.

A staff study of the Subcommittee on Labor of the Senate Labor & Public Welfare Committee released November 7, 1971 disclosed "that the median normal, early, and disability retirement benefits paid by private plans during 1969 and 1970 were less than \$100 a month. This was especially significant since, when coupled with the median monthly Social Security benefit, the total income still fell well below the \$241 monthly minimum which the Bureau of Labor Statistics has determined necessary."

The American Association of Retired Persons and the National Retired Teachers Association have obtained the services of Dr. Harold L. Sheppard of the Upjohn Institute for Employment Research to examine the possible answers to this acute income crisis. What follows draws extensively from the paper prepared by Dr. Sheppard for the National Forum of State Legislators on Older Americans sponsored by the Associations and held in Washington, D. C. December 4-6, 1972.

It may be true that money cannot buy happiness, but for older Americans subsisting at near-poverty income levels, more money could buy most of the necessities always listed among their priority needs--housing, transportation nutrition and health care.

Improving the income posture for America's aging is a challenge confronting every level of economic and social policy making. For millions of older citizens, the income crisis is now acute. Population trends portend an even greater crisis unless more effective policies and programs are developed now. In only ten years, for example, from 1960 to 1970, the "very old" (70 and over) increased in America by 27 percent, while the total population 55 and over increased by only 13 percent. Americans of all ages increased by only 22 percent.

Since the income of older and retired Americans comes from a combination of sources--private pensions and investments, Social Security and other Federal aid programs, and continued employment--a "systems approach" must dominate the development of new programs and policies. Particularly for the very old and very poor, the approach must recognize an inter-generational responsibility in income support. The most recent dramatic example of the kind of crisis that can occur is in the railroad industry of America. Today, 600,000 employed railroad workers--along with their companies (with government subsidies)--are required to finance the retirement income of 900,000 retired railroad workers.

#### I. Income Status of Elderly

To get a clear picture of the income status of America's elderly, one must look at the distribution of income for the United States as a whole in 1971 by age of household head. These figures are derived from the July, 1972 Current Population Report on Consumer Income (Series P-60, No. 84, "Household Money Income in 1971").

TABLE I-1

AGE OF HEAD

	All Household Heads	55-64	65+
Median Household Income	\$9,027	\$9,344	\$3,813
Percent Under \$2,000	8.7	9.1	22.8
Percent \$12,000 or more	33.4	35.6	10.5

These comparative income figures, all of which show the inferior income status of households with heads 65 or older, should be considered along with four other important facts:

1. Of some 13 million aged household heads, more than 80 percent are not in the labor force. The median income of the retired group was only \$3,366, which is 12 percent below the median income for that age group as a whole, and 64 percent below the median of the 55-64 age group. The census report unfortunately does not tell us what the median income of the employed aged heads is, but if it were available, it would certainly point up the value of continued--not "compulsory"--employment for those willing and able to remain productive members of our society.

2. Using the Department of Labor's Lower Level Budget for an urban retired couple and even accounting for the existence of urban-rural differences, marital status, etc., we could argue that roughly two-fifths of such couples are probably below even that very low budget of what is adequate.

3. Contrary to many popular beliefs, most (58 per cent) households with aged heads consist of two or more persons. Indeed, as of 1971, such households contain more than 24 million persons--including more than one million children under the age of 18.

4. Aged heads of families as a proportion of all family heads has been steadily increasing. Since 1950, the proportion has moved from less than 12 per cent to nearly 14 percent in 1970--and they increasingly make up a growing proportion over the past 20 years of the bottom fifth of family

income distribution: from 27 percent in 1950 to 35 percent in 1970. Only the very youngest family heads--14 to 24--"enjoy" this privileged stigma along with the aged, but we can expect the youngest family heads to move upward in their income status. As a corollary, the aged family heads make up a declining proportion of the highest and next-to-highest fifths of family income during the same two decades.

5. If we take the figures in the previous table and try to arrive at some estimate of income per capita in each household, we find the following:

TABLE I-2

AGE OF HOUSEHOLD HEAD

	All heads	55-64	65+
1971 Per Capita Income	\$2,950	\$3,829	\$2,095

To indicate the importance of employment in the problem of income for older Americans--it is interesting to find in 1970 that if an aged married male head is fortunate enough to have a wife in the paid labor force, the median family income is over \$8,000. But if she is not employed, that figure declines sharply to slightly under \$4,600. The corresponding figures for blacks are significantly lower--\$4,924 and \$2,991.

For female family heads (not unrelated individuals, who make up more than 80 per cent of all women 65 and older), median family income was less than \$5,400--but for an unrelated individual, it was less than \$1,900. As of 1970, there were more than one million female family heads in the aged population, with nearly one-third of them consisting of three or more members.

The following table for the threshold used by the Census Bureau for 1971 incomes should nevertheless provide some indication of the income measures used to classify persons and families as below the "poverty line." They are much more stringent than the Department of Labor's budgets of adequacy for elderly persons.

TABLE I-3

SUMMARY OF WEIGHTED AVERAGE POVERTY THRESHOLDS FOR OLDER (65+)  
UNITS USED BY THE CENSUS BUREAU FOR INCOMES IN 1971

Size of family	Total	No Farm			Farm		
		Total	Male head	Female head	Total	Male head	Female head
1*..	\$1,931	\$1,940	\$1,959	\$1,934	\$1,652	\$1,666	\$1,643
2...	2,424	2,448	2,450	2,437	2,082	2,081	2,089
3...	3,207	3,229	3,246	3,137	2,745	2,749	2,627
4...	4,113	4,137	4,139	4,116	3,527	3,528	3,513
5...	4,845	4,880	4,888	4,837	4,159	4,159	4,148
6..	5,441	5,489	5,492	5,460	4,688	4,689	4,656
7...	6,678	6,751	6,771	6,583	6,736	5,749	5,516

\*Persons living alone or with nonrelatives (unrelated individuals); sex of "head" is sex of individual.

SOURCE: Administration on Aging, HEW

Of course, the ideal goal might be to reduce the overall poverty rate of the aged to a percentage significantly closer to the rate for all non-aged adult Americans. But this again raises a host of controversial policy and program questions--particularly the degrees to which the aged of tomorrow (those not yet old and/or retired) are willing to provide--through taxation and direct family support--for decent living standards of our aged.

As of 1970, even receipt of Social Security income was no guarantee against being poor. For the total United States, 75 per cent of the poor aged persons (65+) were receiving OASDI income. Of course, the recent improvements in Social Security benefits will have changed this percentage to some extent. Reportedly, the 20% increase will have "lifted" about 1.4 million aged persons above the very stringent poverty line (some of these aged may be under 65 -- those 62-64).

The apparent need to stay in the labor force out of economic necessity is dramatically suggested in the 1970 Census which shows a higher percentage of Mississippi's urban aged males and females are in the labor force than in the case of California's urban aged. But even in urban Mississippi, the percentages are quite low -- 27.4 per cent for men and 13.1 per cent for women. These figures are also above the overall national rates for 1970. In the urban as well as the rural areas of our nation, full or part-time employment -- at least for the 60-69 age group -- is a crying need, whether it is in the private sector or in valuable "community service" employment, or in any of the other public service programs -- including possibly the new jobs presumably made possible by the new Revenue Sharing Act of 1972.

## II. Employment Impact on Aged Income

As intimated earlier, the question of labor force participation is critical in any discussion of income and aging. Increasingly, the ratio of non-workers 60 and older to all those employed 20 and older is growing. During the next 20 years--unless we change current employment and retirement practices -- the number of non-workers 60 and older will increase by nearly 50 per cent. The total working labor force (including those not working year-round, full-time) will have increased by only 40 per cent or less.

The underlying argument being made here is not that we should be forcing the "aged"--especially those in their 70's or older--to continue or to start to work. But surely within the 60-69 age group, there are many who are being forced to retire, despite their willingness to stay in the labor force and despite their work capacities. Apart from the social-psychological reasons for such an argument, we are pointing up here the economic reasons for a reexamination of current retirement and employment policies.

In 30 years, the labor force participation of men 65 and older has declined 42 per cent to 25 per cent; for women 65 and older, it has increased from six per cent to ten per cent (with non-white females having higher rates throughout these three decades). Analysis of other detailed data indicates that for males, at least, the decline is not entirely due to the growth of the very old in the 65+ population. For example, in 1960 the labor force participation rate for men 60-64 was under 80 per cent, and by 1970, it was down to under 74 percent. Projections for 1985--which could be an over-estimate--indicate a further decline. For men 65-69, the corresponding rates are:

TABLE II-1

<u>ACTUAL</u>		<u>PROJECTED</u>
<u>1960</u>	<u>1970</u>	<u>1985</u>
45.8%	40.7%	35.2%

These types of trends can be expected to aggravate the income maintenance problems of our states' aged--and, of course, already have aggravated them.

It is clear from the above that the question of employability and actual employment, along with general socio-economic conditions, the educational level of our population and the changing character of our technology and "industry mix", have much to say about the present and future income position of older Americans.

Taking these factors into account, it should be possible -- but not inevitable -- to reduce the income problems of at least the 60-69 age group. As we move increasingly away from a large proportion of manual workers in our labor force, for example, the developing industry-occupation structure could allow for continued employment of a larger portion of our "younger" aged.

This type of long-range "projection" is also affected by the age structure of the total labor force. If birth rates continue to decline, it is possible that persons in the upper age groups may be in greater demand among employers. This may require some new programs for "retooling" and postponing the phenomenon of "skill obsolescence" -- especially as men and women move into their 50's. Such a notion was behind Title X of the Older American Act of 1972 (vetoed by President Nixon) for Middle-Aged and Older Workers Training.

If this is considered too speculative a discussion, consider it in the light of the current efforts at pension reforms -- the area where the "intergenerational" responsibility is most profoundly involved.

The Money Manager issue of July 24, 1972--devoted completely to the problems of giant pension funds--has this to say, after outlining the recent problems facing such funds:

Although all these figures show some of the problems facing pension fund managers, they are, in a sense, only the tip of the iceberg. Much more vexing are the steady demands for higher pensions, earlier vesting and funding, lower eligibility requirements, earlier retirement, and more disability retirement benefits, pre-retirement death benefits and post-retirement death benefits...All of the demands for larger and earlier pensions simply add up to inexorable pressure for more and more money for more and more people--already retired, nearing that stage or with many years of work still ahead of them. And all three groups are concerned with getting larger pensions in an effort to keep up with the steady rise in the cost of living.

...At some point early in the 1970's, the money flowing out of the nation's private pension funds will exceed that coming in. Fund managers have been adding to their asset base for many years, thereby theoretically increasing their investment income every year, but in 1982 or so, they will have to begin selling some of their assets in order to meet the monthly pension costs.

In all likelihood, they will not be able to pay their pension bills out of investment income...The investment income of all funds in 1960 of \$1.26 billion was almost enough to cover disbursements of \$1.37 billion, but by 1970 investment income of \$3.87 billion was far in arrears of total disbursements of \$6.18 billion.

But suppose we were to recommend--perhaps through state and federal legislation or regulations--the notion suggested by Professor Juanita Kreps (of Duke University and now public member of the New York Stock Exchange) concerning the reapportionment of work over a longer lifespan:

Suppose, for example, that a male wished to stretch the length of his worklife from 40 years to 45 years, working from age 25 to 70, rather than from 25 to 65. He would, however, choose to give the same number of hours to work; he simply substitutes a worklife of 45 years (made up of workweeks of 35 hours) for one of 40 years (of 40-hour workweeks).

If we assume that productivity does not decline during the additional working years, total lifetime earnings would be the same. Annual earnings would be reduced by one-eighth since worklife is lengthened by that proportion. The one-eighth reduction in earnings would be added to income during the second half of the man's sixties, with the following results:

One, the drop in income accompanying retirement would be postponed for five years, until age 70;

Two, public and private pensions would also be postponed for five years, thereby reducing the period over which they are spread by perhaps as much as one-third;

Three, annual income during the new shortened retirement span could be increased substantially.<sup>1</sup>

Such a proposal might also make it possible for more employed persons to be covered by a private pension system, along with Social Security, and under conditions that would increase the changes that they would also retire with a private pension (today's estimates are that only a small proportion of today's employed workers in the private sector will actually retire with a private pension; this is apart from the issue of the adequacy of such benefits).

1. "Income Maintenance in Retirement," paper presented at 9th International Congress of Gerontology, Kiev, USSR, July 1972. Underlinings not in the original. See also Prof. Kreps' Lifetime Allocation of Work and Income: Essays in the Economics of Aging (Durham: Duke University Press, 1971).

The salutary effect of this and related proposals on the pressures on state and federal welfare programs of income maintenance for the elderly should be obvious. The reduction of such pressures might make it easier for the states to concentrate on the possibly more pressing problems of the truly aged and incapacitated, including services and facilities as well as income.

In addition to such new concepts, Congress should examine with a fine tooth comb the status and policies of our private pension funds as it is now doing. Among the issues that might be examined (which impinge on the income status of the elderly) are:

1. The funding solvency of each plan, and the locus of control over each one.
2. How many employees currently employed in enterprises with pension plans can be expected to actually retire with a pension from their employers?
3. What is the adequacy of their pension benefits (both for those already retired and for those of the future), when coupled with projected or actual Social Security benefits?
4. What would be the total costs -- to employers and employees alike -- for truly ideal private pension systems, that is, pension plans which would: (a) cover more workers than they do today (no more than about 50 percent of all private sector employees today are employed in companies with a pension plan, which -- to repeat -- does not mean that all of these will actually retire with a private pension); (b) provide for vesting; and (c) provide for adequate pension incomes?

The answer to the fourth question by pension experts is that, under current retirement trends and policies, the costs would be prohibitive. And this again raises the question of how we can keep employed a larger

proportion of the older population than we do today.

We should not ignore the charge that many private pension plans have worked against older workers (e.g. those 45 and older) seeking employment or new job opportunities. They frequently have intensified age discrimination in the hiring process, adversely affected job opportunities for adult men and women, and have contributed to their longer durations of unemployment. The growth in private pension plans have -- in most cases, perhaps unintentionally -- stressed the employers' preference for younger workers (one alleged reason being the higher pension-coverage costs for new, older hirees). Such discrimination is perhaps a major source of the income problems of vast numbers of Americans as they move into their "Golden Years" .

### III. Impact of Recent Federal Income Support Legislation

Both the Social Security amendments package of 1972 and the new Revenue Sharing Act are of potentially historic significance in relation to the future income of older Americans. The Social Security amendments provide for:

1. Recognition of "years of service" in the general labor force (regardless of how many employers the worker has had), so that a worker with 30 years of covered employment, for example, will be guaranteed a minimum of \$170 per month. Previously it was possible for a worker to have worked that many years or more but with no assurance of minimum guarantee. Originally, our Social Security system was designed to pay benefits based strictly on previous earnings, and frequently such earnings were so low that he or she would "retire" with much less adequate Social Security income. Even \$170 per month results in only \$2,040 per year. And typically low-budget retirees have few, if any, other sources of income.

2. Increased benefits for widows and widowers, to 100 per cent of the primary beneficiary's benefits when alive. The previous level was 82 1/2 per cent, and the estimated number of persons affected by this change is about 3.8 million.
3. Reward for postponing retirement beyond age 65.

This, in principle, is one of the most innovative features of H.R. 1, since it can be the beginning of a trend away from early retirement. The "reward" at present, of course, is miniscule -- 1 per cent for each year after 65 that the person delays retirement. The issue here, of course, is:

How much autonomy does the individual older worker in reality have to continue working after the age of 65? How many employees (from corporate executives to the kitchen dishwasher) actually have such an option?

The answer is that we really do not have any accurate information on this critical issue. And the Congressional Report summarizing the main features of the separate provisions of H.R. 1, accordingly, is mute on the matter of estimating how many persons might benefit from this new departure.

The conclusion is inescapably that earnings will continue to be an important part of total income needed to maintain living standards for our older population. If we are really seeking to encourage our older people to continue in gainful employment instead of driving them out of the labor market, we should be seeking to develop incentives for continuing to work. The federal government does this with its employees. The mandatory retirement age is 70 rather than 65. The employee is given the option of continuing to work at full salary and the chance to build additional pension rights by continuing contributions over a longer period. Salary received while employed up to age 70 and the prospect of a substantially better pension in retirement are both powerful incentives for longer employment.

On the other hand, workers in Civil Service are given the option of retiring as early as age 55 with 30 years of service. An employee with 41 years and 11 months service may draw an annuity equal to 80% of his highest 3 consecutive years of service. These options give the worker a choice which fairly balances the possibility of earlier retirement at a reduced pension against later retirement with a substantially more adequate pension.

We believe that the need to maintain an adequate living standard comparable to the individuals preretirement standard is great. It will not be met by the Social Security benefit alone and possibly not with an added private pension. Consequently, we believe that careful consideration should be given to providing an actuarially increased Social Security benefit for each year beyond age 65 up to age 70 just as the benefit is actuarially reduced for retirement prior to age 65. The present increase of 1 percent a year recognizes the principle we would like to see adopted but is only token recognition. A question of inherent fairness appears involved. Why should those who want to work and who continue to contribute to the Trust Fund not benefit from such continued effort and continued contribution to the Fund?

Few people have considered the implication of lowering the age of retirement: that the younger the retirement age, the more employers will tend to lower the hiring age above which they might be willing to employ an adult job applicant, promote him within the enterprise, etc. The problem of income and aging cannot be separated from the worklife experience of men and women long before they enter the "pre-retirement" years. Once again, the principle of a preventive approach raises its inconvenient head.

Rather than lower the retirement age to provide more adequate benefits for those whose physical disability prevents them from working but who are

not yet 65 and, therefore, not yet eligible for full retirement benefits, other solutions are available. Pechman, Aaron and Taussig made two suggestions in their 1968 analysis of the Social Security System:<sup>2</sup>

"First, to provide cash benefits to those whose physical disability prevents them from working, the appropriate vehicle is not a retirement program which pays benefits to all, but a disability program which awards benefits to those whose problems provoke a genuine social concern. Eligibility for disability benefits for insured persons could be liberalized progressively with increasing age. A procedure analogous to that employed in determining eligibility for veterans' disability pensions might be appropriate. Permanent and total disability is a condition for benefits for veterans under age 55; 60 or 70 percent disability is a condition for benefits between the ages of 55 and 59; and 50 percent disability is required between the ages of 60 and 64. Alternatively, long-term unemployment might be taken as evidence of retirement among workers beyond specified ages. This procedure is followed in several Western European countries; for example, in the Federal Republic of Germany, unemployment for one year preceding application for benefits by persons age 60 or older establishes eligibility for retirement benefits.

Second, other programs need to be developed; cash benefits alone are an insufficient response to the problems. Health insurance is certainly one additional appropriate program that can and should be administered within the existing social security administrative structure. But other necessary programs, such as adult education, training, and rehabilitation, are beyond the scope of social security. Also outside the purview of social security are economic policies that assure full employment and price stability.

Other countries, notably Sweden, have intelligently recognized that the increased average lifespan made possible through modernized work and health environments requires a major revision of late 19th and early 20th Century concepts of a "decent" retirement age. As we rush toward an era in which more and more "older" persons will demand and (in varying degrees) obtain adequate retirement incomes-- and as more and more live into their late 70's and beyond -- employment as a significant source of income for those willing and able to work may have to become much more important than we now view it, partly to enable us to provide decent incomes for the retired aged.

2. J. Pechman, H. Aaron, M. Taussig Social Security: Perspectives for Reform, 141 (2d ed. 1972).

There are many other details of H.R. 1 that provide for improvements in the status of the aged (such as the Medicare-Medicaid Amendments) which will not be dealt with here. But in addition, aged persons with no other income are henceforth guaranteed a monthly income of \$140 minimum for an individual and nearly \$210 for a couple under the Supplemental Security Income Program. The first \$20 of Social Security benefits is disregarded as is the first \$65 of earnings and \$1 of each \$2 thereafter.

Finally, as should be obvious, such improvements are always at the cost of the working population (which brings us back to "inter-generational transfer"). Some income experts consider it regrettable that we continue to finance the Social Security system through a regressive payroll tax, instead of through general revenues. The new Social Security amendments raise the payroll tax from 10.4 per cent (shared equally by employees and employer) of the first \$9,000 of annual earnings to 11.7 per cent of the first \$10,800 of earnings starting January 1, 1973 -- and then in 1974 -- (through 1977) this "taxable base" will be raised to \$12,600. In considering and weighing the impact of all of these changes, we might also keep in mind some reference points regarding so-called adequate budgets for retired couples. These budgets also help us in evaluating actual incomes of retired couples, discussed earlier in this report. The Bureau of Labor Statistics, as of May of 1972, released a report on "Three Budgets for a Retired Couple, Autumn 1971." (Please note the year -- 1971 -- and keep in mind inflationary trends since the autumn of that year). Three different levels (lower, intermediate, and higher) were provided for the "average" retired couple living in urban areas. The methodology, reasons, and assumptions, underlying the three different levels are explained in the full report by BLS. And these levels range from only \$3,319 for the lower

budget, to \$4,776 for the intermediate, and \$7,443 for the higher ones.

The major components of such budgets consist of:

(1) food (2) housing (3) transportation (4) clothing and personal care (5) medical care and (6) "other items".

It is interesting to note that even within the so-called "lower level of living" budget, there is a wide range according to different urban areas; for example:

Anchorage, Alaska.....	\$4,741
Hartford, Conn.....	3,834
Atlanta, Georgia .....	2,978

Within the "higher level," the range in 1971 was:

Anchorage.....	\$9,585
Boston, Mass.....	9,476
Orlando, Fla.....	6,472

Such measures by BLS, many gerontologists argue, should be the standards by which we evaluate and report the "poverty status" of the elderly (and not the extremely lower amounts developed by HEW and used by the Census Bureau, presented earlier in this paper) in order to get a more meaningful portrait of the income status of our aged. If we were to do this, the portrait would, of course, be more depressing than our current reports show us.

## THE RETIREMENT INCOME CREDIT SECTION 37, INTERNAL REVENUE CODE

Retirement Income Credit (RIC) was designed to help relieve part of the tax burden of the elderly and of retired people who are living on taxable retirement income (e.g. pensions, annuities, rents, interests, etc.) and to help equalize their tax treatment with that of people receiving Social Security and Railroad retirement benefits, most of which are tax-exempt. The RIC is presently section 37 of the Internal Revenue Code.

The report of The House Committee on Ways and Means that accompanied H.R. 8300, the bill enacted as the Internal Revenue Code of 1954, set forth the rationale for the introduction of the retirement income credit as follows:

"Under existing law benefits payable under the social-security program and certain other retirement programs of the Federal Government are exempt from income tax. Your committee believes that the tax-exempt status of such benefits discriminates against persons receiving retirement pensions under other publicly administered programs, such as teachers, as well as against persons who receive industrial pensions or who provide independently for their old age. Your committee has sought to adjust this differential tax treatment by extending a limited exemption, by means of a tax credit, to all forms of retirement income. In a number of respects, the exemption provision parallels the provisions applicable to benefits paid under the social-security program."

The report of the Senate Committee on Finance with respect to H.R. 8300 described certain features of the credit intended to be analogous to those of social security.

"Since the benefit of the credit is intended for retired individuals, the bill employs substantially the same test of retirement as that adopted for social-security purposes. An individual would be permitted to earn up to \$900 a year as an employee or in self-employment without affecting the amount of the retirement credit. However, earnings in excess of \$900 reduce, dollar for dollar, the amount of retirement income on which the credit is based. If an individual's earnings equal \$2,100, he would receive no tax credit for any retirement income . . .

. . . . .

The bill also adopts a work-qualifying test similar to one used for social-security purposes to determine whether an income recipient above the age of 65, who is not deriving earned income, is a person who was actually engaged in gainful employment prior to age 65. Thus, to qualify for the credit an individual must have derived earnings of at least \$600 a year in each of any 10 years prior to the taxable year. A widow whose spouse would have qualified under this requirement is herself qualified. Where a husband and wife meet this requirement, each can qualify for the retirement credit."

For taxpayers to qualify for the credit as it presently exists,

they must have earned at least \$600/year for any preceeding ten years. However, a person is ineligible to receive RIC if he has received \$1524 (\$2286 for joint returns) in Social Security or Railroad retirement benefits, or if he has earned more than \$2424 (aged 62 and under) or \$2974 (aged 62-72). Credit is computed on the allowable maximum amount of retirement income (\$1524 or \$2286), this figure is then reduced by certain pensions and annuities and earned income received.

In its present form, the Retirement Income Credit has been shown to be far too complicated. To claim RIC, the taxpayer must fill out Schedule R, a separate page of another nineteen possible calculations (in addition to his regular tax schedule). As a result of these complexities, it has been estimated that as many as 40% of all those eligible for RIC either fail to claim it or else make errors in calculating their credit.<sup>1</sup> Since so many of those retired persons who should be benefitting from the credit are not being helped, the need for revision and simplification becomes obvious.

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1. This estimated 40% figure is sketchy at best because it was obtained by the Internal Revenue Service's observation of an exceptionally small handpicked sample of the population. For more information on exactly who, among that 40%, gets classified as omitting the credit completely, who ranks as trying to claim more credit than they were entitled to, and who claimed less than they were eligible for, contacting Mr. J. Howard Wilson at the IRS (964-3157) may be of some value. However, deducing information on the basis of this sample would be marginally useful because of the aforementioned shoddy statistical techniques. We can accept a figure in the area of 40% however, since the Senate Finance Committee observes a similar number. (See Social Security Amendments of 1972)

Seeking to ameliorate the problems confronting older taxpayers, several alternative methods of improving upon the present tax schedule have been suggested. Although there are several specific proposals for tax reform pending before Congress, most have been referred to the House Ways and Means Committee for further examination. As yet, this committee has not heard specific testimony on particular items of legislation, rather it has chosen to call for testimony on tax reform questions in general.

In testimony before the Ways and Means Committee our organizations urge that the retirement income credit be updated and simplified.

"Since the purpose of the retirement income credit is to provide individuals who receive little or no social security benefits, but who receive other forms of retirement income, the opportunity to receive tax treatment roughly comparable to that available to those who receive the maximum social security benefits, we believe that the amount of retirement income eligible for credit computation should equal the present maximum primary benefit under social security. We further believe that the limitation on earned income should be liberalized to correspond with the present limit of the social security earnings test.<sup>2</sup>

In the opinion of our Associations, there are basically two ways to deal with problems arising from dissatisfaction with the present credit: either one can accept the present RIC as a generally effective program which merely needs updating and simplification, or one can turn instead to instituting an entirely new system. The main alternatives within this scope are: 1) the Senate's proposed Retirement Income Credit, and 2) the House's Credit for the Elderly, both these programs being basically new slants on the present system. The Administration has proposed a new system, called the Age Credit. Each of these proposals agree insofar as they would give the taxpayer fewer "qualifications" to meet; however, there are some noticeable differences to consider.

2. Hearings on Tax Reform Before the House Comm. on Ways and Means, 93rd Cong., 1st Sess., Prepared Statement of Bernard E. Nash, Executive Director, NRTA and AARP (1973).

We will look first at the Age Credit proposal of the Administration. The Age Credit would compute credit as a percentage of a fixed dollar amount which would be reduced by amounts of Social Security and Railroad retirement benefits received.<sup>3</sup> Age credit differs from RIC in several ways, among other factors, it eliminates both the previously earned income consideration and the "earned income received" reduction that are present in the IRC §37. Perhaps most significantly, the Age Credit services only those over 65, regardless of retirement status.

Charts A & B appended hereto, should assist in comparing the effect of the present income credit on individuals by income classes with the projected effect for the proposed age credit. We can reduce these charts to rough "who is helped-who is hurt" comparisons.

In the lower income classes, the age credit benefits fewer persons.

By income class:

- \$0-2999        Nearly 90,000 of all returns claiming RIC would not be eligible for the new age credit; a significant number of these are persons aged 65 and over.
- \$3,000-4999   100,000 returns are omitted under the age credit, again, the bulk of those being people over 65.
- \$5000-6999    Here the two systems seem to even out, with a similar number of eligibles being covered in the new and in the present system.
- \$7000 up       From this point on, the Age Credit helps a greater number of persons than does the present RIC.
- \$7000-9999    An additional 80,000 returns are eligible to acquire the age credit (and given that 30,000 sub-65 returns cannot

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3. Treas. Dept., Proposal for Tax Change, 113 (April 30, 1973)

claim under RIC, an additional 110,000 returns of those over 65 would be helped).

\$10000-149999 Of those returns falling into this income bracket, 70,000 returns of those aged 65+ are helped, compared to 20,000 sub-65 who are hurt.

\$15000 up From this point on, there are fewer and fewer returns of those under 65 claiming RIC, so fewer of them are hurt; but the age credit makes funds available to nearly 300,000 extra returns of taxpayers over 65.

Because the Age Credit, as proposed by the Administration, hurts so many persons (returns) in the lower income classes, and prefers instead to render (less necessary) assistance to those with higher incomes, we view the Age Credit as an aid to the less needy upper income classes. A look at the dollar amounts and their distribution shows similar trends. Those under the \$7000 mark receive less benefit than they receive under the present system and those over the \$7000 bracket benefit more.

These charts show that if the age credit system, as proposed by the Administration, were enacted, all of those under age 65 would be excluded from receiving the RIC for which they are currently eligible. We are speaking here in terms of 130,037 returns (there are no statistics available which would give us numbers of people) and \$23,818,000; or nearly 10% of all returns requesting the RIC.

To some of these people, the RIC benefit comprises as much as 4% and 5% of their adjusted gross income; for people making less than \$7000 per year, this is a significant amount of money loss.

The IRS claims it is willing to allow for the hardship which might be incurred by these sub-65 taxpayers on the grounds that their main

goal is simplification, and if the sub-65 retirees are hurt, (as they will be), it is to be justified by the production of a more simplified tax form.

#### Costs of Programs

Retirement Income Credit "cost" the federal government approximately \$168 million in 1970. We know that this amount has decreased significantly over the past two years due to increases in Social Security. We will not know by how much it has changed though, until late in 1975, since the Internal Revenue Service waits three years before disclosing tax statistics to the public.<sup>4</sup>

The Administration's age credit proposal would involve additional government revenue loss of about \$75 million (this \$ amount indicates the increase in Federal revenue loss over and above that already being lost of \$140 (?) million or a total of \$225 million.

The Senate proposal as described in the report<sup>5</sup> of the Finance Committee which accompanied H.R. 1 last year is slightly more expensive, costing an estimated \$275 million more than the present program. Lastly, the House bill provision which is described in the Committee Report<sup>6</sup> accompanying H.R. 1, (by far the most generous to the elderly), would involve an expenditure of \$375 million above the dollar amount now devoted to Retirement Income Credit.

4. Unquestionably, the Treasury Department has greater access to such information, so their figures have been relied upon more heavily in these computations than would normally have been the case. Based on some of their calculations, RIC in 1972 was in the area of \$150 million. Treasury Dept. figures courtesy of Floyd O. Reeves, Treasury Dept., Office of Tax Analysis.

5. S. Rep. No. 1230, 92d Cong. 2d Sess. 587 (1972).

6. H.R. Rep. No. 231, 92d Cong. 1st Sess. 237 (1971).

The figures for the House and Senate proposals were calculated in 1970 based on projections made at that time. (What the Treasury Dept. said in 1970, with respect to the projected situation in 1973 is not in fact an exact picture of what 1973 looks like in 1973, so minor difficulties arise here. The two major differences concern the IRS assumption that the RIC would be greater than it actually turned out to be, and, in fact, their calculations didn't take into account the subsequent Revenue Act of 1971. The Treasury Dept. based their numbers on a standard deduction of \$1000.)

It is more difficult to compare the House or Senate proposals with the Retirement Income Credit in its present form since less specific information is known about the dollar-return breakdown of these two Senate and House proposals. Chart C deals with the House proposal.

A look at chart D would show us rough percentages of where the benefits would be applied. This chart, which follows, gives the pattern of distribution of funds by the various proposals.

Referring to the last two columns (5 and 6), we see the Age Credit to be a program which would tend to unduly benefit persons in the higher income brackets. For example, only 43% of total Age Credit finances would go to returns having an adjusted gross income of less than \$10,000.

By contrast, the House and Senate proposals (columns 2 and 3) would allow for as much as 80% of the benefit to go to those having income under \$10,000. Obviously, in the opinion of our organizations, it is the less well-to-do members of society who are in need of federal assistance of this nature, and programs which actually assist those in need are to be favored over those which do little to correct a bad situation.

On the basis of our calculations therefore, we would support the House proposal as contained in the House version of H.R. 1 last year as being the most equitable plan for distributing benefits through the use of a retirement income credit against federal income tax liability. We would hasten to add however, that other proposals to update the retirement income credit, such as S.1811<sup>7</sup> which was introduced by Senator Church and which would increase the maximum amount which could be taken into account for purposes of computing the credit to \$2,500 for a single aged person and to \$3,750 for elderly couples, would also have our support.

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7. S.1811, 93d Cong. 1st Sess. (1973).

TABLE A The Retirement Income Credit As It Is Now -- Based on 1970 IRS Figures

Adjusted Gross Income (Average Income)		\$0-2999	\$3000-4999	\$5000-6999	\$7000-9999	\$10,000-14,999	\$15,000-19,999	\$20,000-49,999	\$50,000-99,999	\$100,000+	TOTAL
		(1500)	(4000)	(6000)	(8500)	(12,500)	(17,500)	(25,000)	(75,000)	(?)	
Number of Returns Claiming RIC	All Taxpayers	126383	431035	285070	228354	146864	59531	64820	11032	4177	1357266
	Sub 55's	20672	27473	18596	30582	22526	6102	3809	233	44	130037
	55+	105711	403562	266474	197772	124338	53429	61011	10799	4133	1227229
Money Amounts of RIC Claimed (in thousands of dollars)	All Taxpayers	7898	44013	39807	31826	24601	8294	9084	1530	603	167656
	Sub 55's	2490	4518	4248	5435	4734	1461	837	87	8	23818
	55+	5408	39495	35559	26391	19867	6833	8247	1443	595	143838
Average Amount of RIC Received per Return (in dollars)	Sub 55's	120.45	164.45	228.43	177.72	210.16	239.43	219.74	373.40	181.82	183.16
	55+	51.16	97.87	133.44	133.44	159.78	127.89	135.17	133.62	143.96	(Average of the Total 117.29)
Percentage of Average Income which RIC Constitutes	Sub 55's	8.03	4.11	3.81	2.09	1.68	1.36	.88	.50		
	55+	3.41	2.44	2.22	1.57	1.28	.73	.54	.18		

THE AGE CREDIT\*

(As Proposed by the Administration)

Adjusted Gross Income (Average Income)	\$0-2999 (1500)	\$3000-4999 (4000)	\$5000-6999 (6000)	\$7000-9999 (8500)	\$10000-14999 (12500)	\$15000-19999 (17500)	\$20000-49999 (25000)	\$50000-99999 (75000)	\$100000 plus
Number of Returns Eligible to Claim Age Credit (in thousands)	30	280	260	280	200	120	220	50	20 T=1460
Money Amounts of Age Credit which Would be Spent (in millions of \$)	Negligible	19	26	51	39	26	48	11	5 T=225**
Average Amount of Age Credit Received Per Return		67.86	100.00	182.14	195.00	216.67	218.18	220.00	250.00 A=154.11
Percentage of Average Income which Age Credit Constitutes		1.69	1.67	2.14	1.56	1.24	.87	.29	

\* Based on Treasury Department Figures

\*\*IRS says Age Credit would cost \$200 million over present expenditures; these figures show an added cost of \$225 million.

CHART B

CHART C

Adjusted Gross Income (Average Income)---	\$0-2999 (1500)	3000-4999 (4000)	5000-6999 (6000)	7000-9999 (8500)	10000-14999 (12500)	15000-19999 (17500)	20000-49999 (25000)	50000-99999 (75000)	100,000 (7) plus
Number of Persons Eligible To Claim House Credit	Estimated at 3-4 million persons*, a number which will decrease as Social Security benefits increase. 3-4 million figure is taken as a portion of the 5.6 million taxable persons over 65. Numbers are too tentative to be broken down into income classes. *can't translate persons into returns								
Proposed Expenditures (\$)	2 / .5	108 / 28.8	104 / 27.7	109 / 29.1	24 / 6.4	10 / 2.7	15 / 4.0	2 / .5	1 / T=37
Present RIC Funds	(7.9)	(44.0)	(39.8)	(31.8)	(24.6)	(8.3)	(9.1)	(1.5)	(.6)
Total (in millions of dollars)	9.9	152.0	143.8	140.8	48.6	18.3	24.1	3.5	1.6

THE HOUSE PROPOSAL CREDIT  
FOR THE ELDERLY

Based on Treasury Dept. Figures -

Adjusted Gross Income  (Dollars/year)	Percentage of total returns receiving Retirement Income Credit	Percentage of total Retirement Income Credit Dollars Received	Percentage of total House credit Dollars received	Percentage of total Senate credit Dollars received	Percentage of total returns receiving Age Credit	Percentage of total Age Credit Dollars received
0- 2999	9.31 ( 9.31)	4.71 ( 4.71)	1.82 ( 1.82)	2.26 ( 2.26)	2.05 ( 2.05)	- ( - )
3000- 4999	31.76 (41.07)	26.25 (30.96)	28.02 (29.84)	27.70 (29.96)	19.18 (21.23)	8.44 ( 8.44)
5000- 6999	21.00 (62.07)	23.74 (54.70)	26.51 (56.35)	26.00 (55.96)	17.81 (39.04)	11.55 (19.99)
7000- 9999	16.82 (78.89)	18.98 (73.68)	25.95 (82.30)	24.75 (80.71)	19.18 (58.22)	22.67 (42.66)
10000-14999	10.82 (89.71)	14.67 (88.35)	8.96 (91.26)	9.93 (90.64)	13.70 (71.92)	17.33 (59.99)
15000-19999	4.38 (94.09)	4.95 (93.30)	3.37 (94.63)	3.66 (94.30)	8.22 (80.14)	11.55 (71.54)
20000-49999	4.77 (98.86)	5.42 (98.72)	4.44 (99.07)	4.61 (98.81)	15.07 (95.21)	21.33 (92.87)
50000-99999	.81 (99.67)	.91 (99.63)	.64 (99.71)	.66 (99.57)	3.42 (99.63)	4.89 (97.76)
100000 up	.31 (99.98)	.36 (99.99)	.29 (100.00)	.23 (99.80)	1.36 (99.99)	2.22 (99.98)

CHART D

CHART E

A non-numerical comparison of three proposals shows us:

Proposals:	Administration (Age Credit)	House (Credit for Elderly)	Senate (RIC)
Includes retirees under age 65		X	X
Compares closely with current RIC		X	X
Allows credit for earned income	X	X	
Simplifies calculations	X	X	X

## PUBLIC PENSION SYSTEMS THE NEED TO COORDINATE

System Overlap and Cost Consequences

If OASDI and other public pension systems such as Railroad Retirement, are to provide more adequate benefit levels to the future aged, such pension systems must, of necessity, be coordinated with each other. With the exception of career military personnel, government employees and other workers are assumed to earn eligibility under only one pension system and benefits are structured accordingly. However, because of the lack of coordination between OASDI and other pension systems, workers often qualify for pension benefits under two or more pension systems. Career military officers, for example, may retire after 20 years of service eligible for both a military pension and social security. Such multiple eligibility is understandable and indeed desirable in the case of military retirement and private pensions since one of the motivating factors behind the establishment of such plans is the recruitment and retention of employees. However, in the case of public pension systems which are each designed to provide basic and adequate retirement benefits, multiple eligibility is less justifiable. Not only is the cost of dual benefits substantial, but too often such basic benefits are received by those who are not in need of them.

In commenting on this problem with respect to OASDI, Pechman, Aaron and Taussig, in their 1968 analysis of the social security system, made the following observations:

Multiple eligibility is clearly contrary to the intent of social security system. Disproportionate benefits for workers with low wage histories are justifiable only because such workers are assumed to have been unable to save adequately for retirement, and the same relative decline in living standards is assumed to be less tolerable than it is for workers who had higher incomes.

Our Associations believe that because of the cost consequences of providing basic retirement pensions sufficient to enable the future aged to maintain in retirement a standard of living equal to that experience prior to retirement, we cannot continue to ignore the lack of coordination between public retirement systems which, because of the dual benefits problem, may permit more than adequate benefits to some and less than adequate benefits to others. We are encouraged by the Commission on Railroad Retirement's recommendations with respect to a restructuring of that system to coordinate it with social security. Such reforms are to be encouraged. We urge this committee to undertake hearings to explore in greater detail the impediments to and prospects for a coordinated systems approach to the problem of providing adequate retirement income for all retirees.

1. J. Pechman, H. Aaron, M. Taussig, Social Security: Perspectives for Reform, 110-111 (Second Edition, 1968).

APPENDIXREPORT ON THE RETIREMENT TEST, PREPARED FOR THE NATIONAL RETIRED TEACHERS ASSOCIATION AND THE AMERICAN ASSOCIATION OF RETIRED PERSONSI. PURPOSE AND PROCEDURE

The purpose of the following report is to estimate the benefits and cost of increasing the retirement test income from its present level of \$2,400 to that proposed by the National Retired Teachers Association and the American Association of Retired Persons, \$3,600. The economic status of persons 65 and over, those affected by the proposal, will also be analyzed so as to provide a proper perspective from which to evaluate the benefits.

The analytical methods used in this report are necessarily crude due to data limitations and time constraint. Therefore, the figures estimated should be viewed as rough approximations and not the results of a careful and detailed statistical study. They should, however, be considered sufficiently accurate for the purpose of this report.

In some instances where data was especially lacking, simplifying assumptions were used in generating estimates. These assumptions are theoretically sound, however, and should not detract from the credibility of this report. Sufficient tables are provided with this report to support the figures presented. Where tables are lacking, references are made to the source of certain figures. In some instances, appendices are attached to demonstrate the methods used in generating estimates. The data base period used is primarily 1970-71.

II. ECONOMIC STATUS OF THE POPULATION 65 AND OVER

In 1970, approximately 20,040,000 individuals were in the 65 and over age group. Of these, 3,120,000 were part of the civilian labor force (Table 4, Handbook of Labor Statistics). The proposal

under study directly affects only those within the labor force. The financial resources of these individuals are primarily earnings, social security benefits and assets of various types. The following income and wealth information will give us some indication of the economic status of this age group.

A. INCOME: General Comparisons

The 1970 income (earnings + social security benefits + other) for this age group can be calculated from columns 14 and 15 of Table 245 (Detailed Characteristics: Census of Population). The mean income for this age group was approximately \$3,140, while the median was \$2,000. (See appendix I for calculations). These figures are for the entire age group. For that segment of this age group who are employed, the mean income was \$7,543 and the median \$5,453. The above figures indicate that those who stand to benefit from the proposal under study have incomes substantially above the group average. Most of these individuals have incomes of \$5,453 or less, however.

B. BREAKDOWN OF INCOME OF FAMILIES WITH HEAD 65 YEARS AND OLDER

The purpose of the following information is to give some indication as to the importance of the earnings and Social Security benefits components of income. This information is necessary for evaluation of the proposal under study since its impact would be on these two components of income.

In 1969, for the entire age group, the mean family income was \$7,406. Of this, earnings comprised 52.3%, Social Security benefits comprised 20.5%, and 27.2% was comprised of other income (public assistance income, etc.) Therefore, earnings and Social Security benefits account for 72.8% of income received by families with head 65 or older. (Table 264. Detailed characteristics, census of Population). It should be noted that these percentages only give a rough indication of the importance of earnings and Social Security benefits for families with employed individuals 65 and over; they deal with the entire group 65 or over regardless of whether or not these families contain individuals in the group who are employed.

C. NET WORTH OF SOCIAL SECURITY BENEFICIARIES 65 AND OVER

The economic status of the age group under consideration cannot be determined solely on the basis of income. Net worth is an important financial resource which should be taken into account.

Net worth figures for this age group are quite crude. The statistics listed here are from a 1963 survey made by the Social Security Administration, called "Resources After Retirement. They are adequate, however, in giving us some indication as to the financial resources available to the aged for purposes of supplementing their incomes. From Table 18 (Resources After Retirement), it can be seen that the median net worth for this age group was approximately \$3,000 in 1951. To

estimate median net worth for 1970, this figure was put in 1970 dollars and adjusted for an upward trend. The resulting estimate was \$8,000 (See Appendix II for calculations).

It should be noted that the major component of net worth is home equity; this does not provide a readily available source from which to supplement income. Other components of net worth, such as savings deposits, do readily supplement income. Using the 1957 data available in Table 11, (Resources After Retirement), a median annual dissaving estimate was made for 1970: this figure is \$650.

With respect to the group that will be directly affected by the proposal under study (the 16% or so of the 65 and over who are employed), it can be argued that their median net worth and dissaving would be somewhat less than \$8,000 and \$650 respectively (medians for the 65 and over group as a whole). The very fact that they are employed might imply that their net worth is insufficient to supplement social security benefits; therefore, earnings from employment are needed.

#### D. CONCLUSIONS

From the above analysis, it may be hypothesized that the economic status of those individuals who will benefit from the proposal is no higher than that for the group as a whole. While their median income is higher than that for the entire group (\$5,453 as compared to \$3,140) their median net worth and dissaving may be somewhat less, as argued above, and, therefore, offset the income discrepancy.

### III. ESTIMATION OF BENEFITS

Theoretically, the proposal under study should have three beneficial effects:

- (1) increased earnings;
- (2) increased Social Security benefits; and
- (3) increased labor force participation by the aged.

The impact of the proposal on these three things will be analyzed in this section.

#### A. IMPACT ON LABOR FORCE PARTICIPATION

During the 1960's, the Retirement test income was increased three times:

1960-1965	\$1,200
1965-1967	1,500
1967-1972	1,680

The impacts of these changes on labor force participation of the aged can be estimated by observing Table 5 (Handbook of Labor Statistics). The following rates were taken from the Table and a 2-year impact lag was assumed.

##### 1. Effect of 1960 Change

<u>Year</u>	<u>Labor Force Participation Rates</u>			
	<u>65 and Over</u>		<u>Entire Population</u>	
	<u>Males</u>	<u>Females (Married)</u>	<u>Males</u>	<u>Females (Married)</u>
1960	36.6	6.7	89.2	31.9
1962	33.8	6.3	88.2	32.8

2. Effect of 1965 Change

<u>Year</u>	<u>Labor Force Participation Rates</u>			
	<u>65 and Over</u>		<u>Entire Population</u>	
	<u>Males</u>	<u>Females (Married)</u>	<u>Males</u>	<u>Females (Married)</u>
1965	30.2	6.7	87.4	44.4
1967	30.1	6.9	87.0	55.3

3. Effect of 1967 Change

<u>Year</u>	<u>Labor Force Participation Rates</u>			
	<u>65 and Over</u>		<u>Entire Population</u>	
	<u>Males</u>	<u>Females (Married)</u>	<u>Males</u>	<u>Females (Married)</u>
1967	30.2	6.7	87.4	55.3
1969	29.9	7.1	86.8	56.7

From the above, it can be seen that the 1960 changes had no significant effect on the labor force participation of the aged. This does not imply, however, that increasing the retirement test income has a neutral effect on labor force participation. During the same period, Social Security benefits were also increasing. This would tend to have a negative impact on the labor force participation of the aged and, therefore, offset any positive impact that might result from increasing the retirement test income. For example, during the 1960-1969 period average monthly benefits increased from \$74 to \$100. (Table 464, Statistical Abstracts of the United States). For the 1965 change (\$1,200 to \$1,500) and individual would stand to gain a maximum of \$150 more than he would if

he entered the labor force before the change. (This was calculated by multiplying the difference between \$1,500 and \$1,200 by the marginal tax rate of 50%). Monthly retirement benefits during the 1965-1968 period increased by approximately \$15 per month or \$180 per year on average (Table 464).

Despite the fact that the increased retirement test income seemed to be just offset by increased Social Security benefits for the 1965 period, it could be argued that the amounts are too small to give anyone incentive or disincentive to enter the labor force. However, for the proposal under study a potential entrant into the labor force stands to gain a maximum of \$750 [ $\$3,600 - \$2,100$  (the present level)  $\times 50\%$ ]. \$750 would have a stronger luring impact than \$150. This, however, should be expected to be offset by even more substantial increases in Social Security benefits; for example, from 1970-71, average monthly benefits increased by \$14. Overall, it would seem that, even in the light of more substantial Social Security benefits, the present proposal should have a stronger impact on labor force participation by the aged than the changes that occurred during the 1960's.

#### B. IMPACT ON EARNINGS

The following will give some indication as to the effect of the proposal under study on the earnings of individuals 65 and over already in the labor force. The projections are based on a study by the Social Security Administration on the impact of the 1965 change in the retirement test income on the earnings of the aged. ("Older Worker Earnings and the 1965

Social Security Amendments.") The basic simplifying assumption made is that the impact of the present proposal will be of the same magnitude as that which occurred under the 1965 change. Since a similar study could not be possibly carried out, such an assumption was deemed necessary.

One of the basic conclusions of the SSA study is that most working beneficiaries restrict their earnings in order to receive full Social Security retirement benefits (Table 5). Of the sample taken in this study, approximately 200 of the males and 100 of the females were employed. 85 of the males and 64 of the females tended to have earnings concentrated around \$1,500 (the retirement test income during this period). The impact on earnings of changing the retirement test income depends primarily on two things:

- (1) the distribution of earnings; and
- (2) the magnitude of the change.

If the same distribution is assumed for the present proposal (i.e. the earnings of most workers will tend to be concentrated around \$3,600), then a reasonable estimate of its impact on earnings can be made.

The results of the SSA study indicate that the increase in earnings for males was \$80 and \$65 for females on average. If all workers adjusted their earnings strictly according to the retirement test income (i.e. earned \$1,200 before change and \$1,500 after change), then the increase in earnings would

be \$300 for all workers. \$300 is therefore the maximum potential increase in earnings. Similarly, under the present proposal, \$1,500 (\$3,600-\$2,100) is the maximum potential increase in earnings. If a similar earnings distribution is assumed for the present period as existed in the 1965 period, then the  $\frac{\text{actual increase in earnings}}{\text{maximum increase in earnings}}$  ratio should be the same for the two periods (assuming everything else the same). This is the assumption that was made. For the 1965 period, the above ratio was  $\frac{\$80}{\$300}$  for males and  $\frac{\$65}{\$100}$  for females.

A weighted average of the two can be calculated using the sample size; this is  $\frac{\$75}{300}$ .

To estimate the average increase in earnings which would occur under the present proposal, the following simple calculation is made.

$$\frac{\$75}{300} = \frac{x}{\$1500} \quad x = \text{average increase in earnings under present proposal.}$$

$$300x = 112,500$$

$$x = \$375$$

This average increased earnings of \$375 should be viewed in the light of the economic status indicator for the group of employed individuals 65 and over. Comparing this with a mean income of \$7,453 for the group, it can be determined that mean income for the group would increase by approximately

5% ( $\frac{375}{7,453}$ ). This may be even more significant if net worth and annual dissaving is substantially less than \$8,000 and \$650 respectively for the group on average.

C. IMPACT ON SOCIAL SECURITY BENEFITS

The purpose of this section is to determine what earnings groups stand to benefit the most in terms of increased Social Security benefits. Social Security benefits for four earnings groups are analyzed:

- (1) those around the present retirement test income;
- (2) those around the proposed retirement test income;
- (3) those around the income where Social Security benefits become 0 under the present system; and
- (4) those around the income where Social Security benefits become 0 under the proposed system.

To calculate the earnings in groups (3) and (4), an estimate of average annual Social Security benefits (Table 464, Statistical Abstract) was made and the present 50% marginal tax rate was used. Estimated annual benefits are \$1,600.

Under the present system, zero benefits occur at earnings of \$6,300 (3 x \$2,100) and for the proposed system at earnings of \$10,800. Using this information, the following estimates were made.

<u>EARNINGS GROUP</u>	<u>AVERAGE BENEFITS UNDER PROPOSAL</u>	<u>AVERAGE PREVIOUS BENEFITS</u>	<u>AVERAGE CHANGE IN BENEFITS</u>
(1)\$2,100	\$1,600	\$1,600	0
(2)\$3,600	\$1,600	\$ 750	\$850
(3)\$6,300	\$ 250	0	\$250
(4)\$10,800	0	0	0

The above analysis indicates that those who stand to benefit the most in terms of increased Social Security benefits are those in the \$3,600 earnings group.

In 1970, approximately 1.6 million workers (about 1/2 of the labor force 65 and over) received reduced benefits as a result of excess earnings. Total benefits lost amounted to approximately \$2 billion (\$2.1 billion in 1971)<sup>1</sup>. Projected for 1974 (when the proposal would take effect) this would be approximately \$2.4 billion in benefits foregone. Therefore, total increased benefits accruing to workers 65 and over would be same % of \$2.4 billion. It can be safely assumed that increased Social Security benefits will be at least 50% since the magnitude of the change in the retirement test income would be quite substantial.

Assuming that benefits lost would be reduced by 50%; the total increase in Social Security benefits accruing to workers 65 and over would be approximately \$1.2 billion. This, coupled with average increased earnings of \$375 or a total of \$1.2

<sup>1</sup>These figures were obtained from Mr. Alpein, Deputy Actuary of SSA in Baltimore.

billion. This, coupled with average increased earnings of \$375 or a total of \$1.2 billion [ $\$375 \times 3.2$  million (workers 65 and over)], would yield additional income in the order of \$2.4 to this group.

#### IV. COSTS OF THE PROPOSAL UNDER STUDY

The two major costs of the proposal would be the increased Social Security benefits paid out by the SSA and whatever displacement that might occur in the labor force as a result of increased participation on the part of individuals 65 and over.

The cost of increased benefits paid out may not be a matter of simply looking at dollar figures. The question one must ask is what are the implications of giving more benefits to the employed segment of the 65 and over group. If the SSA has a budget constraint, then increased benefits to this group may imply lower overall benefits, than would otherwise be the case, to the remainder of the 65 and over age group. In other words, what may well occur is a redistribution of Social Security benefits away from the unemployed segment of the 65 and over age group in favor of the employed segment. This would be a desirable outcome only if the economic status of the latter group is lower than that of the former. Looking at income data alone, it would appear that this is not the case. But as was argued above, net worth is also an important determinant of economic status. If one were to accept the hypothesis that net worth tends to be less among the employed individuals, then it could be argued that economic status may not differ significantly between the two groups.

Since it is expected that labor force participation by the age group will either remain the same or only increase slightly, labor force displacement of other age groups does not present a problem. However, if the tendency is increased hours worked on the part of those already employed, this may choke off earnings which would otherwise go to other age groups. To estimate the costs of this, one would have to determine which age groups would be affected. The only age group which would have an economic status below that of the age would be those in the 16-24 year old range. It may be deemed undesirable to redistribute earnings from this age group to the 65 and older. Table 226 (Detailed Characteristics; Census of Population), indicates that this would not be the case. The concentration of the aged 65 and older in various occupations does not seem to be correlated with that of age group 16-24 any more than with that of the remainder of the population.

