SOCIAL SECURITY: WHAT CHANGES ARE NECESSARY?

HEARING

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SOCIAL SECURITY: WHAT CHANGES ARE NECESSARY?

WEDNESDAY, DECEMBER 3, 1980

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

The committee convened, following the recess, at 2:15 p.m., in room 6226, Dirksen Senate Office Building, Hon. Lawton Chiles, chairman, presiding.

Present: Senators Chiles, Domenici, and Heinz.

Also present: E. Bentley Lipscomb, staff director; John A. Edie, chief counsel; David A. Rust, minority staff director; Neal E. Cutler, professional staff member; Eileen M. Winkelman and Betty M. Stagg, minority professional staff members; Fred Becker, intern; and Eileen Bradner, clerical assistant.

OPENING STATEMENT BY SENATOR LAWTON CHILES, CHAIRMAN

Senator CHILES. Good morning and welcome to our third hearing on the subject "Social Security: What Changes Are Necessary?"

Over the past several months, many groups and commissions have made recommendations about needed changes in the social security system. Some of these groups have testified before us at our first two hearings, and many important issues have been raised.

Today's hearing is set aside to obtain the comment and reaction to these recommendations from a cross section of the major groups representing the elderly of this country. Hopefully, we will hear some new proposals as well.

In preparing for today's testimony, the committee staff selected 12 major issues for consideration. Time will not permit us to discuss all these issues—we know we have a cloture vote coming up at 2:30—but we hope to cover as many as possible. Hopefully, our witnesses will address those we do not cover this afternoon in their written statements that have been submitted.

So that the transcript of our hearing will be more complete, I would like to submit a brief staff analysis of each issue to be made part of the record. [See below.]

In order to save time and to avoid duplication of testimony, we have asked our witnesses not to read their prepared remarks. Instead, in a more informal way we will take up these recommendations issue by issue in a panel discussion format. Near the end of the hearing we will try to save some time for each witness to sum up any final thoughts they might wish to emphasize.

Let me suggest to the committee and the witnesses the order in which we would like to proceed. It seems clear to me that the question of financing is the essential central issue confronting Social Security today. There is both a critical short-term cash flow problem that we must solve right away and there is a serious long-term deficit problem that we need to begin to address. Therefore, since most of the recommendations we have been reviewing would affect either the short- or the long-term financing questions, I would like to focus our discussion today along that theme.

First we will take up the issues of a short-term nature: Proposed changes in the CPI, removing or liberalizing the earnings test, and the use of general revenue funds to finance all or part of medicare.

Second, we will take up the long-term issues: Raising the retirement age, universal coverage, earnings sharing and the treatment of women.

If time permits, we have some other issues that warrant comment as well.

Finally, I want to say I greatly appreciate your willingness to appear before us today to give us your reactions to many proposals.

[The staff analysis referred to above follows:]

ANALYSIS OF 12 MAJOR ISSUES

SHORT- AND LONG-TERM FINANCING

SHORT TERM—BACKGROUND

If combined trust fund reserves go below 8⅓ percent of annual outgo (1 month's benefits), there will not be enough cash to pay monthly benefits.

Slight increases in unemployment affecting payroll tax revenues or increases in the CPI affecting benefit levels make 9–12 percent a more realistic reserve in order to pay 1 month's benefit.

In the early 1970's, reserves equal to 1 year's worth of expenditures were considered wise. At the passage of the 1977 Amendments to the Social Security Act, Congress assumed there would be at least a 67 percent reserve in the three funds in the early 1980's.

Extent of Problem

The latest official numbers (administration's mid session economic assumptions, July 1980) show that the combined OASI and DI trust funds need a minimum of $42 billion in additional funds between 1982 and 1986. This could be taken from reserves in the HI trust fund.

If cyclical economic assumptions are introduced:

Under fast recovery

OASI and DI will need $33 billion more between 1982 and 1985 to keep reserves from falling below 1 month's worth of benefits.

Under slow recovery

These two funds will need an additional $71 billion between 1982 and 1990. In this case, there are not adequate funds in the three trust funds combined. Additional revenue or reduced benefits would be necessary. See chart for trust fund balances.

Note: None of these approaches allow for building any extra reserves. It takes $2–$3 billion in today's dollars to build a 1 percent point increase in reserves. Under slow recovery assumptions, a 20-percent reserve at the beginning of 1990 would require $75 billion more than projected funds available at the end of 1989.

ASSETS OF OASI, DI, AND HI TRUST FUNDS AS A PERCENTAGE OF OUTGO DURING THE YEAR

	Midsession review assumptions		Slow recovery cycle economic assumption		Fast recovery cycle economic assumption	
	OASI	Total (OASI, DI, and HI)	OASDI	Total (OASI, DI, and HI)	OASDI	Total (OASI, DI, and HI)
1979	30	34	30	34	30	34
1980	24	29	24	29	24	29
1981	18	23	18	23	18	23
1982	10	19	9	18	10	19
1983	4	16	2	14	5	17
1984	−3	12	−4	10	2	16
1985	−9	8	−10	7	−3	13
1986	−9	9	−14	4	−6	11
1987	−8	12	−16	3	−4	14
1988	−6	15	−14	5	−1	17
1989	−3	17	−13	5	−1	16
1990	(1)	19	−14	2	(1)	14

1 Less than 0.5.

Source: "Social Security and Economic Cycles," prepared by the Congressional Research Service for the Subcommittee on Social Security of the Committee on Ways and Means, U.S. House of Representatives, Nov. 12, 1980.

LONG TERM—BACKGROUND

The Secretaries of Health and Human Services, Labor, and the Treasury serve as trustees of the social security trust funds. They report annually to Congress on the condition of each fund and on projected future operations.

In making their projections, the trustees cover the next 75 years for the OASI and DI trust funds. For the HI trust fund they cover only the next 25 years.

These future cost estimates are prepared using three alternative sets of assumptions, referred to as "optimistic", "intermediate", and "pessimistic". The most importance is usually attached to the intermediate projection. For each set of assumptions, a different estimate is made for such important variables as mortality, fertility, net immigration, inflation, and others.

Obviously, projections of this type made so long into the future have a lessening degree of certainty, yet they do furnish insight into the consequences of the existing program and any possible changes.

Extent of Problem

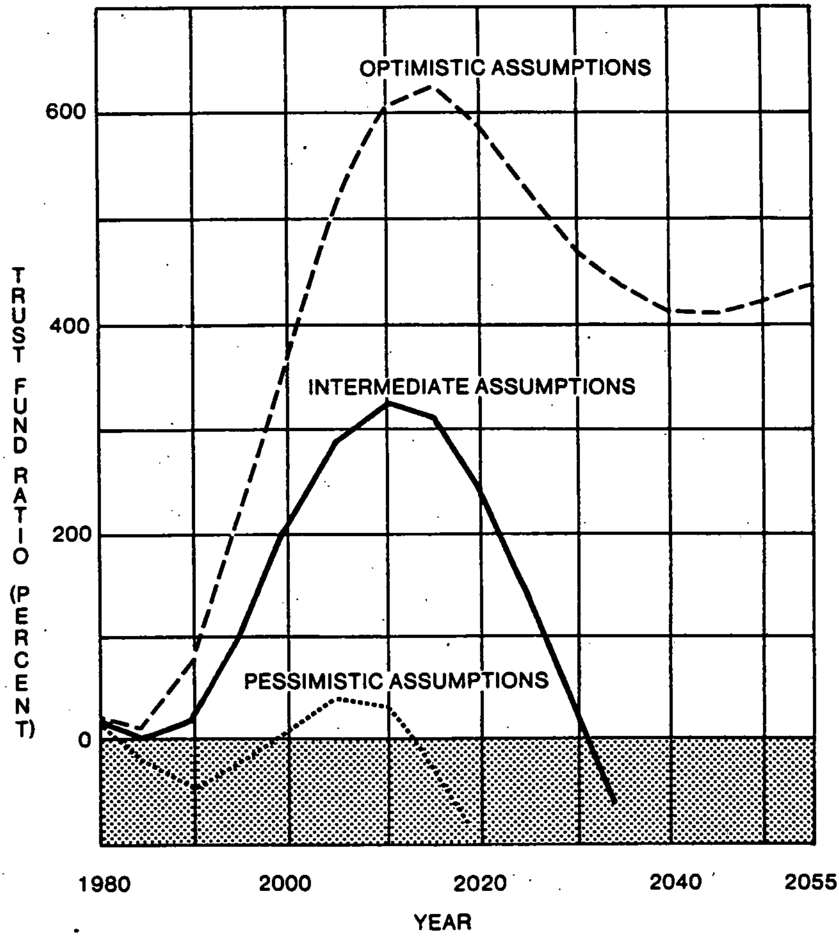
According to the 1980 trustee's report, under each set of assumptions, the estimated outgo as a percent of taxable payroll increases rapidly after the year 2000. Without changes in the program, these projections indicate severe financial difficulties in the next century.

Under the intermediate assumptions, the OASDI trust fund balances would be exhausted around the year 2030; and under the pessimistic assumptions they would be exhausted between the year 2010 and 2015.

Note: See chart on next page.

Chart

OASDI TRUST FUND RATIOS PROJECTED 75 YEARS



Source: June 1980 OASDI Trustees' Report projections.

Raising the Retirement Age From 65 to 68

CURRENT LAW

Eligibility for full old age and survivors benefits now begins at age 65 with reduced benefits (80 percent) at age 62 (disabled, widowed spouses at 60).

PROPOSED CHANGE

Gradually raise the age at which a person is eligible for full benefits to 68 years and for reduced benefits to 65 years by 1 month every 4 months beginning in January of 1995. In September 2006, the age of eligibility for full benefits would be 68.

The earliest ages for initial eligibility would continue to be 3 years before "normal retirement age" for retired worker and aged spouse benefits, 5 years before "normal retirement age" for aged widow/er benefits, and 15 years before "normal retirement age" for disabled widow/er benefits. The rate of reduction of benefits for each month of early retirement would be unchanged.

RATIONALE

Pro

The primary reason to raise the age is to reduce costs for the long range.

Also, many older persons are willing and able to work and jobs are becoming less physically demanding. Since life expectancy has increased at least 3 years since 1935, social security would continue to provide a benefit for a retirement period of comparable length to that in the past.

Con

People over 65 may be unable to work. Health conditions, age discrimination and an inadequate supply of jobs are still factors. An increase in disability recipients, and a rise in unemployment or other social costs could result.

COST ANALYSIS

Under this proposal to phase-in the increase by 1 month every 4 months for 12 years, the long-range savings to the OASDI program is estimated to be 1.42 percent of the combined payroll tax on both employer and employee.

Use of General Fund Financing for Medicare

CURRENT LAW

The hospital insurance program (HI), or part A of medicare, is now financed by a portion of the payroll tax. The HI payroll tax rate is the same for employee and employer as well as for self-employed persons and is as follows: 1979–80—1.05 percent; 1981–84—1.3 percent; 1985—1.35 percent; 1986–90—1.45 percent.

Part B of medicare, or supplementary medical insurance (SMI), is also considered a social security program but is financed instead from general funds (70 percent) and premiums paid by insured persons (30 percent). General funds are used to cover the costs of benefits for certain noninsured persons who become 60 years of age before 1968, but this use of general funds is usually not considered a major departure from the traditional financing methods.

PROPOSED CHANGE

For each year after 1981 shift *one-half* of the currently scheduled HI tax rate to the OASDI program. Finance HI with the remaining one-half of the scheduled payroll tax rate plus a contribution from general revenue equivalent to one-half of the HI tax rate.

RATIONALE

Pro

The medicare program is the most appropriate place to introduce general revenue financing into the system because its benefits are not related in any way to earnings or the individual's contribution (as are the cash benefits). The HI program was a late addition to the system, its purpose is not to replace earnings lost at retirement, and as a more socially oriented element of the system, it is better suited for this type of financing. In addition some feel that the payroll tax has become an excessive burden on the worker and employer alike and is reaching its limits as a source of funding.

Con

Arguments typically put forth are (1) most workers perceive their benefits as a matter of right acquired by their payroll tax contributions, and a government contribution tied in this way might damage or weaken this acceptance of the system, (2) the close tie between new benefit liberalizations of the program and new payroll taxes provides the system with a "fiscal brake" without which there would not be enough constraints to prevent major unrealistic benefit expansions, and (3) no real new revenues are generated by general fund financing since it merely shifts the shortfall in revenues from the trust funds to the general fund.

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COST ANALYSIS

If one-half of the currently scheduled HI tax rate is shifted to the OASDI program, the long range effect is to increase the OASDI actuarial balance by 1.38 percent of taxable payroll (so that the estimated actuarial deficit is reduced to .21 percent of taxable payroll).

The following actual dollar amounts would be transferred into the OASDI trust funds (but similar amounts would need to be paid from the general fund to the HI trust fund in order for it to continue):

Calendar year:	*Billion*
1982	$18.4
1983	22.0
1984	24.5
1985	27.0
1986	29.5

Note: Whether or not this proposal were implemented the HI trust fund is estimated to be exhausted in the early 1990's.

COST OF LIVING ADJUSTMENTS

CURRENT LAW

The Secretary of HHS can automatically increase social security benefits each June whenever the cost of living, as measured by the CPI, has risen 3 percent or more over the past measuring period. The 1980 automatic increase, payable in July, was 14.3 percent.

PROPOSALS

Among alternatives, Congress might tie benefit increases to the modified rental equivalent index, or apply the personal consumption expenditure price (PCE) deflator, or limit the cost of living increase to 85 percent or 67 percent of the CPI in each year for a limited period. Another possibility is to limit the annual increase to the rise in prices *or* wages, whichever is lower.

RATIONALE

Pro

The automatic increase constitutes a large and uncontrollable budget item (i.e., a 1-percent increase in the CPI costs $1 billion or more in benefits) and recently has exceeded the typical wage increase received by those who are being taxed to support the social security system.

Some feel the CPI which includes homeownership costs, such as purchase price and mortgage rate, may be an inappropriate indication of true cost increases to elderly households.

Con

On the other hand, elderly households spent a larger percentage of income on necessities such as food, fuel and health care, the cost of which has been rising faster than the CPI. The CPI may understate the effect of inflation on elderly budgets. Social security is often the only portion of the elderly's total income which is fully adjusted to the inflation rate. Social security benefits are already inadequate for many elderly.

COST ANALYSIS

If, instead of increasing OASDI benefits to reflect the full increase in the Consumer Price Index (as in present law), benefit increases in June 1981 and later only reflect 85 percent of the increase in the CPI, the long-range savings to the OASDI program are estimated to be .70 percent of taxable payroll. Short run savings in actual dollars will be:

	Savings (in billions)
1981	$1.0
1982	3.2
1983	5.6
1984	8.0
1985	10.4
1986	12.7

Wage Versus Price Indexing

CURRENT LAW

In order to determine the initial benefit amount that an eligible worker will receive under social security, the worker's average monthly earnings must first be computed. In order to do this, all the worker's earnings under social security are first tabulated. However, to account for increases in the average wage level over the years, old earnings are updated, or indexed, so that they are comparable to the wage levels at the time the worker retires.

Under current law, the old earnings are indexed by wages, not by prices.

PROPOSED CHANGE

Continue to index past wages, but index by prices instead of wages.

RATIONALE

Argument for

Because historically wages have grown faster than prices in this country, price indexing would be less expensive and would result in significant long-term savings to the trust funds. One estimate states that since 1950 wages have grown at a rate of 330 percent, whereas prices have grown at only 218 percent.

Roughly speaking, wages grow faster than prices by the rate of the country's productivity. Although recently prices have grown faster than wages—since productivity is down—it is expected that the economy will rebound and productivity will improve.

While switching to price indexing will reduce somewhat the future initial benefits of workers, price indexing will guarantee to workers that their benefits will be fully adjusted for inflation. In other words, workers with comparable wage histories retiring today and in the future will be able to buy the same level of goods.

Because such a switch could erase or substantially reduce the long-term deficit of the social security system, payroll tax increases beyond those already legislated could be avoided. In addition, this change, by generating savings, could provide the possibility for increasing benefits in the years ahead.

Argument Against

Shifting to price indexing has the effect of significantly reducing, in the long run, the replacement rate (the proportion of a worker's recent earnings that are replaced by his social security benefit). For example, it is estimated that the replacement rate for the average worker retiring at age 65 will drop from about 41 percent today to 30 percent by 2010 and to 25 percent by 2050.

COST ESTIMATE

Over the next 75 years, the Social Security Administration estimates that a switch to price indexing would—on the average—generate a savings of 3.51 percent of taxable payroll (based on input from both employer and employee).

Universal Coverage

CURRENT LAW

Under present law, three major groups of workers are not mandatorily covered by social security: (1) Federal Government civilian employees, (2) State and local government employees, and (3) employees of nonprofit organizations. These employees account for approximately 10 percent of the nation's workforce.

PROPOSED CHANGE

Extend social security coverage on a mandatory basis to: (1) Federal civilian employees *hired after 1984*, (2) State and local government employees *hired after 1984* (as well as those hired before 1985 if they are not covered by any retirement plan in January 1, 1985), and (3) all employees of private nonprofit organizations as of January 1, 1985.

RATIONALE FOR CHANGES

Pro

Universal social security coverage has been recommended by a number of advisory groups, including, most recently, the 1979 Advisory Council on Social

Security. This group found serious problems that can arise from excluding 10 percent of the Nation's workforce from social security coverage:

—*Gaps in coverage:* Workers who switch employment between social security covered and noncovered jobs often suffer gaps in their insurance protection which may leave the worker and his family completely uninsured in the event of disability or death of the worker.

—*Windfalls:* Some workers who have earnings from covered and noncovered employment receive benefits under both systems that are actually higher than their preretirement income. These unduly high benefits must be paid for by the workers paying into social security. If all workers were covered by social security, their benefits would be coordinated to prevent this situation.

—*Better coverage for State and local workers:* State and local workers can, under certain circumstances, be covered by social security. These employees have substantially superior protection. The House of Representatives Pension Task Force Report, issued in 1976, states that on the average, State and local annuitants under both social security and a staff pension system receive a combined benefit that is 20 to 60 percent higher at retirement than for annuitants in noncovered systems.

It is recommended that any move to extend mandatory social security coverage to currently noncovered workers generally affect new hires only. In this way, the costs to the employer of instituting social security coverage will be phased in gradually, and present retirees and workers who are near retirement age will not have their retirement plans disrupted.

Con

Opponents of universal coverage argue that efforts to eliminate problems caused by a lack of social security coverage for some workers may, in fact, lead to new problems, including significant administration and financial burdens on the retirement systems not presently covered by social security.

COST ESTIMATES

Over the long run, the savings to the OASDI program would be 0.52 percent of taxable payroll. The savings, or net additional amount of OASDI contributions (input) over additional benefit payments (outgo), is estimated to be:

Calendar year:	*Billion*
1985	$2.3
1986	4.1
1987	5.8
1988	7.5
1989	9.4

In addition, this proposal would result in a reduction in the long-range cost of the HI program (that is, the average annual cost for 1980 through 2004) of 0.13 percent of taxable payroll.)

Retirement Test

CURRENT LAW

Under present law, social security retirement benefits are subject to a "retirement test." This means that social security benefits are reduced if the individual still has substantial earnings. In 1980, an individual 65 or older can earn up to $5,000 before his or her retirement benefits are affected. However, for every $2 earned over that amount, the social security retirement benefit will be reduced by $1. Individuals below age 65 are allowed to earn only $3,720 before this $1-for-$2 offset applies. At age 72 (age 70 beginning in 1982), this offset no longer applies.

The exempt amount is scheduled to go up as wages go up. In 1981, for instance, the exempt amount is scheduled to go up to $5,500 for workers age 65 or over, and $4,080 for those below age 65. Moreover, unearned income, such as dividends and investment income, does not apply toward the exempt amount.

PROPOSED CHANGE

Option 1: Eliminate the Test for All Beneficiaries

Eliminate the earnings test for all OASDI beneficiaries beginning January 1982.

Option 2: Eliminate the Test for Beneficiaries Aged 65 and Over

Eliminate the earnings test only for beneficiaries aged 65 and over.

RATIONALE FOR CHANGES

Option 1: Eliminate the Test for All Beneficiaries

The retirement test is designed to determine if the risk insured against—retirement—has actually occurred. However, many Americans resent the retirement test since they view the retirement portion of the social security program as an annuity rather than as an insurance payment. Thus they feel that, after a lifetime of contributing to the social security program, retirement benefits are an earned right, and should not be reduced on the basis of other income.

Further, the retirement test may act as a disincentive for older Americans to continue working or to return to work, since they may lose benefits under the the social security system.

Finally, the retirement test discriminates against beneficiaries who have earned income, as opposed to those with unearned income, such as dividends and savings, since unearned income is not counted under the test.

Option 2: Eliminate the Test for Beneficiaries Aged 65 and Over

Eliminating the social security retirement test carries a high price tag. Considering this, it seems reasonable to exclude beneficiaries who choose to receive reduced retirement benefits (payable as early as age 62) from such a change in the law, since these are people who opted to leave work before full social security retirement benefits are payable.

COST ESTIMATES

Option 1: Eliminate the Test for All Beneficiaries

Over the long run (that is, the average annual cost for 1980 through 2054), the cost to the OASDI program would increase by 0.18 percent of taxable payroll. Actual dollar costs would be:

Calendar year:	*Billion*
1982	$6–7
1983	6–7
1984	6–7
1985	6–7
1986	6–7

Option 2: Eliminate the Test for Beneficiaries Aged 65 or Over

Over the long run (that is, the average annual cost for 1980 through 2054), the cost to the OASDI would increase by 0.14 percent of taxable payroll. Actual dollar costs would be:

Calendar year:	*Billion*
1982	$1.7
1983	2.1
1984	2.1
1985	2.2
1986	2.2

Earnings Sharing and the Treatment of Women

CURRENT LAW

The benefits paid under social security are wage-record related. Women who tend to have lower average wage rates and interrupted attachment to the paid labor force have lower benefit levels. They may receive dependents' benefits (in general one-half of a worker's benefit) or benefits on their own earnings record.

A spouse who qualifies for both a worker's benefit on his or her own record and a dependent's benefit will get the higher amount of the two.

However, under current social security law, a person who is entitled to social security benefits as a worker and as a spouse or surviving spouse cannot get both benefits in full. The spouse's benefit is offset dollar for dollar by the amount of the worker's benefit. This reduction is made because a person who is eligible on his or her own record cannot be considered completely dependent on a spouse's earnings for support.

Homemakers often have inadequate protection under the current system because:

—Married women workers get substantially lower benefits if they spend time out of the paid labor force in homemaker or childcare activities. Also, average wages for women are lower than for men.
—The divorced wife's benefit of 50 percent of the worker's benefit is often not adequate.
—Widowed homemakers under age 60 cannot receive benefits unless they are either at least age 50 and disabled or are caring for children.
—Women working in the home have gaps in disability protection. Also, the system sometimes seems unfair to two-earner couples.
—Married women wage earners may find that their own earnings record only duplicates, rather than adds to, protection they already have as spouses.
—Benefits are often higher for couples where one spouse earned all (or most) of the income than for couples where both spouses had roughly equal earnings, even though their total family earnings are the same.
—Since benefits are available and payable to dependents, married workers receive greater protection under social security than single workers, even though both pay social security taxes at the same rate.

PROPOSED CHANGE

Under earnings sharing, a couple's annual earnings would be divided and credited equally between them for the years they were married for the purposes of computing retirement benefits. The earnings would be divided when the couple divorced or when one spouse reached age 62. This would entitle each spouse to a primary benefit and would replace aged dependent spouse's and surviving spouse's benefits provided under present law.

RATIONALE

Pro

The earnings sharing concept for work-related benefits responds positively to many of the inequities: it recognizes the economic contribution of the homemaker and thus solves the problem of zero-earnings years for averaging; it ends the gaps in protection for divorced spouses; it gives equal benefits to equal earnings couples and to the survivors of those couples; it helps women to meet the recency of work test for disability benefits; it reduces the difference in protection between single and married women workers; and it ends the duplication of tax paid by married women workers because the benefits are related to earned and shared credits.

Con

It appears that earnings sharing would involve a basic tradeoff—either (1) the cost of the social security program must be increased and additional financing provided, or (2) benefits must be reduced for some, or (3) some compromise between these approaches must be found. It has been questioned whether earnings sharing would provide adequate benefit levels without greatly increased costs. The lengthy complicated and difficult process of such a major change in maintenance of earnings records, and the way benefits are awarded, has produced some concern. The short-term financing problems also make immediate implementation difficult.

COST ANALYSIS

Not available.

Incentives To Delay Retirement

CURRENT LAW

If a worker continues working and delays application for retirement benefits under social security between ages 65 and 72, he or she will get a special "delayed retirement credit" or 1 percent for each year (or one-twelfth of 1 percent for each month).

This credit is applied to the initial benefit at time of application. The credit will be increased to 3 percent for each year (one-quarter of 1 percent for each month) after 1981.

PROPOSED CHANGE

Increase the delayed retirement credit to a more actuarily fair basis of 7 percent annually for persons reaching age 65 in January 1982 and later.

RATIONALE

A delayed retiremnt credit of only 1 percent or 3 percent is so small that it does not act as an incentive. With mandatory retirement now raised to age 70, more incentives are needed to encourage workers to stay in the work force.

COST ESTIMATE

The cost to the OASDI program is estimated to increase by .09 percent of taxable payroll in the long run. In actual dollars, the increase is estimated as follows:

Calendar year:	Million
1982	<$50
1983	<50
1984	100
1985	200
1986	400

Lump-Sum Death Payment (LSDP)

CURRENT LAW

A lump-sum payment of $255 (maximum) is made under social security when an insured worker dies. No such payment is provided for under SSI. An estimated 1.325 million insured death payments will be paid in 1980, for an estimated cost of $337 million.

PROPOSED CHANGES

Option 1: Eliminate the Benefit

After December 1981, pay no more lump-sum death payments; however, a similar payment—equal to the monthly SSI payment (currently $238)—would be made under the SSI program to certain surviving spouses. Unlike the current social security payment, the new SSI payment would be increased as prices rise.

Option 2: Raise the Amount of the Current Benefit

Retain the current benefit, but—beginning in January 1982—raise the present ceiling on the amount paid ($255) to three times the primary insurance amount but no more than $500.

RATIONALE FOR CHANGES

Option 1: Eliminate

The maximum lump-sum death payment of $255 has not been increased since 1954. Therefore, this benefit has become much less meaningful as payment for funeral expenses or last illness costs. A payment of $255 today would have had a purchasing power of less than $80 in 1954.

Approximately 50 percent of all lump-sum payments are made to estates where there is no surviving spouse nor any surviving minor children. Payments can be made directly to funeral homes or to the person paying for the expense. By eliminating the benefit from social security and establishing a modified death benefit in the SSI program (which has a means test), Federal dollars would be effectively targeted to those cases where there was a realistic need.

Option 2: Raise Ceiling to $500

Raising the ceiling to $500 was a recommendation of a narrow majority of the 1979 Advisory Council on Social Security. They believe that this benefit provides a valuable assistance at a time of special financial need—final illness and funeral. The present payment is inadequate. The Council also was opposed to restricting the eligibility for this benefit by a means test; they found no more reason for a means test here than there would be for other risks covered by social security.

COST ESTIMATES

Option 1: Eliminate the Benefit

Over the long run, the savings to the OASDI program would be 0.01 percent of payroll. Actual dollar savings would be:

Calendar year:	Million
1982	$200
1983	400
1984	400
1985	400
1986	400

Cost to the SSI program for a modified death benefit for fiscal year 1984 is estimated at $8 million.

Option 2: Raise the Ceiling to $500

This increase would cost an additional $330 million in 1982. In general, it would double the cost per year.

Elimination of Minimum Benefit

CURRENT LAW

The Social Security Act has a provision which assures individuals covered by the program a minimum benefit. It was instituted to provide beneficiaries who are poor and have a history of very low wages with an initial benefit with some meaning.

Social security has always had a minimum benefit. It had been raised several times until 1977 when it was frozen at $122 (the reduced benefit at age 62 is $97.60). However, after a person begins to receive the benefit, it is adjusted yearly for increases in the cost of living.

PROPOSED CHANGE

Eliminate the minimum benefit provisions for persons becoming eligible after December, 1981. An individual's benefit would be paid based on his earnings record but would not be elevated to the minimum benefit level.

RATIONALE

Pro

Social security is intended to replace earnings lost at retirement. However, the minimum benefit is being paid to many people who did not, during their working years, rely on their covered earnings as a primary source of income.

Most minimum beneficiaries have contributed very little to social security, did not rely on their social security covered earnings before retirement and get a benefit about four times larger than their average covered monthly earnings before retirement (replacement ratio of 356 percent).

About one-half of the 3.1 million who receive the minimum benefit also have substantial income from other sources. Therefore, the minimum benefit is largely a windfall to those not in need. Generally, minimum beneficiaries who are eligible for SSI would continue to receive (or be eligible for) the same level of SSI payment with or without the minimum benefit provision. The minimum benefit is an undesirable welfare element of social security. The SSI program is the appropriate mechanism for addressing the needs of low income persons.

Con

An unknown number of needy people would not be eligible for SSI (i.e., those under 65 and not blind or disabled) and might suffer hardship.

COST ANALYSIS

If the OASDI minimum benefit provision is eliminated for persons becoming eligible after December 1981, the savings to the OASDI program is estimated to be 0.01 percent of taxable payroll in the long-run. Short run savings in actual dollars will be:

Calendar year:	*Savings (in billions)*
1982	$0.1
1983	0.1
1984	0.1
1985	0.2
1986	0.2

Student Benefits

CURRENT LAW

Benefits are presently paid to full-time students aged 18–21 who are children of retired, disabled or deceased workers. During the 1979–80 school year, approximately 380,000 students received these benefits.

PROPOSED CHANGE

Eliminate the student benefit for persons aged 18 through 21 attending post-secondary school who attain age 18 after December 1981.

RATIONALE FOR CHANGE

Since its adoption in 1965, the social security student benefit has had growing competition. Several Federal educational assistance programs—for which many social security recipients are also eligible—have been established or greatly expanded. For fiscal year 1980 (school year 1980–81) the Department of Education reports that several programs are available. As examples:

(A) Basic educational opportunity grant (BEOG): An estimated 3.6 million students will receive loans averaging about $839 per year.

(B) Under the guaranteed student loan program, over 2 million students will receive an average loan of $2,173 per year.

(C) Under the national direct student loan program, 861,000 students will receive an average loan of $826 per year.

Many students receiving BEOG payments (over 200,000) would be eligible for higher BEOG benefits if social security student benefits were eliminated. In addition, several other student beneficiaries would be eligible for other Education Department grants or loans.

COST ESTIMATES

In the long run, the savings to the OASDI program is estimated to be 0.05 percent of taxable payroll. In actual dollars the savings is estimated as:

Calendar year:

1982	million	$200
1983	do	500
1984	billion	1.0
1985	do	1.5
1986	do	1.9

Senator CHILES. We are delighted to have Senator Heinz with us today, and he is going to be chairing this committee very shortly. He certainly has a long-term interest in all of the problems of the aging and I am delighted he is going to be able to take over and solve our social security problems.

STATEMENT BY SENATOR JOHN HEINZ

Senator HEINZ. Mr. Chairman, I thank you, I guess, for what you have so kindly said. I do add my congratulations to you for this excellent panel of witnesses. I am especially pleased to have the opportunity to hear from a group of social security experts with a somewhat different perspective than that of the other excellent witnesses of our last two hearings. As we all know, these individuals will discuss social security issues today. The 12 issues you have identified represent the millions of elderly and disabled Americans who receive the $140 billion-plus in social security payments annually.

The issues that are before us—the integrity of the social security system, the retirement age, the earnings test, the treatment of women in the program, and so on—are extremely vital to the health and the well-being of those millions represented here. Because of that, the insights and recommendations we receive today will be truly invaluable.

In the interest of time I will refrain from making any longer statement but I am deeply interested in what each of the witnesses have to say. I want to assure each and every one of our witnesses that their recommendation will, in fact, play a role in congressional deliberations

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on this vital issue. I am deeply grateful for their thoughtful statements.

Senator CHILES. Thank you, Senator Heinz. Senator Pete V. Domenici, the ranking minority member of our committee, is expected to join us later in the afternoon. However, if for some reason he is unable to be with us, I will insert a statement he has submitted for the record. Also, Senator Barry Goldwater has submitted a statement, and without objection, they will be entered into the record at this point.

[The statements of Senators Domenici and Goldwater follow:]

STATEMENT OF SENATOR PETE V. DOMENICI

As a member of the Special Committee on Aging and the Budget Committee, I am aware of the impact of social security from both the social and fiscal perspective. I know that over 93 percent of those over 65 receive social security. For almost one-third of our elderly, it is their only source of income. At the same time, total social security outlays in 1981 will be almost $150 billion. In 1981, they will make up approximately one-fourth of our total Federal budget. Due to high inflation, high unemployment, increased participation in the system, and increases in benefits, the social security system faces a short-term financing crisis which must be addressed in the next Congress. Even if we resolve that, we are told we may face a long-term deficit early in the next century.

Obviously, there are alternatives. We can bring more revenue into the system—which inevitably means higher taxes—or we can attempt to control the cost of the system in a number of ways. The range of specific alternatives is wide, but none are simple.

Today we will focus on several of the proposals which might be considered to resolve the problem. We appreciate the presence of the witnesses representative of major organizations in the field of aging who will bring us the views of their membership and other older people on these issues through their testimony. In addition to this testimony, I believe that your organizations can play a valuable role in providing to your members the facts and figures about social security. I have encountered considerable misunderstanding among my constituents about the social security system regarding how much a person pays into the system, how it is financed, and how benefits are related to earnings.

The committee is attempting to heighten the level of understanding of this complex system for the Members of the Senate and the public by holding these hearings and by preparing and distributing the informational material associated with this effort. I believe this increased level of knowledge is essential in order for Congress to enact responsible changes which will be understood by and acceptable to the American people.

Our witnesses today can assist us in making these inevitable and difficult decisions and in our task of presenting accurate information about the problem and the potential solutions.

STATEMENT OF SENATOR BARRY GOLDWATER

Mr. Chairman and members of the committee, it is a pleasure to share with you my views on some of the pressing issues confronting the social security program in future years. I will not attempt to be all-encompassing, but will focus on major issues that I have studied for many years now and which Congress must address if social security is to be both equitable and fiscally sound.

First, I believe the earnings test of social security must be repealed entirely for all covered persons who are age 65 or older.

Second, I believe covered individuals should remain eligible for full benefits at age 65, instead of age 68.

Third, the added credit for workers who delay retirement benefits should be increased to an actuarial level of 10 percent each year after 65.

Fourth, the cost-of-living adjustment of benefits should remain as it is unless Congress develops an improved, separate index for the elderly.

Fifth, some social welfare aspects of old age benefits might. as a last resort, be financed by annual appropriations in order to put social security on an actuarially sound footing without higher payroll taxes.

EARNINGS TEST

The social security law now discriminates against more than 11 million citizens who are aged 65 to 72. If persons of this age continue working, they lose $1 of benefits for each $2 of wages on all income earned over $5,000, until their benefits stop entirely.

Under a 1977 amendment presented by the late Congressman Ketchum and myself, as amended on the Senate floor, the ceiling will be increased to $6,000, and the exempt age will drop to 70, effective in 1982. The total number of persons 65 to 70, who will remain subject to the new ceiling in 1982, will still exceed 10 million.[1]

I, and 20 of my colleagues, have introduced a bill, S. 1287, to eliminate the earnings test for all persons starting at age 65, effective in 1983, 1 year after all the scheduled increases take effect.

According to data developed within the Social Security Administration itself, the net effect of my bill upon the Federal budget will be $376 million in 1983.

I am submitting for the record a memo from the Office of Chief Actuary at the Social Security Administration that estimates the maximum cost of my bill, before any offsets, is $2.1 billion. In contrast, the cost of repealing the test for all covered workers, including college-age dependents, may be $6 to $7 billion. Removal of the test only for older persons at age 65, beginning in the year 1983, as provided in my bill, costs far less.[2]

A recent study by the Social Security Administration Office of Research Policy concludes that if the earnings test were eliminated for workers aged 65 through 69, the gain in social security payroll taxes and individual income taxes will recover 79 percent of what the change will cost, or $1.656 billion to be exact.[3]

In addition, the Social Security Administration testified at congressional hearings this year that there would be administrative cost savings from eliminating the retirement test, for people 65 and older, amounting to another $68 million.[4] Thus, the total savings from repeal of the test for older persons in 1983 would be $1.724 billion, leaving a net cost of $376 million according to Social Security Administration data.

My own review of the economic data convinces me that the actual savings generated by elimination of the test will be even higher than estimated. I am convinced that tens of thousands of persons more will return to the work force after the ceiling is repealed, than is projected in the Gordon-Schoeplein study.

For example, an earlier study by the Social Security Administration finds that 12 percent of all retirees would return to work and another 24 percent may return to work, if given the incentive.[5] This is up to 36 percent of all retirees, compared with only 5 percent projected in the new study. Similarly, the 1980 survey by Peter Hart Research Associates reports that as many as 4 in 10 people would postpone retirement until age 70, if they could receive significantly higher benefits.[6]

My bill assumes the income tax funds captured by the increased labor effort resulting from elimination of the test will be credited, together with the added payroll tax funds, to the social security trust funds.

Whatever the cost, if any, may be, the money older persons pay into social security is theirs. It does not belong to the Government. The Government's only responsibility is to pay it back.

DELAYED RETIREMENT CREDIT

I am strongly opposed to suggestions, reportedly being considered by a Presidential commission, to raise the social security retirement age from 65 to 68. This scheme is also attributed to a transition task force team preparing recom-

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[1] Source: Memo from Office of Chief Actuary, Social Security Administration, April 28, 1980. See appendix I.

[2] Source: Memo from Office of Chief Actuary, Social Security Administration, July 5, 1979. See appendix II.

[3] Josephine Gordon and Robert Schoeplein, "Tax Impact From Elimination of the Retirement Test," Social Security Bulletin, vol. 42, September 1979, at pp. 22–32.

[4] Testimony of Lawrence H. Thompson, Associate Commissioner for Policy, Social Security Administration, before the House Select Committee on Aging, Subcommittee on Retirement Income and Employment, hearing on "Social Security Earnings Limitation," June 26, 1980.

[5] D. Motley, "Availability of Retired Persons for Work: Findings From the Retirement History Study," Social Security Bulletin, April 1978, at p. 27.

[6] "A Nationwide Survey of Attitudes Toward Social Security," by Peter D. Hart Research Associates, Inc., at p. 15 (1980).

mendations for President-elect Reagan, and I oppose the idea just as much if it originates with a Reagan panel as I do when it is presented by a Carter administration group.

Again, I would point out that social security benefits are an earned right. The benefits stem from money put into the system by the payroll taxes of workers and the employer's share of taxes, which we all know is actually paid for by lower salaries. One way or the other, it comes from the worker.

For this reason. I believe it is wrong to deprive older persons, involuntarily, of entitlement to full benefits at age 65. Many, many elderly people are dependent for their survival on their social security check at that age, plus any earnings they may continue to make. It would be equivalent to stealing money from these older persons, if the law should be revised to deny benefits until age 68.

On the other hand, I would welcome and strongly recommend increasing the delayed retirement credit to an actuarial level. If we give older workers the choice of voluntarily postponing their benefits until a later age in order to enjoy a higher benefit, I feel this would be a positive improvement in the program.

Under present law, benefits increase by only 3 percent for each year that a worker delays retirement between ages 65 and 72. An actuarially determined increment would be about 10 percent per year. If an amount equivalent to this percentage were added for each year retirement is deferred between ages 65 and 70, individuals would enjoy a fair choice among alternative retirement ages. Moreover, if repeal of the retiretment ceiling at age 65 is coupled with a substantial increase in the delayed retirement credit, the entire social security program would lose its character as a major work disincentive and become a more equitable and rewarding program.

COST-OF-LIVING ADJUSTMENTS

The Consumer Price Index must not be used as a political weapon. I am personally shocked at suggestions that the pensions of America's older persons be curbed by manipulating the inflation index.

I have introduced a bill, S. 2430, to prohibit the President or Secretary of Labor from administratively juggling the Consumer Price Index for the purpose of reducing social security benefits. My bill would require the executive branch to submit any proposal for changing the index to Congress for its review. No such change could be adopted without enactment of a new law by Congress.

It is an unfortunate fact of life that the typical retired person is going to fall behind inflation even with the small $10 or $20 a month average cost-of-living increases the law now provides. The growth of electricity and heating bills, medicines and foods, far exceeds the tiny increase older families receive under the inflation index.

It is said that the index overemphasizes housing costs. This is a false and simplistic statement. The truth is that the index does not assume all or most retired persons purchase a new home every year. To the contrary, the index assumes the great majority of older persons do not have any mortgage interest payments at all, which is contrary to real life.

An official February 1980 publication by the Bureau of Labor Statistics states, in plain language, that "the CPI does not assume that everyone buys a new house every month * * *" [7]

The same publication, by the Government office that compiles and publishes the Consumer Price Index, adds that "those who purchase their own home before the base period are assumed to have no house or mortgage interest costs at all." [8]

The Bureau of Labor Statistics has informed me that the base period is only a 5-year period, from about 1969 through 1973, and that on the average, only 6 percent of all households purchased housing during this period. In other words, the CPI assumes that over 90 percent of the housing population has no house price or mortgage costs.

Moreover, the housing component of the CPI does not merely include the cost of new homes, but property taxes, home insurance, and maintainance and repairs. These are expenses that all people living in their own homes bear, whether they purchase a new house or not. And anyone, who says older people do not pay higher real estate taxes and insurance premiums and repair costs, does not know what he is talking about.

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[7] "CPI Issues, Report 593," Bureau of Labor Statistics, U.S. Department of Labor, February 1980, at p. 2.

[8] Id.

To explore this issue further, I would point out that a strong case can be made to show the present index discriminates against, not in favor of, retired persons. Incredible as it seems, the index used for cost-of-living adjustments does not include retirees.

The wage and clerical index, known as CPI-W, is linked to social security benefits. Yet it is the urban index, designated as CPI-U, that includes retirees and would be more appropriate for this purpose.

Or, a special index for elderly persons might be developed that puts an accurate weight on the higher prices of those necessities that dominate the budgets of the elderly.

It would be the height of hypocrisy for the Government to renege on inflation adjustments now that the very economic conditions have occurred for which those increases were intended. Retired persons must not become sacrificial lambs. Congress must not withdraw the promises we have made to retired persons, who are the group least able to cope with the terrible burden of double-digit inflation.

RESTRUCTURING FINANCING OF SYSTEM

Since the original Social Security Act, Congress has amended the program to include a progressive benefit formula because of concern about the small size of the benefits that a strictly earnings-related system would pay to persons reaching age 65. It is estimated that about one-third of old age benefits today have little or no relationship with the covered workers actual earnings and the payroll taxes paid on his earnings.[9] I will call this aspect of social security benefits the social component.

It is clear that corrective action is needed to put the trust funds on a sound, long-term basis. I suggest that, as a last resort, consideration be given to financing a portion of the social component of old age benefits from general revenues. My idea is not to pump income tax revenues into the trust funds, but to transfer some or all, as needed, of the social adequacy portion of social security to a program paid for with general taxes. In the alternative, social security old age benefits might be sorted into a two-tier program within the existing system, one actuarily based and one reflecting social goals.

Frankly, I am optimistic that eliminating the earnings test and increasing the deferred retirement credit will relieve the heavy dependency of the elderly on public transfer programs, such as food stamps, medicaid, and supplemental security income. In the long run, I anticipate that greater work incentives will enable the social security system to firm up without need of ever higher payroll taxes or risk to the integrity of the program.

APPENDIX I.—*Persons aged 65 and over eligible for OASDI benefits on January 1, 1984, and affected by the retirement test in 1983*

[Office of the Actuary; April 28, 1980]

	Estimated number of persons (in millions)
Total number subject to the retirement test in 1983 [1]	10.8
With no earnings for 1983	7.6
With annual earnings for 1983 [2] of $6,600 or less [3]	2.1
With annual earnings for 1983 [2] above $6,600, but with no benefits for 1983 withheld because of the retirement test [4]	.2
With annual earnings for 1983 [2] above $6,600 and with some or all benefits for 1983 [5] withheld because of the retirement test	.9

[1] Generally, persons attaining age 70 in January 1983 or earlier, are not subject to the retirement test in 1983; persons under age 70 at the end of January 1983 are subject to the retirement test during some or all months in 1983. An exception to this is a spouse age 70 or over of a worker under age 70 at the end of January 1983—such spouses are subject to the retirement test in 1983.

[2] Excluding earnings in or after the month of attainment of age 70, for workers attaining such age in 1983.

[3] The exempt amount for persons aged 65–70 in 1983 is assumed to be $6,600.

[4] These are people attaining age 65 in 1983 who have no benefits withheld for months in or after the month of attainment of age 65, because they have no earnings, or have wages not exceeding $550 a month, or do not perform substantial services in self-employment in such months.

[5] As used here, "benefits for 1983" means those benefits for all months in 1983 excluding months prior to the month of attainment of age 65.

[9] Paul L. Grimaldi, "Supplemental Security Income," at p. 82, note 3 (1980), American Enterprise Institute for Public Policy Research.

APPENDIX II

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
July 5, 1979.

MEMORANDUM

To: Mr. Dwight K. Bartlett III.
From: Harry C. Ballantyne.
Subject: Proposal to eliminate the retirement test for workers aged 65 and over—information.

Under the subject proposal, the retirement test would be eliminated for workers aged 65 and over, beginning January 1983. The resulting additional amount of OASDI benefit payments for months in calendar year 1983, over and above benefit payments under present law, is estimated to be $2.1 billion. After 1983, the additional amount of benefit payments would increase gradually, but at a slower rate than total OASDI benefit payments.

This estimate reflects the effect of the reduction in the age at which the retirement test ceases to apply under present law, from age 72 to age 70, beginning in 1982. The increases in the annual amount of earnings exempted from the test, which are scheduled under present law for workers aged 65 and over, are also reflected in the estimate. The exempt amount for workers aged 65 and over is scheduled to increase to $6,000 in 1982. Under the intermediate assumptions in the 1979 Trustees Report, upon which the estimate in this memorandum is based, the exempt amount for workers aged 65 and over is assumed to increase to $6,600 in 1983.

HARRY C. BALLANTYNE,
Acting Deputy Chief Actuary.

Senator CHILES. We have as our panel James M. Hacking, assistant legislative counsel, National Retired Teachers Association/American Association of Retired Persons; Jacob Clayman, president, National Council of Senior Citizens, Donald F. Reilly, deputy executive director, National Council on Aging, Inc.; Carmela G. Lacayo, the executive director of the National Association of Hispanic Elderly: substituting for Dolores Davis-Wong is Larry Crecy, director of the rural community services employment programs of the National Center on Black Aged; and Michael C. Nave, president of the National Association of Retired Federal Employees.

Before we begin to discuss the issues before us, I want to be sure all our witnesses' statements are printed in full in the record. Without objection, they will be inserted at this point.

[The prepared statements of Carmela G. Lacayo, Michael C. Nave, Dolores A. Davis-Wong, Donald F. Reilly, Jacob Clayman, and James M. Hacking follow:]

STATEMENT OF CARMELA G. LACAYO, LOS ANGELES, CALIF., EXECUTIVE DIRECTOR, ASOCIACION NACIONAL PRO PERSONAS MAYORES (NATIONAL ASSOCIATION FOR HISPANIC ELDERLY)

I cannot address the changes needed in the social security system without addressing first the important recent changes in government and in the attitudes of the American people. This committee is experiencing the growing conservative trend demonstrated nationwide this fall. Inflation and other economic issues appear to be the most urgent concern of American voters and, hence, of their congressional representatives. This committee demonstrates this concern about economics by asking us testifiers to "discuss cost increases and cost reductions that may result from recommended changes." To analyze social security costs requires a review of hard data on population, participation ratios in social security programs, birth dependency ratios, etc. Unfortunately, we have very little current statistical data on the minority elderly, including older Hispanics, whom I represent, in relation to social security. Even more unfortunately, Federal moneys for research on aging are being reduced. These reductions bode ill for this committee and others who must make policy affecting older Americans. Nevertheless, the data we do have on the Hispanic population, its employment patterns, and its longevity trends are very relevant to the social security issues under discussion here. You may wonder why it is vital that this committee considers now the unique status and needs of the minority, especially Hispanic, elderly. There are two main reasons:

(1) The cumulative figures of the 1980 census indicate that by the year 2005, Hispanics will constitute the largest minority in the United States. Given that 42 percent of the Hispanic population today is under 20 years of age, Hispanics will be a major part of the work force and of new retirees at that time.

(2) In deciding social security policy during the next 3 to 5 years, this committee, together with Congress, will have a tremendous effect on the "graying of America." Policies established here will affect not only your parents, but also you and me, as you plan for social security changes over the next 25 years. Recall the population statistics on Hispanics that I just cited, and you will understand why the Hispanic elderly are a crucial element in your deliberations on social security.

Now please consider the following information about Hispanics. It relates closely to the social security issues we address today. Remember that this information is often based on (1) experiential data gleaned by the Asociacion Nacional Pro Personas Mayores (National Association for Hispanic Elderly), which I direct, and (2) local or regional research studies that do not cover all Hispanic subgroups (Mexicans, Puerto Ricans, Cubans, Central and South Americans, etc.)

The 1980's has already been called the "decade of the Hispanic." And with good reason: it is estimated that as early as 1985, Hispanics might constitute the largest minority group in the United States. But numbers alone do not assure Hispanics of prosperity in "their" decade. In fact, the term "decade of the Hispanic" seems ironic and cruel when we consider the reality of Hispanic life in the United States today. As we move into the 1980's, the Hispanic population as a whole—and even more, the Hispanic elderly—are still underemployed and underserved.

In employment, housing, health, education, and social benefits, Hispanics continue to rank among those who benefit the least. The 1976 Census Bureau's survey of income and employment indicates that the median income earned by Americans of Spanish origin is $10,300, compared to a median income of $15,200 for those not of Spanish origin. Twenty-three percent of the Spanish-origin families earned incomes below the poverty level, a number much greater than the 99 percent of families not of Spanish origin who earned incomes below that poverty level. Statistics also show that Hispanics are forced to continue working in their later years, despite comparatively poor health, because most of them have blue-collar occupations that do not entitle them to the opportunity for payment into retirement or pension plans.

If Hispanics in general face such great deprivation, the Hispanic elderly suffer even more. There are about 2 million elderly people of Spanish origin in the United States. This number is growing rapidly, and does not include older undocumented Hispanics.

Such a large, growing, mostly monolingual older population obviously needs many services in adjusting to life in the United States. But do we provide for such needs? Absolutely not. Some policymakers might protest, "But Hispanic families 'take care of their own' when they grow old." Yet in 1975, only 9.7 percent of all Spanish-origin elderly in the United States lived in extended family situations. Fully 60 percent lived in husband-wife arrangements, and 30 percent lived alone. Furthermore, if the general Hispanic population is in such great economic need as I have described, how can Hispanic families care for their elders adequately?

The Hispanic elderly are in triple jeopardy: they are old, poor, and belong to a minority. In March 1975, 58.8 percent of Mexican-Americans 65 years and older had completed less than 5 years of schooling. Low levels of formal education also characterize other groups of older Hispanics. I have mentioned that many Hispanics hold blue-collar jobs because of little formal education, because of monolingualism, etc. This fact is reflected in the low annual income of older Hispanics: in 1974, the median income of Mexican-Americans 65 years and over was a mere $3,316. In 1970, only 9.5 percent of all Spanish-origin males, and not even 1 percent of Spanish-origin females, earned more than $8,000.

What of job training possibilities to upgrade the skills of older Hispanics, and increase their income? A 1973 study in New York City showed that among Puerto Rican males and females over 45 years of age, only 7.1 percent and 1.2 percent, respectively, had job training (Cantor, 1973). As for alternate sources of income, older Hispanics continue to be underrepresented in social security and old age assistance programs. Despite the gradual broadening of eligibility standards and a broader occupational coverage by these programs, type of employment and lack of citizenship still keep the Hispanic elderly from utilizing the benefits that ought to be given to them. A study of 1970 census data showed that Mexican-Amercians participate far less than Anglos in social security programs (Bell et. al.). Similarly, Marjorie Cantor's 1973 study of Spanish-origin elderly in New York City (mostly Puerto Ricans) revealed that only 50 percent of the older people of Spanish origin received social security benefits. Furthermore, far fewer Spanish-origin elderly received retirement pensions than did the white elderly: 33 percent of the whites reported received such pensions, while only 11 percent of the Hispanic elderly did.

Considering their generally low level of education and income, long years of work, and inability to rely on an extended family structure for major support, it is no surprise that Hispanics have a drastically lower life expectancy than Anglos. One study places the life expectancy for the Mexican-American population at 56.7 years (Kurtz, 1970). Other studies have placed Hispanic life expectancy between 55 and 59 years of age. This compares with an average life expectancy of 67 years for Anglos. These statistics are especially significant for the Cuban-American population. The median age for the Cuban population in 1975 was 37.3 years, compared to 19.8 years for Mexican-American, and 19.4 years for Puerto Ricans.

A shorter lifespan for Hispanics is borne out by a 1975 study by Dowd and Bengtson. In this study, 85 percent of the Anglos aged 45 to 54 rated their health status as "good"; while only 61 percent of Hispanics considered themselves to be in good health. Similarly, the same study showed that only 8 percent of Anglos aged 63 to 65 said that they "felt old"; fully 48 percent of the Hispanics aged 63 to 65 stated that they felt old.

Yet in the field of health, as in employment, income maintenance, etc., older Hispanics are underserved. Only 1.6 percent of benefit funds for the elderly, such as SSI, medicare, medicaid, and other maintenance moneys, are for pertinent community based services. The rest of these benefit funds go to the "frail old"—those living in hospitals and nursing homes. Since the Hispanic elderly do not usually live long enough to be classified among the "frail old," they do not receive a just share of the health and other benefits provided to older citizens.

The statistical summary indicates that the Hispanic elderly differ from their Anglo counterparts in income, employment, lifespan, and participation in social security benefits. This committee must take into account the unique characteristics of older Hispanics and of other minorities if it wants to assure that all older Americans receive a fair share of the social benefits due them. Commitment to this equitable share of benefits is far from easy. A minority perspective challenges some of the changes proposed to save social security moneys. For example, the proposal to raise the retirement age from 65 to 68 neglects minority workers completely. How can we consider raising the retirement age when all the longevity data we have, however scant, shows that this increase would preclude the minority elderly from receiving the benefits for which they have worked so long and so hard? This proposal ignores the lifespan of both black and Hispanic workers. Raising the retirement age by the year 2006 would be especially unjust because, as I mentioned earlier, the now-young Hispanic generation will be a major part of the work force and will provide major support for the social security system 25 or 30 years hence. Increased retirement age would deny benefits to the very people who (1) will soon be a primary support of the entire social security system, (2) work almost exclusively in jobs not exempt from social security, (3) do not usually accrue pensions to make up for inability to draw social security payments, and (4) are among the poorest segments of the population of the United States.

Consideration for minorities in social security may prove costly and, therefore, unpopular. But if we had accurate data on minority participation in social security, we could project future contributions and demands from this system. Such projections would help this committee significantly in its policymaking and might lead to new ideas for keeping social security solvent.

This testimony has made only one specific recommendation about changes in social security; namely, that the retirement age should not be raised from 65 to 68 if this committee intends to assure that minority workers receive the social benefits for which they have paid. Rather than list additional needed changes, I have tried to provide you with a framework, a viewpoint from which to consider all the changes being proposed. It is a humanistic, rather than a technocratic viewpoint. But when we set out to affect the lives of our elderly—of the older persons we ourselves shall soon become—how in good conscience can we think of shortchanging those who must now rely on social security as their main means of support?

Senator William Cohen of Maine has predicted that we will see the young set against the old as our economy shrinks and each special interest clamors for its share of a shrinking economic pie. The current furor over the social security system is one of the first demonstrations of the coming battle. As our economy pits the young against the old, workers are led to believe that their contributions to the social security system are a "gift" to the older citizens.

It is not pointed out that the elderly have themselves paid for those benefits through their many years of work before retirement. Additionally, in the government's attempt to balance the budget, older persons might be told that since they do not pay taxes or have large debts, that is, mortgages, etc., that a 13 percent or even a 10 percent cost of living increase is too high. We are led to believe that by reducing these cost of living increases for social security beneficiaries, the national budget will be closer to being balanced. If this is the thinking of policymakers, what hope do older citizens have?

Alexander Solshenitsyn said in 1978 that there is a lack of moral courage in this country, and a lack of spiritual values. This is the very lack that makes us afraid of human issues; that makes us desirous to preserve our share of the pie even if it means that others suffer; that makes us concerned with preserving our strong image, hollow though it may be, before the rest of the world, even as we neglect to provide adequately for our citizens.

On behalf of the Hispanic elderly of today and of the future, I ask you to keep these remarks in mind as you deliberate on the needed changes in Social Security.

Statement of Michael C. Nave, Washington, D.C., President, National Association of Retired Federal Employees

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

Mr. Chairman, today I have chosen to limit my remarks to two issues on which you have requested comments. Those issues are universal social security coverage and cost-of-living adjustments.

As I begin, I think there are two short points which I must mention to put these issues in perspective.

First, I believe it should be a matter of national policy that any and all commitments made by any public or private sector employer to provide employees with specific retirement benefits should be considered a binding obligation on that employer. This obligation should be no less binding on the Federal Government as the administrator of the social security program. To suggest otherwise, would constitute a serious breach of trust. The word of an employer to his employees must be considered inviolable. This is particularly essential with regard to public employers where employee rights and benefits are often sacrificed for the sake of political expediency, and retirement income often regarded more as a gift than an earned right. Therefore, discussion of changes in retirement benefits must apply only to those to whom commitments of retirement benefits have not yet been made.

Second, it should be understood that public retirement programs—like private sector plans—are as much a management tool in attracting qualified workers as any other aspect of employment. For the Federal Government to attract good employees, it must offer pay and benefits which are competitive with major private sector employers. For that reason, questions of appropriate retirement ages and projected levels of retirement income are more often dictated by prevailing social and economic forces than through Government intervention. I am often asked if current retirement benefits are "fair." I suggest that the more appropriate question is: "Are they comparable?"

For the remainder of my remarks, I will turn to the questions on which you are looking for comments.

UNIVERSAL COVERAGE

Our association opposes any form of social security coverage for present or future employees of the Federal Government. Furthermore, we vigorously object to any and all proposals which would offset or effectively deny social security benefits earned by workers by the amounts of their public or private retirement income.

Since I went to work for the Federal Government in 1924, I have seen this issue of universal coverage surface seriously in Congress on eight occasions. Each time, after studying the facts of the issue, Congress rejected the idea. As recently as last spring, the Republican National Committee announced that after a careful review, it would oppose mandatory universal social security coverage. And even more recently, the Secretary of HHS, after reading the report of the Universal Social Security Study Group, created under Public Law 95–216, and chaired by Boston attorney Joseph Bartlett, rejected Mr. Bartlett's personal recommendation for universal coverage and issued the report without taking a position. I am confident that after examination of the facts, your committee also will come to a similar conclusion.

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

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

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

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

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

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

The Federal retirement system, which is one of the oldest in the country, continues to be sound and stable. Its funds are flourishing at a level slightly greater than $60 billion. That amount increases each year. Private sector consultants in March of 1977 confirmed that under the present financing structure, this system will continue to meet its obligations for the next 50 years, which is as far as any actuary is willing to forecast.

The Federal retirement system provides a full retirement income for career workers. Its stability and promise of retirement security has been and remains a major factor in attracting highly qualified individuals into Federal service. To jeopardize the soundness of this system by making it dependent on a program as unstable as social security would be a travesty.

To date, I have seen no analysis of this issue which indicates that social security coverage could be implemented for Federal employees without either a reduction in benefits or increased costs to the worker, the employer, and the American taxpayer. I have seen no evidence that universal coverage will improve the long-term financial stability of the social security system, or not jeopardize the integrity of the Federal retirement system funds.

Furthermore, I seriously question whether bringing additional participants into the system will not simply compound present financing deficiencies in the future. Common sense tells us that a Government program, already overburdened by too many beneficiaries, is not going to be put back in shape by adding 6 million more to its rolls. I am sure there are many reasons for the current ailments in the social security trust funds, but I can assure you, Senator, that too few participants is not one of them. As you look over the history of the program, you will quickly discover, as did I, that as Congress expanded social security coverage to include a greater segment of the Nation's work force, the program deficits and payroll taxes required to finance benefits grew proportionately. Don't be misled by those who argue that universal coverage will ease the financing difficulties of social security. History and common sense are against them. Sure, universal coverage will mean a short-term infusion of new money to the system, but in the long term, it will only postpone the critical choices our society is now facing.

As recently as April of last year, Bob Bynum, Acting Deputy Commissioner of Social Security, told Congress: "The notion of bringing Federal employees into the social security system as a windfall * * * to the social security system to keep it from going broke * * * is just not factual. This would move the social security trust fund levels just a bit to the plus side or the negative side in the next 50 years, but not a great deal of money on either side of that zero base * * * it would bring in about what was paid out in benefits in the next 45 or 50 years. The same would apply if only future Federal employees were brought into the system. It's not much of a plus or minus according to our estimates."

When Bynum was asked if universal coverage would relieve social security's funding problems, his answer was, "No, it would not."

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

And what of the impact of universal coverage on taxes and Federal spending?

As you are aware, Senator, civil service annuities are taxable at all levels of government; social security benefits are not. In 1977, civil service retirees paid taxes on $9 billion in retirement benefits received. Social security, on the other hand, paid out more than $85 billion in tax-free benefits. If civil servants are brought under social security, tax collectors at the Federal, State, and local levels would have to look elsewhere for the revenues lost. Based on the latest data available from the Office of Personnel Management, Federal retirees and survivors were voluntarily having $46.8 million per month, or $561.6 million per year, withheld from their annuities for Federal taxes alone. The total Federal, State, and local income taxes paid by Federal retirees is, in all probability, much larger than one billion dollars per year.

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

Portability

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

"Windfall" Benefit

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

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

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

The benefits should be keyed to actual earnings and service, in which case the civil service annuitant with low social security credits would receive a minor benefit, and the person with high credits would earn a major benefit.

Our association would never argue that Federal retirees should be entitled to benefits specifically created to help low-income workers. If Congress is concerned about Federal retirees receiving weighted benefits, it can simply "unweight" them. However, we vigorously object to being denied basic benefits for which we contributed and earned, according to law, just like every other worker.

Of course, the magnitude of this issue is no longer as great as it once was in that Congress has frozen the controversial minimum benefit. Over time, this action will have the effect of phasing this provision out of existence. The fact that Federal retirees could qualify for this benefit was one of the primary reasons cited by our critics for bringing Federal employees under social security. This is an argument which increasingly fades as social security benefits are adjusted upward.

Equity

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

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

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

Recruitment and Retention

There is no doubt that a good retirement system for the past 60 years has provided a strong inducement for recruiting good workers into Government, and it is common knowledge that many able workers have remained in Government, when they could have earned higher salaries in the private sector because they were vested in a good retirement plan. They know Federal retirement to be a system that has prospered, and one they can depend on for their earned annuities.

Let me add that membership in civil service retirement is a condition of employment. Federal employees pay 7 percent of their entire salary to civil service retirement, whereas the social security rate for employees and employers in 1980 is 6.13 percent of employee's wages only up to $25,900.

The Federal Government contributes to the fund. In so doing, the Government becomes a fiduciary, with the joint funds held in trust for the ultimate annuity of the employee. These circumstances create a contract between the employer and the employed.

Andrew E. Ruddock, former Director of the Federal Civil Service Retirement System, holds the view that in nonlegal terms, the law says that civil service retirement benefits are deferred compensation, and the salary of a Federal employee has not been paid in full until the benefits have also been paid.

Civil service retirement was designed to provide an adequate retirement income for a career employee required to pay retirement dues. When created in 1920, there were few retirement plans in private industry and only 10 percent of the work force was protected by a pension program. Civil service retirement provided Federal employees a genuine retirement plan with full retirement protection.

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

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

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

Congress approved the Civil Service Reform Act last year to improve the management and efficiency of the Federal service by rewarding productivity through tangible incentives. It would be counterproductive of Congress to follow that legislation by eroding the sound retirement system which has been at the heart of those tangible incentives.

Mr. Chairman, social security and Federal retirement have been kept separate and apart for 45 years as a matter of policy. Our association urges that they be maintained as such as a matter of national pension policy.

SEMIANNUAL COST-OF-LIVING ADJUSTMENTS

Mr. Chairman, judging from the comments of some of your congressional colleagues this year, there has never been a greater economic evil perpetrated against the American people than the Federal retirees' semiannual cost-of-living adjustment. Fortunately, a majority of the Members of Congress do not believe this nonsense.

It is the position of my association that the present twice-a-year indexing of annuities is realistic, reasonable, and fair. We make no apologies for it. It is a good system, which should be continued.

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

The principal rationale for maintaining the present semiannual COLA is that which I touched on at the beginning of my remarks—commitment. The Federal Government as an employer made a commitment to its employees to provide this semiannual adjustment in annuities to help protect the purchasing power of this all important retirement income. On the basis of this promise, millions of older Americans have entered their retirement years, counting on their employer to keep its word. That same promise has been held out to millions of others who are still working for the Federal Government and have become vested in its retirement system. Because of that commitment, the Federal Government over the years has been able to attract and retain some of the most capable work forces in the world. For many of these employees, that binding, moral obligation is the key to the fundamental integrity of their employer.

This concept is not without legislative history. When the semiannual COLA was first established, Members of Congress stated flatly that their decision to implement such an adjustment was a clear message to retirees of a permanent "commitment" on which they could build their retirement plans. As recently as last year, Senator Ernest Hollings, now chairman of the Senate Budget Committee, was using the same language in testimony before the Senate Subcommittee on Civil Service and General Services, arguing for retention of the twice-a-year COLA. In September of this year, the House of Representatives affirmed its support of the semiannual formula by a 309–72 vote to reject a plan to annualize the COLA.

The major argument against the twice-a-year COLA is that it is unfair to persons on social security, whose incomes are adjusted only once a year. Treat social security and Federal retirement in the same manner, our critics say. However, there are few who advance such points of view who would advocate that Federal retirement benefits be made tax-free in the same manner as social security. Yes, Senator, every penny of Federal retirement income is fully taxable at all levels of Government. On closer examination, it becomes quite obvious that our twice-a-year adjustment is roughly comparable to the once-a-year tax-free adjustment for social security recipients.

In fact, recent studies by U.S. News and World Report clearly indicates that the present once-a-year tax-free adjustment in social security does a better job of keeping pace with inflation than does the Federal retiree's taxable semiannual COLA. In fact, the magazine points out that Federal retirees actually have experienced a decline in the purchasing power of their annuities during the most recent 2 years of high inflation.

There are others who will argue that the semiannual COLA overcompensates Federal retirees; that the present COLA is "excessive" and "unnecessary." The facts do not support their contention.

The General Accounting Office agrees that the semiannual COLA does not overcompensate Federal retirees. A representative of GAO told a House committee: "The indexation of Federal retirement programs and benefit programs is fully justifiable on grounds of equity." Last year's Social Security Advisory Council even went so far as to suggest that the single adjustment now received by social security recipients should be upgraded to a semiannual formula.

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

Mr. Chairman, I am delighted to add that it was this rationale I have just outlined which prompted President-Elect Reagan to state unequivocally that "I do not favor abandoning the present semiannual indexing" of Federal annuities. "The present * * * law properly provides for a (semiannual) cost-of-living adjustment to protect retirees from the destruction of the value of their benefit payments," he went on to say.

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

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

Again, my thanks.

STATEMENT OF DOLORES A. DAVIS-WONG, WASHINGTON, D.C., PRESIDENT, NATIONAL CAUCUS AND CENTER ON BLACK AGED; PRESENTED BY LARRY CRECY, DIRECTOR, RURAL COMMUNITY SERVICES EMPLOYMENT PROGRAM, NATIONAL CAUCUS AND CENTER ON BLACK AGED

Mr. Chairman and members of the Senate Committee on Aging, I appreciate the opportunity to testify on behalf of the National Caucus and Center on Black Aged at this oversight hearing on social security. This hearing is especially timely because of the recent recommendations developed by the new Administration's Social Security Task Force.

You have provided us with a list of important issues which are likely to emerge during next year's debate on the financing of social security. I would like to focus my written testimony primarily on questions directly affecting aged and aging blacks. The other panelists, I know, will cover the remaining issues in detail. I shall be glad, though, to respond to questions concerning other social security topics which I have not covered in my written statement.

SOCIAL SECURITY AND OLDER BLACKS

First, however, I would like to provide the committee with background information about black social security beneficiaries. Blacks represent about 10 percent of all social security beneficiaries, although we constitute almost 12 percent of the total U.S. population. But, only about 8 percent of all retired workers under social security are black, primarily for two reasons:

—Some blacks, especially very elderly blacks, have not earned sufficient credits for social security protection because they worked in occupations not covered by social security until the 1950's, such as domestic work and agricultural employment.

—Many blacks die before 62, the earliest age for an individual to qualify for retirement benefits.

Blacks, however, are much more heavily represented among disabled and survivor beneficiaries. We constitute almost 17 percent of all disabled workers and dependents, 21 percent of children receiving survivor benefits, and 20 percent of widowed mothers and fathers with dependent children. This occurs for several reasons:

—Blacks run a much greater risk of being disabled than whites because we are much more likely to work in dangerous occupations.

—Economic deprivation increases the likelihood of poor health; and

—Proportionately more black spouses and children receive survivor benefits than their white counterparts because black breadwinners do not live as long, on the average, as white wage earners.

Once social security benefits are paid, they are, on the average, lower for blacks than for whites. At the end of 1979, benefits for blacks ranged from 74 to 88 percent of the amounts payable to whites. Social security has helped to compensate for certain disadvantages that blacks have encountered during their working years. But the greatest problems affecting blacks—lower earnings and higher unemployment during their working years—are still beyond the control of a wage-related program. For example, average monthly retired worker's benefits amounted to $210 for black women in December 1979, compared to $260.90 for white female retired workers. A similar pattern existed for men. The average monthly benefit for retired black men was $271.40, in contrast to $332 for white retired workers.

Social security and supplemental security income constitute the overwhelming proportion of income for older black Americans. Most elderly persons have income from assets—such as interest on savings accounts and dividends from stock—but not aged blacks. In fact, older whites are about three to four times as likely to have income from assets as elderly blacks. A recent social security report reveals that 63 percent of older white males and 40 percent of elderly white females have asset income, compared to just 16 percent aged black men and 12 percent for older black women.

INCREASING THE ELIGIBILITY AGE

The 1980's will, of course, be a crucial decade in determining social security's future directions. NCBA believes that great care and deliberation must be exercised in making fundamental decisions affecting social security beneficiaries today and tomorrow.

This is particularly true for any proposal to raise the eligibility age for full social security benefits from 65 to 68. This issue is of vital importance to black Americans. Consequently, I shall examine the arguments for raising the eligibility age for full social security benefits, and then respond to these points.

First, proponents argue that people are living longer now, and their productive lifespan has increased since Congress established 65 as the age for unreduced social security benefits.

A second argument is that social security costs will increase markedly beginning in the 21st century because of the rapid rise in the ratio of retirees to workers. Gradually raising the retirement age, proponents argue, would help to minimize these projected costs.

Third, proponents maintain that it is socially desirable to encourage people to work to more advanced ages since there may be a need for more manpower during the near future because of the declining birth rate. Raising the eligibility age for full social security benefits would force more people to work longer, which could help to compensate for the declining birth rate.

At the outset, I want to emphasize that NCBA strongly opposes this measure because it is nothing more than a cutback in benefits which would hurt minorities the most. The harsh reality is that many blacks simply do not live long enough to receive retirement benefits. In 1977, average life expectancy at birth for nonwhite males—the vast majority of whom were black—was 64.6, compared to 70 for white males.

This proposal would also be harmful for older blacks and members of other minority groups because they are oftentimes forced to take actuarially reduced benefits at an earlier age because:

—They are suffering from a condition which is not serious enough to meet the stringent definition to qualify for social security disability benefits.

—They have exhausted their unemployment benefits after a prolonged and fruitless search for work.

Even if the effective date for raising the eligibility age for full benefits is delayed to the year 2000, it would affect the very people—those now under 40—who will be required to pay higher social security taxes during their working lifetimes. This would not only defeat their justifiable expectations, but would seriously undermine public confidence in social security.

Moreover, if our Nation should decide that it is necessary or desirable to reduce social security protection in the future—and NCBA hopes that this will not be the case—there are clearly better and more equitable alternatives than to force people who cannot work because of their physical condition to absorb the brunt of this cutback. These individuals are least likely to have pensions, savings, or other income to supplement their social security. In short, they are the ones who can least afford a benefit reduction.

NCBA strongly believes that our national policies should promote employment opportunities for all Americans, regardless of age. But increasing the retirement age under social security is not the way to achieve this objective.

Congress could develop many positive options to encourage people to continue working. For example, the delayed retirement credit may be increased beginning in 1982—from 3 percent to 6 percent per year or perhaps even higher—to make it more attractive for persons to work after age 65 rather than retire. Another alternative is to abolish mandatory retirement completely for individuals in the private sector. In addition, changes can be made in the social security earnings limitation to encourage people to work.

CAPPING OR REVISING THE CONSUMER PRICE INDEX

NCBA also opposes measures to reduce social security cost-of-living adjustments (COLA's). Several alternatives have been suggested at one time or another. The Social Security Task Force for the new administration has, for example, proposed that COLA's should be pegged to price hikes or wage increases, whichever is lower. Another option is to cap COLA's, such as 85 percent of the inflation rate.

NCBA believes that our Nation can take more effective actions to halt rising prices or to reduce social security costs than to thrust the elderly into the front ranks as inflation fighters. Proposals to reduce social security COLA's will only add to the economic misery already experienced by millions of older Americans. It will force more elderly persons on to the poverty rolls. And, it will be especially onerous for aged blacks, particularly for those struggling on limited incomes.

Poverty increased by nearly 400,000 for older Americans during the past year, from 3.2 million in 1978 to 3.6 million in 1979. This represented the largest increase for the elderly since poverty statistics were first tabulated nearly 20 years ago. The likelihood is that there will be another poverty jump for older persons in 1980—perhaps of the same magnitude that occurred in 1979. If this, in fact, occurs, nearly 700,000 to 800,000 people 65 or older will be added to the poverty rolls from 1978 to 1980.

Poverty is, of course, a bare bones existence. In 1979, a single aged person was considered poor if his or her income did not exceed $3,472 a year, or less than

$67 a week to pay for housing, food, medical care, transportation, utilities, clothing, and other everyday necessities. An elderly couple were classified as poor if their annual income was below $3,364, or less than $84 a week.

These grim statistics about economic deprivation among older Americans can generally be multiplied two or three times for aged blacks since they suffer from multiple jeopardy because of their age, race, and economic status. Older blacks are about three times as likely to be poor as elderly whites. Almost 36 percent of all aged blacks lives in poverty, compared to 13 percent for elderly whites. In 1979, 55,000 older blacks were added to the poverty rolls, raising the total from 662,000 to 717,000. This represents the highest number of impoverished older black Americans since 1966, when 722,000 were poor.

In addition, almost 300,000 aged blacks had incomes just barely above the poverty line but not more than 25 percent above this threshold. This means that 1 million blacks 65 years or older are either poor or marginally poor. The net impact is that one out of every two blacks either lives in poverty or so close to it that he or she really cannot appreciate the difference.

Elderly black women who live alone or with nonrelatives are among the most economically deprived groups in our society today. About five out of eight live in poverty. More than four out of five are either poor or marginally poor.

Finally, the COLA mechanism simply enables the elderly to play a "catch-up" game with inflation. This year's cost-of-living increase, for example, is based upon the rise in prices from the first quarter in 1979 to the first quarter in 1980. Older Americans have already seen their purchasing power shrink substantially during that period. The July adjustment enabled them to recoup partially what had already been lost, before they slip further behind on their economic treadmill.

WAGE INDEXING

NCBA is deeply concerned about the task force's recommendation to modify the initial benefit calculation for future retirees by switching from wage indexing to price indexing. Recent news accounts that a price indexing system would reduce benefits for average retirees from 41 percent of preretirement covered earnings to about 30 percent in 2010 and 25 percent by 2050, if the economy resumes normal growth. This change would reportedly cut social security benefits by $15 billion to $25 billion each year in current dollars.

This massive reduction would seriously erode public confidence in social security, and it would cripple many older Americans economically. Aged blacks would be among the cihef casualties because social security represents a major portion of their income, and it will undoubtedly continue in the future.

I want to stress that Congress should carefully review social security to make sure that it is sound actuarilly and substantially. However, we must also make certain that social security is not out of step with changing demographic, economic, family, or other conditions.

In addition, we must remember that social security is a program built upon long-term commitments between workers and the government. Changes must be carefully weighed because the justifiable expectations of workers and their families must be protected.

GENERAL REVENUE FINANCING

NCBA believes the time has come to use general revenues to finance a portion of the social security system. Our board of directors has not spelled out a specific plan. However, NCBA supports the concept. The proposal could take many forms. For example, general revenues could be tapped when inflation reaches a high level (e.g., above 6 percent) and drives up program costs or when rising unemployment (e.g., 6 percent or more) reduces payroll taxes. These safety nets could help to protect the system from the economic problems which now play havoc with the program. Earmarked general revenues could also help to bolster social security's financing.

NCBA believes the existing payroll tax is regressive and is nearing its limits of political acceptability. Moreover, general revenues would help to finance benefit payments which now go to people who are too old to have worked long enough to make full payment to the system.

Future payroll tax hikes will only add to an employer's costs. These increased expenses are likely to be passed on to consumers in the form of higher prices. Moreover, increased payroll costs may stifle an employer's desire to hire new employees or may even contribute to unemployment.

The obvious question is: Where will the money come from, especially during this tight budgetary period? One answer is that funding may be provided by deferring ad hoc income tax cuts which have recently been enacted about every 2 years in favor of payroll tax relief. NCBA believes that halting payroll tax hikes can have a more positive effect for our economy—especially in terms of controlling inflation or removing employment barriers—than major across-the-board income tax cuts. Another possibility is that the well-timed and well-conceived use of general revenues for social security will force our Nation to balance its spending priorities more effectively than now.

ABOLISHING POVERTY FOR OLDER AMERICANS

NCBA recognizes that major improvements in social security and other income maintenance programs are unlikely, given the serious financing problems confronting social security. However, a period of "standpatism" or retrenchment will only intensify the retirement income crisis that already affects millions of older Americans and threatens to engulf many more

Consequently, it will be necessary to develop innovative and cost-effective approaches to improve the economic position of older Americans. A cornerstone of this strategy is to expand employment opportunities for those who need to work or want to work. The senior community service employment program could be enlarged considerably, and the money would be well spent. Abolishing mandatory retirement in the private sector and effective enforcement of the Age Discrimination Act can provide additional jobs for older workers. Innovative employment patterns should be encouraged in government and the private sector, such as flextime, phased retirement, compressed work schedules, part-time employment, job redesign, and others.

We should also make it national policy that poverty should be eliminated for older Americans. The supplemental security income program offers the most cost effective way to achieve this goal. NCBA fully recognizes that it may be necessary to achieve this objective incrementally because of cost and budgetary considerations. But, this should not deter us. A nation as wealthy and powerful as ours has the capacity to assure that older Americans live in dignity and self respect. If we can spend perhaps $1.25 trillion during the next 5 years to increase our capability to destroy human life, then we can work to provide a better life for older Americans.

As things now stand, it appears that the incoming administration and Congress are ready to enact major income tax reductions. If a tiny fraction of these proposed tax cuts could be diverted to improving SSI, this could do much to help older black Americans and other older Americans. And, it would target money to persons in the greatest need.

CONCLUSION

Mr. Chairman, NCBA appreciates the opportunity to present testimony at this oversight hearing on social security. The hearing provides a valuable forum to consider the arguments for and against numerous proposals that will undoubtedly surface in the months ahead as our Nation grapples with the social security financing question.

NCBA has also been commissioned by the White House Conference on Aging to conduct three miniconferences to develop a national policy for the 1980's for older black Americans. We recently concluded a conference in Detroit, which enabled the delegates to examine in detail numerous options to improve the economic well-being of older blacks. In a few days we shall conduct another conference in Atlanta. We shall wrap up these preliminary conferences in Los Angeles in January.

We expect these conferences to provide a blueprint for action for the delegates attending the 1981 White House Conference on Aging. NCBA would be pleased to share these proposals with the Senate Committee on Aging and obtain your reaction to the recommendations.

NCBA also wants to emphasize that we stand ready, willing, and able to work with the Senate Committee on Aging and other committees in assuring that social security is sound, secure, and equitable for all.

STATEMENT OF DONALD F. REILLY, WASHINGTON, D.C., DEPUTY EXECUTIVE DIRECTOR, NATIONAL COUNCIL ON THE AGING, INC.

Mr. Chairman and members of the committee, thank you for providing this opportunity for the National Council on the Aging to share with you our views on what changes, if any, are needed in the social security system.

NCOA is a private, nonprofit organization which, since its founding more than 30 years ago, has advocated a better life for older Americans. Composed of individuals and groups, NCOA has been in the forefront as a professional, technical, and advocacy organization for the elderly. From its beginning, NCOA has had as a central policy concern the level of income received by older people.

Social security has proven, over four decades, to be the linchpin to income maintenance through social insurance. Without it, 12 million people above the poverty line would slip below it. For practically everyone, the expectation of social security benefits is the foundation of retirement security, and family security in the event of the worker's death or long-term disability. According to the NCOA/Louis Harris study, "The Myth and Reality of Aging in America," social security benefits are a current source of income to 89 percent of those age 65 and over, and the largest source of income to 58 percent.

Yet the recent past has brought this centerpiece of America's aging policy into almost constant scrutiny. In the short run, the system is in imminent danger of bankruptcy. In the long run, we are offered a choice of disasters: Either social security will consume 70 percent of the Federal budget in the next century, or, alternatively, it will be short hundreds of billions of dollars to meet its obligations. Or both.

There is no doubt that the financial straits of the system are real. Simultaneous high unemployment and high inflation have reduced the trust fund and contributions and swelled the price tag for cost-of-living adjustments. The need for additional revenue over the longer range is attributable primarily to demographic factors with which the committee is familiar. But both the extent of that need and the projections that social security payments would account for two-thirds of the Federal budget, rest on what must be described as speculative assumptions about the state, 75 years from now, of such factors as fertility rates, mortality rates, labor force participation, productivity rates, inflation, unemployment levels, and immigration policy—among others.

In the short run, Congress should be commended for passage of legislation reallocating revenue from the disability insurance (DI) trust fund to the troubled old age and survivors insurance (OASI) trust fund. Further, Congress refused to forestall the tax increase scheduled to go into effect in January. But it seems clear now that additional action will be required next year, to avoid cash flow problems by mid-1982 in OASI.

NCOA has consistently supported the use of general revenues to meet part of the cost of financing the system. Introduction of major amounts of general revenue could come in several forms, all of which would be acceptable to NCOA:

—Half of the medicare hospitalization insurance (HI) program could be financed through general revenues, with reallocation of HI funds to OASI. As the committee knows, more than 70 percent of the cost of part B medicare, medical insurance, is now met through general revenues.

—One-third of the system's full cost could be met from general revenues, with a phase-in period to avoid major budgetary dislocations.

—Authority could be put in place for transfers from general funds when unemployment or inflation reached certain trigger points.

Whether one of these methods or another, or some combination of them is settled in, it is clear that the first session of the 97th Congress, in concert with the administration, must be prepared to act swiftly and decisively to shore up the OASI fund.

One argument frequently heard against the infusion of general revenue funds into social security is that it would remove the "fiscal brake" that now constrains irresponsible benefit expansions. The committee should note that whatever short-run problems the system has have developed despite the presence of the "brake." Moreover, to assert that Congress would enact whopping benefit increases without giving a thought to paying for them, simply because the money would come from general revenues instead of trust funds, is to deny today's reality of budgetary sensitivity by both Congress and the executive branch, regardless of party.

Over the long term, NCOA urges the committee to study the chasm carefully before attempting to bound across it. If we look before we leap, we may find the gap less intimidating, or we may find less, coercive ways of closing it than some of the draconion suggestions that have been made.

The uncertainties mentioned above make accurate predictions quite difficult. But if recent projections of a long-run deficit on the order of 1½ to 2 percent of payroll are accurate, increasing taxes to meet that shortfall is not a solution to be dismissed without thought. No program generates such support. from Americans of all ages. About two-thirds of those surveyed by Peter Hart for the National Commission on Social Security said they would be willing to bear greater taxes to maintain benefits from the social security system.

NCOA has had no objections to steps that would persuade workers to voluntarily delay retirement; our objections are fundamental and vigorous to steps that would coerce workers into staying on the job. Raising the age for entitlement to full benefits from 65 to 68 is just such a coercive step. If the long-run deficit persists, and if tax increases to compensate fully are not possible, several steps could be taken to induce workers to remain in the labor force. Among them are these:

—*End mandatory retirement.* Some substantial number of older workers who wish to stay on the job, and are fully competent to do so, are forced to retire each year solely because of age.

—*Promote older worker retention.* Encourage employers to devise ways to keep older workers employed through job-sharing, peak period call-backs, phased retirement, and other devices.

—*Discourage early retirement.* Both within and outside social security, incentives could be put into place to reverse the long-standing decline in labor force participation for older workers. Tax treatment of pension contributions is one likely area to investigate, as is the "bonus" for working past age 65.

—*Retraining efforts.* Where older workers lack current skills, programs could be developed—most efficiently, perhaps, through title V of the Older Americans Act—to equip them with those skills and place them in new positions.

—Unemployment laws that penalize workers with any retirement income should be repealed. NCOA welcomes the changes enacted this year, and looks forward to further progress.

One other major concern of NCOA is the treatment of women under the system. This concern is heightened by changes that have occurred in our society: The extent to which women participate in the labor force; the impact of employment discrimination and other factors (including child bearing) that have restricted women's average earnings and, therefore, social security benefits; increases in divorce rates, leaving more women with less than adequate social security protection; growing recognition of the economic value of a woman's work in the home, and growing dissatisfaction with eligibility for benefits that is based on a dependency status. While social security is surely not responsible for those societal shifts, NCOA believes that a number of changes can and should be made to improve the way the program works for women.

We have no magic solutions to these knotty problems, but serious consideration should be given to changes in the system which recognize that marriage represents an economic partnership. The "earnings sharing concept" deserves special study. We must take care, though, not to endanger present dependency-based benefits unless some better alternative is put into place. The fact that more women now participate in the work force cannot be used as an excuse for robbing other women—and many of the workers—of protection now provided by social security.

Let me address, finally, the notion that we should reduce older people's benefits, since they receive a large and growing share of the Federal budget. Yes, millions of older people have been lifted from poverty over the last 20 years. But many have not been lifted very far: one in four persons over 65 (compared to one in six in the general population) were classed as "near poor" in 1979, with an income of less than $4,340 a year for an individual older person, or $83 a week. From 1978 to 1979, 700,000 Americans of all ages slipped below the official poverty threshhold; of that number, 400,000 were 65 or over.

Needless to say, the situation of women, and of minorities among the elderly is even more desparate.

As this committee considers alternatives in social security policy—the central social policy this society has for its older citizens, NCOA urges that the approach be one of problem-solving in a context of retraining and building upon the social gains that have been made.

STATEMENT OF JACOB CLAYMAN, WASHINGTON, D.C., PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. Chairman, members of the committee, my name is Jacob Clayman and I am president of the National Council of Senior Citizens. The National Council is a nonprofit, nonpartisan membership organization with over 3,800 affiliated clubs, area councils, and State organizations which represent nearly 4 million older Americans.

I am here today to represent the views of our membership. Most of them have a personal interest in any proposed changes to the social security program since they are the program's current beneficiaries. But their interest is not limited to changes in current benefits; they are committed to protect the important principles on which the program rests today and on which the program should continue to rest in the future.

Thus, it should not be surprising that we checked all 12 issues when asked by this committee to indicate the ones most important to the National Council of Senior Citizens. In principle, the issue of eliminating the minimum benefit, for example, is just as important as that of raising the age of retirement—even though the difference between the two in dollar terms is very large. Both proposals do the wrong thing, for the wrong reasons and to the wrong people.

A social insurance system must be the cornerstone of income security, protecting the citizens of a civilized and advanced society against the disaster that can occur with the loss of income. Survival itself can be at stake for many. The social security program was designed to serve this need.

Certainly, the citizens of an advanced nation such as ours should not want for certain guarantees: They should be guaranteed the right to a decent standard of living; they should be guaranteed the right to some stability in that standard, and they should be guaranteed that their faith in government is justified—that the government will meet its obligations. Clearly, these guarantees must apply to everyone: to the retired generation; to the disabled; to workers and to their families—to every man, woman and child in this nation.

Although social security is the most successful social program in this Nation's history, we have not yet met all of these goals. The cash benefits—old age, survivors and disability insurance—are the most important source of income for the large majority of recipients and for more than one-half of them, it is the only source of income. The below average-wage worker who ends up receiving below average social security benefits is not likely to have a private pension or substantial personal savings. For this person and his or her family, among others, social security is not nearly adequate.

The social security system provides financing of medical care for the poor—medicaid; hospital insurance for the elderly and disabled—part A of medicare; and a voluntary program of supplementary medical insurance to pay a portion of physician's fees—part B of medicare. The benefit coverage is not comprehensive in either program, and significant cost sharing is required in medicare. Most people are not even covered at all by these public programs. And it is reported that as many as 19 million people don't have either public or private health insurance. Access to health care is not adequate, not only for those who have no protection, but even for those who do.

Another protection among the 20 titles of the entire Social Security Act is unemployment compensation. But the older worker who may have some income from social security or private pensions no longer has equal protection under the law. The pension offset to unemployment compensation, Public Law 96–364 aggravates the income position of those who are least well-off and violates every one of the three goals: a decent standard of living, stability in the standard, and faith that government will meet its obligations.

I could go on giving examples of how our social security system, although mature in years, has not yet matured in terms of adequacy and fairness. Therefore, it is extremely serious when proposals are put forth which erode rather than improve the system.

One change which the National Council strongly recommends is removal of the trust funds from the unified budget. The inclusion of earmarked payroll taxes in the unified budget has too often been the motivation behind proposals to cut or otherwise limit benefit entitlements in old age, survivors, and disability insurance programs. Any proposals for change should be judged on their merits, not as an offset to discretionary outlays of government.

SHORT-TERM FINANCING OF SOCIAL SECURITY

Let me start my discussion with a conclusion: Benefit reductions are neither necessary nor desirable to address the short-term financing difficulties of the system.

The short-term difficulty is a cash-flow problem in the old age and survivors trust fund beginning in the next year or so, depending upon economic circumstances, and extending up until 1985. Recent legislative action to permit reallocation of tax rates among the disability and hospital insurance programs and the old-age and survivors program will not be sufficient beyond 1981 under recent economic assumptions.

The committee is undoubtedly curious about how this difficulty could arise when the recent Social Security Amendments of 1977 promised otherwise. The answer to the question is simple: we are not always very good at predicting the future; external events can and sometimes do take us by surprise. In 1977, we did not anticipate the extraordinary levels of inflation and unemployment that we have experienced in recent years and that remain with us today. Moreover, this experience does not guarantee that we will do better from this point on in predicting the future. Circumstances could remain gloomy or the economy could experience a dramatic recovery. It is exactly because of the inability to predict the future with great preciseness that we must not cut benefits as a short-term financing strategy. It is counter-productive to assume that benefits can be changed—up or down—every few years to respond to ups and downs in the economy. To the contrary, social security must be a stabilizing influence in the lives of people in fair weather and foul. The solution must serve to insulate the program from over-responding to fluctuations in the economy. Part of any solution—and there are several—should be an increase in the trust fund balances so that they can weather temporary economic storms. Experts suggest that average balances of one-half to one full year of benefit outlays would avoid repeated short-term cash-flow problems.

Among the ways of addressing the upcoming problem is to permit borrowing among the trust funds. This would add somewhat more flexibility to the financing than does the recently enacted reallocation of the tax rates applicable to the individual trust funds. Under pessimistic assumptions, however, this may not be sufficient. A more reliable way of solving the problem would be to permit borrowing from the general fund. More preferable yet would be reenactment of the Vandenburg amendment which, up until 1954, guaranteed the availability of general revenues as necessary. The amendment was deleted only because general revenues had not been needed during the years in which the amendment was in effect.

More far-reaching and, for the longer term, more satisfactory, is a proposal to shift one-half of the payroll tax rate from the medicare hospital insurance trust fund to the cash benefit programs, and to replace that income to medicare part A with general revenues. The National Council of Senior Citizens has always supported substantial infusions of general revenues in equal proportions across all the trust funds. The National Council would not support total general fund financing for any one of the cash benefit programs because the entitlement principle might be at risk under those circumstances. We do not believe that funding only one-half of medicare hospital insurance from general revenues will invite any such problems. All of the above proposals may be used in combination.

LONG-TERM FINANCING OF SOCIAL SECURITY

Estimates of the costs of the social security program over the next 75 years indicate serious financial difficulties after the first quarter of the next century. This coincides with the demographic "bulge" or shift which is expected to increase not only the absolute number of older people in the population, but their number as a proportion of the total population. This implies, assuming a continuation of low fertility rates, among other assumptions, that there will be a large change in the ratio of workers to dependents from a current level of roughly

3 to 1 to 2 to 1. Projections of the size of the older population can be accomplished with a high degree of accuracy because those who will be 65 years old after the turn of the century have already been born; the assumptions about fertility rates, labor force participation rates, productivity and inflation rates, immigration policy, and so forth, could be grossly wide of the mark. Yet the conclusions about the status of the social security trust funds depend critically on all of these assumptions. It is not at all impossible that technological advances alone will so improve the productive capacity of the Nation that everyone could be better off than they are today, even with the actuality of a larger dependent population. I dont know that this will happen, but, I dont know that it won't.

My point is that just as we were not accurate at predicting the future between 1977 and 1980, there is even less likelihood that we will be accurate in predicting the future 30 and 40 years ahead and beyond. This is not meant to say that we shouldn't try to examine the future with whatever tools are available for the purpose. It's just that we shouldn't assume that we know which of the many possibilities ahead of us is the one that will actually happen, particularly when hindsight so often proves us wrong. I recall that when Henry Aaron, Chairman of the 1979 Advisory Council on Social Security, testified before this committee recently, he indicated that making policies today for a future generation would be like living with policies today that were developed for us in the times of Herbert Hoover.

RAISING THE RETIREMENT AGE IN SOCIAL SECURITY FROM 65 TO 68

There are reasons why it is good policy to encourage people who are nearing retirement to continue to work if they can, but none of these reasons justify raising the retirement age in social security.

The National Council agrees that for people in good health who derive great satisfaction from working, that retirement is not necessarily preferable to working. We understand that some people cannot afford the lower income that retirement usually brings, and on financial grounds, working may be more advantageous. In other words, everyone who wants or needs the opportunity to work should have it. We also agree that in the event of a large drop in the ratio of workers to dependents after the turn of the century—without any offsetting changes—it will be socially desirable to encourage increased labor force participation by all groups, including older people who are able to work. But we do not agree that raising the age of entitlement to full social security benefits is the appropriate way to "encourage" people to work longer years. We do not even believe that the significant savings to the system that are claimed would be realized, in spite of the fact that raising the age of entitlement to full benefits from 65 to 68 years of age is really just a 20-percent benefit reduction.

Those who support the proposed change usually give one or more of the following arguments in defense of their position:

(1) The young cannot afford the burden of an increased older population.

(2) Raising the age of retirement will save money.

(3) The average life expectancy remaining at age 65 will have increased by about 3 years for men and even more for women over the course of this century; changing the age of retirement is just another way of indexing the system since someone who is 68 in the year 2000 will be comparable to someone age 65 when the program started.

There are serious problems with each of these supporting arguments:

First, the argument that society cannot afford to support increasing numbers of dependent older people assumes that if social security doesn't do the job (or does it less adequately than the current program) that people won't be taken care of in some other way. Indeed, they will be taken care of if the values of this society are to be preserved. An alternative is to bring back the county poorhouse, which judging from experience of the past, would be like throwing old people out like old shoes when they've outlived their usefulness. Short of this extreme, the aged would either need expanded public assistance from means-tested programs or they would have to move in with their relatives, or both. This would reverse a long-term trend away from extended family living arrangements. It would deny to both the young and the old the options of where and how they live that they have, today—thanks to social security. Social security is a good buy, not only for current beneficiaries but for the young workers who are receiving benefits today that they don't even realize. The cost to workers of trying to avoid payroll taxes may be higher than they are willing to pay if they think about it. But pay they will, if not through public programs, then privately.

Second, it is claimed that it will save money. We discussed above, to some extent, it will shift responsibility to newly enlarged means-tested programs or to unemployment compensation and private family resources. There is also strong evidence that the savings to the social security system itself are exaggerated.

Presently, more than half of the beneficiaries who retire do so before age 65 on an actuarially reduced basis. It appears likely that many workers who under present law would claim early retirement benefits on account of age would try to obtain disability benefits if the former were not payable until age 65. According to the Social Security Administration, the disability benefit rate is lower at ages 62 to 64 than at ages 60 to 61, suggesting that some workers file for a reduced retirement benefit rather than wait for approval of a disability benefit. (In addition to complicated claims procedures, there is a 5-month waiting period.) Most, if not all, of those aged 62 to 64 would eventually qualify for disability benefits. (At older ages, eligibility criteria are more lenient.) Thus, much of the cost borne by the retirement program would be transferred to the disability program.

Perhaps the most sophisticated sounding argument offered in favor of increasing the age of retirement relates to increases in life expectancy. This position, however, usually includes the leap of faith that increased life expectancy brings with it improved health status. According to William Hsiao, professor of economics at Harvard University, the evidence shows that the incidence of acute conditions and chronic illness among people between ages 45 and 65 has increased. The disability days and restricted activity days for people aged 65 years and over have remained unchanged over the past decade. This means that there is no evidence to support the contention that health status has improved. I quote from the testimony of Professor Hsaio before the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives:

"Too frequently those who advocate later retirement policy are arm-chair theorists. Their jobs require the physical exertion of sitting at a desk, lifting a 3-ounce pencil, in a modern air-conditioned office. The mental exertion consists of reading and writing memorandums and conducting discourse through a telephone line. They have never experienced the exhaustion of lifting 50 pound boxes for 8 hours a day, or continuously operating a pneumatic press. Yet they assume 65-year-old workers can continue to lift those weights or operate a heavy machine until they reach age 68."

Nor is the American public well disposed towards later retirement. Results of an opinion survey by Peter D. Hart Research Associates found that about two out of three of the retirees surveyed say they retired because of poor health or because of a mandatory retirement age or because they lost their jobs.

About one out of two Americans say they find early retirement (at about age 60) appealing. Early retiretment is particularly appealing to blue-collar workers, to people covered by pension plans, to people between the ages of 35 and 54, and to people with high family incomes (over $17,500).

Early retirement seems less appealing to people who are retired than to those who have yet to retire.

Only one-third of Americans find the idea of postponing retirement until age 70 appealing. Four in ten people say they would consider late retirement if they could receive significantly higher benefits as a result. In general those who have or expect greater financial resources are more positive about retirement.

And most importantly, given the choice of higher social security taxes or lower future retirement benefits, higher taxes are selected by 63 percent. If the choice were between higher taxes and raising the retirement age, only 36 percent would favor raising the age for full retirement benefits from 65 to 68.

In addition, there will be a serious negative effect on the economy. If private pensions follow the lead of social security and raise the age of eligibility above what is current practice, capital formation will be reduced. Required funding for private pensions will be reduced thus reducing the levels of pension funds available for investment in the plants, equipment and machinery that maintain and add to the prosperity of our economy.

OTHER PROPOSALS

To this point, the National Council of Senior Citizens has indicated its views on solutions to the short-run cash flow problems; NCSC has held that long-range actuarial estimates are only as good as the assumptions underlying them and that we must be extremely cautious about making policies for the very uncertain future many years ahead; and we have, hopefully, discredited proposals to raise the age of retirement. Brief comments follow on several other proposals.

COST-OF-LIVING ADJUSTMENTS

Proposals to limit the cost-of-living adjustment arise from two factors: (1) Inclusion of the social security trust funds in the unified budget, and (2) misplaced notions about the sharing of burdens and the excessive generosity CPI confers on the elderly. We discussed the first item earlier in this testimony.

In regard to the second item, it would be more than responsible for the elderly to share all the burdens equally with the young if they also shared all the opportunities. But they don't: they can't work overtime to circumvent the effects of inflation because most of them retired because of ill health; the odds are against finding jobs for those who are able to work but who already withdrew from the labor force: they can't postpone buying washing machines or lawnmowers until times are better because: (1) They weren't planning on buying them anyway, and (2) they don't know if they'll be around when times are better. With less opportunities, they need more protection.

In regard to claims that social security beneficiaries are overcompensated by the CPI, there are equally compelling arguments in the other direction. The NCSC has long supported creation of a special price index for the elderly which would accurately reflect the price changes in their market basket. We still support this special index. We suspect, however, that most of the current enthusiasm for adjusting the current CPI is just an enthusiasm to cut benefits. From the mail we receive from our members, it appears that they think so too.

THE RETIREMENT TEST

The National Council has always supported continuation of the retirement test as an appropriate test of whether or not the contingency insured against—loss of income—has in fact occurred. Elimination of the test would be expensive and would reward those at higher than average earnings levels who are likely to work in any case. Those at lower than average income and earnings levels are helped by liberalization of the exempt amount which has been done by the Social Security Amendments of 1977 ($6,000 by 1982 and wage indexed thereafter). It would be less than responsible to spend $6 to $7 billion to help people who do not need the help at a time when the system itself needs additional revenues.

ELIMINATION OF THE MINIMUM BENEFIT

We oppose elimination of the minimum benefit. It has already been frozen at the current level of $122 and over time will be eliminated when benefit amounts calculated under the regular benefit formula are higher than this minimum amount. The price of eliminating "windfalls" for those with other income based on noncovered employment will be paid for by other beneficiaries receiving the minimum benefit, most of whom are likely to be widows whose husbands died many years before leaving outdated earnings records.

ELIMINATION OF THE STUDENT BENEFIT

We oppose elimination of the student benefit. Those who support elimination clearly do not understand the nature of the benefits. They are life insurance benefits, paid to the surviving spouse and dependent children of the deceased worker. Student status between ages 18 and 22 serves to indicate the continuation of dependency status. The benefits are not primarily educational benefits: they are life insurance benefits. It is also not appropriate to suggest that the loss of these benefits could be made up by other programs. The basic educational opportunity grants are means tested and are usually significantly less in amount than social security benefits. Moreover, insufficient funds are available in this program to serve all those who might be hurt by elimination of the student benefit. The National Council of Senior Citizens supports life insurance as a legitimate part of the social security program.

I thank the committee for this opportunity to share our views.

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STATEMENT OF JAMES M. HACKING, WASHINGTON, D.C., ASSISTANT LEGISLATIVE COUNSEL, NATIONAL RETIRED TEACHERS ASSOCIATION/AMERICAN ASSOCIATION OF RETIRED PERSONS

ABSTRACT

Short-term financing

The social security payroll tax mechanism cannot function in our current economic climate of high inflation, low productivity growth and low or negative real wage gains. Because these conditions are very likely to persist during the next few years, a cash-flow problem and even possible exhaustion of the OASI Fund is inevitable unless some form of general revenues is provided to the system.

Two countercyclical general revenue devices should be used to protect the system from both high inflation and high unemployment. Use of these devices will permanently insulate the system from adverse economic conditions and prevent the cyclical recurrence of short-term deficits which have plagued social security in the 1970's.

Proposals to cap or otherwise reduce the social security cost-of-living protection should be rejected on the grounds that any such cutback would hasten the elderly's already eroding real income situation. For the first time, in many years, elderly poverty rates increased significantly last year. Total incomes of the aged have not kept pace with inflation because there is little or no protection for the larger, fixed portions of their incomes which come from private sources. Evidence exists to indicate that the current CPI has been underestimating inflation's impact on elderly budgets. Therefore, an index which accurately reflects the aged's special expenditure patterns should be developed.

Financing all or part of the hospital insurance program out of general revenues would be an inappropriate response to the short-term financing dilemma. This proposal does not provide the type of automatic protection from economic adversities which the cash benefit programs need and, over the longer term, it could invite a means testing of medicare.

Long-term financing

The major trends which the social security system must accommodate in the future include: the adverse economic trends of inflation, low economic and productivity growth which are curtailing the system's financial resources, and the combination of demographic and declining labor force participation trends which portend a larger elderly population becoming heavily dependent upon a smaller work force.

In response to these trends, rather than raise the normal retirement age to 68, the social security system should be changed to encourage work effort on the part of the elderly through elimination of the earnings limitation and the provision of actuarially increased benefits for persons who delay filing for benefits. Over the longer-term, Congress should rationalize the social security financing and benefit structures to insure that scarce resources are not wasted and that the financing mechanism used contributes to, rather than detracts from, our future economic health.

To achieve these objectives, social security's earnings replacement function should be clearly separated from its welfare/social adequacy function within the system's benefit and financing structure. The earnings replacement objective should be achieved through a benefit structure which utilizes a proportional benefit formula and is financed from payroll taxes. The minimum income support function should be performed through a separate benefit structure specifically designed to meet the adequacy objective and is financed out of general revenues.

Our associations are convinced that the current social security financing and benefit structures cannot be perpetuated into the 21st century. Without a major and comprehensive restructuring of this program, the future elderly may not be able to rely on it as a major contributor to retirement income. Attempts to perpetuate the current structure will eventually lead to either massive payroll tax increases or benefit cuts of the same magnitude. Raising the retirement age and price-indexing the benefit formula represent such cuts. As a response to the long-term trends, we would prefer that a more aggressive elderly work incentive strategy by pursued, coupled with a clear separation of social security's divergent functions into two separate benefit and financing structures.

I. INTRODUCTION

The social security system today is plagued with two financing problems: a short-term deficit which Congress attempted but failed to resolve with passage of the 1977 amendments; and a long-term deficit, a part of which was reduced by the 1977 decoupling legislation, but a substantial part of which still looms in the not-too-distant future.

Congress has little choice but to deal with the short-term deficit early next year, since exhaustion of the old age and survivors' insurance (OASI) reserves is expected to occur in mid-1982. This deficit must be dealt with decisively and permanently so that we can prevent what has been our recent experience—the cyclical recurrence of short-term deficits caused wholly by adverse economic conditions of high inflation, high unemployment, and low or negative real wage growth.

The other, more serious, long-term problems will continue to fester and will not receive the attention and advance planning they require if we must continually confront short-term imbalances. Congress should begin soon to address the long-term deficit since, in our opinion, this deficit will necesitate fundamental changes in the system's structure, requiring adequate lead time and lengthy transition periods.

Over the long term, we fear the convergence on the system of several major trends: (1) the economic trends of lower economic growth and a built-in, high, hard-core inflation rate which are restricting the amount of resources available to devote to social programs; (2) the demographic trend which portends a relatively smaller working population being called upon to support a larger, older population; (3) a declining elderly labor force participation trend which will exacerbate the demographic trend and cause a dangerously high degree of dependence by older persons on government programs for income support; and (4) changing family and social patterns which are causing the system's benefit and financing structures to be increasingly perceived as inequitable, particularly by working wives and single workers.

To accommodate and, in some cases, reverse these trends, Congress must be prepared to make fundamental changes in social security and related government programs. The associations urge Congress to reject the rather unimaginative and dangerous approaches to the social security reform that would simply reduce social security benefits for the future elderly population leaving many of them in poverty or with totally inadequate incomes. Proposals to raise the normal retirement age to 68 or to price-index the benefit formula represent such approaches to reform.

Congress can choose between two reform strategies. Either it can attempt to perpetuate the systems present benefit and financing structures and thereby be forced to either raise tax levels or reduce benefit levels substantially in order to accommodate the much larger future elderly population. Or it can attempt to restructure the system so that it, first, encourages (rather than forces) older persons to work longer and, second, more effectively and efficiently performs its divergent functions of earnings replacement and minimum income support using two separate benefit and financing structures. NRTA–AARP support this letter reform strategy because we believe it would relieve the systems dependency burden, improve its financial viability and, in the process, increase its chances for providing more adequate income support to the future aged.

Instead of viewing our retirement income structure as a passive victim of demographic and employment trends, it should be viewed as a public policy tool which, if properly used, can strongly influence its participants to elect later retirement and to be less dependent upon government for income support. Adopting this "dynamic" view of the system will enable us to avoid making large benefit cuts (like raising the retirement age and price-indexing the benefit formula) which we believe would erode worker and beneficiary confidence in the system. At the same time, the long-term reforms we are suggesting (such as sorting out the earnings replacement and social adequacy functions of the system and utilizing more diverse revenue sources) should structurally place social security in a better position to accommodate any part of the demographic trend that remains unalterable. What we have to recommend, we believe will benefit not only the present and future generations of older persons but also the present and future generations of younger persons.

II. SHORT-TERM FINANCING ISSUES

The social security system was designed to be self-supporting, funded by a payroll tax mechanism which should generate sufficient revenue both to finance benefits on a current cost basis and to permit the build-up of adequate contingency reserves that would protect the system from economic downturns. We are now faced with strong evidence that the payroll tax mechanism cannot function properly or predictably in our current adverse economic climate. Using the pessimistic assumptions of the 1980 trustees' report, the system could face a $100 billion shortfall over the next 5-year period. If some of these adverse conditions persist through the next decade (and there is a significant body of economic opinion to support that theory), then the system may not be able to regain its financial health (as the actuaries expect it to) in the 1990's before the onslaught of the longer-term financing problems.

In a program with outlays as massive as those of social security, a small misestimate of the unemployment and inflation rates (which cannot be forecasted with reasonable accuracy more than six months in advance) can mean a major fall-off in expected revenue or a major increase in expenditures. Due to its enormous size and extreme vulnerability to economic conditions, the social security system cannot be realistically financed as it is now with a pay-as-you-go mechanism that provides no flexibility to deal with unforeseen changes in the economy. These brushes with "bankruptcy," as they are perceived by the public, are prompting a great deal of anxiety among both beneficiaries, who rely so heavily on the social security system for basic income support, and among workers, who support the system with the expectation that it will be financially sound through their later years of life.

A. Causes of short-term problem: Adverse economic conditions

Over the past 8 years, the financial well-being of the system has proven to be extremely vulnerable to the effects of high inflation, high unemployment, and declines in the rate of productivity growth and real wage growth.

Persistently high rates of inflation cause increased expenditures by the system, since benefits track increases in the Consumer Price Index (CPI). Under the design of the 1972 indexing legislation, these increased expenditures were to be financed by increased income for the system generated through the automatic expansion of the taxable wage base. This expansion of the wage base was to be prompted by an inflation-induced growth in wages plus real wage growth above that level reflective of gains in productivity and general growth in the economy. (The marginal growth in total wages above the level of inflation is called the real wage differential.)

Unfortunately, our economy has recently not moved in line with these expectations. Inflation has consistently been much higher than expected and we have experienced periods of practically negligible growth or actual decline in the real wage differential. In 1979, prices rose faster than wages yielding a —2.7 real wage differential; in 1980, the differential is projected to be —4. Because of declining real wages and lags in the adjustment process, automatic increases in the taxable wage base have not provided enough income to the system to cover the cost of inflation-induced increases in social security expenditures.

High rates of unemployment for extended periods have also had adverse effects on the financial structure of the system. On the income side, periods of recession, with the high unemployment that accompanies them, severely reduce tax revenue to the system. Since there are fewer jobs available that would otherwise be the case, the aggregate "pool" of wages is smaller and tends to grow at slower rates. On the expenditure side, high unemployment causes increased costs for the system because it causes workers—particularly older, unemployed workers—to be attracted into retirement or disability status. (Since there are no employment options available to them, this status may provide crucial income support for these older workers.)

The sum total effect of these economic trends is that they are severely straining the system's financial viability. Combined social security outgo has tended to grow at rates faster than expected, while combined income has tended to grow at rates lower than expected. This process has been rapidly draining the system's trust fund levels and propelling it closer and closer to total depletion of its reserves.

It is these trends that are largely responsible for the unraveling of the 1977 financing package in spite of the large payroll tax increases scheduled by that legislation. Congress should recognize that the current payroll tax mechanism can no longer be relied upon to meet fully and consistently the short-term financial needs of social security. In addition, we have come to realize that over-reliance on the payroll tax structure to fund the massive social security system has, in and of itself, become a contributing factor to our economic problems, especially inflation. The Congressional Budget Office estimated earlier this year that the 1981 payroll tax increase would increase the CPI by 0.2 percent in 1981 and increase unemployment 0.2 percent by 1983.

Until we are able to deal successfully with our present economic problems—and we are not optimistic that they will improve dramatically in the near future—our associations suggest that Congress endeavor to construct a social security financing structure which is reliable and relevant to the economic context within which it must function.

B. Associations' recommendation: Limited, temporary and countercyclical use of general revenues

Violently fluctuating economic conditions produce a great deal of uncertainty for the social security system and make sound financial planning utilizing the payroll tax extremely difficult, if not impossible. Given the current economic climate, some flexibility to use alternative revenue sources should be built into the system. For this reason, our associations recommend use of two countercyclical general revenue devices specifically designed to offset some of the financial impact that high rates of inflation, low rates of productivity and economic growth, and high unemployment have on the program. For over 5 years we have espoused these types of economic safety nets for the system and we are convinced that only through use of such devices can we ever expect the system to be permanently rid of short-term imbalances caused by unforeseen adverse economic conditions.

Specifically, we propose that federal general revenues be used to defray partially the cost of automatic benefit increases when these increases exceed a certain percent per year—perhaps 6 percent could be selected as a realistic trigger figure. This device should be somewhat retroactive to compensate the system for the financial damages it has sustained since 1975 when the automatic adjustments in the wage base and benefits began.

The size of the annual general revenue contribution could be determined as follows. First, the cost of the "above 6 percent part" of automatic benefit increases effected in 1981 and all prior years back to 1975 would be determined. Second, there would be set off against that amount, the revenue yield from what would have been automatic (not ad hoc [1]) wage base increases in 1981 and the five prior years after deducting the cost of the "6 percent or below part" of all automatic benefit increases effected.

The rationale for the mechanics of this general revenue financing device comes partly from the design of social security legislation enacted in 1972 and implemented in 1974–75. As originally intended by that legislation, revenue generated from automatic wage base increases should be (but have not been) sufficient to cover the costs of automatic benefit increases. Therefore, to the extent the wage base expansion does not cover the increased benefit cost, our suggested financing device would infuse general revenues into the cash benefit programs.

We expect that as the real wage differential begins to increase by gradual revival of adequate growth in productivity and real economic growth, the revenue generated through the automatic wage base increases would eventually balance out the aggregate cost of the automatic benefit increases in effect. Thus, the annual general revenue contribution would automatically be phased out when healthy economic conditions resume.

To those who have been adamantly opposed to use of general revenue financing for the system out of concern that this could lead to unrestricted benefit expansions, we would point out that our proposed mechanism is designed solely to compensate the system for adverse economic conditions and would be triggered only by such events. Once adverse economic conditions subside, this mechanism would automatically be phased-out. Since it is clear that an infusion of additional revenue is needed to stabilize the cash benefit programs, the mechanism we are recommending is one of the most conservative and restricted in design.

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[1] To calculate the revenue yield, the larger ad hoc wage base increases scheduled by the 1977 amendments would have to be disregarded and instead, the normal wage base growth levels that would have occurred automatically would be used.

To complement this proposal, our associations also recommend use of another countercyclical general revenue financing device to replace payroll taxes lost to the system as a result of unemployment rates in excess of 6 percent. This device would act as another automatic stabilizer—this time on the revenue/income side of social security—and would assist Congress in predicting future payroll tax needs of the system by curtailing another area of uncertainty. However, this device cannot stand alone as the only countercyclical device. It is not likely to produce sufficient revenue to avert the short-term imbalance the system faces, because high rates of inflation combined with low real wage growth are more likely to be the conditions which will more severely damage the system's financial structure in the near term.

We do not wish to leave this topic without some comment on the source of the general revenues which we propose to use for social security purposes. In our view, these general revenues can come from: (1) increased and nonearmarked revenue derived from existing or new taxes; (2) increased revenue flowing from inflation throwing individuals and corporations into higher tax brackets; (3) deficit financing during periods of recession; (4) the shifting of expenditure priorities within the context of the federal budget process; and (5) the fiscal dividend that real economic growth will yield when it resumes.

To the extent that general revenues are needed in any year, the choice of source(s) for those funds should be made through the congressional budget process in the light of the needs of the economy at that time. We hasten to add that since our associations want the Federal budget brought into balance when the economy emerges from the recession and that balance maintained over the business cycle, in coming years, no single source for the general revenues needed should be relied upon year after year.

C. Alternative short-term proposals

1. General Revenue Financing of Part A Medicare

Several public policy experts and advisory bodies (including the 1979 Advisory Council) have recommended either partial or full financing of the HI program out of general revenues (with an accompanying shift of part of the HI tax rate to OASDI).

NRTA–AARP believe it is inappropriate to consider funding HI out of general revenues as a response to the short-term financing dilemma. This proposal would make a major change in the social security system. It is a matter that would necessitate careful deliberation and future planning, perhaps in the context of phasing in a national health insurance plan. General revenue financing for HI should be considered on its own merits, not for the amount of revenue it would generate for the cash benefit programs. We hope Congress will not seize upon the proposal solely to avert a short-term crisis in the cash benefit programs or to rollback part or all of the 1981 payroll tax increase.

More importantly, however, shifting payroll taxes from HI to OASDI would not really provide the kind of automatic protection for the cash benefit programs that they need; it merely provides more payroll taxes in the short-term with absolutely no assurance that future economic downturns will not again upset its financial balance.

We acknowledge the argument of those who say that it is more appropriate to put general revenues into the HI portion of social security than the cash benefit programs. It has been argued that HI benefits are unrelated to contributions and life expectancy; but in cash benefits, there are such relationships. The cash benefit programs are thus said to be "actuarial" and therefore suited for payroll tax financing.

There are problems with this line of argument. HI payroll tax payments are supposed to be analogous to insurance premium payments to establish eligibility for benefits. If this is eliminated, then something else—a means test perhaps—may end up being used for determining eligibility. (Proposals to earmark a portion of federal individual and corporate income taxes to maintain the contributory principle are not likely to be seriously considered because of the precedent this would set.) Furthermore, the size of OASDI benefits is not strictly and solely related to earnings records and life expectancy; the number of dependents a worker has is an important determinant.

Our associations want some general revenues introduced into social security. If the HI payroll tax shift turns out to be the only viable way of achieving that goal, we would go along with it. But it is clearly *not* the most appropriate way and it does not provide the automatic protection which the cash benefit programs need. In fact, over the long term, it may end up doing more harm than good since it may invite a means test and preclude enactment of some needed structural changes in medicare.

2. *Capping or Reducing Cost-of-Living Increases*

In reaction to the historically large automatic social security benefit increase in 1980, several proposals surfaced during the past year that would reduce the size of the cost-of-living adjustments. These proposals have taken several forms: (1) capping the increase at 70 or 80 percent of what would otherwise be the full adjustment; (2) altering the construction of the Consumer Price Index (CPI) in a way that would yield a lower increase; and (3) using either a price or a wage index, whichever yields the lower benefit increase. These proposals have been raised in the context of short-term financing since, of all the possible benefits cuts, reducing the social security cost-of-living protection would produce relatively large and immediate savings for the program and for the federal budget.

NRTA-AARP urges Congress to reject these proposals on the grounds that any cutback in the elderly's inflation protection would further jeopardize their rapidly eroding real income situation. It should be clear that the elderly represent one segment of society that should not be singled out for any curtailment in the meager inflation protection which government provides them simply for the purpose of budgetary restraint.

The elderly have been steadily suffering losses in real total income throughout the inflationary decade of the 1970's, whereas the total incomes of workers and businesses have generally kept pace with and usually exceeded rising prices. Increases in the elderly's *total* income have fallen behind the inflation rate because there has been little or no inflation protection for large portions of their income which come from private sources, namely, private pensions, interest earned on savings and other assets. We are convinced that it is precisely this situation which prompted a significant rise in the elderly poverty rate (from 13.9 percent in 1978 to 15.1 percent in 1979) while the poverty rate for the non-elderly population remained static. Near-poverty rates for the elderly also increased and are disproportionately high—in 1979, 24.7 percent of the elderly were concentrated just above (125 percent) the official poverty line, compared to 15.2 percent of the under 65 population. The inflation trend, by rapidly dissipating the real value of many of the elderly's fixed income components, is driving increasing numbers of them into the lower reaches of the income distribution.

Even the social security cost-of-living increases which the elderly receive do not maintain benefit purchasing power because these increases are provided long after rising prices affect recipients' budgets, and they are measured by the general CPI. Although it has been argued that the current CPI, at times, overstates the inflation rate for the general public, our studies show that the experience has been the opposite for the elderly. A study prepared for us by Data Resources, Inc. (DRI) on the elderly's expenditure patterns indicates that the general CPI tends to understate inflation's impact on elderly budgets. This occurs because the elderly, as compared to younger consumers, spend more of their income in three categories of expenditures which are experiencing the most rapid price inflation—food at home, fuel and utilities, and out-of-pocket medical expenses. Because the general CPI is not specifically weighted to reflect the elderly's expenditure patterns, it has distorted and understated the true impact of inflation on their budget.

Statistics from the DRI study indicate that, since 1970, the cost of living for the elderly has risen faster than the cost of living for younger consumers. Between 1970 and 1979, the Bureau of Labor Statistics all-urban CPI rose an average 7.2 percent rate compared to 8.3 percent for food at home, 9.4 percent for fuel and utilities, and 7.9 percent for medical care. These costs have risen at a composite rate of 8.4 percent per year versus a CPI increase since 1970 of 7.2 percent per year. The DRI study further indicates that the adverse effects of this high inflation rate among the core necessities are greater for the poorest and the oldest of the elderly who, because of their lower incomes, have less flexibility in altering their spending patterns in response to higher prices.

Since higher inflation in the core necessities is expected to continue in the 1980's, the CPI's understatement of inflation's impact on elderly budgets will continue as well. For 1979 through 1985, DRI has forecast an 8.7 percent rise in food at home, 9.9 percent for fuel and 10.1 percent for health care, compared to an 8.7 percent rise in the overall CPI.

At this time, our associations would vehemently oppose any attempt to alter the CPI for the purpose of curtailing growth in social security benefits. In Congress wishes to change the CPI used to index social security benefits, it should develop an index which accurately reflects the special expenditure patterns of the elderly.

We recognize that the social security system is facing serious short-term, financial difficulties. However, these difficulties should be dealt with directly and permanently through the direct infusion of general revenues in a manner we described earlier. Congress cannot reasonably expect to deal with a short-term deficit that has been estimated by some experts to be as large as $100 billion over the next 5 to 6 year period through any strategy of benefit cuts.

With respect to the proposal that benefits should be increased by the lower of average price increases or average wage increases, we would suggest that this scheme would be quickly perceived by the public as government insuring that the elderly would always get the "short end of the stick." The purchasing power of benefits must be maintained. Throughout most of the recent decade, wage increases outpaced price increases and this trend is expected to resume over the long-term. Yet no one is suggesting that a wage index be used to adjust benefits when it is higher.

Some policymakers have argued that the elderly should share along with other groups of society in government spending restraint necessary to help bring inflation under control. We agree that controlling inflation must be our priority concern and spending restraint is *one* part of the strategy necessary to curb inflation. However, before enlisting the elderly in any inflation battle and accelerating the rate of decline in their real incomes and living standards, we would want reasonable assurances that government will pursue an effective, comprehensive, antiinflation strategy that would provide for an equitable sharing of the "pain" such a strategy must inevitably entail.

Although no one can accurately predict to what extent balancing the budget will dampen the inflationary expectations that are contributing to the wage/price spiral, some economists estimate that, at most, balancing the federal budget will shave only about one to two percentage points off the aggregate inflation rate. In order to be successful, policymakers must attack *all* major factors fueling inflation. The wage/price spiral, coupled with the effects of what is happening in the energy area, are clearly responsible for the bulk of the inflation rate. But we see no effective policies being implemented to address those problems in the short-term.

To deal with inflation in the short-term, our associations have recommended the following combination of policies:

First, the President should be given standby authority to impose wage/price controls on a selective basis (except on the energy and agricultural sectors).

Second, the federal budget should be brought into balance over the next 2 or 3 years and maintained in balance, over the business cycle.

Third, money supply growth must be gradually reduced and ultimately kept in line with real growth in the gross national product.

Fourth, competition in the economy should be furthered by deregulation where appropriate, removal of import quotas and refraining from further government and private actions which increase prices.

In summary, our associations believe the elderly would not resist suffering a reduction in their incomes (in addition to the losses they have already suffered) if all segments of society shared equally in such reductions and most importantly, if this restraint were part of a truly effective anti-inflation strategy which we believe would be reasonably successful in the near term. Merely capping social security benefits as part of general fiscal restraint will not hold down the inflation rate. Instead, it will cause a further erosion of the elderly's dwindling purchasing power, further increase the incidence of poverty among them and, in general, make them even greater victims of our Nation's economic crisis.

3. Other Potential Benefit Cuts

Other areas of possible benefit deliberalizations have been suggested for the purpose of freeing up or generating revenue in the short term. Our associations would flatly oppose any consideration of benefit deliberalizations in the short term even if these deliberalizations are imposed only upon new retirees. To produce near-term savings, any benefit cut would have to be imposed immediately with no transitional period—a method of deliberalization we vehemently object to because it would defeat persons' reasonable benefit expectations and allow them no time to adjust their retirement plans accordingly.

We would add that a few of the benefit changes that have been suggested have some merit—particularly those relating to phasing out spouses' benefits and the weighted benefit formula. However, these are major changes that should be phased in over a long period of time and considered only in the context of long term, comprehensive restructuring of the entire income support structure, not with a view toward improving the short-run financial status of the system.

4. Taxing a Portion of Social Security Benefits

The Advisory Council on Social Security has recommended subjecting one-half of social security benefits to income taxation. Since inflation is rapidly eroding the purchasing power of many of the income components of the elderly—including, to some extent, social security income, we would not sit idly by and let even more be taken away from them through an added tax burden.

Proponents of this proposal point out that by taxing only half of social security benefits, persons whose sole income is from social security would pay no additional taxes while higher-income retirees, who have income from other sources such as private pensions or savings, would be required to bear the extra tax burden. Although this scheme appears equitable from the standpoint of progressive income taxation, it ignores the other side of the coin, that is, the nature of the current social security benefit and payroll tax structures. Our associations would argue that since the current social security weighted benefit structure causes higher-income persons (who have paid in maximum payroll taxes over their working years) to receive lower social security benefits in relation to their contributions, it would be inequitable to impose additional tax burdens on this group of retirees.

Similarly, for proponents to argue that private pensions and annuities are subject to federal income taxation and, therefore, social security ought to be, is inappropriate because it ignores the fact that social security is not a true pension; the program includes many welfare and social adequacy elements.

5. Interfund Borrowing/Reallocation

Proposals to allow the OASI fund to borrow or receive funds from the DI and/or HI fund, in our opinion, are deceptive because they do not match the magnitude of the short-term financing problem. In general, we support providing legislative authority for interfund borrowing because this would provide some flexibility. However, we do not view this as a sound solution because the possibility that the combined level of trust funds would fall to unacceptable levels or be completely exhausted would still exist. The amount of revenue generated for the OASI fund from these devices will not ultimately be sufficient to protect the system from even minor economic downturns.

Interfund reallocation and borrowing proposals are being suggested partly because the HI and DI trust fund levels are currently in a healthy position and could provide some additional funds to OASI in the short term. We suggest that reliance on the DI fund is ill-advised, since a recessionary period could prompt another surge in the number of persons on the DI rolls and hence begin to deplete the DI fund in a manner similar to what occurred in the mid-1970's. The HI fund is not reliable either; it is expected to be depleted by the early 1990's, if not sooner. Hospital cost increases continue to roar along at higher than general inflation levels in the absence of effective cost control legislation.

6. Payroll Tax Increase

Increasing payroll taxes beyond what is scheduled in current law would be an inappropriate approach to the short-term financing problem. In fact, it may be good economic policy to substitute general revenues for at least part of the

1981 payroll tax increase already scheduled, utilizing the countercyclical mechanisms described earlier. We are already relying on the payroll tax mechanism to such an excessive degree that it is hindering new business formation, contributing to inflation, and dampening employment levels.

Increasing payroll taxes will do absolutely nothing to insulate the system from fluctuating economic conditions and could even exacerbate the situation. We believe it is new evident that Congress made a mistake in relying exclusively on payroll tax financing in 1977; we hope that the same mistake will not be repeated.

FICA payments are becoming larger and more visible on the pay stubs of current workers. Increasing those payments could prompt a serious antipayroll tax revolt that would create a favorable atmosphere for benefit cuts. Those who stand firmly committed to payroll taxes as the sole means of financing social security (on the specious grounds that it introduces discipline and restrains benefit increases) are helping to set the stage for the antipayroll tax reaction that we want to avoid.

III. LONG-TERM FINANCING ISSUES

In the context of a discussion of long-term financing issues, it is important for Congress to recognize the need for dealing with the short-term financing issue in a resolute and adequate manner. If this is not done and if it takes several years for adverse economic conditions to subside, then there will be very little financial respite between the short- and long-term deficit situations.

Current actuarial projections anticipate that the decline in the trust fund levels in the short term will abate by the mid-1980's and the trust fund levels will begin to build back up through the rest of the century so that by 2010 (when the long-term deficit situation begins to surface), the fund will temporarily be in a healthy financial position. If economic conditions cause cyclical recurrences of short-term deficits, then the system will be less financially able to face the long-term deficit which in the process would have grown larger.

A. Economic and demographic factors affecting long-term social security financing

Several important trends are substantially altering the world in which the social security system must function and are threatening its ability to provide adequate income support to the aged. First, the "income needs" context in which social security operates today has changed dramatically since the program was conceived 45 years ago. While we have managed to make substantial progress in reducing poverty among the aged, a pernicious trend—the inflation trend—has managed to offset that progress by severely constricting the real income received from sources other than Federal Government programs. While the growth and expansion of Federal Government programs like social security have brought the elderly up from the bottom of the income scale, the inflation trend has been rapidly pushing them down from the top, concentrating increasing numbers of them just above the poverty threshold.

Running parallel to the inflation trend has been a significant decline in labor force participation by the elderly and a concomitant decline in the significance of wage income as a relatively inflation-proof component of their total income.

The combination of inflation and labor force participation trends has made it increasingly difficult for the elderly to maintain a standard of living comparable to that achieved prior to retirement, especially as they get older.

Even worse, these trends have fostered among the aged an increasing degree of income dependence on Government programs, like social security, which do provide some measure of inflation protection. Perpetuation of this degree of dependence will become dangerous as we move into the next century when a relatively smaller labor force will be responsible for supporting a larger aged population. In our opinion, it is unlikely that the working population will be willing or economically able to accept the much higher levels of payroll taxation that will be needed to support future elderly population.

Some argue that the dependency ratio—defined as the number of younger and older persons compared to the number of active workers—will not be substantially altered. They suggest that the ratio of dependents to workers will remain stable over the coming years due to the declining number of children in the population and, therefore, the lower costs of providing for the young may offset the higher costs of providing for the old.

Policymakers should not take solance in this type of analysis. First, providing for the needs of older persons (particularly their health needs) in generally more expensive than providing for the needs of the young. Furthermore, the needs of the aged are largely financed by Federal taxes, while the young dependent population is supported primarily through the family and State or local governments.

Second, we cannot predict that working-age persons will be willing to pay the large amount of additional taxes needed to support older dependents in lieu of younger dependents. Many of these working-age persons, in light of adverse economic conditions, may be deciding not to have children because they wish to avoid the additional costs involved in order to achieve or maintain a certain standard of living. They may resist having to lower that standard of living in order to support older dependents through increased public transfer payments.

Others have argued that the dependency ratio could be alleviated somewhat by permitting the immigration of working-age individuals and their families. Decisions on immigration policy tend to be highly politicized and therefore we consider this a rather weak reed on which to rely for significantly affecting the dependency ratio.

For every unforeseen factor that could improve the system's long-term deficit situation, there very well could be another unforeseen factor that will worsen it. For instance, adverse economic conditions—particularly lower-than-expected productivity growth—have large, negative financial impacts on the system. Similarly, increased longevity patterns significantly escalate the costs of the program since benefits must be paid over a longer retirement life.

Given the limitations of these arguments regarding dependency ratios, Congress should consider the future demographic trend to be relatively inalterable for purposes of making recommendations for social security reform. One trend, however, is alterable—that is, the elderly labor force participation trend. Realization of the magnitude of the demographic trend should lead to policy recommendations which will induce more elderly persons to remain actively employed, thereby reducing the degree to which they depend on government support programs like social security for their income.

It is only through the increased employment among the general population—especially among the elderly—and the additional tax revenue and GNP growth, which such increased employment will generate, that the nation can expect to provide adequate levels of income to the expanded aged population in our future.

B. Need for defining role of each income component

Before addressing specific reforms needed in the social security system, it is necessary for policymakers to define what role each retirement income component—social security, private pensions, savings, earnings, cash and in-kind welfare assistance—should play in the future income scheme of the elderly. Policymakers can then recommend the changes necessary to insure that each retirement program will contribute enough to give the elderly a reasonable chance of maintaining a standard of living in their later years comparable to the highest standard achieved in their earlier years and, in the process, assure the absence of poverty. It is generally accepted that total relpacement rates in the 70 to 85 percent range are needed to assure these adequacy goals.

Social security is the only retirement program that can be relied upon to provide the main portion of the elderly's income. In our opinion, this program should provide an average replacement rate of 50 to 60 percent of pre-eligibility, disposable income. To fill the gap between this replacement rate and the total needed to achieve income adequacy, the elderly individual should be able to rely on private sources of income, such as private pensions, savings, and other assets. The contribution of these components will depend upon many factors, including the preretirement income, the person's length of employment with one employer, etc. Given the declining savings rate in this country, the growing inadequacy of private pensions due to inflation, and difficulties with vesting and portability of private pension credits, much needs to be done through the tax code and pension reform to stimulate these income components and make them adequate for the future aged. However, if on an individual basis, income from these private sources are inadequate, then income from employment could help to fill the replacement rate gap. To the extent income from the pension, savings and employment components, along with social security, is inadequate, then the underlying welfare programs must be relied upon to guarantee a minimum level of income.

C. Older worker employment strategy and retirement age policy

Given the national commitment to the maintenance of reasonable levels of income among the elderly, any share of that income that can be generated through the work effort of willing and able older persons represents a share that need not be borne by younger taxpayers. Clearly, additional work opportunities benefit older individuals as well, raising their standard of living, providing them with a greater feeling of independence and self-determination and improving their prospects for maintaining their living standard in the face of serious inflation. Just as clearly, the nation as a whole would benefit from the gains in national income and tax collections that would result from our getting the most from our prévious investment in the training, education and experience embodied in older persons.

Recent discussion on increasing elderly labor force participation has centered on what changes in the income structure are needed to achieve this result and whether such changes would require or encourage older persons to continue working past age 65. For example, raising the age at which full social security benefits are available from 65 to 68 has been proposed by a social security task force advising President-Elect Reagan, the President's Commission on Pension Policy, as well as other advisory groups. Some of these proposals envision that, at the same time, the early retirement age would be raised from age 62 to 65.

This proposal appears to provide a simple, straightforward response to the adverse demographic and employment trends. However, in our opinion, the age 68 proposal would be the wrong policy option to exercise at this time. Not only would this proposal substantially decrease and, in some cases, eliminate benefits to older persons, between the ages of 62 and 65, who are involuntarily unemployed or physically unable to continue working, but it would also represent a highly visible benefit cut (and reduction in the expected rate of return on contributions) for future retirees which could undermine younger workers' already precarious support for the system.

Instead of raising the retirement, age, more positive, incentive-type changes could be made in the social security system to achieve the same goal in a voluntary manner without the coercion of a benefit cut. These changes could obviate the need for raising the retirement age since, in our opinion, they would yield the same desired result of fostering increased elderly labor force participation, increased reliance on wage income by the elderly, and the election of later retirement. To achieve these results in a voluntary manner, however, strong work incentives must be built into the social security and related program benefit structures, and barriers and work disincentives which currently exist must be removed.

The major and most visible work disincentive in the current social security structure is clearly the earnings limitation. The limitation must be abolished for persons age 65 and over. Not only is it a severe work disincentive, but, as a type of "means test," it does not belong in a program that is supposed to be based on "earned right."

Having a factor in social security that causes people to limit their work effort imposes a significant "cost" on society. We are convinced that the economic "cost" in terms of lost production and lost tax receipts that results from having the earnings limitation is greater than the "cost" of the additional social security outlays that repeal would entail. Some estimates have put a price tag on complete elimination of the earnings test at as high as $7 billion dollars in increased social security outlays. More recent Social Security Administration estimates indicate $2.1 billion in additional outlays if the test is repealed for persons age 65-plus in 1982.

An important article on this subject was published in the September 1979 Social Security Bulletin. It is entitled, "Tax Impact from Elimination of the Retirement Test," and is authored by Josephine G. Gordon and Robert N. Schoeplein of the Office of Research and Statistics, SSA. This study concludes that elimination of the retirement test for workers age 65–69 would generate an additional $678.6 million in payroll taxes and an extra $977.8 million in federal individual income taxes. This additional revenue, when combined ($1.656 billion), would offset 79 percent of the $2.1 billion SSA has estimated it would cost to repeal the test. In addition. it has been estimated by SSA that it costs $68 million per year to administer the test due to the complicated forms and periodic reporting that it necessitate. The elimination of the limit clearly should be the first major step in changing social security so that it will be able to meet the needs of a changing and much larger elderly population.

Given the present high rate of inflation and its extremely adverse impact on the present income situation of the elderly, it is important to eliminate the earnings test without delay. Since any significant social security benefit improvements in the near future are unlikely, wage income offers older persons practically the only means of preventing an inflation-induced deterioration of their living standards.

In developing an older worker employment strategy, strong work incentives must be added to the social security system benefit structure. They are needed to encounter the strong deterrents which exist in the present system, such as inadequate additional benefits for workers who delay their retirement date past age 65. Further, the elimination of the earnings limit will make it more important to encourage older persons to remain working and off the social security rolls.

Therefore, we recommend that the delayed retirement credit be substantially increased—at least to the actuarial level of approximately 10 percent. Under present law, individuals who elect not to receive social security benefits because they continue working beyond age 65 are entitled to a 3 percent bonus (beginning in 1982) for each full year of delay between age 65 and 72. This 3 percent credit, however, does not provide sufficient encouragement for individuals to work beyond age 65 and is not proportionate to the reduction in benefits imposed on retirement prior to age 65.

We believe a substantial increase in the credit would financially benefit the system, even though past SSA estimates indicate a long-range cost of 0.25 percent of taxable payroll to raise the credit to 7 percent. As with the earnings limit, these cost estimates overlook the strong work incentive which a larger credit would provide to older workers and therefore ignore the increased tax revenue that this liberalization would generate for the system (as well as government in general). If the credit were high enough to provide an extremely strong incentive to keep working, then it would have the potential to actually decrease social security outlays.

To complement this strategy under social security, other changes are needed. All mandatory retirement practices must be prohibited. Tax policies to encourage businesses to hire older workers should be formulated. The Federal Government should actively encourage alternative work programs (job-sharing, phased retirement, part-time jobs, etc.) and sponsor job opportunity, placement and retraining programs specifically targeted to older workers.

D. Fundamental reform of social security benefit and financing structures needed

The convergence of demographic, employment and economic trends will make it impossible to continue the system as presently structured into the next century. If perpetuation of social security in such a form is attempted, either a massive payroll tax increase (a near doubling of current rates) or benefit cuts of equal magnitude (through such steps as raising the retirement age and/or price indexing of the benefit formula) will be necessary. Any large payroll tax increase would be incredibly disruptive not only to our economy but also to our political and social fabric. And, if benefits are substantially cut, the elderly will inevitably be forced to sustain a significant deterioration in their living standards and perhaps face the high poverty rates that prevailed in the 1950's and 1960's.

To avoid the unhappy choice between large payroll tax increases and a piecemeal dismantling of the system's benefit protections, we recommend comprehensive reform of the system's benefit and financing structures. This reform must respond to the trends previously outlined, particularly the adverse economic trends consisting of a high, hard-core inflation rate, low real economic growth and sluggish productivity gains. These economic trends are financially detrimental to the system because they greatly restrict the resources available to finance social security and, at the same time, certain features of the system (particularly its over-reliance on payroll taxes) exacerbate rather than help alleviate many of these economic problems. This situation dictates that we begin now to rationalize the social security financing and benefit structures to insure that scarce resources are not wasted and that the financing mechanism used contributes to, rather than detracts from, our future economic health.

To achieve these objectives, we suggest that the revamped social security system include the following:

A benefit structure that would strongly encourage employment on the part of both younger and older workers.

A more diverse and less inflationary financing structure that would use separate and appropriate tax mechanisms to finance social security's divergent functions of earnings replacement and social adequacy;

A benefit structure that is equitable in its treatment of individual workers (particularly working wives and single individuals); and

A benefit structure which provides benefits in a cost-effective and target-efficient manner and which does not overlap or duplicate the benefits provided by other government income support programs.

The current social security structure contains a mix of earnings replacement and welfare/social adequacy features. To further the earnings replacement goal, benefits are very loosely tied to prior earnings histories. To achieve the welfare/social adequacy goal, benefits are computed utilizing a heavily weighted formula which provides higher benefits (in relation to prior earnings) to low wage earners. In addition, in order to further social goals, benefits are provided to workers' dependents whether or not they have ever contributed to the system.

Perusal of both the earnings replacement and social adequacy goals is appropriate for our retirement income support structure. However, social security has attempted to perform these often divergent and conflicting functions utilizing one benefit structure and one tax mechanism—the payroll tax. This intermingling of functions, all financed from a relatively regressive tax mechanism, has led to many benefit inequities and much waste and duplication. It has financially prevented the system from fully accomplishing either the earnings replacement or the minimum income guarantee function.

For instance, under the current system, many higher-income persons receive substantial benefits from the system's welfare/social adequacy elements and, ironically, these benefits are largely financed by the tax payments of lower and middle-income workers and their working spouses. One example of this problem would be certain government workers who spend most of their working careers in systems not covered by social security and later work for a short period of time in the private sector, just long enough to establish social security entitlement. In this manner, these workers take advantage of the system's weighted and minimum benefit features which are really meant for long-term, low wage earners. This situation results in a large subsidy to many government employees. That subsidy was estimated to be about $1.9 billion in 1979 ("Social Security and Pensions," Joint Economic Committee, October 1980).

At the same time, many low-income persons who are truly needy and who have borne a disproportionate share of the payroll tax burden throughout their working lives are unable to attain even a bare subsistence level of living on their social security income. These situations have led to the perception by an increasing number of workers that the system's benefit and financing structures are inequitable, wasteful, and not yielding a fair rate of return on their contributions. Wives who work outside the home and single workers are particularly disadvantaged by these structures.

The negative and critical attitudes caused by these inequities can only worsen in the future as demographic and economic cost pressures force combined payroll tax levels above 20 percent. Some policy analysts have argued that since many foreign countries have accepted such high tax levels to support their income assistance programs, so will the American public. What these analysts ignore are fundamental differences in U.S. attitudes toward taxation and government's role in providing public income assistance. If recent behavior is any guide, the American public is not likely to accept the high tax levels required to accommodate demographic trends without scrutinizing who is paying the taxes and how those taxes are being spent, and whether, in this case, the social security system meets its articulated goals in an effective and equitable manner.

To foster public support for the system and to eliminate any unintended subsidies present in the current system, social security's minimum income guarantee/social adequacy function should be clearly separated from its earnings replacement function. The objective of earnings replacement should be achieved through a separate benefit structure which utilizes a proportional (or uniform) benefit formula and is financed from payroll taxes. The objective of social adequacy/welfare should be achieved through a benefit structure which is specifically designed to meet those objectives. This latter structure should be financed out of general revenues which would be generated from more diverse and more progressive tax structures.

Should our Nation experience difficulty in resuming healthy economic growth rates in the future or should the cost pressures attendant with the aging of the baby boom population prove more difficult to deal with than we anticipate, then the restructured system we are recommending would allow future policymakers to make clearer decisions on how to allocate existing resources. Choices could be made as to what relative degree the earnings replacement goal or welfare goal should be promoted. These types of coherent choices would be nearly impossible to make under the current structure.

The more focused and target-efficient structure we are recommending, as compared to the intermingling present in the current structure, would be more readily understood by workers and better supported politically because it would stress equity in both its benefit and financing structures. The payroll tax financed benefit structure would adhere to the principle of individual equity since the payroll tax is a direct and highly visible tax on an individual's wages. The general revenue-financed benefit structure would stress the social adequacy and income redistribution objectives which are more appropriately financed out of general revenues.

In economic terms, this shifting of functions from the payroll tax to general revenues would also help ease some of the financial demands which have been exclusively placed on the payroll tax. These demands will increase in the future as our population ages and as inflation and early retirement trends cause the elderly to become more and more dependent on government programs for support. Given these trends, it is unrealistic—as well as economically unwise—to rely solely on the payroll tax to shoulder these burdens. As described earlier, increases in the payroll tax are inherently inflationary and can lead to higher unemployment. Therefore, to the extent we can rely on alternative sources of revenue to fund social security's welfare/social adequacy functions, we will help to avert some of the adverse economic effects of having to increase payroll taxes.

A sorting out of social security's functions could be achieved in a variety of ways. The 1979 Social Security Advisory Council came very close to recommending fundamental reform of social security when it considered a "double-decker" system. Under this plan, each aged and disabled person and their survivors would receive a lower-deck, flat grant (demogrant, as it is often called) which would be financed from general revenues. The upper deck of the benefit structure would provide benefits only to persons contributing to social security (not their dependents and survivors) and these benefits would be directly proportional to covered earnings. In order to simulate the costs of the current system, the Council considered a plan that would set the lower deck payment at $122 per month (the same as the 1979 minimum social security benefit) and the upper deck would be equal to 30 percent of averaged indexed monthly earnings. Earnings histories for the upper deck could be shared at divorce, and widows and widowers could inherit the earnings records of their deceased spouses. Also, no earnings test would be applied to the upper deck.

Another restructuring plan that has been suggested by some economists, Alicia Munnell and others, would eliminate the duality of goals within social security by shifting its transfer (or welfare) function to a means-tested, but improved, SSI program, while strengthening the earnings replacement function of the payroll tax financed social security system. Our associations have been recommending such an approach to reform since 1974. Compared to the double-decker system, this type of two tiered structure would achieve the same financing and benefit structure rationalization of the system's equity and adequacy goals, but with greater target efficiency. Since we now have two separate instruments, namely social security and SSI, the sorting out of these two functions between these two instruments would permit a more rational and economically effective allocation of limited resources. The Nation's resources (gross national product) are not increasing in "real" terms as rapidly as they did in the past because of the adverse economic trends previously described. Since, in the future, we are likely to find ourselves allocating a fixed share of a more slowly growing resource pie among an expanded elderly population, this type of structure, rather than a double-decker plan, may be necessary.

Our proposed restructuring would entail a gradual phasing out of the weighted benefit formula and all derivative benefits (which are paid to workers' dependents) under the OASDI program. As these features are being phased out, primary benefits payable to workers should be increased to reach the desired 50 to 60 percent replacement rate and the SSI program (which would be responsible for performing the minimum income support function) should be substantially improved. Federal SSI payment levels should be increased at least to the poverty threshold, the costs of state supplementation should be shared by the Federal Government, and the resources or assets test should be eliminated.

Economist Henry Aaron has, in the past supported a two-tiered approach to social security reform. In testimony before this committee, however, he indicated a change in his position, citing two reasons: first, the welfare stigma and burden of applying for the lower tier benefits would discourage many legally entitled recipients from claiming benefits; and second, the cost of administering a means-tested program would be too high.

Although we acknowledge that the welfare stigma has been a significant factor in the low rates of elderly participation in the SSI program, we do not believe the future elderly generation will have the same attitudes toward welfare programs (particularly if they have paid taxes over a longer working life) as the current generation of older persons. It is this future generation, not the current elderly, that would be affected by this type of structural reform in the system. With respect to the administrative costs associated with a means-tested program, we believe that elimination of the assets test would substantially reduce administrative burdens as well as remove one of the more demeaning aspects of the programs.

E. Price versus wage-indexing of the benefit formula

Two proposals that would introduce price-indexing in place of wage-indexing in the benefit formula have surfaced recently. One proposal would price-index the "bend points" of the formula and yield a long-range savings of 2.56 percent of taxable payroll. Another proposal would price-index only earnings records and yield a long-range savings of 1.47 percent of taxable payroll. If these proposals were implemented together, it is estimated that cost savings for the system would approximately be 3.51 percent of taxable payroll.

According to recent SSA estimates, price indexing both the bend points and earnings histories would cause replacement rates for average earners (retiring at age 65) to fall from 51.1 percent in 1980 to 33.2 percent by 2010 and to 22.3 percent by 2055. Replacement rates for low earners would drop from 64.0 percent in 1980 to 41.5 percent by 2010 and to 32.1 percent in 2055 and for high earners, rates would drop from 32.5 percent in 1980 to 21.0 percent in 2010 and to 16.1 percent in 2055. Under price indexing, social security income for most earners would be reduced by over one-third by 2010 and cut in half by 2055 when compared to the income that the present system yields to current retirees.

Clearly, these price-indexing proposals would substantially shrink the role of social security, causing it to contribute far less than the current system would to the future income stream of the elderly. Proponents of these proposals argue that the purchasing power of future benefit awards would be maintained at current levels under a price-indexed system. This argument, however, attempts to mask the fact that price indexing would cause the living standards of the future elderly to greatly decline, because a far smaller share of preretirement earnings would be replaced by the system. Since social security is, and will continue to be, the primary source of income for the elderly, it is inevitable that the price indexing will not only cause a significant deterioration in living standards, but also a resurgence of extremely high poverty rates among the future elderly.

In addition, implementing price indexing of both wage histories and bend points would amount to overkill in terms of reducing the system's long-term deficit since together they would cut expenditures by 3.51 percent of taxable payroll. The 1980 Social Security Trustees' Report estimated a long-range deficit of 1.2 percent of taxable payroll, using intermediate assumptions. Each of the price-indexing proposals would separately exceed the cost savings necessary to eliminate this deficit. And, when combined with the proposal to raise the retirement age, which is estimated to save 1.42 percent of taxable payroll, price indexing would do nothing less than gut the system.

Some policy analysts, like Henry Aaron, have argued that price indexing (beginning in 1995) would sufficiently reduce the long-run deficit and provide future Congresses the option of increasing benefits (after price indexing has reduced them). In our opinion, it would be impossible to restore the replacement rates that would have been produced by a wage-indexed formula because, at that future point in time, Congress would be left with having to utilize the crude and inefficient device of simply legislating across-the-board benefit increases for persons already on the rolls without regard to how much (or how little) recipients' benefits were altered by the price-indexing formula.

If a shift to price indexing were made, major structural damage would be done to social security and that damage would probably be irreparable. Productivity gains made by workers and reflected in the increased wage levels attained throughout their working careers would not be passed through to their ultimate benefit awards. It makes little sense to introduce price-indexing features into a system that was designed to be wage related.

Rather than attempting to reduce benefits in such a distorted manner, Congress would do a greater service to present and future elderly generations by restructuring the system so that it strongly encourages older persons to work, utilizes more diverse and flexible revenue sources, and has a benefit structure that is more equitable and that operates in a less wasteful and target efficient manner.

IV. SUMMARY

In summary, our associations are convinced that the current social security financing and benefit structures cannot be perpetuated into the 21st century. Without a major and comprehensive restructuring of this program, the future elderly may not be able to rely on it as a major contributor to retirement income. Attempts to perpetuate the current structure will eventually lead to either massive payroll tax increases or benefit cuts of the same magnitude. Raising the retirement age and price indexing the benefit formula would represent such cuts. As a response to the long-term trends, we would prefer that a more aggressive elderly work incentive strategy be pursued, coupled with a clear separation of social security's divergent functions into two separate benefit and financing structures.

Senator CHILES. Much attention has been focused on the use of automatic cost-of-annual-living adjustments using the Consumer Price Index—or the CPI. One estimate indicates that for each increase of 1 percent, the social security benefit cost increased over $1 billion. Several proposals have been offered to change the present way of keeping social security benefits responsive to inflation. They are—and I will name the most important ones that have been talked about—to limit or cap the CPI at a certain percent, like 85 percent; second, to weigh the CPI index differently to adjust for housing costs in a more realistic way; third, to use a different index; fourth, use an index based on wages or prices, whichever is lower; and fifth, develop a special separate index for the elderly.

Yesterday, Robert Myers suggested another approach that may be endorsed by the National Commission on Social Security. He suggested limiting the cost-of-living adjustment when prices exceed wages, thus keeping workers and retirees more on a par, and then when the economy picks up again, provide adjustments higher than the CPI to make up for lost increases of previous years. The committee is curious to know what your thoughts are on this issue and the several proposals under review.

Ms. Lacayo, do you want to start off on that? I will throw the ball to you and then let everybody sort of come in and give their comments.

Ms. LACAYO. I hope this is not symbolic of the adage, "the first shall be last or the last shall be first."

I am here today to speak from a minority perspective to this committee. That unique perspective has not really been considered in all of the many, many discussions that have been held over the past few years. I believe quite strongly that the impact of minority workers has not been fully analyzed by any committee to date. The paucity of research information on participation of blacks and Hispanics in social security as the two primary minority groups is quite obvious. When we talk about COLA's—cost-of-lving adjustments—with respect to a minority perspective and when we consider increasing the social security retirement age from 65 to 68, we must take into account some factors that are unique to minorities. Concerning cost-of-living adjustments and the Consumer Price Index from our perspective as minorities, and I am just very quickly summarizing here, we feel that this will do nothing more than put our older persons into a quadruple jeopardy situation. As we know, it is the old and the poor who are dependent on the social security system, and forcing older persons into an adjustment CPI index which is specially geared to older persons will be hurtful to millions and millions of older people.

We reiterate the National Center on Black Aged's recommendation, which is in their written testimony; and if I may, I will quote from part of that testimony, if Mr. Crecy does not mind.

Proposals to reduce social security COLA's will only add to the economic misery already experienced by millions of older Americans. It will force more elderly persons onto the poverty rolls. And it will be especially onerous for aged blacks and Hispanics, particularly for those struggling on limited incomes.

Poverty increased by nearly 400,000 for older Americans during the past year, from 3.2 million in 1978, to 3.6 million in 1979. This represented the largest increase for the elderly since poverty statistics were first tabulated nearly 20 years ago. The likelihood is that there will be another poverty jump for older persons in 1980—perhaps of the same magnitude that occurred in 1979. If this, in fact, occurs, nearly 700,000 to 800,000 people, 65 or older will be added to the poverty rolls from 1978 to 1980.

In summarizing the statement here, if the COLA mechanism enables older persons to play merely a catchup game with inflation, then we could go back, for example, to this year's cost-of-living increase, which is based upon the rising prices from the first quarter of 1979 to the first quarter of 1980. Older Americans have already seen their purchasing power shrink despite the cost-of-living increase. The elderly did not catch up with the rate of inflation even though they obtained an increase. If I were an economist, I would study the question of the Hispanic and the black community and the impact that this work force is going to have on the social security system by the year 2005.

What I am concerned about is that our people rely on this entitlement program as their basic source of support. Anything to reduce or index this cost-of-living increase is going to hurt the minority elderly and put them into quadruple jeopardy: they will be old, poor, a minority and, in the case of Hispanics, mostly monolingual. I hope that I can address the issue more directly with respect to the proposed increase in social security retirement age, about which we are extremely concerned.

Senator CHILES. All right.

Mr. Nave.

Mr. NAVE. Yes; I would like to have some comment to that, Senator. The Federal retirees are affected by the COLA situation very much. We have the twice-a-year adjustment whereas the social security adjustment is annually. This has been the subject of discussion and debate in Congress, and the press and news media, and I think that these adjustments should continue.

With all due respect to Bob Myers, here again we are offering one small patch on a tire that has been patched over and over again.

Another patch is not going to help the situation. In order to overcome some of these minor problems, like we have in the cost-of-living adjustments, perhaps a major problem itself should be resolved, and that in resolving the major problem, some of these minor ones will take care of themselves. We are satisfied in our organization beyond any element of doubt that the major job that is facing Congress is to address itself to the restructuring of the social security system, bring it up to date. We are talking about concepts that social security is only an insurance basis on which to project further savings to take care of your old age. The fact of the matter is, Senator, that a lot of our people in the receiving line at 65, find themselves without savings, without any stocks or bonds, without any income from any other source, and they find themselves with just the social security as their pension. Try to tell them you are about to take away any part of that pension. So more and more the thought occurs that something should be done to restructure the benefits of social security and separate them from the welfare aspects of social security.

Senator CHILES. Well, we are getting into some other questions and I think we are going to have to try to confine our remarks. I understand the difference there. We are trying to get any comments anybody has about these different proposals in regard to changing the indexing provisions; CPI, for example.

Mr. NAVE. The changing of the index has undergone some experiment to see which one has the greatest benefit, which cost the most, or which cost the least. Actually what we are talking about is the dollar sign because of inflation, because of unemployment. This becomes a relative question. Where is the money coming from to pay for these benefits?

Now you reach the point, Senator, in your social security tax system, where the worker has had just about as much tax as he can take. As a matter of fact, the last Ways and Means report in this respect pointed out that the 1977 tax law was restructured to compensate workers for the increase in social security tax. So we are getting into the general revenue aspect of financing some of these benefits and your own comment here on the medicare program indicates this is an appropriate place to begin. I think that we should cure the main cause of the overall problem.

Senator CHILES. Mr. Crecy.

Mr. CRECY. Thank you, Senator.

First, I would like to stress that Congress should exercise caution in initiating any changes to the social security system, particularly in the area of social security cost of living adjustments. As you know most elderly blacks are experiencing income levels at or near poverty levels. NCBA believes that our Nation can take more effective actions to halt rising prices or to reduce social security costs than to thrust the elderly into the front ranks as inflation fighters. Balancing the budget on the backs of the elderly is not what NCBA feels is a constructive alternative in dealing with the problems of changing age demographic being experienced by the social security system in general. Revising or capping the price index as being proposed by certain proponents here today will certainly force more elderly persons onto the poverty rolls, and it will be, especially onerous for aged blacks, particularly for those struggling on limited incomes.

As Mrs. Lacayo indicated earlier there has been a marked increase in poverty for all older Americans, but particularly so for the black elderly and for those elderly persons typically referred to as the minority elderly during the past year, and we feel this trend will continue into the 1980's as unemployment in general spirals nationwide of which the minority elderly represent a disproportionate amount of the unemployed.

Thank you, Senator, I will reserve my comments for later.

Senator Chiles. Mr. Reilly.

Mr. Reilly. Mr. Chairman, the National Council on the Aging is completely opposed to any limitation or reduction in meeting the cost-of-living increases which are currently built into the statute. From our point of view this is not purely an economic issue which is the way that some of the witnesses have been approaching it, it is a human issue and it also involves, it seems to us, the possible reneging on the part of the Government of a pledge to today's old people and tomorrow's old people.

The purpose of the program is clearly to allow older persons to live in dignity. The 1979 data which has just come out shows that 400,000 additional older people went below the poverty line, people that have been above it now go below it without any reduction in cost-of-living increases or any other kind of production and benefits.

Looking at the issue of weighing the CPI differently it seems to us that there are conflicting views and conflicting evidence on this. The thing we see alleged often is that many old people have paid-up houses, consequently the CPI does not reflect accurately the impact of inflation on older people, but there are other analyses which have been made which indicate, of course, that older people disproportionately have high medical bills and very high proportions of their total income go to medical costs, utility costs, food costs, and things which are not discretionary income, not amenable to changes on the part of the individual. We think that if consideration was given to a separate index for the elderly that it is very likely that such an index would actually wind up coming out a higher index than the current one.

Mr. Myers' proposal would, in effect, bank a piece of the benefit and restore at a later point. It seems to us that that is a rather neat accounting trick but it is a rather strange proposal in social programing where in effect you would be banking a saving from some of today's older people and returning it to a different set of older people later. If someone is in their upper eighties at this point and having a benefit reduced on them, they are very likely not going to be around when the cycle changes. Mr. Myers' proposal would be retaining some of their benefits.

We would oppose any downward adjustment in the CPI.

Senator Chiles. Mr. Clayman.

Mr. Clayman. Thank you, Mr. Chairman, Senator Heinz.

I suspect you can anticipate what my response will be. First a quick backdrop.

Approximately one-half of all of the people who receive social security benefits have no other income whatsoever. The average monthly check now is roughly in the area of $325, $330 and so we are talking about real poverty, affecting the greatest number of people we are considering in this hearing. I just learned this morning—and was shocked because the trend had been in the other direction—that between 1978 and 1979 400,000 more elderly dropped below the local poverty line. Again these are the people that we are talking about. With that kind of background it is pretty clear that an organization like the National Council of Senior Citizens has to be against accepting lower rates of benefits.

My guess is that we would be socially, morally, and politically wrongdoers if we said let's go for the lower rate in view of the problems of this special group. The issue was raised apparently by Mr. Myers, and I didn't hear his testimony, but I gather from what you told us that the elderly as well as others may be given less presently on the assumption that one day they will get more. For this particular group—today's elderly—it means living for less for likely the rest of their lives, and therefore Mr. Myers' suggestion while ingenious, is not realistic and does not address itself to human problems that are around.

I can't forget my background and I must make a quick observation. There is one happy thought in this, that apparently quite a substantial group of officials have come to the realization that has been obvious for a long time, that wages chase prices and wages are not the reason for inflation. I am grateful that the issue has arisen because that will add a little bit of understanding on the part of all of us.

Senator CHILES. Mr. Hacking.

Mr. HACKING. Thank you, Senator.

Let me make it quite clear that the NRTA and the AARP are flatly opposed to any curtailment or reduction in the cost-of-living protection that the elderly derive through social security and SSI. But rather than go through each of these specific proposals to curtail cost-of-living protection, I would like instead to talk a little bit about the rationale that is being advanced in support of them.

We have heard over and over again from a variety of sources, in both the private sector and the public sector, the argument that the elderly did well during the inflationary period of the 1970's; that the rate of increase in their income was higher than the rate increase in the CPI over the same period; and, therefore, that they can now afford to tighten their belts a bit. Well, an examination of the facts and the statistics presents a clearly different picture, and indicates how distorted the rationale for cost-of-living protection cutback really is.

From the midsixties, right through the seventies, there was an enormous expansion of Government programs that helped the elderly. New programs, like medicare and SSI, were created and other preexisting programs, like social security, were greatly expanded. As a result, the average income of the elderly family unit increased. Beginning in the midsixties, you had nearly a third of the elderly living in poverty but by the end of 1978, the poverty rate among them had decreased to 14 percent. Over the same period, average elderly family income increased from about 43 percent of that of the nonelderly family to about 55 percent.

Great progress was indeed made but we also saw over this same period something else developing. Elderly with higher incomes—those persons who had put something aside while they were working, to provide themselves with some income supplements during their retirement over and above what they expected to derive from social security, and other public programs—found themselves being gradually squeezed down toward the lower end of the income scale as a result of what inflation was doing to their fixed income components, like interest, dividends, and private pension payments. Thus, over this same timeframe, these people found themselves being increasingly concentrated at the lower end of the income scale—supported above the poverty line by the public programs but squeezed down toward that line by the effect of inflation.

In view of the economic and Federal budget situations, we cannot realistically expect to see costly new benefit programs enacted that will provide the elderly with enough compensation to offset the inflation losses they are now suffering and will continue to suffer in view of the high rate of inflation that we can expect right through the 1980's. Therefore, what we are going to see is what the representative from Data Resources, Inc., described to the committee yesterday; that is, a gradual decline on the part of the elderly in terms of their average income relative to that of the nonelderly and a gradual lifting of the incidence of poverty among them. Last year alone, there was a full 1 percentage point increase in the incidence of poverty among the elderly. That brought the elderly poverty rate to 15 percent as of the end of 1979. This upward movement of the elderly poverty rate is one of the effects of what high rates of inflation are doing to them and will continue doing to them throughout the decade of the eighties.

The obvious cure for this rather dim forecast is to bring inflation under control. The problem with that is that the Nation still lacks an effective program that is going to bring inflation down to an annual increase of not more than 2 to 3 percent. Lack of an effective anti-inflation program and the kind of a situation the elderly can expect to find themselves in, given a continuation of high rates of inflation, we are adamantly opposed to cutbacks in the cost-of-living protection the elderly have under the public programs. Inadequate as it is, if you take some of that automatic protection away, the poverty incidence among them will rise that much more rapidly.

Senator CHILES. I want to ask each of you what your perception is as to the pressure that would come if we continue just the way we are, no change, no looking at the CPI to determine whether it is justified by virtue of housing costs, whether it is a proper index when we see the pressures that did occur? Mr. Nave mentioned the fact that the blue-collar worker is about taxed to where he can be taxed. Now there are pressures that build, as you know, when there is a 14-percent increase in Social Security and workers' real wages go up 8, 9, and maybe 7 percent.

The question is, how long can that trend continue to where the person that is paying in, sees his real wages going up and sees the other indexes go up 10 percent or higher on the inflation scale? Is that a problem that you all perceive or how do you perceive that? How do you deal with that problem?

Mr. NAVE. With the twin problems of inflation and unemployment, legislation is in a viable situation. You are in a no-win situation. When you look at it broadly, you either cut costs or raise prices. Let me point out that when the Congress was setting the amount of the cost-of-living increases periodically that you didn't have the index, you didn't have a systematic approach to the problem. Over a period of 5 years, the benefits were 50-percent higher than we go under the CPI.

Now, also, when you examine the day-to-day averages along with retirement income you have two different things. You have the workers that go out and get a job and increase their buying power, and, on the other hand, you have a retiree—he has no place to run, he can't get a job. When you look into the Federal picture, Senator, three Presidents in a row, in spite of the comparability feature of the wage law, put caps on increases in Federal pay.

When you put a series of caps on the earnings of Federal employees, when they retire they are going to retire at a far lower rate than if they had been given comparability. So you have a problem.

Senator CHILES. That is a problem because Mr. Clayman's position is so true. For about 20 percent of the people, social security is their only source of income. The other side of that is whether the glass is half full or half empty, so conversely 80 percent of the people are drawing social security and have other sources of income and of course we are paying some of our dollars out and some of that CPI or cost of living to people that are able to cope. How do we deal with those that can't cope?

Mr. Hacking.

Mr. HACKING. Yes, Senator, I would like to respond to your question. Historically, the rate of increase in wages has surpassed the rate of increase in prices. Last year, of course was, and this year is, likely to be an exception. But the experience of 2 years certainly does not constitute a trend. If this disturbing experience does indeed develop into a trend, it is not only social security that is going to be in trouble, the Government and welfare of the entire Nation will be in jeopardy. So, we recognize what the problem is here but we also recognize that the elderly don't have at their disposal the options that younger people have in terms of job opportunities and the relative advantage those opportunities give younger persons in terms of maintaining their incomes.

If you wanted to construct a separate CPI for the elderly, as Mr. Reilly suggested in his remarks and as our associations have advocated for many years, I think you would find that given what the elderly spend their money on—namely food, fuel, utilities, shelter cost, and medical care—such an index would yield higher increases than the current CPI rather than lower ones. Eliminating the mortgage interest rate factor from the current CPI is simply a way to, in effect, provide the elderly with less inflation-loss compensation even though, if they were given what it would actually take to maintain the purchasing power of their social security benefits, they should actually be getting more than the current CPI—including the mortgage interest rate factor—is in fact giving them.

Senator CHILES. All right. I think we have gone over that maybe as much as we can.

As to another short-term issue, I don't think there is a Senator on this committee who has not had many elderly constituents complain to him about the earnings limitation and how unfair that they think it is. Opponents to the view claim that removing the test tends to benefit those at higher end of the income ladder and they estimate that it would cost the system about $2 billion a year. What are your views on changes in the earnings or retirement test?

Mr. Reilly, do you want to start off with that one?

Mr. REILLY. As far as the National Council on Aging is concerned, we endorse continuing with the provisions of current law that do some liberalizing of the earnings test for the very reasons that you just cited. At a time when so many people are raising questions about how to cut back on retirement payments to older people, it seems to us strange, at the same time, to be talking about making a change which puts another very significant cost on the program. In effect it seems to me that the people who can suggest that approach don't seem to have much concern for the people at the lower end of the income spectrum and are focusing their concerns on people further up along the spectrum.

Senator CHILES. Mr. Clayman.

Mr. CLAYMAN. Very brief observation. The $2, $3, or $5 billion that can be wrung out of the program, where should it go? Should it go to those who are most able to take care of themselves, or should it go to those who are least able to take care of themselves? If this small but not insignificant bonanza is given to the wealthy, it simply means that the load will be even more onerous on the whole system, the very problem that this committee has searched for desperately to find a solution to, so I think it would be considered quite clearly counterproductive.

Senator CHILES. Mr. Hacking.

Mr. HACKING. Yes. Thank you, Senator.

First of all, the NRTA–AARP for years have been in favor of the elimination of the earnings test. We are aware of what the social security financial situation is, in both the short term and the long term. Therefore, we advocate eliminating the earnings test initially only for people 65 and over and only in accordance with some kind of a schedule spread over a period of 5 or even 10 years. But the point is to definitely schedule a phaseout of the test. It is a reasonable thing to do to encourage the maximization of work effort by the elderly by beginning to eliminate what is quite obviously a very serious and severe elderly work disincentive.

If reasonable means are to be used to accommodate the demographic trend, we are going to have to stop discouraging older people from working and stop penalizing them for work effort. Instead, by encouraging them to work as much as they want and for as long as they can, not only will they be helping themselves, they will also be helping the Government in terms of tax payments and helping younger workers in the sense that younger workers will have a lesser dependency burden.

Generally the analysis of the earnings test question has two aspects—one is the cost issue and the other is what is called the benefit distribution issue. I would like to deal with both of these. First, with respect to the cost issue, it is easy to calculate the cost of what social security would have to pay out today in terms of benefits to persons who are not now receiving those benefits because of the fact that they are earning wage income above the earnings test maximum. What is more difficult to calculate, but what is actually much greater, are the costs that are currently being incurred by having and perpetuating an earnings test that causes people to limit their work effort. These costs are incurred by Government in terms of lost tax revenue and by the economy in terms of the lost or foregone value of the goods and services that do not get produced because these people artificially limit their work effort. These costs are incurred by Government in terms of lost tax revenue and by the economy in terms of the lost or foregone value of the goods and services that do not get produced because these people artificially limit their work effort.

Today, more than half of the people who are 65 and older and do some work in the course of a year for pay, stop working before they go over the earnings test limit. If those people who are drawing their social security benefits were not forced by that artificial earnings test ceiling to truncate their work effort, they would be free to maximize that effort and that would mean they would be paying more income and social security payroll taxes and more taxes to State and local governments. This revenue ought to be counted and considered in the context of the earnings test "cost" issue because to the extent people are limiting their work effort because of the earnings test, tax revenue is being lost along with the value of the goods and services that end up not being produced.

So the tax receipt losses and the lost value of those goods and services ought to be taken into account and when you add up those losses that we are referring to, you find they are far larger than what it would cost social security to pay those benefits to those people who are not now getting social security because of the operation of the earning test. When you look at this issue in the context of what needs to be done over the long term to accommodate the demographic shift, it becomes clear that it is absolutely mindless to perpetuate the earnings test and penalize the future elderly for working. Instead, we need to encourage them to maximize their work effort. I see no reasonable way of solving social security's long-term problem unless we can successfully induce future older workers to work as long as they can and as hard as they can and derive as much income from that source as possible.

Senator Chiles. Mr. Crecy.

Mr. Crecy. Thank you, Senator.

There are some proponents who would favor the abolishment of earning's test altogether. However, social security has helped to compensate for certain disadvantages that blacks have encountered during their working years. But the greatest problems affecting blacks—lower earning and higher unemployment during the working years—are still beyond the control of wage-related programs. For example, average monthly retired worker's benefits amounted to $210 for black women in December 1979, compared to $260.90 for white female retired workers. A similar pattern existed for men. The average monthly benefit for retired black men was $271.40 in contrast to $322 for white male counterparts.

Social security and supplemental income constitute the overwhelming proportion of income for older black Americans. Most elderly persons have income from assets—such as interest on savings accounts and dividends from stock—but not aged blacks. In fact, older whites are about three times as likely to have income from assets as elderly blacks. Social security reports tell us that 63 percent of older white males and 40 percent of elderly white females have asset income, compared to just 16 percent aged black men, and 12 percent for aged black women.

Also, it should be noted, in testimony presented to this committee by Thomas C. Woodruff, Executive Director of the President's Commission on Pension, outlining some of the problems facing the social security system versus the American population and particularly the labor force, which will face major age changes in the coming decade, I believe Mr. Woodruff suggested in that testimony that some of these economic and demographic dislocations can be dealt with effectively, if the Federal Government worked to increase work efforts voluntarily, and that he especially called work incentives and increased job opportunities for older persons.

We, at the National Center on Black Aged, support this concept. We believe that liberalizing earnings test would allow minority elderly to participate in viable employment efforts that could offset some of the economic deprivations and nightmares that have existed these past years, particularly during the seventies.

Senator CHILES. Thank you, sir.

I might say after this, in order to sort of keep this thing going within our time, maybe those that feel like they want to comment on something, I will call on. I don't feel like I have to call on everybody on every question.

Mr. NAVE. Very briefly, Senator, we think it is a law that ought to be repealed. A person earns certain benefits under the law, and when he reaches that point, you restrict them or take them away. I would say under that law if a particular aged person is able to go out and earn more than his retirement gives him, good luck and more power to him.

Senator CHILES. We are glad to have Senator Domenici here with us now and participating in our hearings. He has been participating in these hearings. We are going through some questions and really trying to cover some of the items that were raised by our last two panels are getting the comments now of our aging groups in regard to that.

Mr. HACKING. Senator, when I was making my remarks on the earnings test, I failed to deal with the second aspect of the earnings test question—namely the benefit distribution issue. Mr. Clayman addressed the point earlier. The argument which he made, and which has been made for many years, is that if you eliminate the earnings test, social security will end up paying benefits to people who are wealthy or have high income. Well, first of all I would point out, that the average income of the elderly is around half of what it is for the nonelderly, so we are not talking about giving benefits to the truly wealthy. What we are really talking about is whether we should give to one elderly group that has total income relatively higher than that of another group of elderly, benefits that the first group was led to believe they had paid for and could count on in old age.

Obviously, persons who are in the labor force, and have wage income, are far more likely to have greater income than people who are not in the labor force. That is obvious. But the first question is whether they are truly wealthy. The second question is to define what are the benefits that result from eliminating the earnings test and then look at the persons who would get them. All that those who oppose eliminating the earnings test seem to consider when they are talking about benefits and who gets them are the actual social security benefits that would be paid out if the test were eliminated. They chose not to consider as benefits the additional wage income that that majority of elderly who do some work during the course of the year would derive as a result of not having to artificially limit their work effort. We think that this additional wage income should be counted as part of the benefits that would flow from the elimination of the test and that the people who would derive that additional wage income—persons who make $2,000, $3,000, $4,000, or $5,000, and who are obviously not wealthy by any fair standard—ought to be counted among the beneficiaries of the earnings test elimination.

When you start counting that additional wage income along with the social security benefits that would flow from an elimination of the earnings test and look at where the person who would receive the benefits are on the income scale you get quite a different picture of who actually benefits than the one my associates here would lead you to believe.

Senator Chiles. Switching over to the long-term issue now if I can, I have some other questions on the short-term problem if we have time I would like to deal with, but a growing list of people are recommending that it makes sense to phase in a new retirement age of 68 beginning sometime next century. Here is a list of some of those who endorse this concept: the 1979 Advisory Council on Social Security; the President's Commission on Pension Policy; Robert Myers, the former chief actuary; Henry Aaron, the Brookings economist; Michael Boskin, the Stanford economist; and President-elect Reagan's task force on social security. Obviously there is a lot of support for this proposal although it is certainly not unanimous. Robert Ball does not favor it and I know there are others that don't, but I think most people are beginning to recognize that there is a long-term financing problem. You can meet it in several ways.

One of the ways of meeting it is to raise the retirement age to 68. One of the best arguments that we heard for it yesterday, I quote the arguments, was that today you have a life expectancy of approximately 14-plus years if you retire at age 65. In 2010, if you retire at age 65, you would have a life expectancy of probably 14-plus at least 3 years, so you would be saying to the people that retire at 2010 when you would start to phase this in, you will receive benefits for roughly the same portion of your life.

We are furnishing to you the same guarantee for income over a life expectancy that we furnish the people that retired in the year 1980. The other side of that or the other way of phasing that is, that if we don't do something, part of the problems that come into the system in those out years, say by 2010, is that the people that are retiring then are taking more out of the trust fund because they do have this additional life expectancy, and they will draw benefits for 3-plus additional years.

Just laying that kind of framework, those of you that would like to comment on that question I would like to hear from you.

Mr. Clayman.

Mr. CLAYMAN. First, it seems to me we have got to set a little framework. All of this is predicated long range upon prognostications which none of us in fact are in a position to make. We made decisions in 1977 which we thought were secure decisions and here we are in 1980 worrying whether the decisions, the foresight that we had in 1977 is valid today and obviously the fact we are having this hearing indicates that perhaps we were not. Now it is the cash flow problem and it can be solved in my judgment.

Senator CHILES. The short-term problem.

Mr. CLAYMAN. The short term. The point is that we were not able to prognosticate effectively for 3 years. Now we are casting our vision ahead to 30, 40, 50 years. One thing we can prognosticate roughly is the size of the aged group. That probably has been done with a reasonable degree of certainty.

Senator CHILES. If anything, we have also so far been on the low side of what life expectancy would be. In other words, life expectancy has been better than we projected.

Mr. CLAYMAN. Yes; that is why we can forecast roughly the size of the elderly group in our country a reasonable number of years ahead, but we cannot forecast the issue of jobs or no jobs on the economy. We cannot forecast the issue of productivity. We cannot forecast the issue of inventiveness. All of these are germane in the total calculation and we have no guideposts. What I am really saying is, that almost blindly in our moment of fear and apprehension at the moment, we are saying, let's cast the issue precisely.

Now then my own feeling is——

Senator DOMENICI. Is the age 68 any more precise or less precise than age 65 or age 62?

Mr. CLAYMAN. Oh, I don't think we make a mistake in casting the law at 65.

Senator DOMENICI. No; I only questioned whether 65 or 68 is any less or more precise.

Mr. CLAYMAN. I think we can make some prognostications on that. If, for example, we say retirement shall be at 68, it is obvious that for 3 years x million people will be prejudiced. We know that. We know that as of now.

Senator DOMENICI. We don't know that they are prejudiced.

Mr. CLAYMAN. Yes; we do.

Senator DOMENICI. Tell me why.

Mr. CLAYMAN. We will know that they are not going to get their social security.

Senator DOMENICI. But we don't know that in the year that he is talking about the change going into effect that they are really going to be prejudiced.

Mr. CLAYMAN. At that date?

Senator DOMENICI. Yes; we don't know that at all. It is almost like starting a new contract.

Mr. CLAYMAN. But when we are plotting the future I don't have the wisdom, I know, and I speak only for myself, to say yes or no whether

68 will be appropriate 10, 20, 30, 40 years from now. Surely I would not make the decision now that we should do that and I don't know that anybody in Government is that omnipotent that they can make that kind of a decision.

So the only point I was making was that we have no guidelines, and that if Congress presses forward with a specific plan that reaches out just as likely as not they will be wrong. I won't say that they will be more likely than not because I don't know, but the odds are just as likely as not, they will make a tragic mistake that some future Congress will have to wrestle with and try to rectify. That is simply one man's judgment.

Senator CHILES. Ms. Lacayo, would you care to comment?

Ms. LACAYO. I have a humanistic statement to make on this rather than a technocratic statement. I agree with Mr. Clayman that it would be rather reckless right now to make a definitive recommendation on raising the retirement age, and again I parenthesize. We know the longevity ratios for minority persons who are primarily blue-collar workers are much lower than for the dominant population. We must take that into consideration.

I am realistic enough to realize that the minority population is not the one that will be decisive in the statute. But I think it is an indictment on the American process and the American dream that this country has not established an aging policy that guarantees its older citizens some type of security, whether they be 65, 68, or 70 years old. I think it is an indictment on the development of this great country of ours that we are way behind other countries in providing security to our elderly. Social security is indicative of that indictment.

As a minority person who now pays into social security, I do not see myself looking forward to a great future with respect to depending on social security as a source of income. I might get a job with the Government and get into the civil service; that might guarantee me something better. I will caution Congress to look carefully at the "graying of America" before we make definitive decisions on the year 2000, 2010, 2015. I say this because I come from a community, who, by the latest estimates of the 1980 census has grown by 4 million people in 10 years. Hispanics will soon be a very large part of the labor force and enter into the social security system. I am concerned about their future vis-a-vis social security in 20 or 25 years.

In this age of the tightening of the dollar and rampant inflation, we are faced with economic pressures. Congress is certainly faced with new trends and pressures by many constituencies. It is sad that we do not have a definitive aging policy to mitigate trends that downplay human, including minority, needs.

Senator CHILES. Mr. Reilly.

Mr. REILLY. I would like to make two quick points. One is, that in our view, the social security program is really a social contract between the Government and the workers of the country, that the workers in return for making their payments, and the matching payments of the employers, are going to be entitled to a package of retirement benefits when they retire.

One of the studies that was recently made indicated that a substantial number of workers have considerable concern about whether benefits will indeed be payable to them as promised when they reach retirement. It seems to me that proposals that go to the core of what the retirement package is, such as the age at which people will be able to retire, is that kind of change which will undercut further the trust of the work force and make them wonder if they are indeed going to get a specified package when they retire.

Senator CHILES. Let me just raise one question that I have. You may be absolutely correct on that. You are correct and I certainly can say that the guy that is out there working today, and the woman that is out there working today, are tremendously concerned about whether anything is going to be there at the time they retire. I hear that more from working people than anything else that I hear, but I am not sure that I agree entirely with saying that by changing it to age 68, that many workers will have less confidence in the system, because I feel that unless they see that some tough medicine has been taken, I think, and unless you can convince them that you have done something to shore up the system, I think those factors are only going to grow and grow more.

As I say, I am just guessing on this, but I am not sure that there are not a lot of them that would say, I would rather feel like it is going to be there at 68, than it is not going to be there period, because right now I don't believe it is going to be there at 65. They think it is the pie in the sky that we are selling.

Mr. REILLY. If that is the "Hobson's Choice" that is offered to them, I suspect the answer might well be that. I would cite another study, however, which indicated that the majority of workers stated that they would be willing to pay higher taxes in order to assure their retirement package, and it seems to me that I would really want to see some careful analysis of this approach.

Senator CHILES. I agree that is one of the other choices that they have but what I hear from them is they are going to pay higher taxes and they know that. But they are still afraid that there is not going to be something there despite increased taxes.

Mr. REILLY. That leads to the other point I wanted to make. It seems to me that the people who made the age-raise proposal, and I understand where they are coming from, do seem to make an assumption, however, that the retirement of everybody who retires either early at 62 or at 65 under social security, is indeed 100 percent voluntary retirement, and it seems to me that that is not quite the case either.

Senator CHILES. No; but we are trying to reverse that now as you know. We have lifted the mandatory age and it has now gone to 70 and there is legislation. Senator Pepper and I both have legislation that is going in, to take off the 70.

Mr. REILLY. I think that is an excellent step. I think there are lots of ways that people wind up being retired other than the application of mandatory retirement. There are lots of workers whose skills perhaps are not applicable to new methods of the company. Rather than retaining them, there are ways to pressure them out of the job. There are people whose health declines not to the level of qualifying for disability, but to the point where they find it difficult to do work in demanding physical labor.

There are older people who work in declining industries that are cutting back in staffing, so that in effect, the job runs out on them, and the only point I wanted to make is, that I think this should not be looked at in the terms of all of these decisions to retire being 100 percent voluntary on the part of the workers. A raise in the retirement age is actually going to be a severe penalty on a significant number of older people, who in fact, have one way or another been pushed into retirement.

Senator DOMENICI. Mr. Chairman, I think some excellent observations and comments have been made, but I wonder if I might just ask, didn't you suggest, as a year, 2020?

Senator CHILES. 2010.

Senator DOMENICI. You know, I wonder if that is reckless. Somebody said that it was reckless to think about that. It seems to me that is almost a new social compact with retirees of the future. If the retirement age were raised effective in the year 2010 or 2020, very few people would even be in the work force today who will be affected. It is almost like saying here is a new social contract, to borrow your phrase. It seems to me Congress is saying we may have to make some changes. In the meantime, we propose a stronger economy, we promote private pensions, and we attempt to build back productivity. In fact, this morning the chairman made a statement about America's productivity today. As you know, we are scared. In the recent past, we had 3.5 to 4 percent a year in real growth; it is now down to a negative. Where is the money coming from? That is the bottom line. We are doing so well with increasing that longevity we should be delighted; we ought not to be angry at that. That is what living is all about, having people live longer. However, as the group gets bigger and the pie gets smaller, there will be less of the pie to distribute.

Senator CHILES. In 2020 you will be in your 48th year in the Senate and I will be in my 50th.

Senator DOMENICI. There is really no chance of that.

Mr. CLAYMAN. Maybe one of my grandchildren will be coming around here to harangue you.

Senator CHILES. I think the people will take care of that problem for us.

Senator DOMENICI. I would just like to say we are looking for some constructive ideas. I don't think either one of us wants to do anything except have a very solvent, strong system. We want to be able to reassure the present work force, the ones who are worrying very, very much. They are joining groups against social security, groups to begin private insurance plans, and to withdraw from social security because they don't think they are going to get their retirement benefits. That is what worries us. At the same time, we cannot raise social security taxes.

The only real solution I have heard is to put general fund money into the trust funds. Anything else we suggest receives a negative reaction, although some recommend putting in $10 or $15 million from regular taxation as the answer.

Well, we both sit on the Budget Committee and we know that there is not enough money in that pot for the other things. We have had to cut everything else to make ends meet. That is what is worrying us. That is why we are having these hearings.

Thank you, Mr. Chairman.

Senator CHILES. Mr. Clayman.

Mr. CLAYMAN. I will refrain.

Senator CHILES. I know it is hard to stop on any of these issues. I do have other questions.

Mr. Crecy.

Mr. CRECY. We at the National Center on Black Aged, applaud the increased longevity rates experienced by most older Americans; however, the harsh reality is that blacks simply don't live as long as their elderly white counterparts, and in certain instances long enough to receive full retirement benefits. In 1977, the average life expectancy at birth for nonwhite males—the vast majority of whom were black, was 64.6 years of age compared to 70 years of age for white males.

I would like to also bring to the attention of this committee that even if the effective date for raising the eligibility age for full benefits is delayed to the year 2000, or 2020, it would affect those very people—those now under 40, who will be required to pay higher social security taxes during their working years. The proposed increase in aged eligibility would be harmful for older blacks and members of other minority groups because they are oftentimes forced to take actuarially reduced benefits at an earlier age, and the fact that they have demonstrated a greater dependency of social security as their sole source of income. All the demographic information that has been expounded to this committee over the last few days indicates that average life expectancy for minority elderly and particularly black elderly is not at age 68, although we hope that an increase in research information and health advance during the coming decades will increase the average life expectancy age for blacks and other minorities. But at this point in time the increasing age eligibility would seriously undermine public confidence in social security, which is like looking through the eye of the needle.

As to younger minorities, particularly those that are unemployed at this time, I believe some of the other alternatives that this committee may want to explore—and I hate to keep harping on it—is the whole idea of full employment which would address the concerns relating to productivity that Senator Domenici has mentioned. As you know, when you are sapping the public trough, this certainly has an effect upon the productivity levels of this country.

Senator CHILES. Thank you.

Senator DOMENICI. Yes.

Mr. NAVE. I might say, Senator, as a representative of the people who are living too long and causing some of your problems, that it is nice to think that perhaps early retirement is actually the reason why we are living longer these days. That is worth thinking about because the sooner you can get away from some of the stress and strain of life and enjoy it, I think the better off you are.

Realistically speaking from the point of productivity, from the point of the incentive, I think it is a sad mistake to keep people working mandatorily to a certain advanced age. You have already done your bit in providing a law for those that want to stay on to 70 and those that can. Nobody is going to quarrel with that but to have these people mandatorily blocking the way for promotion of the younger people, and having to wait for a certain time element to pass, I think that is criminal. I think it is a step backward.

I think it is going to do a whole lot to actually decrease incentive throughout the entire country. I would say, let's approach the thing with the idea that some people by reason of the jobs that they hold need an earlier retirement and seek an early retirement and get out when they feel they are able to afford it.

I can speak from experience. I had to start working when I was 13 years old. You know, after you work 50 years, you like to think, I would like to enjoy my retirement, and you look forward to getting out. I think that he has accomplished something—he has earned something, and he is entitled to enjoy it for the few years he has left.

In addition to that, you are really doing a favor to the younger people so that they can move up the line of the promotional ladder and get the benefits they are providing. When we get to a certain age we run out of ideas and benefits.

Senator CHILES. Let me go on to another issue. We can stay on one of these all day. If at the end we have time, we can go over them again.

Another proposal we have heard is to require universal coverage and bring all new hirees under Federal, State, and local government on social security. In arguing for universal coverage the proponents claim some cost benefit for the trust funds. Most arguments seem to be based on other grounds, such as expanding necessary coverage for all who fall in the gaps and avoiding windfall benefits. The 1979 Advisory Council, the President's Commission on Pension Policy, and the Reagan task force on social security, as I understand, have endorsed this proposal.

I think some of you might want to comment on that.

Mr. Nave, I don't think you have any interest in that.

Mr. NAVE. Not a bit.

Senator CHILES. Some of the rest of you.

Mr. Nave, we will let you lead off on that one.

Mr. NAVE. In compliance with your request, we have addressed this in specific detail. We have repeated this before one commission after another after another after another. Let me say very briefly that we are unalterably opposed to any association.

Senator CHILES. I had you listed as doubtful, Mr. Nave. [Laughter.]

Mr. NAVE. I will say this, that we recognize above everything, as I stated, there is a need to reform that social security system to make it acceptable to the workers in this country, to the people who pay the cost. Make it such a system that it is desirable to belong to, and then come see us.

Senator CHILES. Does anybody else want a shot at that?

Mr. HACKING. Yes, Senator, I do.

The NRTA–AARP have consistently opposed the proposal that would simply mandate coverage for Federal workers and other public employees who are not now covered under social security. Instead, what we would do is give Federal workers the option to come in in groups—the same option that is now available, to public employee groups at State and local levels. I want to explain why.

In the context of dealing with the long-term social security deficit, which by the way we acknowledge and we think is very large and very dangerous, our associations believe there ought to be a restructuring of the income support structure, including its major component—social security. In the context of social security programs we want to sort out the functions that those programs now performed; we want to separate the pension function from the welfare and social adequacy function, but within the context of social security for the purpose of eliminating the waste, duplication, and overlap that results from the present structure of things. What we are advocating makes sense in a period of scarce resources, and we think resources are going to be pretty scarce into the future.

Having done this and having set up as part of it a benefit formula that strictly relates benefits to earnings records and contributions, we think that those public employees who have had advantage of being able today to split their employment histories and pick up windfalls from social security will no longer have that advantage. They will only get in the future what they paid for; indeed, some of them—those who work less than 10 years in social security covered employment—would not even get that.

Those who continue to split their employment would not get any of the windfalls they are now able to get under the present benefit structure. On the one hand, then, we would give these public employees the option to elect social security coverage, but on the other hand, we would prevent them from receiving what they never paid for and what was never intended for them—namely, the welfare social adequacy element of social security benefit formula and structure. But we would still leave them free to continue operating under their own pension system at the Federal, State, or local level if that is their choice. We think they will exercise the option and elect social security coverage.

Thank you.

Senator CHILES. Mr. Clayman.

Mr. CLAYMAN. The National Council of Senior Citizens has an intermediate theory. We stand for the universal coverage but that there will be no loss of benefits whatsoever for those people brought into the system if it is promulgated. So essentially what we have been saying is come on in, the system will guarantee that you will not lose anything in the process. That would be unfair for those who have been existing under another system all these years.

Senator CHILES. Well, I have some other questions that I hope to be able to get to you, but we are getting ready to start that cloture vote very quickly, and I am afraid that when that starts we are going to be on the floor for a while. I wonder if we could take a couple of minutes for summations from any of you that feel you have something else that you would like to add that we have not covered. We will do that and then I have to leave.

Mr. NAVE. I might throw out a thought, Senator. I looked at an article in the Sunday Star and the story of horrors on former Speaker Albert, and the big emphasis there seems to be toward the liability in the retirement fund. I checked as of this morning, and the unfunded liability is $166 billion, yet we are hearing from responsible people, as well as in the press, that they are talking about a $403 billion unfunded liability, as a projection in the future. They don't say how far in the future or anything of that kind, but be that as it may, I want to throw this idea out to your committee to look into.

Senator CHILES. Let me say on that particular point, I am going to try to get some figures, because I have heard both of those too, and there is too much disparity there; somebody has to be right and somebody has to be wrong. I am going to ask to see if I can get the Congressional Budget Office to project a figure for us. Is there a liability or is this surplus; and, if so, what it is? So I am going to make that request.

Mr. NAVE. I want to add one more thought to that. My civil service retirement fund was borne with an unfunded liability. We have the papers on that. They give you the history of it and where the Government itself failed to meet its obligation. Then in 1969 they started paying the interest on the unfunded liability, and also amortizing some of the future benefits for a 30-year period.

I would like to make this suggestion to those that are concerned about this fund. We have lived and prospered under an unfunded liability for 60 years. Our fund shows an increasing balance. Might I suggest——

Senator CHILES. Well, again some people have told me that that is true because the general revenue has been picking up the money and it has not been coming out of the funds. In other words, all of the payments go in and simply sit on the fund and they are reserved but that the general revenue is paying out the benefits. Now I don't know what those answers are but I am going to try to get them.

Mr. NAVE. Let me say before 1969 our system prospered. What I want to throw out is a projection that is concentrating on increasing tax. Concentrate instead on the management of that unfunded liability and the cost of such management of that fund on the American taxpayer. This problem has been addressed. This has been addressed in connection with the teachers pension funds with serious unfunded liability. You find all the private funds have huge unfunded liabilities and the question comes up, is it necessary in a Government fund to see that it is 100 percent actuarially funded. In other words, we have a going entity in the U.S. Government, and as long as it keeps going, why worry about some slight deficiency or debt in relation to the whole picture. In other words, relate it to the amount of payments that are made. If we can relate payroll costs to the benefits there can be a great savings to the American taxpayer.

Senator CHILES. Mr. Hacking.

Mr. HACKING. I would like to devote my conclusion to the long-term social security problem. As far as we can see, the Congress has two strategies it can pursue. It can perpetuate the system's benefit and financing structures and be forced to raise tax levels or reduce benefits or it can induce the future elderly to remain in the work force longer and restructure the programs so that they can more efficiently and effectively perform their divergent functions of earnings replacement and minimum income guarantee. But to sort out the functions it makes sense to use two separate benefit and financing structures.

All of this ought to be done in the context of the social security programs. We support the second strategy of inducing greater work effort and sorting out the functions to eliminate windfalls. Our objective is not, as is the case with the age 68 proposal, to chain workers to their machines but rather to provide viable employment options and establish work incentives powerful enough to get the future elderly to maximize, rather than minimize, as is the case under the current structure, their work effort. In the process not only will they be better off but the Government will be better off in terms of tax revenue. In the process the younger workers will be better off in the sense that they will have to support a lesser dependency burden. Finally, by getting the elderly to help themselves they will, in the process, be helping to generate the resources—the tax revenue—necessary to fund the public programs and overcome the social security deficit situation that is confronting us today.

Senator CHILES. Thank you.

Mr. Clayman.

Mr. CLAYMAN. A quick general word simply to have some sense of understanding of peoples' attitudes. The real attitudes of the people we represent and I think it is representative of senior citizens generally. Our people have a special kind of feeling about social security. They feel this. They feel somehow that they have earned it. They feel that the Government will never let them down. It is their staff of life, it really is.

With this kind of an attitude I am telling you as humbly as I can, that if they perceive their Government has let them down, I am afraid the whole issue will become so politicized that there will be no rest for anybody, and so I urge upon this committee, caution and no precipitous action, particularly since we are flying blind into the future.

Mr. REILLY. Mr. Chairman.

Senator CHILES. Mr. Reilly.

Mr. REILLY. Two comments, two quick ones. One, the needs surveys which are conducted annually, or in some cases biannually, have consistently come up with income as the No. 1 concern and the No. 1 need of older people. I suggest, therefore, that the context should not be one of looking at social security only in the abstract or by itself, it really has to be looked at in the total context, because it is the core of support for living for older people.

The other point I would make is that most of the analyses that are made of this situation talk about major alinement, about the change in the ratio of workers to numbers of retirees, from the current 3.3 to 1 in the United States, to approximately 2 to 1, which would arrive around 2025. There are countries that are already there. The Federal Republic of West Germany, for example, already has that kind of ratio. I understand that some other European countries are much closer to it than we are, although there may be differences between them. I think, before any steps are taken in a quick fix kind of approach, that the experience of those countries and how they are dealing with ratios that are much closer to where we will be in 2025, ought to be factored in.

Senator CHILES. Ms. Lacayo.

Ms. LACAYO. I have deep sympathy for the work that Congress has ahead of them and I can't—I guess it is almost redundant for me to add any statements. I feel that perhaps the fact that many older people by reading their newspapers and listening to the media, who are presently receiving entitlements under the Social Security Act, are in fear enough of what might happen because they don't understand so much more the worker who is questioning that increase in his pay check that will again be jumped in January 1981.

I can't reiterate any more points than most of the ones that have been made today. Again I have to say from the minority perspective, we have just not taken into account the factors of minority workers in the work force and the birth dependency ratios for futuristic projections, not even the economic prospective and taxation base. I think that has to be factored in when talking about any changes in this major piece of legislation for older Americans.

Senator CHILES. Mr. Crecy.

Mr. CRECY. Thank you, Senator.

The National Center on Black Aged recognizes that major improvements are needed in the social security system and other income maintenance programs. However, a period of "standpattism," or retrenchment will only intensify the retirement income crisis that already affects millions of older Americans.

Consequently, it will be necessary to develop innovative and cost-effective approaches to improve the economic position of older Americans, through an innovative and expanded Government initiated work effort. A cornerstone of this strategy is to expand employment opportunities for those who need work and want to work. Elements like title V of the Older Americans Act is one of those strategies that we feel needs to be expanded. Also, the liberalization of the earnings test certainly making it punitive for those persons who are at poverty levels or near poverty levels to work is counterproductive. Additionally, the use of innovative employment practices should be encouraged in Government and in private sector, such as flextime, flexplace, phased, compressed work schedules, part-time employment, job redesign, and others. Furthermore, we would like to see the elimination of mandatory retirement in private sectors. We feel that given the opportunity that most minority elderly would prefer to work if work were available, and not stay at home and live on the small meager incomes they receive from social security and SSI and this desire to work could be accomplished through an expanded labor force policy.

Thank you.

Senator CHILES. I thank each of you on the panel. It has been a most interesting discussion and we are delighted to have had your participation.

We will recess our hearings until tomorrow at 10 o'clock in this room.

[Whereupon, at 3:40 p.m., the committee recessed.]

APPENDIX

MATERIAL RELATED TO HEARING

ITEM 1. STATEMENT OF HON. JOHN F. SEIBERLING, A MEMBER OF THE U.S. HOUSE OF REPRESENTATIVES FROM THE 14TH DISTRICT OF OHIO

Mr. Chairman and members of the Senate Special Committee on Aging, I appreciate the opportunity to present my views on the financial problems facing social security. You have already heard testimony from Robert Ball, a former Commissioner of Social Security, on the 1979 Social Security Advisory Council's financing recommendations. I believe that these recommendations provide the soundest approach to shoring up the system's finances, and I have introduced legislation to implement them.

There have been four payroll tax increases since 1971, and the maximum tax will rise another 23 percent next month to almost $2,000. The combined employer/employee payroll tax exceeded 12 percent in 1978, and it will exceed 13 percent next month, 14 percent in 1985, and 15 percent in 1991. Yet despite these massive tax hikes, the system still faces a very troubled future.

My bill, the social security refinancing amendments (H.R. 5742), would eliminate the portion of the payroll tax currently used to fund medicare. The payroll tax would be reduced to 5.5 percent and held there until 2005, when it would rise to 7.5 percent. For the self-employed, the new tax rate would be 7.62 percent through 2004, when it would rise to 10 percent. For the OASDI trust funds, these rates would actually bring a revenue increase over current law, and would eliminate the likelihood of a shortfall in the 1980's.

The bill establishes an earmarked, or dedicated, portion of personal and corporate income taxes to fund medicare. Each taxpayer would be notified on his annual tax return of the percentage of his tax which is earmarked for medicare. Use of this earmarked income tax guards against the temptation to increase medicare benefits without informing the public how much of their taxes will be used to pay for the increases. It also protects the concept that eligibility for medicare benefits is a right which workers earn through their tax contributions.

It seems a certainty that we will have a tax cut next year. Most economists agree that a payroll tax cut would be highly desirable because it would be counterinflationary (by reducing business labor costs) and would increase the overall equity of our Federal tax system. By eliminating the medicare tax and increasing the OASDI tax only slightly, my bill provides a net tax cut of between $15 and $20 billion.

The Senate Aging Committee is to be commended for holding these hearings on options in social security financing. This is an issue which the 97th Congress must take early action on, and your initiative will well serve the Congress and the Nation.

ITEM 2. LETTER FROM PATRICIA L. BEAN, CHAIR, SOCIAL SECURITY COMMITTEE, CENTRAL FLORIDA COMMISSION ON THE STATUS OF WOMEN, WINTER PARK, FLA., TO SENATOR LAWTON CHILES, DATED DECEMBER 12, 1980

DEAR SENATOR CHILES: The Brevard delegation to the Central Florida Commission on the Status of Women has chosen to study the 1977 congressionally mandated report on "Social Security and the Changing Roles of Men and Women." We feel there are inequities for women under present programs and are studying ways to alleviate those inequities. In this, our preliminary statement, we have one firm recommendation.

> We recommend that the Social Security Administration be mandated to place great emphasis on educating and informing the general public re present and future polices and plans.

We plan to make further recommendations in January, but we like the following concepts:

> *On retirement:* We feel that homemaking should be treated as a career; that a spouse should have the right to choose homemaking as a career and be covered under social security, just as other employment is covered in the "paid" work force.
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> *On survivors benefits:* We feel that it is beneficial, for retraining and employment purposes, to pay the surviving spouse an adjustment benefit at the 100-percent rate for 1 year. We have not as yet reached a conclusion re the consequences of terminating the spouse's benefit when the last child reaches age 7.
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> *On disability:* We also feel that the recency of work test for disability is unfair to females who must remain out of the work force to care for children. We have not as yet come up with concrete suggestions, but we are discussing several ways of dealing with this issue.

We are also studying, in depth, the two broad-scale options, earnings sharing and the double-decker plan, presented in the HEW task force report.

As previously stated, we will have further recommendations for you in January 1981. In the meantime, please send us a copy of the November and December hearings "Social Security: What Changes Are Necessary?"

Sincerely yours,

PATRICIA L. BEAN.

ITEM 3. LETTER FROM JAMES M. HACKING,[1] ASSISTANT LEGISLATIVE COUNSEL, NATIONAL RETIRED TEACHERS ASSOCIATION/AMERICAN ASSOCIATION OF RETIRED PERSONS, WASHINGTON, D.C., TO SENATOR LAWTON CHILES, DATED DECEMBER 12, 1980

DEAR MR. CHAIRMAN: Because of the time constraint, I was unable to respond during your committee's hearing on December 3 to the proposols to raise the age at which social security benefits are payable in full from the present age of 65 to age 68.

Our associations readily acknowledge the very large and serious deficit that the social security system faces. Dr. Michael Boskin of Stanford University estimates that it is in excess of $600 billion (in 1977 dollars) and is largely attributable to the combination of demographic and economic trends. It is in this context that the "age 68" proposal is being advanced. Reduced to its most simple form, the rationale for this proposal is that since the future elderly population (the post-World War II "baby boom" cohort) will be living longer, they should expect to remain in the work force longer and off the social security roles.

This proposal is certainly not new. It was first advanced during House Ways and Means Committee consideration of the legislation which ultimately became the 1977 Social Security Financing Amendments. We opposed the age 68 proposal at that time and we have continued to oppose it. But like yourself, we have heard the rising chorus of support for it. Therefore, our organizations think it is important to articulate the basis for our opposition to it.

The age 68 proposal (in the various forms discussed to date) would subtantially decrease, and in some cases eliminate, social security benefits to persons who in the future will be age 62 to 65 and who find themselves involuntarily unemployed, or physically unable to continue working.

I would point out that while it is true that longevity has been on the increase in this country, the elderly are, even so, continuing to opt for early retirement. One recent survey indicated that about half of the persons surveyed who had recently retired gave impaired health as the reason for their retirement decision.

These trends indicate to us that, instead of getting additional work effort from the future elderly population, the age 68 proposal may have the effect of reducing social security expenditures (relative to what they would otherwise be if the

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[1] See statement, page 218.

age for benefits remained at age 65), leaving a very large segment of that future elderly population to subsist on substantially reduced social security benefits. In our view, then, this proposal would substantially increase the prospects of a significantly heightened incidence of poverty among the elderly.

With respect to the effect that the enactment of this proposal would have on persons who are now working who would be affected by it in their later life, this proposal is likely to be viewed by them as a highly visible benefit cut and a reduction in the rate of return on the investment they are currently making. In our view, the age 68 proposal sends the wrong message. What it says to these current workers is "pay more for less" and that message cannot help but further undermine worker support for the programs.

Certainly, the associations recognize that social security needs to be changed. We also recognize that legislating appropriate change will strengthen worker support for the programs because they will have the assurance that the program will continue to be financially viable. However, we do not think that the age 68 proposal is the appropriate change to work on the system to provide that assurance.

The associations could only bring ourselves to support this proposal if other means of dealing with the long-term problem that are more desirable and more appropriate are tried and are found to be inadequate. We do not wish to be accused of supporting any proposal that would, in effect, simply chain future workers to their machines. Instead, the objective of our associations' proposals for long-term change in this country's income support structure, which includes social security, is to create employment options and provide future older workers with incentives that would be strong enough and effective enough to asure a maximization of work effort by the future elderly population, and, in the process, assure that the resources (tax payments) available for public programs like social security will be sufficient to deliver the promised benefits that workers have come to expect during their worklife.

In short, instead of resorting to the simplistic age 68 proposal, our associations urge that a comprehensive older worker employment strategy be pursued that will basically consist of: (1) The removal of barriers of employment; (2) the removal of work disincentives; (3) the introduction of strong work incentives; and (4) the creation of job and job training opportunities targeted on older workers. The net effect of this strategy should be the achievement of a maximization of work effort on the part of future elderly population and, in the process, the creation of sufficient resources (revenues) to completely cure any long-term deficit situation in the social security programs. A detailed description of the associations' long-term social security financing proposals is contained in the statement which has been made a part of the hearing record.

Sincerely,

JAMES M. HACKING.

ITEM 4. LETTER FROM JOHN W. MACY, JR.,[1] TO MICHAEL C. NAVE, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES, DATED MAY 16, 1979

DEAR MR. NAVE: I appreciated receiving your letter of March 27 requesting my support for your operation to the "merger of civil service retirement with social security." I was flattered to learn that you considered my views on this issue to be of value. I apologize for my delay in responding in your request. In view of many many friends and other former colleagues in your organization, I wanted to be certain of my position prior to composing an expression of my views.

For the past 18 months, I have been actively engaged in an evaluation of the current status of public pensions and their impact upon the welfare of employees, the performance of the public service, the financial condition of the country, and the burden on the taxpayers. Because of my interest in this broad public policy issue since 1953, I was willing to devote time on a pro bono basis to chair a joint committee of the National Planning Association on Public Pensions. A

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[1] This letter was submitted for the record by former Congressman Hastings Keith on behalf of Mr. Macy, who is currently the administrator of the Federal Emergency Management Administration. Previously, Mr. Macy was chairman of the Joint Committee on Public Employee Pensions under the National Planning Association. Mr. Keith is the vice chairman of that joint committee.

report develop for that joint committee and a statement of its identification of pending problems will be published and distributed in the early future. I believe you and your organization will find these objective findings from a distinguished group, representing a wide range of interests, a valuable resource in your consideration of these issues.

My exposure to the social security system has been even longer than my involvement with the civil service retirement statutes; I began my career in 1939 in the Social Security Board at the time the first amendments to the original act were presented to Congress. I have never believed that the two systems were incompatible or contradictory. I have always believed that the social security system constituted the basic foundation for social benefits including retirement and that the Government's staff retirement system should be supplementary to that foundation in the same manner as industrial pension plans are related to social security.

On at least three different occasions during my tours at the Civil Service Commission. I fostered studies to achieve the coordination of the civil service and social security systems to accomplish this desirable objective. In response to a request from the chairman of the Committee on Ways and Means, Robert M. Ball, the Commissioner of Social Security, and I submitted a report on "Social Security and Federal Employment" on March 13, 1965. In that report a number of different aproaches were offered to achieve coordination of the systems in such a fashion as to provide an equitable transition which would result in the coverage of civil service employees under social security.

No information available to me in my most recent review has changed my long-time belief that such coordination is desirable public policy. I believe that it should be possible to design a system whereby compatibility can be obtained between the two systems and the benefits of both provided to Federal employees in a manner that is fair to them and the taxpayers.

Since you were kind enough to provide me with a copy of your position paper, I am pleased to offer comments concerning the points made in it even though our positions are in conflict:

(1) I believe the use of the word "merger" is inappropriate to describe any plan for the interrelation of the two systems. In my judgment the use of that word, meaning to blend, absorb or swallow up, is an inappropriate scare tactic.

(2) The claim that the taxpayers will pay more not less in the years ahead is unsubstantiated. The elimination of windfalls and the improvement in actuarial soundness achieved through integration would save the taxpayers more not less. For many years I testified about the adverse financial situation for the civil service retirement fund, and although some improvements have been made subsequently I would be unable to concur in the judgment that the financing of the civil service system is sound.

(3) The contractual argument may be persuasive but the Congress is not bound to any public program which results in conditions contrary to the public interest. But the argument has little validity in any event because no new proposal would be offered that eliminated benefits presently enjoyed by employees or retirees.

(4) I dispute the claim that integration with social security would adversely affect recruitment and retention. It should enhance the possibility of work force mobility and the attraction of qualified personnel from outside the Government for period of Federal service. Further it can be argued that retention suffers because employees leave Federal service at the height of their careers to gain social security coverage in a private organization. Properly designed, the integrated plan could be a much more positive influence on both recruiting and retention.

(5) The claim that social security is a welfare program not related to retirement confuses the basic purposes and intentions of that legislation. In fact, I am surprised that you would employ such negative arguments against a program benefiting 9 out of 10 American workers and probably one of the most significant pieces of social legislation enacted by the U.S. Government for the benefit of all citizens in the last 50 years.

(6) As a long-time Federal manager I am not able to accept your claim that an integrated plan would be contrary to the objectives of a sound personnel management program. From my experience I believe a coordinated program would be a much improved management tool.

(7) The claim that an integrated plan would delay needed reform in the social security system at the expense of Federal employees is without foundation. The social security system was substantially amended in 1977 to strengthen its financial position and to provide meaningful adjustments. I wish I could share your view that the civil service system constitutes perfection. It is seriously flawed in a number of instances. To name one, the disability provisions permit widespread abuse and are in conflict with the Government's own program for the placement of the handicapped. And I cannot possibly subscribe to the view that the civil service retirement program is actuarially sound and without Federal subsidy. The subsidy is substantial and will become increasingly so in light of the provisions presently in the statute. I do not have the specific figures before me but I believe the cost of the present plan is in the neighborhood of 24 percent of payroll and may rise to as high as 50 percent and the employees contribution is 7 percent.

I could continue my observations but I believe you have the sense of my reaction to your position paper. I wish I could persuade you to change your position and support the goal that I have been seeking for so many years. But I realize that such a change would be extremely difficult when your membership is so strongly of a negative view.

Thank you for this opportunity to express my views. You have my consent to publish this letter to demonstrate that there is not unanimous support for the position you advocate.

Sincerely yours,

JOHN W. MACY, Jr.

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