RETIREMENT INCOME OF THE AGING

HEARINGS

BEFORE THE

SUBCOMMITTEE ON RETIREMENT INCOME

OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

ON

RETIREMENT INCOME OF THE AGING

JULY 12-13, 1961

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RETIREMENT INCOME OF THE AGING

WEDNESDAY, JULY 12, 1961

U.S. SENATE,
SUBCOMMITTEE ON RETIREMENT INCOME
OF THE SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The subcommittee met at 10:45 a.m., pursuant to call, in room 4200, New Senate Office Building, Senator George A. Smathers (chairman of the subcommittee) presiding.

Present: Senators Smathers, Clark, Carlson, Smith of Massachusetts, Neuberger, and Long of Missouri.

Committee staff members present: Dr. Harold L. Sheppard, staff director; Dr. Frank Atelsek, research director; William G. Reidy, professional staff member; John Guy Miller, minority staff member.

Senator SMATHERS. The meeting will come to order.

First, I want to say I am delighted that Senator Smith of Massachusetts and Senator Carlson of Kansas are here in attendance. Senator Clark of Pennsylvania was here for a few moments, but had another meeting which he had to attend and expressed his regrets that he had to leave. He is greatly interested in the subject matter of these hearings and will be with us on future sessions.

This Subcommittee on Retirement Income has been appointed by Senator McNamara, the chairman of the overall committee, to engage in a number of hearings, here in Washington and around the country.

These hearings are only the first of what I expect to be a series of extensive—and we expect intensive—studies on the problems faced by those living on retirement income.

The findings of these hearings will, if they so disclose, form the basis of recommendations which will be made to the Congress for specific legislative action.

One of the principal problems of our growing population of retired, elderly citizens is maintaining a decent standard of living on retirement income.

Personally, I don't need any figures to convince me of the urgency of this problem. I am sure it is true of Senator Carlson and Senator Smith.

I come from a State having the fastest growing population of senior citizens. In contrast to an overall national increase of some 35 percent since 1950, Florida's aged population increased by 132 percent. There are now in Florida more than 550,000 men and women aged 65 and over. One out of every nine Floridians is a senior citizen. If we take only the adults in the State, nearly one out of every five—or 18 percent—of the State's population is in this age group.

Contrary to what some people might think, the older citizens of Florida are not all millionaires. Let me get specific:

To begin with, nearly 500,000 elderly persons in Florida now receive social security benefits. These benefits are usually the only source of income for them. As of the end of 1960, there were about 280,000 retired workers alone, receiving an average benefit check of only $76.22 per month. Approximately one-half of them were getting less than that average. The benefits for wives and widows averaged far less than $76. I am encouraged to see, however, that Florida has an above-average percentage receiving the maximum monthly benefit possible which still is no more than about $120 per month.

I hope that we get into the specific problems of unmarried and widowed elderly women: In Florida I know that more than one-third of the older population is made up of such women—whose incomes are below what is considered to be a level of income necessary for maintaining a decent standard of living.

While many retired persons have at first an adequate but fixed income, as the years go by they see that income constantly decline in purchasing power.

What is true in Florida, I am sure is true throughout the other States of the Nation.

With today's advances in medical science, life expectancy has increased substantially, since 1920. For example, our population of citizens aged 75 and older has grown from less than 1½ million to more than 5½ million.

Today about 4 million aged persons, including the wives of workers, have income derived from either full- or part-time employment.

Approximately 11 million—of whom 2.2 million are also employed, receive an average social security monthly benefit of $74.

There are about 1.7 million veterans receiving payments from the Veterans' Administration. Another 1 million persons receive benefits from public employee retirement systems which include over 300,000 Federal civil service retirees and approximately 600,000 railroad retirees.

Some 2.4 million receive old-age assistance, with 700,000 of this number also receiving minimum social security benefits.

There are an additional 1½ million with no income from either employment or from any public or private program of retirement income. We know very little about this latter group. Presumably, most of them are living with relatives or in institutions and have no income of their own.

We are anxious to explore all of the possible approaches to the question of an adequate retirement income for this Nation's 16 million retired elderly citizens.

I hope that these hearings will shed some light and expert opinion on the following questions:

(1) How can we soften the blow of inflation upon the millions of elderly citizens whose incomes are fixed, and who cannot, under present conditions, share in the growing national income of the country?

(2) To what extent can their savings and other assets be considered an adequate resource for living above a mere subsistence level?

(3) What is an adequate income for a retired elderly couple in today's economy?

(4) How does it vary and to what extent in various cities and regional areas?

(5) What can the private pension programs of this country do toward expanding the number of persons under such programs?

(6) What percentage of their income is left for basic daily living expenses, if any?

(7) How will various proposals in the field of taxation affect the retirement income status of retired citizens? (I have received many letters from elderly persons all over the country on this subject. They express deep concern as to how the recent proposals to repeal the Federal income tax credit on dividends and impose a withholding tax on dividends received will affect their limited retirement incomes.)

(8) What can be done through both private and public measures to meet these pressing problems?

To these and many other questions of a similar nature this subcommittee is seeking answers so that we can determine what needs to be done in order to provide for our elderly people to live in decency and dignity.

It is important that we have an opportunity to hear the full range of possible remedies for the problems involved. We will in the near future hear other individuals and representatives of different organizations on these matters.

The subcommittee expects to make a thorough examination of the recommendations of the White House Conference on the Aging, held earlier this year.

In dealing with this subject it is not enough merely to concentrate on the dollars and cents alone. As one philosopher has recently put it, "To be alive and breathing is not quite enough." It seems to me that current practices regarding the aged of this country are based too much on the attitude of "get them out of our way and out of our sight."

The waste of talent, experience, wisdom, and of contributions to community programs, resulting from this attitude is a tragic one, for which all of us pay—socially and economically.

Many of our aged could make a valuable contribution if they were allowed to earn a larger amount without suffering the loss of social security benefits. I, for one, am interested in exploring how we can help our older citizens by changes in our social security laws. We are all indebted to Senator Carlson for having sponsored over the course of many years amendments to make it possible for the elderly citizens to receive their social security benefits while engaging in worthwhile employment.

Furthermore, it is time that we stopped treating our older fellow Americans as if they were somebody else and as if the rest of the country is never going to be old themselves. Today there are 17 million people over 65. In less than 10 years there will be more than 20 million persons 65 years old and older. What we do this year and next will have a bearing on the income status of all of us when we ourselves enter those golden years.

Senator CARLSON. Mr. Chairman, may I make a short statement?

Senator SMATHERS. Yes, indeed.

Senator CARLSON. Mr. Chairman, I just wish to state that it is going to be a real privilege to serve on the subcommittee headed by the distinguished Senator from the State of Florida, Senator Smathers.

We have been participating in Congress together on the Senate Finance Committee, and I know he is interested in this field, because we have on several occasions, as he mentioned, tried to work out an increase in the allowable earnings of people who draw social security benefits.

There are some problems connected with it, but I sincerely hope that our committee will study that problem with a view to being of some assistance. It has always been interesting to me that earned income costs the social security worker some of his income from social security payments, but dividends and interest income do not, and it is rather difficult to go out in the country and explain to a citizen who is trying to earn some money why he should be penalized when someone who receives dividends is not. I think that is one phase of this that we ought to get into.

Again, I say it is going to be a real privilege to serve with the Senator from Florida and other members of this committee in a program that I think is going to become more pressing and of more concern to our nation than any other.

Senator SMATHERS. Thank you, Senator, and if any of the other Senators would like to make a statement or submit one for the record, we will keep the record open for that purpose.

Senator NEUBERGER. I think, Mr. Chairman, you will notice you have three very green freshmen here, and we hope to learn from the senior Senators.

Senator SMATHERS. We are delighted to have you. Your vote counts as much as any other member of the subcommittee.

The Senators from Massachusetts and Missouri have demonstrated their interest in this problem and I am certain that none of us would be here were we not interested. A lot needs to be done in this area.

Our first witness today is too well-known to require any elaborate introduction. Wilbur Cohen, Assistant Secretary of Health, Education, and Welfare, is well known to the Congress, particularly to the Finance Committee of which Senator Carlson and I are members.

Mr. Cohen is probably the most away-from-campus faculty member that the University of Michigan ever had. He was the professor of public welfare administration. I think he knows as much about the social security bill as anyone in Washington, and whenever we have any difficulties with it, even to the extent of writing what Wilbur might consider even more conservative amendments, we have to call on Wilbur to write them.

So we are greatly dependent upon him.

Previous to his position at Michigan, he was Director of Research in the Social Security Administration here in Washington.

We appreciate very much his taking time out from his very busy schedule at the Department of Health, Education, and Welfare, to give us basic background material which will be the starter in our study of the subject.

Senator CARLSON. Mr. Chairman, I don't know whether I should bring this up or not, because it kind of dates my age, but those of us who were here in 1935 in the House will remember how Mr. Cohen worked with Dr. Arthur Altmeyer, who really sponsored, wrote, and secured approval, in my opinion, of legislation which is our present social security program. It was a pleasure not only to serve with him, but have known him all these years. I think the Agency is fortunate to have his services.

Senator SMATHERS. Besides that, he has become quite a controversial figure. I don't know whether it is deserving or not, but nevertheless, in all candor, we must admit he is the man who did the job in the social security area.

STATEMENT OF WILBUR J. COHEN, ASSISTANT SECRETARY OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY ROBERT J. MYERS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION, AND MISS DOROTHY McCAMMAN, TECHNICAL DIRECTOR OF THE WHITE HOUSE CONFERENCE ON AGING FOR THE SOCIAL SECURITY ADMINISTRATION

Mr. COHEN. Thank you, Senator Smathers, Senator Carlson, for your most generous remarks.

I would like to say that over the years I have worked with Senator Smathers and Senator Carlson, both of you gentlemen have been most cooperative and helpful, and I will say that the constructive improvements in the Social Security Act are in large part due to the very fine cooperation we have had from you two gentlemen in the Senate Finance Committee in working out what are sometimes very complex and, as Senator Smathers implied, at times very controversial amendments to the program.

May I also say that the Department is very delighted that you are undertaking this analysis of our programs for the aged in which our Department has a very important role, and we offer you our full cooperation in connection with any information, any analyses that you would like to make. May I also state that the staff reports that have been made for the committee have been extremely helpful to us. I have read them all. I think they are very high-grade professional reports, and they are very useful to us in the work in our Department on legislation and implementation of congressional legislation.

I would like to introduce my colleagues, Mr. Robert J. Myers, the Chief Actuary of the Social Security Administration and Miss Dorothy McCamman, who has been the Technical Director for the White House Conference on the Aging for the Social Security Administration.

Senator SMATHERS. We have to pay a compliment to Mr. Myers, who has been around almost as long as you have.

Mr. COHEN. He was a colleague of mine in 1934 on the President's Committee on Economic Security which drafted the Social Security Act, Senator Smathers.

Senator SMATHERS. He suffered with many of us for many, many years, and at times we have directed rather residuous questions to him, but he has always maintained his equanimity, as he does here today. He made a real contribution. We are always glad to work with him. He is most constructive. Those Senators who have not yet been exposed to these two gentlemen, I can assure you that you will feel well rewarded by this association.

Mr. COHEN. The big difference, Senator Smathers, is that his actuarial estimates are not controversial, and I hope they will remain so.

Senator CARLSON. Miss Dorothy McCamman did conduct and carry through a very important conference on the aged here last year and got some very fine studies and reports. The Conference on Aging, I think, stimulated a lot of national thinking, and it was the beginning of a program that aroused our Nation's interest further.

Senator SMATHERS. Right. We are, of course, delighted to have her with us.

Mr. COHEN. Mr. Chairman, I have submitted a statement with some appendixes which I am not going to read in its entirety but speak extemporaneously on various parts and introduce some charts. So, with your permission, I would like to have the entire statement appear in the record at this point, and then I will summarize it.

Senator SMATHERS. If there is no objection, we will include your statement in its entirety, and then you may proceed as you like.

Mr. COHEN. Thank you, Mr. Chairman.

(The prepared statement of Mr. Cohen follows, including tables and appendix on retirement test by Robert J. Myers:)

PREPARED STATEMENT BY WILBUR J. COHEN, ASSISTANT SECRETARY OF HEALTH, EDUCATION, AND WELFARE

Mr. Chairman and members of the committee, 2 years ago, I had the privilege of appearing before your distinguished predecessors, the Subcommittee on Problems of the Aged and Aging of the Committee on Labor and Public Welfare. At that time, I summarized the income position of our aged population in the following broad terms:

"The aged are not a homogeneous group. * * * Some have adequate incomes; most do not. Some do not receive social security benefits; most do. Some receive private pensions; most do not."

These generalizations are equally applicable today. With a change of only a percentage point or so to up-date the statistics, the same conclusions are valid. During this 2-year interval a slow but steady progress has continued toward the goal of economic security for the retired aged. Today I would like to use a broader perspective and view the income position of our present aged population against that of a decade earlier. Concerned as you are with long-range objectives as well as possibilities for current legislative action, a look backward may serve to delineate the path ahead.

With your permission, I should like to introduce for the record the supporting data used in my statement. I can then focus my oral presentation on some highlights from this comprehensive analysis and on bringing perspective to the data.

INCREASE IN AGED

By the end of 1960, our population 65 and over had reached about 17 million, almost 4½ million more than in 1950. For every three aged people a decade ago, there are now four. Proportionally more of them are women. Proportionally more of them are past 75. Indeed, during the decade the number of persons 85 and older increased 61 percent in contrast to an increase of 35 percent for all persons 65 and over. Not surprisingly then, the proportion with any work experience during the year—and especially of those who worked year-round at full-time jobs—dropped markedly between 1950 and 1959. For men, the decline in the proportion with any work during the year was from 49 percent to 42 percent; of those with work experience, only 42 percent were year-round full-time workers in 1959 in contrast to 52 percent in 1950.

INCOME SOURCES

In mid-1950, some 2 million people over 65—only 1 out of every 6—received OASI benefits. A 5-fold increase has brought the number of these insurance beneficiaries to almost 11 million by the end of 1960, raising the proportion receiving insurance benefits to nearly 4 out of every 6 persons in our greatly expanded aged population. Including others who receive benefits under the retirement systems for railroad workers or government employees or under the veterans programs, approximately four out of every five persons 65 or older currently have an assured income based on past employment or military service. In addition, almost 1½ million aged persons were eligible to receive benefits under old-age, survivors, and disability insurance at the end of 1960 but were employed (or were the wives of employed workers) and therefore not drawing benefits.

Only a decade ago, more aged persons were dependent on old-age assistance than received benefits under the old-age, survivors, and disability insurance program. Public assistance was responsible for about half of all payments to the aged under our public income-maintenance programs in 1950. The expansion of the social insurance programs, as well as the growth in the number of veterans receiving payments, has brought about a gradual decline in the size of the old-age assistance caseload during the past decade—from nearly one out of every four persons 65 and older to one out of seven.

Today, there are about 2.3 million aged persons receiving old-age assistance. An increasing proportion of these public assistance recipients are on the rolls because their social insurance benefits do not meet their needs as measured by State standards or because advanced age, large medical bills, or other emergencies have exhausted their resources. This group—now numbering about three-quarters of a million—can be expected to increase even if total old-age assistance rolls continue to decline.

Future trends in the number receiving old-age assistance will depend in part on the extent to which the States put into effect the program of medical assistance for the aged (the Kerr-Mills legislation) authorized by the 1960 amendments to the Social Security Act and the extent to which health costs of the aged are met by insurance programs.

As shown by the excellent staff report to your Special Committee on Aging, most of the aged who have received MAA to date have been transferred from old-age assistance rolls—some 17,000 out of the 27,000 individuals in 5 States operating a program during the 6 months ending March 31, 1961. If a similar situation exists in the other States that implement MAA, there may be little net increase in the number of aged persons who received assistance in the near future. If, on the other hand, the States find that they can finance new or expanded programs primarily for people not now receiving old-age assistance, the number of aged persons receiving assistance may increase.

In concentrating on our progress as a Nation in assuring retirement income through social insurance, we must not lose sight of the fact that public assistance still plays a large role in providing income for the aged in many of our less industrialized States. While aged beneficiaries of old-age, survivors, and disability insurance outnumber assistance recipients by a ratio of 4½ to 1 for the country as a whole, there is still one State (Louisiana) in which more aged persons are on the assistance rolls than receive old-age insurance. There are others where the balance has shifted so recently that the difference is still slight. These interstate variations and the dramatic change over the decade are apparent in table 6.

INCOME AMOUNTS

With the overwhelming majority of our aged population no longer supported by earnings, it is not surprising that they are a low-income group. Fewer than 1 in 4 persons 65 and older had as much as $2,000 in money income in 1960. More than half—27 percent of the men and 74 percent of the women—had less than $1,000.[1]

The 1960 income distribution of the aged population, while leaving little doubt that they are a low-income group, nevertheless shows significant improvement over the 1950 distribution even when allowance is made for price rises during the period (table 7). Not only has there been a gradual edging up all along the income scale, but the proportion with no money income has dropped from 29 percent to 14 percent. This change has been especially marked for the women, where the proportion without money income of their own has declined from 46 percent in 1950 to 24 percent in 1960, primarily as a result of gains in the number receiving social insurance benefits.

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[1] In using census data on incomes per person, we must recognize that the concentration at the lower end of the income scale results in part from counting married women who were supported by their husbands as having little or no income. However, less than one-fifth of all persons 65 and over are married women, and many married couples have less than $2.000 between them. Thus. adjustment of the income data to reflect an equal sharing by husband and wife would only slightly lower the proportion who have less than $1.000 in money income.

In any examination of the income st atus of the aged it is sometimes pointed out that a sizable proportion of all younger persons also have no income of their own. True. But I am sure you will recognize that the significance is quite different for the younger age group including children and young wives who are normally supported by the workers' earnings than for an age group that is heavily weighted by widows, wives of retired men, and other aged women who are no longer supported by earnings and therefore might reasonably be expected to have their own income from other sources.[2]

Many older persons have resources in addition to their current cash income. The aged are more likely than younger persons to have savings that were put by in their working years for use in retirement. The majority also own their homes, usually mortgage-free; while the burden of taxes and repairs is heavy for many, homeowners as a group have lower housing expenses than renters. The advantage of these additional resources is likely, however, to go hand-in-hand with incomes on the high side, not the low. Furthermore, many older persons are reluctant to use savings once their days of accumulating assets are largely over; they have no way of knowing the number of remaining years of life over which to spread their savings, but they can be quite sure that assets, once used up, are not likely to be replaced. Some older persons, particularly in rural areas, can keep down their grocery bills by raising part of their food. A number of the aged can depend in part on their children, at least in emergencies.

These, in brief, are the facts relating to the income position of today's aged population that you will wish to take into account in your deliberations. In our opinion they add up to this at the present time:

The great majority of all older people have modest amounts of regular income and other financial resources on which to draw. For the most part, they manage to get by and maintain their independence on these incomes. Should they encounter heavy medical expenses, however—an all too likely occurence for this age group—incomes which have been barely adequate for the usual day-today living costs become totally inadequate. Unless protected by health insurance—and the income data and actual experience clearly indicate that many of them find they cannot stretch their meager retirement incomes to purchase health insurance—they may find themselves forced to undergo a means test in order to receive the medical care they need.

RETIREMENT INCOME IN THE AGGREGATE

I have already commented on the fact that the overwhelming proportion of all people over 65 now receive retirement benefits through our public programs. In dollar terms, what is the contribution of these programs in making it possible for retired persons to share in our national prosperity?

The money income from all sources of the 17 million persons 65 and older is currently estimated to total in the neighborhood of $32 billion (table 9). Roughly one-third of this aggregate income of the aged is derived from earnings, a source that plays no part in the incomes of at least 12 million aged persons and which plays only a supplementary role for some 3 million others (including wives of workers). It is significant that the small number of full-time earners—only about 1½ million workers—account for almost half of the estimated total earnings of $11 billion.

Of the total income of the aged, the program of old-age, survivors, and disability insurance alone contributed $8.8 billion; an additional $2.1 billion came from the retirement systems for Government employees and railroad workers. Together these social insurance programs provided one-third of the total money income of the aged population.

SOCIAL SECURITY AMENDMENTS OF 1961

On June 30, President Kennedy signed legislation liberalizing the Social Security Act in ways that will contribute significantly in improving the income position of our aged population. Under these provisions, about $815 million in new or increased benefits will be paid to some 4¾ million people, most of

[2] It is frequently stated that the aged do not reveal all their income. Income surveys are characteristically subject to some understatement of amounts received; small or irregular receipts may be forgotten and persons with very large incomes are less likely to cooperate in household surveys than those with low or moderate incomes. But both the regularity in pattern over the past decade and the gradual upward shift give assurance of the overall validity of the income data for the aged group as a whole.

them aged, in the next year. Beneficiaries will also have greater incentive to supplement their retirement incomes with part-time or occasional earnings.

Despite the criticisms made in some quarters concerning the financing of the social security program, it should be pointed out that the amendments are designed so as to fully cover the costs of the benefit increases. I would like to have the Congress get a little credit for this responsible and wise action.

Because of the newness of the amendments, a brief summary is in order.

Benefits will be payable to men at age 62 with reduced benefits for those who claim them before age 65. It is estimated that 560,000 people will get $440 million in benefits as a result of this change during the first 12 months. Paying retirement benefits to men at age 62 makes the program more flexible and effective. Men close to 65 who lose their jobs find it very difficult to get new ones. While the situation of the older worker is particularly serious at the present time, the problems encountered by older workers in getting another job exist even in periods of high employment and despite special efforts to overcome the barriers that now exist.

The aged widow's benefit will be increased from 75 percent of her husband's retirement benefit to 82½ percent. It is estimated that some 1½ million widows will have their benefits increased during the first 12 months of operation under this change and that the additional benefits paid out during this time will amount to about $105 million. An increase in the widow's benefit is one of the most urgently needed changes, more than justified by the evidence we have that as a group widows are among the lowest of our low-income aged as well as by the simple logic that there is no reason to expect that a widow can get along on only 75 percent of the benefit her husband had received.

The minimum benefit payable will be increased from $33 to $40. This change will provide an additional $170 million to an estimated 2.2 million people during the first year. We know that people now getting benefits at the minimum are less likely than other beneficiaries to have additional retirement income. Generally they are people who were already old or ill when the work they did was brought into the social security program and have thus not been able to build up substantial benefit rights. People qualifying for benefits in the future will generally get amounts above the minimum because they will have had more chance to work in covered employment at higher earnings levels.

The requirement for insured status will be changed so that a worker will be fully insured if he has one quarter of coverage for every year elapsing after 1950 (or age 21 if later) rather than one quarter for every three elapsed quarters. This provision will make the insured status requirements for workers now at or near retirement age comparable to those that will apply in the long-run program for workers who attain retirement age in the future. The change will help many people who were uninsured because the work they did during their best working years was not covered until they were already so old that they could not work regularly. Taking into account the proposal to raise the minimum benefit to $40 and to pay reduced benefits to men at age 62, the total amount that would be payable to these people in the first 12 months would be $65 million.

Another major amendment of concern to older persons is the liberalization in the retirement test so that $1 in benefits will be withheld for each $2 of earnings between $1,200 and $1,700, rather than between $1,200 and $1,500.

THE RETIREMENT TEST

The retirement test is one provision in the law which is always subject to considerable public discussion. It will undoubtedly receive attention during your consideration. I have therefore provided for the record a detailed analysis which discusses the pros and cons and traces the development of the retirement test over the years, and presents the alternatives that have been proposed in bills introduced in the Congress, with their estimated costs. May I urge careful consideration to the costs and effects of these proposals before any further congressional modifications are made with respect to this provision.

AREAS FOR SPECIAL ATTENTION

Your subcommittee, in focusing on retirement income and the respective roles of public and private sources now and in the future, is performing a most useful service. I would like to point up some areas needing special attention.

I assume that in your study you will place emphasis on systems, public or private, which provide insurance or pension benefits based on past employment. I urge that the subcommittee also recognize the importance of having adequate public assistance to backstop the gaps in public and private retirement programs. There will always be some people who reach age 65 with no insurance coverage or with inadequate insurance coverage. Our migratory workers are an example. There are other persons too who have a full-time attachment to the labor force but whose lifetime earnings are so low or irregular that failure to qualify for an old-age, survivors, and disability insurance benefit will almost inevitably result in need for old-age assistance. Furthermore, a benefit level under old-age, survivors, and disability insurance that is adequate to meet the needs of the great majority of all beneficiaries will fail to meet the needs of some.

For these reasons, our Federal-State public assistance programs will continue to form an essential second line of defense in the provision of income to the aged. An analysis now underway in the Bureau of Public Assistance makes clear that old-age assistance still falls short of meeting even the most essential needs recognized under present standards. For July-September 1960, the total income requirements of the 2.3 million recipients of old-age assistance were measured at $197 million, an average of less than $86 for the month or little more than $1,000 a year. Old-age-assistance payments for the month amounted to $146 million which, when added to the $42 million available to the assistance recipients from other sources, still left an unmet need of $9 million for the month or 4.4 percent of the total. The proportion of unmet need was highest in the Southern States where total requirements averaged just under $70 in a month per recipient (table 10).

This measure of unmet need—about $108 million annually—relates only to persons actually receiving old-age assistance and is in terms of need as defined by State standards varying widely as to the level of living provided. Not included in this measure is the unmet need of other aged persons who fail to qualify for old-age assistance because of income just above this level or because of restrictive eligibility tests, such as the residence requirements that disqualify migratory workers and other needy people.

There are many knotty problems in connection with old-age assistance and other aspects of public welfare. The Advisory Council on Public Assistance, of which I was privileged to be a member, carefully analyzed these problems and included its recommendations in a report submitted to the Congress on December 31, 1959. The Secretary of Health, Education, and Welfare was recently initiated an evaluation of our public welfare programs with a view to making recommendations to the Congress next year. In this connection we will continue our study of the extent to which the Kerr-Mills legislation places a financial commitment on the Federal Treasury and State governments for its implementation.

While the 1961 amendments will immediately provide higher benefits for the most disadvantaged of the aged beneficiaries of old-age, survivors, and disability insurance, I am sure you will wish to give attention to the important question of benefit adequacy of the insurance system now and in the future. In relation to the general level of benefits, I see two major questions.

First, should the earnings base and maximum benefit be raised? For workers with above average earnings, the relationship of benefits to previous earnings has deteriorated over the years. In 1939, with a maximum earnings base of $3,000 only 6 percent of all covered male workers with earnings in four quarters had earnings above the amount taxable and creditable for benefits. Twenty years later, with a maximum base of $4,800, half of all male four-quarter workers had earnings above the maximum. In order not to defeat our basic purpose of wave-related benefits, is some adjustment in this maximum necessary? I believe that study will show this question must be answered in the affirmative.

The second major question relates to whether we need to redefine the measurement of earnings used in determining the benefit amount. As much as 5 years of low earnings can now be excluded in figuring the average earnings on which benefits are based. For the long term, a benefit based on what is in effect a record of lifetime earnings will fail to take account of the rising level of earnings. Also, workers who are unable to go on working until retirement age or whose earnings decline in the period before retirement receive benefits that do not reflect their normal earnings level. Consideration might therefore be given to the possibility of excluding more years of low earnings in computing benefit amounts.

You will also wish to look at special questions of benefit adequacy. The increases enacted in the amount of the minimum monthly insurance benefit and in the insurance benefit for aged widows are not as large as the President proposed. We know that aged widows, as a group, are in a relatively poor position when it comes to making ends meet. They have little income other than their social security benefits. Almost none of them, for example, are getting private pensions. Because many of these widows have been on the rolls for long periods—frequently as wives of retired workers before they were widowed—they have had more years in which to exhaust savings and other resources put by for retirement. Women drawing widows' benefits are older on the average than retired worker beneficiaries, and thus the earnings on which their benefits are based tend to be further in the past when wage rates were lower. Retired men or women workers who were on the rolls at the end of 1959 received benefits that averaged well over three times the average in 1940 when benefits were first payable, reflecting the rise in earnings as well as changes in the benefit formula (table 11). For aged widows, however, the average benefit was only 279 percent of the benefit in 1940. Even with the recently enacted increase for widows, the new average will be barely three times the 1940 average. I therefore suggest that your subcommittee give special attention to the continuing question of the adequacy of incomes of aged widows.

The need for periodic scrutiny of the financing of OASDI and the other factors that, in a dynamic economy, affect the appropriateness of the program was clearly recognized by the Advisory Council on Social Security in its 1959 report. The 1960 amendments provide for the appointment of an Advisory Council on Social Security Financing in 1963, 1966, and every fifth year thereafter. The Advisory Councils will be broadly concerned with the overall status of the OASDI program, including coverage, adequacy of benefits, and all other aspects as well as the status of the trust fund.

The whole area of private pension plans will undoubtedly claim much of your attention during your deliberations. And properly so, because of the importance of this segment of retirement income in achieving economic security in old age.

I think it is reasonable to say that a retired worker who receives both a social security benefit and a private retirement pension is in pretty good shape financially. Currently, however, no more than 1⅓ million retired people (fewer than 1 out of every 13 people over 65) are in this favored position.

Pension plans have expanded rapidly since 1950 when pensions became a prime objective of collective bargaining. Some 20 million workers, including most production workers, are now covered by these plans. Because much of this coverage is of relatively recent origin, the full potential of private pension plans in providing retirement income lies largely in the years ahead.

Further expansion of pension-plan coverage depends in large part on whether effective arrangements can be worked out for covering workers in small firms. But perhaps even more important in achieving the potential of private pension plans is the expansion of arrangements for preserving earned pension rights during job shifts or when companies relocate, consolidate, or go out of business, or automate and reorganize.

You will therefore want to look behind the figures on number of workers covered to ask how many of them will actually receive pensions on retirement. Under the provisions as to eligibility and portability that existed several years ago, it was estimated that upward of half the workers nominally covered would never actually realize any retirement benefits from their coverage. Since then, vesting provisions have increased and there are indications that this desirable trend will continue.

Predictions as to the number of workers who will receive both social security benefits and private pensions have an important bearing on your deliberations. If—in the foreseeable future—only a small minority of our aged population will be able to count on income from private pensions plans, we must continue to put prime reliance on the old-age, survivors, and disability insurance benefit for assuring adequate income after retirement. Our concept of a reasonably adequate benefit level under the governmental program is thus colored by the assumptions we make as to the future role of private pension plans and of individually provided resources in the total income picture of retired people.

I believe we can and must continue to improve the retirement income of our aged. I believe we can do so in a sound and practicable manner. As we look ahead to the future, we can take pride in the responsible manner in which

Congress has legislated in this field. It has created a financially sound mechanism in our social security program on which the Congress can reliably build. As our gross national product increases during this coming decade we can improve the economic status of the aged without adversely affecting the incentives of the currently productive population.

You have asked me to present the basic introduction to the financial status of our aged population as a background for your analysis of retirement income problems. As you pursue these inquiries, the Department of Health, Education, and Welfare will be most happy to provide all possible cooperation in the important task of improving the economic status of our aged.

TABLE 1.—*Age and sex of persons aged 65 and over in the United States,*[1] *1960 and 1950*

Age	1960			1950			Percentage increase, 1960 from 1950		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Total	16, 559, 580	7, 503, 097	9, 056, 483	12, 294, 698	5, 812, 691	6, 482, 007	34. 7	29. 1	39. 7
65 to 69	6, 257, 910	2, 931, 088	3, 326, 822	5, 013, 490	2, 431, 035	2, 582, 455	24. 8	20. 6	28. 8
70 to 74	4, 738, 932	2, 185, 216	2, 553, 716	3, 419, 208	1, 633, 382	1, 785, 826	38. 6	33. 8	43. 0
75 to 79	3, 053, 559	1, 359, 424	1, 694, 135	}3, 284, 061	1, 510, 794	1, 773, 267	41. 1	34. 0	47. 1
80 to 84	1, 579, 927	665, 093	914, 834						
85 and over	929, 252	362, 276	566, 979	577, 939	237, 480	340, 459	60. 8	52. 6	66. 5

[1] Includes Alaska and Hawaii in 1950 as well as 1960.

Source: Bureau of the Census, 1960 Census of Population, advance reports, PC (A2)-1 (Mar. 31, 1961).

TABLE 2.—*Percent of persons aged 65 and over in the labor force, by age, sex, and marital status, in the United States, March 1960*[1]

[Noninstitutional population]

Sex and marital status	Total aged 65 and over	Aged 65 to 69	Aged 70 and over
Men, total	31. 8	45. 5	23. 2
Married, spouse present	37. 1	48. 4	27. 9
Single	24. 3	34. 1	19. 5
Other marital status	18. 2	32. 2	14. 3
Women, total	10. 1	17. 5	5. 9
Married, spouse present	5. 9	8. 8	2. 9
Single	21. 6	42. 0	12. 1
Other marital status	11. 0	22. 9	6. 3

[1] 50 States and the District of Columbia.

Source: Jacob Schiffman, "Marital and Family Characteristics of Workers, March 1960," Monthly Labor Review, Preprint No. 2364 (April 1961), table B.

TABLE 3.—*Extent of work experience during the year for persons aged 65 and over in the United States,[1] by sex, 1959 and 1950*

[Noninstitutional population]

Extent of work experience	1959		1950	
	Men	Women	Men	Women
Total percent	100.0	100.0	100.0	100.0
Worked at full-time jobs:[2]				
50 to 52 weeks	42.5	25.2	52.3	29.7
27 to 49 weeks	11.7	10.8	15.1	11.1
1 to 26 weeks	11.2	9.6	9.1	12.0
Worked at part-time jobs[2]	34.5	54.4	23.5	47.4
Percent of population with work experience during year	42.4	13.9	49.3	11.8

[1] Excludes Alaska and Hawaii.
[2] A person is classified as having worked at part-time jobs during 1959 if he worked at jobs that provided less than 35 hours per week in a majority of the weeks in which he worked. He is classified as having worked at full-time jobs if he worked 35 hours or more per week during a majority of the weeks in which he worked in 1959.

Source: Sophia Cooper, "Work Experience of the Population in 1959," Monthly Labor Review, December 1960, table 6.

TABLE 4.—*Estimated number of persons aged 65 and over in the United States[1] with money income from employment or social insurance, December 1960, by sex, and June 1950*

[In thousands]

Type of money income	December 1960				June 1950	
	Total		Men	Women	Total	
	Number	Percent			Number	Percent
Total population aged 65 and over	16,960	100.0	7,690	9,270	12,270	100.0
Employment or social insurance or both	13,570	80.0	6,880	6,690	6,390	52.1
Employment	4,110	24.2	2,330	1,780	3,930	32.0
Earners	3,220	19.0	2,330	890	3,000	24.4
Nonworking wives of earners	890	5.2		890	930	7.6
Social insurance (retirement and survivor) benefits[2]	12,010	70.8	5,770	6,240	2,740	22.3
Old-age, survivors, and disability insurance	10,820	63.7	5,190	5,630	2,090	17.0
Railroad retirement	650	3.8	330	320	360	2.9
Government employee retirement	1,020	6.0	510	510	350	2.9

[1] For 1960, the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands; for 1950, continental United States.
[2] Persons with income from more than 1 of the programs listed are counted only once. Estimates of women with benefits under the Government employee programs include estimated number of beneficiaries' wives not in direct receipt of benefits.

Source: Social Security Bulletin, January 1961 and July 1961.

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TABLE 5.—*Estimated number of persons aged 65 and over in the United States*[1] *with money income from employment or public programs, December 1960*

[In thousands]

Type of money income	Total		Men	Women
	Number	Percent		
Total population aged 65 and over	16,960	100.0	7,690	9,270
Employment, total [2]	4,110	24.2	2,330	1,780
Employment and no income from public programs	1,160	6.9	850	310
Employment and social insurance benefits	2,550	15.0	1,220	1,330
Employment and payments under other public programs	400	2.3	260	140
Social insurance (retirement and survivor) benefits, total [3] [4]	12,010	70.8	5,770	6,240
Benefits and no earnings or veterans' or public assistance payments	7,700	45.4	3,560	4,140
Benefits and veterans' payments	1,020	6.0	680	340
Benefits and public assistance	740	4.4	310	430
Veterans' pension or compensation, total [4]	1,670	9.8	990	680
Veterans' payment and no earnings or social insurance [5]	340	2.0	110	230
Public assistance, total [6]	2,410	14.2	830	1,580
Public assistance and no earnings or payments under other public programs	1,560	9.2	450	1,110
No income from employment or public programs	1,490	8.8	250	1,240

[1] The 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands.
[2] Includes 3,220,000 earners and an estimated 890,000 nonworking wives of earners.
[3] Includes persons with income from 1 or more of the following sources: old-age, survivors, and disability insurance, railroad retirement, and Government employees retirement (see table 1). Excludes persons with benefits under unemployment or temporary disability insurance or workmen's compensation programs.
[4] Includes estimated number of beneficiaries' wives not in direct receipt of benefits.
[5] Includes a small number receiving supplementary public assistance.
[6] Old-age assistance recipients and persons aged 65 and over receiving aid to the blind or to the permanently and totally disabled, including a small number receiving vendor payments for medical care but no direct cash payment (either under old-age assistance or medical assistance for the aged).

Source: Social Security Bulletin, July 1961.

TABLE 6.—*Persons aged 65 and over receiving OASDI, OAA, or both, per 1,000 aged population, by region and State, March 1960 and 1950*

Region and State	Number per 1,000 aged population receiving—							
	1960				1950			
	OASDI, OAA, or both	OASDI [1]	OAA	Both OASDI and OAA [2]	OASDI, OAA, or both	OASDI [1]	OAA	Both OASDI and OAA [3]
Total (including Puerto Rico and the Virgin Islands)	716	615	142	40				
United States [4]	716	616	141	41	366	164	224	22
New England	741	681	110	50	377	238	175	36
Maine	761	693	110	42	341	208	158	25
New Hampshire	742	697	72	27	334	225	128	19
Vermont	741	657	130	46	316	167	170	21
Massachusetts	738	667	139	68	405	236	214	45
Rhode Island	765	722	75	32	403	286	146	29
Connecticut	727	693	60	26	338	258	108	28
Mideast	692	661	45	14	293	213	92	12
New York	697	665	49	17	295	211	96	12
New Jersey	711	688	34	11	290	237	62	9
Pennsylvania	700	668	44	12	314	221	106	13
Delaware	686	661	36	11	255	198	65	8
Maryland	616	584	42	10	234	168	73	7
District of Columbia	521	489	45	13	174	131	49	6
Great Lakes	721	660	86	25	336	170	177	20
Michigan	761	696	97	32	374	190	216	32
Ohio	715	644	100	29	350	190	179	19
Indiana	731	684	63	16	295	165	144	14
Illinois	690	634	76	20	330	179	169	18
Wisconsin	739	677	89	27	307	158	169	20

See footnotes at end of table, p. 15.

TABLE 6.—*Persons aged 65 and over receiving OASDI, OAA, or both, per 1,000 aged population, by region and State, March 1960 and 1950*—Continued

Region and State	Number per 1,000 aged population receiving—							
	1960				1950			
	OASDI, OAA, or both	OASDI [1]	OAA	Both OASDI and OAA [2]	OASDI, OAA, or both	OASDI [1]	OAA	Both OASDI and OAA [3]
Plains	709	600	150	41	317	105	232	20
Minnesota	706	608	134	36	309	117	208	10
Iowa	691	613	106	28	262	97	181	16
Missouri	747	583	232	68	411	124	319	32
North Dakota	695	596	125	26	229	48	187	6
South Dakota	715	617	126	28	271	58	221	8
Nebraska	677	606	92	21	254	85	183	14
Kansas	688	598	119	29	286	100	201	15
Southeast	734	550	231	47	425	108	334	17
Virginia	631	585	51	5	207	121	90	4
West Virginia	745	642	114	11	362	173	194	5
Kentucky	746	589	193	36	360	105	266	11
Tennessee	697	538	179	20	354	91	271	8
North Carolina	726	594	156	24	358	105	264	11
South Carolina	733	531	217	15	435	91	355	11
Georgia	758	480	333	55	517	93	449	25
Florida	686	601	126	41	418	163	287	32
Alabama	807	511	378	82	491	107	399	15
Mississippi	813	497	421	105	450	54	410	5
Louisiana	797	429	517	149	738	104	695	61
Arkansas	773	533	284	44	486	78	424	16
Southwest	724	499	296	71	503	87	441	25
Oklahoma	761	486	362	87	575	78	521	24
Texas	725	498	297	70	493	86	433	26
New Mexico	652	480	209	37	371	76	305	10
Arizona	666	558	155	47	398	138	292	32
Rocky Mountain	717	591	198	72	408	127	311	30
Montana	700	627	107	34	330	116	232	18
Idaho	738	650	127	39	353	115	262	24
Wyoming	676	595	127	46	345	132	236	23
Colorado	727	545	299	117	492	132	402	42
Utah	714	615	132	33	356	134	241	19
Far West	709	615	174	80	434	196	288	50
Washington	760	654	178	72	487	200	343	56
Oregon	752	692	93	33	354	206	177	29
Nevada	632	566	143	77	354	164	236	46
California	695	598	186	89	437	194	295	52
Alaska	749	574	268	93	441	149	330	38
Hawaii	675	634	51	10	309	201	118	10
Puerto Rico [5]	743	420	323	(6)	---	---	---	---
Virgin Islands [5]	725	453	272	(6)	---	---	---	---

[1] State data estimated for 1950 from distributions for December 1949 and June 1950; for 1960, from distributions for December 1959 and June 1960.
[2] Data for February or March 1960.
[3] Estimated by applying to the OAA caseload for March 1950 the September 1950 proportion of the total OAA caseload that was receiving both OASDI and OAA.
[4] Includes Alaska and Hawaii for 1950 as well as for 1960.
[5] First included under public assistance in October 1950; under old-age, survivors, and disability insurance in January 1951.
[6] Fewer than 50 recipients.

Source: Social Security Bulletin, July 1961.

TABLE 7.—*Percentage distribution of persons aged 65 and over by total money income in 1950 and 1960, by sex*

[Noninstitutional population of the United States]

Money income class	Total		Men		Women	
	1950	1960 [1]	1950	1960	1950	1960
Total percent	100.0	100.0	100.0	100.0	100.0	100.0
Less than $1,000	74.1	52.7	55.5	27.1	90.5	73.9
Zero	29.2	14.5	10.1	3.6	46.1	23.6
$1 to $499	24.5	11.7	23.1	5.5	25.8	16.8
$500 to $999	20.3	26.5	22.3	18.0	18.6	33.5
$1,000 to $1,999	11.7	23.7	18.2	32.0	6.0	16.8
$1,000 to $1,499	7.5	15.3	11.0	20.1	4.3	11.2
$1,500 to $1,999	4.3	8.4	7.2	11.9	1.7	5.6
$2,000 to $2,999	6.9	10.2	12.4	17.3	2.0	4.5
$3,000 to $4,999	4.6	7.2	8.7	11.8	.9	3.4
$5,000 or more	2.7	6.3	5.1	11.8	.6	1.7
Median income for—						
All persons	$420	$950	$880	$1,620	$80	$640
In 1960 dollars	520		1,080		100	
Income recipients	770	1,150	990	1,690	530	820
In 1960 dollars	940		1,210		650	
Year-round full-time workers	(2)	(2)	(2)	4,120	(2)	2,840
In 1960 dollars	(2)		(2)		(2)	

[1] The 1960 distributions for men and women were combined using population figures estimated in the Social Security Administration, Division of Program Research, by updating the 1960 Decennial Census counts after adjustment to exclude an estimated 540,000 institutional inmates. The Census Bureau has not yet released estimates for aged persons in the noninstitutional population as of spring 1961, when the income data were collected.
[2] Not available.

Source: Bureau of the Census, current population reports, "Consumer Income," series P-60, Nos. 9 and 36; for 1960, percent of men and women with zero income made available in advance of publication.

TABLE 8.—*Family income by age of head, 1958*

Age of head	Median income per family		
	Total	Per capita [1]	Per equivalent adult [2]
25 to 34	$5,207	$1,270	$1,680
35 to 44	5,704	1,300	1,630
45 to 54	5,738	1,550	1,740
55 to 64	5,153	1,780	1,840
65 and over	2,666	1,030	1,070

[1] Median income divided by mean family size.
[2] Children under 13 years assumed to be equivalent to half an adult while older children are counted as adults.

Source: "Background Paper on Income Maintenance," White House Conference on Aging, p. 14; based on publications of the U.S. Bureau of the Census, series P-20, No. 88, table 6 for persons per family; series P-60, No. 33, table 4, for median incomes per family.

TABLE 9.—*Estimated money income received in 1960 by persons aged 65 and over from public programs, employment and private pensions*

[In billions]

Source	Amount
Public	$14.0
Social insurance (monthly retirement and survivor) benefits	10.9
OASDI	8.8
Railroad retirement and Government employees' retirement	2.1
Veterans' compensation and pension	1.1
Public assistance	2.0
Private	(2)
Private pension plans and invidiaul annuities	1.7
Employment	11.0
Other [1]	(2)

[1] Residual: includes interest, dividends, rents, and contributions. Based on the rough estimated total of $32 billion, this residual would be something over $5 billion, bringing the total from private sources to an estimated $18 billion.
[2] Not available.

Source: Social Security Administration, Division of Program Research.

TABLE 10.—*Old-age assistance: Recipients, payments, requirements and unmet need by region, for 1 month, July–September 1960*

[Dollar amounts in thousands]

Region	Number of recipients	Requirements	Available income [1]: Total	OAA payment	Supplementary GA payment	Net cash other than assistance	Income in kind with money value assigned	Unmet need: Amount	As percent of requirement
All United States [2]	2,297,700	$197,011	$188,303	$146,015	$292	$40,136	$1,868	$8,708	4.4
Northeast	266,900	28,475	28,389	21,994	0	6,319	76	84	.3
North Central	530,200	45,025	43,098	34,071	39	8,861	125	1,928	4.3
South	1,093,900	74,802	70,197	55,785	123	13,225	1,069	4,602	6.2
West	422,600	48,465	46,374	33,976	124	11,684	590	2,092	4.3

[1] Excludes cash income allocated to dependents and income in kind with no money value assigned.
[2] Total includes Alaska and Hawaii, not represented in regional totals.

Source: Social Security Administration, Bureau of Public Assistance.

TABLE 11.—*Old-age, survivors and disability insurance: Average monthly benefits in current payment status at end of year, 1940–60, for selected groups of aged beneficiaries*

Calendar year	Average monthly benefit for selected family groups			
	Retired worker alone		Retired worker and aged wife	Aged widow
	Male	Female		
1940	$22.80	$18.40	$36.40	$20.30
1941	22.90	18.50	36.30	20.20
1942	23.30	18.70	36.80	20.20
1943	23.80	19.10	37.50	20.20
1944	24.10	19.30	37.90	20.20
1945	24.50	19.50	38.50	20.20
1946	24.90	19.60	39.00	20.20
1947	25.30	19.90	39.60	20.40
1948	25.80	20.10	40.40	20.60
1949	26.50	20.60	41.40	20.80
1950	44.60	34.80	71.70	36.50
1951	43.20	33.00	70.20	36.00
1952	50.70	39.10	81.60	40.70
1953	52.90	40.60	85.00	40.90
1954	61.60	47.00	99.10	46.30
1955	64.60	49.80	103.50	48.70
1956	66.10	51.10	105.90	50.10
1957	68.30	52.20	108.40	51.10
1958 [1]	70.70	53.50	111.20	51.90
1959	78.00	58.70	121.60	56.70
1960 [2]	79.20	59.30	123.40	57.20

[1] End of November.
[2] End of June.

Source: Social Security Administration; monthly Social Security Bulletin, its annual statistical supplement, and unpublished reports.

BASIS AND BACKGROUND OF THE RETIREMENT TEST UNDER THE OASDI SYSTEM

(By Robert J Myers[1])

The Social Security Act provides a test on earnings, so that retirement, dependents', and survivors' benefits are not payable to eligible persons under age 72 who are engaged in substantial employment. After a beneficiary attains age 72, the retirement test is no longer applicable. The test has been the subject of discussion ever since the enactment of the Social Security Act.

PHILOSOPHY OF TEST

Probably the major reason for the retirement test is that the program is designed to provide social insurance against presumed loss of earnings due to retirement from employment rather than, like private insurance, to provide annuities at a prescribed fixed age.

Closely related to this reason is the cost element. If benefits were payable automatically on attainment of the minimum retirement age of 62 specified in the law rather than only on retirement at such age or later, the increased cost would be close to 1 percent of taxable payroll on a level-premium basis. Accordingly, if there were no retirement test, alternatives would have to be considered, such as increasing contribution rates, raising the minimum retirement age, or lowering the general benefit level. None of these alternatives seems desirable.

In addition, there is no social necessity for paying benefits to individuals who have substantial earnings, although there may be reasons for paying partial or full benefits to those in part-time or low-paid employment. It is here that the real problem exists.

Still another argument in favor of the retirement test has been presented in the past, Under certain economic conditions payment of benefits automatically, without a retirement test, might depress wage scales because beneficiaries might be willing to take lower wages if they also had their benefits.

[1] Chief Actuary, Social Security Administration, Department of Health, Education, and Welfare.

ARGUMENTS POPULARLY ADVANCED AGAINST RETIREMENT TEST (AND THEIR REBUTTALS)

The preceding section has demonstrated the reasons for a retirement test in the old-age, survivors, and disability insurance system. Despite these points, a number of arguments have been advanced against the retirement test. This section will set forth these arguments and will then give the rebuttals to them.

One argument often advanced is that benefits are inadequate, and therefore retired beneficiaries should be permitted to work and earn above $1,200 so as to have enough total income to live on. One fallacy in this argument is that if the benefits, along with $1,200 of earnings, are inadequate for beneficiaries who are able to work, then how can beneficiaries who are unable to work—the vast majority of the beneficiary roll—get along merely on their benefits? Certainly, if this is the case, the first need is to increase benefits for those who are unable to work and for those who are able to work and earn only small amounts. Moreover, there is the problem that if the retirement test were eliminated so that retired beneficiaries would be free to supplement their benefits as much as possible, then benefits would be paid to individuals in their normal, lifetime career jobs merely because they attain retirement age without actually being at all retired. It is, of course, impossible in a nationwide system covering almost all employment in the country to define retirement from one particular job and to distinguish between a person of eligible age who is working on one job as against one who is working on another job that he might just recently have acquired.

Somewhat related with the previous argument is the one that is often advanced to the effect that the retirement test prevents people from working. On the whole, this is not so because generally the individual will have more income from working than he will have from the combination of benefits and any amount of earnings that are exempt from the application of the retirement test. This is particularly so in connection with the retirement-test provisions of the 1960 and 1961 amendments. Also, there is no legal provision in the retirement test that forces people to quit their jobs, even though any test undoubtedly serves to discourage beneficiaries from engaging in productive employment. Furthermore, a retirement test is probably a universal provision in all private pension plans.

Another somewhat related argument is that it is unfair to allow beneficiaries to have unlimited amounts of unearned income such as private pensions, individual annuities, income from insurance policies, rents and royalties, and investment income, and still receive full benefits, while for other beneficiaries the benefits are reduced for earned income above $1,200 a year. At first glance, this would seem to be putting a penalty on earned income and a premium on unearned income. But on fuller examination of the matter, this argument falls by the wayside since it would run contrary to the spirit and practive of social insurance to introduce such a test on unearned income because then the system would deteriorate into a means test program. Rather, the purpose of the social insurance system is to provide a floor of protection upon which group and private economic security can be built. In other words, the individual knows that, upon substantial retirement, he will get his old-age insurance benefits and will be able to supplement them with his various forms of savings. To do otherwise would have a very serious and damaging effect on all forms of private savings.

Still another argument claims that the beneficiary has "bought and paid for his benefits" because he may have been contributing for as much as 24 years. In actuality, however, a person who has had the maximum covered earnings for the period 1937–60 has contributed only $1,290 (and his employer, a like amount). This represents, at most, only about 1 year's benefits payments for a retired worker without dependents so it is quite obvious that no person has anywhere nearly "bought and paid for his benefits." In fact, actuarial calculations indicate that, at most, the maximum proportion of benefits that have been paid for by an individual's contributions is now about 10 percent, and in many cases of beneficiaries now on the roll, this proportion is less than 1 percent.

Finally, the argument is occasionally made that eliminating the retirement test will not result in any additional cost to the system. It is claimed that the system profits from every benefit withheld because of the retirement test. However, in actuality, the cost estimates for the system—and the contribution schedule in the law, which is based on these estimates—take into account the various probabilities of delayed retirement.

Somewhat related to the foregoing argument is the claim that raising the annual exempt amount from $1,200 to a somewhat higher figure will not have any adverse cost effect, but rather will be favorable. It is claimed that individuals holding their earnings to $1,200 a year will then raise them to the higher exempt amount so that there will be more tax income to the system and at the same time, no more benefits will be paid out (since in both instances all 12 months' benefits will be paid). It is, of course, quite true that in this instance there would be no adverse cost effect. What is ignored, however, is that there are many other cases that would far more than offset this one. Thus, there are those cases where individuals have earnings well above $1,200 and would under the new exempt amount either receive partial benefits (whereas on the $1,200 basis they would get none) or else they would get larger partial benefits. In fact, some individuals might actually reduce their earnings to the new higher exempt amount so as to receive full benefits for the years, whereas on the former basis they would receive either no benefits or only partial ones.

HISTORY OF RETIREMENT TEST

The retirement test has been changed many times over the years by legislation. Following is a historical summary of its development.

(*a*) *The 1935 act*

A test of retirement was implicit in the original Social Security Act. The law stated that, for any month in which the individual received covered wages from "regular employment," monthly old-age benefits would not be paid. Regular employment was not specifically defined, however (the law was amended before monthly benefits became payable).

(*b*) *The 1939 act*

The 1939 amendments permitted payment of benefits if the beneficiary had earnings in covered employment of no more than $14.99 a month.[2] The test was on an "all-or-none" basis; earnings of $14.99 or less did not affect payment of the full benefit, but earnings of even slightly more than this amount meant that the entire benefit for the month was lost.

(*c*) *The 1947 Advisory Council*

The amount of earnings permitted by the retirement test was still set at $14.99 a month when the 1947 Senate Advisory Council on Social Security was considering the general subject of old-age and survivors insurance.[3] Because of changes since 1939 in the wage level and other factors, it was generally agreed that this amount was too low. Furthermore, there was the important question of working out a more equitable basis for the test than the all-or-none basis and one that would also be reasonably simple to administer. The Advisory Council stated that modification was necessary so that beneficiaries should not have their total income reduced because of work.

One possibility considered was the general principle of a "one-for-one" reduction. Full benefits would be paid if earnings were a specified amount or less, while if earnings were larger, the benefits would be reduced by the amount of the difference. Operation on this principle would permit a smooth transition between part-time employment and full-time employment. Individuals earning more than the amount permitted for payment of full benefits would thus, within a certain range, maintain their total income from benefits and earnings combined, instead of having a reduction in total income as under the all-or-none retirement test. The Council recognized, also, that minor modifications would be necessary to facilitate administration to some extent, since month-by-month adjustments and calculations would be costly to make, and it recommended quarterly adjustments.

Specifically, the Advisory Council recommended setting the exempt amount in the retirement test at $35 a month. Just as under the all-or-none test, benefits would be paid for any month in which earning were $35 or less and would be suspended for any month in which earnings exceeded $35. For beneficiaries who had one or more benefits suspended in a given quarter, the following procedure would be used to determine the amount of the quarterly adjustment. The beneficiary would furnish a statement showing his earnings in each of the 3 months of the quarter. Then, when the employer's quarterly tax return was received,

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[2] In determining earnings from covered employment for purposes of the retirement test, the effect of the maximum on taxable and creditable wages ($3,000 a year) was disregarded. Thus, if an individual earned the maximum amount in the first 6 months of a calendar year, any subsequent earnings in that year would nevertheless be counted in applying the retirement test.

[3] The earlier Senate Advisory Council (1937) had made no recommendation about the retirement test.

the beneficiary's statement would be checked against it. If there were reasonable agreement, for each month that benefit suspension occurred the adjustment amount would be computed. This amount would consist of any difference between his benefits (including any supplements for dependents) and his actual earnings in excess of the exempt amount of $35. The adjustment amounts for the 3 months of the quarter would then be payable in a lump sum.

As an example of how the Advisory Council proposal would operate consider the case of an individual with a total monthly benefit of $60 who has wages of $50, $25, and $100 for the 3 months of a given calendar quarter. In the first and third months, the benefit check would have been withheld because earnings were in excess of $35. The amount of the adjusted benefit for the first month would be $45—the $60 benefit minus $15, the amount by which his $50 earnings exceeded the $35 exempt amount. There would be no adjusted benefit for the third month, since the earnings of $100 exceeded the exempt amount of earnings by more than the amount of the benefit.

The Advisory Council recognized that some modifications would have to be made for the self-employed since their earnings would be reported annually. No specific proposals, however, were presented for this group.

Another recommendation made by the Advisory Council was that the retirement test should not apply to beneficiaries aged 70 or over. It was recognized that this provision would involve some significant increase in cost but not nearly so much, of course, as if the test were completely eliminated. In essence then, the proposal was a compromise with those persons who held that the test was a restriction on their activity and who considered the benefits as something that they had paid for and that therefore should be payable automatically as an annuity, at age 65. Furthermore, the elimination of the test for persons aged 70 or over would be attractive particularly to farmers and the professional self-employed (for whom the Advisory Council recommended coverage), since it had been argued that generally these groups "never retire."

(d) 1950 act

The 1950 amendments raised from $14.99 to $50 a month the amount of earnings permitted under the retirement test, with no restrictions for workers aged 75 or over. The test remained on an all-or-none basis for wage earners. For the self-employed, who were brought into coverage by the 1950 amendments and who report their earnings annually, a "unit-reduction" procedure was adopted. Benefits were not withheld if the covered self-employment earnings reported for the year were $600 or less, but 1 month's benefit was withheld for each $50 (or remaining fraction thereof) of the amount in excess of $600.

The test of substantial retirement was thus applied differently for wage earners and the self-employed, but for both it related only to earnings in covered employment.[4] If a worker earned covered wages of more than $50 in a month, his benefits and those of his dependents were suspended for that month. A month-by-month suspension of benefits was not feasible for self-employed persons, who are generally able to determine their net earnings only on a taxable-year basis. Self-employed persons were therefore considered retired if, throughout the year, their covered self-employment earnings were not more than $600 (12 times $50). For each unit of $50 or fraction thereof that is in excess of this amount, the beneficiary lost 1 month's benefit for himself and his dependents. When an individual eligible for benefits for all 12 months of a year had self-employment earnings of $601 to $650, for example, only 11 months' benefits were paid; when such earnings were $651 to $700, only 10 months' benefits were paid; and so on until, when earnings were $1,001 to $1,050, only 1 month's benefit was paid. The number of the monthly benefit deductions could, however, never exceed the number of months during which the person was substantially self-employed.[5] In addition, withholding of benefits for wages and for self-employment earnings could not take place concurrently. A person with self-employment earnings of $625 in a year and wages of more than $50 in 1 particular month would have 2 months' benefits withheld unless he engaged in substantial self-employment only in the month in which he earned the wages.

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[4] Since earnings received for employment outside the United States were "covered earnings" only when received for servic on an Amrican ship or airplane (in certain circumstances) or when received by an American citizen from an American employer, beneficiaries could engage in substantial employment of most kinds outside the country and not be affected by the retirement test.

[5] Regulations are prescribed for determining whether an individual has rendered substantial services.

The test had a double-exemption feature in that it applied separately to wages and to self-employment earnings for persons who have both. An individual with self-employment earnings of $500 in a year and with wages of $50 or less in several, or even all, months would not have any benefits withheld.

(e) 1952 act

The 1952 amendments did not change the basic nature of the retirement test in any way but rather merely increased the monthly amount of exempt wages from $50 to $75, the annual amount of exempt self-employment from $600 to $900, and the self-employment units from $50 to $75.

(f) Necessity for change in 1950 act basis

Under the retirement-test provisions in the 1950 act, as modified by the 1952 act, a number of situations occurred—particularly for wage earners—that aroused considerable criticism. A retired wage earner who made more than $75 a month, but not as much as $75 plus his benefit amount, had a particualr problem. If, for example, a man's primary insurance amount was $60, and he had a wife aged 65 or over, the benefit for the couple was $90. In the month that his beneficiary had earnings of $75, he would have available a total income of $165. If he earned $80, he lost his own benefit and his wife's benefit and had only the $80 from his work. The problem became less acute for him, of course, as his earnings approached the amount of his benefits plus $75. In actuality, most beneficiaries who worked and were affected by the retirement test earned substantially more than their withheld benefits plus the $75 exempt amount.

There was also a problem for the beneficiary who worked only occasional months at wages that, while moderate, were more than $75 and who thus lost benefits for such months. He was, in fact, substantially retired, certainly to the same extent as a $75-a-month, 12-month worker, who perhaps had been able to adjust his wages downward so that he could receive benefits in all months.

Self-employed beneficiaries did not have the same problem because the retirement test operated differently for them. They had an undue advantage, moreover, when they had wages as well as self-employment income, since then the double-exemption feature applied.

Another inequity existed because the retirement test applied only to covered employment. Thus, individuals engaged full time in noncovered employment, and by no means retired, could at the same time receive full benefits. One illustration is the case of a civil engineer who worked for a number of years as an employee of a construction company but who became a partner in a consulting engineering firm a few years before reaching age 65; he was thus paid old-age benefits when he reached that age since he was not engaged in covered employment. Still another example is a Canadian who commuted to work in the automobile factories in Detroit but who, upon reaching age 65 terminated that employment and began working in a garage in Canada. Since this foreign employment was not "covered," he received his full benefit even though he was not retired.

Before the 1954 amendments, noncovered employment (for which earnings reports are not available through the collection of contributions) was not counted in the operation of the retirement test, principally because of the administrative problem involved under the limited coverage of the system. With the virtually universal coverage achieved by the 1954 amendments, these problems were much smaller.

(g) 1954 act

The law as amended in 1954 provided for the payment of benefits to a person who has insured status and who is aged 65 to 71, inclusive, only if he is substantially retired, and it provided for payments to his eligible dependents if they do not have substantial employment. After the worker reaches age 72, he receives his benefits regardless of his retirement; the dependent's benefits are suspended, however if the dependent is under age 72 and is substantially employed. Survivor beneficiaries must also meet the retirement test, but here the test applied to each individual separated. Thus, if a widow entitled to mother's benefits engages in substantial employment, benefits are continued to the eligible children.[6]

[6] If the family includes a large number of children (four or more), employment of the widowed mother will not reduce total family benefits. In such instances the family maximum benefit provisions are applicable, and so the same total is paid whether only the children's benefits are in current-payment status or whether benefits for the widow and children are all in current-payment status.

The retirement test logically applied to earnings in all types of employment in the United States (including Alaska, Hawaii, Puerto Rico, and the Virgin Islands), as well as in covered employment outside the United States.[7] Logically, also, a single test that combines earnings of all types is applied rather than separate tests for wages and self-employment income. In addition, under a special provision that applies only to noncovered earnings outside the United States, benefits are suspended for every month during which the individual engages in noncovered remunerative activity on seven or more calendar days. This type of provision—on a monthly basis and without a monetary amount—was necessary for administrative reasons and because of the differences in wage scales between this country and other countries. An amount of earnings that might indicate effective retirement in the United States would be full-time earnings in various other countries.

The annual exempt amount of earnings was set at $1,200. When earnings are in excess of this amount, 1 month's benefit can be withheld for each excess of $80 or fraction thereof. No benefits, however, are suspended for any month in which the individual does not have wages of more than $80 or in which he has not rendered substantial service as a self-employed individual.

Perhaps the best way to consider the operation of the retirement test under the 1954 act is in two steps. First, the total earning for the year must be considered and the maximum number of deductions determined. If, for example, such earnings total $1,400, the deductions will be for a maximum of 3 months, since the excess of $200 represents three "$80 units of excess earnings."

The second step is to consider the number of months in the calendar year for which deductions can be made because the individual earned more than $80 in wages or rendered substantial self-employment service. If the number of these potentially deductible months equals, or is greater than, the number for which deductions would be made under step 1, then the maximum determined under the first step is applied. If the number of potentially deductible months is smaller, the deductions for only that number of months are made. If, in the illustration above, the individual had 3 or more potentially deductible months, he would lose 3 months' benefits. If, on the other hand, he had only 2 potentially deductible months (if, for example, his earnings of $1,400 were concentrated more or less equally in 2 months), then he would lose only 2 months' benefits.

It is important to note that the first step consists of considering the total earnings for the year and ignores the way in which these earnings are distributed throughout the calendar months of the year. It should be noted further that benefits are not necessarily paid for months during the year before the individual has earned the $1,200 exempt amount because subsequent earnings might affect those earlier months. If, for example, an individual earns wages of $200 a month for each of the 12 months of the year, he will not receive benefits for the first 6 months—although his total earnings during that period did not exceed $1,200—since his annual earnings amount to $2,400 (resulting in 12 "$80 units of excess earnings") and since he had earnings of more than $80 in every month; that is, 12 potentially deductible months.

The maximum amount of earnings that an individual entitled to benefits throughout a year can have in that year and be certain of getting at least 1 month's benefits is $2,080, since any larger amount would mean 12 "$80 units of excess earnings." Actually, however, an individual who earns $2,080 may get anywhere from 1 to 11 months' benefits, depending on how many potentially deductible months he had. Conversely, an individual can earn more than $2,080 and still get benefits for some months; that is, those in which he had $80 or less in wages and no substantial self-employment services. Thus an individual with $1,200 of wages in January and exactly $80 in each of the other 11 months would have wages of $2,080 and 11 "$80 units of excess earnings." Only his January benefit would be withheld, since that is the only potentially deductible month. The result would be the same even though he had wages of far more than $1,200 in January, or if the situation was reversed and he had $80 of wages in each of the first 11 months of the year and $1,200 in December (or, for that matter, any amount more than $320 in December). In the latter case the deduction would, of course, be for December.

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[7] "Covered earnings" outside the United States include earnings received for services on an American ship or airplane (in certain circumstances) or those received by an American citizen from an American employer (or, in certain circumstances, from a foreign subsidiary of an American employer), and also in certain circumstances the self-employment income of American citizens.

The eventual benefit paid may be increased if the individual is employed after he reaches age 65 and if such employment increases his average wage. In no case, however, will employment after age 65 reduce the benefit to less than it would have been if the individual had retired at the earliest possible time after reaching age 65. Contributions are payable on all covered employment after age 65, even though the individual is in receipt of benefits—when, for example, his annual earnings are $1,200 or less or when he is aged 72 or over.

It may perhaps be helpful to consider certain examples illustrating how the retirement test provisions of the 1954 act operate. Individual A has a part-time job paying $120 a month. Before the 1954 amendments, he would not have been able to draw any monthly benefits while he was so employed. Under the amendments, however, since his total earnings aggregate $1,440 in the year and since the $240 in excess of the $1,200 exempt amount represents three "$80 units," he loses only 3 months' benefits and thus draws 9 months' benefits.

Individual B is fully retired for most of the year, but during the Christmas season he is employed for 3 months in a department store at $200 a month. Under previous law he would have lost benefits for those 3 months, but under the amendments he draws benefits for the entire year, since his aggregate earnings in the year do not exceed $1,200.

Individual C also is retired during most of the months of the year. Since he was formerly a topflight scientist, he occasionally is employed for special jobs at a substantial salary. In a calendar year, for example, he earns $1,200 in January, $500 in March, $400 in September, and $75 in December. His total wages for the year amount to $2,175. Based on the amount of his total annual earnings, benefits might be withheld for all 12 months of the year. Benefits can be withheld, however, for only 3 months—January, March, and September—since in all other months his earnings are $80 or less. If individual C works only in January and thus earns only $1,200, he would receive benefits for this month as well as all succeeding months. On the other hand, if he earns the $1,200 in January and earns $80 in 1 other month, then he loses 1 month's benefits. Since the total amount earned indicates that 1 month's benefit should be withheld, January—the only month with wages in excess of $80—is the only month that it would be possible for such withholding to occur.

(h) 1958 act

The 1958 amendments did not change the basic nature of the retirement test in any way but rather merely liberalized the monthly test by increasing from $80 to $100 the wages that can be earned in a month in which there is no substantial self-employment services and yet benefits are paid—regardless of annual earnings. This change, thus, made the monthly test apparently consistent with the annual exempt amount—although, in fact, such consistency was not really essential, except for public relations purposes.

(i) Necessity for change in 1954 act basis

Although the basis of the retirement test as revised by the 1954 amendments was considerably more equitable than previously, certain difficulties and inequities still existed. It is no doubt fair to say that administrative problems and difficulties prevented, for several years, any more intricate and complex a retirement test than was developed in 1954. Subsequently, however, administrative improvements and advancements gave rise to the possibility of considering an even better basis.

As the retirement test existed before the 1960 amendments, there were certainly certain definite disincentives to continued work by older people—although by no means as much as public criticism and discussion sometimes implied. The principal problem was in connection with the $80 units since, in many instances, persons were better off to hold their earnings down to $1,200 a year than to earn somewhat above this figure, because under the latter circumstances their total income might actually be reduced.

Such an illogical situation could arise in several ways. If an individual had a family benefit in excess of $80, he would quite obviously lose more in benefits than his additional earnings—at least up to a certain point. Thus, for example, if an individual had a total family benefit of $150, he would lose $70 in total family income for every $80 that he earned in excess of $1,200, until he had earned in excess of $2,080 (after which point he would receive no benefits). In fact, in this case the individual would not have more total income from working beyond $1,200 until his wages exceeded $3,000 (and even this does not take into account the expenses of working, the possible income taxability of the wages, and the increased OASDI contributions payable).

Even for a person with a family benefit lower than $80, there could be some loss in total income by working beyond $1,200. This would be due to the fact that partial units of $80 beyond $1,200 were counted as full units. For example, a person with a total family benefit of $50 would lose 1 month's benefit of $50 if he earned only $20 in excess of the $1,200 exempt amount. Likewise, if such an individual earned $90 in excess of the exempt amount, he would lose 2 months' benefits or $100, a net loss of $10.

(j) Report on retirement test

In the consideration of the 1958 amendments, the House Ways and Means Committee—in its report on the bill (House Rept. No. 2288, 85th Cong.)—requested a study of the monthly test of the retirement-test provisions. The problem with which the committee was concerned was that "a person may have very high earnings in a single month and yet get benefits for the remaining 11 months in the year."

The Department of Health, Education, and Welfare complied with this request in a report "The Retirement Test Under Old-Age and Survivors Insurance," submitted March 29, 1960, and printed by the House Ways and Means Committee as a committee print. This report both considered the problem raised by the committee and also gave a number of alternative approaches to changing the retirement test.

As to the problem on which the Ways and Means Committee requested specific study, the report suggested several possible methods by which this particular problem could be handled, but came to the conclusion that either eliminating the monthly test or having a separate test for people with high earnings would not be desirable since such a change would create more difficulties than it would solve.

The report also discussed a number of proposals to improve the retirement test by creating incentives for people to continue working or else by eliminating disincentives in the existing test. These proposals included increasing the annual exempt amount, increasing the "excess earnings units," and several proposals for reducing benefits in proportion to the amount of earnings. The latter included a basis of deducting $1 of benefits for each $1 of earnings in excess of $1,200 a year, a basis of deducting $1 of benefits for each $2 of excess earnings, and a basis combining the previous two basis by withholding $1 in benefits for each $2 of the first $1,200 of excess earnings and $1 in benefits for each additional $1 of excess earnings (i.e., on total earnings of more than $2,400.)

(k) 1960 act

The 1960 amendments as they passed the House of Representatives made no significant changes in the retirement test. The Senate Finance Committee, however, made one significant change—namely, increasing the annual exempt amount from $1,200 to $1,800. This change was accepted by the Senate, but was rejected by the conference committee which, instead, retained the $1,200 annual exempt amount, but made a significant revision in the method of reducing benefits for earnings in excess of the exempt amount. No change was made in the monthly test.

The 1960 amendments provide that the annual test is such that if earnings are in excess of $1,200 a year, benefits are reduced by $1 for every $2 of the first $300 of such excess earnings, and on a $1 for $1 basis for additional excess earnings (i.e., for earnings in excess of $1,500 a year). Thus, for example, if an individual earns $1,350 in a calendar year, the most that his benefits will be reduced will be $75; such a reduction, however, will occur only if his benefits for months in which he either earns more than $100 in wages or engages in substantial self-employment totaled at least $75 (i.e., taking into account the monthly test). Likewise, if an individual's earnings in a year are $1,700, he will lose $350 of benefits (computed as 50 percent of the first $300 of earnings in excess of $1,200, plus 100 percent of the remaining $200 of such earnings).

For persons with family benefits of a large amount, payment of at least partial benefits can occur for relatively high earnings. Thus, for example, in the case of a husband and wife with the maximum benefit of $190.50 a month, with the monthly test of retirement not being applicable, it is not until annual earnings reach $3,636 before no benefits at all are payable. Also, as an example, for an individual with the maximum family benefit of $254 a month, this "maximum annual earnings point" is $4,398. In the more usual cases, of course, such high boundary points will not occur.

In the actual administration of the new retirement test, the same general procedure will be followed as previously. Beneficiaries will be asked to estimate in advance their annual earnings, and if these are predicted at more than $1,200, it will be suggested to the beneficiary that he forego a certain number of months of benefits so as to balance, more or less, the reductions in benefits under the retirement-test provisions. Then, after the end of the year, a final accounting will be made on the basis of the actual earnings, and an appropriate financial adjustment will be made with the beneficiary.

In summary then, the new retirement-test basis has introduced the very important principle that a beneficiary will always have more total income by working beyond the $1,200 point than if he did not do so. It will be observed that the band where the $1 reduction in benefits for every $2 of earnings occurs is only $300 as compared with the illustrative figure of $1,200 contained in the report on the retirement test prepared by the Department of Health, Education, and Welfare (see subsec. (j)). In this connection, it is interesting to note that Senator Kerr, who was the floor leader for the Conference Report of the legislation in the Senate, stated that this band was held as low as $300 (above the $1,200 exempt amount) because of cost considerations, and that when adequate finance is available, it would be desirable to increase it to $1,200 (see Congressional Record for Aug. 27, p. 16828). The new basis was to be effective for taxable years (of the beneficiary) beginning after 1960—that is, generally for calendar year 1961 and thereafter.

(l) 1961 act

The legislation resulting in the 1961 act did not contain any provisions affecting the retirement test until it was considered on the Senate floor. Then, an amendment was debated that would have increased the annual exempt amount to $1,800. A substitute amendment to increase the band, where there is a $1 reduction in benefits for each $2 of earnings, from $300 to $500 but leaving the annual exempt amount at $1,200 was proposed and adopted. This was accepted by the conference committee and is in the final legislation. The resulting increase in the cost of the system—two one-hundredths of 1 percent of taxable payroll on a level-premium basis—was met by advancing the year in which the ultimate tax rates become effective from 1969 to 1968.

This change in the retirement test is effective for taxable years (of the beneficiary) ending after June 30, 1961, so that for the vast majority of the cases it will be effective for calendar year 1961. As a result, the $300 band provided by the 1960 act will be applicable in only a few cases.

(m) Cost effects of possible modifications

As indicated previously, if the retirement test were abolished, the level-premium cost of the old-age, survivors, and disability insurance system would be increased by almost 1 percent of taxable payroll (actually ninety-six one-hundredths of 1 percent). This means that the combined employer-employee tax rate would have to be increased by 1 percent in all future years to finance this change. The additional benefit disbursements would be about $2 billion in the first full year.

An increase in the annual exempt amount to $2,400 (with a corresponding change in the monthly test and with the $500 band in the annual test continued unchanged) would have a level-premium cost of forty-nine one-hundredths of 1 percent of payroll and a first-year cost of about $1 billion. Corresponding figures for an $1,800 annual exempt amount are twenty-three one-hundredths of 1 percent and $500 million.

If the band in which the benefits are reduced by $1 for each $2 of earnings is increased from $500 to $1,200, with no other change, the increased cost is estimated at four one-hundredths of 1 percent of payroll on a level-premium basis and about $80 million in the first full year.

The reason that raising the annual exempt amount results in a much greater cost than increasing the band can be illustrated by an example. If the annual exempt amount is increased, this means not only that full benefits are paid in a larger spread of earnings at the lower end of the earnings scale but also that partial benefits are paid for a longer interval of earnings at the middle of the scale. The following table illustrates this for the case of a total family benefit of $100 per month, showing the annual amount of benefits payable (neglecting the effect of the monthly test):

Annual earnings	Amount of benefits payable			Additional amount payable	
	$1,200 annual exemption, $500 band [1]	$1,800 annual exemption, $500 band	$1,200 annual exemption, $1,200 band	Increase in exempt amount	Increase in band
$1,500	$1,050	$1,200	$1,050	$150	
$1,800	850	1,200	900	350	$50
$2,100	550	1,050	750	500	200
$2,400	250	850	600	600	350
$2,700		550	300	550	300
$3,000		250		250	

[1] Present law.

Also involved in the cost-effect analysis is the incentive element. For example, a beneficiary formerly restricting his earnings to $1,200 so as to receive full benefits would, under an increase in the annual exempt amount, have an incentive to raise his earnings to the new limit. Under such circumstances, the gain to the system would be only the relatively small amount of additional contributions paid. On the other hand, if the band is increased, there is an incentive to increase earnings by this amount—thus resulting in higher total income to the beneficiary from benefits and earnings combined—which results in a gain to the system in an amount equal to half the earnings and the additional taxes.

Mr. Cohen. Some 2 years ago, I had the privilege of appearing before your distinguished predecessors, the Subcommittee on Problems of the Aged and Aging of the Committee on Labor and Public Welfare. At that time, I summarized the income position of our aged population in the following broad terms:

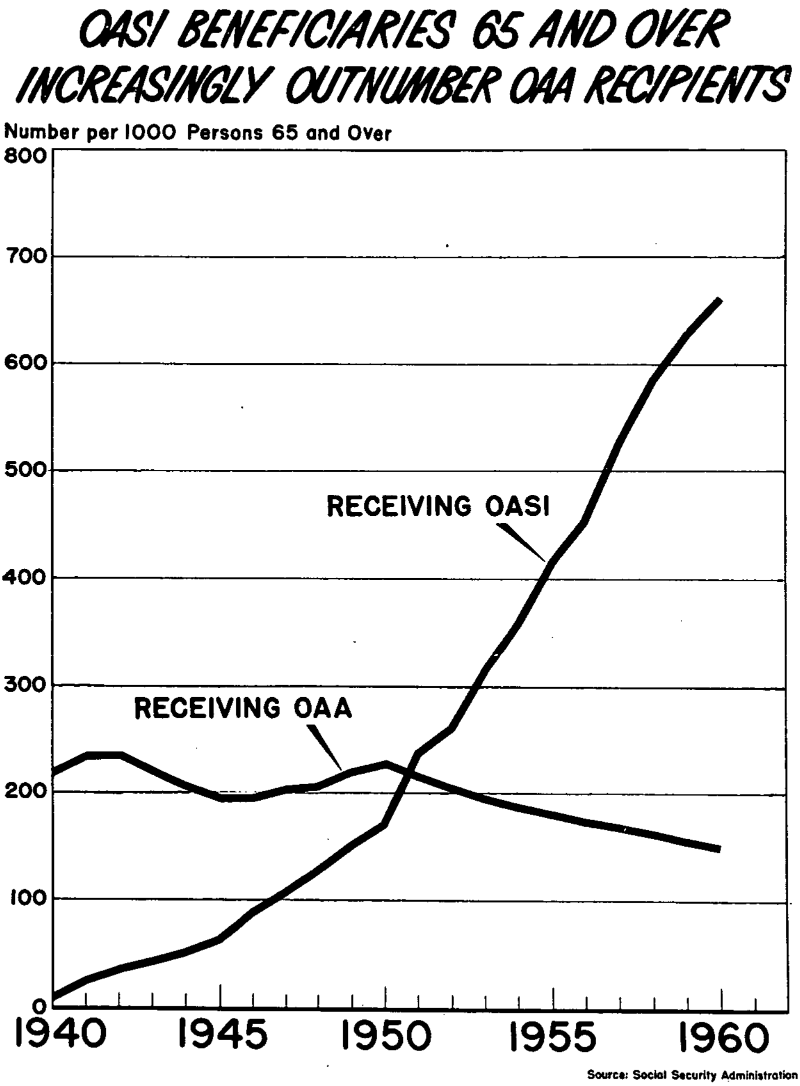
The aged are not a homogeneous group * * *. Some have adequate incomes; most do not. Some do not receive social security benefits; most do. Some receive private pensions; most do not.

These generalizations are equally applicable today. With a change of only a percentage point or so to update the statistics, the same conclusions are valid. During this 2-year interval a slow but steady progress has continued toward the goal of economic security for the retired aged. Today I would like to use a broader perspective and view the income position of our present aged population against that of a decade earlier. Concerned as you are with long-range objectives as well as possibilities for current legislative action, a look backward may serve to delineate the path ahead.

By the end of 1960, our population 65 and over had reached 17 million, almost 4½ million more than in 1950. For every three aged people a decade ago, there are now four. Proportionally more of them are past 75. Indeed, during the decade the number of persons 85 and older increased 61 percent in contrast to an increase of 35 percent for all persons 65 or over. In other words, we have an older older population all the time. Not surprisingly then, the proportion with any work experience during the year—and especially of those who worked year-around at full-time jobs—dropped markedly during this decade. For men, the decline in the proportion with any work during the year was from 49 percent to 42 percent; of those with some work experience, only 42 percent were year-round full-time workers in 1959 in contrast to 52 percent in 1950.

Now, I would like to present my first chart, Mr. Chairman, which I think will indicate what has happened during this past decade that is of vast significance.

CHART I



When the Social Security Act of 1935 was passed, we were faced with the question of what to do in providing income to the then-aged persons, and we inaugurated two programs, a program of old-age assistance, utilizing the tested idea of Federal grants to the States to encourage them to help the needy aged persons. That is our old-age assistance program, OAA.

We also simultaneously made arrangements to start the old-age insurance program, today called old-age, survivors, and disability insurance, or more popularly by most people, just called social security.

This insurance program did not become inaugurated for contributions until 1937, and the benefits did not begin until 1940, and very few people were, of course, eligible in 1940, because they had to contribute to the system for a minimum period. So that by 1940 when the insurance system started, you can see that the number receiving old-age assistance was substantially large. At that point, if you want to remember a round figure, about 25 percent of the aged were receiving old-age assistance on a needs test basis through the State old-age assistance programs, financed in part by Federal funds.

But the insurance program, as you can see, was just beginning to get started.

During the war, with the substantial employment both of the aged persons and largely the children who, when they are able, support their parents, the proportion of the aged declined, but with the end of the war again the proportion increased. Keep in mind since I am using proportions here, that during this whole period of time the number of aged, as I just pointed out, has increased very tremendously, but here I am using proportions to show you the relative size of the problem.

The insurance program was growing slowly but steadily but in 1950 Congress amended the social security program, and I may say largely due to liberalizing amendments made by the Finance Committee with respect to eligibility. The program was very substantially liberalized in coverage and eligibility and amount, and for the first time in our Nation's history in about 1950 or 1951, the proportion of aged persons receiving insurance benefits through social security was higher than those on the assistance program. This was the objective of the Ways and Means Committee and the Finance Committee in 1935 when they established the program, to get a contributory insurance program working so that ultimately it would be the first line of defense as far as the public programs were concerned in providing income security for the aged.

Now look what has happened as a result of what Congress has done. During this period of time you can see that the proportion of the aged receiving old-age insurance has skyrocketed to the point where close to 70 percent of the aged receive some form of social security payment.

Senator SMATHERS. Is that 70 percent of all aged?

Mr. COHEN. Yes, sir, I think it is about 65 percent here at this point in 1960.

Let us use this figure, 65 percent, for the moment. Sixty-five percent of all of the 17 million aged are today receiving some form of social security payment. Some of them, of course, when we get into it, receive only the minimum. The new minimum under the amendments just enacted will be $40 a month. Some receive substantially more, but a very large proportion of our aged now are actually receiving some benefits.

This has been a tremendous step forward over these 25 years in achieving this objective that Congress originally wanted to achieve and at the same time achieving this objective of trying to keep the assistance program as a secondary, a necessary secondary but as small a program as was feasible in meeting needs.

Senator CARLSON. May I ask one or two questions?

Senator SMATHERS. Yes, sir.

Senator CARLSON. What year did Congress provide legislation providing for the coverage of the self-employed?

Mr. COHEN. The coverage of the self-employed was enacted in 1950 and farmers in 1954.

Senator CARLSON. May I inquire how many or what percentage of our people are receiving both OASI payments and old-age assistance payments?

Mr. COHEN. Yes. There are about 700,000 receiving both. I will come to that in just a moment. That is on this chart over here. That is a very significant fact, and I will develop that in just a moment.

I think here you see, Senator Carlson, the impact. You see this line was sort of going up this way [indicating] at that point when the 1954 amendments again gave an upward thrust to this, and the 1961 amendments again, by changing the insurance status provisions and the other amendments that we just finished discussing with you, will keep this going up. By looking at this chart I can make two points: The original purpose that Congress tried to achieve of having an insurance system that would try, as far as possible, through a contributory approach, to meet a large proportion of the income needs of older persons, and making that the first line of defense is now in effect.

The assistance program, at least as far as proportions of people being affected, has been declining so that fewer and fewer of our old people have to have recourse to the needs test through public assistance as a method of meeting their income needs. I think this indicates the responsible and intelligent, in my opinion, basic policy decision that Congress made can now be said to be implemented, and we would hope that this would be the basis upon which this committee and the Congressmen continue to improve both of these programs.

Senator SMATHERS. Wilbur, I would like to ask you a question now though you will undoubtedly get to the point of my inquiry and I do not desire to get your testimony out of order.

Mr. COHEN. Certainly.

Senator SMATHERS. What groups are there today that are not eligible for social security?

Mr. COHEN. Well, the largest groups that are not now covered are those State and local employees who have not taken full advantage of the optional provisions that are in the existing law. State and local employees, because of the special legal problems, have to exercise an option to their State. There is one State, Ohio, which absolutely bars its State and local employees from coming in, but that is their option. Others of them that have retirement systems of their own do not wish to come in. That is their option. Some policemen and firemen are actually precluded by Federal law, as you know, and the Finance Committee periodically has to consider adding on to the list of 17 States which are permitted to bring them in only when they indicate they want to come in.

The next big group that is now not covered is Federal employees. Now, Federal employees basically have their own civil service retirement system, but from time to time people move back and forth. My own situation is such that I have been back and forth into Federal service several times, and the question of continuity of rights is a very important one, and we have tried to work out an arrangement, which I hope in the next year or so we can submit to Congress, that would be satisfactory to permit this to be bridged.

Those are the two large groups.

Then, of course, physicians are excluded. They are the only large professional group in the self-employed that are excluded.

Senator SMATHERS. By their own decision?

Mr. COHEN. Pretty largely so, although the polls indicate, Senator, as you know, that the physicians are about evenly divided as to coming in, and no national poll has even been taken. This would have to be subject to my verifying, but there are 12 to 16 States in which physicians have voted they have wanted to come in, but there has been no national poll, but my own evaluation would be that now there is a slight majority of those that would want to come in. (A subsequent check indicates that, as of August 1960, polls in 20 States have shown a majority of physicians favor social security coverage.)

You see, the point there is that many doctors are now already covered by social security by some other method. So if you happen to be employed by a private corporation as a physician, you are covered. If you happen to be a doctor employed by a State hospital, you might be covered. If you are a doctor employed by a nonprofit institution, you might be covered. So it isn't as if physicians are completely excluded from social security coverage; they are only excluded when they are practicing as self-employed individuals.

Senator CARLSON. If a doctor is a director of a bank, he might well be included.

Mr. COHEN. With respect to his service.

Senator CARLSON. That is right.

Mr. COHEN. As a matter of fact, I think one of the reasons some doctors do not want to be covered by social security is that a large number of them are already covered under other business entities which bring them up above $4,800. So there actually are not many of them that are not covered.

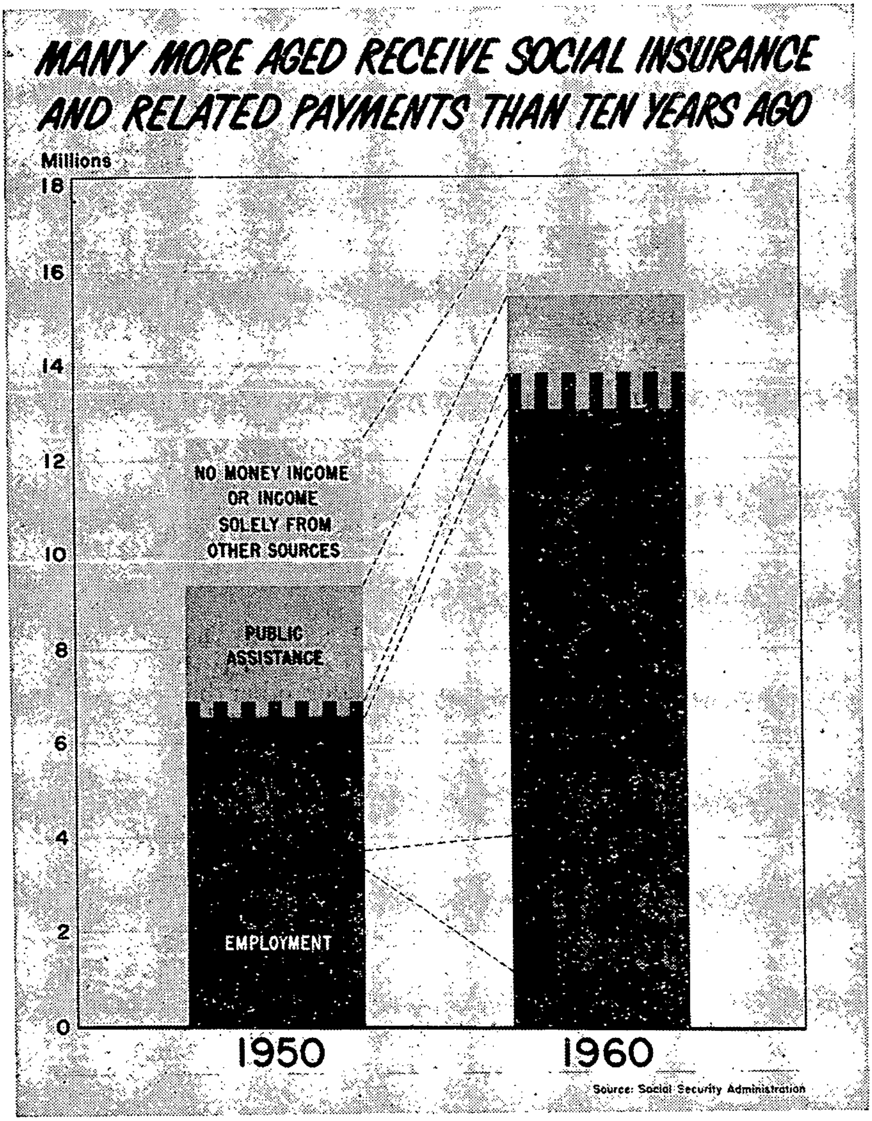
But the big point there is this, because the recommendation I am going to make later is the importance of larger benefits for widows. We tend to think always of the problem of the individual himself, but the big gap, as I am going to point out later—what I think is the single biggest gap in terms of priority that exists now—is the inadequate protection for widows.

Senator CARLSON. Mr. Cohen will remember I tried to take care of the group in this last bill, and the Department was unable to go along. I am not critical, but I think it is a field we should look into.

Mr. COHEN. As I said, Senator, I think your amendment dealing with disabled widows is very desirable. It just costs money, as most of these do, and that is the dilemma we have in all of these things that come up: how to do the things we want to do that cost money and do them in an intelligent, responsible manner. That is the real core of the policy decision that I want to touch on in a moment or so.

Now we will get into a couple of the questions that you have raised here, which show how the income of the aged through public programs at the present time is met, and as you can see, I show here what has happened in this decade from 1950 to 1960, and of course the first thing that is obvious is how the total number of aged have grown; that we have commented on. But look what has happened during that decade in the sources of income of the aged, and let me point out a few significant points in this.

CHART II



If you look here [indicating] you will find that the total number of aged people in employment, this blue part here, is about the same in numbers at the end of the 10-year period, even though the total number of aged has grown very rapidly. I will come back and deal with the crosshatched part in just a second.

The significant part is the growth in the social insurance and related programs—in that I include railroad retirement, civil service retirement, veterans' program, and any other program of the Federal Government or State or locality that provides for incomes on some insurance or pension basis which is designed to provide income to aged persons. You can see here what has happened in this policy during these 10 years. Look at what a small portion of the problem of the aged was met through that kind of insurance protection in 1950, and look what has happened in the last 10 years. That has been the most significant development of that decade.

Senator SMATHERS. I am not clear on one thing. Over on the 1950 chart, the bottom shows a lot of employment, and in 1960 a very minimal amount. Why is that?

Mr. COHEN. The crosshatched part is blue, too. This is all employment up to here [indicating].

Senator SMATHERS. I see.

Mr. COHEN. Now, the crosshatched part is a group of people who have both employment and some income from social insurance or related programs, and that is the significant thing that has happened in this decade, that we are tending to have more people who have two forms of these various types of income.

And you can see here, and I have the specific figures, a very large number of the people who had some employment in late 1960, also received some type of income payment from the Federal Government, or the State or the county.

Of the slightly more than 4 million aged with income from employment in December 1960, it is estimated that 2,860,000 also had income from social insurance and related programs while the income of 1,160,000 was from employment only.

This goes back to the point that both of you gentlemen mentioned, which I will touch on later in my paper, namely, the retirement test in social security; the progressive liberalizations of that that have been made now permit, and especially as a result of the more favorable provisions in the 1960 amendments, will permit a substantial number of older people to work during the course of the year and also receive some social security. And that really is what this indicates, that in the course of time I would say that except for a small number of, let's say, very highly professional people in the high income groups, whether they are lawyers, doctors, architects, or real estate people, who will not be getting social security at all up to the age of 72, let us say, even though they can get it after 72, most people in employment will probably be drawing some cash income, maybe from social security or a related program, and also doing some work during the year, maybe up to $1,200, maybe up to $1,400, maybe up to $1,500.

Senator NEUBERGER. I would think the increase in numbers of widows would be especially shown here, would it not, because a good many of them would be receiving widows' benefits and still be employed.

Mr. COHEN. Some of those, yes, some of the widows could, too, but I do not know how many of these in employment are widows, offhand. I do not know whether they had that.

Miss McCAMMAN. I think we can get it.[1]

Mr. COHEN. Would you like to know that?

Senator NEUBERGER. I thought you indicated in your opening remarks that there was a noticeable increase in widows.

Mr. COHEN. Yes, but I think a large number of widows are up here in this group where they have no other form of income.

Miss McCAMMAN. We have it for all women; we do not know how many of these women are widows.[2]

Mr. COHEN. I am certain with the increased employment that will occur the increased number of widows and the increased employment opportunities for women and the more favorable liberal retirement test, it would have been to the advantage of a widow to work up to the retirement test provisions in social security and have that income plus her social security, plus whatever was left from the estate of her husband. And as a matter of fact, may I comment on that?

That is what I, myself, hope would happen, that people would have more than one source of income, that is really our objective for the older people, to have several sources of income plus home ownership, which will make it possible for them to have a better level of living in the course of this coming decade, and that is exactly what I foresee as happening.

Here is the point Senator Carlson was raising. You have in this blue band here [indicating] now around 2.3 million aged people, aged 65 and over who are drawing public assistance, of whom more than 700,000 are drawing both old-age assistance and some type of insurance payment. They are the people largely, I would say, a very substantial portion of them—I analyzed this in my paper—who are probably getting the minimum benefit or not much above it and who have extensive health costs during the year. In other words, if the person is drawing $40 or $50 from social security, it is very likely that he has very little outside income. He may be able to get by on his maintenance needs by very careful budgeting and maybe some help, but as soon as he meets a heavy medical expense, he must then go to old-age assistance, and that, of course, is what the Kerr-Mills amendments of last year were designed to deal with, because they recognized that many of these people could not finance their heavy medical care costs.

Senator CARLSON. May I ask there how many people were drawing a minimum of $33, which we now have increased to $40?

Mr. COHEN. In that 700,000?

Senator CARLSON. Yes, and in the Nation as a whole.

(Mr. Cohen subsequently provided, for the record, a detailed analysis entitled "Characteristics of Aged Old-Age and Survivors Insurance Beneficiaries Who Receive Public Assistance," showing that among those drawing both payments in the fall of 1957, two out of every five were getting OASDI benefits of $30 or less. This is in contrast to one in seven of all aged OASI beneficiaries receiving $30 or less at that time. It is currently estimated that 2.2 million beneficiaries will have their benefits increased as a result of the 1961 amendment raising the minimum to $40.)

[1] Of the aged widow beneficiaries in the 1957 OASI beneficiary survey, fewer than 15 percent reported any earnings in the survey year and about half of them earned less than $400 during the year. Figures from the Department of Labor included in table 2 of the testimony show that in March 1960, of all women who were widowed or divorced, only 1 in 9 were in the labor force.

[2] Of the 1½ million aged with no income from employment or public programs in December 1960, about 1¼ million are women. The great majority are widows.

(The analysis referred to above follows:)

[From Social Security Bulletin, October 1959, pp. 10–17]

CHARACTERISTICS OF AGED OLD-AGE AND SURVIVORS INSURANCE BENEFICIARIES WHO RECEIVE PUBLIC ASSISTANCE

(By Sue Ossman†)

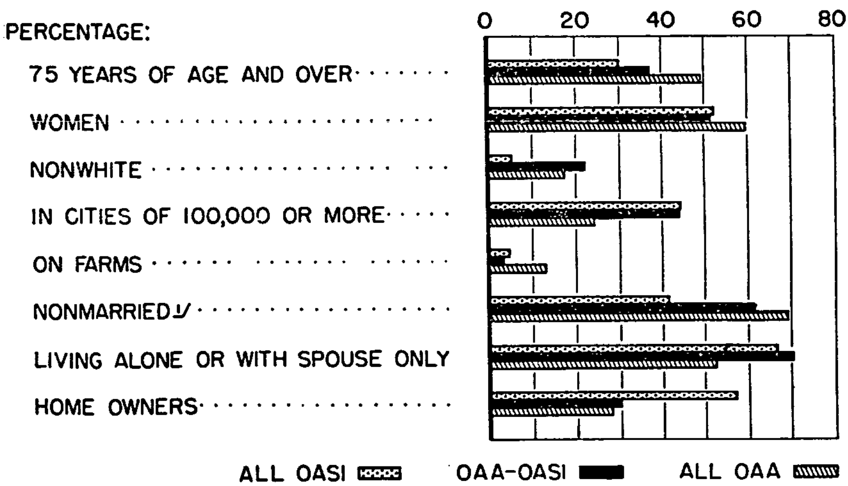
Three out of every four persons aged 65 and over in the United States receive either old-age and survivors insurance benefits or old-age assistance payments, or both. For this reason the socio-economic characteristics of aged insurance beneficiaries and assistance recipients under these social security programs have an important bearing on planning for the security of the aged. Findings of the national sample survey of beneficiaries conducted by the Bureau of Old-Age and Survivors Insurance in the fall of 1957 were therefore analyzed to determine how the beneficiary who receives public assistance to supplement his benefits resembles other beneficiaries and other assistance recipients. A comparison of this kind should furnish a partial answer to the two questions often asked about this group. Are they more like other insurance beneficiaries, or are they indistinguishable in most respects from the other assistance recipients? Do they come on the assistance rolls primarily because of medical care needs, primarily because their insurance benefit plus other income is inadequate to meet their maintenance needs, or because of a combination of reasons?

SUMMARY OF FINDINGS

Aged persons receiving both old-age and survivors insurance benefits and old-age assistance payments number more than 650,000 and constitute more than a fourth of all old-age assistance recipients. They resemble, according to the 1957 survey of beneficiaries, all aged insurance beneficiaries more closely than they resemble all aged assistance recipients in several significant respects. As shown in the chart, they are younger, on the average, than assistance recipients; they are more likely to be men, to live in cities, and to have their own households; but they are less likely to live in the home of a relative.

CHART III

*Comparison of selected characteristics of all aged OASI beneficiaries, beneficiary-recipients, and all OAA recipients, 1957**



* Data on aged beneficiaries and beneficiary-recipients from the 1957 beneficiary survey. Bureau of Old-Age and Survivors Insurance; data on old-age assistance recipients based on a study made by the Bureau of Public Assistance in early 1953.

[1] Widowed, separated, divorced, or never married during the year.

† Division of Program Statistics and Analysis, Bureau of Public Assistance.

On the other hand, like all old-age assistance recipients, the beneficiary-recipients differ from other aged beneficiaries with respect to race, the proportion living in institutions, and the extent of homeownership. More of the beneficiary-recipients than of all aged beneficiaries are nonwhite, more reside in institutions, but fewer are homeowners. They also differ from other beneficiaries in that they are more likely to be in poor health and thus more likely to incur high medical costs and to have a higher incidence of hospitalization within a year.

The benefits of beneficiary-recipients are, as would be expected, lower than those for all aged beneficiaries—about 40 percent lower, on the average; a considerable number get no more than the minimum. In addition, beneficiaries who also receive public assistance are less likely to have income from sources other than their benefits, such as income from earnings or assets or contributions from relatives. It is only when the amount of the assistance payment is added to their benefits and whatever other income they may have that the total income per beneficiary-recipient approaches the average for all aged beneficiaries. In other words, it is clear that, were it not for public assistance supplementation, a substantial proportion of the beneficiary-recipients would have incomes that would be meager or inadequate for their subsistence.

SOURCES OF DATA

The 1957 survey of old-age and survivors insurance beneficiaries covered a cross-section sample of the major types of aged beneficiaries (98 percent of all beneficiaries with benefits in current-payment status in December 1956) and young widowed mothers with entitled minor children.[1] Because the sample design excluded beneficiaries who had not received at least one benefit before October 1956, the survey includes no disability insurance beneficiaries and no women aged 62–64 except newly eligible wives of beneficiaries already on the rolls.

The sample was drawn from 70 sampling areas that were selected in such a way as to produce a national probability sample when combined. It is a cross section of beneficiaries who became entitled to benefits from 1940 through September 1956 and represents different races, cultures, and types of communities in the United States. The data were obtained in personal interviews in the homes of the beneficiaries.

Nine percent of all aged beneficiaries included in the survey received public assistance some time during the survey year. The "survey year" was a period of 12 consecutive months ending with the month before the interview. Since virtually all (more than 98 percent) of the beneficiaries whose benefits were supplemented by public assistance payments received old-age assistance and almost all (about 92 percent) received assistance payments throughout the full survey year, all the assistance recipients shown in the beneficiary survey were included in this analysis. They are hereafter referred to as "beneficiary-recipients" or "beneficiaries who also received old-age assistance."

Because eligibility for public assistance is determined on an individual basis and not on a family basis, data from the 1957 national beneficiary survey were not tabulated and analyzed in this report in the same manner as in earlier reports.[2] The beneficiary-recipients are treated as individuals throughout. The total group of aged beneficiaries in the sample, for the purpose of this analysis, included all nonmarried beneficiaries—that is, those widowed, separated, divorced, or never married during the survey year—and all married beneficiaries and their entitled spouses. Spouses who were not entitled to benefits at the end of the survey year were excluded. This procedure—consideration of each beneficiary as an individual—was followed whenever separate information was available for the beneficiary and the spouse—that is, data on age, sex, income from earnings, indication of health handicaps, health status, total medical costs, and total hospital costs. Race, marital status, place of residence, size of community, and living arrangements are generally the same for both spouses, and these data were also analyzed for all beneficiaries on an individual basis.

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[1] See the Bulletin for April 1959, pp. 8–9, for scope of survey.

[2] See the Bulletin for August 1958, pp. 17–23; December 1958, pp. 3–7; January 1959, pp. 3–6; and April 1959, pp. 3–9.

When separate information concerning the spouse was not available, the entire group of beneficiaries was considered in two classes—(1) the nonmarried beneficiaries and (2) the beneficiary couples. The "beneficiary couples" included both entitled and nonentitled spouses, and the data on income obtained for a couple represented the combined amount for two aged persons (husband and wife). This procedure was used in the analysis of total money income, contributions from relatives outside the household, income from assets, net worth, liquid assets, and means of meeting medical costs.

Information concerning all recipients of old-age assistance was obtained from a study conducted by the Bureau of Public Assistance in cooperation with State public welfare agencies in 1953. Since most of the data on social characteristics obtained in that study are believed to be applicable today, comparison of the social data concerning beneficiary-recipients was made with the data for all aged assistance recipients as well as with data for all aged beneficiaries. No comparisons of income data for beneficiary-recipients with those for all aged assistance recipients were possible.

BENEFICIARY-RECIPIENTS

Date of entitlement

The distribution of beneficiary-recipients by year of first entitlement to old-age and survivors insurance benefits contrasts sharply with that for all aged beneficiaries. The beneficiary-recipient group was heavily weighted with persons who were first entitled to benefits in 1950 or earlier. Forty-one percent of the group first became entitled to benefits in 1950 or earlier, 45 percent in 1951–54, and only 14 percent in 1955 and 1956.[3] By contrast, only one-fourth of the total beneficiary sample aged 65 and over became first entitled to benefits in 1950 or earlier, 43 percent in 1951–54, and almost a third in 1955 and 1956.

The longer a beneficiary had been entitled, the more likely he was to be receiving supplementary public assistance. Of the beneficiaries first entitled to benefits in 1950 or earlier, more than 15 percent were receiving assistance during the survey year; of those first entitled in 1951–54, slightly less than 10 percent were on the assistance rolls; and of the number first entitled in 1955 and 1956, only 4 percent also received assistance. The differences in these proportions can be attributed to two factors. First, beneficiaries who began to draw benefits in 1950 or earlier were considerably older in 1957 than beneficiaries who received their first benefits after 1950. (The average age at which male workers start drawing old-age benefits is about 68.) It seems reasonable to assume, therefore, that more of the beneficiaries who first received benefits in the earlier years of the program had used up their savings and, being too old to work, needed public assistance supplementation. Secondly, retired workers who become entitled now get, on the average, a larger benefit amount than those who retired in 1950 or earlier because their benefits are based on a higher average wage. The average benefit awarded to a retired worker aged 65 or over in the fall of 1957 was more than $9 higher than the average benefit received by all aged retired workers with benefits in current-payment status.

Personal characteristics

Age, sex, and race.—Beneficiary-recipients were, on the average, somewhat younger than all old-age assistance recipients but older than the total beneficiary population aged 65 and over (table 1). In the fall of 1957, 37 percent were aged 75 or over, compared with 49 percent of all aged assistance recipients and only 30 percent of all aged beneficiaries. These differences have an important bearing on differences in marital status and living arrangements.

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[3] None of the beneficiaries in the sample were first entitled in 1957 because, to be included in the survey, they had to have been entitled to benefits for a full year and to have received at least one payment before October 1956. A few of the beneficiary couples in the survey did include, however, a spouse who became entitled in 1957.

TABLE 1.—*Percentage distribution of all aged beneficiaries, beneficiary-recipients, and all old-age assistance recipients, by age and sex, end of survey year, 1957*

Age and sex	Aged beneficiaries	Beneficiary-recipients	OAA recipients
Total	100.0	100.0	100.0
65 to 69	33.3	22.0	21.2
70 to 74	36.6	40.8	29.9
75 to 79	20.7	24.6	24.9
80 and over	9.3	12.5	24.1
Median age	72.3	73.0	74.8
Men, total	100.0	100.0	100.0
65 to 69	29.1	16.7	19.6
70 to 74	36.9	41.2	29.8
75 to 79	23.1	27.5	25.6
80 and over	10.9	14.6	25.0
Median age	72.8	73.5	75.1
Women, total	100.0	100.0	100.0
65 to 69	37.5	27.0	22.2
70 to 74	36.3	40.4	30.0
75 to 79	18.3	22.0	24.4
80 and over	7.8	10.6	23.4
Median age	71.7	72.0	74.6

Source: Data on aged beneficiaries and beneficiary-recipients from the 1957 beneficiary survey, Bureau of Old-Age and Survivors Insurance; data on old-age assistance recipients based on a study made by the Bureau of Public Assistance in early 1953.

Aged women are, on the average, somewhat older than aged men in the general population aged 65 and over because of differences in mortality rates. For the three groups of aged persons being studied here, however, the situation is reversed, although less markedly for all aged assistance recipients than for all aged insurance beneficiaries. The reversal for the beneficiaries reflects, of course, the gradual aging of persons who became entitled to benefits in the earlier years of the insurance program and the fact that many women who today are in the older age groups never had an opportunity to become beneficiaries. In the total assistance group the difference in age between men and women is probably because of the greater incidence of need among women, particularly in the younger age intervals. Widows with no protection under the old-age, survivors, and disability insurance program have difficulty in finding employment because they have spent almost all their married life as housewives. In any case, employment opportunities begin tapering off at an earlier age for women than for men. Then too, since women, on the average, marry men older than themselves and since dependency among such women frequently results from changes in marital status and family relationships, it is to be expected that more women than men in the lower age groups would be out of the labor force and on the assistance rolls.

Because of their greater longevity, women outnumbered men in all three groups, with the ratio largest among those receiving only old-age assistance and smallest in the beneficiary-recipient group (table 2). As the insurance program matures and as coverage has been extended to practically all jobs, the proportion of women on the beneficiary rolls will increase. More women may be expected to gain eligibility as dependents or to work long enough in covered employment to be entitled to benefits on the basis of their own earnings when they reach retirement age.

TABLE 2.—*Percentage distribution of all aged beneficiaries, beneficiary-recipients, and all old-age assistance recipients, by sex and race, end of survey year, 1957*

Sex and race	Aged beneficiaries	Beneficiary-recipients	OAA recipients
Total	100.0	100.0	100.0
Male	47.9	48.5	40.3
Female	52.1	51.5	59.7
Total	100.0	100.0	100.0
White	94.6	77.8	82.6
Nonwhite	5.2	22.0	17.4
Unknown	.1	.2	
White, total	100.0	100.0	100.0
Male	47.5	46.2	40.2
Female	52.5	53.8	59.8
Nonwhite, total	100.0	100.0	100.0
Male	54.6	56.0	41.1
Female	45.4	44.0	58.9

Source: Data on aged beneficiaries and beneficiary-recipients from the 1957 beneficiary survey, Bureau of Old-Age and Survivors Insurance; data on old-age assistance recipients based on a study made by the Bureau of Public Assistance in early 1953.

As would be expected, there were proportionately fewer nonwhite persons than white persons in each of the groups. Almost 1 out of every 4 beneficiary-recipients was nonwhite, compared with only 1 out of every 20 in the total aged beneficiary group.

With a relatively high proportion of nonwhite workers in domestic service and in farming—types of employment that gained coverage only in recent years—and with their higher incidence of unemployment, fewer of the nonwhite population than of the white population are entitled to benefits. For the nonwhite persons who are entitled, monthly benefits are usually small and supplementary assistance is often necessary. For the same reasons—type of employment and high unemployment rates—women among the nonwhite insurance beneficiaries are outnumbered by the men. Other reasons men outnumber women among the nonwhite beneficiaries are that a smaller proportion of the nonwhite men (52 percent) were married than of the white men (69 percent), and more of the nonwhite wives (27 percent) than of the white wives (16 percent) were not entitled to benefits during the survey year and were therefore excluded from this analysis. As more and more of the nonwhite population gains enough coverage to become eligible for benefits, the ratio of women to men among nonwhite beneficiaries will tend to increase.

The proportion of nonwhite persons among recipients of old-age assistance was substantially larger than among the total aged beneficiary population but significantly smaller than among the beneficiary-recipients.

Marital status.—Out of every 10 aged beneficiary-recipients, 4 were married and living with their spouse, 4 were widowed, and 2 had either never married or were divorced or separated from their spouse (table 3). Among all aged insurance beneficiaries in the fall of 1957, a somewhat higher proportion were married (59 percent) and smaller proportions widowed (31 percent) and never married, divorced, or separated (11 percent). Since the 1957 survey showed that beneficiary couples have larger incomes and more assets than single beneficiaries, it is possible that they have less need for supplementation by old-age assistance.

TABLE 3.—*Percentage distribution of all aged beneficiaries and beneficiary-recipients, by marital status, end of survey year, 1957*

Marital status	Aged beneficiaries	Beneficiary-recipients
Total	100.0	100.0
Married	58.5	38.2
Nonmarried	41.5	61.8
Never married	7.1	12.2
Widowed	30.8	42.2
Divorced	2.1	4.2
Separated	1.4	3.2

Source: 1957 beneficiary survey, Bureau of Old-Age and Survivors Insurance.

Married persons were relatively fewer among all aged assistance recipients than among either the beneficiary-recipients or the total aged beneficiary population. Only 3 out of every 10 receipients of old-age assistance, according to the 1953 study, were married and living with their spouse. One reason is that women on the assistance rolls outnumber men by 3 to 2, and—as in the general aged population—there is a greater prevalence of widowhood among women than among men.

Place of residence.—The distribution of the beneficiary-recipients among urban and rural areas tended to follow virtually the same pattern as that for all beneficiaries (table 4). Almost half (44 percent) lived in cities of 100,000 or more population; a third (34 percent) lived in smaller cities, and fewer than 5 percent were residing on farms. This distribution reflects the extent of insurance coverage in these areas. Because agricultural workers and farm operators were only recently covered under the insurance program, the rural areas and farms can be expected to account for a larger proportion of beneficiaries in the future. By contrast the assistance recipients, according to the 1953 study, were concentrated in cities with a population of less than 100,000 and in rural-nonfarm areas. At that time, almost a third of the aged recipients were living in each of these types of communities and 13 percent were living on farms.

TABLE 4.—*Percentage distribution of all aged beneficiaries, beneficiary-recipients, and old-age assistance recipients, by place of residence, end of survey year, 1957*

Place of residence	Aged beneficiaries	Beneficiary-recipients	OAA recipients [1]
	Size of community		
Total	100.0	100.0	100.0
City with population of 100,000 or more	44.2	44.0	24.6
City with population of less than 100,000	34.3	33.9	31.9
Rural-nonfarm	16.7	19.0	30.5
Farm	4.8	3.0	13.0
	Geographic region		
Total	100.0	100.0	100.0
Northeast	35.4	17.4	12.0
North central	30.4	25.8	24.3
South	19.9	36.4	45.4
West	14.3	20.4	18.2

[1] Data by geographic region as of end of 1957.

Source: Data on aged beneficiaries and beneficiary-recipients from the 1957 beneficiary survey, Bureau of Old-Age and Survivors Insurance; data on old-age assistance recipients based on a study made by the Bureau of Public Assistance in early 1953.

In terms of geographic regions, the largest concentrations of beneficiary-recipients (36 percent) and of all aged assistance recipients (45 percent) were found in the South. The region with the largest concentration of all aged beneficiaries (35 percent) was the Northeast.

Living arrangements.—More than two-thirds of the beneficiary-recipients and of all aged beneficiaries maintained their own households, either by themselves or with a spouse only, compared with half of all aged assistance recipients (table 5). Data from the Bureau of the Census suggest that the relative number of aged persons maintaining their own households is higher for men than for women, for married persons than for those of other marital status, for the aged in their sixties and early seventies than for those of more advanced years, for rural than for urban residents, and for nonwhite than for white persons. Since the insurance beneficiaries were younger, on the average, than the assistance recipients and included relatively fewer women and more married persons, a larger proportion of them therefore maintained their own households. Most of the beneficiaries who shared living arrangements were in their own home rather than in the home of a relative. Because of their less favorable economic circumstances, however, almost twice the proportion of assistance recipients as of insurance beneficiaries lived in the home of a relative—21 percent compared with 12 percent.

TABLE 5.—*Percentage distribution of all aged beneficiaries, beneficiary-recipients, and all old-age assistance recipients, by living arrangements, end of survey year, 1957*

Living arrangements	Aged beneficiaries	Beneficiary-recipients	OAA recipients
Total	100.0	100.0	100.0
Lived alone (or with spouse only)	66.9	70.1	52.7
Owned home	42.0	22.8	
Rented house, apartment, or housekeeping room	17.8	34.7	49.0
Free housing	4.1	3.8	
Rented room	2.7	8.5	3.5
Other	.2	.2	.2
Shared joint household (with other than spouse)	31.7	25.1	42.7
Owned home	14.7	7.3	
Rented house, apartment, or housekeeping room	4.5	6.5	18.1
Free housing	.8	.8	
Rented room	---	---	4.0
Home of relative	11.7	10.5	20.6
Institution [1]	1.4	4.8	4.7

[1] Includes nursing homes, homes for aged, and other public or private institutions.

Source: Data on aged beneficiaries and beneficiary-recipients from the 1957 beneficiary survey, Bureau of Old-Age and Survivors Insurance; data on old-age assistance recipients based on a study made by the Bureau of Public Assistance in early 1953.

Beneficiary-recipients resembled all recipients of old-age assistance with respect to the proportion who lived in institutions such as homes for the aged and nursing and convalescent homes. There were three and one-half times as many residing in institutions among these two groups as among the total group of aged beneficiaries—almost 5 percent compared with somewhat more than 1 percent.

The proportion of beneficiary-recipients who owned their home in the fall of 1957 was about the same as that reported in the 1953 study for all aged assistance recipients—30 percent compared with 28 percent. Although the proportion of the total group of beneficiaries owning homes (57 percent) was almost twice that of the other two groups, the proportion of homeowners who shared their households with persons other than a spouse was about the same for the beneficiary-recipients and for all aged beneficiaries—1 out of every 4.

Economic resources

Money income, for purposes of the survey, included income from such sources are insurance benefits, assistance payments, earnings, cash contributions from relatives outside the household, income from assets, unemployment insurance, private annuities, employer pensions, and veterans' compensation and pensions. It did not include such items as lump-sum proceeds from life insurance policies or profit-sharing plans, inheritances, or cash contributions from relatives within the household.

Insurance benefits and assistance payments.—Beneficiaries who also received supplementary public assistance had, on the average, smaller benefits than all aged insurance beneficiaries. Low benefits are usually associated with retired workers who either (1) retired many years ago, with their benefits calculated on amounts earned when the general level of wages was lower, or (2) were marginal workers in their younger days. In the fall of 1957, 6 out of every 7 beneficiaries in the group consisting of nonmarried beneficiaries and married couples with only one spouse entiled to benefits, and almost 9 out of every 10 couples with both spouses entitled, were receiving more than $30 per person, the minimum payable to a retired worker at that time. Almost half of all beneficiaries had benefits of $60 or more per person. Among the beneficiary-recipients in the fall of 1957, only 11 percent had benefits that high, and, as shown in the following tabulation, 2 out of every 5 were getting no more than $30.

OASI benefits	*Percentage distribution of beneficiary-recipients*
Total	100.0
Less than $30	[1] 8.9
$30	33.5
$31.00 to $49.99	33.3
$50.00 to $59.99	13.1
$60.00 to $69.99	7.7
$70.00 to $99.99	3.4
$100.00 to $108.50	

[1] Beneficiary-recipients entitled to benefits as wives of retired wage earners who were receiving old-age benefits of less than $60.

The median monthly benefit paid to beneficiary-recipients in the fall of 1957 was $34, or 40 percent less than the median amount paid to all aged beneficiaries in the survey. Not all low-benefit beneficiaries in the survey received supplementary public assistance payments. There are several reasons for this situation: benefits tend to be relatively small in the low-income States, where public assistance standards also tend to be relatively low; some beneficiaries do not apply for assistance; and others are ineligible for assistance because they have additional income or assets or are supported by their adult children.

The total amount of public assistance paid to insurance beneficiaries or paid in their behalf (in the form of vendor payments for medical care) during the survey year could not be ascertained in every case. Many of the beneficiaries for whom vendor payments for medical care were made did not know the total amount of such payments. For those whose total amount of public assistance was known, the median was slightly more than $450 for the survey year, or about $38 a month. For somewhat more than a fourth, the amount of assistance, including vendor payments, average less than $25 a month during the survey year; for about 15 percent the monthly amount averaged about $63 or more. The average monthly old-age assistance payment (including vendor payments) for all recipients during the survey year was about $60, or 58 percent larger than the average for beneficiary-recipients in the 1957 beneficial survey.

Earnings.—Relatively few of the insurance beneficiaries had some earnings during the survey year, but the proportion among all beneficiaries was double that among the beneficiary-recipients. Only about one out of every eight beneficiary-recipients had income from earnings, compared with one out of every four for all beneficiaries aged 65 and over. The amount of such earnings was substantially lower for the beneficiary-recipient group; 2 out of every 5 beneficiary-recipients with income from earnings but fewer than 1 out of every 10 of the total beneficiary group earned less than $75 for the entire survey year. Moreover, none of the beneficiary-recipients, but a third of all beneficiaries had income from earnings averaging $100 or more a month. Since all income is taken into account in determining eligibility for assistance, beneficiaries with earned income of $100 or more are generally ineligible for public assistance.

Contributions from relatives outside the household.—Fewer than 4 percent of the beneficiary-recipients reported cash contributions from relatives outside the household. In the 1957 survey, about 9 percent of all nonmarried beneficiaries—that is, those widowed, separated, divorced or never married—and 5 percent of all the couples received some cash contributions from relatives outside the home. Among those receiving cash contributions the median amount for the survey year was about $100 for beneficiary-recipients, $250 for all nonmarried beneficiaries, and $300 for all beneficiary couples.

The 1953 study of old-age assistance recipients showed that more than half the recipients who lived in joint households with their adult children received some contributions from them but that only a sixth of the recipients who had children living elsewhere received a contribution. Although the contributions were less frequently in cash when children lived with the recipient than when they lived elsewhere, most of the support from adult children or other relatives was provided by relatives within the joint households. At that time only 5 percent of all recipients of old-age assistance received some cash contribution from children outside the household.

Money income from assets.—An additional source of income for the aged is the assets they accumulated in earlier years. More than 9 out of every 10 of the beneficiary-recipients, compared with about half of all beneficiaries, had received no asset income (that is, interest, dividends, or net rents) during the survey year. Of the few beneficiary-recipients who did have asset income, 72 percent received less than $75. In contrast, of the total beneficiary group with asset income, almost a fourth of all the couples and more than a sixth of the nonmarried beneficiaries had amounts of $600 or more during the year. None of the beneficiary-recipients received as much as $600 in asset income.

Total money income.—For beneficiary-recipients the median amount of money income from all sources, including public assistance, was $970, or about $80 a month. For all nonmarried beneficiaries the median was approximately $90 a month; for all married beneficiaries and their spouses (whether or not entitled to benefits), it was about $94 a month per person.[4]

Only 1 beneficiary-recipient in 12 had money income totaling $125 or more a month ($1,500 or more for the survey year) compared with 3 in 10 nonmarried beneficiaries and a similar proportion of the beneficiary couples ($3,000 or more for the couple). The following tabulation shows the percentage distribution of beneficiary-recipients according to their total money income for the survey year.

	Percentage distribution of beneficiary-recipients
Total	100.0
Total money income:	
Less than $600	11.7
$600 to $899	33.7
$900 to $1,199	29.9
$1,200 to $1,499	16.0
$1,500 to $1,999	7.5
$2,000 or more	1.2

Assets and net worth.—Three-fifths of the beneficiary-recipients, compared with a third of all nonmarried beneficiaries and an eighth of all beneficiary couples, had no assets of any kind or had debts or liabilities that exceeded assets.[5] Out of every 10 beneficiary-recipients with assets, 3 had a net worth of less than $500 and for an additional 3 the net worth was $500 to $1,999. None had a net worth of $15,000 or more. In contrast, more than a fifth of the nonmarried beneficiaries among all beneficiaries with assets and more than a third of the beneficiary couples had a net worth of $15,000 or more. Among those with assets, beneficiary-recipients had a median net worth roughly one-fourth that of the nonmarried beneficiaries and one-seventh that of the married beneficaries and their spouses. The median net worth of beneficiary-recipients was $1,525, compared with $6,250 for the nonmarried beneficiaries and slightly less than $10,500 for the married couples.

Equity in the home was the beneficiary's most important asset. Liquid assets, such as reserve money at home or in a bank or other assets readily converted into cash, accounted for only a small fraction of the net worth of most aged beneficiaries. One out of every seven beneficiary-recipients had some liquid

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[4] Because vendor payments for medical care are included in total money income of beneficiary-recipients but excluded for all beneficiaries, the comparisons may be somewhat distorted. This distortion is believed to be relatively slight since in many cases the amount of the vendor payments was unknown to the beneficiary.

[5] Assets represented money at home (except amounts held for current operating expenses), bank deposits, stocks and bonds, loans to others, equity in an owner-occupied home and other real estate, interest in a business, and the market value of a professional practice, patents, and copyrights. Liabilities represented balances owed on installment purchases: bills past due on open accounts and for rent, taxes, interest on mortgages, and medical care; and borrowings on securities and unsecured borrowings. The net worth of a beneficiary group was obtained by subtracting its liabilities from its assets.

assets; the median amount was slightly less than $150. Three out of five nonmarried beneficiaries and three out of four of the beneficiary couples had some liquid assets. The median amount for those who had any liquid assets was about $2,150 for the nonmarried individuals and slightly more than $2,800 for the couples.

Health status and medical care costs

With a substantial proportion of both the beneficiary and the old-age assistance rolls consisting of persons aged 75 and over—a proportion increasing each year—facts on the heath status and medical expenditures of aged beneficiaries and assistance recipients are of paramount importance. The extent to which aged individuals have unmet medical needs is difficult to determine. The 1957 survey did ascertain, however, the total medical care costs of the beneficiaries during the survey year, as well as their impressions of their health status.

Health status.—Beneficiaries in the sample were asked their opinion of their health, how it compared with that of other persons the same age, and what health handicaps or ailments they had. Responses to these questions are subjective and may have been influenced by the very fact that such questions were asked. Moreover, some of the beneficiaries who received public assistance may have felt a need to justify being on the assistance rolls by emphasizing their poor heath. There is generally an inverse relationship, however, between income and the need for medical care. Frequently persons who are least able to pay have the greatest need for medical care. More of the beneficiary-recipients than of all beneficiaries stated that they were in poor health, that they were worse off than others their own age, and that they had more handicaps and ailments that bothered them. Only 25 percent of the beneficiary-recipients stated that their health was good, and 44 percent called it poor. Among all aged beneficiaries these percentages were reversed; 44 percent stated their health was good, and only 24 percent called it poor. The proportion designating their health as "fair" was about the same for both groups.

As to their opinion of how their health compared with that of other persons their own age, about a fourth of the beneficiary-recipients stated it was better and slightly more than a third said it was worse. Among the total group of aged beneficiaries, more than a third called their health better than that of others of the same age and only a fifth considered it worse.

Most of the aged beneficiaries complained of health handicaps or ailments that bothered them. The proportion without such complaints was half as large for beneficiary-recipients as for all beneficiaries—16 percent compared with 32 percent. The most frequent types of complaints included arthritis or rheumatism, heart trouble, shortness of breath, bronchitis or asthma, hardness of hearing, stomach trouble, trouble with vision, and foot trouble.

Information on the health status of all old-age assistance recipients is not available. The 1953 study showed, however, that 82 percent were able to care for themselves, about 14 percent required considerable care from others because of some physical or mental condition, and about 4 percent were bedridden. A specific handicapping condition about which information was obtained was blindness. About 3 percent of all recipients were either known to be blind or believed to be blind; for about a third of them there was substantial evidence of blindness.

Total medical costs.—Because total medical costs, in the 1957 national beneficiery survey, included household medicine-chest items as well as prescription medicines and services rendered by hospitals, physicians, and others, only a small proportion of the beneficiaries were expected not to have such costs during the survey year. Of the beneficiaries who also received public assistance, only 1 in 20 reported they had incurred no medical costs during the survey year; for all beneficiaries the ratio was 1 in 10 (table 6). The proportion of beneficiary-recipients who had some medical services of which they did not know the cost was almost three times as large as that of all beneficiaries—19 percent compared with 7 percent. Most of these beneficiaries received some free care—that is, care supplied by a hospital or doctor who rendered no bill to anyone and care for which a public assistance or other agency made payment directly to the hospital, doctor, or other vendor—for which they did not know the cost. On the other hand, some beneficiaries who received free care were able to state the cost of such care and could therefore be included with those having total costs of known amount rather than unknown.

TABLE 6.—*Percentage distribution of all aged beneficiaries and beneficiary-recipients, by amount of total medical costs incurred during survey year, 1957*

Total medical costs [1]	Aged beneficiaries [2]	Beneficiary-recipients
Total	100.0	100.0
None incurred	9.8	5.7
$1 to $49	30.2	22.6
$50 to $99	15.5	14.9
$100 to $199	16.3	12.7
$200 to $499	14.2	15.4
$500 or more	7.0	9.7
Unknown [3]	6.9	19.0
Median known costs:		
Excluding those with no costs	$87	$100
Including those with no costs	$71	$91

[1] Represents household medicine-chest items, prescription medicines, and services rendered by hospitals, physicians, and others.
[2] Represents incurred medical expenses of each entitled beneficiary; excludes those of nonentitled spouse.
[3] In most of these cases the beneficiary received some free medical care—that is, care supplied by a hospital or doctor who rendered no bill to anyone and care for which a public assistance or other agency made payment directly to the hospital, doctor, or other vendor.

Source: 1957 beneficiary survey, Bureau of Old-Age and Survivors Insurance.

Beneficiaries who also received public assistance more often reported having incurred high medical costs and less often low medical costs for the survey year than other beneficiaries. Since more of the beneficiaries-recipients were in poor health, and since public welfare agencies in virtually all States provide medical care to some extent to aged assistance recipients who need such care, beneficiary-recipients can be expected to make use of medical care services extensively; the costs of such services can therefore be expected to be higher for them than for other beneficiaries. Almost 23 percent of all beneficiary-recipients and 30 percent of all aged beneficiaries had known total medical costs of less than $50. At the other end of the range, almost 10 percent of all beneficiary-recipients and 7 percent of all beneficiaries had known costs totaling $500 or more.

Among beneficiaries incurring medical costs and for whom the costs were known for all items of care, the median expense was about 15 percent higher for those who also received assistance than it was for the total group of beneficiaries—$100 compared with $87. If the beneficiaries incurring no costs are included, the median would be 28 percent higher for beneficiary-recipients with known costs than for all beneficiaries—$91 compared with $71. If the dollar value of the medical care for which the cost was unknown to the beneficiary could be estimated, medians both for beneficiary-recipients and for all beneficiaries would probably be higher and the difference still larger, because a large proportion of these unknown costs were incurred in connection with hospitalization.

Hospital and nursing-home costs.—A period of hospitalization or nursing-home care was much more common among beneficiaries who received supplementary public assistance than among all aged beneficiaries, 23 percent compared with 13 percent (table 7). For about a third of the beneficiary-recipients and a fifth of all beneficiaries receiving such care, the care was either free or the cost was unknown for other reasons. The median cost for those reporting hospital or nursing-home care, excluding any for whom the care was free or the cost unknown, was $445 for beneficiary-recipients and $390 for the total beneficiary population. These median amounts would undoubtedly be higher if the hospital and nursing-home costs of all beneficiaries were known or could be estimated. In comparison with a beneficiaries reporting at least one period of hospitalization, beneficiary-recipients were much less likely to have hospital or nursing-home costs of less than $400 but more likely to have such care provided free or paid for by a person or agency, with the amount unknown to the beneficiary. Because the costs of nursing-home care are relatively high, it is of interest to note that much of the costs of such care, particularly for nonmarried beneficiaries, was assumed by public assistance agencies.

TABLE 7.—*Percentage distribution of all aged beneficiaries and beneficiary-recipients, by number hospitalized and by amount of total hospitalization costs incurred during survey year, 1957*

Total hospitalization costs [1]	Aged beneficiaries [2]	Beneficiary-recipients
Total	100.0	100.0
Number hospitalized	12.9	22.6
Number not hospitalized	87.1	77.4
Hospitalization costs, total	100.0	100.0
$1 to $99	11.1	11.6
$100 to $399	30.0	18.8
$400 to $999	23.6	22.3
$1,000 or more	15.6	16.1
Unknown [3]	19.6	31.3
Median known costs (excluding those with no costs)	$390	$445

[1] Data for beneficiaries who spent any time in a general hospital or who were in an institution for long-term care, such as a nursing home or mental or tuberculosis hospital.
[2] See footnote 2, table 6.
[3] See footnote 3, table 6.

Source: 1957 beneficiary survey, Bureau of Old-Age and Survivors Insurance.

Medical costs and income.—There was apparently little direct relationship between the amount of medical costs incurred by aged insurance beneficiaries and the amount of their cash income.[6] Although there appears to be some relationship between incurred medical costs and the total cash income of beneficiary-recipients, it has limited meaning because expensive medical care provided through public assistance funds would in itself raise their total computed money income. In this analysis, total computed money income of beneficiary-recipients included total medical expenses paid by the assistance agency—those paid directly to the vendor and those included in the money payment to the recipient.

Means of meeting total medical costs.—Almost all the beneficiaries with medical expenses assumed some of the responsibility for such expenses incurred by them during the year. Of those who incurred medical costs, 9 out of every 10 beneficiary-recipients, a similar proportion of all nonmarried beneficiaries, and virtually all the beneficiary couples (97 percent) assumed some responsibility for meeting these costs. Since beneficiaries who also received public assistance had very little in the way of income or assets other than their insurance benefit and assistance payment, any payments for medical care that they themselves made had to come from either their benefit or assistance check. Other beneficiaries, as shown above, were more likely to have other sources of income to draw on—assets, earnings, and contributions from relatives. Some of the beneficiaries who shared a household with relatives were able to pay their own medical bills only because the relative contributed to the household expense. Information to determine the extent to which relatives shared in the household expense was not analyzed.

Relatively few of the beneficiaries incurring medical costs—6 percent of the beneficiary-recipients, 14 percent of all beneficiary couples, and 9 percent of all nonmarried beneficiaries—had some of their medical expenses covered by health insurance. As would be expected, since health insurance usually provides protection against hospitalization costs, many of the beneficiaries who had some of their medical expenses covered by insurance had at least one period of hospitalization during the survey year.

Relatives paid all or part of the medical bills for 6 percent of the beneficiary couples and for almost twice that proportion of the nonmarried beneficiaries, compared with 10 percent of the beneficiary-recipients.

Medical care for all old-age assistance recipients is provided in two ways. The State welfare agency may include an amount for medical care in the requirements on which the recipient's money payment is based, or it may make payments directly to the suppliers of medical care (vendor payments), or it may do both. Because the type and amount of medical care to be provided are decided by

[6] See "Medical Care Costs of Aged OASI Beneficiaries: Highlights From Preliminary Data, 1957 Survey," Social Security Bulletin, April 1959.

each State agency, there are wide differences among the States in both the quality and quantity of medical care provided. Most States provide medical care services under the assistance programs only if a person receives a money payment to meet basic maintenance needs; in a few States a person may be provided medical care even though he does not receive a money payment. Medical expenses for such individuals are paid directly to the medical supplier by the agency. An aged person receives medical care under the old-age assistance program only if he is in need, has inadequate resources to meet that need, and the needed type of medical service is one of those provided by the agency.

Information on the number of aged recipients with medical care included in their requirements or on the amount of such medical care is generally not collected. Reports from 24 States obtained as the result of a special inquiry made by the Bureau of Public Assistance in early 1957 showed, however, that only one recipient in five had medical care needs taken into account in determining his requirements. State by State, the proportions ranged from zero to 72 percent. Payments made directly to the suppliers of medical care (vendor payments) for 1957 represented about 9 percent of the total payments to recipients of old-age assistance. The largest proportion of the vendor payments in old-age assistance went for hospitalization (37 percent). Nursing- and convalescent-home care represented 34 percent of the vendor payments, drugs and supplies 13 percent, and practitioner's services 12 percent.

Senator CARLSON. They, of course, would be people who, generally speaking, would need some assistance or financial aid?

Mr. COHEN. Yes, Senator. I wanted to develop this policy question, the question of raising the minimum in social security which has been one of the key questions before the Finance and Ways and Means Committees, of course, one that should have periodic attention. The minimum was originally $10 a month in the 1939 amendments. It has been progressively raised so that, as a result of this last amendment, it was $40. We actually recommended $43, but the minimum benefit is related to the whole structure of the contributory benefits and the Ways and Means Committee did not want to raise the minimum too rapidly without raising the whole scale of benefits.

It didn't want to push the bottom up so that the whole level was telescoped, and therefore I think the question of the further raising of the minimum benefits is related to raising the maximum benefits and raising the benefit level entirely. But it is certainly one that is worthwhile for your consideration.

The last significant development, it seems to me, here is the fact that we have been narrowing the groups that have no money income or income solely from independent sources that we do not know anything about offhand. In other words, we are getting to the point now, and I would hope certainly within the next 5 or 10 years, where practically every aged person in this country will have some assured income, through employment, social insurance or related programs, or public assistance. That certainly would be a desirable objective if we could achieve it.

Now the question of the extent of that income, how adequate we can make it and how much that would cost, of course, is another question which we want to touch on.

Senator SMATHERS. Is not the real purpose to arrive at the day when there will be no necessity for our old-age assistance program? That is the objective is it not?

Mr. COHEN. Well, I would say, Senator Smathers, that is a goal. I do not see that objective in the foreseeable future, quite realistically, because human needs being so—how shall I put it?—so diverse, the conditions among our people in the different States and localities are such that I do not know that we can make all these other programs so perfect that there will not be any need for any assistance at all. But I would hope that the objective would be that in the next decade we could get the proportion of those on old-age assistance, now about 14.1 percent, as I recall it, down between 5 and 10 percent in this next decade; then I would say we are really doing a very good job.

Now, beyond that decade, I do not know what would be needed, but would like to see, myself, and I would hope that would be a firm part of our national policy, to have this continue to go down so that it would only meet the absolutely unpredictable emergency needs of the smallest number of people. But even at that, with our growing number of aged people, don't forget that if we have 20 million aged people, when I say I would like to get down even to 5 percent, that still means a million aged people on old-age assistance. So it is a lot of human beings that are involved, but I would hope that that is what we could drive toward, our objective.

Senator CARLSON. Mr. Chairman, I have a regrettable situation. I have an 11:30 television show which necessitates my leaving. I do hate to leave this timely and most interesting discussion with which I am deeply concerned. I would like to be excused, and leave with Mr. Cohen half a dozen questions that he might reply to for the record, not today. They are some questions that I think would add to this.

Senator SMATHERS. Do you want to ask the questions now?

Senator CARLSON. No; I have to leave now.

Senator SMATHERS. Do you want me to ask them for you?

Senator CARLSON. Well, that is all right, as we go along, but I think these are some questions that I think could be taken up as you wish. I beg to be excused and I regret having to leave.

Mr. COHEN. I will be glad to give you a full answer to them in the record, Senator.

Senator SMATHERS. All right, you may proceed.

Mr. COHEN. I will just touch on this last chart.

Senator SMATHERS. I would like to ask one question before you proceed to the other chart. Do you have any information as to the regional areas of the United States, where people are drawing the heaviest amounts of old-age assistance?

Mr. COHEN. Well, if you will turn in my testimony to table No. 6, Senator, by some queer coincidence, I had Florida marked on my table and I would like to use it in answering your question.

Senator SMATHERS. Have you marked Missouri and Oregon and Massachusetts as well?

Mr. COHEN. I thought that would be very wise for me to do before I came.

Senator SMATHERS. You are very able.

Mr. COHEN. If you look at Florida, as an example, you will find that in March 1960, in the first four columns of that table, in Florida there were 68.6 percent of all aged people drawing either old-age and survivors insurance—social security—or old-age assistance. Now, 60.1 percent of them were drawing social security, 12.6 percent of them were drawing old-age assistance, and 4.1 percent were drawing both old-age assistance and old-age insurance. So that actually you see you had the 60 percent drawing insurance, 13 percent drawing assistance, you had 4 percent where there was this overlap, and the net result was close to 70 percent of the aged people in Florida in 1960 were drawing some form of income from these two sources.

Now, if you look over to the last column you will see the tremendous growth that occurred during that period of time. It was only 41.8 percent in 1950 that received both types of payments. So roughly we have gone from about 40 to about 70 percent, even though the number of aged in the Nation and, as you pointed out, in Florida, has increased tremendously during that decade.

Now perhaps we could look at Oregon.

Senator SMATHERS. With respect to the Far West, as distinguished from the Southeast, what does the picture look like? Are they about in the same category?

Mr. COHEN. Yes; the figures here are sumarized regionally. As you can see, for the Far West they have 71 percent from both, the Rocky Mountain has 72, the Southwest has 72. The Southeast has 73. The Plains had 71 percent. The Great Lakes have 72. The Mideast has 69. New England has 74. So they are concentrated in a very narrow band. In other words, we are at a point in this development where you can say, as we pointed out, as a generalization around 70 percent of the aged people are getting some form of income from one of these two sources or both.

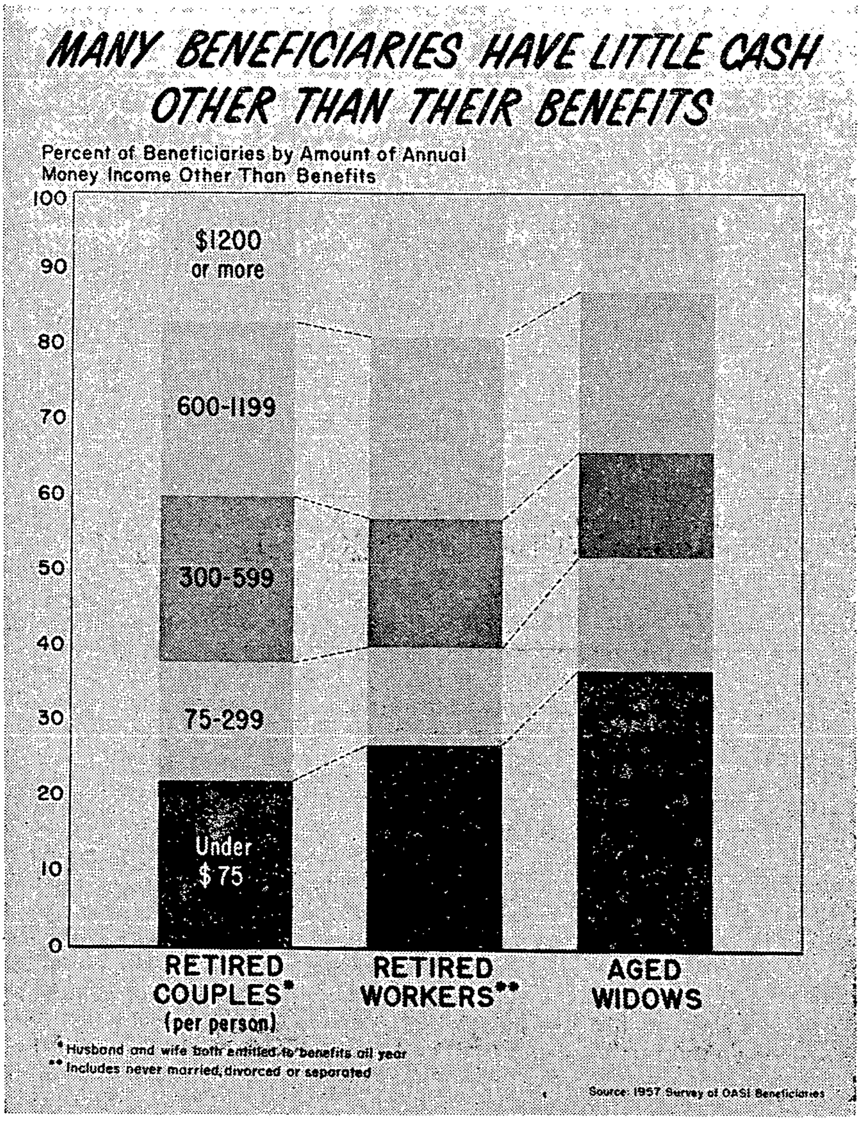
Now, there are some tremendous differences among the States, in the proportion receiving one type or another. For instance, I just see right above Florida what is a significant difference, that Georgia only has 48 percent old-age insurance. There is actually one State, Louisiana, which has still more persons receiving old-age assistance than receiving old-age insurance.

Senator SMATHERS. Would it stand to reason that the States which are more rural, where farming, of course, is the principal occupation, they obviously would be less covered by the insurance feature of the program and depend more heavily on the old-age assistance?

Mr. COHEN. Yes. Well, that factor, though, is diminishing to some extent since the 1954 amendments bringing farmers in, and they have come in in astonishing proportions. There was a great deal of controversy for many years as to whether farmers should come in, but once the law was enacted, they cooperated greatly about filing returns of their covered work. So that I think we now tend to see lessening of that variation among the States.

This particular chart goes to the question of what proportions of our social security beneficiaries have any kind of cash income, other than their benefits.

CHART IV



We do know one other significant thing that has developed that has been very important, and that is the development of homeownership, not only among all of the American people, but among the aged, and this is a very, very important point. If we could achieve as a matter of national policy that when every individual or nearly every individual reached retirement age, he had a desirable home which was all paid up so that he only needed to meet his taxes and any upkeep, it would certainly make the income problem of the aged a much less difficult one. There would be some other problems that arise which you may want to explore of how the aged adjust to having, say, a large home when they only have one or two people, but that is not primarily an income problem.

Now here, if we take retired workers, this second band here, the interesting thing we find is that about 25 percent of them have other income neglecting amounts under $75 a year, from any other source. In other words, basically this large group of people have no other substantial income. That means, of course, those people primarily have to rely almost entirely on social security, unless they own their own homes or they are living with their children or some other method that they have worked out, social security becomes the major source of reliance, and then as you go up the scale you see that about 15 percent has only between $75 and up to $300 of annual income. So that roughly 40 percent of the retired workers have no substantial independent income, in my opinion, other than their social security.

Senator SMATHERS. Now, that is not a couple. You are talking about an individual worker?

Mr. COHEN. I am talking about an individual here. Here is the explanation for a couple, but the figures are converted to a per person basis, and on this you will see that the couples are a little better off, generally speaking, but it isn't very much. And here is my point about the widows, as you can see.

A large proportion of widows, up to 35 percent, have really no other income at all, and a sizable proportion have only a little income, so that over 50 percent of the widows who draw benefits, are without any substantial income. If you went up to $600 a year of income, which I would not consider very large, in addition to their social security, that brings you up to about two-thirds of the aged widows.

That is the reason I say the problem of income for our aged widows is really a matter of social priority. I would say it is the No. 1 problem to grapple with.

In these 1961 amendments, Congress, recognizing that fact, did increase the proportion of the social security benefits payable to widows from 75 percent of the worker's primary benefit to 82½ percent. In other words, it raised the relative level 10 percent.

Now, we had recommended 85 percent, which I think is a desirable level, and, as a matter of fact, I think consideration could be given even to seeing whether something more could not be done, because if we do not, I would expect that more and more of these widows would have to apply for public assistance.

Senator SMATHERS. Do you have any figures as to how many widows there are. Now I do not want to make the semantic mistake we used to keep making by saying, "How many widows are uncovered?" but how many widows are there now who are not covered by any type of social security benefits who have to live with relatives and children?

Mr. COHEN. We do not have that exact figure. I can put that in the record for you.

Senator SMATHERS. All right.

Mr. COHEN. What you really want to know is how many widows—or do you want to take the group of widows and see what their income status is as a group?

Senator SMATHERS. Yes.

Mr. COHEN. I think that would be a very desirable thing to look at.

(Mr. Cohen subsequently submitted the memorandum which follows:)

THE ECONOMIC SITUATION OF WIDOWS AGED 65 AND OVER

The number of widows aged 65 and over in our population is now approaching 5 million. They comprise more than half (53 percent) of all women in this age group and 29 percent of all persons 65 and over.

Widows are less likely than other aged women to be eligible for benefits under the old-age, survivors, and disability insurance program. At the end of 1960, it is estimated, 55 percent of all aged widows were drawing such insurance benefits compared to 67 percent of the other aged women, nearly four-fifths of whom were married. Roughly half the widows received benefits based on their own earnings; the others, based on the work record of a deceased husband, or in a few cases, a deceased son or daughter. Many were not eligible for benefits because they belonged to a generation of women who rarely worked outside the house and whose husbands died before acquiring insured status under the OASDI program. More than three-fifths of the other women on the OASDI rolls drew wife's benefits. The others were eligible in their own right even though many also had protection as wives. Information on the marital status of retired worker (old-age) beneficiaries is not currently available. The estimates given above were therefore developed from data on the marital status of the women beneficiaries covered in the 1957 survey.

Data on receipt of payments by aged widows, wives, and other aged women, respectively, under other programs based on previous employment, under programs for veterans, or the Federal-State public assistance programs are extremely limited. They nevertheless suggest that the economic status of widows is much more unfavorable than that of other older women: That at the end of 1960 probably as many as 1 in 5 of the aged widows were without income from employment or a public-income-maintenance program, compared with 1 in 20 of the other aged women.

The majority of aged women receiving widow's benefits under the OASDI program barely manage to get along on the average benefit of only $58 per month. As I showed by chart 3, nearly two-fifths of the widow beneficiaries covered in the 1957 survey had no income in addition to their OASDI benefits or less than $75 for the year. Exclusive of earnings, public assistance, and contributions from relatives outside the household, more than three-fifths had less than $75 for the entire year in addition to benefits.

Widow beneficiaries practically never receive employer or union pensions: The 1957 study showed 1 in 16 widow beneficiaries drawing a pension or compensation under a Veterans' Administration program. Income from assets—interest, dividends, and net rents—ranked next to benefits as a source of cash, with more than two-fifths reporting annual income of this type amounting to $25 or more. One in seven of the widow beneficiaries reported some earnings during the year, but employment cannot be counted on indefinitely as a regular source of income for an aged person. Public assistance and relatives outside the household provided some support for 12 percent and 11 percent, respectively, of the widow beneficiaries in 1957. All told, at least one-fifth of those on the OASDI rolls were partially dependent on outside support and others undoubtedly received some support from family members with whom they lived. Nearly half of the widow beneficiaries shared a home with relatives, almost one-fourth of the total living in the home of children or other relatives.

Mr. COHEN. Let me generalize this way from what I recall, and this is part of the problem that Senator Carlson raised in the Finance Committee. Many widows were quite young when their husbands died. (Among women under age 60 at the time of the 1950 Census, half the widows were widows before they were 40 years old.) Of course, in a large number of cases now, because people do have life insurance and group life insurance, the man leaves the widow a certain amount of life insurance but it is not enough. That is the problem. It is not enough to take care of this total life expectancy of these younger widows. And very likely what happens is that it is largely exhausted by the time she becomes 62, or if she has happened to have a large medical expense before that time or large medical expenses in connection with her husband's death, it is almost inevitable that she has to look forward to the social security benefits at age 62 as her full income; and that is one of the reasons, I may say, also, that this was why the Senate Finance Committee, when it reduced the age for widows' benefits to 62 in 1956, provided for the payment of the full benefit at age 62.

There is no actuarial reduction for the widow as there is for the wife or the woman worker, because it was recognized that the widow did have this tremendous social need, and they paid the full 75 percent of the primary benefit, which will now be 82½ percent under the 1961 amendments.

Incidentally, Senator, I have prepared for the committee a summary of the 1961 Social Security Amendments, which perhaps you would like to put in the record and which I will supply for the members of the committee.

Senator SMATHERS. Yes; that would be very helpful and I am sure each of us would like one.

(The summary referred to follows:)

SUMMARY OF THE SOCIAL SECURITY AMENDMENTS OF 1961

(By Wilbur J. Cohen, Assistant Secretary of Health, Education, and Welfare)

The Social Security Amendments of 1961 (H.R. 6027), approved by President Kennedy on June 30, 1961, make very significant improvements that will add to the flexibility and effectiveness of the social security program. They are a further step toward providing American workers and their families with basic protection against the hardships that can result from loss of earnings when the breadwinner retires, becomes disabled, or dies.

SUMMARY OF CHANGES

The principal changes made by the new legislation are:

1. *Retirement age.*—The age at which men are first eligible for old-age and survivors insurance benefits is lowered from 65 to 62, with benefits for those who claim them before age 65 reduced to take account of the longer period over which they will get their benefits.

2. *The minimum benefit.*—The minimum insurance benefit payable to a retired or disabled insured worker, and to the sole survivor of a deceased insured worker, is increased from $33 to $40 per month, with corresponding increases for people getting other types of insurance benefits—for example, wives and children—based on primary insurance amounts of less than $40.

3. *Insured status requirement.*—The insured status requirement—the proportion of time that a person must work under social security to be eligible for old-age and survivors insurance benefits—is changed from one quarter of covered work for each three calendar quarters elapsing after 1950 to one for each calendar year (equivalent to one for each four calendar quarters), thus making the insured status requirements for people who are now old comparable to those that will apply in the long run for people who will attain retirement age in the future.

4. *Aged widow's benefit.*—The insurance benefit payable to an aged widow of a deceased insured worker is increased by 10 percent, from 75 percent of the worker's primary insurance amount (the basic amount on which all old-age, survivors, and disability insurance benefit amounts are based) to 82½ percent. (A similar increase is made in the insurance benefit payable to a widower and to a surviving dependent parent where only one parent is entitled to benefits.)

5. *Retirement test.*—The provision for withholding benefits from beneficiaries whose earnings exceed $1,200 a year (generally referred to as the retirement test) is changed so that $1 in benefits will be withheld for each $2 of earnings between $1,200 and $1,700, rather than between $1,200 and $1,500 as under previous law.

6. *Contributions.*—The social security contribution rates payable by employers and employees are increased by one-eighth of 1 percent each, and the contribution rate for self-employed people is increased by three-sixteenths of 1 percent and rounded to the nearest tenth of 1 percent, beginning with 1962. In addition, the tax increase scheduled for 1969 will be moved up to 1968.

7. *Public assistance.*—The amounts the Federal Government will pay under the old-age assistance, aid to the blind, and aid to the permanently disabled programs are increased. For these categories, the first $30 per recipient in which Federal participation is 80 percent is raised to $31 per month. The overall maximum average payment in which the Federal Government participates is raised from $65 to $66. For old-age assistance, the amount of vendor medical payments in which there is additional Federal participation beyond the formula applicable to all three adult categories was raised earlier in 1961 from $12 to $15.

8. *Assistance to U.S. citizens returning from abroad.*—The Secretary of Health, Education, and Welfare is authorized to provide temporary assistance to U.S. citizens without available resources who return to this country from foreign countries because of war or other emergency.

9. *Other changes.*—Other changes in old-age, survivors, and disability insurance made by the legislation would give workers with long-standing disabilities additional time to file applications to preserve their benefit rights, facilitate coverage of additional employees of State and local governments, and provide for survivors of certain deceased ministers an opportunity to obtain social security protection.

In the main, the amendments make changes in the social security program along the lines recommended by the President in his economic message to the Congress on February 2, 1961. Although the increases in the amount of the minimum insurance benefit and in the insurance benefit for the aged widow are not as large as the President had proposed, and although his proposal for paying disability insurance benefits to a worker with an extended but not necessarily permanent disablement is not included, the amendments will largely meet the problems that prompted the President to make his recommendations.

Many of the people who will benefit from the changes in the old-age, survivors, and disability insurance program are getting public assistance because they are not now eligible for insurance benefits or because their insurance benefits are inadequate to meet their needs. The new or increased insurance benefits they will get under the amendments will enable some of them to get along without public assistance, while others will need to get smaller amounts of assistance. It is estimated that the savings in assistance expenditures (Federal and State) resulting from the old-age, survivors, and disability insurance amendments, in the first 12 months in which the amendments are in effect, will be $50 million, of which $20 million is the estimated saving in Federal expenditures.

CHANGES IN OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE

Reduced benefits for men at age 62

In 1960, in connection with the social security amendments then under consideration, an amendment to permit men to receive reduced insurance benefits at age 62, as was provided for women in 1956, was proposed to the Senate Committee on Finance by Senator Byrd, of West Virginia, and cosponsored by 21 other Senators. The provision was included in the Finance Committee's bill and passed by the Senate. It was later deleted in the House-Senate conference because of its cost (then estimated at 0.05 percent of payroll).

President Kennedy's Task Force on Area Redevelopment, in its report dated December 27, 1960, recommended the payment of insurance benefits to men beginning at age 62. The President's Task Force on Health and Social Security also suggested it for consideration in its report of January 10, 1961. The President recommended the change in his economic message to the Congress. While there is general agreement that this change does not represent the only or the best solution to the economic problems of older unemployed workers, it does provide some protection for these people. The fact is that the problem of the older worker who cannot get a job does exist, in good times as well as bad, and the social security program should be flexible enough to take account of the problem. People who have made social security contributions over the years in the expectation of receiving insurance benefits when they are too old to work should have a degree of protection if they find themselves unable to get work because of conditions beyond their control when they are getting along in years, even though they have not reached the age of 65. Under the provision making reduced benefits available at age 62, a man can weigh the amount of the benefit he can get against his physical condition, the availability of work, and his general financial situation and make the choice that seems best for him under all the circumstances.

It is estimated that benefits amounting to $440 million will be paid during the next 12 months to about 560,000 people who would not have been eligible for insurance benefits if it were not for this change.

Under the new provision, the insurance benefits for a man worker are reduced at the same rate as now applies for a woman worker (five-ninths of 1 percent for each month before age 65 for which a benefit is payable) ; husband's insurance benefits are reduced at the same rate as now applies to wife's insurance benefits (twenty-five thirty-sixths of a percent for each month before age 65 for which a benefit is payable) ; and widower's and surviving father's insurance benefits are payable in full as widow's and surviving mother's insurance benefits now are. A man who begins getting old-age insurance benefits in the month in which he reaches age 62 will get a benefit amounting to 80 percent of the amount he would get if he stopped working then but waited until his 65th birthday; a man getting husband's insurance benefits at age 62 will get 75 percent of what he would have gotten at age 65.

As is now true for women, the percentage reduction in the insurance benefit payable before age 65 will continue to apply after 65, except that if the person works and earns enough before he reaches 65 to cause any of his benefits to be withheld the reduction in his benefit will be refigured at 65 to reflect the fact that benefits were not paid for as many months before 65 as was contemplated when the original computation was made.

As originally proposed, the provision to lower the minimum eligibility age for insurance benefits for men involved some additional cost (estimated at 0.05 percent of payroll on a level-premium basis in 1960 and 0.10 percent this year). This additional cost arose because the computation of both fully insured status and the average monthly wage (from which benefit amounts are figured) would have been liberalized for men as they were for women when insurance benefits were made available to them at age 62. The measuring period for determining the number of quarters of coverage required to be fully insured for benefits and for determining the number of years to be included in the computation of the average monthly wage would have been based on the period ending with the beginning of the year of attainment of age 62 instead of age 65—a 3-year shorter period than under present law. Using a smaller number of years in the computation permits the dropping of more years of low earnings and thus may give a higher average monthly wage and a higher benefit amount even where the person works right up to age 65. In the amendments as adopted an increase in the cost of the program is avoided by continuing to use age 65 for determining insured status and computing the average monthly wage for a man.

Because the period for computing the average monthly wage for men extends to age 65 even though men may claim benefits before that age, in some cases where coverage was very recent as many as 3 years without earnings may have to be included in the computation. Where the man works after entitlement to reduced benefits, therefore, the new law provides for a special automatic recomputation without an application at age 65, or death before age 65, to pick up such earnings and, in death cases, to shorten the period used.

Increase in the minimum insurance benefit

The provision for increasing the minimum insurance benefit from $33 to $40 makes an improvement in the old-age, survivors, and disability insurance program that is much needed at the present time. People coming on the benefit rolls in the future will generally get benefits above the minimum level because they will have had a chance to work in covered employment during their best working years. Right now, though, many of the people on the rolls are getting benefits at or near the minimum level not because they had a low level of lifetime earnings but because they were already old when their jobs were covered and their earnings under the program were lower than their average earnings over their lifetime. The increase in the minimum makes the protection of the program much more effective for these people.

The provision to increase the minimum insurance benefit to $40 will put an additional $170 million in the hands of 2,175,000 people in the first 12 months of its operation.

Change in the insured status requirements

The provision under which a person is fully insured for benefits if he has one quarter of coverage for every year (equivalent to one for each four calendar quarters) elapsing after 1950 and up to the year in which he reaches age 65 (age 62 for a woman), dies or becomes disabled was recommended by the Department of Health, Education, and Welfare last year and was included in the bill passed by the House of Representatives, but it was deleted in the Senate. Previous law had required one quarter of coverage for every two quarters elapsing after 1950; a provision requiring one quarter of coverage for each three calendar quarters elapsing came out of the 1960 House-Senate conference as a compromise.

The change to one for four will help many people who are uninsured because the work they did during their best working years was not covered and by the time their jobs were covered they were already so old that they could not work regularly enough to meet the insured status requirements then in the law. Here again, while the long-run cost is small (taking the increase in the minimum insurance benefit into account, only 0.02 percent of payroll), the immediate effect is pronounced. About $65 million will be paid during the first 12 months to 160,000 people who would not otherwise have qualified for insurance benefits.

Table I compares the new insured status requirements with the previous law.

Increase in the widow's insurance benefit

The amendments increase the widow's insurance benefit by 10 percent (from 75 to 82½ percent of the worker's primary insurance amount). (People getting widower's benefits, and surviving dependent parents where only one parent is entitled to benefits, also have had their insurance benefits increased.)

Under the law in effect up to this time, when a man died his widow had to get along with one-half of the benefit income that the family had while the man was living. If the retirement benefit for a man bears a reasonable and adequate relationship to his previous earnings, as it is intended to, then three-quarters of that benefit is not adequate for his widow in terms of the man's earnings. The increase provided in the legislation will produce a more reasonable relationship between the widow's benefit and her deceased husband's earnings.

This change will result in $105 million in additional benefits being paid to 1,525,000 older people during the first 12 months of operation.

The following table compares benefits for widows under the new law at various levels of average monthly wage with those previously payable:

Average monthly wage	Amount of widow's benefit under previous law	Amount of widow's benefit under the 1961 amendments
$50	$33.00	[1] $40.00
$100	44.30	48.70
$150	54.80	60.30
$200	63.00	69.30
$250	71.30	78.40
$300	78.80	86.70
$350	87.00	95.70
$400	95.30	104.80

[1] The minimum benefit provided for in the 1961 amendments.

Change in the retirement test

The Social Security Amendments of 1960 changed the provision for withholding benefits from beneficiaries whose earnings exceed $1,200 a year (generally referred to as the retirement test). The new test eliminated the requirement for withholding a month's benefit for each $80 of earnings above $1,200 and provided instead for withholding $1 in benefits for each $2 of earnings between $1,200 and $1,500, and for each $1 of earnings above $1,500. (Regardless of the amount of annual earnings no benefits are withheld for any month in which the beneficiary neither earns wages of more than $100 nor renders substantial services in self-employment.)

The changes made in the retirement test by the 1960 amendments reduced the deterrent to work and eliminated certain anomalies that had existed under prior law. Adjusting benefits in direct ratio to the amount of earnings above $1,200 assures that a beneficiary who earns more than $1,200 in a year will always have more in total income from benefits and earnings than if he had held his earnings to $1,200.

The Social Security Amendments of 1961 as passed by the House and as reported by the Senate Committee on Finance contained no provision for changing the retirement test. An amendment adopted on the floor of the Senate, and later approved by the conference committee increases the range of earnings over which the $1-for-$2 reduction applies from $1,200-to-$1,500 to $1,200-to-$1,700. The change increases the level-premium cost of the program by 0.02 percent of payroll on an intermediate-cost basis. Under the new test, about 350,000 people will start to get insurance benefits or will get more benefits for 1961 than they would get if the law had not been changed.

Establishing a period of disability

While the legislation does not include the provision the President recommended for paying disability insurance benefits after the worker has been totally disabled for 6 months whether or not the disability is permanent, it does contain a provision related to disability that was much needed. Under the amendments the June 30, 1961, deadline for filing applications for establishing a period of disability beginning with the actual onset of the disability (as far back as October 1941) is postponed for 1 year. (As in previous law, where an application is filed after the deadline a period of disability can be established no earlier than 18 months before the date of filing application even if the applicant stopped working because of his disability much earlier than that 18th month.)

This is a much more important provision than it may appear to be. Failure to qualify for a period of disability means that a person may lose his insured status for all types of insurance benefits—retirement and survivors as well as disability—or may have the benefits payable on his earnings record greatly reduced. Yet about one-sixth of the disability claims now being filed are based on disabilities that began more than 18 months earlier. Many of these late filers are disabled workers under age 50, who only recently were made eligible for disability insurance benefits and have just learned that they are eligible.

Facilitating coverage for employees of State and local governments

Under an amendment added by the Committee on Finance, State and local public employees are given additional time to elect coverage under the "divided retirement system" provision, which permits 16 specified States to cover those retirement system members who desire coverage, with all future members being covered compulsorily. Under a provision added to the law by the 1958 amendments, people who do not choose coverage at the first opportunity may, at their request, be brought under the program by the State at any time within a year after the date on which coverage for the group was approved (or before January 1, 1960, if that was later). Under the amendment, the option of bringing additional persons under coverage would be open for 2 years after coverage for the group was approved, or through December 31, 1962, if that date is later. This extension of time takes account of the fact that State legislatures meet only once every 2 years, and of other factors that might result in people not coming under the program within the time limits of present law.

Under another amendment added by the Finance Committee, the State of New Mexico has been added to the list of 16 States to which the "divided retirement system" provision applies.

Affording survivors of certain ministers opportunity to elect coverage of the minister's services

The Senate Committee on Finance added a minor amendment to the provisions for covering ministers. Under this change, the survivors of ministers (or Christian Science practitioners) who die on or after the date of enactment of the 1960 amendments (September 13, 1960) and before April 16, 1962, are eligible to take advantage of the extension of time that was provided in the 1960 amendments for electing coverage. Such a survivor, as would be true of the minister himself had he lived, has through April 15, 1962, to file a certificate electing coverage of services performed by the minister before his death. A certificate filed by a survivor will be effective, generally, to cover the minister's services retroactively for 1 year just as if the certificate had been filed by the minister himself on the date of his death.

This change will help a few families who have been adversely affected by the fact that, under previous law, waiver certificates could not be filed on behalf of a minister after his death. If a minister died without electing coverage, there was no way for his family to secure old-age, survivors, and disability insurance protection on the basis of his ministerial employment.

Financing the old-age, survivors, and disability insurance amendments

The changes made by the 1961 amendments will increase the level-premium cost of the program by 0.27 percent of payroll and the income to the trust funds will be increased in the long run by an equal amount. This additional income will result from an increase in the contribution rates and from advancing by 1 year, to 1968, the time at which the ultimate scheduled contribution rate becomes effective. Since the change in the retirement test adopted during the Senate debate on the bill increased the cost of the amendments by 0.02 percent of payroll above the cost of the House-passed bill, the Senate made provision for financing this amendment by accelerating the last scheduled contribution increase so that the ultimate rate will be effective beginning in 1968 instead of in 1969.

Under the House-passed bill the contribution rates for the self-employed would have been increased by three-sixteenths of 1 percent. The fractions resulting from an increase of three-sixteenths of 1 percent would have made it difficult for people to compute their contributions. Therefore the Committee on Finance changed the self-employment rates, after increasing them by three-sixteenths of 1 percent, so as to express them in decimals rounded to the nearest tenth of 1 percent.

The changes in the contribution schedule are shown below:

[Percent]

Calendar years	Employers and employees, each		Self-employed	
	Old	New	Old	New
1962	3	3⅛	4½	4.7
1963 to 1965	3½	3⅝	5¼	5.4
1966 to 1967	4	4⅛	6	6.2
1968	4	4⅝	6	6.9
1969 and after	4½	4⅝	6¾	6.9

In making the changes in old-age, survivors, and disability insurance, Congress has shown its customary concern for the financial soundness of the insurance program. Since the amendments would increase the level-premium cost of the program by 0.27 percent of payroll, and since the bill provides for additional income to the trust funds which is also estimated at 0.27 percent of payroll, the legislation will not change the actuarial balance of the insurance program and the insurance system will remain on a sound financial basis.

CHANGES IN PUBLIC ASSISTANCE

The new legislation amends the Social Security Act to provide additional Federal participation in public assistance payments to recipients of old-age assistance, aid to the blind, and aid to the permanently and totally disabled. It also provides temporary assistance to help U.S. citizens and their dependents who, having returned to this country from abroad, lack funds and other resources necessary to their health, welfare, and resettlement as responsible citizens.

Additional Federal participation in public assistance payments

In recognition of the need for more realistic assistance payments to needy people, Congress has raised the amounts, in which the Federal Government shares, of payments for the adult categories—old-age assistance, aid to the blind, and aid to the permanently and totally disabled. The Federal share has been 80 percent of the first $30 per recipient per month paid by the participating State. The Federal share in the next $35 of the average assistance payment (up to a maximum of $65 exclusive of the special medical provision in old-age assistance) has ranged from 50 to 65 percent in accordance with relative State per capita income. The new legislation, effective from October 1, 1961, through June 30, 1962, provides a Federal share of 80 percent of the first $31 of the average monthly payment, with the Federal share in the next $35 ranging from 50 to 65 percent as heretofore. The maximum is raised from $65 on an average basis to $66. The provisions already in the law for special Federal financial participation in medical care vendor payments in old-age assistance beyond the $65 (now changed to $66) monthly maximum are not affected by this legislation. The amount of the additional vendor medical payments in old-age assistance in which there is Federal sharing is $15.

The new legislation makes appropriate changes in the special provision for Federal financial participation in these programs for Puerto Rico, Guam, and the Virgin Islands.

These formula changes are expected to increase the Federal investment in the Federal-State assistance programs by $15,225,400 for the 9-month period covered by the legislation.

Legislation enacted previously (Public Law 87-31) provided for an increase in Federal financial participation in the aid to dependent children program by broadening the coverage to include the children of unemployed parents.

Assistance for U.S. citizens returned from foreign countries

From time to time U.S. citizens in foreign countries because of their personal misfortune or illness or destitution or because of international crisis are without available resources and need to be returned to this country. After they reach a port of entry in the United States they may be in need of temporary assistance.

Under an amendment to title XI of the Social Security Act the Secretary of Health, Education, and Welfare is authorized to provide temporary assistance to citizens of the United States and their dependents who have been identified by the Department of State as having returned or been brought back from a foreign country because of destitution or illness, or the illness of any dependent, or because of war, threat of war, invasion or other crisis when they are without resources.

Reimbursement to the Federal Government.—Except in cases or classes of cases set forth in regulations of the Secretary recipients of temporary assistance are to reimburse the Federal Government for the cost of assistance.

Provision of assistance.—Assistance may be provided to the recipient directly by the Department of Health, Education, and Welfare, or through utilization of the services and facilities of appropriate public or private agencies and organizations.

Plans and arrangements.—The Secretary is also authorized to develop plans and make arrangements for providing such assistance in the United States to U.S. citizens and their dependents who are without available resources after being returned or brought back from a foreign country.

Definition of "temporary assistance."—"Temporary assistance" may include money payments, medical care, temporary billeting, transportation, and other goods and services necessary for the health and welfare of individuals. It could also include guidance, counseling, and other welfare services. Temporary assistance to individuals is available on arrival in the United States and for a period after arrival as may be provided in regulations. This provision for temporary assistance will be effective through June 30, 1962.

In this critical period of history, the residence and travel of Americans in foreign countries can be a real force for building international friendship, economic progress, scientific and educational exchanges, and cultural ties. At the same time, however, American citizens abroad cannot always protect themselves against illness or even greater disasters in a foreign land. Yet, some of them on returning to this country are ineligible for the Federal-State public assistance available to other needy Americans.

Up to this time, however, the responsibility for giving essential help to returning citizens has been largely carried—of necessity—by private agencies and organizations. The welfare agencies in the Nation's major ports have made heroic contributions of time, skill, and money drawn from State, local, and private sources.

The Department of Health, Education, and Welfare has worked with State and local public welfare agencies on an individual case basis in an effort to develop arrangements under which care and attention could be given to needy citizens from abroad. The Department for several years has been making preliminary plans with various Federal agencies for the care of returning American nationals. The new legislation authorizes it to enter into agreements with them or with State welfare agencies. Under the new legislation, the Department will be able to reimburse the States for the costs of care given at the reception point, and for a limited period after the needy recipients reach their point of destination.

CONCLUSION

Although these amendments go a long way in making the social security program more flexible and effective, much still remains to be done. No program intended to meet the needs of the people in a changing society can remain static. Congress and the executive branch recognized the need for periodic reevaluation and improvement in the program and, on the basis of the record, there is every reason to believe that the entire social security program will continue to be modified and strengthened to meet changing needs of a growing economy.

TABLE I.—*Quarters of coverage required for fully insured status for old-age insurance benefits under previous law and under the 1961 amendments*

Year of attainment of age 62	Quarters of coverage needed			
	Men		Women	
	Previous law	1961 amendments	Previous law	1961 amendments
1953 or before	6	6	6	6
1954	8	6	6	6
1955	9	7	6	6
1956	10	8	6	6
1957	12	9	8	6
1958	13	10	9	7
1959	14	11	10	8
1960	16	12	12	9
1961	17	13	13	10
1962	18	14	14	11
1963	20	15	16	12
1964	21	16	17	13
1965	22	17	18	14
1966	24	18	20	15
1967	25	19	21	16
1968	26	20	22	17
1969	28	21	24	18
1970	29	22	25	19
1971	30	23	26	20
1972	32	24	28	21
1973	33	25	29	22
1974	34	26	30	23
1975	36	27	32	24
1976	37	28	33	25
1977	38	29	34	26
1978	40	30	36	27
1979	40	31	37	28
1980	40	32	38	29
1981	40	33	40	30
1982	40	34	40	31
1983	40	35	40	32
1984	40	36	40	33
1985	40	37	40	34
1986	40	38	40	35
1987	40	39	40	36
1988	40	40	40	37
1989	40	40	40	38
1990	40	40	40	39
1991	40	40	40	40

Mr. COHEN. Returning to my testimony, I think I would now just like to point out some of the policy questions which I have not touched upon in my presentation of the charts. And if you will turn to page 10, I have outlined as a result of this, some areas which I would hope your committee would be in a position to touch on in its investigation.

I assume that in your study you will place emphasis on systems, public or private, which provide insurance or pension benefits based on past employment. I urge that the subcommittee also recognize the importance of having adequate public assistance to backstop the gaps in public and private retirement programs. There will always be some people who reach age 65 with no insurance coverage or with inadequate insurance coverage.

For these reasons, our Federal-State public assistance programs will continue to form an essential second line of defense in the provision of income to the aged. An analysis now underway in the Bureau of Public Assistance makes clear that old-age assistance still falls short of meeting even the most essential needs recognized under present standards. For July–September 1960, the total income requirements of the 2.3 million recipients of old-age assistance were measured at $197 million, an average of less than $86 for the month or little more than $1,000 a year. Old-age assistance payments for the month amounted to $146 million which, when added to the $42 million available to the assistance recipients from other sources, still left an unmet need of $9 million for the month or 4.4 percent of the total. The proportion of unmet need was highest in the Southern States where total requirements averaged just under $70 in a month per recipient. I have outlined this on table 10 in the attachment to my testimony.

This measure of unmet need—about $108 million annually—relates only to persons actually receiving old-age assistance and is in terms of need as defined by State standards. This is not my definition of need. We have taken the needs standard of each State, Florida, Oregon, Missouri, Massachusetts, say, as their standard, and then see how far they have gone toward meeting it and just for the people on the rolls, and we find that there is an existing gap of $100 million annually in just meeting what the States themselves say the aged people ought to have.

Not included in this measure is the unmet need of other aged persons who fail to qualify for old-age assistance because of income just above this level or because of restrictive eligibility tests, and it certainly does not include any more liberal definition of need, which of course, some States might be willing to undertake if they had the income.

So I think this is one very important area for you to examine. With this unmet need that we have now, of a $100 million gap, how do we go about dealing with that?

Senator SMATHERS. Does that result in some measure from the reluctance of the States to make available the matching part of the old-age assistance moneys?

Mr. COHEN. When you say "reluctance," I would probably put it this way: inability or reluctance, or both. That is, this is the same problem we find in a number of ways. I will put it this way: The States with the least financial ability find it difficult to raise their share to match the Federal amounts, and as you know, as a result of that, Congress has put in an equalization formula that in part utilizes per capita income as a basis for giving grants in order that the lower income States can have an incentive to come up.

But still with all that, it is difficult for the States; and as you know, the net result has been, as again in 1961, to put pressure on the Federal

Government to increase its Federal matching to make up for this inadequancy.

Now, that raises a very fundamental question as to what extent in a Federal-State program should the Federal Government undertake this.

It is as a result of this that Secretary Ribicoff has undertaken a complete reevaluation of all of the public assistance programs including old-age assistance, with a view to making recommendations to the Congress next year. This, as you remember, was a result of both the Finance and Ways and Means Committees asking for that evaluation.

Senator SMATHERS. What overall percentage does the Federal Government contribute to the old-age assistance programs, vis-a-vis the State?

Mr. COHEN. You mean the proportion?

Senator SMATHERS. Right.

Mr. COHEN. It is about 60 percent.

Senator SMATHERS. About 60 percent?

Mr. COHEN. About 60 percent. The Federal formula is 80 percent on the first $31 of average monthly payments, and then goes from 50 to 65 percent on the next $35. So that for some States the proportion would be close to 80 percent, and in other States that are way above this, such as California, the Federal proportion might work out to be only 40 percent. But the average for the Nation as a whole is 60 percent.

That raises some very, very fundamental questions about the role of the Federal Government, and there would be in that alone a discussion of a whole day here as to what the Government's role should be.

Now, I would like to turn to the broader question of your examining the benefit adequacy of the insurance system, because as you will see from my discussion already, there are some serious gaps and problems there in the long run; and I think there are two basic questions for examination. First, should the earnings base and the maximum benefit be raised in the social security system, and that is a broader question because as I pointed out, raising the minimum and raising the whole level of benefits is related to the minimum and the maximum, because when you have a contributory system that is related to wages, and you want to have some spread, you have got to consider the bottom, the top, and the configuration of the whole benefit schedule.

Senator SMATHERS. Will you inform the committee for the record the social security tax on employees and employers. How high have they gotten and so on?

Mr. COHEN. It is in my testimony where I have that all nicely outlined. The contribution rates at the present time for the employer are 3 percent of payroll on the first $4,800, and an equal amount for the employee; that is, share equally, 50–50. Then the self-employed rate is 50 percent more than the employee rate, or 4½ percent on the first $4,800. Now, that was scheduled to go up to 6¾ percent on the self-employed and 4½ percent on the employee in 1969 under the 1960 schedule.

But in the 1961 amendments, to fully finance the extra benefits that were put in, what Congress did was to raise the tax in 1962 to 3⅛ percent each on employer and employee——

Senator SMATHERS. It always goes up by eighths, does it not?

Mr. COHEN. It always goes up by eighths in the employee rates, but in order to make it easier for the self-employed, we went to decimal points for self-employed, and the ultimate rate will be 6.9 percent.

I can put in the testimony at this point, the new schedule, if you would like.

Senator SMATHERS. I think that that would be helpful for the record.

(The schedule referred to follows:)

Contribution schedule for OASDI program (as provided in 1961 amendments)

[Percent]

Year	Employer	Employee	Self-employed
1961	3	3	4.5
1962	3⅛	3⅛	4.7
1963-65	3⅝	3⅝	5.4
1966-1967	4⅛	4⅛	6.2
1968 and after	4⅝	4⅝	6.9

Mr. COHEN. That raises the fundamental question, which we should not dodge in an effort to improve the contributory social security system; you cannot escape the question of how you are going to finance benefit costs. If you did not have the problem of how to finance the cost, I think all of us would be willing to do a lot more immediately. But recognizing our responsibility, we always have to consider benefits and costs together, and that is one of the great values of the contributory social security system. It always requires you to sit down and take both factors into account, and that is the responsible way to do it.

Senator SMATHERS. I cannot help but remark that as you grow older in years and grow higher in importance of position that you seem to have developed a little bit of a conservative talk that I have never noticed before about "Where is the money coming from?" But that is an important point and obviously, as you say, everybody would like to do more were it not for the question of how can you afford to do it.

Mr. COHEN. That is right. And as I say, I think the original sponsors of the social security program, by tying contributions and benefits together, developed what I consider is basically a conservative approach to this problem, but one that is responsible. Because when you are dealing, as we are now, in the social security system where you are spending $12 billion a year, going up rapidly to where it will be $15 billion or $20 billion a year for this program, you must exercise a degree of responsibility. I think the term "security" in social security means that whatever you decide to do, you want to provide an "assured" income to the aged. That is a very, very important point, the assurance of continued income, because once a person retires and has left employment and has left his other business and economic associations and has 14 or 15 years of his life left, it is very important to him that whatever income you provide and no matter how meager it is, it be an assured income.

The second basic question relates to whether we need to redefine the measurements of earnings used in determining the benefits amount. I have explained that in my statement, and then I go on to deal with this whole question of widows, which I have touched on. I also touched, in part, on methods that you are also going to look at.

There is the whole question of the degree to which private pension plans supplement the income or meet the income needs of the aged. I point out, of course, that you have to keep in mind that at the present time, no more than $1\frac{1}{3}$ million retired people are in the position of having private pension retirement income in addition to their social security. In other words, we cannot, unfortunately, assume that all of the aged do have an income from a private retirement program. How to make these private retirement programs somewhat adequate to meet a part of this situation and particularly to provide more portable benefits with vesting is a very grave financial problem, but one that ought to be explored.

Predictions as to the number of workers who will receive both social security benefits and private pensions have an important bearing on your deliberations. If—in the foreseeable future—only a small minority of our aged population will be able to count on income from private pensions plans, we must continue to put prime reliance on the old-age, survivors, and disability insurance benefit for assuring adequate income after retirement. Our concept of a reasonably adequate benefit level under the governmental program is thus colored by the assumptions we make as to the future role of private pension plans and of individually provided resources in the total income picture of retired people.

I believe we can and must continue to improve the retirement income of our aged. I believe we can do so in a sound and practicable manner. As we look ahead to the future, we can take pride in the responsible manner in which Congress has legislated in this field. It has created a financially sound mechanism in our social security program on which the Congress can reliably build.

Many people have asked me, "Well, how far can you go in expanding the income of the aged?" "How much will it cost? "What will this burden be on the younger people?" And this is the way I look at that problem and I think that your committee should look into this, because it would make quite a good deal of difference in how you planned these programs for the aged, and that is: if we can look ahead during this next decade to our gross national product increasing on an average of, let's say $4\frac{1}{2}$ or 5 percent per year, that would mean that at the end of this decade our gross national product will be 50 percent greater than it is today.

It is my opinion that in planning these improvements in the aged program we should so plan them with our legislative enactments, contingent upon this economic growth, so that we improve the income status of the aged without in any way adversely deterring the incentive of the productive parts of the population who eventually have to pay the bill. There is no way of getting away from the question of the economics that to provide income to people who are not working, the people who are working must contribute the income. The people today who are working will become the people who are not working later on, but in order not to disturb the incentives you cannot pile this cost overnight on the productive population. You have got to have some graduated system through either private, contributory plans, or public plans, through either private health insurance or public health insurance or both, which will meet these costs of income and health needs on a long-range basis. That is the essence of responsibly and intelligently meeting the problem of the aged in the future; to start now and to build into these programs a periodic reconsideration, what I would call an improvement factor that is contingent on sharing in the increased productivity of our Nation between the productive and our retired people.

If we follow that general principle, then I would say 10 years from now when we look back at what has been happening during this decade, we will find that the income of the aged has been improved, but it will have been done in a way that will not have adversely affected either the Federal budget or the incentive factors in our economy.

Senator SMATHERS. Thank you, Wilbur.

Senator Smith?

Senator SMITH. Mr. Cohen, we have been hearing a certain amount of criticism on the basic principles of the social security system during the last several months, and I refer especially to an article by a Mr. Peterson of one of the large insurance companies, Equitable Life Assurance Society.

Mr. COHEN. Yes.

Senator SMITH. And an article in the Journal of the American Medical Association criticizes the entire system, and I am wondering what your views are on that. Is there any necessary overhauling of the entire system that should be contemplated?

Mr. COHEN. Mr. Peterson is a personal friend of mine, but we find ourselves locked in a rather sharp difference of opinion. Mr. Peterson has written several articles now, two of which I have replied to, in which he, I feel, basically attacks the fundamentals of our social security system. He feels it is not insurance, he feels it is not wisely financed, he feels it is discriminatory and inequitable, and I feel that this point of view which has been widely distributed in the Journal of the American Medical Association is not a fair evaluation of the program.

He has, as a result of this article, only made one specific recommendation for change. After going through all these criticisms, his only recommendation is that the benefits should be adjusted to the cost of living. Well, that is fine as far as it goes, but I think there are more basic improvements that are necessary. But I think Mr. Peterson is doing what I consider to be a very grave injustice to Congress, which has tried to do what I have said just before, to meet the income problems of the aged, but at the same time to do it in a very responsible manner.

Now, if you forget costs and how to finance costs, which Congress has always kept in mind, there are a lot of things you might do. If you ask me what kind of an automobile I would like, you know I would say I would like a Cadillac. When you say, "How much would you like to pay for it?"—well, I have a 1956 Chevrolet, and that is the same thing with old-age security. If you will only ask what would you like to do independent of the financing, you get a different answer, and I think that Mr. Peterson has overlooked completely that Congress in designing the social security program, has tried to provide this assured income to people on a sound contributory basis, has attempted at all times to meet the cost factor. I am certain Senator Smathers will agree with this.

At no time, for instance, in the 25 years that I have been connected with social security, has any committee of Congress taken action on any benefits without asking Mr. Myers' advice as to the long-range actuarial implications of any changes, and every conference report that has been made has followed his actuarial advice as to what should be the sound basis of financing.

Now, errors of judgment enter in. We can't all foresee the future, but as far as I am concerned, I believe that wisdom and responsibility have been shown in designing this complex system that covers millions of people and that is administered at a cost of only 2 percent of the contributions collected and is most efficiently administered. I believe that Mr. Peterson is doing a disservice, I know we have people writing in and saying, "I understand the social security system isn't any good and I understand that it is in financial difficulty, and I am not going to get my benefits."

Well, I don't think this criticism is either to the best interests of the aged or to the continued improvement of the system.

Senator SMITH. Thank you very much.

Senator SMATHERS. Senator Neuberger.

Senator NEUBERGER. I am interested in this. I would be interested in what State Mr. Peterson lives in, because I would like to see him run for Congress on that platform. I would like to know.

One of the points that is not often brought out is that there is another purpose for social security; namely, to take some peole out of the labor market by providing retirement. As we enter periods of automation, with many people in the labor market, if people have an opportunity to retire a little bit earlier, perhaps they will.

I was thinking during your interesting presentation of chart No. 1—a very graphic description of what had been achieved over these 26 years—that it would be an interesting thesis for somebody to go back through hearings and the Congressional Record over those periods and read again what some Members of this Congress said about the horrendous things that would happen if this were passed. I would like to see something like that brought up to date. I am working on a farm bill right now where I hear people say what terrible things are going to happen, and I would like to point out that these do not always come to pass over the years.

I remember when someone said that if we pass social security, it would mean a dog tag around the neck of every American workingman. But here we have proved that it has not come to pass.

Through two White House conferences on education I followed very closely the meetings and the recommendations.

What do you think about this recent White House Conference on the Aging?

Are any of their recommendations going to be put into effect? Do you support them?

Mr. COHEN. Well, it is a little bit of an embarrassing question for me, since I was one of those who first said I would not attend the White House Conference when I was a private citizen, and I now find myself in a position where I have to review these recommendations to see how they can be implemented. But when this administration first came into office and we were preparing the President's recommendations, which ultimately became the 1961 social security bill, I reviewed the recommendations of the White House Conference in this particular field, and you will find that in these changes that were made by Congress, each of those had been recommended in part or in whole by the White House Conference. And I believe that the social security bill alone, in effect, adopted about six of those recommendations in the income field.

Now, of course, we have also recommended that one of the most controversial recommendations made by the White House Conference be implemented, and that this is on health insurance for the aged, and I do not know how that will turn out, but this is a very important aspect of the President's program.

There are a whole host of other recommendations the White House Conference made that we are now considering implementing, but as you understand, Senator, some of them are for implementation by States and localities, and some by private groups.

I do not feel personally that all of these problems of meeting the needs of the aged are of primary concern to the Federal Government. One of the things that we have to do is to decide what areas are of primary concern to the Federal Government, to the States, to the localities, and private persons.

Now, with respect to income, Congress has made a decision, and I think that decision is an important one, that the income needs of older people should be met very substantially through the social security system. Now, if we can provide and continue to meet that decision through changing times, a lot will be left to individual initiative and responsibility and in local and private agencies to handle some of these noncash items. But we will give, during this next period, very careful consideration to how to further implement as many of these White House Conference recommendations as we think can be implemented primarily by the Federal Government.

Senator NEUBERGER. Just one point. How many States have conformed to the Kerr-Mills provision? Do you know offhand?

Mr. COHEN. Yes; I have that right here. I would be glad to insert this analysis in the record, Senator Neuberger, if you want this.

Senator NEUBERGER. I think that would be very useful.

Senator SMATHERS. We will make that a part of the record at this point.

(The analysis referred to follows:)

SPECIAL WEEKLY REPORT, DIVISION OF PROGRAM OPERATIONS, BUREAU OF PUBLIC ASSISTANCE, SOCIAL SECURITY ADMINISTRATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, JULY 10, 1961

ACTIVITIES OF THE 54 JURISDICTIONS TO PUT INTO EFFECT THE NEW PROGRAM OF MEDICAL ASSISTANCE FOR THE AGED

A. Programs in effect[1]—10 States: Kentucky, Maryland (June), Massachusetts, Michigan, New York (April), Oklahoma, Puerto Rico, Virgin Islands, Washington, West Virginia.

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[1] Plans of these States are approved, except New York.

B. Plan submitted; not in effect—4 States; Arkansas,[2] Oregon (effective November 1, 1961), Idaho (effective July 1, 1961) (in regional office), North Dakota (effective July 1, 1961) (in regional office).

C. Legislation enacted; plan not yet submitted—9 States: California (effective January 1, 1962), Connecticut (effective April 1, 1962), Hawaii, Louisiana, Maine (effective July 1, 1961), New Hampshire (effective October 1, 1961), South Carolina (effective July 1, 1961), Tennessee (effective July 1, 1961), Utah, (effective July 1, 1961).

D. Legislation in process to give basis for program or to provide appropriation—7 States:

Passed both houses: Illinois, Vermont.

Passed one house: Alabama, Wisconsin.

Bill introduced: New Jersey,[3] Ohio, Pennsylvania.

Other status (drafted): None.

E. Considering possible action by legislature—3 States: Delaware,[4] District of Columbia, Guam.[4]

F. Need legislation; no action is anticipated in 1961—18 States:

Adjourned without action: Alaska,[4] Arizona,[4] Colorado, Florida, Indiana, Kansas, Minnesota, Missouri, Montana, Nebraska,[5] Nevada, North Carolina, Rhode Island, South Dakota,[4] Texas,[4][6] Wyoming.

Session in 1962: Mississippi, Virginia.

G. Have authority for MAA; not expected to implement in 1961–62; legislature adjourned—3 States: Georgia[5] (enacted 1961; no funds available), Iowa (enacted 1961; no appropriation), New Mexico (plan in abeyance; no appropriation).

Mr. COHEN. At this time, as of July 10, 10 States have programs actually in effect. They are Kentucky, Maryland, Massachusetts, Michigan, New York, Oklahoma, Washington, West Virginia, Puerto Rico, and the Virgin Islands. Four more States have plans which they have already submitted but are not yet in effect. They are: Arkansas, Oregon—which is effective November 1 of this year—Idaho, which was effective July 1; North Dakota, effective July 1. Then there are nine States in which some legislation has been enacted. But a plan has not yet been submitted to the Federal Government for its approval. So I do not know what is involved, but they are California, Connecticut, Hawaii, Louisiana, Maine, New Hampshire, South Carolina, Tennessee, and Utah. So if we took all of those, that would be 21 States, Puerto Rico, and the Virgin Islands.

Now we do know that there are 18 States that have either adjourned or are not in session and have not taken action. I have that fully listed here, which is the complete picture as far as we know as of July 10.

Senator SMATHERS. I think Florida has undertaken the problem and had a program that is in line with the Kerr-Mills approach. I didn't hear you read it off, but according to the Governor, they do have a program. I will check it. You did not read it so I will take the burden of finding out about it.

Mr. COHEN. My impression is that they had a bill up and it was turned down in the legislature, Senator, a bill to further implement. I do know that they have medical care for old-age assistance recipients.

Senator SMATHERS. Right.

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[2] Effective date postponed by State until funds are available.
[3] Intermittently in session; summer recess began June 2.
[4] Do not have in operation vendor payment for medical care in OAA.
[5] Bill defeated in legislature.
[6] Except introduction of proposed constitutional amendment for future MAA program.

Mr. COHEN. But how much further they wanted to go on that bill I don't know, but I don't think it was enacted. Anyway, my report shows that they adjourned without taking any further action.

(All available sources confirm the proper classification of Florida among the States which do not anticipate action on an MAA program in 1961. Florida has expanded the scope of vendor payment for medical care costs of old-age assistance recipients since September 1960.)

Senator SMATHERS. All right.

Senator Long, do you have any questions?

Senator LONG. No questions.

Senator SMATHERS. All right, thank you very much, Mr. Cohen.

As usual, you have been very helpful and very informative.

Mr. COHEN. I might say Miss McCamman brought to my attention, in case Senator Neuberger or Senator Smith would like it, that I have a copy here of my reply to Mr. Peterson that I have made to him, and if you would not mind, I would be glad to submit it for the record.

(The document referred to follows:)

THE DIN OF THE EQUITABLE

(A critical analysis of "The Coming Din of Inequity," an article by Ray M. Peterson, vice president and associate actuary of the Equitable Life Assurance Society of the United States, by Wilbur J. Cohen, Assistant Secretary of Health, Education, and Welfare)

Mr. Peterson's article itself, the fact that it was published in and reprinted from the Journal of the American Medical Association,[1] and the widespread distribution it has been given—including free and wide distribution of reprints by the Equitable Life Assurance Society—make it plain that Mr. Peterson, backed by the facilities of his company, is engaged in an effort with the American Medical Association to try to discredit the old-age, survivors, and disability insurance program and to shake the people's confidence in it. The old-age, survivors, and disability insurance program is too important to the American people to let attempts to discredit it go unchallenged. In my opinion what we have in Mr. Peterson's paper is a carefully prepared attempt to cast serious reflections on the financial soundness of the program. I believe that the old-age, survivors, and disability insurance program as enacted by the Congress has provided is sound. Mr. Peterson also states, in effect, that there is no foundation for referring to the old-age and survivors insurance program as an "insurance" program, even though the Congress so refers to the program in the law itself. I disagree with Mr. Peterson's view.

SOCIAL INSURANCE IS INSURANCE

Mr. Peterson implies that old-age and survivors insurance is not at all like private insurance, and may even not be insurance at all. Actually, while the social security program differs from voluntary private insurance in many ways, the two types of insurance have many attributes in common. What we have in the current campaign on the part of Mr. Peterson and others is an attempt by some practitioners in private commercial insurance to lay exclusive claim to a term which properly and historically applies to both commercial and social insurance. Governmental programs like old-age, survivors, and disability insurance are in existence in countries all over the world and in some countries have been in effect for generations. "Social insurance," recognized as one branch of insurance, is the term used traditionally and properly to describe these programs. As the article on "Insurance" in the Encyclopaedia Britannica says, "* * * the modern institution of insurance is divided into the two broad categories of voluntary or commercial insurance and compulsory or social insurance, both relying on the same basic principles but differing in many details of philosophy and organization * * *."

[1] The article appeared in the Journal of the American Medical Association of April 8, 1961. It was reprinted (in briefer form) in the Wall Street Journal of June 29, 1961.

The old-age, survivors, and disability insurance program is income insurance. The risk insured against is loss of family income because of severe and extended disability, because of retirement in old-age (at age 72 the payment is a straight annuity without a test of retirement), and because of the death of the family earner. While people are at work they pay a small part of their earnings into the social security trust funds. Employers match these amounts. In general, when the earnings stop because of disability, retirement, or death, insurance benefits are paid from the trust funds to partially replace the earned income that has been lost. The loss occasioned by the occurrence of the risks is averaged among the insured group. The cost of meeting the risks is actuarially evaluated and contributions sufficient to cover these costs are provided for. Benefits are paid from those contributions as a predetermined basis when and if the risks covered eventuate. The right to these insurance benefits is a legal right enforcible in the courts. These are the characteristics that make social insurance "insurance"; they are the same as, or similar to, the characteristics that make private voluntary insurance "insurance."

The two branches of insurance of course differ in some respects. One way in which they differ is the nature of the right to the payment. The terms of the legal right to social insurance are spelled out in a statute, which can be amended as any law can be amended; the rights under private insurance are spelled out in a contract, which for the duration of the period of the contract can be changed only by agreement of both parties to the contract.

The fact that the right to social insurance is not a contractual right is made much of by those who seek to discredit social insurance, yet actually the fact that Congress can change the law is an advantage in social insurance. The contractual nature of private commercial insurance gives it an inflexibility in comparison with social insurance, since the latter can be changed from time to time to keep pace with changing conditions. As the Supreme Court has said, in the case of *Fleming* v. *Nestor*, "To engraft upon the social security system a concept of 'accrued property rights' would deprive it of the flexibility and boldness in adjustment to everchanging conditions which it demands." To illustrate this point: the social insurance program has been amended several times in recent years to raise the benefits in order to compensate for rising prices and to allow the beneficiaries to participate to an extent in the increase in the general level of living enjoyed by the country as a whole. Most private insurance at the present time does not provide for this type of adjustment although variable annuities now being sold by some private insurance carriers have as their objective to adjust benefits to changing economic conditions.

In this respect it is quite unrealistic for those who contend that the program is not insurance to assert that the right of Congress to amend the law may be used to deliberalize the program rather than to improve it. Those who are trying to make people feel that the right to amend the law constitutes an element of insecurity in the program are, in my judgment, very shortsighted in trying to stir up an uneasiness about contributory social insurance. Moreover, I am sure they do not really believe that the Congress will take away the benefits of millions of people who have contributed toward the cost of those benefits from their earnings.

Incidentally, the Supreme Court, in the recent decision already referred to, very positively indicated that the right to benefits under the social insurance program is protected by the due process clause in the fifth amendment to the Constitution against denial and diminution by arbitrary governmental action. Thus, although fortunately, the Congress can modify rights granted under the statute, it cannot do so in an arbitrary manner. Both the majority and minority opinions support the concept that the right to old-age, survivors, and disability insurance benefits is an enforcible valuable right which cannot legally be arbitrarily diminished. The truth is, of course, that the power of Congress to amend the law has been used and will continue to be used to improve the program and keep it up to date in terms of changing prices and wages.

Under private insurance, of course, the only possible basis for the arrangement between the insurer and the insured is a contractual one. And there are advantages in private insurance to a long-term contractual arrangement; such an arrangement eliminates the kind of insecurity that can occur when a policy is written to cover a relatively short period of time—1 year, for example—and can be continued in the following year only on conditions that suit the company. The deficiencies of health insurance policies that are cancelable when the insured has proven to be a bad risk are well known. Increasingly, health insurance policies are being made uncancelable and guaranteed renewable. Yet, because the contract is written to protect the insurer as well as the insured, only too often these guarantees are not as meaningful as they seem. Primarily, this is because there is no guarantee that the premiums will not be increased and often they have risen sharply. In other instances the protection afforded to the aged has been reduced below that available to persons insured as members of employment groups. These underwriting practices are proper in private insurance to prevent the insurer from being wiped out by increasing costs that he cannot meet; but they result in a very insecure situation for the people involved.

Another point at which social insurance differs from many branches of private insurance is in the nature of the reserves. Because compulsory social insurance is assured of new entrants into the program, it does not have to build up the kind of reserves that are necessary at all times in an institution that might have no new customers and might be forced out of business. Private insurance is required to maintain the type of reserves that will meet the threat of dissolution. Social insurance, on the other hand, is actuarially sound as long as it operates under a plan of financing which is designed to provide income sufficient to meet all benefit costs as they fall due.

It is because there are differences between private and social insurance that we need both branches of insurance. The characteristics the two branches have in common are what give them claim to the common term "insurance," and the differences are what define the two branches. Yet these differences are cited by those who wish to discredit social insurance and discourage improvements in it in support of their contention that social insurance is not insurance. They seem to reason as follows: "The American people have accepted the idea of insurance; they think insurance is a good thing. If we can convince them that social security is not insurance, that it is unsound, that the benefits can be taken away at any time, and even that this is likely to happen, they will be afraid to press for improvement of the program."

Much of the current propaganda on this subject is based on statements in a brief filed by the Solicitor General under the last administration in the case of *Flemming* v. *Nestor*. This brief was unfortunate in its general slant and emphasis; several of the statements in it are quite misleading. And although the Supreme Court arrived at the same conclusion as the Government brief, it did not endorse the arguments in the brief, nor base its conclusions on those arguments. The Supreme Court specifically stated, "The social security system may be accurately described as a form of social insurance, enacted pursuant to Congress power to spend money in aid of the general welfare." * * *

Finally, it should be noted that Congress has referred to the benefits in the law as "insurance benefits" (see, for instance, sec. 202 of the law) and has entitled the part in the Internal Revenue Code that levies the taxes the "Federal Insurance Contributions Act" (sec. 3126 of the Internal Revenue Code).

To summarize: The program established by title II of the Social Security Act—the old-age, survivors, and disability insurance program—is an insurance program. The Congress has recognized it to be an insurance program. The right to social security benefits is a valuable and enforcible legal right that cannot arbitrarily be denied or diminished. The program is soundly financed. It is a compulsory, statutory social insurance program, and in my opinion it has just as much right to be called insurance as has voluntary private contractual insurance.

YOUNGER WORKERS ARE TREATED EQUITABLY

The main contention of Mr. Peterson's article is that future generations of workers are going to consider themselves inequitably treated under the social security program because a part of the employer contributions paid with respect to the earnings of those future workers will be used to meet part of the cost of the benefits paid to people who retire in the early years of the program and who were not under the program long enough so that their contributions, together with those of their employers, could have an actuarial value equal to that of their benefits.

Underlying Mr. Peterson's contention is an assumption that the employer contributions paid with respect to the wages of a given worker are paid for the use of that worker, and that he has a right to get protection equal to what the sum of his own social security contributions and his employer's contributions with respect to his wages will provide. At the same time that he takes for granted that the employer contributions paid on the wages of a given worker are paid for the benefit of that worker, Mr. Peterson urges that "the self-supporting principle must be retained." If one argues that a subsidy to the program from general revenues should be resisted, he cannot also argue or imply that the individual employee has a right to have the employer contributions paid with respect to his wages devoted exclusively to his own benefit, for if this principle were followed the only source from which to finance adequate benefits for the present aged would be the general revenues.

In other words, Mr. Peterson's basic contention argues for the very thing he recommends against. Mr. Peterson cannot have it both ways. He has to make up his mind whether he wants to propose that the employer contribution be used for the sole benefit of the generation of workers on whose earnings it is paid and accept the resulting necessity for a Government subsidy to the system or whether he wishes to look upon the employer contribution as pooled, as I do, and used where needed to make the system adequate without a Government subsidy.

It is, of course, perfectly reasonable to consider that the employer contribution is pooled and used where needed to make the program effective in meeting its objectives. This is the philosophy Congress has embodied in the present program. Among the objectives of the program is the payment of full-rate insurance benefits to people already near retirement at the start of the program; another is the payment of insurance benefits that are kept in line with current wages and prices. The man who is covered under social security from age 21 to age 65 has 44 years of earnings out of which to pay toward the cost of his benefits; it is entirely reasonable to expect him to pay a greater proportion of that cost than the worker who, because the program became effective when he was already along in years, has only, say, 10 years of earnings out of which to contribute toward the cost of his benefits. It is, then, reasonable to say that a relatively large proportion of the employer contribution goes to meet the cost of paying full insurance benefits to workers who were old when the program started and that a smaller proportion is used to help pay for the insurance benefits of future generations.

Actually, there is no reason why younger workers should feel that they are being treated inequitably because in the future they will not get the full advantage of the payroll contributions made by employers. Moreover, those who understand the protection they are getting in return for the contributions they pay will certainly not feel that way. What the younger worker is getting under social security is insurance protection that can, and in all likelihood will, be increased by the Congress as wages go up without a corresponding increase in the contribution rates. Congressional action adjusting benefits upward in 1950, 1952, 1954, 1958, and 1960 make it very clear that the younger worker's protection will be related not to current wages and prices but to those prevailing during the period of his retirement. If wages go up, as of course there is every reason to expect they will, the program is overfinanced at the contribution rates now scheduled, and insurance benefits can be increased to some extent without contribution rate increases.

THE PROGRAM IS ACTUARIALLY SOUND

Mr. Peterson contends that old-age, survivors, and disability insurance is not and cannot be "actuarially sound" because it does not maintain the same kind of reserves that private insurance must maintain. The philosophy which the Congress has embodied in the present law is that because compulsory social insurance is assured of continuing income (since new workers must come into the program), it does not have to build up the kind of reserves that are necessary in an institution that might have no new customers and might be forced out of business. Private insurance is required to maintain the type of reserves that will meet the threat of dissolution. Social insurance is financially sound, on the other hand, as long as the legislation on which it is based provides for a plan of financing which yields income sufficient to meet all benefits costs as they fall due. And the social security law does so provide.

Mr. Peterson contends that while social insurance may be fiscally sound, the concept of actuarial soundness cannot be applied. This contention is based on a definition of terms that is not universally used by actuaries. The Chief Actuary of the Social Security Administration, Mr. Robert J. Myers, has frequently stated that the social insurance program is actuarially sound and that any such program, when its anticipated long-range revenues are adequate to meet anticipated long-range outgo, is actuarially sound and this concept is widely accepted by other actuaries. In any case, there is very little point in this sort of argument about words; the important thing is that Congress has provided the mechanism to assure there will be money to pay the benefits when they are due both in the short range and in the long range.

Mr. Peterson mentions that for the years 1956 through 1965 contribution collections under the social security program and benefits and expenses under that program will be nearly equal, and then concludes that the program is "now almost completely on a 'pay as you go' or 'hope as you pay' basis." The figures given by Mr. Peterson are correct but his conclusion is incorrect. Indeed it is hard to believe that he did not select the decade he mentions for the purpose of coming to this conclusion, since over the coming decade—from 1961 to 1970—the combined assets of the trust funds, now amounting to about $22 billion, are expected to about double.

Mr. Peterson's use of the derogatory phrase "hope as you pay," and his discussion of financing in general, implies that he is opposed to anything less than "full reserve" financing in social insurance, or at any rate believes that only with "full reserve" financing can a program be sound. Yet a person as sophisticated as he is knows that "full reserve" financing in the social security program is neither practical nor desirable nor essential for financial soundness and that any attempt to go to a full-reserve basis would create very serious problems. I cannot help but wonder if Mr. Peterson is not deliberately undertaking to create the impression that full-reserve financing is necessary for actuarial soundness and that therefore old-age and survivors insurance is not financially sound, and, through these impressions, to frighten people away from attempts at improving the program.

Mr. Peterson brings out that a private insurance company taking on the responsibility of providing benefits for only those employees entering the system at the younger ages could provide protection for them at premium rates that are lower than the taxes required to be levied under the social security program to provide the same benefits for both these younger people and people who are already old. This of course is true. In the same way, if insurance company A had a group annuity plan and a rival insurance company offered to take over from the plan the new entrants, the latter could quote a much lower premium rate than the rate under the existing plan. This would not reflect upon the operations of insurance company A. It would be the expected result of the contracting-out of the long-service group. The fact that insurance protection for new entrants at younger ages can be provided with lower premium or contribution rates than those required for a group including also people first covered at older ages is just simple mathematics, applicable to both private insurance and social insurance, and not at all a reflection upon the operation, the nature or equity of the social insurance program.

SOCIAL ADEQUACY

Mr. Peterson criticizes various proposals made to improve the adequacy of social security benefits. This is in line with what appears to be his overall objective to prevent social security from meeting the social needs of the American people. He points out that "Social adequacy for some means individual inequity for others." This is a play on words. The program can be improved to meet social as well as individual needs without in any way losing its fundamental "insurance" characteristic or, on the other hand, becoming a "dole." As I have already pointed out, as wages and earnings increase, some improvements can be made in the program without increasing the contribution rate.

Mr. Peterson implies that I have stated that there is no reason why the 50–50 sharing of contributions could not be changed to a 40–60 sharing and that I have stated that the Government should make a substantial contribution to the insurance system. I did discuss these alternatives in a speech. But I have not made any such recommendations.

Mr. Peterson makes such implications in an attempt to attribute to people views which they do not hold. It is illustrative of his approach to only refer to part of the facts in making his analysis thus leaving an inaccurate conclusion in the mind of the reader.

SOCIAL SECURITY FINANCING OF MEDICAL CARE

Mr. Peterson has only two brief paragraphs on the issue of financing medical care under social security. However, it is apparent from the article that the entire "din" of his views is to set up certain strawmen which he then demolishes in order to attempt to prove why health insurance for the aged should not be made a part of the social security system.

For instance, Mr. Peterson states that "most students, pro and con, believe that it will be virtually impossible to limit benefits to the aged" if health insurance for the aged is enacted. He states: "Such benefits will eventually be extended to all ages." Mr. Peterson is certainly entitled to utilization of his crystal ball to predict what the Congress in the future will do. However, if private insurance satisfactorily meets the problem of financing the health costs of the American people then there should be no fear that Congress will extend any such program to cover younger people. If, however, private insurance fails to make socially adequate protection available to the American people then Mr. Peterson may be correct. I should think therefore that instead of spending his time and energy attacking the social security system he would want to direct his efforts toward so improving private health insurance that the contingency that he fears would be certain not to come to pass.

HIS "CONCLUSIONS AND RECOMMENDATIONS"

Before stating his specific recommendations, Mr. Peterson indicates the following—in fact he italicizes it—as his guiding principle: "As our society becomes more affluent, the relative role of social programs should diminish." I disagree with Mr. Peterson. Private and public insurance in my opinion are "social" programs. Does Mr. Peterson believe private insurance should decline relative to economic development? I would hope that as our society becomes more affluent it will recognize that it can afford to do more for its disadvantaged members—the aged, the widows and orphans, the disabled—than it does now, through private and public insurance and other social programs.

Along the same line, Mr. Peterson recommends that no further increases in old-age, survivors, and disability insurance benefits should be enacted "except those required to recognize changes in living costs for the aged." If this recommendation were followed the result would be that the aged, and the other groups looking to old-age, survivors, and disability insurance benefits as their major or only source of support, would be effectively excluded from getting their fair share of the increasing productivity and affluence of our society. I would not like to see that happen, and I don't think it will. Mr. Peterson is fighting a rearguard delaying action. I am confident that the people of this country and the Congress not only will continue to support the old-age, survivors, and disability insurance program but will want it improved as was done in the recent social security legislation enacted by the Congress in June 1961.

Mr. Peterson attempts, in his article, to give the reader the erroneous impression that the old-age, survivors, and disability insurance program is inequitable and financially unsound. He completely ignores the fact that Congress has exercised both wisdom and responsibility in devising a system which meets social need in a financially sound manner. He ignores the further fact that in revising the program the Congress has shown great concern for financial soundness and for maintaining a balance between income on the one hand and the costs of benefit changes on the other, not only in the short run but in the long run. Mr. Peterson discusses what he considers to be defects of the program but offers not a single recommendation for remedying the defects, and, unless one can count his concurrence with the idea of such a bare-minimum improvement as keeping benefits in line with costs of living, he does not offer a single recommendation for any basic program improvement or the removal of any so-called inequity he has discussed.

Senator SMATHERS. I would say that we are going to call upon you again before we conclude these series of hearings. Undoubtedly we will develop some information which only you and your department will be able to give us some enlightenment about. We will want you to come back.

I am going to have these questions delivered to you which Senator Carlson desires answered. I gather he did not want to have them read into the record. After we get your answers we will make the questions and answers a part of the record. (See p. 167.)

Mr. COHEN. All right. As I said, Senator Smathers, our department stands ready to cooperate with your subcommittee fully. Anything you want we will be most delighted to see if we can supply.

Senator SMATHERS. Thank you very much, Mr. Cohen.

We have a very distinguished dean from the School of Commerce, University of Wisconsin, Dean Gaumnitz.

All right, if the committee will be in order, we will hear from Dean Gaumnitz. You go right ahead.

I must say we are most appreciative of your taking the time and exercising energy to prepare your statement, to come before us and give us your views.

STATEMENT OF ERWIN A. GAUMNITZ, DEAN, SCHOOL OF COMMERCE, UNIVERSITY OF WISCONSIN

Mr. GAUMNITZ. Thank you, Mr. Chairman and members of the subcommittee. I shall make a very brief statement, and then I would like to summarize also, very briefly under certain headings, some research that we have underway at the University of Wisconsin that I think may be of ultimate interest rather than immediate interest to you.

Senator SMATHERS. Fine.

Mr. GAUMNITZ. I think your immediate interest would be to know that we have it underway.

Senator SMATHERS. Right.

Mr. GAUMNITZ. I think your ultimate interest will be the results which we do not now have available.

Senator SMATHERS. Fine.

Mr. GAUMNITZ. I have a short statement that I shall read, although I have made a few copies available.

The extensive research project supported by a grant from the Ford Foundation under the title, "A Study of Retirement Plans From the Viewpoint of the Older Worker," now underway at the School of Commerce at the University of Wisconsin, was originally planned to require approximately 4 years. The study has been underway for only a year, and therefore any remarks I make at this time should be interpreted as my personal opinions and in no way to represent a summary of the research study.

I shall center my attention largely on problems of maintaining income of retired workers and their dependents and also the problem of inflation as it affects their economic welfare. During the past few years, many people in the United States have become more concerned with competition, on a cost-price basis, with many parts of Europe as plants abroad have become modernized. It is economically very difficult, if not impossible, to have simultaneously as a benefit of increased productivity, fewer hours of work per week, higher rates of pay per period, lower prices, and an earlier retirement. One or more of these may be achieved in accordance with the preferences of the citizenry. If competition with producers abroad is a prime objective, price and related problems become of greater importance. The desire for an increased standard of living in the United States should then lead to a higher proportion of the adult population being in the labor force.

More than two decades ago, largely because of depression conditions and with less concern about competition from abroad, there were strong pressure toward earlier retirement and shorter hours per week as a means of spreading the limited amount of employment. Some of this concern is with us at the present time, but largely associated with automation as the cause. In my opinion, from the economic point of view, it is inconsistent to set all of the goals mentioned above as objectives of an overall economic program especially when coupled with a high rate of growth for the Nation as a whole, as a prime target.

As the condition of health of the typical retired person improves with the development of medical knowledge and other causes, there is increasing concern about the problem of employment beyond the customary retirement age. Increasing attention also has been given to psychological factors, such as contentment, leisure time activities, and the like. Very little demonstration is required to indicate that the retired worker's monthly benefit may be greatly enhanced by postponing, for even 1 or 2 years, his age at the time of embarking on his annuity. Increased earnings on his investments whether privately or publicly made, the spending of earned income instead of dissipating his savings, and the possible effect on health and psychological attitudes, all would point to the conclusion that greater benefits could come to the individual and the Nation if greater flexibility in employment practices for the aging could be introduced.

In making such a statement, I am not unaware of the difficulties that confront both employers and employee groups, especially labor unions. Employers must constantly contend with the problem of retiring elderly workers who are showing signs of decreasing effectiveness from whatever cause and the possible accusation of unfair discrimination by continuing some employees while forcing others to observe the compulsory retirement age. This problem will undoubtedly be difficult to solve, and to administer smoothly.

The attitude of organized labor will perhaps not easily be changed, especially if employment opportunities appear to be limited, and there likely will be constant pressure toward early retirement to make way for younger workers. It is quite possible that the typical attitude toward retirement existing in the mind of a person in his thirties will continue to contrast sharply with that of a person about to retire or recently retired. Education and research are requirements on this point.

Senator SMATHERS. What do you mean by that? At 30 you look forward to retirement and then when you get to be 65, you sort of wish you were not retiring?

Mr. GAUMNITZ. That is it in part. Actually, the attitude varies in accordance with people. Precisely what I meant on this point was that an individual who was young and who sees limited employment opportunities, by and large, would like to see an elderly person, who has retirement benefits, voluntarily move out of the labor force to make way for those who are unemployed but who are much younger.

I think especially this reasoning tends to vary as we move back and forth between periods of employment ease and stringency.

Senator SMATHERS. Would you hazard the guess that today the average prospective retiree who is at 64, 65 years old, in the light of the better medical care and apparently we are all in better shape than we were 20 years ago, that now they wish that probably they would not have to retire, they would like to continue on?

Mr. GAUMNITZ. It is my feeling based partly on some research we have done, that the people who now would prefer not to retire are increasing both in number and proportion. I think the statement is true also regardless of the economic circumstances. Psychologically there are many individuals who find the shift to retirement to be rather difficult, partly because they feel that they are less important, and they would like to be significant members of society instead of those that are living on other people's production, even if they are living fundamentally on their own savings.

I think they do wish to be a part of the total economy both from the standpoint of the income, and then also from the standpoint of other types of activities, even those that do not involve pay.

Senator SMATHERS. Do you believe that these workers who are 64 and 65 years old, can make a significant contribution to the economic well-being of the country without, in fact, displacing or eliminating job opportunities for the younger people? Do you think our economy can be so geared that we can take care of these people who arrive at the age of 65?

Mr. GAUMNITZ. I would not say offhand that we could completely do so, but I think there are possibilities. For example, there are some types of positions that a person, we will say, at an age of 30, could perform equally well as one who performs at 65 or older. I think there are other types of jobs, especially those that are more closely related to experience and judgment that might be better performed by an individual who was older and who draws upon his experience and judgment.

If it is a matter of finger dexterity or certain physical movements, that is a different type of problem.

Senator SMATHERS. Is your study at the University of Wisconsin intended to cover this particular point, or will it cover that point?

Mr. GAUMNITZ. Yes; we have two studies that touch directly on that point.

We have part of the work that is largely psychological in nature, involving studies of finger dexterity, motion activities of one sort or another, gait, speed of doing certain physical things classified by age intervals. We have charts already drawn up to show that there are certain types of activities that seem to require decreasing amounts of time in the very early ages, and then run along moderately level, and at fairly advanced ages only require more time.

Our studies so far indicate that this tendency varies in accordance with types of activities, and of course it varies very sharply as to the individuals within groups.

Senator SMATHERS. Is it your individual opinion that forced retirement at 65 years old is a good thing, or is it a bad thing, speaking economically and socially?

Mr. GAUMNITZ. Well, that is a question I would sooner not answer flatly. I would sooner comment on it in this way: from the standpoint of ease of administration, if by that one means ease of making decisions, then I would say it is nice to have a simple rule so that one can easily say yes or no. From the standpoint of a contribution toward the economy, disregarding the welfare of individual workers, and the attitude of the worker, I would say that it would make a contribution to the economy if we could have people able to work actually working.

Now, shifting to worker's desires, I think there are many people who are required to retire that would be much, much happier if they could work even part time and perhaps in some cases, even at a decreased rate of pay. Now, I am not advocating this procedure, but I realize, apart from those difficulties, it would be beneficial to our economy as a total if we could utilize the services of individuals who are able to give them.

Senator SMATHERS. Well, I personally agree with you. You can go right ahead.

Mr. GAUMNITZ. Another aspect of income maintenance that is not so closely related to employment of the elderly is concerned with greater safety of funds, and higher yield and better income management by those responsible for the growth of savings and investments. Closely allied is investment policy for the pension funds and the possible contribution that a good program can add to the growth of the Nation, especially in an economy so dependent upon capital equipment as a prime source of increased productivity.

Many of the ideas mentioned previously, because of the casual connection with the total volume of output and per capita productivity, are vitally related to the price level. A much better utilization of our resources will result if the rate of increase in the general price level can be held within narrow limits. Greater emphasis should be placed on the goods and services that the retired person's benefits will command in the market, and it is exceedingly shortsighted to be concerned with increasing the monthly benefit in dollars while lacking diligence in keeping inflation within bounds.

One should remember that price inflation depreciates the purchasing power of all retirement benefits and is not restricted to those provided by the Federal Government. Therefore, a gradual upward adjustment in social security benefits to offset price increases will contribute toward a solution of only part of the problem.

The appearance of increased rates of growth nationally that are due in large part to inflation may mislead many people who are in policymaking positions. The greatest contribution to the economic welfare of retired people, largely in control of the Federal Government, is that of the control of inflation, more so than small additions to the monthly retirement benefits.

Most elderly people, physically and mentally fit, desire to make a contribution to total output, and will be happier when permitted to do so. Forced leisure is a burden, but discretionary leisure is welcome. We who are concerned, should find a plan acceptable to all groups.

Senator SMATHERS. Is this study that you have run at the University of Wisconsin going to result in some specific recommendations on that point?

Mr. GAUMNITZ. Yes.

Senator SMATHERS. You will have?

Mr. GAUMNITZ. We hope to.

Senator SMATHERS. And when is that due to be completed?

Mr. GAUMNITZ. The study is divided into five parts and then those parts are in turn subdivided, and I would like to postpone that answer for just a very few moments, and I will give you some headings under which we will make studies.

Senator SMATHERS. Very well.

Mr. GAUMNITZ. For decades, good employment policy has included low employee turnover and incentives as a cost-reducing device. Adequate pensions have made and are making a contribution in this direction. However, a dying or very slowly-growing industry may yield surplus workers. Certain funding provisions and similar features of retirement plans may decrease mobility of workers and even plants within industries. The failure to solve this problem will inhibit an economical allocation of resources with an adverse influence on costs, prices, our ability to compete abroad, and hence, the rate of growth. Depreciation and tax policy are included as parts of this difficulty.

That concludes my written statement.

I would now like to summarize in a very short time, the title of our research, and tell you briefly some of the subdivisions included.

Senator SMATHERS. All right, sir, you go right ahead.

Mr. GAUMNITZ. In the first place, the total study has as its title, "A Study of Retirement Plans From the Viewpoint of the Older Worker."

Our initial proposal that we made to the Ford Foundation on which they acted favorably has five parts to it, and the last part has two subdivisions. I have a copy here which I can leave, but let me merely read the titles of these five parts.

One: Labor Mobility from the Viewpoint of the Older Worker.

Two: Pressures Toward Early Retirement. It is under this heading, incidentally, that we are studying certain psychological aspects involving attitudes, as well as physical and mental abilities.

Three: Retirement Experience Study.

Four: Safeguarding Pension Benefit Commitments.

It was to this section that I made passing reference quite quickly, when I made a comment about checking quite carefully to see the directions in which pension funds were being invested, the limitations, and encouragement on investments, their safety, costs of administration, and so forth.

Senator SMATHERS. Inflation?

Mr. GAUMNITZ. That is right.

Five: Benefits, Formulas and Vesting Provisions.

Under that heading we have two subdivisions, one, a rate study and, two, a systems stimulation study. We hope by those two studies, which are actuarial and statistical in nature, to be able to work out certain techniques so we could analyze rather quickly, although perhaps approximately, certain types of proposals that might frequently be made and on which people in the pension planning field would have to arrive at a decision.

We already have a study quite well underway that is concerned with administrative costs of pension plans. You know there is a Federal reporting act and also one in the State of Wisconsin. The State of

New York has a statute that requires operators of pension plans to make periodic reports. We have already secured the cooperation of people in the Federal Government, and we have similar cooperation, especially for Wisconsin.

We wish to cooperate with the people administering those laws to make detailed studies on a variety of factors that would relate to cost and also that would relate to the yield and hence the ultimate safety which in turn, would be related to the benefits. I think that psychologically, there may be people in the United States who would be quite disturbed about any type of retirement benefits if there is any undue publicity that is related to difficulties that threaten the safety of pension programs. To the extent that we could make a contribution to the solution of some of those problems before those problems would arrive, I think, would be helpful.

Senator SMATHERS. What you are saying is that you are trying to determine whether or not there is good judgment exercised by those in authority who have discretion as to whether and what they will invest pension funds in.

Mr. GAUMNITZ. That is correct.

Just to give you an illustration without trying to give you the answer, in many pension and profit-sharing plans, there is provision for the funds accumulated to be invested in the stock or physical assets of the corporation that hires the people. If we could look forward with certainty about the welfare of that corporation, then we could arrive quite simply and quickly at a decision with respect to the wisdom of that investment. Suppose, however, that you would have a corporation in a given field of activity investing pension funds largely in the assets of the corporation and then find that the corporation is destined to go downhill, the pension operator would have no way of knowing that, but, the decline would defeat the purpose of a private pension plan. The plan may be well concevied on all points, but if the investment decision is inappropriate, it would be fatal.

Senator SMITH. Up to now I think most pension plans have gone along pretty smoothly and there have not been too many cases such as you have just mentioned. Do you think there is a very great danger in the future of this without some sort of legislation?

Mr. GAUMNITZ. I would like to state that we now have a study which is about a third completed under the subheading of "Pension Plan Termination: Cause, Provision For and Consequences." We have found that as a matter of fact there are many pension plans that have been terminated. I do not wish to state that these terminations are adverse to the interests of the employees. For example, some pension plans may have been terminated bcause they were superseded by better ones. That is possible and frequent. We hope that they would be the majority.

There are other pension plans that have been supeseded not necessarily by some that are either better or worse, but different ones. For example, there may merely be a revision that is sufficiently drastic so that rather than to be classified as an alteration, it really is a different plan. For example, two corporations may merge causing two terminations and a new birth in which the new one would not be very similar to either of the other ones, but necessarily some changes would take place. There have been terminations of plans in which a new plan would replace the old one because of some coordination involving social security.

We have an estimated figure that there were about 3,500 terminations in the years 1930 to 1959, of which about 1,400 terminations of pensions or deferred profit-sharing plans were reported for the 3 years, 1956 to 1959. So just in 3 years, 1,400, as an estimated figure, terminations have been reported.

We would like to know a lot about many of those plans. Why did they terminate? Were there any losses, substantial or otherwise? Were there gains? What can we find out about them?

Senator SMITH. Would these be in the relatively small organizations?

Mr. GAUMNITZ. Many of those were relatively small, and I think quite a few were the result of mergers, and perhaps involved drastic alterations. Our feeling is that if there is a significant number of terminations, it would be desirable to make a reasonably thorough study, and if we could find that there are certain problems, then it would be desirable to pinpoint those difficulties so that they could be removed quickly, or so that safeguards could be immediately instituted, whether on a State or Federal or other basis, to decrease the likelihood of the recurrence.

Senator SMITH. I think Mr. Cohen said earlier one of the main things is that it be a certain amount that these people can count on and not something that can fluctuate or entirely disappear.

Mr. GAUMNITZ. We have so far what appears to be excellent cooperation from people administering these plans. We have access to some of the reports filed. We have good relations established with consulting actuarial firms that have agreed to help and have agreed to make much of their information available on a confidential basis. We have talked with various labor union groups that have expressed willingness, and interest in cooperating with us.

Senator SMATHERS. Dean, I might say, you raised the point a minute ago about whether or not directors of the pension programs should be permitted to invest funds in the company's assets. In providing legislation for the self-employed, known as the Smathers-Keogh bill there is a prohibition against any funds that have been put up by employees to be in turn invested in that particular business for the reason that we do not really think it is a very sound approach to the problem. And obviously, if the employer, the people who operate the company, which would be the case with self-employed businesses, they would be most willing and probably generous in the creation of a retirement program if they thought the retirement program was going to be invested back in the company. It would be just one way of getting themselves refinanced.

So we think, as you have touched on, that is probably a practice that should be looked into with the bigger pension funds, if such practice exists—I do not know that it does, but I think that is the purpose of your statement.

Mr. GAUMNITZ. I think especially in this category that a problem is closely related to pensions; namely, profit sharing. There are many profit-sharing plans that include a provision for the funds to be invested either in the stock or in the capital assets of the corporation, and there is a question whether this is firmly based or not. I am not prepared to say that it is desirable from the standpoint of creating employee loyalty to the corporation to invest those funds in corporate stocks or assets to give the employee a feeling of his welfare being tied with the corporation. The statement is made. I am not evaluating it.

Senator SMATHERS. Yes, I think there is a difference between profit sharing and pension funds, and then, the workers should clearly understand it.

Mr. GAUMNITZ. Yes, but where there are plans that involve profit sharing there are similarities to pension benefits.

Senator SMATHERS. Do you know whether or not any groups might be looking to the extent that improvement should be made in our tax laws with respect to medical deductions for elderly or retired people?

Mr. GAUMNITZ. We are touching on that in one of the studies that we have underway.

Senator SMATHERS. Yes. All right.

Mr. GAUMNITZ. We have another part of the study that will be actuarial and statistical in nature and that will be more of a case study relating to withdrawal rates; that is, the rates at which people have been withdrawing from these plans. We wish to try to determine cost factors, because I think if we can get answers to some of these questions we will have some basis for arriving at arguments on vesting, as related to decreasing mobility; and mobility, as related to dying industries or regions of the United States that are not growing rapidly. I think these are interrelated, and we hope by this study to be able to throw some light on these questions.

We have another study that is quite technical in detail. It relates also to determining various factors so that we could feel, if we once derive certain formulas, we will have the basic elements of evaluation of some pension proposals to enable people to give immediate answers on an approximate basis, to some of the common pension questions.

For example, there have been many cases, fortunately not too many, which have not created immediate difficulties, but if left unattended, would create difficulty. This is especially true in the private pension field wherein somebody decided to raise a minimum, for example, and the minimum was negotiated and approved without having any detailed actuarial evaluation of that change. In some cases there have been answers given to questions without thinking of the ultimate effect on the safety of the fund, and, therefore, ultimately on the benefits that would be available to the retired workers. The converse has been true. There have been some cases in which people have argued that some alteration might be desirable but too costly in which they had inadequate information for deciding that it was too costly or even deciding approximately what the cost was. We hope to throw some light on this point.

We have another subdivision that involves a series of related studies which I will summarize by giving you some objectives under the main heading of "Labor Mobility as Related to Pensions."

One, we wish to evaluate patterns of separations by age groups in companies with different types of pension plans. Next, we wish an evaluation of hiring patterns by age for two periods, before and after adoption of a pension plan. We wish to determine the relation of separation rates, and age of the worker and finally, we wish to make comparisons of current hiring and separation patterns of age and sex for groups of employees at 5-, 10-, 15-, and 20-year intervals.

If we were to discuss in philosophical terms the desirability of permitting or perhaps even encouraging some people in the retirement ages to continue their employment, we would like to know the extent to which there are promises and difficulties that should be analyzed.

Some people, as you know, say they would like to hire the elderly, but that they are inefficient and have higher accident rates. We would like to know more about the actual factual situation.

And one more. We have already secured excellent cooperation from some companies that have many people on retirement, and one of these, whose name I will skip at the moment, administers its own sick leave, medical, and hospital benefit programs, and also it is rather interesting that this particular company has all retired employees covered by the same medical and hospital insurance plan that covers the present employees. It is quite unusual in that regard.

Secondly, the company administers its own benefits, and therefore has very complete records of the extent and times of illnesses incurred by their workers, and I might add the most important point to us is that they have agreed to give us complete cooperation and access to their records, and much of the information is already on punched cards, which we can study in great detail.

I will not take the time to give you the various headings under which we are conducting that study, but if Mr. Sheppard would like it, we can supply that to you.

Senator SMATHERS. Right.

Mr. GAUMNITZ. I have some progress reports that I suggest you include in the hearings for the benefit of your committee and staff members.

Senator SMATHERS. All right, sir. Thank you very much. We will be greatly interested when you have specific recommendations. That is what we are looking for.

Mr. GAUMNITZ. Thank you.

Senator SMITH. We think there is a lot of need for improvements. I think that conditions and times have changed and that we ought to recognize it in our laws and attitudes that we have toward elderly people. So that when you get specific, you get something concrete that we can tie into, let us have it.

(The progress reports referred to above follow:)

COSTS OF RETIREMENT AND VESTING BENEFITS UNDER PRIVATE PENSIONS

(Project leader: William S. Bicknell)

This investigation will focus on the cost of benefits received by workers from private pension plans, with particular attention given to the costs of vesting and retirement benefits.

Included will be an investigation of some of the assumptions on which the cost figures will depend. In particular, current and past data as regards withdrawal or turnover will be analyzed for a variety of industries and types of worker.

It is planned to program a general pension model for an electronic computer, and then vary the parameters to determine effects on costs. The parameters would include the retirement benefit formula, vesting provisions, withdrawal rate, salary scale, age and sex distribution of the employees hired, et cetera.

At present, machine programs are being developed for both the rate study and the pension model. A pilot study of one organization's withdrawal experience is underway and other data are being collected and processed.

Safeguarding Pension Benefits

(Project leader: Richard M. Heins)

An analysis of the literature and published materials relating to the problems of safeguarding pension benefits to workers discloses rather elaborate descriptions of pension administration in this country, but also emphasizes the great voids which exist in the empirical and factual data surrounding pension activities. The result of this lack of facts has caused considerable debate on the subject of the welfare of retired and prospective retired workers in relation to their pension expectations. The disclosure laws enacted by some States and the Federal Government are examples of attempts by the Government to fill this factual vacuum. Without a carefully laid foundation of detailed information relating to the various specific problems of safeguarding workers' expectations, hypothetical systems or philosophies of pension supervision may have little relationship to the real problems in this field.

Setting aside the question as to what role Government should play, if any, in the supervision of pension plans and their administration, the research study at the University of Wisconsin is concerned with the practices and procedures in pension administration which may affect worker financial security. The research thus far has centered on the realities of measuring and controlling administrative costs, the impact of plan termination resulting from insolvency, dissolution and migration of business firms on pension expectations, and the significance of tax policy on decisions regarding funding and vesting and other matters which, in turn, may affect worker security.

Once the empirical information has been assembled in each of the areas, it will be possible to draw conclusions and make recommendations concerning what role, if any, Government, self-regulation, or other groups might play in protecting and safeguarding the expectations of workers in pension plans.

System Simulation of Selected Plans

(Project leader: Thomas R. Hoffmann)

System simulation utilizing electronic computers provides techniques of expanded dimensions for the costing of pension plans. Computers make it possible to estimate future conditions under different management policies by treating a system in its entirety and applying sampling techniques to implement a dynamic model.

Some simulation studies can be done manually. In our projected research, the Control Data Corporation 1604 and 160 computers at the University of Wisconsin's Numerical Analysis Laboratory will be used extensively. This computer installation will also be used in conjunction with the analysis of data for other portions of this project.

Preliminary programing has begun, and some analysis of a general nature has been made. It is planned to develop a general pension model and utilize information gathered by other members of the research group to test and evaluate policy recommendations and proposals.

Labor Mobility From the Viewpoint of the Older Worker

(Project leader: Alton C. Johnson)

The objective of this research is to determine relationships between retirement plans and labor mobility. The assumption is usually made that labor mobility is essential to the economy if dynamic growth is to be maintained. There is the possibility that mobility may be increasingly limited as a result of retirement plans. In this connection, assessments will be made of vesting and portability provisions in pension plans.

Data relevant to the objective of the research will be collected in several areas. These are: (1) changes occurring in continuous work histories of selected employees; (2) changes in the economic and demographic characteristics of the United States, including quit rates, labor force participation rates, age composition patterns, education, and so forth, bearing upon labor mobility; (3) case studies of selected companies; (4) present and potential effects of vesting and portability in pension plans; and (5) mobility patterns of retirees. Research procedures have been designed but the actual data-gathering process is in varying stages of development in each area.

Behavioral Analysis of Pressures Toward Retirement

(Project leader: Karl U. Smith)

Two areas of research are under investigation, one dealing with scientific motion analysis of performance over the life span and the other dealing with the basic nature of unemployment in the aged. A new concept—the activity feedback theory of aging—has been developed to interpret the results of scientific motion analysis of performance and other behavioral phenomena. Research already completed indicates that the component movements of behavior patterns such as gait, handwriting, and speaking, which are practiced almost daily by most people over the life span, show very little deterioration until late in life, whereas activities which are seldom used deteriorate much earlier. Activity has intrinsic feedback effects which prevent premature decline of motivation and performance capacity. Accordingly, activity maintenance through work conservation is a vital psychological and health problem of an aging population.

In the second aspect of this research, behavioral analyses are applied to problems of unemployment in the aged. Job holding in the aged is assumed to be an important indication of the level and effectiveness of human organization in the evolving industrial system. Thus the underlying factors contributing to job loss are of basis social and behavioral significance and cannot be explained by the limited concept of technological unemployment. Behavioral concepts of operational and organizational unemployment, and skill oblivescence are being used to plan longitudinal studies of aging and employment. Pilot studies of plant shutdown and sustained strike action provide suggestive evidence for the validity of this behavioral approach to problems of aging and unemployment.

The Retirement Experience of Older Workers (Ford Foundation)

(Project leader: George B. Strother)

The common focus of the studies in this section is the role of personal planning in retirement. Increasing attention to public and corporate policy with respect to retirement has progressively reduced the scope for individual initiative in the past 25 years. These studies should redirect attention to the individual differences in the problems of older people and the consequent importance of the individual's own role in adjusting to the aging process.

Six studies are now in various stages of completion. They are concerned respectively with (1) problems of (*a*) general planning for retirement, (*b*) sick leave, medical and hospital benefits; and (*c*) financial planning for retirement of present and retired employees of a large midwestern meat packing plant; (2) employment and other retirement experiences of enlisted USAF personnel; (3) survey of the literature concerning the disabilities of older people and their effect on employment; (4) age discrimination not covered by FEPC restrictions; (5) various problems of retirees of a machine company; and (6) use of Wisconsin personal income records both for a sampling base and for economic data.

Mr. Gaumnitz. There is one final statement that your remarks reminded me of that I do not have written up. We have in the State of Wisconsin a State income tax and also there is a rather amusing feature that is disturbing to some people in the State, interesting however, to people in the research field, and that is the accessibility of those returns. What we wish to do—and we have this started—is to examine the income tax returns on a statistical, not on a personal, basis of many individuals in the retirement stage of life so that we can throw quite accurate information on some of the questions that you raised with Mr. Cohen this morning.

We can analyze by virtue of the use of these income tax records, various sources of income and changes of income in accordance with increasing age. I know of no other State in which that would be possible.

Senator SMATHERS. Those are things we are interested in, because those are things that the Congress can take action on. There is very little we can do in the psychological field. There is very little we can do in some other fields, but we do make and modify the laws. That is what we are interested in particularly.

Thank you very much.

The subcommittee will stand in recess until tomorrow at 10:30 when we will hear Ewan Clague, Commissioner of Labor Statistics; G. Warfield Hobbs, president, National Council on the Aging; Edwin Shields Hewitt of Hewitt Associates; Prof. Roger Murray, Graduate School of Business, Columbia University.

(Whereupon, at 12:45 p.m., the subcommittee recessed to reconvene Thursday, July 13, 1961, at 10:30 a.m.)

RETIREMENT INCOME OF THE AGING

THURSDAY, JULY 13, 1961

U.S. SENATE,
SUBCOMMITTEE ON RETIREMENT INCOME
OF THE SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The subcommittee met at 10:45 a.m., pursuant to recess, in room 4200, New Senate Office Building, Senator George A. Smathers (chairman of the subcommittee) presiding.

Present: Senators Smathers, Clark, Carlson, Smith of Massachusetts, Neuberger, and Long of Missouri.

Committee staff members present: Dr. Harold L. Sheppard, staff director; Dr. Frank Atelsek, research director; William G. Reidy, professional staff member; John Guy Miller, minority staff member.

Senator LONG (presiding pro tempore). The subcommittee will come to order.

Senator Smathers, the chairman, is detained at another hearing this morning and has asked me to serve as chairman, and with the assistance of my distinguished colleague from Oregon, we will proceed this morning.

The first witness that has consented to be here this morning and testify is the Commissioner of Labor Statistics in the Department of Labor, Mr. Ewan Clague.

Mr. Commissioner, would you take over from here and proceed with your statement or any comments that you care to make.

STATEMENT OF EWAN CLAGUE, COMMISSIONER OF LABOR STATISTICS, DEPARTMENT OF LABOR; ACCOMPANIED BY ARNOLD E. CHASE, CHIEF, DIVISION OF PRICES AND COST OF LIVING; AND MRS. HELEN H. LAMALE, CHIEF, BRANCH OF CONSUMPTION STUDIES

Mr. CLAGUE. Thank you, Mr. Chairman. I have with me two members of my staff, Mr. Arnold E. Chase, the Chief of our Division of Prices and Cost of Living, and Mrs. Helen Lamale, who is the technician who prepared this budget.

In considering the economic problems of aging, the question is raised, continually, as to how much it costs the aged to live. There is no simple answer to such a question. It depends on many different circumstances—where they live; how they live; the size and condition of their inventory of household and personal goods; and the state of their health—to name a few important factors. However, the standard budget research of the Bureau of Labor Statistics has shed some light on the problem. Last year, we completed a revision of the budget for a retired couple and published estimates of its autumn 1959 costs in 20 large cities. The origin of this budget and the methods used in developing the list of goods and services included in it are discussed in considerable detail in a report which appeared in the November 1960 issue of the Monthly Labor Review. I have copies of this report for the record but would like to summarize briefly some of the findings and point out the uses and limitations of such a budget.

The budget for an elderly couple was originally developed in 1946–47 by the Social Security Administration in cooperation with the Bureau of Labor Statistics. The Bureau discontinued pricing this budget after October 1950, because the quantities and qualities of the goods and services included in the budget were based on standards prevailing before World War II and were not representative of the postwar standard of living. The revision completed last year provided a new list of goods and services which reflect standards prevailing in the 1950's. The revised budget, like its predecessor, is based on certain assumptions regarding the circumstances and manner of living of the elderly couple. The "budget family" consists of a husband and wife, aged 65 or over, who maintain their own 2- or 3-room rented dwelling in an urban area. The couple are assumed to be self-supporting, in reasonably good health, able to take care of themselves, and manage the home. The budget is designed to represent a level of living which provides the goods and services necessary for a healthful, self-respecting mode of living, and allows normal participation in community life according to standards prevailing in large cities or their suburbs in the United States. It provides a "modest but adequate" level of living—not a luxurious level but one adequate to provide for more than the basic essentials of consumption. Thus, it is not a "minimum subsistence" budget in the narrow sense of that term. In addition to the requirements for physical subsistence, the concept of this budget recognizes psychological and social needs and includes goods and services which will provide a reasonable participation of the elderly couple in community life.

The home is assumed to be equipped with the furnishings and mechanical equipment usually considered to be household necessities, such as a gas or electric cooking stove, mechanical refrigerator, and small electrical appliances. The quantities of these items specified for the budget are primarily replacement rates, since it is assumed that the family has an average inventory. The wife does all of the cooking and most of the cleaning and laundry. The budget, however, does allow for part of the laundry to be sent out and for occasional paid help.

The goods and services provided by the budget for both housing and food conform with scientific standards of adequacy and also reflect actual choices of large-city families of this type. For other goods and services, where scientific standards do not exist, the budget level was determined by analyses of the purchasing pattern of retired elderly families.

As in the original budget, there is no provision for life insurance or income taxes. This assumes that payments on life insurance policies have been completed before retirement, and that most of the income of retired couples at this level is tax exempt because of source and the remainder insufficient to require payment of taxes.

In the revision no changes were made in the basic concept or general procedures previously used, but for two components, food and transportation, methodological changes were introduced which, in effect, raised the standard of living above that provided by the original budget. The revised budget provides for the use of an automobile by about one-fifth of the families, and it also provides a more expensive list of food items than provided in the original budget. Thus, in the report (table 2 of the November 1960 Monthly Labor Review) two estimates of the total annual cost of the budget are shown for each of the 20 cities.

The total annual cost of the revised list of goods, rents and services at autumn 1959 prices in 20 large cities ranged from $2,641 in Houston to $3,366 in Chicago. Costs in 8 of the 20 cities for which estimates were prepared ranged between $3,025 and $3,125; these were in the center of the 8 cities—costs were under $3,025 in 6 cities and over $3,125 in 6 cities. The cost was $3,047 in Washington, D.C., the base city for intercity comparisons. Thus, Washington, D.C., is approximately at the center of the full 20. In terms comparable to the original budget with respect to the food and transportation standard, the total budget costs ranged from $2,390 in Houston to $3,112 in Chicago. The costs of the three principal components of the budget (food and beverages; rent, heat, and utilities; and other goods and services) for each of the 20 cities are shown in table 1, of the report (page 93). Costs of the various categories included in these components are shown in table 2 (page 96–97). Relative costs of the total budget, with Washington, D.C., equal to 100, ranged from 87 in Houston to 110 in Chicago, or a spread of 23 percentage points. That's shown in table 3 (page 99).

Since the retired couple's budget is designed to measure the cost of a specified standard of living for a retired couple residing in a rental dwelling in a large city or its suburbs, estimates of its total cost provide a useful tool for measuring changes in the standard of living of such couples, for evaluating the adequacy of their income, and for measuring differences in living costs between cities or among different family types. As such, it is an important benchmark statistic in social and economic research, and in welfare legislation and administration. However, there are important limitations on the use of the budget which arise from its concept, definitions and the assumptions on which it is based. These must be kept in mind and evaluated in relation to the conditions of the problem being considered.

One important limitation results from the fact that the budget housing costs are limited to rentals for a 2- or 3-room dwelling, although a majority of retired couples live in owned homes, most of which are free of mortgages. Resources available for the revision project did not permit the development of satisfactory procedures for estimating comparable housing costs for homeowners. However, a very rough estimate based on an analysis of expenditure data was made which indicated that homeowner costs, assuming there is no mortgage, would be about one-fourth to one-third less than the cost of rent, heat, and utilities in the budget, and that cost in the budget ranged from $595 at the low point to $1,067 at the high. In other words, home owners owning their homes free would have expense for that item of one-third to one-fourth less than those figures. Another example, the 1957 study of OASI beneficiaries indicated that homeowner costs averaged about 40 percent less than renter costs.[1] And so it is that the homeowners are not spending as much as indicated in this budget.

Another limitation of the budget is that it applies to a retired couple who live alone and in a large city. Thus, it does not provide a measure of living costs for the substantial number of aged who are not married, or who live with other relatives. Furthermore, only about one-half of all aged persons live in large metropolitan areas. A scale developed from expenditure data indicates that a single aged person living alone would require about 60 percent of the cost of the budget for the retired couple, but this does not furnish the basis for estimating the costs for the different types of goods and services.

The budget has been priced only in 20 large cities, and cost estimates are not available for other cities or States, nor for the U.S. average. The budget costs given in this report, therefore, are not representative of the costs in all large cities or of those in cities of other sizes and economic characteristics. Neither are they representative of costs in these 20 cities at other dates. These refer to 1959. We have been criticized for limiting the budget cost estimates to these 20 large cities, and especially for not including places older people are considering for retirement. I would like to point out that we did not select these cities for this purpose. These are the only cities where we have an established pricing program which is sufficiently comprehensive to provide the price data necessary for estimating the budget costs. In other words, if we had to go out and collect special prices to estimate the cost of this budget in other cities, it would cost much more; that is, it would cost more administratively. I am referring to the fact that we did not have the funds to go out and collect a lot of new prices in a lot of different cities.

The budget provides a measure of differences in living costs between cities, and not differences in prices only. In addition to differences in price levels, intercity indexes based on the budget reflect climatic or regional differences in the quantities and types of items required to provide the specified standard of living. For example, in the South you would not need as much heat as you would in a northern city. Care should be taken, however, in the conclusions drawn from such comparisons, especially by elderly couples considering a change in residence after retirement. And this is very important, we think. The relative differences in costs are those of established families in each city and will not reflect differences in cost associated with moving from one city to another. For example, the rental cost in this budget is the average for occupied dwellings of a definite specification and may vary considerably from that of dwellings available for new residents trying to move in. Neither do the

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[1] As reported in the December 1960 issue of the Social Security Bulletin. Subsequently revised to "about 30 percent" in "Health and Economic Status of Older Americans," staff report to Special Committee on Aging, June 2, 1961.

intercity indexes provide a valid measure of differences in living costs for homeowners.

The budget cost estimates are used most frequently to measure the adequacy of income for various purposes. The level of the budget should not be thought of as a goal, however, for determining the size of pension or assistance payments since many retired persons have supplemental income from savings, private annuities, and other sources. In evaluating the adequacy of income, therefore, special attention should be given to the concept, definitions, and coverage of the retired couple's budget. It must be kept in mind that this budget relates not only to a specific type of family but also to a specified manner of living. Usually some adaptation of the budget is required before a direct comparison can be made with current money income of individual families or groups of families, or other resources available to elderly couples must be considered in the comparison.

The fact that the 1959 budget cost estimates are available only for 20 cities, all of which have populations over 250,000, is a serious limitation in comparisons of the budget costs with available estimates of the income of the aged. The most comprehensive income data for families with aged head and for aged persons are from the Bureau of the Census and were conveniently summarized for 1958 in the "Background Paper on Income Maintenance" prepared for the White House Conference on Aging. The data for 1959 are similarly summarized in the attached table.

The 1959 census estimates of median incomes for all families with age of head 65 years and over are $2,831 for all U.S. families, that is, urban and rural, and $3,335 for all urban. These figures cannot be compared directly with the budget, as they relate to all types and sizes of families and include year-round full-time workers, and they include small cities.

However, since the budget costs ranged from $2,390 to $3,366, depending upon the choice of city and the allowance for food and transportation, it is evident that many retired couples in large cities had incomes in 1959 which were substantially under the budget estimates. Incomes of the retired elderly single persons were probably even less adequate to provide this level of living.

(The papers referred to above follow:)

[From the Monthly Labor Review, November 1960]

THE BLS INTERIM BUDGET FOR A RETIRED COUPLE

The Purpose and Methods Used in the Interim Revision
The Quantities of Goods and Services in the Budget
Its Cost in 20 Large Cities, Autumn 1959

(By Margaret S. Stotz*)

ORIGIN OF THE BUDGET

A budget for a retired elderly couple was originally developed in 1946–47 by the Social Security Administration to parallel the City Worker's Family Budget developed by the Bureau of Labor Statistics. That budget was based

*Of the Division of Prices and Cost of Living, Bureau of Labor Statistics.
Major contributions to the pricing of the budget were made by the research staff of the Division; staff members of the Division of Program Research, Social Security Administration, and of the Division of Household Economics Research, Institute of Home Economics, U.S. Department of Agriculture, contributed technical advice in the development of some sections of the budget.

on certain assumptions regarding their circumstances and manner of living. The "budget family" consisted of a husband and wife, aged 65 or over, who maintained their own 2- or 3-room rented dwelling in an urban area. The couple was assumed to be self-supporting, in reasonably good health, and able to take care of themselves. The budget was designed to represent a level of living which provided the goods and services necessary for a healthful, self-respecting mode of living, and allowed normal participation in community life according to standards prevailing in large cities or their suburbs in the United States. It provided a "modest but adequate" level of living—not a luxurious level but one adequate to provide for more than the basic essentials of consumption.

The Social Security Administration published estimates of the cost of this budget for 13 selected large cities for March 1946, June 1947, and March 1949; the BLS published cost estimates for 34 large cities based on October 1950 prices.[1] No cost estimates were published after 1950 because the quantities and qualities of goods and services included in the budget were based on standards prevailing prior to World War II and were not representative of the postwar standard of living. Since the war, the standard of living enjoyed by most families has increased appreciably. There also have been many changes in the goods and services available and in consumer purchasing habits.

PURPOSE OF THE REVISION

The concept of the "modest but adequate" level of living represented in the budget is applicable to any period; the list of goods and services selected to represent such a level, however, changes over time. The budget, by definition, is subject to a changing set of values and its compoistion must be redefined from time to time if it is to reflect changes in prevailing standards.

The purpose of the present revision of this budget by the BLS was to develop a new list of goods and services which would reflect a modest but adequate level of living defined by standards prevailing in the 1950's. No changes were made in the bsaic concept or general procedures previously used. However, in estimating the cost of two budget components—food and beverages, and transportation—methodological changes were introduced which, in ffect, raised the standard of living above that provided by the original budget, as indicated later. These changes were made in order that the standard of living provided by the retired couple's budget would be comparable with that provided by the interim revision of the bureau's city worker's family budget.[2] Both revised budgets were priced in only 20 large cities instead of 34 as formerly.

Although a more comprehensive revision of the budget is needed, such a project could not be undertaken with available resources. Since the revision did not include a reappraisal of the previously used concept, definitions, and general procedures, it is considered an interim revision. It is hoped that a comprehensive revision can be undertaken when data from the Bureau's 1961–62 consumer expenditure surveys become available. Such a study could not be completed, however, until 1964.

[1] March 1946 and June 1947—"A Budget for an Elderly Couple" (in Social Security Bulletin, February 1948, pp. 3–11) and "A Budget for an Elderly Couple" (Social Security Administration Bureau memorandum No. 67, March 1948); March 1946, June 1947, and March 1949—Social Security Administration release, Feb. 24, 1950; and October 1950—"Budget for an Elderly Couple; Estimated Cost," October 1950, and "Estimating a Budget for an Elderly Couple" (in Monthly Labor Review, September 1951, pp. 304–306, 309–310).

[2] For a detailed description of the original city worker's family budget, see "Workers' Budgets in the United States: City Families and Single Persons, 1946 and 1947" (BLS Bull. 927, 1948); for the revised budget, see "The Interim City Worker's Family Budget" (in Monthly Labor Review, August 1960, pp. 785–808).

TABLE 1.—*Annual costs of the retired couple's budget,*[1] *20 large cities and suburbs, autumn 1959*

City	Total budget	Food and beverages	Rent, heat, and utilities	Other goods and services
Atlanta	$2,720	$768	$778	$1,174
Baltimore	2,840	781	802	1,257
Boston	3,304	953	1,029	1,322
Chicago	3,366	889	1,067	1,410
Cincinnati	2,925	879	821	1,225
Cleveland	3,244	860	1,015	1,369
Detroit	3,096	899	858	1,339
Houston	2,641	758	694	1,189
Kansas City	3,034	841	942	1,251
Los Angeles	3,111	894	862	1,355
Minneapolis	3,135	846	962	1,327
New York	3,044	945	849	1,250
Philadelphia	2,909	940	754	1,215
Pittsburgh	3,102	956	863	1,283
Portland, Oreg	3,049	887	817	1,345
St. Louis	3,099	870	970	1,259
San Francisco	3,223	920	919	1,384
Scranton	2,681	900	595	1,186
Seattle	3,252	938	921	1,393
Washington, D.C	3,047	864	921	1,262

[1] The family consists of a retired husband and wife, aged 65 or over.

NOTE: For costs of major components of the various budget categories, see table 2; for items and quantities included in the various categories, see tables 4–6.

THE LEVEL AND MANNER OF LIVING

The revised budget provides estimates of the cost of a healthful, self-respecting manner of living which allows normal participation in community life. Since it takes into account social and psychological as well as physical needs, it is not a "minimum subsistence" budget. Furthermore, it was not designed to represent the actual expenditure pattern of an "average" retired couple or to serve as a spending plan for an individual family.

The autumn 1959 costs of the revised budget reflect the very much higher standard of living which has prevailed in the 1950's, as compared with prewar years, the increase in prices since the budget was last priced in 1950, and the methodological changes described later. The total cost of goods and services is approximately 70 percent higher than the amounts for these same cities in 1950. with considerable variation from city to city. The increase in living standards which has occurred during the postwar period accounts for approximately half of this change. About one-third of it results from the increase in prices since 1950; the rest from the methodological changes.

The budget assumes that the couple lives alone in a 2- or 3-room rental dwelling, although renting is not the prevailing custom for such families except in very large cities and at very low income levels in other places. In the Bureau's Survey of Consumer Expenditures in 1950, 69 percent of the elderly retired couples whose expenditure patterns were analyzed in the derivation of the revised budget quantities were owners of homes, largely mortgage free. Resources available for the interim revision, however, did not permit the development of satisfactory procedures for estimating comparable housing costs for homeowners. This is one of the major problems which must be considered in a comprehensive revision of the budget, and in the use of the revised budget cost estimates.

The home is assumed to be equipped with the housefurnishings and mechanical equipment usually considered to be household necessities, such as a gas or electric cook stove, mechanical refrigerator, and small electrical appliances. The quantities of these items specified for the budget are primarily replacement rates, since it is assumed that the family has an average inventory. The wife does all of the cooking and most of the cleaning and laundry. The budget, however, does allow for part of the laundry to be sent out and for occasional paid help.

The goods and services provided by the budget for both housing and food conform with scientific standards and also reflect actual choices of large-city families of this type. For other goods and services, where scientific standards do not exist, the budget level was determined by analyses of the purchasing pattern of retired elderly families.

As in the original budget, there is no provision for life insurance or income taxes. This assumes that payments on life insurance policies have been completed before retirement, and that most of the income of retired couples at this level is tax-exempt because of source and the remainder insufficient to require payment of taxes.

COST OF BUDGET IN 20 LARGE CITIES

The total annual cost of the revised list of goods, rents, and services at autum 1959 prices in 20 large cities ranged from $2,641 in Houston to $3,366 in Chicago. Costs in 8 of the 20 cities for which estimates were prepared ranged between $3,025 and $3,125; costs were under $3,025 in 6 cities and over $3,125 in 6 cities. The cost was $3,047 in Washington, D.C., the base city for intercity comparisons. The costs of the three principal components of the budget (food and beverages; rent, heat, and utilities; and other goods and services) for each of the 20 cities are shown in table 1. Costs of the various categories included in these components are shown in table 2. Relative costs of the total budget, with Washington, D.C., equal to 100, ranged from 87 in Houston to 110 in Chicago, or a spread of 23 percentage points (table 3).

The costs of rent, heat, and utilities, which represent somewhat more than one-fourth of the total, ranged from $595 in Scranton to $1,067 in Chicago, but costs varied less than $125 ($802 to $921) among half of the cities. The intercity indexes for rent, heat, and utilities (Washington, D.C.=100) varied 51 percentage points, ranging from 65 in Scranton to 116 in Chicago. Excluding the two highest cities (Chicago and Boston) and the two lowest (Scranton and Houston), the variation in cost among the other cities was 28 percentage points.

The cost of the budget for food and beverages, which accounts for about 29 percent of the total budget costs in most cities, was lowest in cities in the South and generally highest in cities in the Northeast, ranging from $758 in Houston to $956 in Pittsburgh. These differences in the cost of food reflect not only differences in prices but, more importantly, differences in regional preference patterns in the choice of foods to meet the budget standard. The annual cost of food and beverages in Washington, D.C., where the U.S. pattern was used in the calculation, was $864.[3] Relative costs for food and beverages ranged from 88 in Houston to 111 in Pittsburgh.

The cost of all other goods and services (excluding rent, heat, utilities, and food) was lowest in Atlanta ($1,174) and highest in Chicago ($1,410). This component of the budget, which includes the cost of clothing, housefurnishings, transportation, medical care, personal care, household operation, reading, recreation, tobacco, gifts, contributions, and miscellaneous expenses, represents about 42 percent of the total cost of the budget. Intercity differences in the cost of this component of the budget ranged from 93 in Atlanta to 112 in Chicago.

Variation in the cost of medical care was an important contributing factor to these differences. Among these 20 cities, medical costs represented about one-fifth to one-fourth of the family's budget allowances for other than food and rent. The overall difference in cost of the medical care budget was $144.

Except for transportation costs, relatively small differences were found for the other groups in other goods and services. Transportation costs, ranging from $133 to $195, were lowest in Philadelphia, New York, and Boston. In these cities, where public transportation is used more frequently by this type of family, ownership of an automobile is specified for 14 percent of the families, compared with 22 percent in other cities.

The revised budget provides a standard of living comparable in concept with the Bureau's City Worker's Family Budget, a level of living slighter higher than described by the original Elderly Couple's Budget. This increase results from methodological changes in the calculation of the food and beverage and transportation components of the budget.

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[3] The other cities classified by region are as follows: Northeast—Boston, New York, Philadelphia, Pittsburgh, Scranton; North Central—Chicago, Cincinnati, Cleveland, Detroit, Kansas City, Minneapolis, St. Louis; South—Atlanta, Baltimore, Houston; West—Los Angeles, Portland, San Francisco, Seattle.

The U.S. pattern was used for Washington because its population comes from all parts of the United States. Also, Washington serves as the base city in the computation of intercity indexes based on the budget.

TABLE 2.—*Annual costs of the retired couple's budget* [1] *by major components, 20 large cities and suburbs, autumn 1959*

Item	Atlanta	Baltimore	Boston	Chicago	Cincinnati	Cleveland	Detroit	Houston	Kansas City	Los Angeles
Food and beverages [2]	$768	$781	$953	$889	$879	$860	$899	$758	$841	$894
Food at home [3]	714	734	900	838	824	806	847	711	797	840
Low-cost plan	*600*	*610*	*779*	*743*	*728*	*715*	*750*	*595*	*706*	*731*
Moderate-cost plan	*827*	*857*	*1,021*	*933*	*921*	*897*	*944*	*827*	*889*	*949*
Food away from home	29	28	32	33	36	34	32	28	27	32
Housing	1,010	1,067	1,298	1,331	1,062	1,265	1,122	928	1,183	1,105
Rent, heat, utilities [4]	778	802	1,029	1,067	821	1,015	858	694	942	862
Housefurnishings	98	103	97	100	98	99	106	99	101	106
Household operation and communications	134	162	172	164	143	151	158	135	140	137
Clothing	208	216	213	232	215	233	226	197	221	213
Husband	80	79	83	84	82	87	84	76	82	79
Wife	103	109	100	114	102	113	108	92	106	101
Clothing materials and services	25	28	30	34	31	33	34	29	33	33
Medical care	241	247	316	317	240	327	298	260	250	366
Transportation [5]	153	180	144	195	168	170	170	161	175	166
Automobile owners	516	584	656	653	523	566	536	530	576	579
Nonowners of automobiles	51	66	61	66	67	59	66	57	62	50
Other goods and services	340	349	380	402	361	389	381	337	364	367
Reading and recreation	101	102	111	124	112	122	119	95	105	105
Personal care	75	75	73	83	75	78	79	75	81	81
Tobacco	35	37	38	35	35	35	36	41	34	33
Gifts, contributions, etc.	129	135	158	160	139	154	147	126	144	148
Total cost of goods and services	2,720	2,840	3,304	3,366	2,925	3,244	3,096	2,641	3,034	3,111
Estimated annual cost comparable in content with original budget [6]	2,467	2,571	3,067	3,112	2,698	3,011	2,865	2,390	2,802	2,851

	Minneapolis	New York	Philadelphia	Pittsburgh	Portland, Oreg.	St. Louis	San Francisco	Scranton	Seattle	Washington, D.C.
Food and beverages [2]	$846	$945	$939	$956	$887	$870	$920	$900	$938	$864
Food at home [3]	795	892	889	899	830	824	866	848	875	816
Low-cost plan	701	776	769	780	724	729	755	735	763	685
Moderate-cost plan	889	1,009	1,008	1,018	936	920	976	961	988	948
Food away from home	31	32	30	39	36	28	32	33	40	29
Housing	1,216	1,124	1,003	1,116	1,078	1,210	1,172	838	1,196	1,163
Rent, heat, utilities [4]	962	849	754	863	817	970	919	595	921	921
Housefurnishings	97	99	98	104	102	96	107	105	109	95
Household operation and communications	157	176	151	149	159	144	146	138	166	147
Clothing	231	215	213	221	222	213	224	211	222	216
Husband	85	83	79	81	82	77	82	85	85	80
Wife	111	101	100	107	105	102	106	100	103	106
Clothing materials and services	35	31	34	33	35	34	36	26	34	30
Medical care	319	262	260	264	326	273	346	222	336	271
Transportation [5]	162	134	133	180	181	183	174	162	169	176
Automobile owners	534	652	589	571	597	595	627	543	574	583
Nonowners of automobiles	57	50	58	69	63	66	46	55	55	61
Other goods and services	361	364	361	365	355	350	387	348	391	357
Reading and recreation	100	111	107	105	103	93	114	115	107	102
Personal care	75	69	79	78	78	76	86	70	91	78
Tobacco	37	39	37	34	29	34	34	35	38	32
Gifts, contributions, etc	149	145	138	148	145	147	153	128	155	145
Total cost of goods and services	3.135	3,044	2,909	3,102	3,049	3,099	3,223	2,681	3,252	3,047
Estimated annual cost comparable in content with original budget [6]	2,906	2,812	2,684	2,842	2,792	2,858	2,949	2,429	2,990	2,770

[1] See footnote 1, table 1.
[2] Includes small allowances for guest meals and for alcoholic beverages.
[3] The cost of food at home used in the calculation of the total cost of the budget is an average of the low- and moderate-cost food plans shown in italics, including the suggested additional allowance of 10 percent for small families. (For explanation, see p. 1145.)
[4] Average contract rent for tenant-occupied dwellings that conform to the housing standards specified for the budget plus the cost of required amounts of heating fuel, gas, electricity, water, and specified equipment.
[5] Weighted average cost of automobile owners and nonowners. (See footnote 17, table 6.)
[6] Costs based on the low-cost food plan, and excluding allowances for automobile ownership and alcoholic beverages.

NOTE: For items and quantities included in the various categories, see tables 4–6.

The allowance for food at home used in the calculation of the retired couple's budget is an average of the estimated cost of the low- and moderate-cost food plans of the U.S. Department of Agriculture, adjusted to provide for guest meals and to exclude meals eaten away from home.[4] The use of the average cost of the two plans, rather than the low-cost plan as was done originally, increased the cost of food at home by $91 to $131, depending upon the city. The budget also includes a small allowance, about $20, for alcoholic beverages, not previously included.

The allowance for transportation is a weighted-average cost for automobile owners and nonautomobile owners, whereas the original budget provided only public transportation. The allowance for automobile ownership by a small proportion of the families increased the cost of the transportation budget by more than $100 in most cities.

Altogether, these methodological changes increased the overall cost of the revised budget about 9 percent. Table 2 shows the estimated cost of the budget excluding these methodological changes and, therefore, more comparable in content with the original budget.

SOURCES AND METHODS OF REVISING QUANTITIES

The revised quantities and kinds of goods and services which comprise the postwar standards for food and rent were derived, as previously, to conform with scientific standards but within these standards to reflect actual choices of families as exhibited in postwar consumption data. For other goods and services where scientific standards do not exist, the revised budget represents an adequate standard based on the collective judgment of large-city families of this type, as revealed by analyses of postwar consumer data, primarily the BLS survey of consumer expenditures in 1950. The revised list of goods and services and the quantities per year provided in the budget appear in tables 4–6. Explanatory notes on the tables describe variations in the basic budget quantities as required for use in individual cities.

Food.—The food-at-home component is based on the low- and moderate-cost food plans developed by the U.S. Department of Agriculture from its 1955 household food consumption study, in accord with nutritional standards recommended by the National Research Council (NRC).[5]

In these plans, food items are grouped into 11 categories which contain foods similar in nutritive value and use in the diet. The quantities provided meet the NRC's recommended allowances for a woman and a man aged 55–74 when average selections of food within each food group are used. Food consumption patterns representative of the choices of nonfarm families in the lower and middle thirds of the income distribution in 1955 provided the guide in specifying the quantities for the low- and moderate-cost plans, respectively. Regional preference patterns in the selection of specific foods to meet the nutritional standards are also provided by the Agriculture study and were used in the budget for all cities except Washington, D.C., where the U.S. pattern was used.

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[4] The Institute of Home Economics of the Agricultural Research Service first published these plans in the October 1957 issue of Family Economics Review.
[5] Ibid.

TABLE 3.—*Relative intercity differences in the costs of the retired couple's budget, 20 large cities and suburbs, autumn 1959*

[Washington, D.C.=100]

City	Total budget	Food and beverages	Rent, heat, and utilities	Other goods and services
Atlanta	89	89	84	93
Baltimore	93	90	87	100
Boston	108	110	112	105
Chicago	110	103	116	112
Cincinnati	96	102	89	97
Cleveland	106	100	110	108
Detroit	102	104	93	106
Houston	87	88	75	94
Kansas City	100	97	102	99
Los Angeles	102	103	94	107
Minneapolis	103	98	104	105
New York	100	109	92	99
Philadelphia	95	109	82	96
Pittsburgh	102	111	94	102
Portland, Oreg	100	103	89	107
St. Louis	102	101	105	100
San Francisco	106	106	100	110
Scranton	88	104	65	94
Seattle	107	109	100	110
Washington, D.C	100	100	100	100

NOTE.—Based on table 1. For items and quantities included in the various categories, see tables 4–6.

The food plans as published by the Department of Agriculture provide for 21 meals per person per week to be eaten at home. In this budget, the food-at-home component was adjusted to provide 2,169 meals a year at home for the family, 15 meals away from home, and 95 guest meals. The average cost per guest meal is assumed to be the same as the average per person cost for the couple's meals at home. The allowance for this item is 4.4 percent of the annual cost of family food at home. The costs of both the low- and moderat-cost food plans were calculated including an additional allowance of 10 percent recommended by the U.S. Department of Agriculture to compensate for higher per person food costs for small families, and their average cost was used in the budget. The total food budget also provides for occasional snacks eaten away from home. The allowances for snacks, meals purchased, and guest meals are based on the practices of elderly couples as reported in the 1950 expenditure survey.

The use of regional preference patterns as well as the choice of specific food plans affects the level of the food budget. In the original budget, the low-cost plan of January 1946 for a sedentary man and woman provided the basis for the food-at-home budget.[6] The U.S. preference pattern based on food records for elderly two-person families from the 1935–36 study of consumer purchases was used to select the foods to meet the nutritional standards. Thus, the use of the regional preference patterns and of the average cost of the low- and moderate-cost plans represents deviations from the procedure followed originally. The introduction of regional preference patterns in the food component, however, is believed to be

[6] Social Security Bulletin, February 1948, p. 6.

consistent with the original budget concept, since climatic or regional adjustments were used previously for clothing and fuel. The average cost of the two food plans was used to provide the elderly couple with a more varied diet and to keep the food standard comparable with the one provided by the Bureau's revised city worker's family budget. Costs based on the separate plans are shown in table 2.

Rent, heat, and utilities.—The budget is based on rents for two- and three-room dwellings which meet standards established by the American Public Health Association and the U.S. Public Housing Administration. The standard for rental housing specified in the budget was described as follows for pricing:

"Two- or three-room unfurnished dwelling—house or apartment—including kitchen with sink and stove, hot and cold running water; with a complete private bath including wash bowl, flush toilet, and tub or shower; electricity for lighting; and installed heating, either central or other type, such as base burner, pipeless furnace, or stoves, depending upon the climate of the specific city. (Central heating required in cities where normal January temperature is 40° F. or colder, and central or other installed heating for cities with warmer climates.)

"Exclude dwellings needing major repairs, i.e., structural repairs such as roof, walls, or foundation, but include those needing minor repairs such as painting or papering.

"Located in a neighborhood with outdoor space—yard or park accessible without serious traffic hazards; accessible to public transportation; and not adjacent to either a refuse dump or to more than one of the following hazards or nuisances: railroad or elevated tracks, noisy or smoke- and fume-developing industrial installations, main traffic artery, or intercity truck route.

"Exclude dwellings above the standard, i.e., those with more than one complete private bath, substantially above the average size for two- or three-room dwellings in the city, or those located in exclusive residential neighborhoods or in apartment structures providing 'luxury' services such as secretarial or maid service."

Rental rates for dwellings which meet these standards, however, may result in an upward bias in estimates of housing costs for the elderly. The sample of rental dwellings of this size obtained by the Bureau excluded all dwellings that fell short of the prescribed standards, as well as those which were significantly above the standard. In some cities, however, rental units of this particular size which meet the standard are frequently located in modern apartment structures built in recent years. Rental rates for the newer units are frequently higher than the older units which the elderly probably occupy. Since the proportion of these newer units occupied by retired couples was not available, it was decided not to eliminate them solely on the basis of the rental rate.

In addition to the characteristics specified for the dwelling, the standard provides the necessary fuel for maintaining a temperature of 70° F. during the winter, as well as the gas, electricity, and water needed to operate the mechanical equipment provided. However, since rents in apartment structures usually include fuel and utilities, the budget allowances for these items apply only to the proportion of tenants who pay separately for them. In deriving the quantities of heating fuel, it was assumed that a three-room unit would require 82.5 percent and a two-room unit 66 percent of the requirements for a five-room unit.[7]

Quantities of utilities, other than for household heating, are based on estimates obtained from utility companies and associations of amounts required for households of "typical" size for appliances specified for the budget, adjusted to fit the needs of an elderly couple.

Other goods and services.—The budget component called other goods and services includes the cost of medical care, clothing, housefurnishings, transportation, personal care, tobacco, gifts and contributions, and miscellaneous expenses. For these goods and services, there are no generally accepted "scientific" standards comparable to those for food and housing.

[7] The heat requirements for a five-room unit were derived from an analysis of requirements as reported in the Bureau's 1950 survey of consumer expenditures by families occupying dwellings of the type specified for the budget, in relation to normal annual degree days as derived from data published by the U.S. Weather Bureau. The quantities of heating fuels required were expressed in British thermal units convertible to equivalent quantities of fuel oil, gas, or coal.

The allowance for medical care accounted for approximately 9 percent of the family's total budget. Medical care costs for individual families, however, vary widely from family to family and from year to year. Hence, these costs cannot be budgeted in the same manner as other segments of family spending. The allowances included in the budget, therefore, represent average annual requirements over a period of years for a large group of families. Thus, it is assumed that budget allowances not required in a given year would be accumulated for years of greater need.

For the interim revision of the retired couple's budget, medical care costs for the family were estimated in two alternative ways. One method assumes that all costs are budgeted on a pay-as-you-go basis as was done previously; the other, that the family has insurance coverage for hospitalization. The annual allowance for medical care used in the calculation of the total budget cost is a weighted average cost which provides hospitalization insurance coverage for 45 percent of the couples on the basis of data from the national survey of old-age and survivors insurance beneficiaries in 1957. The revised quantities of medical care services were developed from utilization rates. The OASI survey was used to determine hospital utilization rates. Data from the U.S. national health survey conducted in 1957–58 provided a guide for developing requirements for other medical services. The allowances for drugs and medicines, eye care, and miscellaneous medical expenses were based on data obtained in the BLS survey of consumer expenditures in 1950.

For other goods and services, the revised quantities were derived, primarily, by examining the quantity-income elasticities of the expenditures of retired elderly couples, as reported in the Bureau's survey of consumer expenditures in 1950. This technique, which was used in the development of the original budget, is objective in that it uses the consumers' collective judgment as to what is adequate for such items as clothing, housefurnishings, and recreation.

In this technique, the quantities of various items purchased at successive income levels are examined to determine the income level at which the rate of increase in quantities purchased begins to decline in relation to the rate of change in income, i.e., the point of maximum elasticity. The average numbers and kinds of items purchased at these income levels are the quantities and qualities specified for the budget. This point has been described as the point on the income scale where families stop buying "more and more" and start buying either "better and better" or something less essential to them.[8]

In the analysis of the 1950 consumer expenditure data, a characteristic pattern of changes in the quantities of goods and services within a group of related items in relation to changes in income was found for most goods and services. Quantities at first increased relatively more rapidly than income and then increased at a relatively slower rate than income. This charcteristic pattern was not found, however, for underwear and nightwear, men's footwear, alcohol, and tobacco, where the maximum elasticity was in the initial income classes (that is, under $2,000). Since the original budget total for goods and services when priced in 1950 was also in the $1,000 to $2,000 range, the revised quantities for these groups of commodities were determined at that income class. Although the use of this point of maximum elasticity is not believed to represent a serious deviation from the concept of the original budget, it does demonstrate the need for a thorough review and reappraisal of the concept and techniques for any future revision.

Budgets derived by the quantity-income elasticity technique should reflect changes in the standard of living which accompany changes in the level of real income. The revised list of goods and services in the budget reflects not only the higher standard of living of the postwar years but also an increase in the standard itself resulting from methodological changes discussed earlier in this article.

PRICING THE BUDGET[9]

After the items and quantities to be included in the budget were determined, it was necessary to price the kinds and qualities of these commodities and services normally purchased by budget-type families in the types of stores and

[8] For detailed description, see BLS Bulletin 927, op. cit., p. 13, and Social Security Administration Bureau Memorandum No. 67, op. cit., pp. 35–38.
[9] For detailed description, see Monthly Labor Review, August 1960, pp. 804–807.

professional and service establishments customarily patronized by elderly couples. All items included in the budget could not be priced, but prices were obtained for most of them. Tables 4–6 include a pricing code which designates the specification used for those items which were actually priced or for which prices were estimated from similar items. For other items, values were estimated.

The prices, pricing procedures, reporting stores and service establishments, and price calculation methods were those used by the Bureau for the Consumer Price Index except that more price quotations were obtained in some cases to permit calculation of average prices and different qualities were priced in other cases to represent the budget levels.

Prices were collected personally by Bureau representatives in retail and service establishments for most goods and services. Prices obtained were those actually being charged on the day of the agent's visit. Sale prices were accepted for food items if the sale extended over a period of 1 week and for other items if the sale extended 2 weeks or more, on the assumption that a large proportion of the families would take advantage of such sales. In all cases, prices include State or city retail sales taxes and, where applicable, Federal, State, or local excise taxes.

Prices used in the budget refer to September, October, or November, 1959, depending upon the regular cycle for CPI pricing in these 20 cities. The budget costs, therefore, represent the cost of an annual budget but at autumn 1959 prices. Prices were not adjusted for seasonal variation.

USES AND LIMITATIONS [10]

The retired couple's budget is designed to measure the cost of a specified standard of living for a retired couple residing in a rental dwelling in a large city or its suburbs. Although it provides for the exercise of individual choice both within and between major categories, allowances in one category can be increased only by sacrificing other items, and the omission of certain items or groups of items will, of course, result in a lower level of living than that represented by the budget. Differences in the quantities and kinds of items in the retired couple's budget when compared with allowances in the city worker's family budget reflect the differential needs and the actual consumption patterns of older persons as compared with those of younger families. The autumn 1959 costs of the budget for a retired couple in 20 large cities ranged from 56 to 62 percent of the cost of the budget for a younger four-person family.[11]

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[10] Only the broad limitations of the budget are discussed in this section; those relating to particular components have been indicated in the discussion at appropriate points. A more detailed statement on the budget's uses and limitations is available upon request.

[11] For detailed scales that measure the relative differences in income required by families of differing composition, see the article on pp. 1197–1200 of this issue.

Estimates of the total cost of the retired couple's budget provide a useful tool for measuring changes in the standard of living of such couples, for evaluating the adequacy of their income, and for measuring differences in living costs between cities or among different family types. As such, it is an important benchmark statistic in social and economic research, and in welfare legislation and administration. It is not, however, a readymade answer to all the problems which require estimates of budget costs.

TABLE 4.—*Food and beverage budget quantities*

1. FOOD AT HOME [1] (42 MEALS PER WEEK, 2,169 MEALS PER YEAR)

[Quantities of food as purchased, assuming average choices within groups]

Group and unit	Low-cost plan [2]		Moderate-cost plan [2]	
	Quantity			
	Per week	Per year	Per week	Per year
Milk and milk products [3] ... quart	7.00	361.5	7.00	361.5
Meat, poultry, fish ... pound	5.75	296.9	9.25	477.7
Eggs ... dozen	.92	47.5	1.08	55.8
Dry beans, peas, nuts ... pound	.50	25.8	.24	12.4
Grain products [4] ... do	5.75	296.9	5.00	258.2
Citrus fruit, tomatoes ... do	4.25	219.5	5.00	258.2
Potatoes ... do	3.75	193.6	3.50	180.7
Other vegetables and fruits ... do	9.75	503.5	11.25	581.0
Fats and oils ... do	.87	44.9	1.13	58.4
Sugars and sweets ... do	1.00	51.6	1.38	71.3
Accessories:				
Coffee ... do	.72	37.2	.87	44.9
Tea ... bag	7.78	401.8	9.06	467.9
Soft drinks ... 36 ounces	.52	26.9	.63	32.5
Other [5]	$0.10	$5.16	$0.09	$4.65

[1] Adapted from the low- and moderate-cost food plans published by the U.S. Department of Agriculture. (See text footnote 4.) The quantities do not include allowances for guest meals. See footnote 7.

[2] In estimating the cost of food at home for 2-person families, 10 percent should be added to the cost to compensate for the fact that smaller families generally are unable to buy as economically and have more waste than larger families. See Per Person Food Cost Differential in Large and Small Families (in Family Economics Review, September 1960, pp. 3-5).

[3] Includes fluid whole milk and milk products, for which quantities are converted to units containing the same calcium content as milk, by using the following equivalents: 1 cup milk equals ¾ pound cottage cheese (creamed), 1 pound cream cheese, 1⅓ ounces cheddar cheese, or 1 scant pint ice cream.

[4] Weight in terms of flour and cereal. 1½ pounds of bread and baked goods are counted as 1 pound flour.

[5] Estimated cost in 1959 for all cities.

TABLE 4.—*Food and beverage budget quantities*—Continued

2. FOOD AWAY FROM HOME, GUEST MEALS, AND ALCOHOLIC BEVERAGES

Item and unit	Pricing code [6]	Quantity per year
Food away from home:		
Meals	X-704	15
Snacks [5]		$4.84
Guest meals provided [7]		95
Alcoholic beverages	O-300 Reg.; O-302 Reg.; O-400 Reg.; O-401 Reb.; Reg.; X-705.	[8] $19.90

[6] The code numbers indentify the articles and services priced for the budget. A detailed description of the items is available upon request.
[7] The allowance for this item assumes the average cost per guest meal to be the same as the cost per meal for food consumed at home by family members.
[8] Estimated average cost in 1959; differs from city to city.

EXPLANATORY NOTES

The annual allowance for food at home used in the calculation of the elderly couple's budget is an average of the estimated cost of the low- and moderate-cost food plans adjusted to provide for 95 guest meals and to exclude 15 meals eaten away from home.

The selection of specific foods which meet the nutritional standard and reflect regional preferences patterns affect the food budget cost. In estimating the unit cost of each of the major food groups for individual cities, regional preference patterns were taken into account for all cities except Washington, D.C., where the U.S. pattern was used. (See text footnote 3.) Specifications for pricing the individual food items are available upon request.

The estimated weekly costs of the low- and moderate-cost food plans, providing 21 meals for each member of a 2-person family and including the suggested additional allowance of 10 percent for small families mentioned in footnote 2, are shown for each of the 20 cities in the following tabulation:

City	Low-cost plan	Moderate-cost plan
Atlanta	$11.13	$15.35
Baltimore	11.32	15.90
Boston	14.45	18.94
Chicago	13.78	17.31
Cincinnati	13.50	17.09
Cleveland	13.27	16.65
Detroit	13.91	17.52
Houston	11.03	15.35
Kansas City	13.09	16.50
Los Angeles	13.56	17.60
Minneapolis	13.00	16.50
New York	14.39	18.72
Philadelphia	14.27	18.70
Pittsburgh	14.47	18.89
Portland, Oreg	13.43	17.36
St. Louis	13.52	17.07
San Francisco	14.01	18.11
Scranton	13.63	17.82
Seattle	14.15	18.33
Washington, D.C	12.71	17.58

The budget cost estimates are used most frequently to measure the adequacy of income for various purposes. The level of the budget should not be thought of as a goal, however, for determining the size of pension or assistance payments since many retired persons have supplemental income from savings, private annuities, and other sources. In evaluating the adequacy of income, therefore, special attention should be given to the concept, definitions, and coverage of the retired couple's budget. It must be kept in mind that this budget relates not only to a specific type of family but also to a specified manner of living. Usually some adaptation of the budget is required before a direct comparison can be made with current money income [12] of individual families or groups of families, or other money receipts must be considered in the comparison. The quantities and kinds of goods and services which make up the budget provide guides for appraising the content of the budget and establishing needs in various situations. For example, for some purpose, the cost of individual categories might prove more useful than the total cost of the budget. For others, it might be desirable to substitute homeowner costs for the rental housing provided by the budget since many older families own their homes; or to exclude the cost of medical care.[13]

TABLE 5.—*Housing budget quantities*

1. RENT, HEAT, AND UTILITIES [1]

Group, item, and unit	Pricing code [2]	Quantity per year
Contract rent: Unfurnished 2- or 3-room dwelling containing specified installed equipment..month	X-801	12
Heating fuel: Most common type heating fuel used in a given city		(3)
Water..cubic foot		7,000
Electricity:		
Lighting, refrigeration, and electrical appliances..kilowatt-hour		1,020
Power for heating equipment..do		(4)
Gas: [5]		
Cooking..therm		72
Hot water heating..do		192
Refuse disposal: Trash and garbage removal		(6)
Equipment:		
Refrigerator	H-730.2 Reg.	.06
Range	H-742.1 Alt.; H-747 Alt.	.06

See footnotes at end of table.

[12] Current money income is defined as regular income from all sources. It does not include inheritances, lump-sum payments from insurance, or sale of property, or occasional gifts.

[13] For a detailed description of available data on income position of older persons and problems in evaluating income adequacy see, Background Paper on Income Maintenance prepared under direction of Planning Committee on Income Maintenance for the White House Conference on Aging, Jan. 9–12, 1961 (Washington, D.C., June 1960); Margaret S. Gordon, Aging and Income Security, in Aging and Society: A Handbook of Social Gerontology (Chicago, University of Chicago Press, 1960); and Lenore A. Epstein, Measuring the Economic Status of the Aged (in Proceedings of the Fifth Congress of International Association of Gerontology, San Francisco, Calif., August 1960).

TABLE 5.—*Housing budget quantities*—Continued

2. HOUSEFURNISHINGS

Group and item	Pricing code [2]	Quantity per year
Household textiles:		
Bedding:		
Sheets	H-410 Reg.; H-411 Alt	1.40
Pillow cases	FB-37	1.55
Blankets, wool	H-430.1 Reg. (C); H-431.1 Reg. (C)	.21
Bedspreads	H-420 Reg. (B); H-421.1 Alt	.10
Towels and other linens:		
Turkish towels	X-101	1.61
Other towels		(7)
Table coverings	H-442 Aux.; H-433 Alt	.26
Window coverings:		
Curtains	H-470 Reg. (C width, A length)	.71
Draperies	FB-42	.31
Other textiles		(3)
Floor coverings		[9] $7.01
Furniture:		
Living room:		
Living room suite	H-601.2 Alt. (A); H-602.2 Reg. (A); H-603.1 Alt. (A); H-604.1 Reg. (A, B); H-605 Reg. (A).	.02
Chair, fully upholstered	X-102	.09
Chair, other	X-103	.07
Table	H-618 Aux. (A, B, C)	.11
Sofa bed	FB-55 (A, B)	.03
Desk, bookcase, etc		[9] $1.35
Bedroom:		
Bedroom suite	H-652.2 Reg. (A, B)	.04
Bed	FB-61	.01
Bedsprings	X-104	.02
Mattress	H-636 Alt. (A)	.09
Chest	FB-62	.01
Dinette set	H-661 Alt. (A, B); H-662 Reg. (A, B); H-671.1 Reg. (A, B); H-672.1 Alt. (A, B).	.04
Other furniture		(10)
Electrical equipment and appliances:		
Washing machine	FB-76	.07
Vacuum cleaner	H-712 Reg	.04
Iron	H-729 Aux	.06
Toaster	H-750 Reg	.03
Food mixer, hand	FB-81	.05
Other equipment and appliances		(11)
Housewares, tableware:		
Carpet sweeper	X-106	.02
Pots and pans		[9] $0.64
Light bulbs	H-766 Reg	8.64
Clock	H-797 Aux. (A, B)	.10
Miscellaneous household equipment		(12)
Other:		
Tools and mending materials		(13)
Insurance on furnishings and equipment		(14)
Servicing and repairs		(15)

See footnotes at end of table.

TABLE 5.—*Housing budget quantities*—Continued

3. HOUSEHOLD OPERATION

Group, item, and unit	Pricing code [2]	Quantity per year
Laundry and cleaning supplies:		
Laundry soap:		
Bar ... 9½ ounces	FB-96	7.95
Flakes or chips ... 12½ ounces	FB-97	5.53
Powder or granules ... 20 ounces	H-801 Reg; H-804.1 Reg	22.44
Starch ... pound	FB-98	4.66
Bleach ... quart	FB-99	7.13
Scouring powder ... 14 ounces	FB-100	10.66
Floor wax ... pint	FB-101	2.86
Other laundry and cleaning supplies		(16)
Paper supplies:		
Towels ... 150-sheet roll	FB-95	7.36
Napkins ... box of 80	H-764 Reg	13.21
Toilet tissue ... 650-sheet roll	H-799 Reg	35.00
Shelf, wax paper, foil		(17)
Services and miscellaneous supplies:		
Laundry sent out ... 20-pound bundle	H-812 Reg	8.72
Launderettes ... pound	H-820 Reg	23.82
Paid help ... days	H-840 Reg	2.79
Miscellaneous supplies		(18)

4. COMMUNICATIONS

Item	Quantity per year
Residential telephone service	(19)
Postage	[9] $7.20
Stationery	[9] 5.76

[1] Requirements specified for fuel, utilities, and equipment do not apply when the cost of these items is included in the monthly rent.

[2] The code numbers identify the specifications used in pricing the articles and services for the budget. A detailed description of the items is available upon request.

[3] Heating fuel requirements vary with the length and severity of the cold season, type of structure, and type of heating equipment. The variation caused by climate is measured in British thermal units (convertible to equivalent quantities of fuel oil, gas, etc.) and the normal number of annual degree days in a given city, derived from annual data published by the U.S. Weather Bureau. (A degree day is a unit, based upon temperature difference and time, which measures the difference between the average temperature for the day and 65° F. when the mean temperature is less than 65° F.; the number of degree days for any one day is equal to the number of Fahrenheit degrees difference between the average and 65° F.). The average number of B.t.u.'s required in a given city may be computed as follows:

2-room units:

Million of B.t.u.'s=0.66 (−333.405+116.016 times the logarithm of the normal number of annual degreedays).

3-room units:

Million of B.t.u.'s=0.825 (−333.405+116.016 times the logarithm of the normal number of annual degree days).

The quantity of any type of heating fuel used in a given can be determined by converting the required number of B.t.u.'s into quantities of the type of fuel used. In the determination of the total amount of fuel required, both the average B.t.u. content and an assumed efficiency factor must be taken into consideration for each specified fuel.

[4] The kilowatt-hours of electricity required to operate oil or gas heating equipment vary according to the amount of fuel used. The average required number of kilowatt-hours assumed here is 0.25 per therm of gas and 0.44 per gallon of fuel oil.

[5] In cities where electricity is the predominant type of fuel used for cooking and hot water heating, it was substituted for gas. The annual requirements are as follows: Cooking, 1,080 kilowatt-hours; hot water heating, 3,480 kilowatt-hours.

[6] Cost paid directly by tenants.

[7] Cost is 33.9 percent of turkish towels.

[8] Cost is 9.2 percent of itemized household textiles.

[9] Estimated cost in 1959 for all cities.

[10] Cost is 3.7 percent of itemized furniture.

[11] Cost is 15.6 percent of itemized electrical appliances.

[12] Cost is 13.5 percent of total cost of furniture, electrical equipment, and housewares.

[13] Requirements for tools, mending materials, and garden equipment vary according to the type of dwelling structure occupied by the family. The 1959 dollar allowance for families occupying single unit dwellings ($4.78) was multiplied by the percent of all 2- and 3-room units of the budget specification represented by single family units in each city.

[14] Cost is 2.8 percent of housefurnishings and equipment.

[15] Cost is 6 percent of furniture and equipment.

[16] Cost is 16.5 percent of itemized laundry and cleaning supplies.

[17] Cost is 31.1 percent of itemized paper supplies.

[18] Cost is 8.3 percent of the total cost of laundry, cleaning, and paper supplies.

[19] 83 percent of the families were assumed to have telephone service at minimum cost with provision for 95 message units per month.

TABLE 6.—*All other goods and services budget quantities*

1. CLOTHING

[Quantities of starred items vary from city to city; see explanatory notes]

Group, item, and unit	Pricing code [1]	Quantity per year
HUSBAND		
Outerwear:		
Topcoats*	A-101 Alt	0.11
Jackets:		
Wool*	A-154 Reg. (A)	.04
Other	A-155 Reg. (A, B)	.02
Sweaters*	X-201	.25
Suits:		
Wool, heavyweight (3-piece)*	X-202	.04
Wool, heavyweight (2-piece)*	A-110 Reg. (A, B); A-114 Reg. (A, B)	.26
Wool, lightweight*	A-110 Reg. (A, B); A-114 Reg. (A, B)	.14
Rayon	A-120 Reg.; A-121 Alt	.01
Wool sport coats	X-203	.02
Trousers, slacks:		
Wool*	A-132 Alt	.24
Rayon*	A-137 Alt	.24
Work	A-170 Reg	.83
Dungarees	A-178 Reg. (A, B); A-179 Alt. (A)	.64
Shirts:		
Dress	A-200 Reg. (A); A-202 Reg. (B)	1.50
Work, cotton	A-185 Reg	1.02
Sports, wool*	FB-135	.26
Sports, cotton and other woven, and knit	A-216 Reg	.67
Other outerwear*		(2)
Underwear, nighwear:		
Undershorts, woven*	A-234 Reg.; A-236 Alt	.58
Undershorts, knit*	FB-137	1.00
Undershirts*	A-230 Reg	1.82
Pajamas	A-220 Reg. (A, B)	.17
Bathrobe	X-204	.04
Hosiery:		
Cotton, pair	X-205	2.73
Nylon, do	A-247 Reg. (A, B)	.66
Rayon, do	X-206	.29
Other, do	X-207	.37
Footwear:		
Shoes:		
Street, pair	A-700 Reg.; A-702 Alt.; A-703 Reg	.48
Work, do	A-710 Reg	.15
Casual, do	X-208	.02
House slippers, do	X-209	.09
Rubbers and boots:		
Rubbers, do	A-718 Aux	.06
Rubber boots*, do	X-210	.02
Hats, gloves, accessories:		
Hats: Felt*	X-211	.51
Gloves:		
Dress*, pair	X-212	.02
Work*, do	X-213	.46
Accessories:		
Ties	X-214	.34
Handkerchiefs	X-215	.68
Other accessories*		(3)
WIFE		
Outerwear:		
Coats:		
Heavyweight*	A-415 Reg	0.17
Lightweight	A-420 Reg	.24
Sweaters*	A-471 Aux	.13
Suits:		
Wool	A-430.1 Reg.; A-431.1 Alt.; A-435.1 Alt	.17
Rayon	X-301	.15
Dresses:		
Wool*	A-490 Reg.; A-491 Alt	.31
Cotton	A-495 Reg. (A, B)	.84
Rayon	A-481 Reg	1.04
Housedresses	A-498 Reg	.86
Skirts	A-450 Aux	.18
Blouses:		
Dacron	A-463 Alt	.20
Nylon	A-464 Alt. (C)	.08
Other outerwear*		(2)

See footnotes at end of table.

TABLE 6.—*All other goods and services budget quantities*—Continued

Group, item, and unit	Pricing code [1]	Quantity per year
Underwear, nightwear:		
Slips:		
Nylon	A-532 Reg.	0.14
Other	FB-187	.47
Corsets	A-540 Reg.	.15
Girdles	A-541 Sup.	.10
Brassieres	A-545 Aux.	.12
Panties:		
Rayon	A-536 Reg.	.89
Nylon	FB-188	.21
Nightgowns and pajamas:		
Nightgowns, rayon	A-522 Reg. (A, B)	.30
Pajamas	FB-185	.04
Robes	A-517 Sup.	.07
Hosiery:		
Nylon stockings ... pair	A-562 Alt. (A); A-563 Alt.	6.02
Anklets ... do	X-303	.12
Footwear:		
Shoes:		
Oxford ... do	A-730.1 Reg.; FB-232	.61
Pump ... do	A-734 Reg.	.61
Casual ... do	A-740 Reg.	.13
House slippers ... do	X-304	.37
Rubbers, galoshes:		
Rubbers ... do	X-305	.06
Galoshes* ... do	FB-242	.17
Hats, gloves, accessories:		
Hats: Felt and other*	FB-192	1.23
Gloves:		
Leather* ... pair	X-306	.13
Other*	X-307	.72
Other accessories*		(3)
CLOTHING MATERIALS AND CLOTHING SERVICES		
Clothing materials:		
Wool ... yards	A-820 Aux. (B)	.04
Cotton ... do	A-810 Reg.	2.71
Rayon ... do	A-800 Reg. (B)	.72
Other (yarn, pins, thread, etc.)		(4)
Clothing services:		
Cleaning and pressing:		
Husband ... garment	H-831 Alt.	6.00
Wife ... do	H-835 Reg.	5.75
Shoe repair:		
Wife:		
Lifts and heels ... number	A-796 Reg.	2.12
Half soles and heels		(5)
Husband:		
Half soles and heels ... number	A-790 Reg.; A-791 Alt.	.69
Heels		(6)
Shoe shines, polish, laces, etc.		(7)
Miscellaneous clothing services		(8)

2. MEDICAL CARE

Group, item, and unit	Pricing code [1]	Quantity per year
Physicians' visits:		
Home	M-306 Reg.	3.3
Office	M-306 Reg.	11.2
Hospital	X-401	2.6
Specialists' fees: Surgical procedures [9]	X-406	.125
Dental care:		
Fillings	M-350 Reg.	.258
Extractions	M-352 Reg.	.366
Cleaning or examination	X-405	.558
Denture work and other types of service (visits).[10]		.818
Eye care		[11] $9.54
Hospital services: [12]		
Group hospitalization insurance plan [13]		.450
Hospital room (days)	M-200 Reg.	5.380
Anesthesia	X-407	.125
Other ancillary services		[14] $3.36
Other medical care		[14] $8.40
Prescriptions [15]	FB-266; FB-267; FB-268; FB-269; FB-270; M-120 Reg.	5.4
Nonprescription drugs [15]	M-150 Reg.; M-161 Alt; M-170 Reg.	[11] $14.32
Appliances and supplies		(16)

See footnotes at end of table.

TABLE 6.—*All other goods and services budget quantities*—Continued

3. TRANSPORTATION [17]

Group, item, and unit	Pricing code [1]	Quantity per year	
		Automobile owners	Nonautomobile owners
Private transportation—Automobile:			
Replacement of automobile	T-220 Reg.; FB-247	0.130	
Operating expenses:			
Gasoline ... gallon	T-400 Reg	393.1	
Motor oil ... quart	T-410 Reg	27.2	
Lubrication	T-510 Reg	4.4	
Antifreeze [18] ... gallon	X-503	1.25	
Tires:			
New	T-302 Sup	.59	
Used or recapped	FB-249	.14	
Batteries	X-504	.47	
Repairs and parts	T-500 Reg.; T-520 Reg.; T-530.1 Sup.; X-505.	[19] $49.66	
Registration fees:			
State ... annual	FB-252	1.00	
Local ... do	FB-253	1.00	
Inspection fees	T-654 Sub	([20])	
Operator's permit ... renewal	FB-254	1.50	
Insurance:			
Annual liability ... annual	T-610.1 Alt	1.00	
Comprehensive ... do	FB-250 (a)	.50	
Other operational expenses		([21])	
Public transportation:			
Local:			
Transit ... ride	T-801; T-821	95.00	208.00
Taxi ... do	X-508	.60	3.50
Trips out of city ... mile	T-870	265.00	329.00
Moving household effects within city.	X-507	[11] $1.11	[11] $1.11

4. READING AND RECREATION

Group, and item	Pricing code [1]	Quantity per year
Reading materials:		
Newspapers (subscription)	R-711 Reg	1.20
Books		[14] $1.24
Magazines		[14] $7.22
Recreation:		
Radios, musical instruments, etc.:		
Radios	R-300 Reg	0.055
Television sets:		
Table model	R-105 Reg	0.042
Console	R-151.1 Aux	0.028
Phonographs	X-601	0.020
Repairs		[14] $1.22
Movie admissions	R-600 Reg	24.28
Other recreation:		
Club dues		[14] $7.86
Other recreational expenses		([22])

5. PERSONAL CARE

Group, item, and unit	Pricing code [1]	Quantity per year
Services:		
Husband:		
Haircut	P-300 Reg	13.49
Shave		([23])
Wife:		
Permanent wave	P-316 Reg	1.01
Wave and shampoo	P-310 Reg	3.83
Other services		([24])
Commodities:		
Toilet soap ... bar	P-101 Reg	52.00
Cleansing tissue ... box of 400	P-164 Reg	10.96
Toothpaste ... ounce	P-130 Reg	20.77
Shaving cream ... do	P-114 Reg	17.92
Shampoo ... do	P-140 Reg	20.30
Home permanent supplies ... refill	P-150 Reg	.20
Cosmetics		[14] $6.97
Razors, blades, nail files		[14] $2.00
Other commodities		([25])

See footnotes at end of table.

TABLE 6.—*All other goods and services budget quantities*—Continued

6. TOBACCO

Item and unit	Pricing code [1]	Quantity per year
Cigarettes........pack..	0-100 Reg.; 0-104 Reg.; 0-120 Reg.; 0-121 Reg.	72.0
Cigars........each..	0-200 Reg........	63.0
Pipe tobacco........ounce..	FB-291........	73.4
Pipe and smoker's supplies........	....	([26])

7. GIFTS, CONTRIBUTIONS, AND MISCELLANEOUS

Group	Item	Quantity per year
Gifts, contributions, miscellaneous........	Christmas, birthday, and other gifts to persons outside the immediate family, contributions to church and charities, and infrequent outlays such as legal fees, bank charges.	5.0 percent of total cost of goods and services.

[1] The code numbers identify the specifications used in pricing the articles and services for the budget. A detailed description of the items is available upon request.

[2] Cost is specified percentage of total cost of itemized outerwear, adjusted for intercity variations due to climatic differences. The percentages are as follows: Husband, 2.3 percent; and wife, 1.6 percent.

[3] Cost is specified percentage of the total cost of clothing, adjusted for intercity variations due to climatic differences. The percentages are as follows: Husband, 2.6 percent; and wife, 7.0 percent.

[4] Cost is 1.3 times the cost of itemized clothing materials.

[5] Cost is 77.0 percent of lifts and heels.

[6] Cost is 18.0 percent of half soles and heels.

[7] Cost is 28.0 percent of total cost of shoe repair.

[8] Cost is 19.8 percent of itemized clothing services. This group includes cleaning and blocking of hats, jewelry and watch repair, tailoring, and clothing repair.

[9] The average number of operations per year for an elderly man is 0.072; for an elderly woman, 0.053. About 60 percent of the operations among the men involve a genito-urinary condition, repair of hernias, or operations on the eye. Reduction of fractures and dislocations, operations on the eye, or conditions of the genito-urinary system accounted for 60 percent of the operations among elderly women.

[10] Estimated cost is 98.6 percent of cost of fillings, extractions, and cleaning.

[11] Estimated average cost in 1959; differs from city to city.

[12] Requirements specified for hospital services do not apply when the cost of these items is covered by a hospitalization insurance plan.

[13] The budget assumes 45 percent of the couples have a family membership in a group hospitalization insurance plan. In cities where plans do not fully cover the cost of hospital ward accommodations and specified ancillary services, an additional allowance covering the cost of these benefits is provided.

[14] Estimated average cost in 1959.

[15] Average prices for items selected to represent all types of prescriptions and nonprescription drugs commonly required by the family weighted by their relative importances in the category of therapeutic end-use in which they were classified.

[16] Cost is 5.2 percent of total cost of prescriptions and drugs.

[17] The mode of transportation within metropolitan districts is related to location, size, and characteristics of the community. The average costs of automobile owners and nonowners were weighted by the following proportion of families: For 3 cities in the northeast region (New York, Philadelphia, and Boston) 14 percent for automobile owners, 86 percent for nonowners; for the remaining 17 cities for which budget costs were computed, 22 percent and 78 percent, respectively.

[18] Cost excluded in cities with mild climate.

[19] Estimated average cost in 1959. This total varies for individual cities according to the differences in cost of labor and parts.

[20] The number of inspections required by law in each city.

[21] Cost is 5.7 percent of allowance for gasoline, motor oil, lubrication, tires, batteries, and repairs.

[22] Cost is 21.2 percent of annual allowances for reading materials, admissions, radios, television sets, and phonographs.

[23] Cost is 10.1 percent of annual allowance for husband's haircuts.

[24] Cost is 4.6 percent of annual allowance for itemized personal services for wife.

[25] Cost is 14.4 percent of annual allowance for itemized commodities.

[26] Cost is 3.1 percent of annual allowance for itemized tobacco products.

See additional notes on page 112.

The budget provides a measure of differences in living costs between cities, and not differences in prices only. In addition to differences in price levels, intercity indexes based on the budget reflect climatic or regional differences in the quantities and types of items required to provide the specified standard of living. Care should be taken, however, in the conclusions drawn from such comparisons, especially by elderly couples considering a change in residence after retirement. The relative differences in cost are those of established families in each city and will not reflect differences in cost associated with moving from one city to another. For example, the rental cost in this budget is the average for occupied dwellings of a defined specification and may vary considerably from that of dwellings available for new residents. Neither do the intercity indexes provide a valid measure of differences in living costs for homeowners.

In evaluating the differences between the 1959 costs of the revised budget and the costs of the original budget when last priced in these cities in 1950, it must be kept in mind that the 1959 costs reflect not only increases in prices and sales taxes, but also the higher standard of living provided by the revised list of goods and services and procedural changes.

The budget has been priced only in 20 cities, and cost estimates are not available for other cities, States, nor for the U.S. average. The budget costs given in this report, therefore, are not representative of the costs in all large cities or of those in cities of other sizes and economic characteristics. Neither are they representative of costs in these 20 cities at other dates.

EXPLANATORY NOTES

The basic clothing budget is the average quantity for large cities and their suburbs. For each city, the quantity of clothing articles specified in the following tabulation are adjusted upward or downward in accordance with local climatic conditions, on the basis of the normal number of degree days as published by the U.S. Weather Bureau. The tabulation shows the quantities of specified items of clothing required when the normal number of annual degree days average 1,400 and 7,850. (For definition of degree day, see footnote 3, table 5.) The quantities required for specific cities were determined by straight-line interpolation.

Item	Normal number annual degree days		Item	Normal number annu degree days	
	7,850	1,400		7,850	1,400
HUSBAND			WIFE		
Topcoat	0.19	0.02	Coat, heavyweight	0.25	0.09
Wool jacket	.05	.03	Sweater	.16	.09
Sweater	.29	.21	Dress, wool	.38	.24
Suits:			Other outerwear [1] (percent).	1.5	1.7
Wool, heavyweight (3-piece).	.05	.03	Galoshes	.27	.07
Wool, heavyweight (2-piece).	.31	.21	Hats, felt and other	1.48	.97
Wool, lightweight	.08	.20	Gloves, leather	.16	.09
Trousers, slacks:			Gloves, other	.90	.53
Wool	.28	.19	Other accessories [2] (percent).	6.3	7.8
Rayon	.10	.40			
Sports shirt, wool	.30	.22			
Other outerwear [1] (percent)	1.8	2.8			
Undershorts, woven [3]	.49	.67			
Undershorts, knit [3]	1.26	.74			
Undershirts [3]	2.08	1.56			
Rubber boots	.09	(4)			
Hat, felt	.55	.47			
Gloves, dress	.09	(4)			
Gloves, work	2.04	(4)			
Other accessories [2] (percent)	2.3	2.8			

[1] The requirements are stated as percentages of total cost of itemized outerwear.
[2] The requirements are stated as percentages of the total cost of clothing.
[3] Only lightweight underwear was priced. The climatic adjustment of the quantities allows for substitution of heavyweight underwear in cold climates.
[4] Not required in cities with normal number of annual degree days less than 3,000.

TOTAL MONEY INCOME IN 1959 FOR FAMILIES AND UNRELATED INDIVIDUALS WITH HEAD AGED 65 YEARS AND OVER FOR THE UNITED STATES, URBAN AND RURAL

Of 6.2 million families with a head 65 and over, one-fourth had less than $1,620 in money income from all sources; one-fourth had between $1,620 and $2,830; almost one-fourth had between $2,830 and $5,000; and over one-fourth had $5,000 or more.

These incomes were for the support of 2.6 family members, on the average, totaling about 9.3 million aged and about 6.7 million younger persons.

Of 3.6 million aged persons living alone or with nonrelatives, half had less than $1,000, four-fifths had less than $2,000.

Some 2.3 million others lived in the home of a younger relative; information on their incomes is not available.

When the head was a year-round full-time worker (the case with about two-tenths of the families and one-tenth of the individuals), the medians were considerably higher: $5,331 for families and $2,688 for individuals. The median income of urban families was about $1,000 higher than for rural families ($3,335 compared to $2,195 for rural nonfarm and $2,176 for rural farm).

Source: Derived from current population report, series P-60, No. 35, table 4, U.S. Bureau of the Census.

Mr. CLAGUE. And in closing, I might just call attention to the attached table which shows that there were 6.2 million families in 1959, with a head aged 65 and over. We show there the way in which such families were divided by one-fourth groups, according to their incomes.

These incomes were for the support of 2.6 family members, on the average, totaling about 9.3 million aged and about 6.7 million younger persons. So a family with head 65 and over frequently has a number of younger persons in it. Such families account for about 9.3 million of the aged.

Of the remaining aged, there are 3.6 million living alone or with nonrelatives, and you notice their incomes in general are smaller. Then 2.3 million others of the aged lived in the home of a younger relative, and there is no information on their incomes. They are probably being supported by the younger groups.

When the head of the family was a year-round full-time worker—and that was the case in about two-tenths of the families and one-tenth of the individuals—the median incomes were considerably higher: $5,331 for families and $2,688 for individuals. That whole group would amount to about 1,600,000 aged families and individuals who would have that type of income. The median income of urban families was about $1,000 higher than rural families.

I think, Mr. Chairman, that summarizes the basic data we have in our testimony here.

Senator LONG. Mr. Commissioner, while you were talking about the various budgets just then, do you have any figures on the income of the retired families 65 or over? As I understood, those figures you just gave us include the income of the working family as well as the retired. Do you have just the incomes of the ones that have retired?

Mr. CLAGUE. The only figures we have on that are those last figures I read. There are about two-tenths of those families with the head a year-round worker who had incomes of $5,331. That means that there is an elderly person working at the head of the family.

Senator LONG. I am interested in the figures of the family that has retired and is not working and has no income of any kind.

Mr. CLAGUE. No, there are no income figures for that type of family, for the retired family.

Senator LONG. No way you can get those figures for us?

Mr. CLAGUE. I understand that figures of that type were collected in the 1960 census, and when those figures are tabulated, we will have figures on that point.

Senator LONG. Will that be shortly?

Mr. CLAGUE. This depends on when the Bureau of the Census gets around to tabulating this, and I am not sure. My staff thinks it will be this fall or possibly early in the spring. That is a special tabulation, I might say, Mr. Chairman.

Senator LONG. Senator Neuberger?

Senator NEUBERGER. Yes. These tables interest me a great deal, partly because my hometown is in the table. You indicate here median income and then a budget. Am I to draw from this that these are urban areas?

Mr. CLAGUE. Yes.

Senator NEUBERGER. The median income is $3,335 for all urban, and then I look over on page 1142 of the Labor Review and I find that the budget for someone in my town is $3,049. Now, are there any overall statistics about the gap between the budget and the actual income for these people? In other words, do these budgets adhere closely to their actual income? Is that right?

Mr. CLAGUE. No, not necessarily. This budget is a theoretical budget. It is drawn on how much food is actually needed to get the necessary amounts of vitamins and calories. It is drawn on the assumption that there is a housing standard, which we said is the renting of a two- or three-room dwelling. This is a budget which approximates what a lot of people who are elderly would actually be living at, but it is a theoretical budget, in the sense it is designed to provide an adequate standard of living.

Now, quite clearly some families have much more income than this and live at a much higher standard and have resources far beyond this. It is also true that there are some families that do not have the degree of income to fit this budget, and therefore they are living at less than this standard.

For example, we cited the fact that for one-fifth of these families we have provided a car. Now, that corresponds to actual fact in the situation. Many elderly couples now do have a car. In our original budget, we did not provide for a car at all; they had to use other kinds of transportation. I mean, that is the standard we used. other kinds of transportation. Now, in that sense, of course, this budget does not necessarily fit the income of any particular family. When you take the average income of all elderly couples, even, you can see that sometimes the income of an elderly couple would run above the cost of this budget and many times, would run below.

Senator NEUBERGER. Yes, because that is not particularly low income for some people who happen to have any kind of resources at all. I mean, there must be a great number of people that live on much less than that.

Mr. CLAGUE. Yes. Well, you see, if you took the four-fifths of the families that do not have a car, they would need somewhat lower incomes. We have used the average of two kinds of food plans in the budget. If you took some of the families and said they would live on the low-cost food budget instead of the average, they could live on the lower income. I might take Atlanta, for example, in table 2, page 1144. Just looking at the first column, you will see that under a low-cost plan they would spend $600 a year; under a moderate-cost plan they would spend $827 a year. So there would be more than a $200 difference in the expenditures, and we have allowed for that in our discussion here. In estimating the total cost of the budget, we have averaged those two kinds of plans; that is, we have averaged the $600 and the $827, but there would be families living on the $600, and their budget would cost less. There would be other families not having a car, for instance, for transportation, so they would not be spending the money that the car owners would spend.

So we have tried to allow for a reasonable margin here to show that there are different circumstances in which this budget might be achieved.

Finally, I wish to remind you again, most families of this type—most elderly couples—own their homes, and a very high proportion of them own them clear. Thus, you see, they will not have as high housing costs as the rental costs in our budget.

Senator LONG. What percentage own their homes, Commissioner, do you know?

Mr. CLAGUE. What is that?

Mrs. LAMALE. About 70 percent in our 1950 study.

Mr. CLAGUE. About 70 percent, and as I understand it, 80 percent of those homeowners own their homes clear. If you put those together, you will see that 56 percent of the retired couples in our 1950 survey were owners of mortgage-free homes. Since most of the families in this group do own their own homes, we clearly recognize the limitations on the use of the budget cost estimates which result from our inability to evaluate the cost of home ownership. They would be able to live somewhat cheaper if they live in their own home and have the mortgage paid for.

Senator NEUBERGER. And isn't this a wonderful thing to know that these people have been building up an equity in the home over the years. I think it refutes the argument that they are just trying to live to the day when they can get a dole or social security. Most people do want to establish an equity in a home.

Mr. CLAGUE. Certainly, and apparently they all look forward to the fact that, as they reach age 65, that home should be clear so they have only the operating costs, taxes, and the maintenance and upkeep. But this, of course, is where some of the housing problems of the aged arise. This leaves them with this home which they have had. It is frequently the home in which they reared their family, frequently a two-story building. It sometimes is not well suited to them, but, how they get away from this home and into another kind of home, or how they would move out from this home ownership to another city, or go South to retire, is an entirely different question.

Senator NEUBERGER. This is borne out in a lot of the mail I get from elderly people saying, "We have worked hard all our lives, we have saved our money, we have been prudent to buy our home and have a place for retirement, but my wife had a terrible operation, our hospital bills were phenomenal, and it has used up all our savings and we are likely to lose our home." And this leads into my interest in the next step for aged people because they tried to get along but hospital costs are too high.

Mr. CLAGUE. In this budget, we have allowed 45 percent insurance, that is, we are assuming that nearly half of these couples have carried over into retirement some kind of hospital insurance which would cover ordinary hospital costs. The others are assumed not to have any excessive or serious illness.

Senator NEUBERGER. You cannot assume that for people of 65 and over.

Mr. CLAGUE. Illness is frequently the thing that makes a family needy. The kind of thing you described will pull the family from self-support or adequate care in their retirement.

Senator NEUBERGER. And if they have had an insurance plan such as Blue Cross, you cannot even budget that, because it keeps going up as hospital costs go up.

Mr. CLAGUE. That is right.

Senator LONG. You are assuming on this budget reasonably good health.

Mr. CLAGUE. The couple are assumed to have the normal illnesses of their age, which, of course, are a little more than those of younger people.

Senator LONG. I think I read in the paper this morning that the chairman of our full committee said 70 percent of the people over 65 were in need of medical care or hospital care. Do you have any plans for including medical care or hospital care in your budget?

Mr. CLAGUE. Oh, yes, it is in here in the sense that we have allowed for medical care and hospital care for an average amount of illness; that is, the average amount of sickness for people of this age. Neither of this couple is assumed to be bedridden nor in need of nursing care, nor anything of that sort, and the budget does not include any terminal illness cost or the costs associated with the death of one of the members of the family, et cetera, but it assumes they have the average illness of elderly couples.

Senator LONG. Where is that budget?

Mr. CLAGUE. If you will look again on page 1144, table 2, and read down the first column, there is food, then housing, then medical care. You see, it is running about $241 in Atlanta. It runs higher in some cities, for example, $327 in Cleveland. I believe the highest medical budget costs are $336 in Seattle, $346 in San Francisco, and $366 in Los Angeles. That, as I said, includes an assumption of 45 percent of the couples having insurance for hospitalization and assuming the rest of them pay their medical costs out of their pockets.

The staff points out to me that that is based on the 1957 health survey conducted by the Public Health Service and represents the average experience of these types of families.

Senator SMATHERS. I would merely suggest to you, very modestly, that when you run one of these again it would be advisable to include a Florida city, because of the large number of retired people living in Florida.

Mr. CLAGUE. It happens that we are revising the Consumer Price Index now and are studying actual family expenditures at the present time. We have surveyed the 1960 expenditures of about 5,000 families and this coming year we will be surveying the 1961 expenditures of about 5,000 families. As a matter of fact, we will also be surveying another 5,000 families in rural farm and rural nonfarm areas.

The data for urban places are to revise the Consumer Price Index and are designed to give us weights and items that go into the consumer index, but we do get the expenditures of these families, together with their incomes. The surveys will include such elderly couples as show up in our sample.

Among the surveys, we are making at the present time, we do have a city in Florida; we have Orlando, which is one of the cities that was drawn in the sample. We will have actual income and expenditure data in that particular area.

But you really raise a more serious problem, and that is, should we be trying to price this type of budget in cities where a large number of people retire even if they do not show up in our price index sample? So far, we have not had the money to do that, and it would require a special appropriation.

Senator SMATHERS. I think it would be important to go to an area such as Florida and California where there are a large number of people of 65 and over, where you have a high concentration of them, because otherwise you really do not get, I think, a representative picture from cities having a smaller number, and older, than you do in certain areas in California, in certain areas in Florida.

I think a lot of people—I am not trying to do this to increase the business of Florida, but if it could be established, for example, that living in warm weather, which elderly people like to do, without the need for a central heating system or things of that kind, it might be that a lot of elderly people would be encouraged by these statistics in which you show that they could live less expensively and at the same time more comfortably in one area of the country over another. I know you are not in the real estate business and you will not get in it, but I do think, as a fair matter, you ought to have either one or the other of these areas, California or Florida, in this to get the total picture. We have, as was demonstrated here yesterday, a larger percentage of elderly people in Florida than any other State in the Union.

Senator LONG. You do not need much air conditioning there either.

Mr. CLAGUE. Yes, Senator, it is true. You will notice that Houston, Tex., away down on the gulf, is the lowest cost city in the group of cities we have here.

Senator SMATHERS. I do not have any questions, Senator.

Senator LONG. The only other question that I wanted to inquire about: You mentioned your Consumer Price Index. That applies to all groups. Has not there been a suggestion made that there be a consumer price index based on costs just for the elderly? Will you comment on that?

Mr. CLAGUE. Yes; there has been. Let me say first, our Consumer Price Index does not apply to all groups. It covers only employees, wage-earning, and salary-earning people in the middle-income groups. It does not include farmers, farm workers, businessmen, or professional men. We gather the information on all those families when we make our surveys that I described a moment ago, the family expenditure studies, but we do not use all the data in the index. We use only the data for the great bulk of people who are employed, the wage and salary earners. That means the retired elderly are definitely excluded from the index.

In 1951, when the House Committee on Labor made a study of our index, they recommended that there should be specialized indexes for people like this, for elderly couples, for people on relief, or even for other groups in the population; but recommended they not be included in the present index because it would cloud the issue of changing prices. They also recommended that such indexes ought to be paid for, not by us, but by some of the agencies that would use them. But that is solely a question of where the appropriation would go.

The answer is that an index could be constructed for elderly couples, just as it can be for the central group that we have in the index.

Senator LONG. No such index is available now?

Mr. CLAGUE. No such index is available now.

Senator LONG. Do you think it would be desirable that we would have such an index?

Mr. CLAGUE. I think with respect to that we ought to hear from the Social Security Administration, from the welfare agencies in the States and localities, from the agencies which are concerned with retired elderly people, as to whether they think that kind of an index would serve their purpose. That is what it would be for, trying to determine what the cost of living is like, and how it is behaving from year to year for the retired group.

Senator SMATHERS. Do you turn your information over to Social Security?

Mr. CLAGUE. Oh, yes. This whole budget was worked out in collaboration with the Social Security Administration. You will notice that in the work of the original budget, we helped them. Then this last time, we worked it up ourselves, and they helped us. So there is the closest association in this.

Senator SMATHERS. We had testimony yesterday by Mr. Wilbur Cohen with respect to where these people were getting their money, that is, private incomes, social security, and old-age assistance. Are these the same figures which you people have?

Mr. CLAGUE. Yes.

Senator NEUBERGER. Mr. Chairman, I have another question.

Mr. CLAGUE. Pardon. One other point I might mention. Mr. Chase reminds me that the White House Conference on Aging this year recommended that there be a special consumer price index for elderly couples.

Senator NEUBERGER. I am reminded by what Senator Smathers has just said. We had some interesting charts yesterday from the social security agency, but there was one thing they did not show. Is there a sharp reduction in the percentage of the population which is in the labor force corresponding to the growing numbers of retired persons?

Mr. CLAGUE. Yes. Taking men, who are more likely to be in the labor force, there has been a gradual reduction in the number of men over age 65 in the labor force over many years—50 or 60 years. I do not mean an absolute reduction in number, but a smaller and smaller proportion of men beyond the age of 65 are in the labor force as we go along, decade after decade. The same thing is true of women, although their proportion is relatively small. As I recall the latest figures for men—I don't know what year they refer to—about 36 percent of the men over 65 were in the labor force and 10 percent of the women.

Senator NEUBERGER. Then it does show that one of the objectives of the social security was to take some people out of the labor market, was it not?

Mr. CLAGUE. Oh, yes; it certainly has done that. I do not think there is any doubt about it. Many of these people would certainly be in the labor market seeking jobs if they did not have social security. There are other factors present, of course, such as the movement away from the farm, where older people can make a living relatively easily, to the city where they cannot. In addition, there is no doubt about it that the social security payments are encouraging more people to leave the labor force after age 65.

Senator NEUBERGER. Well, then, conversely, as people are living longer, therefore perhaps their years of productivity extending beyond 65, would there be any conditions that would require that the age of retirement be raised?

Mr. CLAGUE. Well, perhaps the age of retirement is really going to work in two directions. You are already lowering it persistently, you see, for people who want to get out earlier or who need to get out earlier, for example the recent reduction to age 62. Many people cannot stay in the labor force either for health reasons, or because they are not very employable, after age 60, because of the occupation they are in. On the other hand, we know of many people in the seventies, and I suppose even up in the eighties, who work. So probably what will happen is—and this is the most desirable system, it seems to me—that there would be a retirement age to which people could retire that might be lower, but there would be nothing to force them into retirement at that age. Under such a sysem, they can work as long as they want to, and as long as they can get a job, and many of them will continue to do that. As you can see from our figures here, there is a considerable number that are presently working the year around.

Senator NEUBERGER. Does not industry set up a compulsory retirement? It seems that it is no longer effective after 25 years, because we have gradually increased the life expectancy.

Mr. CLAGUE. In answer to your first point, yes; some industries do have compulsory retirement. I do not know exactly how the private pension plans break between compulsory and voluntary retirement, but my impression is that a great many of them are compulsory. So you do get a good many put out at age 65, say, or whatever age the retirement plan specifies. Then when they drop out under the private pension plan, they probably will elect to take social security at the same time, because they may need both incomes.

Senator SMATHERS. On that point, is it not a fact that the Government, probably more so than anyone else, encouraged retirement at age 65.

Mr. CLAGUE. No. There are so many different Federal Government retirement plans. In our civil service plan, which is the largest one, we have until age 70 before compulsory retirement; but we can retire at age 60 with certain length of service, and age 62 with certain length of service, and even earlier than that with a reduction in our pension. So the Federal Government has wide range for retirement possibilities, certainly, between 60 and 70.

Senator SMATHERS. Do they let people in Government work beyond 65?

Mr. CLAGUE. Oh, yes. In fact, a Federal civil servant cannot be forced out of his job except for inefficiency or lack of productivity until age 70 in the Federal civil service retirement. The retirement age there is 70.

Senator SMATHERS. It is compulsory at 70?

Mr. CLAGUE. Yes; it is really compulsory, because the President of the United States has to approve your staying on, so it is pretty firm.

Senator SMATHERS. In the military, is it compulsory?

Mr. CLAGUE. There it is younger. I do not know too much about it, but as I recall it, they have retirement at 64, which, I believe, is compulsory. I had better not try to answer that too certainly, because they have provisions for younger persons drawing a retirement pension after a certain number of years of service. The number of years of service counts very heavily in the military.

Senator SMATHERS. On this particular point, do you have any observation to make about the fact that if a person is 50 years old and wishes to come to work for the Government, or for that matter, private industry, they have a very difficult time getting employment?

Is that a true statement, and if so, do you have any observations to make about it?

Mr. CLAGUE. In the experience of the Employment Service, it is true that an older person does have a pretty tough time getting a new job when he loses his job. Most firms in private industry take care of their own older persons. We find that the unemployment rate among older people is not so very high. Every firm takes care of its own. But when some disaster occurs, for example, a firm closes down, and everybody is thrown out, it is hard to get other firms to employ the older people. They say, "We are taking care of our own, but we cannot handle any additional ones." The average duration of unemployment of such elderly people is approximately 6 months. They often have to drop further down in the work scale before they find anybody who will take them on. It is tough for anybody who gets out of work.

In the Federal Government, to answer that point, so far as I know, we have no absolute scale, or upper age limit, at which we appoint people. Theoretically, you cannot get very much retirement out of the Federal service until you have had 15 years of service. So, some years back, age 55 was quite a crucial age, because after 55, you could not get in 15 years before age 70. But we even had a fluid arrangement there, so that a person could work beyond age 70 without Presidential approval to get in his 15 years. We have, in our Bureau, an instance where a person worked until 72. When he came in he was aged 57, and he had an opportunity to stay on to qualify.

Senator SMATHERS. I have a large number of people who write me regularly and talk about the fact that having had to change jobs once they get above 45 and then try to go out and seek employment, even with the Government, while there is no law against it, while there is no regulation against it, they just have a very difficult time getting employment when they are in their upper 40's or all through the 50's. I wondered if you have any statistics with respect to the difficulty that people are having obtaining employment after age 40, 45, and 50.

Mr. CLAGUE. Yes; we are doing a great deal of work in the Department of Labor on that. In the last few years, a great deal of work has been done. We have made a number of studies in the Bureau of Labor Statistics on the productivity of older people. How well do they do in jobs, comparable to younger people? We have published a number of pamphlets on that subject and try to popularize them throughout the country. What it shows is many older persons, even up to 65 years of age, are practically as efficient, on the average, as he younger people, say, 30 to 40 years of age, and they have certain qualities that are advantageous, even. They have less absenteeism. They do relatively well in stability. They stay, of course, and are not quitting all the time.

On the other hand, it is true that some of them do not do so well. The problem is that among older people, say, between 60 and 65, you will find some very good, some intermediate ones, and some very poor ones. The reason why some employers hesitate to hire them is that they do not know how to choose to get the right ones, those that are really employable, and this is our great problem in this area. With the younger person, an employer is always willing to take a chance. At age 25, if he does not work out, you can drop him; as a matter of fact, he will probably want to drop out anyway. If you hire a person age 60, you might get a person not readily employable. If he does not work out, the employer hesitates to drop him.

The problem is to devise ways of testing older people for occupations so that as many as possible can be satisfactorily employed. Those that cannot be satisfactorily employed, of course, ought to be able to retire.

Senator LONG. Mr. Commissioner, there has been some feeling or some thought perhaps, I gathered perhaps that was something that you were touching on, that there is a possibility that our economy cannot afford too many unemployed or much greater increase in benefits to an unemployed population that is retired, such as we might have here, and I notice some information we have here that John McConnell of Cornell University has suggested that on our gross national product as of now the earning or active working people are contributing about 2.6 percent to taking care of the retired segment of our society. It is estimated that is 1975, that that income will increase, the product will increase 65 percent while the increase of our retired population over 65 will only increase 45 percent. Would you care to comment as to whether or not, in your view, we could even provide better benefits for our retired population than what we are doing now and even still greater, perhaps, in 1975?

Mr. CLAGUE. Well, our economy is going to grow. We are going to get richer in the sense of having more goods and services and a higher standard of living. This has been occurring in the last 15 years, since World War II. Some recent estimates we made show a rise of about 25 percent in the real well-being of the average family in the United States in the last 11 years, and there is no reason for thinking that will not go on. So resources should be available to provide more adequately, and I would think it would provide more adequately for older people as we move along. In that sense, the main problem, as I see it, is to insure that the elderly people, couples or single persons, are able to preserve the purchasing power of their pension for the length of time that they will be drawing it, 10, 15, 20 years, whatever it may be. In that sense, if the cost of living goes up, if the Consumer Price Index goes up, you will have to readjust and spend more money out of the total economy. But we ought to be earning more money, too.

Senator LONG. Giving them the right to work, then, even part time, would not solve their problem. It would solve it easier by increasing their benefits.

Mr. CLAGUE. Yes; it would. As a matter of fact in the labor market we anticipate growing numbers of people trying to work part time. We already see evidences of that.

I cited here in this table [indicating] the number of year-round workers, working full time, i.e., holding regular jobs, and, of course, earning funds, which means they are really in the labor market all the time. But I find that there are a good many people—we do not know the exact number yet, but I feel sure it will grow—who want to work a limited amount of time to earn a limited amount of money to supplement the retirement pension. We are going to have a good deal of demand for part-time employment by elderly people.

I think now under social security—what is the figure, $1,500, they are permitted to earn?

Dr. SHEPPARD. $1,700, and then the 1-to-1 ratio.

Mr. CLAGUE. Whatever that figure is, a good many will try to hold jobs, and I think we will find them in the labor market regularly. Some of them who declare themselves unemployed, for example, in the questionnaires of the household survey when we go around surveying employment and unemployment, are looking for work. Some are healthy, some have attacks of ill-health, and some are retired.

Senator LONG. Mr. Clague, thank you very much, unless some of the other members of the committee have some questions. Senator Neuberger?

Senator NEUBERGER. No.

Senator LONG. Thank you very much.

Senator SMATHERS (presiding). Then our next witness will be Mr. Edwin Shields Hewitt of Hewitt Associates of Libertyville, Ill.

Is Mr. Hewitt here?

Mr. HEWITT. Yes, sir.

Senator SMATHERS. All right, sir; you go right ahead.

STATEMENT OF EDWIN SHIELDS HEWITT, EDWIN SHIELDS HEWITT ASSOCIATES, LIBERTYVILLE, ILL.; ACCOMPANIED BY THOMAS H. PAINE, ASSOCIATE

Mr. HEWITT. Thank you, Mr. Chairman.

Members of the committee, I am a partner in Hewitt Associates. Ours is a firm of consultants and actuaries, helping organizations find answers to problems on pensions and employee benefits. Participating with me is my partner, Thomas H. Paine. Tom Paine is not a stranger in Washington. He was formerly in the Department of Labor. While there he coedited the first report on pension plans in collective bargaining. He then was on the Committee on Retirement, studying pension and insurance plans of Government people. He was the expert on private retirement and insurance programs on that committee and cooperated in the principal report of that committee.

Incidentally, neither of us is an actuary.

We appreciate the opportunity to appear here today and discuss some of the basic issues involved in providing retirement income.

We are pleased that this subcommittee is devoting attention to this subject in its broad form. Frequently it is difficult to consider a problem as significant as this except in terms of a specific piece of legislation which applies to only one part of the issue. We hope the broad framework for these hearings can provide the basis for constructive approaches to the whole problem of retirement income, its sources and characteristics.

Our remarks will be concentrated on private plans providing retirement income involving group action, including pensions, profit sharing, and employee savings plans. With your permission we will illustrate some of the remarks in our statement with visual material.

Senator SMATHERS. You have our permission.

Mr. HEWITT. Three questions appear to merit attention:

(1) What are some of the trends guiding development of private plans today?

(2) What are the alternative approaches to the proper division of responsibility among Government-sponsored forms of retirement income, private plans, and individual action?

(3) What conditions are conducive to the continued growth of private plans?

Due to the time limitations, I will not be able to present the entire prepared statement, but we would like to review the items that are included and discuss some of them in detail, but ask that the entire statement, copies of which we have, be made a part of the record.

Senator SMATHERS. It is all right, sir. Without objection, then, that will be the case.

(The statement referred to follows:)

PREPARED STATEMENT OF EDWIN SHIELDS HEWITT AND THOMAS H. PAINE

My name is Edwin Shields Hewitt. I am a partner in Hewitt Associates, a firm of consultants and actuaries helping organizations find answers to problems on pensions and employee benefits. Participating with me is my partner, Thomas H. Paine. We appreciate the opportunity to appear here today and discuss some of the basic issues involved with providing retirement income.

We are pleased that this subcommittee is devoting attention to this subject in its broad form. Frequently it is difficult to consider a problem as significant as this except in terms of a specific piece of legislation which applies to only one part of the issue. We hope the broad framework for these hearings can provide the basis for constructive approaches to the whole problem of retirement income—its sources and characteristics.

Our remarks will be concentrated on private plans providing retirement income involving group action, including pensions, profit sharing, and employee savings plans. Three questions appear to merit attention:

1. What are some of the trends guiding development of private plans today?
2. What are the alternative approaches to the proper division of responsibility among Government-sponsored forms of retirement income, private plans, and individual action?
3. What conditions are conducive to the continued growth of private plans?

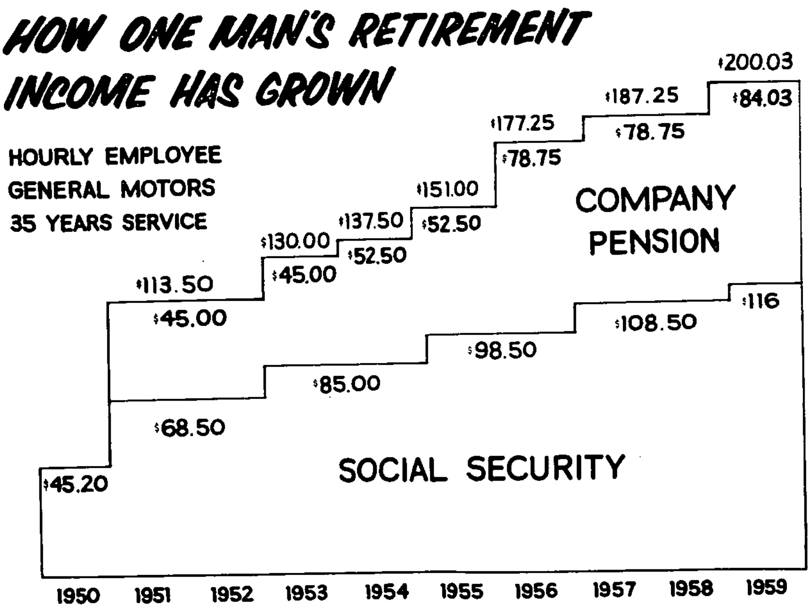
I. TRENDS GUIDING DEVELOPMENT OF PRIVATE PLANS TODAY

There is little uniformity in plan provisions among private pensions today. This is not surprising, considering that each employer, perhaps with a collective bargaining representative, designs a retirement program uniquely suited to the particular needs of the employee group covered. This lack of uniformity makes generalization difficult. However, there are certain themes of development which appear to be occurring with significant frequency. Here are some of the more important developments we see today which influence amounts of retirement income.

1. Retirement benefit amounts have been increasing in recent years. A typical program may now be providing about 45 percent to 50 percent of a worker's pay at time of retirement, including the primary social security benefit. There are strong indications that the so-called leaders or pattern setters are aiming at levels of about 60 percent of preretirement pay for career employees.

We can illustrate the progress made in increasing benefit amounts by examining one of the big pattern setters—the pension plan negotiated between General Motors and the United Automobile Workers.

CHART V



In 1950, prior to negotiation of the original pension, a retired GM employee received social security of about $45 per month. By 1959, after the most recent pension negotiations, social security had increased to $116 and a pension was payable equal to $2.40 for each year of service through 1957, $2.43 for the year 1958, and $2.50 for each year thereafter. Total retirement income had thus risen from $45 in 1950 to $200 in 1959 after a career of 35 years. This latter figure represents approximately half pay for the retired hourly employee, not counting the wife's benefit under social security equal to about $58.

2. We suspect that benefits under some private pension plans have developed to the point where we may soon see them begin to level off when expressed as a percent of a person's final preretirement pay. For example, if we return to our

CHART VI

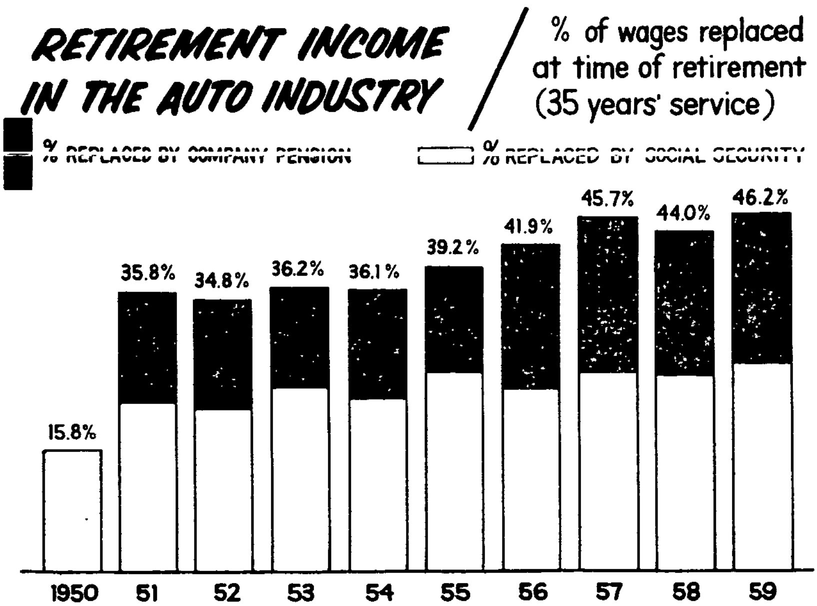


illustration of the GM hourly pension, we can note that somewhere between 45 and 50 percent of pay is being replaced. The increases in pension and social security amounts during the last 10 years are not as startling when expressed in relation to pay since earning rates have been going up along with benefit increases. We know of many companies which are aiming at a long-range target of about 60 to 70 percent of preretirement pay for career employees.

This target level can be compared to the amount of money needed to provide a moderate budget for a retired couple. The Bureau of Labor Statistics measured such a budget for various cities in the autumn of 1959. At that time, social

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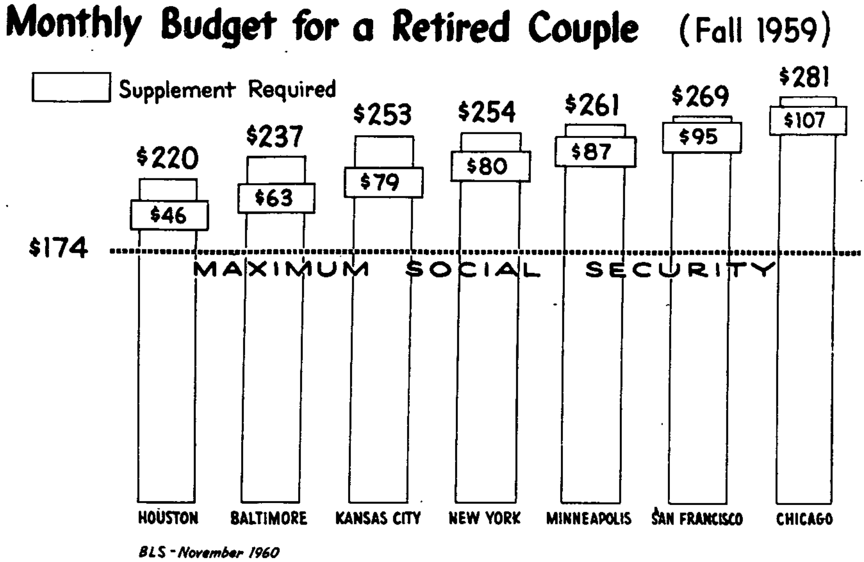
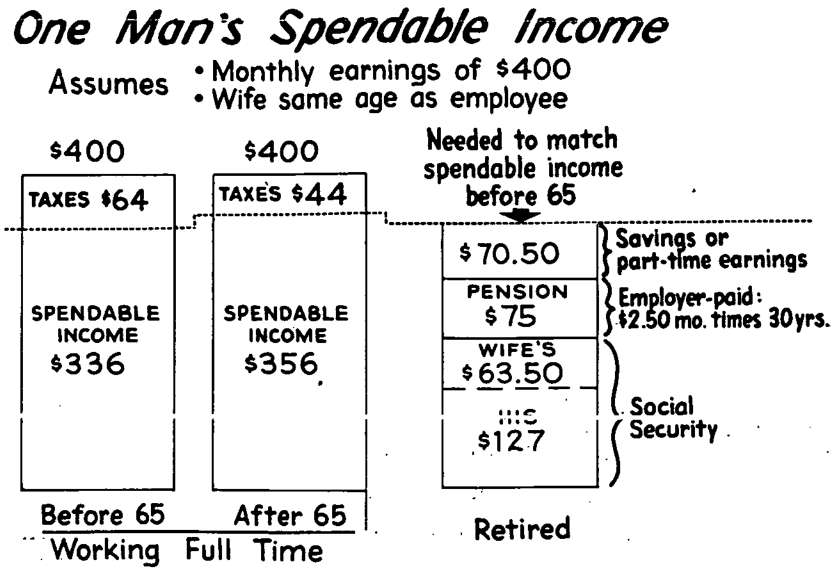
CHART VII



security provided a maximum of $174 per month for an elderly couple, which represented between 62 and 79 percent of a retired couple's needs in different cities. The monthly amount required to supplement social security to reach the budget level ranged from a low of about $46 in Houston to a high of about $107 in Chicago. This means that an employee retiring with 35 years of service on a pension of $2.40 a month per year of service would have a pension of $84 per month and could live at the budget level or higher in 13 of the 20 areas studied. This would seem to suggest that in many situations employees will prefer not to defer additional amounts of current earnings to provide retirement income in excess of the Labor Department's estimate of an adequate standard of living for an elderly couple.

Another factor which may influence the leveling off of pension benefits as a percent of pay is the ability of retirees to earn certain amounts of current income after retirement without forfeiting social security benefits. A retiree who combines social security benefits with a moderate pension, his own resources, and/or part-time employment can maintain his full preretirement standard of living, after taking into account the change in his tax status. For example, a man earning $400 per month before age 65, who has a wife the same age but no dependent children, has spendable income of $336 after income and social security taxes.

CHART VIII



If he continues working full time after age 65, his spendable income goes up to $356 because of the decline in income taxes due to double exemptions for him and his wife. If he retires with a typical pension of $75, his total retirement income is $265.50. This is only $70.50 per month short of his spendable income before age 65. And he could make up the remainder by various means. For instance, $10,046 invested in an annuity would provide the $70.50. Or investment of $21,150 at 4 percent would meet the goal through interest earnings. In fact, this person could have income of $390.50 per month and have the entire amount nontaxable because of personal exemptions and the tax-free status of social security.

3. Even if pensions as a percentage of pay begin to level off, the problem facing the retirement plan does not disappear since earnings levels keep changing. Ways must be found to keep pension amounts increasing so as to protect the percentage of pay which that pension represents. There is a significant trend for private pension plans to find methods of offsetting the effects of inflation in prices and wages. There are different methods being followed which approach this problem:

CHART IX

Methods of offsetting the effects of inflation

Periodic revisions in benefit amounts

Employer Responsibility	Investment Experience
• "Final-average pay" plans	• Individual account plans
• Cost-of-living pensions	• Variable annuities

The most prevalent method is periodic improved revisions of benefit amounts. In many cases, these changes are extended to retired as well as active employees. Thus, this type of revision helps to offset changes in the cost of living for both groups.

There are several ways of offsetting the effects of inflation which are being incorporated into plan provisions. These methods fall into two categories:

(*a*) Arrangements under which the plan guarantees to pay the prescribed benefits, and these benefits may vary automatically without plan amendment. Examples of this approach include the following:

(1) One is the so-called final pay formula. Under such an arrangement, the plan guarantees to pay the employee a stated percentage of his earnings based on his average pay in the years immediately preceding retirement. For example, one common formula provides a pension equal to 1 percent of average earnings during the last 10 years of service multiplied by total years of service. If a person's pay increases during his working career due to inflation and promotion, the plan agrees to underwrite the cost necessary to relate the person's pension to his income in the last 10 years.

(2) Another method used by some companies is the cost-of-living pension. Under this arrangement, the company guarantees to provide units of pension which change in value in proportion to changes in the cost-of-living index. Under this plan the employee is guaranteed the benefit related to the cost of living. This provision may affect only postretirement payments, or may also be extended to the value of benefit units during the accumulation period.

(*b*) The second type of automatic mechanism to offset the effects of inflation is one under which the funds are invested in securities whose value is expected to change in somewhat the same proportion as living costs. The employee is given the benefit of changes in investment experience. Examples of this approach include:

(1) One method is represented by profit sharing and savings plans which place the company's contributions in individual accounts for each participant. Earnings and capital gains on invested funds accrue to the benefit of participants. Thus, to the extent that there is a correlation between changes in the cost of living and the value of invested funds, an inflation hedge is provided.

(2) Another method is the variable annuity. Under this type of plan the benefit is fixed in terms of units rather than dollars. The value of the unit varies with the value of the invested funds. Thus again, if there is a correlation between investment experience and the cost of living, a hedge against inflation is provided.

We certainly would not describe the trend as being toward any particular one of these devices. In different situations, different methods are appropriate. However, we would say that there has been a major trend toward finding a solution to the problem of inflation.

4. Another significant trend is the movement toward vesting. Defining the term "vesting" can be accomplished by answering three questions:

(*a*) When is the credit earned? Under a vesting provision, credits can be earned under any of these alternatives:

(1) Only at retirement. This is the "purest" form of pension, paying benefits only at retirement age.

(2) Upon early retirement. This is usually expressed in terms of a right to a reduced benefit in event of retirement 5 or 10 years before the specified "normal" retirement age.

(3) In event of disability. This benefit may take the form of immediate payment of benefits upon permanent disability or protection of accrued rights during the period of disability.

(4) In event of death.

(5) After a specified age and/or years of service. A typical private pension plan vests after 10 years of service and attainment of age 40.

(6) Unrestricted—at any time.

(*b*) When and in what form is the vested benefit to be paid? There are various alternatives which can be considered:

(1) Immediate cash vesting.

(2) Immediate income vesting.

(3) Deferred cash vesting.

(4) Deferred income vesting.

(*c*) How is the benefit determined or measured?

(1) Value of the accumulated amount at time of termination.

(2) Annuity credit earned to date of termination.

(3) Related to a specified number of cents-per-hour or percent of compensation earned during employment.

Unquestionably, there is a trend toward increased vesting. However, it is possible that vesting may not continue to be liberalized to grant deferred benefits much before the completion of 10 years of service. Obviously, the cost of vesting increases if it is extended to short-service people among whom turnover is characteristically highest. An employer, and perhaps his collective bargaining representative, may well feel that the amount of money to be spent for vesting among short-service people can be better spent increasing the benefits for those who stay until retirement.

5. Another major trend is toward providing protection against medical expenses for retirees. Most employers today have medical benefits for active employees and their dependents. In recent years, considerable effort has been made toward granting protection to persons after they retire. In some instances, the employer pays the cost for this continued coverage. In other instances, retirees share the cost. Another approach is prepayment of medical costs before retirement by the employer or the employee, or both. In still others, the retiree must bear the cost but has the opportunity to convert without evidence of good health.

Regardless of the source of payment, private industry is moving toward having money available to meet medical expenses. This is, in effect a movement toward protecting a person's retirement income against the shock of heavy and unpredictable medical expenses. Of course, this does not mean that medical care is "free" for retired employees. It is never free, whether the cost is paid by the individual, his employer, or through a government program. The trend is the movement toward finding methods of making funds available to meet medical needs.

II. DIVISION OF RESPONSIBILITY AMONG GOVERNMENT PROGRAMS, PRIVATE PLANS AND INDIVIDUAL ACTION

The second major question we would like to devote some time to is—What are the alternative approaches to the proper division of responsibility between government sponsored forms of retirement income, private employer plans and action by the individual?

Perhaps we can approach this problem by defining certain levels of retirement income.

CHART X

Levels of retirement income

"Dependency" level
- to provide necessities of life
- to prevent dependence on society

"Adequacy" level
- to guarantee moderate living standard
- related to:
  - individual's pre-retirement pay
  - costs of living in local area
  - family status

"Optional" level
- to provide funds for individual desires beyond what is needed to maintain moderate living standard

1. The first level might be described as the "dependency" level. This is the level of income needed to guarantee the basic needs of postretirement living—food, shelter, etc. Expressed in another way, the "dependency" level is that amount of income which is necessary to free the individual from becoming dependent on society for the necessities of life.

2. The second level can be described as the "adequacy" level. This is the amount of income needed to guarantee to the individual a moderate standard of living during retirement years. As a measure of living standards, it must, of course, be related to preretirement income. For example, we could describe the Bureau of Labor Statistics budget for a retired couple as being the adequate level for persons with average earnings rates—around $350 per month. For higher paid persons, this level will be higher. This level will also vary by such factors as geographical area and by whether or not the retiree has dependents.

3. Beyond the level of adequacy, there is no quantitative measuring point. However, we can establish this as the "optional" level or standard which the individual desires in excess of that which could be described as necessary.

There has been considerable controversy about the place of the Government social security program in providing standards of retirement income. From one viewpoint, the Government system should attempt to fulfill the needs of the dependency level. Under this concept a Government program should be based on the concept of group need.

The old age and survivors insurance program is based on the concept of group need, notwithstanding the social insurance features of individual accounts, advance funding, and cotributions by each member of the system and his employer. The standard of group need is evident in the levels of benefits, the heavy formula weighting for low earnings, and the provisions for extra benefits for those with dependents, who presumably have need for greater income. The idea of group need differs from the concept of individual need in that policy is determined on the basis of the needs of the typical member of the group, while a program based on individual need employs a "means test" to determine eligibility for benefits. Another point of difference is that the standard of group need requires that a significant percentage of the group covered be in need of a specified benefit in order to justify the expenditure of funds for that purpose.

Relating social security to the dependency level of income does not imply that benefits under the Government program should be static. Instead they should be changed whenever alterations in living costs change the amount needed to eliminate dependency. However, it does mean that social security would not increase in the future to try to offset a higher proportion of pay if not needed for dependency reasons.

A second theory is that social security should continue to expand until it reaches the level of adequacy. Under this theory the Government program is intended to be a form of income replacement and should currently do for all citizens what some of them cannot do for themselves or through their employers.

Frankly we believe that the appropriate role for social security is to replace needs at the dependency level. There should be room for individual and employer action in meeting the standards of adequacy.

The basic reason for this view is that the level of adequacy cannot be defined on a national level. It varies by living costs in each location, by earnings levels and by individual circumstances which affect specific persons. A private pension sponsored by an employer can attempt to meet that part of the residual level of adequacy which is represented by the common needs of the employed group, still leaving certain areas for individual action, or cooperative action between an individual and his employer, with respect to those needs which are not common among the group.

To put it another way, action by an employer or an individual must have an economic justification. It is not appropriate to try to accomplish national social goals through private pension plans or individual savings.

Let us look for a moment at the justification for private pension plans. In addition to being a way of providing retirement income, such a plan represents a tool for the employer to accomplish certain goals. These goals will be present or absent for a particular employer depending on his objectives and the conditions under which he operates. Two of the more common employer goals are the following:

(*a*) He may wish to use the pension to accomplish certain personnel objectives, such as building morale among employees, attracting competent people in competition with other companies, and discouraging turnover.

(*b*) He may consider a pension to be a means to effectively retire the older employee who is no longer competent to perform his job. The plan allows for retirement to take place in a manner which produces no adverse employee or community reaction. In effect, the pension benefit is the price the employer pays to purchase the right to freely take the action of retiring the too-old worker.

Since there are employer needs to be met by a private plan, the level of income between the dependency and adequacy levels must be left for private action. If the social security program were to be expanded to provide the level of adequacy, the employer would have two undesirable choices: First, he could provide more income to the individual than was needed in order to accomplish his goals; or secondly, he could give up a private plan as a means of securing his objectives.

In considering the question of the proper distribution of responsibility between Government, employer, and individual, one conclusion which can be drawn is this: There is an appropriate area of action for each. It is not desirable for any one of the three to be considered the sole source of retirement income. Planning must take place in such a way so as to allow each of the three sources to accomplish its objectives.

III. WHAT CONDITIONS ARE CONDUCIVE TO THE CONTINUED GROWTH OF PRIVATE PLANS?

In looking to the improvement of retirement incomes, we must establish certain perspectives:

(1) Today's levels of retirement income are not an adequate measure of the progress of private retirement programs. Since we are dealing with present actions that produce future income, our appraisal must look beyond today's results to the income being created for tomorrow.

This is not to say we ignore present need. But it does suggest that any action of other than a temporary nature affecting retirement income should be based on future projections of the results of present and anticipated practice.

(2) Our present approach contemplates action by the individual, by the individual and his employer, and by the individual, his employer, and Government. Consequently, in analyzing each source of retirement income we must view it in its entirety.

Similarly, in viewing privately provided retirement income, it is necessary to consider, in their totality, the many and varied devices available to employer and employee, either separately or jointly. One must be aware of possible overlapping of action in seeking the total result.

In considering an analysis of future growth it may be helpful to establish, in broad ranges, the various categories with which we deal. A breakdown of the total work force reveals the extent of coverage under formal retirement plans (public or private) as follows:

	Million
Covered:	
Under formal private plans	20¼
Government workers	6½
Partially covered: Armed services	2½
Not covered:	
Nonagricultural workers	23½
Government workers	2
Agricultural workers	4½
Self-employed	6
Unpaid family workers	½
Unemployed	4

Thus we can divide our analysis in three parts:

A. Under what conditions can we expect continued improvement of benefits for individuals now covered?

B. How and to what extent can coverage under private plans be expanded?

C. In what ways can individuals be encouraged to make greater provision for their own future economic security?

A. Under what conditions can we expect continued improvement of benefits for individuals now covered?

This question concerns the 20¼ million people now covered by private plans. It can be reasonably assumed that about 60 percent of these 20¼ million are employed by about 750 companies. It is likely that in the long run most employees covered by private plans who continue to work and to be covered by these plans will have their retirement income needs met at least to the level of adequacy, as previously defined.

This conclusion assumes that certain conditions will prevail:

(1) Present trends toward more adequate pension benefits continue.

(2) Vesting provisions continue to increase in prevalence.

(3) Increasing pension benefits continue to have a high priority among union bargaining demands.

(4) Benefits under Federal social security do not continue to be increased until their amounts threaten the employer's economic justification for maintaining a private plan.

(5) Government policy on tax legislation and social security becomes sufficiently stable to allow the employer to plan his actions with some assurance of future effect.

(6) There is no restrictive legislation enacted which limits the employer's freedom of action to the point where the private plan becomes a burden to maintain.

B. How and to what extent can coverage under private plans be expanded?

Here we are concerned with the 23½ million nonagricultural workers to whom extension of formal private plans could apply. In addition there are over 6 million self-employed; 4½ million agricultural workers, and 2 million Government workers to whom private plans in their present form can never be extended.

In reaching for the greatest possible extension of coverage to the 23½ million workers to whom formal private plans could apply, it should be noted that the 20¼ million covered under private plans is increasing at the rate of approximately 1,200,000 additional employees a year. This continuing trend can be expected to absorb a substantial part of the 25½ million noncovered in future years.

Yet it is unlikely that the probable potential coverage of private plans approaches this 23½ million figure.

Although we have no evidence of number of employees involved, it is estimated that approximately two-thirds of the firms employing these 23½ million workers are sole proprietorships or partnerships for whom the inability to include the proprietors and partners themselves in a qualified plan acts to retard the expansion of coverage to the employees of these firms.

In addition, there are many firms for whom provision of retirement income for employees will continue to have low priority. Many marginal firms will never have financial ability. Many are young enterprises with young workers for whom retirement plan motivation is too remote. Many are firms with large percentages of noncareer employees, many of these women.

Most significant, however, is the factor of smallness of size of the businesses employing many of these 23½ million people and the effect of this size on the extension of coverage.

It is assumed that there are approximately 50,000 companies having one or more retirement plans, covering 20¼ million workers, or an average of 405 employees per company.

It is probable that substantially all of the firms without retirement plans have less than 500 employees and a high majority have significantly less than 10 employees.

Further evidence of size of companies employing the 23½ million employees not now covered is the figure of number of employees per plan of plans recently submitted for qualification.

New profit-sharing plans covered an average of 48 employees per plan, and new pension plans covered an average of 150 employees per plan.

As coverage is extended the number of employees per company adopting plans in the future will likely continue to decrease.

Since the problem obviously is one of finding ways to encourage the adoption of retirement plans for small groups of employees, it is appropriate to identify some of the conditions which influence the small employer.

(1) There has been less competitive pressure for pensions on the small employer than the large, but it can be expected to increase as pensions spread.

(2) Frequently the small employer's economic position discourages consideration of retirement programs.

(3) The small employer's employees are less likely to be organized than those of the large employer. Hence, he is less subject to union pressure for pensions.

(4) The alternative types of plans offered to the small employer may be limited.

(5) The small employer may be ill equipped to cope with the intracacies of different kinds of plans. The cost of dealing with these intricacies is not reduced proportionately because of size and may act as a deterrent to action.

(6) The small employer is likely to be uninformed and apprehensive about the requirements of the Treasury Department in establishing and maintaining a qualified plan.

Among positive conditions which would tend to encourage small employers to adopt plans are the following:

(1) Availability of more plans carrying lower acquisition costs.

(2) Further development of multiemployer arrangements, through associations, community groups or fiduciary institutions, where installations and administration costs and/or investment experience and possibly mortality experience can be pooled.

(3) Simplification of government requirements.

(4) General encouragement of the economic welfare of small business through government action unrelated to pensions.

(5) Better education of small employers as to the considerations involved in establishing and operating a retirement program.

C. In what ways can individuals be encouraged to make greater provision for their own future economic security?

Here we are concerned with all categories of workers, whether included in groups to which formal private plans apply or in other categories of the work force, such as government workers, agricultural workers, and self-employed.

For many of these workers total retirement income will come from individual accumulations plus social security, and for some, individual accumulations remain the sole source of retirement income.

Individual accumulations take many forms, involving complete freedom of action and choice by the individual. All can be expected to contribute to financial security in retirement.

Beyond the definition of "adequacy" previously expressed, in the final analysis adequacy must be measured by the individual's personal scale of values, and expressed by the extent to which he is willing to provide for his future by saving rather than spending current income.

To the extent that workers are led to believe that their needs somehow will be met by action of someone else—whether government, employers, or unions—the motivation for self-provision is reduced. Again, if the expectations of future policy under social security were clearly expressed and communicated, individuals could more clearly define the area of their own responsibility and act appropriately.

Employer plans or other plans involving group action to which the individual contributes provide a principal device for encouraging individual accumulations.

The trend toward employer-sponsored supplemental savings plans is evidence of the desirability of individual accumulations in such plans to meet both employer and employee objectives.

The deterrent to the maximum extension of such plans is the absence of tax deductibility of employee contributions.

It would appear that the availability of some tax deferment on all forms of individual accumulations, would lend substantial encouragement to individual action toward this end.

If our objective is to provide benefits at the "adequacy" level for all retired people, then efforts to simulate growth through private means (except for amounts above the adequacy standard) should be abandoned and the Government system should be expanded to meet the goal.

But if our objectives are to encourage increases in retirement income, and to preserve freedom of action and choice of employers and employees in determining kinds and amounts of benefits, then it is appropriate to consider new devices.

Any action to achieve these latter objectives would seem to involve encouragement to individuals to provide for their own retirement, encouragement to employers to assist their employees to provide for their own retirement, and to establish employer plans.

Tax incentives

One type of encouragement is through the device of a tax incentive.

There are varied viewpoints on the merit, equity, and morality of tax incentives. Their use in encouraging action which may be warranted for social progress involves questions such as the following:

(1) Is the cost of the incentive, redistributed throughout the total tax structure, the most economical and equitable way of meeting the social objective and does it warrant favoring some at the expense of others?

(2) To what extent would an employer be able to achieve his various constructive purposes, if the individual had to pay a current tax on money not currently received?

Too often tax incentives in qualified plans are considered to be of benefit primarily to the employer. Since the employer could deduct any contributions to retirement plans meeting the test of reasonableness of compensation, the benefit of the incentive is primarily to the employee through permitting the deferment of tax on funds set aside under a qualified retirement plan until his nonearning years. The benefit to the employer arises because, without the deferment of tax to the employee, the employer would not otherwise be able to achieve the basic business purposes met through a formal retirement program.

(3) Would a device involving individual tax incentive encourage people to save more than they are already saving, or would it merely provide favorable tax treatment for present savings?

If tax incentives are considered a logical method of encouraging employer and individual action, various courses of action can be considered. We do not have a concrete piece of legislation to suggest. Nor is this an appropriate time to be concerned with specific details of possible legislation. However, we would like to describe an idea which might serve as the basis for discussion.

CHART XI

An Idea -- a basis for discussion

RETIREMENT ACCUMULATION PLAN

Any employer or individual
may establish a qualified plan.

Contributions...within limits for each individual...may
be made and deducted by either employer or individual.

Total contributions by or for an individual
in all plans subject to stated limit.

Contributions placed with approved depository.

Distributions made upon retirement and
under other prescribed conditions.
Taxable as income.

In its simplest terms, the idea is this: Any employer or individual may establish a qualified retirement plan in a manner that does not encompass the detailed requirements of the present Internal Revenue Code regulations. Contributions to such a plan, within prescribed limits, could be made and deducted for tax purposes by either the employer or the individual. All employees and individuals could participate, although the limits on contributions for this purpose would be reduced for those participating in existing plans by the values of contributions made to such existing plan. Contributions would be placed with approved depositories for investment. Distributions to individuals would be permitted upon retirement or other prescribed conditions, such as permanent disability or death, and included in taxable income at the time when paid.

CHART XII

What could the Retirement Accumulation Plan accomplish?

1. Encourage employers to adopt plans by providing simple mechanism for qualification.
2. Give individuals an incentive to save for retirement.
3. Permit employees to augment employer-paid benefits.
4. Enable self-employed to accumulate tax-deferred earnings without special legislation.

What could such an idea accomplish?

(1) Employers who have not adopted plans would be given an incentive to do so by making available a simple mechanism for qualification.

(2) Individuals would be given an incentive for saving for retirement through deductions in current income taxes.

(3) A degree of equity would be provided among employees covered by different private pension plans by allowing those who have lesser employer-paid benefits the opportunity to augment tax-deductible savings for retirement purposes.

(4) A method of accumulating tax-deferred earnings would be made available to the self-employed without enacting special legislation for their exclusive benefit.

Perhaps we can describe one set of possible specifications for tax treatment which implements the idea, to give you a better understanding of some of its possibilities and limitations.

Allowable deductions

Each individual might have an allowable deduction consisting of two parts:

(1) Retirement accumulation for the current year: up to 7½ percent of annual income;

(2) Retirement accumulation for past years for which his allowable credit was not fully taken: up to 7½ percent of annual income.

CHART XIII

Retirement Accumulation Plan

Allowable tax deductions: 15% of pay (including other plans)

CURRENT SERVICE - 7½%

Offset for individual account plans:
actual allocation

Offset for fixed-benefit pension:
assumed value of benefit earned that year

Example:

- A man's benefit is being level funded for 40 years starting at age 25
- Value of fixed benefit = 6 times benefit earned
- If fixed pension is \$2.50 X yrs. of service, deduction = \$30 (12 X \$2.50) X 6 or \$180
- A \$4,000-a-year man would have maximum deduction of 7½% of \$4,000 or \$300

\$300 - \$180 = \$120
allowable deduction for
Retirement Accumulation Plan

The maximum allowable deduction, if an individual were eligible for maximum credit under both parts, would be 15 percent, the present limit for qualified profit sharing plans.

The contribution could be made by the employer, the individual, or shared. The party actually making the contribution would receive the tax deduction.

Current service

The 7½ percent of income which would be allowable for the current year would be reduced by the value of employer contributions to another qualified plan.

(1) In the case of a profit-sharing or money-purchase plan, the actual amount of such contribution would be deducted from the 7½ percent maximum.

(2) In the case of a fixed-benefit pension plan, the deduction would equal an amount presumed to represent the value of the benefit earned for that year. Assuming that the individual's total retirement income is being level funded

for 40 years beginning at age 25, the value of the fixed benefit can be approximated by an amount equal to six times the annual benefit earned. For example, under a pension plan providing a monthly benefit of $2.50 times years of service, the deduction for the pension would equal the annual $30(12 times the monthly $2.50 benefit) multiplied by 6 or $180. An employee earning $4,000 per year would have a maximum deduction of 7½ percent of $4,000 or $300. Deducting the $180 credit for the pension plan would leave him with a net allowable deduction for a retirement accumulation plan of $120.

CHART XIV

Retirement Accumulation Plan

Allowable tax deductions: 15% of pay (including other plans)

PAST SERVICE

7½% of current income
X years from age 25 to present age
– contributions already made
...with result spread over years
to retirement -- but no deduction
in excess of 7½% of pay.

Example:

$4,000 man, aged 40.

Maximum past service credit =
7½% of $4,000 or $300 X 15 = $4,500.

Has been in a $2.50 pension 10 years.

Yearly benefit earned to date = $300

$300 X 6 = $1,800 offset

$4,500 – $1,800 = $2,700 remaining past service credit.

$2,700 level funded over 25 years =
$108 a year . . . 2.7% of pay

Past service

The amount which could be an allowable deduction for past service would be based on a concept of level funding in the future for past contributions not made. The maximum past service credit would equal 7½ percent of current income multiplied by the number of years between age 25 and the individual's present age. From the maximum past service credit would be deducted the amount of contributions already made, either by the individual or by an employer in his behalf. The net credit would then be funded over the remaining years to retirement, but could not exceed 7½ percent of income deducted per year.

For example, if our $4,000 man were 40 years old today, his maximum past service credit would be 7½ percent of $4,000 or $300 times 15 (his years since attaining age 25) or $4,500. Let's assume that he had been covered by the $2.50 pension for 10 years by age 40. This would provide a benefit earned to date of $25 per month or $300 per year. Multiplying by 6, the pension would be an $1,800 offset to his past service credit. The remaining $2,700, level funded for the 25 years to retirement, would equal $108 per year. This amounts to 2.7 percent of his pay.

CHART XV

Retirement Accumulation Plan

Example of Self-employed Lawyer
aged 50 ... annual income $20,000

DEDUCTIBLE

For current service . . . . 7½% of $20,000 or $1,500
For past service:
Past service credit = $1,500 x 25 years = $37,500
Annual contribution = $37,500 ÷ 15 = $2,500
But this is more than 7½% of income,
so maximum is $1,500

Total deductible = $3,000

Accumulation at age 65 (at 3% interest) $55,800
Monthly retirement income = $400

Let's take another example. A self-employed lawyer, now age 50, has not had the opportunity of accumulating any tax-deferred earnings in the past. His annual income is $20,000. How much can he contribute, and how much retirement income can he provide for himself?

For current service, 7½ percent of $20,000, or $1,500.

For past service, his past service credit equals 1,500 times 25 years, or $37,500. His annual contribution equals $37,500 divided by 15 years, or $2,500. Since this is more than 7½ percent of his income, the maximum contribution for past service is $1,500.

Total annual deductible contribution is $3,000. Accumulation at age 65 with 3 percent interest equals $55,800. His monthly retirement income is $400.

A more complete description of the specifications of this possible approach are contained in the appendix.

By outlining this idea, our intention has been to stimulate discussion of possible approaches. We are not attempting to suggest a final proposal for action. We feel that the problem of extending opportunities for accumulating retirement income to the small employer and the individual is a critical one if the principle of private action in the retirement field is to prosper and grow. It is in the context of this goal that we put forth this idea as one possible basis for further discussion.

U.S. population—Employment and pension coverage

[Data in thousands]

	Total U.S. population	All private nonagricultural indbstries	Agriculture	Unemployed	Government	Armed Forces
Number of business operations	8,272.7	4,658.7	3,614.0			
Corporations	952.0	940.0	12.0			
Sole proprietorships and partnerships	7,320.7	3,718.7	3,602.0			
Number of employees (paid wage and salary workers)	60,011.3	43,526.0	1,209.0	4,206.0	8,566.0	2,504.3
Number of self-employed and unpaid family workers	10,112.0	6,756.0	3,356.0			
Total	70,123.3	50,282.0	4,565.0	4,206.0	8,566.0	2,504.3
Pension coverage:						
Employees of large corporations (Fortune's 500 largest industrials plus 250 nonmanufacturing corporations)	13,678.5	13,678.5				
Multiemployer plans	3,302.1	3,302.1				
Unidentified private plans	3,219.4	3,219.4				
Government employees	6,500.0				6,500.0	
Total covered	26,700.0	20,200.0			6,500.0	
Workers not covered:						
Employees	26,601.0	23,326.0	1,209.0		2,066.0	
Self-employed	10,112.0	6,756.0	3,356.0			
Unemployed	4,206.0			4,206.0		
Total not covered	40,919.0	30,082.0	4,565.0	4,206.0	2,066.0	
Workers partially covered	2,504.3					2,504.3

Source: Treasury Department; Department of Commerce; Department of Labor; Department of Health, Education, and Welfare; Time, Inc.

Mr. HEWITT. Returning to our outline on the kinds of things we have covered in our statement, some of the trends we will review are—

(1) The amounts of benefit;
(2) Benefits may be leveling off as a percentage of final pay;
(3) Plans are finding ways to offset the effects of inflation;
(4) Vesting is receiving greater emphasis;
(5) Medical care benefits are being extended to retirees.

Secondly, under the division of responsibility of the Government, private plans, and the individual, we will suggest a possible definition of three levels of retirement income. We will attempt to identify the roles of the Government, private plans, and the individual in provision of retirement income, and review the justification for private plans.

Under conditions conducive to continued growth of private plans, we first attempt to project coverage by a rough breakdown of the numbers in the working population in the various classifications and then to analyze anticipated growth of private plans by discussing these following questions:

(1) Under what conditions can we expect continued improvement of benefits for workers now covered under private plans?

(2) How and to what extent can coverage under private plans be expanded?

(3) In what ways can individuals be encouraged to make greater provision for their own economic security?

We focus attention on the area of small employers among whom most of the extension of private plans must come in the future.

We will discuss the encouragement of expanded coverage through the device of a tax incentive, and we will use as an illustration the idea of a program which could cover all categories of individuals, including those not covered under private plans or those that can never be covered under private plans, and also including those who are covered under other plans. Such a program could use a formula taking credit for other contributions made in behalf of these people. It is our hope that this kind of program might illustrate a way of accelerating growth of private plans and action on the part of individuals in providing for their own retirement income.

Returning to the first point. On trends, Tom Paine will now discuss some of the trends that are guiding the development of private plans today.

Mr. PAINE. There is little uniformity in plans for private pensions today. This is not surprising if you consider that each employer, perhaps with the collective bargaining agent, designs a program uniquely suited to the particular needs of his group. This lack of uniformity makes generalization difficult. But I think there are certain themes of development which appear to be occurring with significant frequency. Here are some of the more important ones that we see influencing the amount of retirement income that pensions provide.

First, is the amount of increase in benefits that has been occurring in recent years. A typical program today may be providing about 45 to 50 percent of a worker's pay at time of retirement. That includes the primary social security benefits. There are strong indications that the so-called leaders or pattern setters are aiming at levels of about 60 percent of pay for career people.

Perhaps we could illustrate some of the benefits under these typical plans. For example, there is the pension negotiated between General Motors and the United Automobile Workers.

In 1950, a retiring employee from General Motors had only social security benefits of about $45 a month. By 1959, after the most recent pension negotiations, the social security level had risen to $116 and the pension provided another $84, for a total of $200 per month. This latter figure represents about half pay for the retired hourly people, not counting the wife's benefits under social security at all. Not only are we having the amounts of benefits going up, we see an indication that benefits may be leveling off as a percent of pay.

For example, we can take our General Motors illustration again. We note that somewhere between 45 and 50 percent of final pay is being replaced for hourly people in the automobile industry. These increases in pension and social security benefits are not as significant when expressed as a percentage of pay as they are when we look at the dollars, because the pay has been going up at the same time. We know of many companies which are planning for total retirment incomes somewhere in the are of 60 to 70 percent of pay. That is the target that they are looking for.

We could compare this target level with the budget for the elderly couple that Commissioner Clague talked about just a little while ago. The budget figures, on a monthly basis, vary from $220 a month to $281 a month in the various cities.

Senator SMATHERS. Are those the figures that the Bureau of Labor Statistics used?

Mr. PAINE. Yes, they are.

Social security for an elderly couple, at the time this budget was done, provided a maximum of $174 a month. This leaves a balance to be provided to reach the budget level that varies between a low of $46 a month in Houston and a high of $107 a month in Chicago.

Now, a person retiring under a typical pension plan, like General Motors', might have a pension of $80 a month. If this were so, he could live at the budget level or higher in 13 of the 20 cities which the Bureau studied. This would seem to suggest that in many cases employees will prefer to take future increases in compensation in a form other than increases in pension benefits.

Senator SMATHERS. Say that over again and tell me why that is so. I do not know that I follow that.

Mr. PAINE. We could express it this way. The amount of money that has been going into private pensions in the last 10 years has been very substantial. Collective bargaining contracts have usually included a large amount going into pension plans. We suspect that this effort, in the last 10 years, has raised the benefit levels to a point that is pretty close to what people want to have. From now on, perhaps we will not see as much new money going into pension plans.

Senator SMATHERS. I see.

Mr. PAINE. From now on, maybe more of our bargaining is going to turn to direct wages.

Senator SMATHERS. Fringe benefits other than retirement programs?

Mr. PAINE. Yes, those too.

Senator SMATHERS. I see.

Mr. PAINE. We have reached a certain level. Now we may be beginning to level off on pension benefits.

Senator SMATHERS. That is in certain cities. I think Mr. Cohen testified yesterday—I forget what percentage of the people do not get the maximum social security, but it would seem to me it was more than 50 percent——

Senator NEUBERGER. Yes, it was over 50.

Senator SMATHERS. So I think your conclusion would be right in certain areas and probably not in others.

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Would that be a fair statement?

Mr. PAINE. I think we could say that this is true for people who are retiring today from the typical company.

Senator SMATHERS. Yes, I see.

Mr. PAINE. The average social security figures, of course, include many people who have retired earlier, when our benefits have not been as high, or who are being retired today from companies that have substantially lower wage rates. But the typical pension-providing company may develop a situation similar to this.

Senator NEUBERGER. Do you really think it is a typical company, or is it just typical in the big industrial areas? It seems to me this is more typical of a very large company. I do not believe it is typical if you examine nationwide companies where people are employed. It depends on what you mean by typical. If you are thinking of only the giant automotive companies, perhaps, yes.

Mr. PAINE. Let us say this could be described as the common pattern. Not all companies are up to the pattern level.

Senator NEUBERGER. Far from it.

Mr. PAINE. But we have had, for example, the influence of many of the unions, such as the auto unions, steel unions, electrical unions, who have all established pensions of this pattern. Most of them are now in the area of providing a benefit of between $2 and $2.60. There are a great many companies that do not fall into this pattern.

Mr. HEWITT. I think what we are saying is that we have to take into consideration the factor of time. Things do not move in all places at all times at exactly the same rate, but nevertheless, there is a tendency to follow the pattern that is established, and so the pattern probably has some significance. Historically, it certainly has, because there is a tendency to follow behind, but the timing factor makes any comparison at a particular moment different than it would be if we tried to project what we will come to with the trend that is apparently established.

Senator NEUBERGER. Well, continue.

Senator SMATHERS. Of course, this is assuming one other addition of fact, is it not, that we will not have any material increase in the cost of living, or, put it another way, we will not have very much inflation.

Mr. HEWITT. This is a different question which Tom will talk to in a minute.

Mr. PAINE. I think this is the third major trend we would suggest is developing today, that employers are finding ways to offset the effects of inflation in their pension planning.

The most common technique being use to do this is the periodic revision of benefit systems. We just raise the levels every time we have a bargaining session. But we are also finding ways to build this into the pension provisions themselves. For example, in some cases the employer takes the responsibility to provide a pension that is related to a person's earnings just before he retires. Thus, if there is inflation during his working year or he receives promotions, the pension level is going to be based on his final standard of living.

We also have the cost-of-living pension being developed by some companies under which the amount of the benefit will vary in accordance with the CPI index. We have certain kinds of plans in which the funds are invested in securities that tend to vary in price with the cost of living. For example, a profit-sharing or savings plan will give to the individual all increases in value and fund earnings. So will a variable annuity. I do not think we are saying there is a trend toward any one of these individually, but there very definitely is a trend in company pensions to find some way of attacking the inflation problem.

These two other trends that we mentioned, the trend toward vesting and the trend toward providing more adequate medical protection perhaps could be omitted at the present time, although later, if you wish to discuss them, we would be glad to do so.

Senator SMATHERS. I would be interested in seeing the medical care benefits being extended to retirees. Do you have any figures on that?

Mr. PAINE. No; we do not.

Senator SMATHERS. All right.

Mr. HEWITT. I think we may be able to come back to more of these trends if there are questions and if we have time to cover them. We want to skip a good part of the prepared statement, referring to the division of responsibility among government programs, private plans, and individual action, merely mentioning as a basis for certain other remarks, that the pension movement is largely dependent in its growth on the continuation of the economic justifications for employers to provide pensions on behalf of their employees.

In conclusion, one point on which we are all agreed is that in considering the question of the proper distribution of responsibility among government and the employer and the individual, we can draw the conclusion that there is an appropriate area of action for each, and it is not desirable for any one of the three to be considered the sole source of retirement income. But planning must take place in such a way as to allow each of the three sources to accomplish its own particular purposes.

We move on, then, to the discussion of the conditions that are conducive to the continued growth of private plans.

In looking to the improvement of retirement incomes, we must establish certain perspectives. I think that from the standpoint of trying to help the committee see some of the problems and the alternative courses that are available, it is important to emphasize this perspective that today's levels of retirement income are not necessarily an adequate measure of the progress of private retirement programs. Senator Neuberger has raised the point that we may look today at what has happened, but in trying to project what will happen in the future, as a basis for considering the problems as they relate to the future, it is necessary for us to consider that we are dealing with present actions that do produce future income and that therefore our appraisal must look beyond today's results to the income being created for tomorrow.

This is certainly not to say we ignore present need but it does suggest that any action of other than a temporary nature affecting retirement income should be based on future projections of the results of present practice.

The second perspective I think we would like to suggest is that our present approach contemplates action by the individual, by the individual and his employer, and by the individual, his employer, and government. Consequently, in analyzing each source of retirement income we must view retirement income in its entirety.

Similarly, in viewing privately provided retirement income, it is necessary to consider in their totality the many and varied devices available to employer and employee, either separately or jointly. One must be aware of possible overlapping of action in seeking the total result. In considering an analysis of future growth it may be helpful to establish in broad ranges the various categories with which we deal. A breakdown of the total work force reveals the extent of coverage under formal retirement plans (public or private) as follows:

Roughly, there are now 20¼ million people under formal private plans and about 6½ million government workers. Some part of the 2½ million in the armed services are partially covered. Not covered then, are 23½ million nonagricultural workers, 2 million government workers, 4½ million agricultural workers, 6 million self-employed, one-half million unpaid family workers, and 4 million unempoyed. So with this as a background, we can divide our analysis in three parts.

Senator SMATHERS. With respect to "not covered—23½ million nonagricultural workers," are those the ones who work for the self-employed?

Mr. HEWETT. No, sir; these are the ones in the group who could probably be covered by the private plans, but are not presently covered.

Senator SMATHERS. They could be covered by private plans, but are not covered?

Mr. HEWITT. Yes. In other words, there are only 20¼ million presently covered under private plans.

Senator SMATHERS. Yes. Now, what about these 2 million government workers?

Mr. HEWITT. Those would be many of the State and local government employees who are not covered in any public plan.

Senator SMATHERS. Those are, I see, State and county and city, and so on?

Mr. HEWITT. Yes.

Senator SMATHERS. 6 million self-employed; these are the ones that would be covered under the so-called Keogh-Jenkins-Smathers-Neuberger-Smith bill.

Mr. HEWITT. That is right.

Senator SMATHERS. Half a million unpaid family workers—are those domestics?

Mr. HEWITT. In large part, or possibly working without pay in the store or in some other unpaid occupation.

Then if we tried to break down the problem for analysis, we might do it by asking three questions. No. 1 would be, Under what conditions can we expect continued improvement of benefits for individuals now covered? In other words, we are trying to project into the future. We are not accepting any conclusion that presently covered people are covered to the point where we want them to be or think they should be or we anticipate they will be, but under what conditions can we expect improvement to take place?

Secondly, how and to what extent can coverage under private plans be extended to include more people?

And, third, in what ways can individuals be encouraged to make greater provision for their own future economic security?

Well, now, let us take this first question, Under what conditions can we expect continued improvement of benefits for individuals now covered? This question concerns the 20¼ million people now covered by private plans. It can be reasonably assumed that about 60 percent of these 20¼ million are employed by about 750 companies. In other words, 60 percent of them are covered by the larger companies. It is likely that in the long run most employees covered by private plans who continue to work and to be covered by these plans will have their retirement income needs met, at least to the level of "adequacy," as previously defined.

This conclusion assumes that certain conditions will prevail:

(1) It assumes that the present trends toward more adequate pension benefits continue, and there is a constant movement toward the improvement of benefits.

(2) It assumes the vesting provisions in plans will continue to increase in prevalence, and there is a definite trend in this direction.

(3) It assumes that increasing pension benefits continues to have a high priority among union bargaining demands.

(4) It assumes that benefits under Federal social security do not continue to be increased until amounts threaten the employer's justification for maintaining a private plan. There is a good deal of feeling on the part of employers——

Senator SMATHERS. What do you mean by that?

Mr. HEWITT (continuing). Of uncertainty about what social security will do, which may tend to retard action on their plans. This delay they feel would not be appropriate if it were not for the tendency of social security to assume a larger share of provision of income.

Senator SMATHERS. In other words, in all of these bargaining arrangements that are worked out between labor and management, the social security program does, of course, have a very tremendous impact on that, the basis of this.

Mr. HEWITT. Of course.

(5) Government policy on tax legislation and social security becomes sufficiently stable to allow the employer to plan his actions with some assurance of future effect.

(6) There is no restrictive legislation enacted which limits the employer's freedom of action to the point where the private plan becomes a burden to maintain.

Senator NEUBERGER. I think we ought to go back to No. 5. It appears to me something is implied there that I do not exactly see. What do you mean, "Government policy on tax legislation and social security becomes sufficiently stable"? How can it become stable in a time of foment in the world? What do you mean to suggest in that phrase?

Mr. HEWITT. I think we are referring more to the tax as it relates to this kind of benefit, and I think we are suggesting that since there will always be a limit to the amount that can be allocated for any kind of purpose, if it is going to be allocated through Government action, then it is not available through private action, and in committing future income to this kind of purpose there would be uncertainty as to whether the income committed today also would have on top of it that which would be committed by force of Government action in the future.

So it is purely a question of uncertainty, and I think it is a matter of some concern to many employers in their attempt to try and provide as adequately as possible. There is concern in not knowing exactly what might happen in the future. I think this is reflected in some statements of employers concerning the place of the company providing retirement benefits, and you have it in this statement here [indicating] and I would like to have this statement be made a part of our statement to the committee, as a supplement.

Senator SMATHERS. We will make that a part of the record.

Mr. HEWITT. Thank you.

(The statement referred to follows:)

COMMENTS FROM EMPLOYERS REGARDING THE PLACE OF COMPANY-PROVIDED RETIREMENT BENEFITS IN THE OVERALL RETIREMENT INCOME OF INDIVIDUALS

(Supplement to the statement of Edwin Shields Hewitt and Thomas H. Paine)

COMPANY A

The principal area of our concern with retirement income is its relationship to social security. As many companies do, we have tied our penson program to the social security payments and, of course, have supplemental benefits through a savings program to which the company makes substantial contributions. Over the years we have been concerned with rising prices and the difficulty of pensioners to live on their incomes, but at the same time we recognize that our plan and many retirement plans are geared to salaries during the final years of employment. There has been considerable hesitation on the part of our management to improve our pension payments because of the steadily increasing social security payments. This, of course, is particularly significant among lower paid employees. It would seem to us that privately sponsored pension programs will have a steadily decreasing importance per se in retirement income as the social security benefits increase. The principal problem, of course, is that the assumption that social security payments will increase is speculative and based on past performance. The fact that this trend continues is a serious deterrent as far as our management and, I suspect, many other companies as well, in terms of modifying or improving their pension programs. In essence the question comes down to whose responsibility it will be to provide adequate income—private pension plans or the Government. Since the cost of any Government-sponsored plan is shared by the companies, it becomes even more difficult to project future liabilities in a total retirement program for any progressive private company.

A second area of considerable concern, and one in which I can make very few comments, is the matter of early retirement. The trend via social security of permitting retirement at age 62 is of considerable concern to us and, I suspect, to many other companies. The question of whether or not this will become a mandatory retirement age in practice or a voluntary one and the effect of this trend on retirement income is quite serious. Obviously as the time of service decreases, the benefits from private funds are less. Also, the question of whether the new Federal policy will affect or should affect companies, in terms of voluntary early retirements, merits considerable consideration. It would seem to us that the problem of retirement is becoming much too automatic in any event. Obviously there are individuals who should, due to physical deterioration, retire considerably earlier than 65, but usually do not because of inadequate retirement income. This is coupled with the equally serious problem of a person who is adequately able to perform his job considerably beyond 65. In spite of the complexities of the changing labor market due to automation, it would seem to me that the matter of retirement should become much more flexible than it has been to date. It would appear essential that some method be devised to secure both Government and industry participation to produce adequate retirement income at both ends of this continuum.

In essence I believe most companies would be interested in long-term trends of Government thinking, so that adequate planning of their private plans can be begun.

COMPANY B

Generally speaking, it is our feeling that total retirement income should provide a moderate standard of living to the retiree. This should be related to his previous earnings level and his length of service.

We believe that the Government's responsibility should be to provide no more than a bare subsistence. Any additional income should be provided by the employee and the company, contributing together toward his financial security. This joint effort reflects our philosophy of helping the individual help himself. In other words, the individual as well as the company has a direct responsibility to provide for his security. This responsibility of the individual is fundamental to the American way of life.

We also believe that provision should be made for health care for retired employees. Accordingly, we have adopted a comprehensive health care program for such employees. Again, we believe that this kind of program can be most economically provided by privately administered plans.

As our society grows and develops, wider and better coverage will be provided by private plans. However, there still will exist a group of people who are not associated with organizations that have retirement programs and who, to a large extent, have no provisions for old age. Herein lies the greatest problem. This, however, is not unlike the problem which now exists for the needy people of younger ages. Some form of assistance for this group probably will always be necessary but how it can be provided we do not feel qualified to say.

COMPANY C

There are a number of problems in connection with the question that occur to me:

(1) Because of the rapid increase in wages and salaries since the war years, it is difficult to provide a pension for the long-service employee which is an adequate percentage of his salary at time of retirement, without excessive cost to the company.

(2) After an employee has retired on a fixed pension and living costs continue to rise, should the company he has worked for have an obligation to increase his pension from time to time? (We have already assumed this obligation.)

(3) To provide either or both of the above items without destroying the employee's initiative to provide at least part of his living after retirement.

COMPANY D

We, of course, feel very definitely that company-provided retirement benefits do play an important part in the overall retirement income of individuals. This, supplemented by company savings or thrift plans, plays an important part in providing adequate income.

The trend that we fear is the growing reliance on Government to do the job. With greater strides in medicine and people living longer, we are opposed to constantly reducing the retirement age below 65. This simply increases the burden on the working group, which represents a smaller and smaller percentage of the total population. If people are living longer and are healthier, it would seem to us to make more sense to have them retire at perhaps a somewhat later age and to provide them with a greater income in so doing.

The trends or directions which warrant encouragement and stimulation, as we see it, should be anything to encourage the growth of industry in our country so that industry, in turn, can provide for its employees at a far lower cost than the Government can provide for them in their later years. This, of course, means more incentives for all types to industry, including the all-important tax incentive.

This country was built on the self-reliance of individuals and the practicing of thrift. This seems to be less important as our Government takes over more and more responsibilities, which cannot help but lead us to more and more socialism.

The question of the adequacy of income for various categories is, of course, a complex study in itself and one that constantly changes with inflation. It does seem important to us that social security be limited to its proper part and that individuals be made to supplement their own savings with company pension and thrift plans.

COMPANY E

We, of course, have been very much interested in the progress of pensions over the years and the compensation paid to retiring employees. We have observed the rapidity with which public pensions have increased and the corresponding increase in employee-employer deductions to support the public pensions.

Our private pension plan is integrated with the public (social security) pension plan since we feel very strongly that with the substantial increase in payments by both the employee and employer, in the not too distant future, public pensions will provide for individual retirement without the need of private pensions. Of course, I agree private pensions would be very nice to provide; however, as competition increases within our own country and from outside of our country, it will be very difficult to provide for private pensions and still support the very substantial public pensions. (I believe the proposed rate for 1962 will be approximately 6¼ percent and by 1969 will be approximately 9¼ percent.) I feel that when an individual provides 9 percent or 10 percent of his income for pension benefits, it is a fair proportion of his income and when this is supplemented by an additional several percent, it may substantially reduce his present standard of living. Therefore, we in industry are faced with much more careful scrutiny of fringe benefits now than we have been for many years, and as our cold war continues with substantial tax burdens being placed on individuals as well as corporations, it seems to me that very careful examination needs to be given these problems.

I am very sympathetic to increasing the aid to the aged. I fully realize that the life span has been greatly increased. I am not one that believes the Government should provide all of the benefits for the individual. I believe we should still encourage individual incentive. Basically, I feel that private pensions should be more on a voluntary basis so the individual employees who desire to increase their pension benefits could do so; however, present tax laws discourage these voluntary contributions which stimulates the company or the Government providing all without any participation of the individual.

COMPANY F

Our opinion as to the place of company-provided retirement benefits in the overall retirement income of individuals is as follows:

Every organization is eventually faced with the problem of aging employees where ability and efficiency to maintain the going work pace becomes impaired.

Company-provided retirement benefits have a definite place in the overall retirement income of individuals providing economic gains can be accomplished in order to justify pension costs. We recognize the value of favorable relations between the company, its customers, employees, and the public at large. If the company is unable to command such respect, its public relations program falls far short of its potential effectiveness. From the standpoint of the employee, the effectiveness is implemented by the company's concern for the well-being of its employees, not only during his working career, but also after his ability and ingenuity disappears because of the infirmities of age. This concern for the welfare of employees, when implemented by a realistic retirement income program, creates a peace of mind and favorable attitude on the part of the employees. Improvements in morale and efficiency cannot, in our opinion, be accomplished by means of security programs established through Federal legislation (social security et al.).

To some extent, profits are the result of efficiency surpluses. A portion of such profits are not true profits but should in some manner be held as reserves for the inefficiency losses, which the employees whose abilities and effectiveness become impaired will eventually bring.

It seems that a pension plan financed with a portion of the economic gains is a means of keeping a balance between efficiency surpluses and inefficiency losses, and thereby keeping the company in a good competitive status.

Senator SMATHERS. It is a fact, is it not, that under present tax laws, a person who receives a pension from a private company pays a tax on that?

Mr. PAINE. That is right.

Senator SMATHERS. When they receive it?

Mr. Hewitt. When they receive it.

Senator Smathers. That is right. The company originally set aside that amount of money for the pension from its total gross income, so that the company actually gets a tax deduction by creating a retirement pension plan, but then the pension money that the employee receives at 65 when he is probably in the lower income bracket, is subject to payment of tax.

Mr. Hewitt. This is right, yes.

Senator Smathers. If it is of sufficient amount to fall into the tax classification, is that right?

Mr. Hewitt. Yes, unless it is covered by exemptions.

I think we might go on to the second question as to how and to what extent coverage under private plans can be expanded. Here we are concerned with the 23½ million nonagricultural workers, to whom the extension of formal private plans could apply.

In reaching for the greatest possible extension of coverage to these 23½ million workers, it should be noted that the 20¼ million covered under private plans is increasing at the rate of approximately 1,200,000 employees a year. This continuing trend can be expected to absorb a substantial part of the 23½ million noncovered sometime in the future. Yet we think it is unlikely that the probable potential coverage of private plans approaches this 23½ million figure.

Although we have no evidence of the number of employees involved, it is estimated that approximately two-thirds of the firms employing these 23½ million workers are sole proprietorships or partnerships for whom the inability to include the proprietors and partners themselves in a qualified plan acts to retard the expansion of coverage to the employees of these firms.

Most significant, however, is the factor of smallness of size of the businesses employing many of these 23½ million people and the effect of this size on the extension of coverage.

Further evidence of size of companies employing the 23½ million employees, of course, is evidenced by the number of employees in plans currently being adopted.

As coverage is extended the number of employees per company adopting plans in the future will likely continue to decrease. Since the problem obviously is one of finding ways to encourage the adoption of retirement plans for small groups of employees it is appropriate to identify some of the conditions which influence the small employer.

(1) There has been less competitive pressure for pensions on the small employer than the large, but it can be expected to increase as pensions spread.

(2) Frequently the small employer's economic position discourages consideration of retirement programs.

(3) The small employer's employees are less likely to be organized than those of the large employer. Hence, he is less subject to union pressure for pensions.

(4) The alternative types of plans offered to the small employer may be limited.

(5) The small employer may be ill equipped to cope with the intricacies of different kinds of plans. The cost of dealing with these intricacies is not reduced proportionately because of size and may act as a deterrent to action.

(6) The small employer is likely to be uninformed and apprehensive about the requirements of the Treasury Department in establishing and maintaining a qualified plan.

If we take a look at some of the conditions which we think would encourage small employers to adopt plans, we include a condition where there would be greater availability of plans carrying lower acquisition costs. The tendency is for plans for smaller employers to have higher acquisition costs than is true for the larger companies.

Senator SMATHERS. That would be done through trust companies and through insurance companies and——

Mr. HEWITT. It could be, yes, regardless of how it might be done.

Senator SMATHERS (continuing). And pension plans. You just say that if they had lower acquisition costs more of them would do it?

Mr. HEWITT. Probably so. This may act to retard it.

We think another condition would be the further development of multiemployer arrangements, and by that we mean arrangements involving more than one company in some way, whether this was done through associations, community groups, or fiduciary institutions, but where the installation and the administration costs and/or investment costs and possibly the mortality experience could be pooled so the experience of companies would be shared as far as this produces costs. Multiemployer arrangements might therefore reduce the cost.

We think the growth of pensions among smaller employers might be encouraged if there were more simplification of Government requirements, particularly as affecting the smaller employer.

Senator NEUBERGER. Which requirements, now, are deterrents?

Mr. HEWITT. Well, the Treasury Department requirements and the Disclosure Act requirements which, regardless of their merits or necessity, tend to impose upon the employer additional burdens which the smaller employer is less able to maintain.

Senator SMATHERS. Will you repeat that answer? You say "simplification of Government requirements," and her question was, "And what Government requirements are there?"

This is an area in which we might be able to specifically do something about it, because that is a good question.

Mr. HEWITT. The Government requirements are quite complex and probably for good reason, in many cases trying to cover the wide range of considerations and possibilities that might exist. They have to cover every kind of possibility. This produces a mass of regulations and procedures which, no matter how necessary, still is frightening and perhaps burdensome, particularly to the smaller employer. He is less able to do it; he is less able to understand it; he has less staff to handle it; he has fewer consultants to advise him. He does not have many of the things that make it possible for the larger employer to do this.

But to have to go through the formality of the rather intricate planning procedure and qualification procedure may act as a deterrent. And we are just suggesting that if for smaller employers in some way there could be devices where this could be simplified, this might tend to encourage more small employers. We are not trying to make any kind of case; we have no idea to sell; we are merely trying to help you analyze what are some of the kinds of things that may be helpful in trying to extend private coverage to do a better job of providing more retirement income for more people. We are merely suggesting these kinds of things to be considered as factors in this problem.

Senator SMATHERS. About 5 years ago in the Small Business Committee we were able to get the Treasury Department to prepare a book which was called "Tax Guide for Small Business." They took all the tax regulations, and we finally got some people working on tax advantages that would inure to a small businessman, because it was evident that the small businessman did not have enough money to go out and hire any high-priced lawyer and high-priced accountants.

That book, of course, has been very successful. There is a continual demand for it from small business, as you know.

Do you think, as a practical matter, that we might be able to get the Pension Division of the Treasury Department to get us a book of some kind, a simplified form, which would show small businesses how they could set up a private pension program, what the requirements would be, and make certain suggestions to them? Do you think that something of this nature could be formulated which would be helpful to the small businessman in setting up the pension program?

Mr. HEWITT. We are suggesting that this is something that could be considered.

Senator SMATHERS. I know, but I want to go further than just considering the possibility.

Mr. HEWITT. Yes; I realize this.

Senator SMATHERS. You have had a lot of experience in this field.

Mr. HEWITT. Yes; we think it could be done.

Senator SMATHERS. Can it be accomplished? Can it be made simple and understandable with all the maze of regulations that we have? Could a couple of smart fellows get together and out of all this maze of regulations, devise some simple direct and well-understood method of small businesses setting up private pension programs?

Mr. HEWITT. I think so, Senator.

Senator SMATHERS. And you think that would be a good idea?

Mr. HEWITT. To what extent it might require legislation to modify any of the present requirements, I think the Treasury Department people would be very qualified to tell you.

Senator SMATHERS. All right.

Mr. HEWITT. And the same idea you are suggesting here, we have a need for—perhaps in many cases, this is an unreal apprehension on the part of small employers, but it does exist—better education of small employers as to the considerations involved in establishing and operating a retirement program.

I think as far as encouraging individuals, we will confine our remarks here to those involving employer plans or other plans involving group action.

Employer plans or other plans involving group action to which the individual contributes provide a principal device for encouraging individual accumulations.

The trend toward employer-sponsored supplemental savings plans is evidence of the desirability of individual accumulation in such plans to meet both employer and employee objectives.

The deterrent to the maximum extension of such plans is the absence of tax deductibility of employee contributions.

Senator SMATHERS. I am not quite clear again on the tax question. Are you saying that the employee's contributions to the pension planning——

Mr. HEWITT. Is after taxes.

Senator SMATHERS. It is not tax deductible.

Mr. HEWITT. Yes.

Senator SMATHERS. It is deductible, then, at the time he receives it if he pays a tax on it originally?

Mr. HEWITT. That is right; yes.

Senator SMATHERS. That is a different plan than the plan which we talked about with General Motors, for example, whereby the company establishes the whole thing, though it is not considered a part of wages that that company puts up for the employee.

Mr. HEWITT. Many companies supplement this with plans they sponsor which enable the employees to contribute and get the benefits of group action in supplementing their other retirement income. It would appear that the availability of some tax deferrment on all forms of individual accumulations, would lend substantial encouragement to individual action toward this end.

Senator SMATHERS. Why would it not be a good idea to give them tax exemption at the time that they make the contribution to this fund?

Mr. HEWITT. Yes; this is done in Canada.

Senator SMATHERS. In Canada? Would you recommend that? Is that from your experience?

Mr. HEWITT. We are not recommending, we are merely trying to outline the kind of things that we think are appropriate to the consideration of this important problem.

Senator SMATHERS. You are a very able man. You ought to run for office.

Mr. HEWITT. I am nowhere near that able.

Senator SMATHERS. I do not mean that unkindly, either for you or for us, but we would like advice from your basis. You have had a wealth of experience in this field, and we are just neophytes trying to learn something about it to see if we can not be helpful. What we look to is men like yourself, men who have had all this experience, to make to us specific recommendations.

If you would, we would also appreciate your guidance. We may not follow it, but we would like to have it.

Mr. HEWITT. I think if we had the responsibilities for making decisions as you do, we would go at it in exactly the same way you are, going after the viewpoints of a good many people and studying them.

Senator SMATHERS. Thank you.

Mr. HEWITT. I would suggest one type of thing that is in line with this as far as tax incentives are concerned. There perhaps are some devices which could do this which perhaps should be considered as tax incentives in encouraging employers to assist their employees to provide for their own retirement and to establish employer plans. You are asking for various courses of action that might be considered.

We do not have a concrete piece of legislation to recommend at this moment, nor is this an appropriate time, in our opinion, as we understood the assignment for this meeting was not concerned with specific legislation or of possible legislation.

However, we would like to very quickly describe an idea which might serve as a basis for your consideration and discussion which is along this line. May we take a couple of minutes to do that?

Senator SMATHERS. Certainly.

Mr. HEWITT. Tom, why don't you just quickly review this?

I think it is consistent with the questions and suggestions made.

Mr. PAINE. This is the idea in its simplest terms. Any employer or individual can establish a qualified retirement plan that does not encompass all the detailed requirements of the Treasury Department. Contributions to this plan within prescribed limits could be made, and be deductible for tax purposes, by either the employer or the individual. All employees and individuals could participate, although there would be limits on contributions for this purpose, and this would be reduced for those participating in existing plans by the value of what is going into those plans. The contributions would be placed with approved depositories for investment. Distributions to individuals would be permitted upon retirement or other prescribed conditions such as permanent disability or death, and included in taxable income at the time when paid.

Senator SMATHERS. Would they be taxed at the time of the distributions?

Mr. PAINE. Yes.

We would let any employer or individual establish a plan. The amounts which a person could deduct would be prescribed, and there would be deducted from these limits the amounts for which he is already receiving credit through some other pension plan sponsored by his employer. Then we would give him the same tax treatment on his own money as he now gets from employer money through the qualified plans.

If we did that, what might we be able to get from it?

First of all, we think this would encourage employers to adopt plans by providing a simple mechanism by which to qualify them. It would give individuals an incentive to save for their retirement. It would permit employees to augment benefits under an employer plan, and it would enable the self-employed to accumulate tax-deferred income without specific legislation for them.

Perhaps we can describe one set of probable specifications for this.

Senator SMATHERS. Do you mean you can accomplish this without special legislation?

Mr. PAINE. No; we are thinking this would be a piece of legislation, but instead of saying we would have a Keogh bill just for the self-employed, let us pass one piece of legislation which encompasses all these problems at one time.

Senator SMATHERS. That would be desirable.

Mr. PAINE. This is how it might work. This is just an example. We would have an allowable tax deduction for an individual of 15 percent of his pay. This includes all the forms of plans that he may have. He can take a deduction of half of this for his current service, for his earnings in this particular year. From this 7½ percent limit, we would deduct what he is getting in individual account plans and in fixed-benefit plans that his employer is sponsoring.

For example, let us assume that a man's benefits under this idea is being level-funded for 40 years, from the time when he is aged 25 to 65.

Senator SMATHERS. Tell us just what you mean by "level funded."

Mr. PAINE. We mean if he puts in a specific amount each year from age 25 to 65, it will buy a particular benefit. So we can then say we know how much it costs at any one of those ages to buy this benefit. We can estimate, then, that if we take the benefit that he earns in any year and multiply it by 6, this comes out to be this level-funded basis. So, for example, let us say a person is covered by a $2.50 plan like General Motors. The value of this benefit is $30—the annual benefit times six—or $180. So his maximum credit, then, would be 7½ percent of his pay, in this case 7½ percent of $4,000, or $300. Subtract the credit he cannot take from the employer plan, and we will let him put in the balance, $120.

Senator SMATHERS. Now, go through that once more, if you don't mind.

Mr. PAINE. Let us assume we have a person who is self-employed, or a person working for a small company where there is no pension.

Senator SMATHERS. Right.

Mr. PAINE. Then we would say that either the individual or his employer can put aside an amount equal to 7½ percent of his pay.

Senator SMATHERS. Let us just make it simple. If he gets $100 a month, he puts aside the 7½ percent of that, which is $7.50. All right, now, go from there.

Mr. PAINE. This is a mechanism, the principle of which is to say that he cannot have 7½ percent on top of what General Motors is doing for him.

Senator SMATHERS. You started off talking about a little company that is just starting a pension plan for the first time.

Mr. PAINE. Yes.

Senator SMATHERS. All right.

Mr. PAINE. Then this would be the rule, 7½ percent of whatever his pay is.

Senator SMATHERS. Fine.

Mr. PAINE. This rather complicated formula is to take into account another type of person who is already covered by a plan. We do not want to give them double tax deduction.

Senator SMATHERS. Right.

Mr. PAINE. So we will set a general rule and make him subtract the value of what he has under the other plan.

Senator SMATHERS. The example there of 12 times $2.50 and 6 is to take care of the contingency that he might have two plans, right?

Mr. PAINE. Exactly.

Senator SMATHERS. I see.

Mr. HEWITT. Or if his employer's plan was less adequate than some other plan, this would allow him to adjust for that and get the benefit which an employee in a larger company is having put aside for him in his behalf.

Mr. PAINE. Then he can take the other 7½ percent and apply it to the past service. A person, let us assume, is older today, he has not had a chance to put aside retirement income in the past. Let us give him a chance to make deductible contributions for that purpose. Again this is the mechanism that might be used to do this for him.

Senator SMATHERS. Right. This same principle is in the Smathers-Keogh bill for self-employed now. I might say the Finance Committee struck it out the last time, but the original Keogh bill provided that an individual could go back and pick it up?

Senator NEUBERGER. There is one premise I do not follow here. It would appear that all this is based on this tax-deductible item. Is it not better for a person to pay taxes during his best earning years, when he is contributing to a plan rather than to have to pay them when he collects it? Then it is assumed that he is older and it is harder to pay.

Senator SMATHERS. You go ahead.

Mr. HEWITT. I think the theory, Senator, is that he is paying it on top of his earnings currently, for one thing. Secondly, after he receives the retirement income, he does have the benefit of the fact that the social security part that he is getting, plus the double exemptions that he gets, means that part which comes as retirement income can very likely come into an area where the tax is substantially less or not at all.

Senator SMATHERS. In other words, you actually pay much less tax when your only income is this plus the fact that you have, if you are a certain age, the personal exemption increase? You would also have other factors which are in your favor, so that, in point of practical determination, you would pay much less tax by postponing the tax and paying it only on the retirement you get.

Senator NEUBERGER. All right, then, let us carry this over to a private insurance policy. Say I have a policy with the New York Life Insurance Co. I would like very much to have my contributions tax-deducted now and I, or my heirs, pay the tax when that policy comes due. Why do we not do that, too?

Senator SMATHERS. You go ahead.

Mr. HEWITT. I think that this would essentially be a possibility with the exception that this contemplates that it has to be on special kinds of programs, as you have in your pending legislation, with certain restrictions.

Senator NEUBERGER. Many people put a great deal of money in life insurance policies just with the idea of not paying the tax when the policy comes due. It may amount to $100,000. I think if you would establish a principle like this, there would be no reason for not carrying it over to private life insurance.

Mr. PAINE. We agree entirely. There will be certain types of these policies which would be approved, you see, and a person could do exactly this. If he does not want to, he does not need to ask for the tax deduction, which makes it tax-free after the retirement. Give him his choice, let him do it as he sees fit.

Senator SMATHERS. You can buy a policy and then you get another one which guarantees it, as you suggest, which is taken out for the sole purpose of paying the tax.

Senator NEUBERGER. What do they call that?

Senator SMATHERS. I do not know, but they are around. People with a lot of money do that.

Senator NEUBERGER. That is why I don't know about it.

Senator SMATHERS. That is why I am not so well informed on it myself.

Mr. HEWITT. I think we are consuming too much of the time allotted.

Senator SMATHERS. You go right ahead, sir.

Mr. HEWITT. I feel badly that there are others who are waiting.

Senator SMATHERS. We are benefiting by this.

Mr. HEWITT. We feel that outlining this problem will stimulate some thought or discussion of possible approaches without attempting to suggest a final proposal for action. We would be happy to discuss this with this or any other group, at any time, who might be studying the problem concerning retirement income.

We feel that the problem of extending opportunities for accumulating retirement income to the small employer and the individual is a critical one if the principle of private action in the retirement field is to prosper and grow. It is in the context of this role that we put forth this idea as one possible basis for further discussion.

Thank you.

Senator SMATHERS. Thank you very much, Mr. Hewitt. Your partner, we are grateful to you, and those are excellent charts and it would certainly make your suggestions much more understandable to have copies of them, valuable visual aids.

Senator Neuberger, do you have any questions you want to ask?

Senator NEUBERGER. No further questions. I have asked quite a few, but I do think it is a very commendable presentation. I am sure that we in Government would like to see a good many people really start planning during their most productive years for some kind of private pension. There is no doubt about it, they should, and it would be a relief to the employer and the Government, it seems to me.

Mr. HEWITT. It seems to be part of the entire problem.

Senator SMATHERS. The suggestion which you made apparently is the Keogh idea extended to everybody.

Mr. HEWITT. We are trying to illustrate that possibility.

Senator SMATHERS. And thereby you get rid of the objection to the Smathers-Keogh bill that it is only designed in point of fact to 6, 8, or 9 million self-employed.

I think if we could come in with a plan where anybody could qualify, it would be a very useful thing. Would it be possible for you to develop that a little bit further and give us the benefit of your study?

Mr. HEWITT. We will try.

Senator SMATHERS. Say, "In supplement of what we said the other day, here is what we think further about it, and here is the way it would work, and here is why it would work."

Mr. HEWITT. We think it is very consistent with the objectives you are trying to reach, and we will see if we can develop it to a feasible point.

Senator SMATHERS. One of the purposes of this hearing is to make it possible for more people to be protected in a legitimate and proper way, for their old age, and this might be a very excellent suggestion.

Mr. HEWITT. We would like to continue to try to work on it, with no promises as to how successful we might be.

Senator SMATHERS. Thank you very much, and we certainly appreciate it.

Mr. HEWITT. Thank you.

Senator SMATHERS. Is Professor Murray here?

STATEMENT OF ROGER F. MURRAY, S. SLOAN COLT PROFESSOR OF BANKING AND FINANCE, GRADUATE SCHOOL OF BUSINESS, COLUMBIA UNIVERSITY

Mr. MURRAY. Yes, sir. My name is Roger F. Murray, and I am the S. Sloan Colt Professor of Banking and Finance at the Graduate School of Business of Columbia University. Although I am also director of the pension research studies being conducted at the National Bureau of Economic Research, I am speaking here today as an individual and not as a representative of the National Bureau since our studies have not been completed and reviewed by that organization.

During the past decade, there has been an explosive growth in the number of people covered by retirement plans designed to supplement their prospective benefits under the old-age and survivors insurance system. The number of covered employees in private industry, for example, is currently about 22 million, representing a growth of close to 50 percent in the last 5 years. In Federal, State, and local governments, of course, the coverage is close to completion. Because many of these plans are relatively new, benefit payments are still in the state of early growth. Currently, the retired employees of private organizations are probably receiving about $2 billion a year in pension benefits, while benefit payments from State and local retirement systems have almost reached the $1 billion level. The railroad retirement and civil service retirement systems currently disburse another $1.5 billion, almost twice the level of 5 years ago.

These may seem like small figures in relation to the more than $10 billion a year of OASI benefits, but I know of no safer prediction than that they will grow at rapid rates in the years ahead. Thus, even if we take no account of the retirement benefits accorded to members of the Armed Forces, it is evident that retirement incomes supplementing OASI benefits are reaching an ever-increasing proportion of American households and will soon become a major source of economic security of our aged population.

Public policies have, of course, been designed to stimulate these developments in a number of ways. By providing a minimum scale of fully tax-exempt benefits for most people regularly in the labor force, the old-age and survivors insurance system has provided an incentive to build voluntary pension programs. The tax deferment features of public and private plans is another important factor in the growth of supplementary retirement income plans. Our studies also show that people who obtain pension coverage respond by maintaining their individual saving in other forms at as high a level as those without coverage. Apparently, the prospect of a reasonably good pension benefit encourages them to save for a greater measure of financial independence in old age. If, as I hope, the Senate passes H.R. 10, the Self-Employed Individuals Tax Retirement Act of

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1961, comparable incentives will be made available to the self-employed and their employees.

All of us, I presume, are in favor of greater independence and economic security for our older citizens. The major question is how these objectives can be achieved most effectively for the benefit of all segments of our society. Does it make any difference what arrangements we make for the provision of retirement incomes? This is the major question to which I should like to address myself today.

The first question to ask ourselves is whether we, individually or as a society, can save in any real sense for our own retirement. Can we, like a squirrel, work hard, deny ourselves the current enjoyment of real resources during the summer of our productive period, and store away the fruits of our efforts for the winter of our years? In an industrial economy like the United States, our retirement wants and needs are not storable for the most part, so that in a real sense we cannot save for our own retirement. We can only save in a financial sense. We can only accumulate claims to future output in exchange for claims to current production of goods and services.

A public or private pension plan which invests an excess of contributions over benefits in productive capital formation contributes, as do other saving institutions, to economic growth and a rising standard of living. Everyone shares in these gains currently; they are not reserved for the future to honor the claims which we call pensions. When I retire in 1979, I shall cease contributing to current output and start presenting my claims to the goods and services produced in that year and in subsequent years. Presumably, someone else will be willing to forgo current consumption in order to provide for his future and will take over my claims in exchange for a portion of his current output.

For this to work out so that my pension claims have a command over real goods and services which satisfy my needs and wants, it is essential that three conditions be met:

First, my productively employed fellow citizen must be willing to take my place as a saver because he has confidence in the process of saving and investment.

Second, in the interim period my saving must have been employed as productively as possible so that there will be an abundance of goods and services to share with me and the other people who have ceased to contribute to current output.

Third, and underlying both of the preceding conditions, the general level of prices must remain reasonably stable over long periods of years.

Otherwise, confidence will be lost in the saving and investment process and I shall find that my pension gives me command over very little real output.

The key questions, therefore, are (1) how the pie of real resources is divided between the active and the retired and (2) the size of the pie. It is clear that the volume of pension payments under public and private pension programs will increase much more rapidly in the years ahead than we can expect real output to grow. In other words, the fraction of the year's pie going to the retired will be increasing. However, if the size of the pie is enough larger each year, the remainder may still grow; the active contributors to current production may still be receiving more in the way of rewards for their efforts.

The productivity of the investments made with funds accumulated in public and private pension systems becomes crucially important, then, in our appraisal of the functioning of these arrangements. Let me illustrate by two extreme examples. In one case, a life insurance company or pension trust lends money to a business corporation to build a research laboratory, develop a new product, and put the new development into mass production. We have no difficulty in seeing that this investment in the present contributes to greater output in the future.

In another case, the pension plan purchases Federal Government bonds to finance a deficit created by essential outlays for national security. The goods produced provide for the common defense and assure the continuance of our free society but they do not add to the supply of consumable products in the economy. Clearly, such outlays might better be made from current tax revenues. Such an investment is "productive" only in some esoteric use of the term.

In between these two extreme examples are many forms of investment which do not lend themselves to ready classification as to their contribution to productivity and economic growth. Examples are residential housing, better roads, and our new graduate school of business building. All of such outlays are productive in a sense, although perhaps not as clearly and dramatically as the new product development project in my first example. As disinterested observers of the saving and investment proces, how are we to appraise the contribution of individual investments made by our public and private retirement system? Should we attempt to influence the flow of funds into particular areas of investment?

In an economy as complex and dynamic as ours, I doubt that we so-called experts can mastermind the functioning of our broad, responsive, well-developed capital market. I believe that the best results will be achieved if we give market forces and the market mechanism maximum freedom to perform their function of allocating real resources. Specifically, in relation to the investment of retirement system funds, this point of view suggests that we move in the direction of less rather than more kinds of specific and detailed regulation of investment powers. The history of our efforts to legislate investment judgment is one of dismal failure. I would advocate support of the recommendations of the CED Commission on Money and Credit "to provide greater flexibility for portfolio investment" and "increased mobility of funds" by relaxing the restrictions on the loans and investments of banks and other financial institutions.

Appropriate objectives of public policy might well be, therefore, to remove obstacles to the free flow of investment funds and to keep the capital market as free from artificial barriers as possible. This is the kind of a general statement to which everyone is ready to subscribe wholeheartedly until he sees its application to his favorite area of investment. The notable example is a residential housing. With a capital market functioning magnificently to generate a fabulous flow of mortgage money in the postwar years, there could be no fault found with the workings of the marketplace. But when other demands from business, government, and consumers compete with a less buoyant housing market, there is a strong temptation to try to do something for housing. Such efforts to impede the working of market forces are neither particularly effective nor basically helpful to the segment of the capital market thought to be in the need of assistance.

It appears, then, that the retirement income programs which we are designing and encouraging will work just about as well as our saving and investment process works in the most efficient allocation of resources. Stable prices, productive investment for economic growth, and restraint in the printing of claims to future output are the ingredients of a socially and economically desirable pension structure for the future. When we come to an institution as broadly based and all-pervasive as our public and private pension programs, we cannot conceive of their functioning any better than our economy as a whole. On the other hand, malfunctions in the general economy will undoubtedly have an especially severe impact on the pension programs and their beneficiaries.

Thank you for your attention.

Senator SMATHERS. Thank you very much, Professor Murray. It is a very interesting statement and one that causes us to make considerable reflection on it.

Do you have any questions, Senator?

Senator SMITH. I have no questions.

Senator SMATHERS. Thank you very much.

We appreciate your kindness in coming down and making a statement to us.

Our next witness is Mr. G. Warfield Hobbs, president of the National Committee on the Aging.

STATEMENT OF G. WARFIELD HOBBS, PRESIDENT, NATIONAL COUNCIL ON THE AGING

Mr. HOBBS. Mr. Chairman, Senators, I have not been asked to make a statement but to give a few views on some specific questions which will not take long, which is probably just as well in view of the hour.

Senator SMATHERS. Can we get you identified a little better? What is the National Council on the Aging?

Mr. HOBBS. The National Council on the Aging is a nonprofit organization at the national level which acts as the impartial factfinding, researcher, and sounding board, where all viewpoints on problems concerning the aged may be expressed, debated, threshed through to what we hope can be conclusions based upon fact rather than emotions. These findings are then disseminated to the general public as well as to those having a special interest in the broad field of gerontology. The reason I have been asked to testify here is that for the last 10 years I have been president of the National Council on the Aging, and in addition to that, until I retired last year, for nearly 25 years, I was the head of the pension department of one of the very largest banks in the world.

Senator SMATHERS. I see.

Mr. HOBBS. I have been asked questions concerning private pension plans because my chief job has been advising corporations on private pension plans.

The questions that have been asked me are the following: For example, to what extent would changes in the retirement policies of employers help in meeting the problem of retirement income?

Well, of course, the first thing that comes to mind is flexibility in retirement. In other words, pensions are always lower than earnings, so that if a man can continue working past the traditional age of 65, until he has to quit through some physical disability, he may gain a few years at full pay rather than try to live on part pay.

Most corporation executives are more or less for compulsory retirement, the reason being it is a rather easy yardstick to judge. There is no question about it, the calendar says you are 65, and, being so, you are out.

If you seek other yardsticks, I personally admit that they are possible but rather difficult to define.

On the other hand, I urge business leaders to become aware of the fact that permitting fully able-bodied worker to continue working after 65 will save them money. To pay a man $100 a month pension at age 70 costs almost 40-percent less than to pay him $100 a month at age 65. To me that is a valuable economic consideration. For those who continue to wish a compulsory retirement age I suggest 68 or 70.

Another economic point I would make is, that over 10 years ago, Sumner Schlichter of Harvard said that every able-bodied retired worker who could work but remained in idleness costs this country some $5,000 in lost productivity. According to the Consumer Price Index, that would mean each idle worker who could work costs us now $6,000 or $7,000. Multiply that by 2 or 3 million persons and you will have a vast number of billions of lost productivity, which is inflationary itself.

I think also employers could help by adopting the policy of job readjustment for their older workers.

By that I mean it is customary that when you reach a certain age you quit doing the job that you have been doing. It is perfectly possible for a person to shift from a job that had physical requirements to something where he could sit, be a night watchman, or something like that. In other words, it is not necessary to put a person out of a job just because of age. He may have capabilities that are not used.

The next thing is indirectly related and was referred to before. I think you, yourself, made the point that anyone over 40 who becomes unemployed, has a very difficult time getting back into the active workstream. I happen to have served on Secretary Mitchell's Committee on the Employability of Older Workers some years ago. This committee found it was between two and three times as hard to get back on the job if you are over 40.

I think one of the main reasons is the high cost of fringe benefits for people around 45 or so. Employers feel that they do not want to pay the higher cost of pensions and other fringe benefits, because those costs go up with age. They go up with age with their own employees, but they do not want to employ brandnew employees at a high cost for fringe benefits.

I believe that if portability of pensions were to be increased, the average employer would not mind hiring a middle-aged man if he came along with a built-in pension. I think that is a very important point.

Senator SMATHERS. That, expressed another way, is vesting of pensions.

Mr. HOBBS. "Vesting" is a fancy word. It means portability, so that you might go from job to job and end up with 15 different pensions as a possibility, if you had that many jobs.

Senator SMATHERS. Yes.

Mr. HOBBS. A lot of people say that the bookkeeping is too complicated. I personally do not think so. I know several people that have more than a dozen insurance policies, and they are not worried that they will not collect.

Senator SMATHERS. That is good. I would debate you as to which is the more explicit, "portability" or "vesting."

Mr. HOBBS. I see you are not a neophyte.

Senator SMATHERS. Hardly.

Mr. HOBBS. I would like to see the Government encourage older workers to accept full or part-time work by raising the earnings limitation after applying for social security benefits between 65 and 72.

I would prefer seeing the $1,750 raised to a more realistic figure, and I would also like us to adopt a system that has been used in several of our friendly Western European countries; namely, that if you work after you retire you do lose part of your social security, but you do not lose more than down to one-half. In other words, if you earn a very high amount after you get to be, let us say, 70, you only lose half of your social security.

We have a great many people in this country who simply do not work because the pay they would get would mean they would be working for "peanuts" when you consider the social security they would lose. I think that needs a great deal of looking into.

Now, then, here are questions having to do with the various provisions of private pension plans that if our aim is as you stated it, to protect more people, I think we should study these areas. I believe you would find that management would not be reluctant to introduce these features, because the cost isn't great.

I would also like to point out that the private pension system is rather old. A lot of people think it started during the war, or with, let us say, bargaining and negotiations. The American Express had a pension plan in 1865. My bank had a pension plan in 1900, and there have been many, many private pension plans. It is true that the great surge came during and after the war.

One of the first provisions is eligibility. Many plans have such a provision as you must have been employed for 2 years and be aged 25, or even 5 years and age 35. I feel that if these limitations were reduced to perhaps maybe 6 months of work and no particular age—and this involves vesting or portability—it would enable the average worker, even the low-paid worker, to come to the end of the road with a great deal more of pension credits than now exist when you go from job to job and in each job you have to be a certain age or work a certain number of years before you begin accruing any credit at all.

On the provisions of contributions by employees which has already been discussed, I personally recommend that plans be noncontributory. As the law now exists, an employee has to put in his contribution after paying a tax upon it, whereas the employer gets a tax credit, usually 52 percent, a normal bracket.

If you take an employee in the very lowest tax bracket of, say, 20 percent, he has to set aside a dollar and a quarter of his gross pay to get a dollar net after taxes into the pension fund, whereas his employer only has to put in 48 cents to buy exactly the same benefit. It just does not make sense to have contributions under the present tax laws.

Now then, some people believe that a contributory feature causes employees to feel more a part of the organization and a part of the pension plan. I think that is wishful thinking. Nevertheless, if the employee did get an immediate tax credit instead of being taxed, I think many more employees would be quite willing to make such a contribution, because they might then get a larger pension at the end of the road than if it was solely noncontributory on the part of their employer.

One of the questions involves amounts of benefits. I would say that the trend is very definitely toward the final average pay, whereas 25 years ago all the plans were based on lifetime average pay.

Well, as you can imagine, in the case of a fellow who starts as an office boy and ends up as president, his average lifetime pay might be one-quarter or one-tenth of his final average. Even for the lower paid worker, the lifetime average would probably be less than half of final pay. So the trend, I am glad to see, is toward either an immediate definite 1-year final average or a 5-year average. I think the 5-year average is better for the very simple reason that the employee could be subjected to a reduction in pay if it was the last year. He might be ill and unable to pile up much toward his average. A 5-year average is what I personally recommend from my experience.

We talk about early retirement and late retirement. One of the provisions defeating early retirement for some people who want to retire early for various reasons, mostly physical, is that the actuarial reduction runs around 6½ to 7 percent a year. In other words, if you retired at 60, instead of 65, your pension would be reduced, maybe 35 percent, and that causes an employer to be reluctant to force out an employee who has lost his ability to pull his weight in the boat. It also is a great restraint on the employee who wants to quit early.

I think that there should be some compromise, and many corporations are doing that. They are making maybe a 2-percent-a-year reduction or a 3-percent-a-year reduction instead of the full actuarial amount, and that is aiding the trend toward the flexible retirement, not only for the later years, after 65, but for the early.

Now, I have mentioned vesting. It does not need any detailed explanation. A vested program is far superior to one in which the employee, if he loses a job, perhaps through no fault of his own, like a depression, sees his accumulated pension to date vanish. I believe the trend is going to be toward vesting with very moderate restrictions on how much vesting, and the period of time. I think we are going ultimately to get probably to complete vesting after a period of a few months.

One other question was: What changes have you observed over the last 25 years since social security came in? Well, I think the important change I have observed, as I remember the arguments, when it went in, it was considered outright socialism, and I think the biggest change is that social security is now accepted as a desirable thing in this country and people do not get excited when you mention social security. It has come to be basic philosophy in this country that people need a start in protection.

Another reaction over these years is this: When employers began looking at social security, after the first shock of seeing it enacted, and realizing that in the very beginning the benefits were $10, $15 a month, it became sort of ridiculous to think or talk of retiring somebody who was earning maybe $100 a week on $10 a month and think that was it. So that as a matter of fact social security sponsored by the Government encouraged and spurred the spread of private pensions, which is what those who believe in the capitalistic system think it should be, a Government tax-supported base plus a private pension supported by private enterprise.

These private pensions have been increased from about 1,000 plans in 1940 to over 60,000 today. As to coverage, I heard Mr. Hewitt mention 20¼ million. I was going to use the broad term 20 million, but we agree that closely. There are over 20 million people covered in private pension plans, and the number is increasing better than a million a year.

This next question has to do with inflation. What do private pension plans do about inflation?

Well, I had the privilege of working out the National Airlines pension plan, which was the first plan with automatic cost-of-living adjustment after retirement. I think it has spread to a few more corporations, but not widely.

Then there is the variable annuity which adopts the theory that common stocks would respond to changes in the cost of living. And that is not always true, but it is more often true than not. So that there has been a great increase in the variable annuity type pension plan.

Another question was: Should social security include automatic adjustments after retirement?

Now, this has been tried by some nine European countries. Some used the average wage level as the basis of adjustment. West Germany does that. Holland uses the combination of the cost of living and the wage level. Sweden, Denmark, and others, use merely the cost of living. It is perfectly possible that we should do that.

Others feel that the fact that social security must be reviewed at intervals of not more than 2 years is in fact automatic. In other words, the theory is that every time it is reviewed, it is brought up to snuff with what has happened in the economic changes in the world. I don't know. I personally think it it should be automatic.

I have here, Senator, a little book that White House conference put out. You know, there were 20 subjects in that conference. This is the "Impact of Inflation on Retired Persons." I would like to submit it as an exhibit.

Senator SMATHERS. All right; without objection, it is so ordered.

(The booklet referred to is available at the Government Printing Office for 20 cents.)

Mr. HOBBS. Now, the last question is: What particular part of the aging population now and in the future is in most need of improvement?

Today, as I observe, it is the very old, the 75-and-up group who, perhaps for causes not their own fault, have the least amount of resources.

Let us see why. The working conditions that they came through, those people who are now 75, 80, 90, were pretty bad. Even though we think they are pretty good now, they were better than most countries even then. The average wage was 16 cents an hour in the year 1900, and we know that it is many times that, and even with taxes and inflation the average worker today is proportionately more than three times better off than his grandfather.

Education is a direct coefficient of earning capacity. It has been shown time and again. In the year 1900 people who today are in the upper age bracket left school on an average of the sixth or seventh grade. Today there are some seven times as many high school graduates percentagewise as there were then.

The same way with the foreign born. Twenty-five percent of our very old are foreign born as opposed to 7 percent of the total population. Those people had the handicap of language, poor education, and so on. Widows are the worst hit, too, because when they are left by husbands who did not have much it meant they had practically less than nothing.

Now, let us look at the future.

Due to the spread of pensions, due to the increased ability for savings, private savings, the average person who is about to retire is much better off than those that already have, 10, 20 years from now, my guess is that there will be very few who will be on the old-age assistance rolls, and I would cite this: In 1948, the peak of the old-age assistance, about 2,800,000 people received help. There were then 12 million people over 65. Today there has been a reduction of 500,000 and only 2,300,000 people are getting old-age assistance, although the number of over 65 has increased to 17 million. So I think right there you have proof of the improving conditions in the economics of the elderly.

Now, I would say in answer to just this one other question which is related to the continued purchasing power bond. In other words, the proposed bond could be redeemed at maturity for the then-existing purchasing power. I do not think this is as good an answer as relating social security benefits to automatic adjustments in the cost of living. I would prefer such an adjustment as part of the recommendations to the country rather than a bond which is available to everybody, not just the people who are actually retired. In other words, my objection to the constant purchasing power bond issue is that anybody can buy it, whereas if the adjustment to inflation is made it will be applicable only to those who physically are retired. However, if the Congress does approve the constant purchasing power bond, I would suggest the purchase be limited to individuals over age 40 and that trust companies and insurance companies be excluded. If institutions are included, they could eliminate the business risk of the pension business by purchasing many billions of the new bonds. I don't think this is what the authors of the constant purchasing power bond had in mind.

Well, that is about the gist of the comments I have to make, Senator, unless somebody wants to ask some questions.

Senator SMATHERS. Those are very helpful, and we thank you very much.

Do you have any questions, Senator Neuberger?

Senator NEUBERGER. No questions.

Senator SMATHERS. Senator Smith?

Senator SMITH. No questions.

Senator SMATHERS. Thank you very much. It has been very helpful and we appreciate your comments.

The subcommittee will stand in recess subject to call of the Chair. Thank you very much.

(Whereupon, at 1 p.m., Thursday, July 13, 1961, the subcommittee recessed to reconvene at the call of the Chair.)

APPENDIX I

Answers submitted by Wilbur J. Cohen, Assistant Secretary of Health, Education, and Welfare, to questions asked by Senator Carlson, of Kansas, at hearing held July 12, 1961 (see p. 75).

Question 1

In evaluating the adequacy of a person's economic resources, assets as well as income must be considered. Are statistics available which give a combined detailed picture of income and assets for individuals over 65? For individuals in other age groups? Can it be shown, for example, how many persons and how many spending units with incomes under $2,000 own real estate, life insurance, liquid assets, corporate stocks, or other assets in excess of $10,000?

ANSWER

There is only limited information on the ownership of assets in relation to income and age. Most studies do not cross-classify these variables.

An unpublished tabulation from the Federal Reserve Board's 1958 survey does provide data on liquid asset holdings within age groups, within broad income groups. These findings are shown in the attached table A (data for incomes of $5,000 and above were omitted because the age group of 65 and over contained too few cases).

The source for the most comprehensive data on assets is the annual Survey of Consumer Finances, frequently referred to as the Federal Reserve Board survey. The most recent information appears in the report entitled "1960 Survey of Consumer Finances," Survey Research Center, Institute for Social Research, the University of Michigan. The voluminous data therein do not provide specific data to answer the question because the relationship of asset holdings to age and to income is considered separately. These data do, however, clearly indicate the close correlation of asset ownership with the income of the spending units (see especially the charts on pp. 147 and 148 of the 1960 report), leading to the conclusion that for all age groups combined large assets are likely to go hand in hand with large incomes. The relationship to age is stated as follows on page 114 of the report: "The older the head of a spending unit, the larger are the units' total assets. The relation holds also for most types of assets. The age groups 55 to 64 and 65 and over are about equal in assets; both exceed the other age groups."

The 1957 survey of aged beneficiaries of old-age, survivors and disability insurance provides some information on assets in relation to income. Findings from this survey and from the Federal Reserve Board surveys are summarized on pages 16–20 of the "Background Paper on Income Maintenance," prepared for the White House Conference on Aging, and on pages 19–22 of "Basic Facts on the Health and Economic Status of Older Americans," a staff report to the Senate Special Committee on Aging.

TABLE A.—*Liquid asset holdings*[1] *within age groups, within broad income groups, 1958*

Amount of liquid assets	All spending units	18 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65 and over
	All incomes[2]						
Has no liquid assets	26.1	37.0	26.4	22.5	21.0	28.1	27.4
Has liquid assets	73.9	62.9	73.5	77.5	79.0	71.8	72.6
$1 to $99	10.2	20.3	14.2	10.1	6.1	7.4	4.8
$100 to $199	6.8	6.6	10.7	7.7	4.7	3.8	4.9
$200 to $499	13.9	20.8	16.2	15.1	12.6	11.5	7.3
$500 to $999	10.7	6.9	10.2	12.8	13.2	8.3	9.6
$1,000 to $1,999	10.4	4.0	10.2	13.9	14.0	7.9	6.7
$2,000 to $4,999	12.3	4.0	8.8	10.1	16.1	15.9	19.6
$5,000 to $9,999	5.3	.3	2.4	5.0	6.3	9.7	8.6
$10,000 and over	4.3	(3)	.8	2.8	6.0	7.3	11.1
Total	100.0	99.9	99.9	100.0	100.0	99.9	100.0
	Incomes under $3,000						
Has no liquid assets	48.6	48.8	66.5	55.1	53.7	49.3	35.4
Has liquid assets	51.4	51.2	33.5	44.9	46.3	50.7	64.6
$1 to $99	8.9	19.0	6.8	6.5	8.2	9.0	6.1
$10t o0 $199	4.8	4.7	4.3	5.7	4.2	4.0	5.7
$200 to $499	10.8	20.3	6.0	10.2	7.6	12.0	8.1
$500 to $999	7.7	4.9	6.1	7.8	5.5	7.3	11.1
$1,000 to $1,999	4.7	.5	6.9	10.1	9.0	1.9	4.0
$2,000 to $4,999	8.1	1.3	3.4	2.5	8.2	9.3	14.6
$5,000 to $9,999	3.8	.3	(3)	1.5	2.5	4.9	8.0
$10,000 and over	2.7	(3)	(3)	.7	1.0	2.2	7.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Incomes $3,000 to $4,999						
Has no liquid assets	28.2	27.8	33.1	32.0	22.1	27.9	9.9
Has liquid assets	71.8	72.2	66.9	68.0	77.9	72.1	90.1
$1 to $99	13.0	28.2	14.5	14.0	7.7	7.9	1.2
$100 to $199	7.8	7.6	13.9	9.2	2.8	6.9	2.4
$200 to $499	15.9	19.3	18.0	18.0	18.0	11.9	5.9
$500 to $999	8.4	6.4	7.1	8.9	11.6	5.0	7.2
$1,000 to $1,999	9.4	4.6	7.2	7.5	13.9	9.4	16.5
$2,000 to $4,999	11.9	6.0	5.8	6.6	18.0	18.7	34.5
$5,000 to $9,999	2.1	(3)	.5	2.5	2.6	6.0	3.7
$10,000 and over	3.2	(3)	(3)	1.3	3.2	6.5	18.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Includes U.S. savings bonds, checking accounts, savings accounts in banks, and shares in savings and loan associations and credit unions.
[2] Includes incomes of $5,000 and over, not shown separately because there were too few cases with head 65 and over.
[3] Less than 0.05 percent.

Source: Unpublished tabulation of the Survey Research Center, economic behavior program from the 1958 Federal Reserve Board Survey.

QUESTION 2

In determining the economic needs of a person, recognition must be given to personal, geographic, and other variables.

The standard budget approach is subjective and may tend to imply needs greater than many people actually have.

The subjectivity is indicated by the statement by the Bureau of Labor Statistics when it prepared budget costs for retired elderly couples as they would apply in 20 major cities. The statement said: "The budget was designed to represent a level of living which provided the goods and services for a healthful, self-respecting mode of living. It provided a modest but adequate level of living—not a luxurious level, but one adequate to provide more than the basic levels of consumption." How much more is not clear.

These budgets are for "renting" couples, although roughly two-thirds of elderly couples own their own homes. The Bureau of Labor Statistics has stated that housing is about one-third of the elderly couple's budget where rent is paid for dwellings of two or three rooms.

What studies have been made of actual expenditures for living expenses by elderly couples and the item-by-item variations in such expenditures? The geographic variations?

ANSWER

The concept of need

Determining the economic needs of a person—old or young—is difficult, precisely because recognition must be given to personal, geographic, and other variables. With the exception of food, for which the National Research Council recommendations serve as desirable nutritional goals, there are few generally agreed-on measures of how much is enough. Even food needs are not entirely outside the realm of controversy because the recommendations are in terms of calories and essential nutrients, but how to translate these into quantities of food as eaten is a matter of opinion and not a matter of fact: Will it be the most economical way possible as the nutritionist sees it, or will it allow more leeway for personal likes and dislikes?

The retired couples' budget recently priced by the BLS affords two alternatives, the low-cost food plan of the USDA which emphasizes economy, or a higher level of satisfaction midway between that and a plan at moderate cost, allowing for wider choice and more of the generally preferred foods. The original budget for a retired couple, developed by the SSA in 1948, priced only the low-cost plan.

In developing any budget standard the primary issue concerns the level of living to be described. The agreed-on level for the BLS budgets is modest but adequate. That implies, surely, a level above subsistence, but how much above? It may be helpful to quote the Social Security Administration about the original retired couple's budget designed to parallel that for the city worker:

"The level of living represented by the city worker's family budget and the budget for an elderly couple may be described as one providing the goods and services necessary for a healthful, self-respecting mode of living, allowing normal participation in the life of the community in accordance with current American standards. Social and conventional as well as physiological needs are taken into account. In other words, the budget is intended to provide a modest but adequate living standard.

The Technical Advisory Committee to the Bureau of Labor Statistics for the original city worker's budget stated that:

"* * * the budget represents what men commonly expect to enjoy, feel that they have lost status and are experiencing privation if they cannot enjoy, and what they insist upon having. Such a budget is not an absolute and unchanging thing. The prevailing judgment of the necessary will vary with the changing values of the community, with the advance of scientific knowledge of human needs, with the productive power of the community and therefore what people commonly enjoy and see others enjoy."

These, of course, are words to which no one would take objection. It is only in converting them to goods and services that differences in judgment arise about where to draw the line between "modest" and "luxurious"—these are relative terms and what is modest for one will seem luxurious to another.

In the final analysis, in its simplest form, the question of what is reasonable boils down to the special circumstances of each retired individual or couple. How much he—or they—will need depends on what they already have, the state of their health, and the kind of life they were used to before. If they own a home in good repair, if they are well stocked with household articles and clothing that do not need early replacement, if they are willing to cut down spending for some things they formerly enjoyed, and especially if they are in good health, they will be able to get by on much less than would otherwise be possible. The decisions and choices on what is a must and what they can do without are those they make for themselves. The problem for the budget maker is how to sum up all these individual decisions and choices into a tenable composite.

It is precisely here that the budgets developed by the BLS made their greatest contribution: Where standards were not available, instead of relying only on expert opinion as to what families would, could, or should do, they elected to rely on evidence as to what families did do, based on analysis of income and expenditures. Accordingly, for food they relied on food plans developed by the Institute of Home Economics of the Department of Agriculture; housing was defined to conform to the standards of the Public Housing Administration and the American Public Health Association; and for medical care a standard was framed, using as a guide data on the utilization of services by persons aged 65 and over from the National Health Survey and the Bureau of Old-Age and Survivors Insurance survey of aged beneficiaries. But for other items the Bureau of Labor Statistics relied heavily in determining budget quantities of goods and services on the quantity-income elasticities of expenditures—the method developed for the original budget.

The Monthly Labor Review for November 1960 describes this technique as "* * * * objective in that it uses the consumers' collective judgment as to what is adequate, for such items as clothing, housefurnishings, and recreation. In this technique, the quantities of various items purchased at successive income levels are examined to determine the income level at which the rate of increase in quantities purchased begins to decline in relation to the rate of change in income, i.e., the point of maximum elasticity. The average numbers and kinds of items purchased at these income levels are the quantities and qualities specified for the budget. This point has been described as the point on the income scale where families stop buying 'more and more' and start buying either 'better and better' or something less essential to them."

The significance attached to the maximum elasticity point may be questioned but probably no one would argue that allowing the retired husband two pair of shoes every 3 years, and a topcoat every 9 is luxurious. And what husband faced with the prospects of frequent new outfits for the ladies would not think that allowing the wife a housedress and two other dresses a year was modest? How much more than the basic levels of consumption the budget provides overall is difficult to quantify, but a standard that allows the couple to eat out no more often than seven times a year and go to the movies once a month is not likely to be described as "overly generous."

Actually as a general measure of cost, the budget has its limitations. It presumes a couple in reasonably good health: Any major or prolonged illness or disabling condition and all terminal illnesses fall outside the scope of the budget standard. If one of the spouses should die, there is likely to be a heavy legacy for the survivor of expenses for the fatal illness and the funeral. And if it is assumed that savings—for those who have them—will be used to supplement income for daily living expenses, it cannot be assumed they will also be available for heavy medical calamities.

Actual expenditures

The following statement that Mr. Ewan Clague sent to me in July provides data on income of retired couples, and of all urban families with aged head in the year 1950, and how they spent their money. It is apparent that on the average the families were living beyond their income:

"The most recent information on actual expenditures for living by elderly couples is that obtained in the Survey of Consumer Expenditures in 1950. The attached table summarizes these data for all urban families with head aged 65 to 75 years and 75 years and older and for retired couples with head aged 65 years and older who lived in large cities (places of 50,000 population and over).

"More detailed data for elderly families for individual cities and classes of cities in broad geographic areas were published in the 18-volume series, entitled 'Consumer Expenditures Study,' by the University of Pennsylvania. These data are described in the enclosed circular.

"An analytical monograph based on these data, entitled 'Consumption Patterns of the Aged,' by Sidney Goldstein, was published by the University of Pennsylvania in 1960.

"The Bureau of Labor Statistics is currently conducting a similar survey, but data for this study will not be available before 1962."

Survey of consumer expenditures in 1950—Summary of family characteristics, expenditures, income and savings—urban families with head 65 years of age and over

Item	All urban families with head age—[1]				Budget-type (retired) family with head age 65 years and over [2]	
	65 to 75 years		75 and over			
Average family size [3]	2.1		1.9		2.0	
Average number of full-time earners	.5		.3		0	
Percent homeowners	59		60		69	
	Average	Percent	Average	Percent	Average	Percent
Income:						
Money income before taxes [4]	$2,893	--------	$2,297	--------	$1,882	--------
Money income after taxes	2,687	--------	2,161	--------	1,814	--------
Other money receipts [5]	20	--------	16	--------	14	--------
Expenditures:						
Total expenditure for current consumption	2,567	100.0	2,076	100.0	2,003	100.0
Food and beverages	848	33.0	694	33.4	713	35.6
Tobacco	37	1.4	25	1.2	26	1.3
Housing [6]	341	13.3	315	15.2	267	13.3
Fuel, light, and refrigeration	151	5.9	157	7.6	151	7.5
Household operation	131	5.1	162	7.8	109	5.4
Furnishings and equipment	138	5.4	81	3.9	118	5.9
Clothing and clothing services	227	8.8	162	7.8	125	6.2
Transportation	305	11.9	194	9.3	205	10.2
Medical care	178	6.9	143	6.9	167	8.3
Personal care	53	2.1	38	1.8	39	1.9
Recreation, reading and education	113	4.4	74	3.6	61	3.0
Miscellaneous [7]	44	1.7	31	1.5	27	1.4
Gifts and contributions	160	--------	193	--------	130	--------
Personal insurance	107	--------	57	--------	66	--------
Net change in assets and liabilities [8] [9]	−98	--------	−163	--------	−346	--------
Balancing difference [10]	−28	--------	14	--------	−30	--------

[1] Including 1-person units and small-city families.
[2] Retired husband-wife families of 2 persons only, residing in large cities and their suburbs (places of 50,000 population and over).
[3] Family size is based on equivalent persons, with 52 weeks of family membership considered equivalent to 1 person, 26 weeks equivalent to 0.5 persons, etc.
[4] Total money income from wages, salaries, self-employment, receipts from roomers and boarders, rents, interest, dividends, etc., before payment of personal taxes (Federal and State income, poll, personal property).
[5] Includes inheritances, large gifts, lump-sum settlements from accident or health policies, which were not considered current income.
[6] Includes rents for tenant-occupied dwellings, lodging away from home, and current operation expenditures of homeowners. Excludes principal payments on mortgages on owned home.
[7] Includes expenditures not included elsewhere, such as interest on personal loans, funeral expenses, money lost or stolen, allowances to children at home or at school, which cannot be allocated, etc.
[8] Assets: money on hand, in checking and savings accounts; purchase and sales of real estate, stocks and bonds; mortgages and other loans to persons not members of the consumer unit; investments in business; improvements on owned real estate; insurance policies surrendered or settled.
[9] Liabilities: real estate mortgages; loans due banks, insurance companies, individuals, others; bills due, charge accounts, installment balances, other bills; other items such as taxes due. Principal payments on home mortgages were considered as decreases in liabilities.
[10] Represents the average net difference between reported money receipts and reported money disbursements, i.e., disposable money income, other money receipts and deficit (negative net changes in assets and liabilities) minus expenditures for current consumption, gifts and contributions, insurance, and surplus (positive net changes in assets and liabilities).

NOTE.—Items may not add to totals because of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.

Consumer expenditure study by the University of Pennsylvania in cooperation with the U.S. Bureau of Labor Statistics

The Wharton School of the University of Pennsylvania announces the publication of a series of volumes of statistical data and research studies based in large part on the survey of consumer expenditures, incomes, and savings in 1950 and 1951 conducted by the Bureau of Labor Statistics of the U.S. Department of Labor. These data represent the most comprehensive information on consumers' economic behavior available and virtually the only detailed information on the pattern of consumer expenditures in the United States in the period after World War II. This project is being carried out under a grant from the Ford Foundation.

These materials provide new insights into the purchasing patterns of all types of families and individuals in each of 91 cities as well as for urban United States as a whole, indicating the commodities purchased, prices paid, level of inventories, amounts spent, and economic, social, demographic, and other characteristics of the consuming units. Expenditures data are classified by 21 family characteristics (income, etc.) and combinations of characteristics. The basic tabulations are available by some classifications (and cross-classifications) for the first time, while other classifications which have been published in earlier studies are generally shown in much greater detail.

There are two sets of volumes: First, tabulations of expenditures and related data for 1950 and 1951 compiled by the Bureau of Labor Statistics from detailed surveys covering 1,500 items of budget information collected from each of 12,500 families and individuals in all income and occupational classes. The basic tabulations will cover approximately 8,000 pages and require 18 volumes for publication. The first 10 volumes will be released in June 1956 and the remaining 8 volumes of statistical data through the summer of the year.

Second, a series of research studies of economic and social aspects of consumption and saving patterns by staff members of the Wharton School and other academic institutions will be published making use of the new 1950 and 1951 data, as well as of other consumer surveys and time series materials. Since the first research monograph will not be published until late 1956, the order blank enclosed covers only the 18 volumes of data.

The first 10 of these volumes show average family income, expenditures on major groups and subgroups of consumption items, savings and other receipts and disbursements, classified and cross-classified by the following family characteristics: annual net money income, occupation of family head, family size, family type, race, age of family head, education of family head, number of full-time earners in family, tenure, length of residence in city, sex, and family living arrangements for each of 9 classes of cities (large cities, suburbs of large cities, and small cities, in the North, West and South) and on a more limited basis for each of 91 cities.

The first volume listed below presents data on the major family accounts, including one for the total of current consumption. The second volume presents a breakdown of the total of current consumption among major groups of goods and services. Volumes III through X give a breakdown of the major groups indicated into subgroups.

Volume I—Summary of Family Accounts (income, expenditures, savings, and other receipts and disbursements).
Volume II—Summary of Family Expenditures for Current Consumption.
Volume III—Food, Beverages, and Tobacco.
Volume IV—Housing and Household Operations.
Volume V—Housefurnishings and Equipment.
Volume VI—Clothing for Women and Girls, and Children Under 2 Years.
Volume VII—Clothing for Men and Boys, Clothing Materials and Clothing Services.
Volume VIII—Medical Care and Personal Care.
Volume IX—Recreation, Reading, and Education.
Volume X—Transportation.

The next six volumes showing data for detailed items of income, expenditures and savings by selected family characteristics, and in many cases showing price and quantity data as well, are arranged in the following volume order. A much more detailed breakdown of individual items of expenditures is contained in these volumes than in the summary volumes listed above, but the data are not shown by as many cross-classifying variables.

Volume XI—Income, Savings, Insurance, and Gifts and Contributions.
Volume XII—Food, Beverages, and Tobacco.
Volume XIII—Housing, Household Operations, and Housefurnishings and Equipment.
Volume XIV—Clothing for Women and Girls, and for Children Under 2 Years.
Volume XV—Clothing for Men and Boys, Clothing Materials and Clothing Services.
Volume XVI—Medical Care, Personal Care, Transportation, Recreation, and Miscellaneous Services.

Volume XVII shows the ownership of consumer durables, the year of purchase for families owning each of the major types of durable goods in each of 91 cities, and the year of purchase and characteristics of families owning these durable goods in the 9 city classes.

Volume XVIII presents a number of selected tabulations for all U.S. urban areas combined, by appropriately weighting data for the nine city classes previously shown in the earlier volumes. Thus while the first 17 volumes cover a wealth of analytical detail for individual cities and major groups of cities, more restricted data for all U.S. urban areas combined are included in volume XVIII.

The research studies to be published later cover numerous analyses in the fields of economics, marketing, social welfare, and finance. These studies all relate consumption and savings patterns to economic, social, demographic, and other characteristics of the consuming units. Some of the specific topics include methodology and appraisal of consumer expenditure studies; consumption patterns in 1950–51 and prior periods; influence of suburbanization upon consumption patterns; consumer credit and consumption patterns; effect of area characteristics on the market for selected consumer goods; expenditures for leisure-time activities; demand relationships for food, clothing, automobiles, and other consumer durables; relation between the volume and composition of saving and consumption patterns for different economic groups; relation between assets and consumption patterns; entrepreneurial saving behavior; consumption patterns of manual and nonmanual workers; consumption of Negroes and the aged; and analysis of medical expenditures.

Analysts working on these studies include Dr. Dorothy S. Brady and other members of the Bureau of Labor Statistics staff; Prof. Irwin Friend, Morris Hamburg, Irving B. Kravis, Donald F. Blankertz, Carol P. Brainerd, Orin Burley, Jean B. Crockett, George Fisk, Ervin Miller, Gladys L. Palmer and Stanley Schor of the University of Pennsylvania; and Prof. Sidney Goldstein of Brown University, Hendrik S. Houthakker of Stanford University, Lawrence Klein of Oxford University, Franco Modigliani of Carnegie Institute of Technology, William S. Peters of Montana State University, and James Tobin of Yale University.

Prof. Irwin Friend of the University of Pennsylvania is director of the consumer expenditures study. Dr. Dorothy S. Brady and Mr. Abner Hurwitz of the Bureau of Labor Statistics have supervised the tabulation of statistics by that agency.

The advisory committee to the study consists of Prof. Neil H. Borden, Harvard University; Dean Neil H. Jacoby, University of California at Los Angeles; Dr. Dexter M. Keezer, McGraw-Hill Publishing Co.; Prof. Wassily Leontief, Harvard University; Mr. Peyton Stapp, Bureau of the Budget; Prof. George J. Stigler, Columbia University; Dr. Aryness Joy Wickens, U.S. Department of Labor; Profs. Raymond T. Bowman, Reavis Cox, and Charles R. Whittlesey of the University of Pennsylvania.

Volumes I through X, XII, XIV, and XV (over 550 pages per volume) are priced at $9 each; volumes XI, XIII, and XVII (about 350 pages per volume) are priced at $6 each; volumes XVI and XVIII (about 150 pages per volume) are priced at $3.50 each. The cost for the entire set is $125. When ordering please use the enclosed form.

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The 91 cities for which data are shown in the consumer expenditures study

Albuquerque, N. Mex.
Anna, Ill.
Antioch, Calif.
Atlanta, Ga.
Bakersfield, Calif.
Baltimore, Md.
Bangor, Maine
Barre, Vt.
Birmingham, Ala.
Bloomington, Ill.
Boston, Mass.
Butte, Mont.
Camden, Ark.
Canton, Ohio
Charleston, S.C.
Charleston, W. Va.
Charlotte, N.C.
Cheyenne, Wyo.
Chicago, Ill.
Cincinnati, Ohio
Cleveland, Ohio
Columbia, Tenn.
Cooperstown, N.Y.
Cumberland, Md.
Dalhart, Tex.
Demopolis, Ala.
Des Moines, Iowa
Elko, Nev.
Evansville, Ind.
Fayetteville, N.C.
Garrett, Ind.
Glendale, Ariz.
Grand Forks, N. Dak.
Grand Island, Nebr.
Grand Junction, Colo.
Grinnell, Iowa
Hartford, Conn.
Huntington, W. Va.
Indianapolis, Ind.
Jackson, Miss.
Kansas City, Mo.
Laconia, N.H.
Little Rock, Ark.
Lodi, Calif.
Los Angeles, Calif.
Louisville, Ky.
Lynchburg, Va.
Madill, Okla.
Madison, Wis.
Miami, Fla.
Middlesboro, Ky.
Middletown, Conn.
Milwaukee, Wis.
Minneapolis, Minn.
Nanty-Glo, Pa.
Newark, N.J.
Newark, Ohio
New Orleans, La.
New York, N.Y.
Norfolk, Va.
Ogden, Utah
Oklahoma City, Okla.
Omaha, Nebr.
Pecos, Tex.
Philadelphia, Pa.
Phoenix, Ariz.
Pittsburgh, Pa.
Portland, Maine
Portland, Oreg.
Providence, R.I.
Pulaski, Va.
Ravenna, Ohio
Rawlins, Wyo.
Roseburg, Oreg.
St. Louis, Mo.
Salina, Kans.
Salt Lake City, Utah
Sandpoint, Idaho
San Francisco, Calif.
San Jose, Calif.
Santa Cruz, Calif.
Scranton, Pa.
Seattle, Wash.
Shawnee, Okla.
Shenandoah, Iowa
Sioux Falls, S. Dak.
Tucson, Ariz.
Washington, N.J.
Wichita, Kans.
Wilmington, Del.
Youngstown, Ohio

Question 3

Since 4.1 million of the people over 65 were employed or the nonworking wives of earners (and many others would like to be), there is a basic question as to whether retirement income should be the sole consideration in examining the economic status of older people.

(*a*) Since people are living longer and have higher levels of health at all ages, isn't it highly desirable to expand the opportunities for full- and part-time employment for persons over 65?

(*b*) Are there elements in presently developing and existing pension programs which encourage or require persons to retire? Discourage the hiring of older persons?

(*c*) Is the decline of employed males over age 65 from 70 percent in 1890 to 34 percent in 1959 a desirable situation?

Answer

(*a*) There is quite general agreement on the desirability of greater opportunities for full- and part-time employment for persons over 65 so that those who are able and want to work will be able to do so. However, it is not clear how effective expanded employment opportunities for the aged can be as a solution to the income problems of the aged. Employment is largely out of the question for the very old, the severely disabled, and for many of the older women who have not been in the labor force. This leads to the conclusion that employment opportunities—even though greatly expanded in the immediate future—cannot take the place of adequate income maintenance programs for the retired aged. Much more should be done, of course, to enhance employment opportunities for middle-aged and older persons.

(*b*) There are elements, both direct and indirect, in pension programs which encourage or require persons to retire and which discourage the hiring of older persons. Foremost among the direct elements is the fixed or compulsory retirement age commonly specified in industrial pension plans and retirement systems for governmental employees. Most private pension plans provide for mandatory retirement at age 65. In recent years, a number of large employers have raised their mandatory retirement age above 65.

The mere fact that a worker is eligible for a pension or retirement benefit influences the timing of his retirement, even though he is not compulsorily retired. The basic system of old-age, survivors, and disability insurance has no compulsory retirement provisions. It only sets a minimum age at which eligibility for benefits begins. This eligibility age undoubtedly affects the compulsory provisions incorporated in pension plans and perhaps also retirement policies followed by employers without pension plans.

Of the men retiring under OASDI, only about one-fifth during the war period and about two-fifths in more recent periods have claimed their benefits in the year they reached 65. Thus, for many workers, the availability of retirement benefits at age 65 has not served as a force for retirement immediately on eligibility. For others, however, the eligibility age has undoubtedly had its impact, whether used directly as justification for the employer's establishment of a mandatory retirement age of 65 or more subtly to persuade older workers to make room for younger ones, especially when jobs are not plentiful.

The elements in pension programs that many discourage the hiring of older persons are of two types: (1) belief that the costs of the employer of providing pension rights will be much greater than for a younger employee and (2) fear of adverse public reaction if the older employee is subsequently retired without an adequate pension. Analysis of this problem by the Secretary of Labor's Committee on Pension Costs and the Older Worker, of which I was a member, led to the conclusion that these elements need not serve as real barriers to the hiring of older workers. The committee's report, issued in September 1956 (BES No. E 150), states:

"The fact is that the real cost of pensions is not what appears to be the current contribution, but the amount that is ultimately paid to the individual, duly adjusted and discounted. The evidence indicates that the amount finally paid to the man hired young will be much higher in proportion to the current charges than the amount finally paid to the man hired when older. Additionally, we believe that the report effectively dispels the notion that it is good policy to reject an older worker simply because he will not be on the payroll long enough to earn a very sizable supplementary pension benefit. Improvements in coverage and levels of benefits under the old-age and survivors insurance program, along with the trend toward earlier and fuller vesting of previously acquired private pension rights, should drastically revise this line of policy thinking."

(*c*) The decline of employed males over age 65 from 70 percent in 1890 to 34 percent in 1959 is largely attributable to our transition from an agricultural to an industrial economy. Therefore to say that this decline is an undesirable situation would imply that industrialization—and all the accompanying developments—is undesirable. While an industrialized society provides less employment of the type in which age is not a serious barrier—jobs on farms, for example, or as farmers or proprietors of small nonfarm businesses—it does provide the money economy which makes possible a substitute source of income when earnings cease. Nevertheless, we should take every reasonable step to enable older persons who want to continue to work to do so.

Question 4

Analyzing the comparative economic status of people over 65, it is clear that a much more favorable picture is produced with the elimination of statistics of the large number (roughly 2½ million) who are on public assistance.

With the almost universal coverage of presently employed workers by social security and the rapidly expanding private pension programs, is it not reasonable to assume that the extremely low-income people, including those on public assistance, will decline substantially in the years ahead?

ANSWER

It is reasonable to assume that the extremely low-income aged, including those on public assistance, will decline substantially in the years ahead. I hope this will happen.

Predictions as to how rapid and how great this decline will be must take account of a number of factors. Basic is the assumption that our total economy will be strong and sound and provide the high level of employment which permits the accumulation of savings and of rights to future retirement benefits. An important consideration in determining the income position of our future aged population is the extent to which private pension plans can be expanded to cover more workers and to preserve their earned pension rights during changes in jobs. How well the aged will fare in the future will be determined not only by the level of income available to them at retirement but by whether their retirement incomes are safeguarded against price rises and against depletion through heavy medical costs. Unless we expand health insurance coverage for the aged, it is possible that the number of aged persons on public assistance will increase instead of declining in the years ahead.

APPENDIX II

Roger F. Murray's answers to the questions of Senator Carlson:

QUESTION 1

What portion of the total working force is now covered under public and private pension programs?

ANSWER

The approximate 30 million people covered under public and private pension programs represent slightly more than 40 percent of the labor force as presently defined. However, there are always present in the labor force a substantial number of young people, housewives, and partially retired people who in a sense are not regularly employed. Since most pension plans have a minimum age or waiting period requirement, there are also a substantial number of people in the process of obtaining coverage.

Self-employed individuals, of whom there are estimated to be approximately 10 million, may not include themselves in formal pension arrangements. As a consequence, they have little incentive to provide pension coverage for their employees, of whom there are between 10 and 11 million. The self-employed and their employees, therefore, represent close to 30 percent of the labor force. For them pension coverage will remain very small unless new legislation such as the pending H.R. 10 is enacted.

To be more specific, it is probably fair to say that of the people regularly employed by governmental units, corporations, and nonprofit organizations, pension covereage is approaching the 75-percent level.

QUESTION 2

Do you anticipate that private pension plan benefits may sometime exceed OASDI benefits?

ANSWER

With extension of OASDI coverage and the maturing of the system, it is clear that benefit payments will continue to grow at a rapid rate. It seems unlikely, therefore, that private pension plan benefits alone will grow fast enough to catch up with OASDI payments. However, it is conceivable that the aggregate benefits paid by private plans and governmental plans other than OASDI might equal or exceed OASDI payments in the future.

QUESTION 3

In your statement, you emphasized the fact that people's confidence must be maintained in the process of saving and investment. In your opinion, what are the factors which are apt to destroy the confidence of potential future savers? How do these factors relate to Government activities?

ANSWER

The greatest enemy to effective saving and investment processes is, of course, either inflation or expectations of inflation. Confidence in the saving and investment process can also be undermined by the development of speculative fever. In addition to its responsibilities for price stability, the Government can contribute to the maintenance of confidence in the saving process by restraining speculation in stocks, commodities, real estate, etc. The regulation of the commodities and securities markets has been well developed, but real estate is still an area where speculative profits are eagerly sought.

Question 4

You suggest that the value of pension plans can be enhanced if their funds are used as productively as possible. Are there any differences in the ways the different types of pension programs employ the savings they represent? Are there any fundamental differences between such public programs as OASDI and private plans?

ANSWER

The civil service retirement system and railroad retirement system are among the important Federal programs which accumulate funds for investment. These funds are invested exclusively in U.S. Treasury obligations, which tends to reduce the amount of financing to be done in the public market. It is difficult to measure the contribution of this financing to productivity gains because it is difficult to say just which portion of the entire range of Federal expenditure programs is being financed in this particular way. This is clearly a different situation, however, from the private pension plan or the State and local government retirement system which lends and invests in business enterprise, public services, and residential and commercial construction.

The case of OASDI is unique in that the accumulation phase of its activities is not the significant one. The trust fund is really only a contingency or reserve fund. The principal economic impact of the OASDI system is through the transfer payments from those paying payroll taxes to those receiving benefits. The principal influence, therefore, is on the spending and saving patterns of economic behavior and only quite indirectly on capital formation.

Question 5

You state that the general level of prices must remain reasonably stable to make our pension structure work effectively. To what extent do you feel that Government has a responsibility in assuring success of pension plans by maintaining price stability?

ANSWER

In my opinion, it is in this area that Government can make its most important contribution. It is widely recognized that inflation represents the most inequitable form of taxation. This is true because only those who are actively employed are in a position to protect themselves while the retired people are defenseless against this form of confiscation of their savings.

As has been demonstrated in many parts of the world, it is not possible to develop financial institutions and stimulate saving habits for capital formation if people see that their savings will be eroded by persistently rising prices. Confidence in the future purchasing power of money is essential to confidence in saving and investment over long periods of years as in saving for retirement. People look to their Government, of course, as the agency with primary responsibility for maintaining reasonably stable prices.

Question 6

You state that appropriate objectives of public policy might be to keep the capital market as free from artificial barriers as possible. Does this mean that you feel that the Government should exercise great care in trying to influence the kinds of products or services which should be given priority by our economy? Does this mean that you oppose such activities as the FHA program?

ANSWER

To maintain the dynamism and growth of the economy, it is essential that the flow of funds not be restricted to established channels but that there be a free flow of capital into new ventures, new processes, and new developments. Legislative restrictions, while necessary, to assure the stability of financial institutions, should not be so detailed that innovation is stifled. Furthermore, whenever one form of investment is subsidized or stimulated by governmental action, this means that other forms find it more difficult to compete for loanable funds. We should be careful, therefore, in tampering with the market mechanism, which, on the whole, operates quite efficiently in the process of allocating funds to the most productive areas of the economy.

In housing we have used insurance and guarantee programs to stimulate the provision of more adequate housing to people of moderate means. To the extent that this has diverted funds from the financing of more productive investment, we might question the desirability of such programs. However, on balance I believe that the FHA insurance program has been a desirable one because it has contributed to the broadening of the mortgage market and it has facilitated the free flow of funds into one of the most important areas of investment. The FHA program has helped financial institutions to lend on a national basis and to achieve greater uniformity in the terms for mortgage loans.

APPENDIX III

Prepared Statement of Dr. Margaret S. Gordon, Acting Director, Institute of Industrial Relations, University of California

THE INCOME STATUS OF OLDER PERSONS AND THE ADEQUACY OF RETIREMENT INCOME PROVISIONS

Despite the remarkable progress that has been made during the last quarter of a century in developing both public and private retirement income systems in the United States, the income status of elderly persons is far from satisfactory. In fact, there is some evidence that, although the money income status of the aged has improved appreciably in the last decade, the real income status of certain sectors of the aged population may actually have deteriorated.

This apparent paradox of deteriorating real income for some of the aged in a period characterized by marked expansion and liberalization of retirement income programs is not particularly difficult to explain. On the one hand, the sharp decline in the labor force participation of elderly men has been accompanied by a diminution in the relative importance of earnings as a source of income for the aged population, thereby exerting a downward pressure on the incomes of elderly people that has partially offset the effects of more liberal retirement benefits. On the other hand, older persons have been particularly hard hit by the relatively rapid rise in the cost of certain goods and services that figure especially prominently in their budgetary requirements.

In order to appreciate fully the significance of these developments, we need first to take a careful look at some of the factors affecting the money income status of elderly persons and then to consider what has happened to their living costs.

Factors affecting the income of older persons

As recently as 1959—the last year for which detailed nationwide income data are available—15 percent of all persons aged 65 and over in the Nation had no income, and 55 percent had incomes of less than $1,000 a year.[1] Elderly men fared substantially better than elderly women. Only 3 percent of the men aged 65 or over had no income, as compared with 25 percent of the women. Furthermore, while half of the elderly men with income received less than $1,576 in 1959, half of the elderly women with income received less than $797. Advance data for 1960 indicate that the median income figure for elderly men with income rose slightly, to $1698, and for women to $821.[2]

Not only is the problem of poverty in the aged population more serious among women than among men, but there are marked variations in the income status of elderly persons that are associated with their labor force status and other factors.

From middle age onward, there is a persistent tendency for the proportion of persons in the labor force to decline with advancing age. This means that, within the population of those aged 65 and over, the older an individual is, the less likely he or she is to be in the labor force. Furthermore, those who are in the labor force are more likely to be engaged in part-time work as they grow older.

A striking indication of the influence of labor force status on the incomes of aged persons is provided by Census Bureau income data for 1960. Although the median income of all men aged 65 and over with income was only $1,698, those who were year-round full-time workers (17 percent of the income recipients) had a median income of $4,115. Similarly, among the women, the year-round full-

[1] U.S. Bureau of the Census, "Current Population Reports: Consumer Income," series P–60, No. 35, Jan. 5, 1961.
[2] Ibid., No. 36, June 9, 1961.

time workers (only 4 percent of the elderly female income recipients) had a median income of $2,838, as compare with $821 for all elderly women reporting some income. [3]

These figures help to explain why the sharp drop in the proportion of elderly men in the labor force during the last decade has had an adverse effect on the average income position of the elderly population. Income derived from earnings tends to be much higher, on the average, than income received from retirement systems.

The decline in the proportion of elderly men in the labor force represents a continuation of a long-run trend that has been greatly accelerated since 1950. According to the monthly labor force data issued by the Department of Labor, only 32.5 percent of all men aged 65 and over were in the labor force in June 1961, as compared with 46.1 percent in June 1950.[4]

A number of factors have contributed to this marked drop in the percentage of elderly men in the labor force since 1950. Undoubtedly the expansion and liberalization of OASDI and other retirement income programs have played a role. Analysis of labor force and retirement income data for a number of countries indicates that there is an inverse relationship between the proportion of elderly men in the labor force and the average level of benefits provided by national retirement income systems measured in relation to national per capita income.[5] Undoubtedly, also, the rapid growth of private pension plans has played a role in hastening retirement, since employers rarely require retirement at a fixed age in the absence of a pension plan but tend to impose compulsory retirement provisions once a pension plan has been adopted.

There is little question, however, that the drop in the labor force participation rate of elderly men has also been strongly influenced, especially in the last 4 or 5 years, by adverse employment opportunities. In an environment in which the average unemployment rate, both in periods of prosperity and of recession, has been creeping upward, elderly men who have lost their jobs have experienced serious difficulty in finding employment. This problem manifests itself not so much in a high unemployment rate for elderly men—actually the unemployment rate for men aged 65 tends to be somewhat below the average unemployment rate for all men—as in the long duration of their joblessness. In 1959, for example, 57 percent of the unemployed men aged 65 years were out of work 15 weeks or more, as compared with 32 percent of the unemployed aged 20 to 34.[6]

The elderly worker who becomes discouraged about his employment opportunities is likely, in a good many cases, to drop out of the labor force and take advantage of any rights to retirement income which he may have acquired. Or, if he does continue to work, there is a strong probability that he will work on a part-time basis. Liberalization of the retirement test under OASDI has undoubtedly played a role in encouraging elderly people to work part-time while receiving social security benefits. The 1957 national survey of old-age and survivors insurance beneficiaries showed that 35 percent of the aged beneficiaries had some earnings in the year preceding the survey, as compared with only 29 percent in an earlier survey conducted in 1951.[7] Furthermore, data collected by the U.S. Bureau of the Census indicate that the proportion of part-time workers among employed persons in the 65 and older group has been increasing.[8]

Nevertheless, the fact that only about a third of the men and slightly over a tenth of the women in the 65-and-over group are in the labor force at all demonstrates the extent to which people in this age bracket are now dependent on retirement income. Thus, for this group in the population, the level of retirement income is a critical consideration.

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[3] Ibid.

[4] U.S. Bureau of the Census, "Current Population Reports: Labor Force," series P–57, No. 96, June 7, 1950; and U.S. Department of Labor, Monthly Report on the Labor Force, June 1961.

[5] See my paper, "Income Security Programs and the Propensity to Retire," to be published in a volume of papers presented at the Social Science Research Seminar, International Association of Gerontology, Berkeley, Calif., August 1960.

[6] Sophia Cooper, "Work Experience of the Population in 1959," Monthly Labor Review, 83 (December 1960), 1272–1283.

[7] U.S. Bureau of Old-Age and Survivors Insurance, "More Selected Findings of the National Survey of Old-Age and Survivors Insurance Beneficiaries, 1951" (Washington, D.C., 1954), and "National Survey of Old-Age and Survivors Insurance Beneficiaries, 1957: Highlights From Preliminary Tabulations—Income" (Washington, D.C., 1958).

[8] U.S. Bureau of the Censur, "Current Population Reports: Labor Force," series P–50, No. 35, October 1951, and No. 86, September 1958.

Measuring the adequacy of retirement income

How adequate are the retirement incomes received by elderly persons? With two-thirds of the population aged 65 and over now receiving OASDI benefits, this program has become by far the most important source of retirement income. Hence, it plays a critical role in the determination of the income status of elderly people.

Despite the many increases in OASDI benefit levels that have been adopted by Congress since 1950, average benefits received by single retired workers in April 1961 amounted to only about $74 a month. Even those who were awarded benefits during that month, though they fared somewhat better than beneficiaries who had been on the rolls for some years, received an average benefit of only about $79.[9]

Although about 20 million workers are covered by private pension and deferred profit sharing plans, many of these plans are relatively new and comparatively few workers have retired under them. The 1957 National Survey of Old-Age and Survivors Insurance Beneficiaries showed that only a fourth of the aged beneficiary couples were receiving income from employer or union pensions. The proportion of single retired workers receiving pension income was substantially smaller (15 percent), while only a negligible fraction of aged beneficiary widows received any income from this source.[10] Although the proportion receiving income from private pensions has probably increased slightly since 1957, it is important to keep in mind the fact that the total number of workers covered amounts to less than a third of the labor force and that by no means all workers who have ever been covered by a private pension will satisfy the conditions of eligibility for a pension at the time of retirement.

Among older persons in the aged population, there are a good many who are not eligible for either old-age and survivors insurance or private pension benefits. This is the group that is dependent primarily on old-age assistance payments or on support from relatives. Although monthly old-age assistance payments are comparatively generous in a few of the States, they were below $70 a month in about half of the States in February 1961 and below $50 a month in six States, all in the South. For the Nation as a whole, the average monthly payment was $68.73, but it ranged from a low of $34.57 in Misssisippi to a high of $114.67 in Connecticut.[11]

The mere fact that retirement income received by elderly people is comparatively low does not in itself prove that it is seriously inadequate. The critical problem in appraising the incomes of the aged is to determine what percentage of elderly couples and individuals have incomes that fall below those required for carefully defined levels of living.

Unfortunately, data on both the money incomes of elderly people and on their budgetary requirements are not available in sufficient detail to permit a careful appraisal of the adequacy of incomes of older people. The only study that ever attempted such an appraisal on a nationwide basis was the Steiner-Dorfman study, which is based on income data that are now 10 years old.[12] The authors of this study utilized 1951 income data collected in a special follow-up survey of older persons conducted by the Bureau of the Census in April 1952 and also developed estimates of budgetary requirements for elderly couples and individuals with a variety of living arrangements in both urban and rural areas. Their results indicated that 44 percent of the elderly couples and a substantially larger proportion of the men and women without a spouse had total receipts that were below the amounts needed to maintain a modest but adequate level of living. More serious was the fact that more than a quarter of the couples, about a third of the men without a spouse, and approximately half of the women without a spouse, had less than the amounts required for a bare subsistence level of living.

Although in some sectors of the aged population the proportion with inadequate incomes has probably decreased since 1951, it is not at all clear that this is true for all, or even the most important, sectors of the population aged 65 and over. Budgetary data recently published by the Bureau of Labor

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[9] U.S. Social Security Administration, "Current Social Security Program Operations," April 1961 (Washington, D.C., 1961).

[10] U.S. Social Security Administration, "National Survey of Old-Age and Survivors Insurance Beneficiaries, 1957: Highlights From Preliminary Tabulations—Income."

[11] Social Security Bulletin, 24 (June 1961).

[12] Peter O. Steiner and Robert Dorfman, "The Economic Status of the Aged" (Berkeley and Los Angeles: University of California Press, 1957).

Statistics shed new light on the degree to which elderly couples in urban areas have been adversely affected by the price changes of the last decade.

The new BLS data relate to the annual cost of a budget providing a modest but adequate level of living for retired elderly couples residing in rented quarters in each of 20 large cities throughout the Nation. They show that, in the autumn of 1959, annual budgetary requirements of couples of this type ranged from $2,641 in Houston to $3,366 in Chicago.[13]

The BLS data also provide an indication of the extent of the rise in living costs of elderly couples during the 1950's. They show that, if no allowance is made for changes in patterns of expenditures during the 1950's, the living costs of elderly couples in the 20 large cities were, on the average, 57 percent higher in the autumn of 1959 than they had been 9 years earlier.[14] In other words, this was the average increase, between 1950 and 1959, in the cost of the goods and services included in the original elderly couple's budget that had been developed by the Social Security Administration in the late 1940's. If, however, allowance is made for changes in patterns of expenditures, and the cost of the revised budget in 1959 is compared with the cost of the original budget in 1950, the increase amounted to 71 percent. These heavy increases were especially attributable to sharp upward movements in the costs of medical care, transportation, and other services.

How much did the money incomes of elderly couples increase during the same period? Although appropriate data are not available for 1950, families headed by an individual aged 65 and over in urban areas experienced an increase in median income between 1951 and 1959 amounting only to 27 percent. In rural nonfarm areas, such families fared much better, experiencing a rise in median income of 68 percent, while in rural farm areas the corresponding increase amounted to 62 percent.[15]

These data suggest that, at least for elderly couples living in rented quarters in large cities, money income may have risen substantially less than living costs during the 1950's. Probably homeowning couples fared somewhat better than renters. The BLS Consumer Price Index indicates that housing costs have risen less for homeowners than for renters, and this is probably particularly true for the elderly, since most aged homeowners own their homes free and clear and thus have not been affected by the increase in mortgage costs. But it should be kept in mind that, although the proportion of elderly couples who own their own homes is high for the country as a whole, it is not as high in very large cities like New York and Chicago as it is in smaller communities.

It is highly unfortunate that the data available for appraising the income status of the aged are so inadequate. However, the situation will be somewhat improved when detailed income tabulations from the 1960 census become available and when the new BLS Survey of Consumer Expenditures is completed. It is to be hoped that adequate funds will be allowed for detailed income and budgetary studies on the basis of these more up-to-date income and expenditure data.

How high should OASDI benefits be?

In relation to the budgetary data considered in the previous section, OASDI benefits seem seriously inadequate. In 1959, average benefits received by a retired worker and his aged wife amounted only to $121.60 a month, or about $1,460 a year.[16] Living costs have risen somewhat since 1959, but, although certain improvements have been made in OASDI benefit levels, the basic benefit formula has not been changed. Even if we make due allowance for the fact that budgetary requirements are probably particularly high for elderly couples living in rented quarters in large cities, and even if we recognize that OASDI benefits are not necessarily intended to meet all the budgetary needs of beneficiaries, the data we have been examining suggest that a good many OASDI beneficiaries must be having great difficulty meeting their living costs unless they can count on appreciable income from other sources. And, as the 1957 beneficiary survey showed, income from other sources tends, for most beneficiaries, to be quite small.

Actually, there is widespread disagreement as to how high OASDI benefits

[13] Margaret S. Stotz, "The BLS Interim Budget for a Retired Couple," Monthly Labor Review, 83 (November 1960), 1141–1157.

[14] Ibid., and "Budget for an Elderly Couple: Estimated Cost, October 1950," Monthly Labor Revlwe, 73 (September 1951), 304–306.

[15] U.S. Bureau of the Census, "Current Population Reports: Consumer Income," series P–60, No. 12, June 1953, and No. 35, Jan. 5, 1961.

[16] Social Security Bulletin, annual statistical supplement, 1959, p. 43.

ought to be. A combination of criteria has been used in connection with the determination of benefit levels, and none of the criteria yields a clearcut answer. The most important of these criteria have been: (1) the relation of benefits to a retired worker's earnings under the system, (2) the budgetary needs of elderly couples and individuals, (3) the extent to which these needs should be met through other sources of income, and (4) the capacity of the economy to meet the costs of the program.

The basic principle underlying our OASDI program, and of many old-age insurance programs throughout the world, is that a retired worker's benefits, and those of his dependents and survivors, should be related to his earnings under the system. Indeed, this is the only one of our four criteria that is explicitly recognized in the law. Since contributions are based on earnings, this means that benefits are also related to contributions. Adherence to this general principle, however, does not necessarily mean that a retired worker's benefits must be strictly proportional to his average earnings throughout his period of coverage. In fact, virtually every country has found it necessary to modify the principle of strict proportionality to actual covered earnings because of (1) long-term inflationary pressures, (2) the desirability of providing benefits for those covered only a short time before retirement, and (3) the need to provide some minimum level of benefits for those with particularly low earnings. Some countries relate benefits to earnings in the last few years before retirement or adjust them on the basis of a formula which takes account of the upward trend of wage levels.

Although there is general agreement in this country on the importance of slanting the benefit formula to favor those with particularly low earnings, one may seriously question whether the basic OASDI benefit formula now in use aims at restoring a high enough proportion of the average wage earner's basic earnings. As revised in 1954, the formula provided for monthly benefits to single retired workers amounting to 55 percent of the first $110 of the average monthly wage plus 20 percent of the next $240. In 1958, the ceiling on taxable earnings was raised to $4,800 and benefit amounts were increased about 7 percent. Then, in 1961, the minimum monthly benefit was raised from $33 to $40. On the basis of the current revised benefit table a single worker with average yearly earnings of $800 or less, retiring at age 65 or older, would receive benefits of $40 a month, which would represent 60 percent or more of his basic monthly wage. At the other end of the official scale a worker with average yearly earnings of $4,800 or more would receive $127 a month, or only about 32 percent of his basic monthly wage. If married (to a wife who starts receiving benefits at age 65) the $4,800-a-year man and his spouse would be entitled to $190.50, or about 48 percent of his basic monthly wage.

But earnings have continued their upward climb, and in 1960 the median income of men who were year-round full-time workers was $5,345. For an individual earning this median amount, monthly benefits would equal those of the $4800-a-year man, and would amount to about 29 percent of his previous monthly earnings, or, counting in benefits for a wife, to about 43 percent. Those with earnings above the median would, of course, receive even smaller percentages.

The basic benefit formula actually includes two features contributing toward built-in rigidity—the $110 line of demarcation between the higher and lower percentages of the average monthly wage and the $400 limit on earnings that can be included in the computation. As earnings rise, both of these limiting dollar amounts contribute to a gradual deterioration in the degree of protection provided for the average wage earner.

Now let us turn to the second criterion which has influenced the determination of benefit levels—the criterion of need. Even the provision of benefits for dependents and survivors, which was not a feature of the original Social Security Act, involves recognition of the differing needs of individuals with varying numbers of dependents. The setting of maximum and minimum benefit amounts is likewise based on a criterion of need, as is the slanting of the benefit formula to provide a larger proportion of average monthly wages to those with low earnings. So are the provisions permitting newly covered workers to acquire insured status in a relatively short period, the provision for dropping out periods of low earnings, and periodic adjustments of the entire benefit structure in response to changes in the cost of living.

Once the criterion of need is given explicit or implicit recognition, however, a number of questions arise. Should need be defined in terms of a bare subsistence level of living, or some higher level? Given the desired level of living, should the aim be to set minimum, average, or maximum benefits at a high enough level to meet such a standard? These are just two among the many questions that might be mentioned.

It is impossible to resolve these questions without considering the third criterion, the extent to which the needs of aged beneficiaries should be met through other sources of income. It is frequently pointed out that the social security system is not intended as a substitute for private savings or pension plans, but is intended, rather, as a basic floor of protection which may be supplemented through voluntary individual or group efforts to provide income security in old age. But there are wide differences of opinion as to just what constitutes a basic floor of protection.

Probably relatively few people seriously believe that the average wage earner can save enough, on an individual basis, to provide effectively for an extended period of retirement. But there is an important school of thought which holds that OASDI benefits should be held at approximately their present levels, and that we should rely on private pension plans to take care of any needs above these levels.

One of the chief weaknesses in this line of argument is that not all workers have an equal chance to acquire protection through private pension plans. It is the worker in the large company and/or the strong union who has the best chance of being covered by a private plan. The employee of a small firm is not very likely to be covered, and such groups as farmworkers and domestic workers are completely excluded. Furthermore, although pension plans are generous in some industries, the benefits provided are quite minimal in other industries, particularly some of the service industries.

Much of the opposition to any material increase in OASDI benefit levels stems from the fear that such a development would hamper the expansion of private pensions and the sale of life insurance and annuities to individuals. Yet such factual evidence as is available suggests that this fear may be unfounded. Despite the repeated liberalizing of OASDI amendments enacted by Congress during the 1950's, private pension plans expanded at an impressive rate throughout the decade. Furthermore, the percentage of personal disposable income saved remained generally stable, and life insurance holdings increased considerably more rapidly than disposable income.[17]

What about the fourth criterion, the capacity of the economy to provide retirement income for aged persons? Total old-age retirement and survivorship benefits and Government assistance payments under Government programs in 1959 amounted to $15.1 billion, or only 3.8 percent of the national income.[18] This included payments under railroad retirement, civil service, and other Federal, State, and local government programs, as well as OAA payments and old-age and survivorship benefits under OASDI. Although a good many European countries are spending substantially larger percentages of their national incomes on such programs, and in a number of cases providing more generous benefits in relation to their average income levels, it can be argued that most of them are spending relatively less on, say, defense and foreign aid than this country and, therefore, can better afford social security programs.

On the other hand, it can well be argued that, with our high and rising level of real income, we can afford to devote somewhat more to these programs without any material sacrifice in our standard of living. Certainly this will be increasingly true as average real income rises. And we are deluding ourselves if we believe that, by holding down OASDI benefits, we are succeeding in holding down Government expenditures for the welfare of the aged. In large part, because so many elderly retired persons are having difficulty making ends meet, increasing pressure has built up for various methods of providing them some degree of relief. These methods include everything from special tax exemptions—Federal, State, and local—to housing subsidies, medical assistance for the aged, and reduced bus fares. Furthermore, the less adequate OASDI benefit levels are, the more likely OASDI beneficiaries will be to seek supplementary old-age assistance payments. Early in 1960,

[17] Economic Report of the President, 1961, p. 142, and Institute of Life Insurance, "Life Insurance Fact Book," annual.

[18] Social Security Bulletin, annual statistical supplement, 1959, pp. 6 and 76, and Economic Report of the President, 1961, p. 138.

676,000 persons were receiving both OASDI and OAA payments, and this number had been steadily increasing both in absolute terms and as a percentage of OAA recipients, though not as a percentage of OASDI beneficiaries.[19]

There are no reliable estimates of the total cost of all these methods of subsidizing our older population, including special tax exemptions, but there is little doubt that the cost is large and is growing. This is not to suggest that some of these programs, for example, housing subsidies, may not be desirable on grounds other than merely the inadequate level of income in the aged population. What it does suggest is that we need to take a broad and searching look at our whole complex set of programs for the aged, weighing the net results in relation to reasonable criteria of (1) adequacy, (2) equity, (3) rational distribution of the financial burden, and (4) preservation, for the older individual, of a maximum degree of freedom of consumer choice and human dignity. If we continue to permit the growth of piecemeal and patchwork methods of meeting the income needs of the aged, we shall find that some of the important principles that were embodied in the Social Security Act of 1935 have been seriously undermined.

Conclusions

In conclusion, I would suggest that we need to aim at a substantial improvement in the average level of OASDI benefits during the next decade. We also need to give serious consideration to the adoption of provisions, similar to those adopted by certain European countries, which would automatically adjust benefit levels to changes-in-earnings levels.

In order to minimize the impact on the economy of the increase in contributory taxes that would be required to finance a satisfactory level of benefits, it would probably be desirable to accomplish the necessary changes in a series of steps. In connection with the effects of changes in contributory taxes, however, it is important to keep in mind the fact that increases in the ceiling on taxable earnings have lagged behind increases-in-earnings levels. Thus the tax rate measured in relation to total earnings of all covered workers has not increased as much as the nominal tax rate. It is also important to take account of the fact that, if OASDI benefit levels are not substantially improved, and pressure to meet the income problems of the aged through a variety of other measures continues, the financial burden of these other measures will fall, to a considerable extent, on the same wage earners who (after allowing for the shifting of the tax burden) are largely meeting the costs of the OASDI program.

Although we need to work toward a substantial improvement in the general level of OASDI benefits, a high priority should be placed on adoption of a program of health benefits for the aged through OASDI before serious steps are taken to increase cash benefits. There is no question that a program which would finance a considerable portion of the unusually heavy costs associated with serious spells of illness would make an important contribution toward meeting the income problem of many OASDI beneficiaries. After such a program has been adopted, however, the need for substantial improvements in the entire cash benefit structure will remain.

In stressing the problem of the general level of OASDI benefits, I do not mean to imply that other types of adjustments in the OASDI program and in other retirement income programs are not needed. But we are still confronted, as I suggested in my statement before the former Subcommittee on Aging, 2 years ago, with serious problems of inequity growing out of the multiplicity of public and private income-maintenance programs for the aged in the United States. The best way of meeting this problem is through improving the basic protection offered under OASDI.

There is a serious need, also, for careful consideration of the longrun implications of any and all changes adopted in our retirement income programs. from this point of view, I am doubtful about the wisdom of the recent action of Congress in making retirement benefits for men available at age 62. Given the longrun trend toward an increase in life expectancy, our longrun objective should be a gradual increase in the usual age of retirement. Granted the shortrun desirability of making retirement benefits available for men aged 62 to 64 who have been facing unemployment problems, there are other steps that might have been taken to meet this problem that would have been less inconsistent

[19] Robert H. Mugge, "Concurrent Receipt of Public Assistance and Old-Age, Survivors, and Disability Insurance," Social Security Bulletin, 23 (December 1960), 12–25.

with appropriate longrun objectives. In this connection, a study of European experience would be useful; for example, a provision in the West German old-age insurance program permitting the payment of retirement benefits from age 60 on to persons who have been unemployed at least a year, or a provision of the British unemployment insurance program permitting substantially extended benefits on a graduated formula for persons with at least 5 years of coverage.

In short, it is to be hoped that, in reviewing retirement income systems in the United States, your committee will concern itself, not merely with immediate shortrun needs, but with the broader objectives and longrun goals of our entire program of income security for the aged, and that, in doing so, it will take into account the experience of other countries as well as our own. The White House Conference on Aging has done much to stimulate interest in the problems of older people throughout the Nation, and it is time for Congress to give careful attention to the course of development of income-maintenance programs for the aged during the next decade or so.

APPENDIX IV

The Aged and Their Economic Position—Some Highlights of a Survey Taken Early in 1960

Prepared statement of James Morgan and Martin David, program director and study director, Survey Research Center, University of Michigan

BACKGROUND

This statement contains data on a representative sample of the U.S. population. The data were collected by personal interviews taken during March and April of 1960. They offer unique findings on the economic position of the aged who live with relatives, as well as aged who maintain separate households. Information on money incomes was collected through questionnaire techniques that have been developed over the past 16 years in the Survey Research Center's annual Surveys of Consumer Finances. These data on money incomes were supplemented by information about nonmoney income, gifts, and other resources of the families and dependents interviewed.

The survey from which these data are taken was supported by funds from the Ford Foundation and the U.S. Office of Education and the U.S. Office of Vocational Rehabilitation, both of the Department of Health, Education, and Welfare. The primary purpose of the survey was to collect data on determinants of income distribution in the United States, and to study factors affecting low-income families. Wilbur J. Cohen and Harvey Brazer both contributed to the design and analysis of the survey. The preliminary findings in this statement will be elaborated on in a full report on the survey that will be published during 1962.

The survey contains information on nearly 500 aged persons or couples, from a representative sample of 2,997 spending units who reported information for 3,396 adult units. We attempted to collect data from these aged persons that would give a clear picture of their total income, the extent of their dependency on relatives, the effectiveness of social security and other programs aiding the aged in their economic problems, and some related attitudes. The sample is not large, and the sampling error attaching to any absolute statement about the aged may be as high as 10 percent.[1] However response errors are held to the minimum by using a highly trained staff of professional interviewers. Moreover, the data disclose with relative accuracy relationships between age and other characteristics of these families. We present this material to the committee with the hope that it will add to what is presently known about the aged. We do not attempt to make any policy recommendations, but we hope the data may form the basis for more expert judgments about what is needed to help low-income and dependent aged.

INCOME OF THE AGED

Our data are for the noninstitutionalized population; information on the aged in institutions does not appear in any available survey data, except those from the decennial censuses.

A clear picture of the economic status of the noninstitutionalized aged must take account of the following:

[1] See 1960 Survey of Consumer Finances, Ann Arbor: Survey Research Center, University of Michigan (1961) for tables of sampling errors appropriate to these data.

(*a*) Some of the aged live in the homes of relatives. These people disappear as separate units in the usual survey analysis of families, where families are classified by the age of the head of the family, and where the incomes of all persons in the family are combined into a total income. The aged dependents who disappear in analysis of family income tend to be those with the least income or resources of their own.

We deal with this problem by treating as a separate unit each adult 18 or older, with his spouse and minor children, if any. This requires estimating the transfers that pass from one adult unit to others living in the same family, so we imputed the value of the free food and rent received by dependent adult units. Where the dependent unit also received clothing, transportation, and other aid, we may have understated its economic position somewhat, but we did include the two items that should account for the bulk of the transfers within the family.[2]

(*b*) Income in kind and irregular gifts, in addition to those received as a result of living with relatives, may comprise an important source of sustenance for some aged persons and couples.

We have attempted to include these nonmoney incomes by including the value of free medical care received by the unit, the money saved by home production of food and home repairs, and by estimating the imputed rental income earned on the net equity in an owned home.

(*c*) Many of the aged have fewer requirements for food, housing, and clothing because they are older and not working, and because their families are smaller.

We deal with this problem not only by looking at the total real income but by relating it to an estimate of needs based on family budget standards.

The tables that follow build up a picture of the income situation of the units in various groups, giving the average incomes including more and more components. (See chart A.) The first column in table 1 shows the average wage income of adult unit heads who are not farmers or self-employed businessmen. The average is calculated on the basis of all adult units in each age group, even though some may not have any wage income.

The second column adds to this the average earnings of the wife and children under 18, the estimated earnings (net of a return on capital invested) of farmers and self-employed businessmen, and the value of home-produced food and home repairs. Column 2 is an estimate of the income earned by the labor of all earners in the adult unit.

The third column adds to the real earnings the average income from property. This includes money income and imputed return on equity in an owner-operated business, farm, or the unit's own home.

The fourth column adds average transfer incomes, including estimates of free food and rent received by those living with relatives, and free medical care, as well as alimony, irregular gifts, veteran's benefits, unemployment compensation, social security, retirement pensions, and public welfare. At the same time an estimate of the adult unit's Federal income taxes is deducted.[3] Chart A shows the cumulation of the income components from wages to gross disposable income.

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[2] We estimate that there are 10.3 million adult units in the United States not in institutions, where the head of the unit is 65 or older. Of these, some 200,000 units are dependent on relatives with whom they live and another 60,000 units keep separate finances but live in a relative's home.

[3] We take account of the double exemption available to each person over 65.

CHART XVI.—Cumulative income components from wage income to gross disposable income

wage income of adult unit head + [earnings of wife and minor children, + wage component of business or farm income, + estimated value of home repair and home food production] = real earnings of adult unit + [capital income] = gross factor income + [money and non-money transfers, - estimated federal income tax] = gross disposable income

It is clear from table 1 that adult units whose heads are 65 and older average less income from earnings than adult units in any other age group. Their gross factor income averages less than any group except adult units whose heads are 18 to 24. Income from property is about the same for units whose heads are aged 55 to 64 and units whose heads are 65 to 74; income from property for units whose heads are 75 and older is substantially smaller.

The fifth column adds no income components—gross disposable income includes all income components except capital gains, which we did not try to measure—but transforms the measure into one which takes account of differences in family composition and needs. To do this we divide gross disposable income by an estimate of the income required to support such an adult unit at some fairly low but arbitrary level.

The standard budget which was used for this calculation was prepared by the Community Council of Greater New York and is used as a basis for administering assistance to needy families in New York City. The absolute level of the standard is conservative. For an elderly retired couple the standard is nearly $600 less than the $3,044 budget allowed by the Bureau of Labor Statistics for aged couples in the New York area.[4] As prices vary from New York City to other areas of the country the budget cannot reflect accurately the well-being of all families in the sample. Therefore a ratio of 100 percent (income equal to budget requirement) should be thought of merely as one point along a scale rather than a well-defined boundary between adequacy and inadequacy.

TABLE 1.—*Cumulative adult unit income components, within age of adult unit heads*

[Mean for adult units]

Age of adult unit head	Percent of all adult units	(1) Average wage income of adult unit head	(2) Average real earnings of adult unit	(3) Average gross factor income of adult unit	(4) Average gross disposable income of adult unit	(5) Average value of welfare ratio of adult unit[1]
18 to 24	13	$1,939	$2,294	$2,326	$2,602	100
25 to 34	19	4,457	5,677	5,915	5,562	150
35 to 44	20	4,836	6,336	6,967	6,441	160
45 to 54	18	4,357	5,862	6,741	5,977	170
55 to 64	14	3,669	4,826	5,891	5,306	180
65 to 74	10	983	1,472	2,524	3,452	140
75 and older	6	141	271	868	1,935	90
Total, all adult units	100	3,486	4,560	6,258	4,986	150

[1] Adult unit gross disposable income as a percent of the budget requirement.

Table 2 presents data identical to those in table 1 except that single, widowed, separated, and divorced women are excluded. Units headed by men; that is, units in which both head and wife are present or which contain only a single man, clearly average more income than the excluded units. Comparable means for units headed by women can be estimated from the appropriate averages in both tables and from the proportions shown in column 6 of table 2.

[4] See Stotz, Margaret S., "The BLS Interim Budget for a Retired Couple," Monthly Labor Review, November 1960, pp. 1141–1157.

TABLE 2.—*Cumulative adult unit income components, within age of adult unit heads*

[Means for adult units with male heads]

Age of adult unit head	Average wage of adult unit head	Average real earnings of adult unit	Average gross factor income of adult unit	Average gross disposable income of adult unit	Average value of welfare ratio of adult unit [1]	Proportion of units headed by males
					Percent	*Percent*
18 to 24	$2,227	$2,736	$2,774	$2,962	110	69
25 to 34	4,748	6,100	6,354	5,869	160	90
35 to 44	5,345	7,092	7,803	7,072	170	84
45 to 54	4,963	6,829	7,835	6,831	190	79
55 to 64	4,604	6,177	7,433	6,476	200	71
65 to 74	1,472	2,245	3,591	4,565	170	62
75 and older	252	477	1,293	2,521	110	54
All adult units headed by males	4,162	5,538	5,191	5,825	170	76

[1] Adult gross disposable income as a percent of adult unit budget requirement.

One of the most revealing calculations on the economic position of the aged is displayed in table 3. We show in the stub the gross disposable income of the adult unit as a percent of the budget requirement of the unit, for the aged population. Nearly a third of the units with a male head 65 or older have less than 90 percent of the income necessary to meet the modest budget standard. More than three-fifths of the units headed by women 65 or older have income less than 90 percent of their estimated needs. For the national population of all ages, including the aged, 28 percent of adult units have incomes less than 90 percent of their budget requirement.

TABLE 3.—*Distribution of adult gross disposable income as a percent of adult unit budget requirements, by sex of head*

[Percentage distribution of adult units 65 and older]

Adult unit gross disposable income as a percent of adult unit budget requirements	Sex of head	
	Male	Female
	Percent	*Percent*
80 percent and less	32	63
90 to 100 percent	11	7
110 to 120 percent	8	12
130 to 150 percent	11	8
160 to 200 percent	17	5
210 percent and greater	21	5
Total	100	100
Interpolated median	130	60
Percent of adult units	9	7

Table 4 shows distributions of dollar amounts of some types of income, by sex, of the adult unit head, for adult units whose heads are 65 and older. The differences here may exaggerate the inferior status of aged women because they are usually in single-person units, whereas many of the aged men have wives. Table 3, with its adjustment for needs according to the number of people in the unit, is a better measure.

It is interesting to note that adding nonmoney components of income, including imputed rental income, home production, free medical care, and food and housing contributed by relatives, increases the averages by only $300 or $400, but reduces substantially the proportion receiving less than $2,000. It is also important to note that more than a third of the adult units headed by males report no social security income, and 57 percent of the females report none. Only a combination of transfer incomes, money income, and nonmoney incomes makes the economic position of the aged as satisfactory as it is, and none of the three appears predominant.

TABLE 4.—*Some types of adult unit income for 1959, by sex of adult unit head*

[Percentage distribution of adult units whose heads are 65 and older]

Amount of income	Social security benefits		Other pensions and annuities		Total money income		Gross disposable income	
	Male	Female	Male	Female	Male	Female	Male	Female
None	38	57	68	85	--------	--------	0	1
$1 to $499; negative	9	14	6	2	--------	--------	3	6
$500 to $999	19	23	12	6	--------	--------	10	33
$1,000 to $1,999	30	6	7	4	--------	--------	22	39
Under $2,000	96	100	93	97	46	89	35	79
$2,000 to $2,999	4	0	4	3	19	6	19	15
$3,000 to $4,999	0	0	2	0	16	4	25	5
$5,000 to $7,499	0	0					11	0
$7,500 to $9,999	0	0					3	1
$10,000 to $14,999	0	0	1	0	19	1	4	0
$15,000 and over	0	0					3	0
Total	100	100	100	100	100	100	100	100
Interpolated median	$740	0	0	0	$2,210	[illegible]	$2,700	$1,260
Mean	--------	--------	--------	--------	$3,582	$1,019	$3,880	$1,462

Table 5 shows money income for spending units whose heads are retired and hence, for the most part are 65 and older. This excludes most of the dependent adult units 65 and older, since the majority of the aged who are dependent live with younger relatives. The table indicates that there has been a substantial improvement over time in the money incomes of spending units headed by people 65 or older, though the improvement has been somewhat less than that in the median incomes for all units.

TABLE 5.—*Money income of spending units, 1948, 1952–59*

[Percentage distribution of spending units whose heads are retired]

Annual money income before taxes	1959 [1]	1958 [1]	1957 [1]	1956 [1]	1955 [1]	1954	1953	1952	1948
Under $1,000	22	25	29	35	35	32	37	37	44
$1,000 to $1,999	35	34	33	34	26	35	32	34	28
$2,000 to $2,999	17	16	16	12	17	16	9	14	18
$3,000 to $3,999	7	9	10	7	8	9	12	4	3
$4,000 to $4,999	8	5	5	4	4	3	6	4	4
$5,000 to $5,999	4	3	3	2	3	3			
$6,000 to $7,499	3	3	2	2	3	2	2	3	1
$7,500 to $9,999	2	2	1	2	1	0			
$10,000 to $14,999	1	2	1	1	2	0	2	4	2
$15,000 and over	1	1	1	1	1	1			
Total	100	100	100	100	100	100	100	100	100
Number of cases	400	443	348	339	269	212	203	209	176
Percent of sample	14	14	12	11	10	7	7	7	[2]

[1] Includes widows and housewives 55 and over.
[2] Not available.

Source: Survey of Consumer Finances.

LIVING WITH RELATIVES AND DEPENDENCY AMONG THE AGED

The proportion of adult units who are living in a relative's dwelling, and thereby receiving some transfer income, is high at both ends of the age scale:

Age of head of adult unit:	*Proportion of units living in a relative's dwelling*
18 to 24	61
25 to 34	14
35 to 44	6
45 to 54	6
55 to 64	8
65 to 74	16
75 and older	29

Some of these units are not dependent upon their relatives, but are secondary spending units who have income, keep separate finances, and may even pay rent to the relatives with whom they live. Tables 6 and 7 show, by age and sex of the adult unit head, the family gross disposable income and an index of the adequacy of the combined family income, that is: the ratio of the whole family's income to the budget requirements of the family. Both tables are prepared for adult units, so that the income of families containing more than one adult unit is tabulated several times—once according to the age of the head of each adult unit in the family.

TABLE 6.—*Mean family gross disposal income, within age and sex of adult unit head*

[Means for adult units]

Age of adult unit head	Family gross disposable income		
	Male	Female	All adult units
18 to 24	$6,317	$6,308	$6,315
25 to 34	6,646	5,104	6,485
35 to 44	7,479	4,511	6,998
45 to 54	7,408	4,477	6,794
55 to 64	7,425	4,039	6,445
65 to 74	5,341	3,691	4,711
75 and older	3,534	3,973	3,731
All adult units	6,807	4,570	6,280

TABLE 7.—*Average value of family welfare ratio, within age and sex of adult unit heads*

[Means for adult units]

Age of adult unit head	Average value of family welfare ratio [1] in percent		
	Male	Female	All adult units
18 to 24	140	140	140
25 to 34	160	130	160
35 to 44	170	130	170
45 to 54	190	130	180
55 to 64	210	140	190
65 to 74	180	130	160
75 and older	120	120	120
All adult units	160	130	170

[1] The welfare ratio is the family gross disposable income as a percent of family budget requirement.

The figures indicate that on the average the incomes of families in this country are more than sufficient to provide for dependent aged.

Not all the dependent adult units are aged persons living in the home of younger relatives. About a sixth of the family heads over 65 themselves provide housing for their relatives. For them, sharing a home with other units works two ways. They provide housing, and sometimes food and other things for relatives, at the same time these relatives may have income of their own. Table 8 is tabulated only for family heads, that is, adult units who are not living in a relative's dwelling, but in their own home, whether or not other units live with them. It shows that when older people provide housing for relatives, they add on the average 1⅔ additional people to the family, but also add nearly $2,000 to the total family income.

TABLE 8.—*Effects on family size and income of housing extra adult units, by age of family head*

Age of family head	For all families—		For families who house relatives—	
	Percent of all families	Percent who house relatives	Average number of people added to family	Average disposable money income added
18 to 24	67	4	(1)	(1)
25 to 34	19	8	1.43	$1,198
35 to 44	24	16	1.37	1,244
45 to 54	20	25	1.40	1,478
55 to 64	16	24	1.36	2,203
65 to 74	10	16	1.67	2,187
75 and older	5	17	1.69	1,741
Total	100			

[1] Too few cases for analysis.

It is clear that both the host unit and the dependent units have lower average incomes than families which do not include more than one unit. The total family income of multiple-unit families is higher on the average in each age group than single-unit families, but the income per person is smaller, and the average incomes both of the adult units who house relatives, and the adult units who live with relatives are lower in each age group than the average income of the adult units who live alone.

It is not sufficient to look merely at the financial results of living with relatives; there are also some psychic costs involved. Part of a family's real income is its privacy. We asked two questions to obtain attitudes toward living with relatives and toward relatives' responsibilities for older people:

"Some older people move in with their children, others try hard to keep a separate household even when it means pinching pennies. Do you think it is a good idea or a bad idea for older people to live with their children? Why is that?

"If the older people don't have enough money, do you think their relatives should support them, or should the Government take care of them, or what? Why do you say so?"

The results of these questions are reported in some detail in a paper presented at a National Bureau of Economic Research Conference in June, and will appear in a forthcoming book.[5]

We found a sizable majority of spending unit heads are opposed to having older people live with their children. We infer that living with relatives may solve certain problems of economic maintenance, but it is not a generally popu-

[5] "Voluntarism in America—Attitudes and Behavior," by James Morgan, presented at a National Bureau-Merrill Center Conference on Philanthropy, June 1961 (available from National Bureau).

lar or desired solution. However, a majority feel that relatives rather than the Government should take major responsibility for the support of older people who cannot support themselves. The inference is that if existing contributory programs are not sufficient, most people feel that relatives have some responsibility. This does not mean that people are opposed to governmental responsibility for the aged. Only 30 percent said that relatives should be solely responsible, and even they probably interpreted the question to mean that realtives should be responsible where social security and private pensions are inadequate.

The greater the financial capacity of the respondent, the more opposed he was to units living together, but the more willing to accept the idea of some financial responsibility on the part of relatives.

SAVINGS AND RETIREMENT

The income figures which we have presented understate the economic well-being of some of the aged. Some persons aged 65 and older have substantial resources in bank accounts, savings accounts, or Government bonds. Table 9 indicates that about a fifth of these spending units whose heads are 65 and older have $5,000 or more in these liquid assets. Unfortunately the dependent aged are not included in this tabulation separately, since separate information on their liquid assets was not obtained in the survey. However, the savings shown in the table include savings of all members of the spending unit, including savings of any dependent adult units. The dependent adult units over 65 excluded from table 9 almost certainly have fewer assets than the financially independent spending units over 65.

TABLE 9.—*Amount of liquid assets held by spending units within education of spending unit heads*

[Percentage distribution for spending units whose heads are 65 and older]

Amount of liquid assets held by spending units	Education of the head			All spending units whose heads are 65 and older
	0–11 grades	12 grades	Some college training	
$5,000 or more	19	23	37	22
$1,000–$4,999	27	30	24	27
$500 to $999	8	14	4	8
Less than $500	41	19	29	37
Had $500 or more within the last 5 years	11	6	9	10
Did not have $500 within the last 5 years	26	13	17	23
Not ascertained whether had $500 within last 5 years	4	0	3	4
Not ascertained	5	14	6	6
Total	100	100	100	100
Percent of all spending units	11	1	3	15

By and large the retired do not draw on their savings to pay for living expenses after retirement. Table 10 indicates that over half of the retired had not used up savings, while less than a fifth report using more than half of what they had in the bank at retirement. Persons who planned to retire drew on their savings less often than those who did not.

It seems likely that these savings are considered a basic reserve, not to be used except in the most dire emergency, and that being forced to use them would be a traumatic experience for an aged person.

TABLE 10.—*Depletion of savings after retirement within planning of retirement date*

[Percentage distribution of retired spending unit heads]

Depletion of savings after retirement	Planning of retirement date		All retired spending unit heads [1]
	Planned	Did not plan	
Used over three-quarters of savings	7	20	15
Used one-half to three-quarters of savings	3	5	4
Used one-quarter to one-half of savings	3	8	6
Used less than one-quarter of savings	14	6	9
Used some savings; amount not ascertained	9	6	6
Used no savings; amount of savings same as at retirement	51	36	40
Used no savings; have increased savings since retirement	13	17	15
Not ascertained whether used savings	0	2	5
Total	100	100	100
Percent of spending unit heads	4	6	11

[1] Includes 1 percent of spending unit heads for whom planning of retirement date was not ascertained.

DISABILITY AMONG THE AGED

Nearly half of the aged who were interviewed directly reported that they have some physical, mental, or nervous condition which limited their ability to work or to perform the ordinary tasks they were accustomed to perform. Reports of disability increased systematically with age. (See table 11.)

TABLE 11.—*Percent of disabled within age, sex, and relation to spending unit head*

Age	Percent who are disabled: Heads of spending units		Wives of spending unit heads [1]	Dependent adults [1]
	Males	Females		
18 to 24	7	5	2	9
25 to 34	5	12	2	
35 to 44	12	14	4	
45 to 54	16	16	11	25
55 to 64	27	32	15	
65 and older	45	46	21	25
All adults	17	24	7	17

[1] The percentages shown here reflect some underreporting of disabilities of wives and dependents.

Despite relatively large incomes from stocks and other assets, social security benefits which average considerably more than other groups in which the head is disabled, and low income taxes resulting from the double exemption for persons 65 and older, the aged who are disabled received less disposable income than any other group of disabled or nondisabled persons. (See table 12.)

TABLE 12.—*Mean income within disabilities of adult unit members, and extent of limitation (for adult units)*

Average income of adult units	Disabilities of adult unit members					No one is disabled	All adult units
	Heads are disabled				Heads are not disabled, wives or children are disabled		
	18 to 64			65 and older			
	Completely limited	Severely limited	Somewhat limited				
Wage income:							
Heads	$464	$1,433	$3,301	$274	$4,174	$3,846	$3,486
Wives	365	661	599	115	274	501	475
Real earnings	1,665	2,697	4,714	617	5,310	4,914	4,543
Loss of earnings [1]	−3,249	−2,217	−200	−4,297	+396	0	----------
Gross factor income	2,081	3,446	5,354	1,518	6,194	5,504	5,169
Transfer income	931	537	306	1,137	442	340	406
Public contributory transfers	241	216	184	658	189	133	177
(Social security benefits)	(159)	(65)	(30)	(559)	(119)	(77)	(108)
Nonpublic transfers	193	61	147	284	183	157	164
Public noncontributory transfers	410	123	79	196	138	41	65
Net family transfers	87	137	−104	−1	−68	9	0
Income tax	332	315	666	107	796	652	612
Gross disposable income	2,680	3,668	4,994	2,548	5,840	5,192	4,963
Loss of gross disposable income [2]	−2,525	−1,537	−211	−2,657	+635	0	----------
Percent of adult units	2	2	8	6	4	78	100

[1] Difference in real earnings of adult units with disabled persons, and those without.
[2] Difference in gross disposable income of adult units with disabled persons, and those without.

In connection with their disabilities it is interesting to note the proportion of aged who are covered by some hospitalization insurance program. Less than two-fifths of the aged spending units are covered completely by such insurance. The proportions are substantially higher for units which do not contain any disabled persons. (See table 13.)

TABLE 13.—*Percent of spending units in which everyone is covered by hospitalization insurance, by age of spending unit head, and presence of a disabled person in the unit*

Age of head of the spending unit	Percent of spending units in which everyone is covered by hospitalization insurance	
	Unit includes disabled persons	Unit does not include disabled persons
	Percent	*Percent*
18 to 24	63	65
25 to 34	46	71
35 to 44	65	73
45 to 54	52	68
55 to 64	56	68
65 to 74	36	55
75 and over	23	37
All spending units	49	68
Percent of spending units	24	76

WORK EXPERIENCE OF THE AGED

Adult units can be dependent units without separate finances living with relatives, separate spending units with some income and separate finances, whether living with relatives or not. The first group has almost no earned income. Among the second group, the extent to which they worked during 1959, and their wages and hours, are affected by their age as shown in table 14. We have provided the data separately according to the education level of the head of the unit because of the high correlation between age and education, and the powerful effect of education on earning rate and employment opportunities.

TABLE 14.—*Labor force participation, hourly earnings, and annual hours worked, within age and education (for spending unit heads)*

Age of spending unit heads	Education of spending unit heads			
	0 to 11 grades	12 grades	12 grades plus nonacademic training; some college	College degree
	Percent of spending unit heads who worked during 1959			
55 to 64	84	91	65	80
65 and older	35	16		
All spending unit heads	81	91	90	95
	Average hourly earnings for spending unit heads who worked during 1959			
55 to 64	$2.00	$2.53	$2.57	$3.25
65 and older	1.52	1.25		
All spending unit heads	1.90	2.36	2.50	3.43
	Average hours worked per year during 1959 by spending unit heads who worked			
55 to 64	1,925	1,872	1,858	2,203
65 and older	1,316	2,009		
All spending unit heads	2,017	2,191	2,148	2,167
Percent of spending units	53	16	21	10

It is clear that most of the older people who are employed work full time. Among the uneducated, work is at less than average wage rates.

Of this spending unit, wives 65 or older, only 12 percent worked, as compared with 38 percent of all wives of heads of spending units. They earned an average of $1.18 per hour as compared with an average of $1.43 per hour for all wives, and worked an average of 1,333 hours in 1959.

SUMMARY

We have shown that more careful inclusion of nonmoney incomes of the aged makes the welfare position of some look dismal. However, taking account of aged people who live with relatives, and who generally have low incomes even when we include the transfers of free food and housing, increases the estimated number of needy aged.

When we discover also that living with relatives is an almost universally disliked solution, with psychic costs, the problem of the dependent aged living with relatives becomes even more important.

While some of the aged have assets, it is clear that they cling to them, and are generally unwilling to use them for living expenses.

Finally, a substantial fraction of the aged report disabilities of one kind or another which may represent a large financial burden and which would interfere with any effort to find work and thus supplement income from pensions and assets.

No single source of support is predominant for older people, and only the combination of social security, earnings, income from capital (particularly the home), free room and board, and other transfers allows them to get along.

Letter from Federation of New Hampshire Senior Citizens' Clubs:

U.S. SENATE,
COMMITTEE ON COMMERCE,
July 10, 1961.

Senator GEORGE A. SMATHERS,
Chairman, Subcommittee on Retirement Income, Special Committee on Aging, New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I have been requested by Mr. Harry C. Knox, president, Federation of New Hampshire Senior Citizens' Clubs, Goffstown, N.H., to transmit for inclusion in the record of hearings that your subcommittee is holding on July 12–13, his letter of July 7 to Dr. Harold L. Sheppard, the staff director.

I shall appreciate the subcommittee's consideration of the very clear and compelling statement made by President Knox in behalf of those elderly persons who retired under the Social Security Act prior to the amendments to the act approved by Congress in 1955. I feel that he is entirely correct in his contention that those pensioners retiring prior to 1955 are justified in requesting the same 5-year "dropout" provision which was granted to those retiring after that date.

With every good wish,

Very sincerely,

NORRIS COTTON,
U.S. Senator.

FEDERATION OF NEW HAMPSHIRE SENIOR CITIZENS' CLUBS,
Goffstown, N.H., July 7, 1961.

HAROLD L. SHEPPARD,
Staff Director, Special Committee on the Aging.

DEAR MR. SHEPPARD: I should like to submit the following statement in behalf of our 2,000 members in regard to the problems confronting us upon retirement. And this applies to all pre-1955 pensioners.

The large majority of us are on the social security pension program and our ages range from 65 to 90. In our working years, 20 to 30 years ago our wage rates were low and therefore our pension rates based on those rates are low.

In 1955 the social security pension rates were increased an average of 15 percent due to the "dropout rule." However, the old pensioners on the program before that date did not receive that increase although they did receive a small increase in 1958.

According to statistics taken from the Social Security Bulletin the average pension of these pre-1955 pensioners is today $59 per month. And there are about 4 million of them, about one-fourth of whom are widows and their average is $46 per month.

There have been several special increases in pension rates for certain classes, that is, when full coverage was reduced from 7 years to 18 months it brought in many older people that could not otherwise qualify. Also women could retire at 62 years and the disabled can now receive their pensions after 5 years on the program regardless of age.

Now, this class of old pensioners who received their pensions before 1955 should receive a cost-of-living rate under a special social security pension increase. How else are they going to have a decent American standard of living which they do not now have with a $59-a-month pension.

Are these oldsters deserving of such an increase? In their labors of 20 to 40 years ago, did not they contribute to laying the foundation to the present great prosperity of our country? And especially in developing the electrical age which is the basis of our electronic and atomic era.

Also in 1936 when President F. D. Roosevelt set up the original social security program he wrote into the law that this program "should provide economic security through social insurance." And these old pensioners, largely by their contributions, had by 1950, built up a trust fund of $14 billion.

We earnestly believe that legislation should be passed to increase the pensions of these pre-1955 oldsters to provide them with a present cost-of-living standard of living, and we believe they deserve it.

HARRY C. KNOX, *President.*

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