ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

HEARINGS

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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FIRST SESSION

PART 1—SURVEY HEARING

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ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

TUESDAY, APRIL 29, 1969

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

The committee met at 10 a.m., pursuant to call, in room G308 (auditorium), New Senate Office Building, Senator Harrison A. Williams, Jr. (chairman) presiding.

Present: Senators Williams, Moss, Hartke, Miller, and Saxbe.

Committee staff members present: William E. Oriol, staff director; John Guy Miller, minority staff director; Dorothy McCamman, consultant on economics of aging; Patricia Slinkard, chief clerk.

OPENING STATEMENT BY SENATOR HARRISON A. WILLIAMS, CHAIRMAN

Senator WILLIAMS. The committee will come to order. We will begin the hearings on Economics of Aging: Toward a Full Share in Abundance.

That title was chosen to make several vital points. One is that the committee is not dealing solely with one or two issues, such as adequacy of social security benefits, or the likely levels of private pension payments a decade hence.

We are keenly concerned, of course, about such matters.

But a more fundamental purpose is to establish an overview of the many economic pressures that affect aged and aging Americans.

The committee will focus its attention on the personal economics of individuals who—in the final decades of their lifetimes—discover that fixed incomes and lifetime savings are either totally inadequate or barely enough for marginal life.

We will also try to look ahead to the likely economic situation that today's workers—those who now think of retirement as far in the future—will face if present trends continue.

Give some thought for a moment, if you will, to that last statement. The point is that problems related to retirement income should not be regarded as solely the concern of those now retired.

Today's middle-aged head of household—struggling to pay off his mortgage, provide a good education for his youngsters, perhaps contributing to the support of a parent, keeping up with the Joneses in our expensive or modest suburbs—probably gives little thought to his own security in later years.

And yet, if he were to study today's retirement income problems, he would find little comfort from hard facts facing millions of Americans in retirement today.

Fortunately, those facts are emerging. But they have not yet caused the alarm bell to ring throughout the Nation.

This committee will sound the alarm as well as it can, and we will of necessity face the hard facts I mentioned before.

What kind of facts? Thanks to the task force which prepared a working paper in advance of this hearing, the Committee on Aging can offer the most hard-hitting statements yet made on the economics of aging.

To summarize some of the major points made in the task force report:

Many older Americans who are poor did not become poor until they became old. And approximately 3 out of 10 people 65 and older—in contrast to 1-in-9 younger people—are living in poverty.

There is an income gap between older and younger people; this has long been recognized. But, a less well-known fact is that this gap is widening. Generally speaking, elderly couples and singles have less than half the income of those still in the work force.

There is every reason to believe that the economic position of persons now old will deteriorate markedly in the years ahead; there is no good reason for thinking that low income in old age is a transitional problem that, given present trends, will solve itself.

Americans in middle-age or even younger should be concerned about projections and other studies which indicate that social security, private pensions, and other forms of retirement income are not improving fast enough to reverse or significantly counter present economic trends.

The task force report—which bears the same name as our hearings—is a disturbing document which will receive careful attention throughout hearings by the full committee and at specialized hearings on such individual subjects as:

1. Income maintenance of widows—a particularly disadvantaged group.
2. Health needs and rising medical costs.
3. Problems associated with homeownership and taxation.
4. Employment opportunities in later years.
5. Early retirement trends and their meaning.

On that last point, I would like to note that more than half the men who retired within recent years have claimed reduced social security benefits before the traditional age of 65.

Heavy Penalty for Early Retirement

That fact alone would be worthy of careful scrutiny. Social Security studies show that most men pay a heavy economic penalty when they retire before age 65. It appears that those most in need of an adequate social security income often must settle for less earlier in life simply because they have no alternative.

Our formal testimony will begin in a few moments, but before it does I would like to put into the record at this point several excerpts from letters written after I first announced these hearings a month ago. The authors of these letters are, for the most part, elderly Americans who tell more eloquently than anyone else what it means to live in old age on fixed incomes in a land of abundance.

I'll read from a few before concluding.

From Pitman, N.J., comes this commentary from a man who had to retire because of a health problem a few years ago:

> There is only my wife and I, and the Social Security pension for both of us amounts to only $1,920 a year, and from this amount we have to pay real estate taxes—water and gas and electricity—and for fuel oil. After these items have been taken care of we eat from the meager amount remaining. We cannot afford three full meals each day so manage on one good meal. The prices of meat are outrageous and to have a roast or steak once a week is beyond our reach.

Much the same situation is described by a man from Alhambra, Calif.

> I am 76 years old. I retired 10 years ago with my home paid for, and no debts. After ten years my property taxes have doubled. Every service and general living costs have skyrocketed and medical and doctor and hospital costs are as near to robbery as a cost can get: $600 for removing a cataract from one eye; almost $400 for the hospital (my wife had the operation). We fixed income people are in trouble.

And, from a 76-year-old woman who lives in Swarthmore, Pa.:

> I am one of those elderly people, living alone, who has become poor since becoming old. Unable to work any longer, I am trying to get along on my Social Security of $55 per month income, besides drawing a few dollars from a fast-dwindling nest-egg in the bank and an occasional fee from private French teaching and some baby-sitting, to meet the ever increasing cost of living. I am, however, aware of the fact that some elderly people are worse off than I, and for those, drawing less than $80 or $100 a month, the name of Social Security has become a paradox indeed.

Worried and Angry

The message is similar in all the other letters I have received within recent weeks. Older Americans are worried and many of them are angry about economic problems over which they have very little control.

They have left the labor force, either voluntarily or involuntarily.

They have seen their limited resources dwindle.

They want the same Nation that established a social security system 34 years ago to be equally inventive during more affluent times in finding new ways to deal with the retirement income crisis.

I will close this statement by pointing out that the committee had invited Secretary Finch of the Department of Health, Education, and Welfare to be with us today to deal with a subject which—I am sure—HEW regards as both timely and important. The Secretary, however, could not be with us. I am happy that Commissioner Ball of the Social Security Administration is here to discuss some aspects of the issues before us. I expect a later appearance by the Secretary.*

We will begin this morning's proceedings with brief statements from the four task force members who—with consultant Dorothy McCamman—prepared the working paper on economics of aging.

It is a pleasure to introduce Dr. Juanita M. Kreps, professor of economics, Duke University; Dr. James H. Schulz, associate professor of economics, University of New Hampshire; Mrs. Agnes W. Brewster, consultant on medical economics; and Dr. Harold L. Sheppard, staff social scientist, W. E. Upjohn Institute for Employment Research.

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*For exchange of letters between the chairman and Secretary Finch, see app. II, p. 229.

After we hear from the task force participants, one aspect of the economics of aging will be dealt with from the executive branch by the Administrator of the Social Security program, Commissioner Ball.

Before we come to Mr. Ball, I would like to have the statements from our task force participants who also will, I trust and hope, be with us through this hearing.

Dr. Kreps, would you begin?

SUMMARY BY TASK FORCE MEMBERS

STATEMENT OF JUANITA M. KREPS, PROFESSOR OF ECONOMICS, DUKE UNIVERSITY

Dr. Kreps. I am honored to introduce this discussion of the economics of aging and in doing so I should like to cite the following statement:

> One of the things we know for certain about any aging group is that it has no future. The young become middle-aged and the middle-age become old, and the old die. Consequently, the support which the middle-aged give to the young can be regarded as the first part of the deferred exchange which will be consummated when those who are now young become middle-aged and support those who are now middle-aged who will then be old. Similarly, the support which the middle-aged give to the old can be regarded as the consummation of a bargain entered into a generation ago.
>
> The transfer of income which is now made between generations primarily through governmental agencies rather than within family units has come to be accepted as a concomitant of the lengthened life span which prevails in all advanced countries.

The questions before us have to do with the major issue: how well are we meeting these income transfer needs of the elderly?

The task force which prepared the working paper to serve as a basis for the committee's deliberations was concerned with this major issue and within it, with these questions:

Task Force: Major Questions

1. What are the income levels of the present aged? How do these incomes compare with those of younger families and individuals? What are the assets of the elderly? How much do these assets add to the real incomes of older people?

2. What is likely to be the economic status of the future aged? On the basis of the best projections we can make, how will aged families and individuals fare a decade from now? Will the position of the future aged be improved significantly relative to the middle aged and the young of the future, or will the aged continue to be relatively deprived?

3. What are the reasons for the low-income status of the aged? Are older people suffering low incomes because of low-lifetime earnings or were they simply unwilling to save during their working lives? Are they in financial difficulties because of inflation of the price level? Because of forced retirement? Or does the explanation lie primarily in the continued growth in real incomes of the working population, which constantly raises those incomes above the levels fixed for retirees?

4. How much income smoothing through the lifespan do we wish to achieve? What temporal reallocation of man's lifetime income is desirable? Any reallocation achieved is at that point in time, of course, a shift of income claims from workers to nonworkers. But an increase in the incomes of the present elderly implies that the future elderly will enjoy a similar improvement in their living levels.

5. What are the mechanisms through which we can achieve the desired shifts and the timing of income? Should we look toward larger fringe benefits, such as increases in private pensions, at the expense of some direct wage payments? By what magnitude should social security benefits be raised? Once these benefits are improved, what provisions should be made for keeping retirement incomes in some way keyed to the growth of real incomes of workers? Finally,

6. Are there types of goods and services which can best be provided for the elderly through the public sector? What would be the additional costs of achieving the goals we set? Within the budget constraints we must face, what priorities can be established that will enable us to move systematically toward the long-range goals of improved living levels for the aging population?

In posing these questions, the task force was able to provide only this briefest summary. We expect much more detail to be added by the knowledge and expertise of the witnesses that will appear during the hearings. However, we do note that the Nation's reluctance to allocate a larger portion of its largesse to the later stage of life sharpens the income break between work and retirement.

In our deliberations, I hope we will keep in mind the earlier admonition that no age group has a future. Just as those of you who are young, will become middle-aged, so those of us who are middle-aged will become old. The composition of the aged will therefore shift in time to include those of us in this room. But the condition of the aged will not shift, not unless we reshape social policy.

Thank you.

The CHAIRMAN. Thank you very much, Dr. Kreps.

Would you members of the task force proceed in whatever order you want?

STATEMENT OF HAROLD L. SHEPPARD, STAFF SOCIAL SCIENTIST, W. E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH

Dr. SHEPPARD. I am listed next, Senator, so I will quickly get on with, I hope, a brief statement.

I want to talk a little bit about my own role in this task force, primarily as a person concerned with work, work experience and its impact on problems of older workers and work in aging as it in turn affects the future of people as they become old.

The first thing I want to say is a general statement concerning—it might sound rather Pollyannaish—but an expression of my faith in our country to meet this problem but only through kinds of communications that we are trying to participate in.

I still remember very vividly going to the U.S. exhibit in Brussels in 1958, and going through all the magnificent exhibits of our technological process and walking out of that building and seeing a little sign saying "Toward Our Unfinished Business." There was a little exhibit that most people didn't notice and it had to do with our problems in America. We were frank enough to admit the problems we were coping with.

There was a small exhibit in a small building next to the regular one dealing with the problems of minority groups and of the aged in America. Unfortunately, they are still our unfinished business.

My concern is that there are still many policies and practices in our society that contribute toward making people poor. Much of the war against poverty has been based on the assumption that all the poor were born poor. I think it is very important for the Senate and the House and the public at large, to recognize that some people who are poor, move out of poverty, but important for our purposes some nonpoor people become poor.

The big question is, how do we as a society make people poor? We don't get into it in detail in our report but we do point out, for example, that early retirement practices can, despite all our original intentions, contribute to the creation of a new poverty class.

I think it is very interesting that as the data presented to us on the task force by such people as Mr. Brotman, from HEW, that 70 percent of all the men retiring under social security, now retire before the age of 65 and they are the people least prepared to cope with retirement in terms of the other economic resources they bring into that retirement age and they then live long.

Labor Force Dropout

Another thing that happens in our work experience, somewhere in the 40's and 50's we get what I call a labor force dropout increase. The labor force participation rates of people as they get older, starting in their 40's, go down and this has an impact on our ultimate retirement and poverty status of older people.

It is interesting that the percentage of male heads of families who work year-round full-time, go down as aging goes up, and, secondly, that we still have many people who work year-round full-time and are still poor and that percentage of people who work year-round full-time and are still poor, goes up as you go up the age ladder, starting about the age of 40 or 45.

The Census Bureau has just released a report on that.

Another thing is the shutdown phenomenon. Now, shutdowns, plant closures, plant movings, are all part of even a booming economy. We have done very little to cope with the impact of that type of economic event insofar as affecting the poverty status of our workers concerned.

Someone gave me a leaflet that just came out recently about Sperry-Rand in Long Island, closing down with about 900 workers, the average age being about 58. Now, the big question is, what happens to a man 58 years old? It is just like in the Packard shutdown, the Studebaker shutdown. What happens is: they have to go into the labor market and try and get new jobs.

I know we have a law against discrimination on the basis of age on the books. I would hope we look into how well we enforce that law as a tool in the war against poverty. As part of that, I would just like to conclude by indicating, there is still no reaching of this goal of a full share in abundance, when you measure the degree of participation of older workers in even our manpower programs. About 25 percent of our long-term unemployed men in this country are 45 and over and only about 9 or 10 percent of the participants in our manpower development training program are in that age group.

This is a contribution toward creating more poverty in older age.

Poverty and Older Women

I will try and conclude at this point except for one final thing. In this war against poverty, with all the programs we have had so far, a major group still stands out as not being reduced in size when it comes to poverty, and the report brings that out, especially among older women. We have not reduced this; in fact, I think there has been an increase in the number of poor widows. They are the widows of the kinds of men I have been talking about in my brief presentation here, Senator.

The Chairman. Thank you very much, Dr. Sheppard.

Professor Schulz, do you want to continue on for the task force?

STATEMENT OF JAMES H. SCHULZ, ASSOCIATE PROFESSOR OF ECONOMICS, UNIVERSITY OF NEW HAMPSHIRE

Dr. Schulz. A well-known syndicated columnist, in reacting to the task force working paper recently wrote, "The forthcoming hearings should concentrate on what are the rights of the elderly American whose productivity during his working years contributed to today's prosperity."

Mr. Chairman, I would like to submit that to frame the income maintenance problem of the aged in that way hides an equally important and perhaps more fundamental question.

The task force has stated:

> Every American—whether poor or rich, black or white, uneducated or college-trained—faces a common aging problem: How can he provide and plan for a retirement period of indeterminate length and uncertain needs? How can he allocate earnings during his working lifetime so that he not only meets current obligations, but has something left over for his own old age?

This is the central issue. It should not be so much a question of giving older Americans rights, or giving older Americans what is their due, or fulfilling an obligation arising from the fact that older Americans were born before us. Rather, the provision of adequate economic resources in old age requires intelligent planning to insure a more even distribution of each family's income over its lifetime.

This, however, is not an easy task. Given the uncertainties and complexities of retirement planning and the vicissitudes of the economy, it is becoming increasingly apparent that our society as a whole must come to grips with two questions:

Two Key Questions

1. What standard of living do we, the young and nonretired, want when we get old? and

2. Having decided that, what should be the respective roles of the individual, private industry, and Government in planning and providing for that standard of living in old age?

We are all well aware of the economic circumstances of older people today. The sad facts speak for themselves, and I know many people will address themselves to this problem during the hearings.

However, the main point that I would like to make this morning is that if we, the nonaged, want to insure against our own poverty as we grow old and, further, if we want a living standard in retirement that is not drastically lower than our way of life during the working years, we must either make major changes in our savings behavior or we must vastly improve the institutions in our country which provide income for the later years of our lives.

The general nature of the problem is shown by chart I of the task force paper.*

Pensions are now, and promise to be in the future, the predominant source of retirement income.

Chart I shows my projections of the relationship between pension income in retirement and the average earnings of workers 5 years prior to retirement. The chart shows that present pension trends developing in the United States will provide most aged Americans in 1980 with yearly pensions which are less than half of their prior earnings.

The implication is clear: Without supplemental resources, this next generation of aged Americans will suffer sharp drops in living standards similar to those being experienced by the current older population.

We must all decide now whether such drops in income will be acceptable to us 10, 20, 30 years hence when we retire. Adequately anticipating retirement needs will become even more urgent as more and more American families begin to evaluate the sufficiency of their retirement income in relation to their standard of living immediately prior to retirement, rather than measuring it in relation to some arbitrary poverty income level.

Given the needs of today's aged Americans and prospects for rising retirement expectations in the future, some people might suggest that we really will never be able to develop adequate programs for the aged because there are so many other competing social needs.

The Major Economic Issue

The major economic issue is not, however, whether—in the face of other needs such as general poverty, urban blight, and education—we can have new programs for the aged. Rather, the issue is better posed as to whether we want a higher standard of living in our younger years at the expense of a lower standard during retirement.

This issue is extremely difficult to deal with because we are faced with essentially a question of how to provide a satisfactory level of income to individuals after work stops in a society which has traditionally oriented its income provision almost solely to the performance of work.

The options are simple; the implementation is not. To better provide for old age, people must either save more during their working years or they must develop institutions which will provide each succeeding aged generation with the required amount of income transfer from the working population to the retired or semiretired. These options

*See p. 176.

mean either higher taxes, higher private pension or insurance contributions, or higher personal savings in the working years.

Fortunately, the economic wealth of this Nation and the wealth of a large proportion of the people in it is bountiful and continues to grow. Economist Leon Keyserling, in testimony before this committee* about a year ago, projected that in the next 10 years economic growth alone would provide an average of $200 billion worth of additional goods and services each year in the United States. Such economic growth makes the choice easier, permitting us to make provision for more income in old age without seriously affecting our current living standards.

Whether it is possible for a conscientious individual to effectively and efficiently handle this task of retirement planning alone is, in my opinion, open to serious doubt. The task force calls instead for major reliance on the social security system. But, as we have indicated, having accepted this proposition, there still remains a whole host of issues to be decided and problems to be solved. They fall into three broad categories:

1. The encouragement and facilitation of individual retirement income planning.
2. The equity and safety of various institutional saving arrangements for old age.
3. The level and distribution of social security benefits and alternative ways of financing them.

I hope this hearing will be the beginning of more extensive and continuing discussion by the committee of these important issues. While we should certainly continue to deal with the serious problems of the current aged population, we should also be concerned about what the future holds for succeeding generations of old people. The solution to income adequacy in old age depends upon individual and collective action while we are still young.

Thank you.

The CHAIRMAN. Thank you very much, Professor Schulz.

Mrs. Agnes Brewster.

STATEMENT OF AGNES W. BREWSTER, CONSULTANT ON MEDICAL ECONOMICS

Mrs. BREWSTER. Senator Williams, and distinguished audience, I am delighted to be here because I, too, am approaching retirement and aware of the problems.

The costs of medical care and their impact on personal income has been a major concern of mine since serving with the Committee on the Costs of Medical Care prior to World War II.

In 1968, I retired from the U.S. Public Health Service to do consulting work in medical economics; part of the time I serve as faculty to the Leonard Davis Institute of Health Economics at the University of Pennsylvania.

It is a pleasure to be here this morning.

During my 28 years in Government, one assignment was the developmental aspects of Medicare. Even before the national health survey documented the relationship between ill health and old age

*"Long-Range Program and Research Needs in Aging and Related Fields," Dec. 5–6, 1967, pp. 64–92.

and low income, no one was unaware of the insecurity facing elderly people.

Now, in this connection, and because this has been my input to the task force, I am going to just talk about medical care and its effects.

The other members of the task force have so much to contribute on the income aspects.

I want to make just three points relative to the health economics of the older members of our affluent society, rather than review the material on this subject in the task force report.

Point one: Medicare does not do all it should. There is no question that Medicare has been and will continue to be a great boon to persons aged 65 and over in spreading the financing of medical expenses over a normal working lifetime. Chart E (see p. 168) shows this, in the brown or dotted section.

Limitations of Medicare

But Medicare does not go far enough. As Chart F shows (see p. 170), hospital expenses account for nearly half of the health expenditures of people past age 64. When doctor costs are included, nearly $3 of every $5 old people spend on the average goes for these two kinds of expense.

Medicare is meeting its original objective of helping to finance the major wreckers of peace of mind and financial security in old age. However, we all recognize that averages conceal as much as they reveal.

Only about one in five social security beneficiaries will need the Medicare hospital benefit in a given year—though nearly all will make use of it before the curtain falls on their time on earth. Terminal illnesses almost ensure that this benefit will be used. Medicare does a good job with the big bills that raise the average, but it leaves gaps.

By the same token, nearly every aged person in the course of a single year will have occasion to visit the doctor's office, buy prescribed drugs, have his eyes checked and his glasses changed.

So, most older people almost daily incur out-of-pocket medical expenses that do not qualify for Medicare reimbursement nor are they covered by any private insurance they may have purchased. These "minor" expenses can mount up and really compete for the small amounts of cash available to the elderly for food and shelter, et cetera. Sometimes hard decisions are forced on people and they do not buy necessary medicine or see the doctor when they should. Medicare should be broadened.

Inflation of Medical Costs

My second point is that inflation of medical prices must be halted. As the inflation of medical costs outpaces any other price rises or cost of living adjustments, those whose physical status makes them require more than average amounts of medical care are hardest hit.

In turn, the taxpayer who is also helping finance Medicare is being called on to pay a higher tax. Some of the inflation in medical prices appears to be a direct consequence of Medicare.

At the same time a beneficiary is called on to pay more from his limited income for part B benefits—because utilization has risen and doctors are charging more, the aged person has to pay more for the coinsurance—20 percent of $10 is more than 20 percent of $5.

Let me illustrate the eroding effect another way: For the past few years, both Mr. and Mrs. Jones have found it necessary to see Dr. Smith about 16 times a year. At $5 a visit to Dr. Smith's office, it cost the Jones $80 annually.

Now Dr. Smith is charging $8 a visit—an increase of 60 percent in his fee; $80 will pay only for 10 visits instead of the 16 the couple had before.

Ah, you say, but there is Medicare to help. But does it?

Eight visits for each of the Joneses will cost $64 each. Under Medicare, Mr. Jones will pay out $52.80 for each of them and Medicare will pay $11.20. Inflation has shrunk Mr. Jones' purchasing power. For the same amount of service the Jones family now pays out-of-pocket $105.60 instead of $80.

Action Needed Now

My third point is that, no matter how comprehensive Medicare may ultimately become, and how successful we are at curbing medical prices—both essential steps—measures to restore and maintain the purchasing power of the elderly at the level it was when they retired are urgently needed *now*.

The types of measures suggested in the task force report are overdue and should be put into effect while we grapple with the complex issues involved in the problems of medical care supply and demand that are behind much of the inflation in the field. Life should not become increasingly difficult for those in need of more than sympathy.

In summary, (1) Medicare provides great peace of mind, both to older people and to their children but it does not go far enough. It meets at best 46 percent of the personal consumption expenditures for medical care of the aged (excluding from the numerator and denominator other public programs), (2) inflation, including that induced by Medicare, must be curbed, both in the interest of the aged and of the taxpayers generally; part of this objective can be achieved by improving the delivery and financing of the services, (3) more immediate remedies for inflation's impact, such as those suggested in the task force report are in order to restore and maintain purchasing power after retirement.

Thank you.

The Chairman. Thank you very much, Mrs. Brewster.

We would like to now go to the statement of Commissioner Robert M. Ball of the Social Security Administration.

I would like to say that the members of the task force who have given us these most helpful opening statements will remain available and will be part of the panel after we get into that part of our hearings following Commissioner Ball.

Commissioner Ball, we are honored to have you with us on what has already proven to be a very important series of hearings on the economics of aging and you are a vital part of our deliberations.

A lot of elderly people are in the auditorium. I would say 200 or 300, maybe more, of our constituents are here with us today in this auditorium hearing room.

32-346—69—pt. 1——2

STATEMENT OF ROBERT M. BALL, COMMISSIONER OF SOCIAL SECURITY; ACCOMPANIED BY MRS. LENORE E. BIXBY, DIRECTOR, DIVISION OF RETIREMENT AND SURVIVOR STUDIES; AND MRS. DOROTHY P. RICE, CHIEF, HEALTH INSURANCE RESEARCH BRANCH

Mr. BALL. Mr. Chairman, I have with me Mrs. Lenore Bixby and Mrs. Dorothy Rice, who are members of the research staff of the Social Security Adminstration, who can contribute, I am sure, by helping to respond to the questions that the committee may have.

I also would like at the beginning to express the deep regret of the Secretary [1] that he was not able to be here and to convey to you his great concern for the problems that the committee is going into.

I have talked with him many times about the social security program and he has a great interest in it and a great interest in the economic situation of older people.

I would like to congratulate the committee on the excellent report, "Developments in Aging 1968" and also on the testimony of your consultants on this panel. I might say that some members of the panel are people that we also have called on for information and help in studying this area and we think a great deal of them, Mr. Chairman.

The working paper, "Economics of Aging: Toward a Full Share in Abundance," prepared for the committee, in my judgment, has identified the key factors in this problem of the economics of aging—that is, the basic question of income security and an equitable sharing by the aged in our increasing national output.

To my mind, all of the other problems—and there are many other problems of older people—are really secondary to the question of an adequate continuing income paid as a matter of right and under conditions which contribute to human dignity. What we are struggling with in this county is to develop a series of arrangements that will guarantee on into the future that older people will have the income necessary to support an acceptable level of living.

We know that a part of this problem is the problem of rising prices—the problem of inflation in general—and particularly the problem of the disproportionate rise in medical prices.

We agree fully with the conclusions of the panel that much more needs to be done to achieve the objectives that your committee has outlined.

There is one factor in this matter of income for the aged that makes the problem in this particular area, in my judgment, more amenable to early solution than are many of the other social problems that we have in the country. This factor is that we now have a structure of a nearly universal basic Government program insuring people against the loss of income on account of retirement in old age.

The existence of the social security program as an accepted program with popular support and the fact that it is in existence means that we can build on a going popular institution for the solution of many of these problems rather than having to invest something entirely new. This is a big asset.

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[1] See app. 2, p. 229, for letter from Secretary Finch.

Now it might be worth a minute just to say why I regard this program as an asset which is so valuable. First, it is generally accepted, primarily because it is consistent with the basic ideas of our economic and social life. The protection that people get under social security—whether we are talking now about the cash benefits or whether we are talking about the hospital insurance benefits—grows out of the work that people do. The fundamental idea of the program is that while you are working you are earning not only wages but you are earning also protection against the possibility of loss of wages because of retirement, protection against the loss of income because of the death of the breadwinner in the family, and protection against the loss of income arising from total disability.

An Earned Right to Benefits

So the protection grows out of work that people do and they consequently feel that they have an earned right to the benefits.

Secondly, there is no test of need in the program. Thus the individual is encouraged to add to this basic protection whatever he can save on his own, and private pension plans can build additional protection on top of what the program provides. If we approach this matter in any other way—for instance there have been proposals from time to time to put a bigger emphasis on income determined programs—when you relate benefits to how much a person has in other income, then unless an individual can save a great deal—so much that he is no longer eligible at all—there really isn't any incentive for him to save for retirement, because you deduct from his Government payment whatever he has on his own.

In the same way private employers and unions would not be encouraged to build private pensions on the base of the Government protection, because the private pension would be deducted from the Government payment under an income determined program.

This institution of social insurance is now the major approach to the problem of earnings loss throughout the world. Every major country bases their plans for the income protection of older people, disabled people and widows and orphans on a social insurance program. Such a system is geared to economic incentives. It relates whether you get a benefit and the amount you get to work and contributions and it serves as a base to which people are encouraged to add other protection.

In the United States the protection is just about universal. This has been a very fast growing program. If you look back one generation before social security went into effect, there was very little coverage under any kind of pension program, very few people were working in jobs where there were provisions leading toward retirement income.

There were pension systems for Federal employees for the Armed Forces, and for a very small number of employees of private employers. Now, today, when you combine social security with civil service retirement and railroad retirement, well over 95 percent of the jobs in the country have coverage for retirement benefits, so that just about all people are now working toward a retirement income.

Our problem is no longer the establishment of a system; it is not primarily extension of coverage. That has been accomplished. The problem has become one of the adequacy of the amount of the payments and the design of the system so that benefits are reasonably related to people's income when they retire, so that they are kept up to date as prices or wages rise in the future.

I want to point out that the disability features of the social security program are of great importance to the individuals just below 65 who, of course, are also of concern to the committee. The problems of aging do not start at 65. The total disability benefits are paid much more often to people 55 and above than they are to younger workers. At the upper ages below 65 the rate of disability is much higher than for younger people. So this is also a very important part of income security protection for older people even though not for people past 65.

Presidential Recommendations

Now, Mr. Chairman, I would like to point out that the recommendations that the President has made for improvement in the social security program are for a 7-percent* across-the-board increase in social security benefits and for changes in the so-called retirement test—that is he has recommended an increase in the amount that people may earn without having their retirement benefits withheld and in addition one very fundamental reform in that test has been recommended that I would like to discuss with the committee in a moment.

It is understood that these proposals are ones that are needed primarily to bring the benefits up to date from the time that the last changes in the program were made, and that more fundamental and important long-range improvements in the social security program will be needed. A major statutory advisory council that is provided for in the law will be appointed in the very near future; that council will be going into the much more fundamental questions of restructuring the program and evaluating possible changes in a much more comprehensive way.

In addition to this statutory council which is charged with reviewing the adequacy of benefits, the financing of the program, and all other aspects of the program—both the health insurance benefits and the cash benefits—as you know, there is also a commission on income maintenance of which Mr. Ben Heineman is the chairman. That commission will also, no doubt, make some recommendations in the social security area when it reports in the not too distant future. Beyond that, we are looking forward to getting from the 1971 White House Conference the many suggestions that will come out of that conference from individual citizens and groups.

Major Social Security Issues

Mr. Chairman, with your permission, I would like to sketch in broad form some of the major issues related to in the social security benefit structure that I believe this new advisory council will have to grapple with and make recommendations on.

As your panel has pointed out, social security benefits are the major source of income for retired people. It is still true that in total amount even for people over 65, a major source of income is work.

*On Sept. 17, 1969, President Nixon announced he would seek a 10-percent increase.

But this is confined to a very small proportion of the aged. Among the retired aged, the reliance is very very heavy on social security. The adequacy of social security benefits is thus the major factor in the income security of retired older people.

Private pension plans provide a very valuable supplement to social security, but they are payable to only about a fifth of social security beneficiaries 65 and over and I don't believe you can project on the most optimistic assumptions that over the next 10 or 15 years that the proportion would rise to more than a third or two-fifths of social security beneficiaries.

That is because it is very difficult to cover the small establishments and certain kinds of industries with private pension plans and also because typically the coverage is confined to the worker himself. As you have heard, increasingly the problem of income for older people is a matter of income for older widows. Women live longer than men and they tend to marry men slightly older, so that a very high proportion of our income maintenance problem in old age is a problem of adequacy of income for widows. The private pension field has not yet tackled this problem in any major way.

I believe that the advisory council will have to face the question of the general adequacy of the benefit level. Of the nearly 25 million social security beneficiaries—and of course these are not all older people—about 18 million are older people. But of the whole 25 million, 10 million are enabled to live above the poverty level because of the social security program.

In other words, if it weren't for social security, there would be 10 million more people in poverty today than there are. But there are still 8 million social security beneficiaries who are below the poverty level, and as you can see by subtraction there are about 7 million who would be able even without social security benefits to live somewhat above a poverty level.

But most of this group, too, are low income people. There are only about 5 percent of the aged beneficiaries who in the absence of social security could live at what the Labor Department defines as a moderate living standard. That standard prices out for an aged couple at today's prices at around $4,200; only 5 percent of social security older beneficiaries could live above that level if it weren't for social security.

Of course the social security system is not aimed in a single-minded way solely at the matter of curing poverty strictly defined. It is a universal system with the concept of partially replacing the wages that people had while they were at work. It serves an important function for the middle-income person, for the skilled worker and for all those who are covered by the program, and at the same time is our major antipoverty program, keeping, as I say, 10 million people out of poverty.

A Vehicle for Guaranteed Income?

One of the key issues around with regard to the level of benefits for the future, is the extent to which you want to make this program, which is primarily an earnings replacement program, also the vehicle for guaranteeing to everyone whatever is defined as an adequate level of living. In pursuing such a goal, you soon run into the fact that the concept of partially replacing earnings that people have had while they are working will not meet the full need of some in the older population.

Thus, there are many who advocate that the social security program—really without regard to past earnings—should pay a high minimum to anyone who barely qualifies under the program. In this way the system is made to guarantee a minimum level of living, but at some point such an approach threatens the principle of wage-related benefits.

I think this is a very important policy and philosophical issue. The other possibility is for the group who are not able to attain a reasonable minimum through an earnings replacement concept and a contributory insurance program to have their residual need met directly by an income-test program financed from general revenues.

This is one of the big policy-philosophical arguments I see coming up in the country and one that will be before this advisory council. How far do you go in social security in weighing benefits and in establishing high minimums for relatively short-term contributors?

Now, also running through the entire program is the fundamental issue of having the benefits reasonably related to what people were earning near the time when they retired. This was not formerly a problem in social security, because there was a new start back in 1950 and people have generally had their benefits averaged over their earnings from 1950 up until the time they retired, minus the 5 years of lowest earnings. So for a long while people really have had their benefits based on recent earnings. But under the formula in the law the period has gradually been getting longer and longer. Men who become 65 next year, will have their benefits computed over a 14-year period stretching back to 1950. When you add to that, the fact that the way the program operates is to count earnings only up to a maximum earnings base, which has varied from the beginning of the program—just up to $3,000 a year, then $3,600, then $4,200 and so on, and now the base is $7,800—you can see that the "average earnings" on which benefits are based is a rather artificial concept. When you look at a table in the social security law and it shows you that a man retiring with a maximum average wage will together with his wife get 50 percent of his average monthly earnings it is somewhat misleading. The fact is that they will not get 50 percent of what they have recently been living on; they will get 50 percent of the average figured back over 14 years to 1950 and depressed very much by the fact that for part of the period there was a $3,600 maximum wage base or a $4,200 maximum wage base in effect.

Private pensions have increasingly related benefits to a recent or high period of earnings such as the highest 5 years. This is what the Federal Civil Service does and what many State and local systems do. One of the possible basic reforms that I would hope this advisory council would give attention to is such a redesign of the system so that the benefits are related to what people have recently been earning—like a high 5 or a high 10-year average—so that when beneficiaries come on the rolls, their benefits are up to date in relation to current earnings, not only the individual's own earnings, but also the general earnings level that continuously rises in this country. Then you have beyond that the question, once a person is on the rolls, of keeping the benefits up to date with rising prices or wages.

Automatic Adjustments

As you know, there is a great deal of interest in the possibility of making some of these adjustments in the program automatic as is done in many other countries. I believe one of the big issues before a group like this council or any other such group is the extent to which it is desirable to rely upon ad hoc adjustments by the Congress to bring the benefits up to date or the extent to which a relationship to rising wages and prices should be built right into the law to make the adjustment automatic.

It seems on the face of it as if there were every reason to make the adjustments automatic. But I am sure it is clear to you that the argument isn't all one way. There are problems in having the increases that would come as a result of an automatic device occuring at times that might be quite undesirable economically. On the other hand, if you were planning for legislative changes ahead of time, as you made up the budget and knew that you were going to have an increase, you could take it into account and adjust for it in other parts of the budget. You can more easily counteract any undesirable fiscal effect if the change is not automatic.

But, in my own judgment, this is not a sufficient reason to justify a completely negative response to this kind of a proposal. I believe that there are pros and cons on automatic adjustments that are quite evenly divided. Proposals for automatic adjustment deserve very serious consideration, and I hope that the advisory council will get into the question at some length.

Mr. Chairman, the issue I mentioned earlier, relating to the bottom of the benefit scale is how much weighting should be put into a social security program that is contributory and wage-related in order to benefit the people who are either the lowest paid wage earners or, more often, higher paid people, who are moving in and out of the system.

I mentioned that earlier. I should make a point in that connection that the minimum benefit under social security, the $55, is not paid to a regular low-paid wage earner under the program. A regular low-paid wage earner would be entitled to a benefit of about $100 a month if he had an average monthly wage of even $200 a month. The minimum benefit goes to people who have been under the program a relatively short time—particularly women who have been under it only a part of their working lifetime. But in any event, that is the key question at the bottom of the benefit scale.

Middle- and High-Income Groups

I would like to turn your attention now to the issues that relate to social security benefit payments to middle-income and higher paid workers. Here the key issues are how high you want to raise the contribution and benefit base, now $7,800, and the relationship of the social security program to the private pension movement. How much you expect the private pension movement to do on top of social security is partly determining of where you put that maximum earnings base. I have no absolute answer to this question, and I don't believe there is one.

I personally believe that we are going to continue in the United States to approach our income problems for older people through a variety of approaches and not put everything in one program. There is wide acceptance of the idea of a universal compulsory contributory social insurance system and a wide acceptance of supplementary private pension plans building on that program and underlying it all I would hope, a significantly improved assistance program. But exactly how much should be done by the social security program and how much left to private pensions is a recurring issue that the council again will need to deal with.

I would say that it seems to me very important that the social security program continue to do at least as much as it now does for the average and somewhat above average worker.

There are important reasons, I believe, why you should not allow the proportion of protection provided by the public system to drop and have more done by private pensions at the expense of the public program.

One major reason for this belief is that social security is just about universal and follows the worker from job to job. Social security is something that he can count on no matter where he goes, whereas, very typically, private pension plans are tied to the work of a particular employer or industry.

The social security program by being underwritten by the Government is assured without regard to the ups and downs of a particular industry or particular employer. Since most private plans are not fully funded—and I don't believe it is practical to keep most of them fully funded—this is an important matter of being sure that the benefit promised is paid.

I believe in a combination of the two, social security and private pensions, but with the social security program having important advantages in doing the major part of the job for the ordinary worker.

Mr. Chairman, I don't want to take up too much of the committee's time in my initial presentation because I want to be responsive to the questions that are on the minds of the committee members. If I can more or less just list a few other issues without going into any detail on them——

The CHAIRMAN. Are you going to follow your statement in listing them?

THE "RETIREMENT TEST"

Mr. BALL. I am at page 11. I have been following the subject matter of the paper without reading it. Another important subject is the so-called retirement test and the treatment of earnings after age 65 is a matter that I certainly want to call to the committee's attention. I believe the proposal that the President has made in this area would be a very important improvement in the program.

The proposal, if adopted, will mean that everyone who works after age 65, taking into account the fact that his earnings are taxable and social security is not, will under this proposal of the President's have a larger total income of combined earnings and social security benefits than he would have if he didn't work.

Now that is not true at the present time, Mr. Chairman. You will remember the provision is that you get your full social security benefit if you earn less than $1,680 in a year. There is a dollar deducted for each $2 you earn up to $2,880 and then above that—and here is the rub—above that figure is a dollar-for-dollar reduction on your earnings above $2,880. So an individual who has the opportunity to take a job paying somewhat above $2,880—because the earnings are taxable and social security benefits are not—with a dollar-for-dollar reduction may actually be worse off than if he earned less. It seems to us very important that people get an economic benefit out of working to the extent they can work and want to.

The proposal is to carry the $1-for-$2 reduction all the way up without regard for the amount of earnings, so that a person who was earning more than $2,880 would always get a higher total income—earnings combined with social security—than if he had earned less.

The CHAIRMAN. But still starting at $1,680?

Mr. BALL. No, the proposal would also increase the exempt amount to $1,800. Increasing the exempt amount is necessary to bring that part of the program up to date since wages have gone up. The other feature I have been describing, however, is a fundamental reform. With this change there would be an incentive to work at all earnings levels.

Now, another aspect of how earnings after age 65 are treated is the possibility of paying people a higher benefit rate when they do retire because of work that they have performed after 65 and because of the fact that they have forgone their benefits while continuing to work.

That is a possibility that also deserves study.

CONCERN ABOUT EARLY RETIREMENT

A very serious problem that your panel has pointed out is early retirement. That is a euphemism; it is not really "retirement" in any voluntary sense, but results rather from the need for many people today to take their social security benefits before 65, with a consequent reduction in the amount. Here you have a very tough issue. It would be an expensive matter if the actuarial reduction in the present program were to be significantly modified and yet the result of the present provision is that many people start drawing benefits early and have lower amounts on through their entire retirement. If you look at the table in the law the individual may not be getting the amount that it shows for his average earning but up to 20 percent less because he couldn't find a job after 62 and had to take his social security benefit to live on.

This "early retirement" was a matter of great concern to the council that reported in 1965. They asked the Social Security Administration to develop information on this problem and report back to the next advisory council, which we will be doing.

In the Medicare area there are important proposals that this next council will need to consider, including the extension of the program to at least part of the prescription drug area, the possibility of extending a Medicare type program to other social security beneficiaries such as disabled beneficiaries and various other proposals in Medicare.

Now, Mr. Chairman, the final point I would like to make to the committee before responding to your questions is that we are at a stage in the development of the contributory social insurance system where the contribution rates are very substantial. We are talking today about a program where without any changes in the law you will have an ultimate rate of 5.9 percent on the employee and 5.9 percent on the employer.

We can't have these desirable additional changes, many of which have been suggested in the committee's own reports and by other people, without additional costs. The toughest thing for all of us is going to be to face the priority issue and to weigh many desirable improvements against the fact that in putting them into effect we will be increasing the contribution rates on workers and their employers. We have to weigh that fact against the desirability of the benefit improvements.

Social security contributions are at the same rate for all workers and a 5.9-percent ultimate contribution rate on a low paid wage earner is a significant contribution. Thus, the issue of how to finance many of these very desirable improvements will be the toughest issue we have to face in the development of the system.

Mr. Chairman, I believe it would perhaps be best if I were to stop at this point and to respond to your questions rather than to continue.

The CHAIRMAN. Thank you very much, Commissioner Ball, your statement will be entered in the record in full.

(The statement referred to follows:)

PREPARED STATEMENT OF ROBERT M. BALL

Mr. Chairman, we appreciate the invitation to discuss with your Committee the problems and some of the issues involved in the economics of aging. The working paper prepared for your Committee and the Committee's own report on Developments in Aging in 1968, by bringing together a large amount of background information and focusing attention on the overall situation of older persons, should contribute to the clarification and more general understanding of those issues.

You have identified as key factors income security and an equitable sharing by the aged in our increasing national output. I would agree that these are basic. The figures cited in your Task Force report make clear that too many older persons today do not have the income necessary to support an acceptable level of living, that rising prices and medical care costs bear particularly hard on persons no longer able to earn, that much more needs to be done to achieve the objectives your Committee has outlined.

There is one factor, however, which makes the problems in this area more amenable to solution than many of the other social problems that face the country today. In the income security area we have an established and accepted institution—the social security program—that already does a large part of the job that needs to be done and which could do more. This is a very important asset—one that I hope will be strengthened as we move forward toward a fuller guarantee of access to a decent level of living for all families.

Why do I regard the social security program as so valuable an asset? In the first place, because it rests on a concept that is generally accepted and consistent with other features of our society. The protection that social insurance provides grows out of the work that people do. Eligibility for benefits and the amount of benefits are related to past earnings, with the definition of the legal right to benefits specified in detail. There is no individualized means test so that private pensions and personal savings can fully supplement the social security benefit. The contributory character of the system reinforces the concept of an earned right. In return for setting aside some of the money one has when one is earning, the system provides an assured income when one is not.

A second reason why I regard the existing social security system as an important asset is its universality. Our society needs the cohesive strength of institutions and programs that serve all groups, as an underpinning for programs that are directed at special needs. Social security benefits provide a continuing retirement income for older people at all income levels and from all walks of life.

Your Task Force report emphasizes the fact that only a government program can provide basic protection to the entire population and at the same time have the flexibility and resources to adapt to changing economic conditions. I think this is right. Not only does social security cover virtually all employment, thus following a worker wherever he moves; its contribution income reflects rising earnings levels and can make possible benefits that also reflect rising levels of living.

SOCIAL SECURITY TODAY

It may be well to spend just a moment reviewing what social security does do today. Starting with coverage of wage and salary workers in industry, it now extends to virtually all employment except that of Federal civilian employees. Starting with old-age benefits only, it now provides monthly cash benefits to disabled workers and their families and to surviving children and their widowed mothers as well as to aged worker's dependents and survivors. Almost one-fourth of those on the current benefit rolls are under age 62. Persons 65 and over now have health insurance protection in addition to a continuing cash income.

One out of every eight persons in the country receives a social security cash benefit every month. Equally important is the protection for those who may come to experience earnings loss: 95 out of 100 children and their mothers have survivor or life insurance protection; 80 out of 100 people of working age have protection against income loss from severe and prolonged disability; over 90 percent of all persons now reaching age 65 are eligible for retirement benefits.

QUESTIONS FOR THE FUTURE

The President has recommended a 7-percent increase in benefit levels early next year as well as a change in the retirement test the following year. These increases will offset the rises in prices and earnings levels that have occurred since the last changes in the program went into effect. During the next few years, several expert and citizen groups will be looking closely at this program and more fundamental changes which may be needed. A statutory Advisory Council on Social Security to be appointed soon, is charged with reviewing "the scope of coverage," the "adequacy of benefits" and "all other aspects" of the Old-Age, Survivors, Disability and Health Insurance program. It must report its findings and recommendations to the Secretary of HEW, for transmittal to the Congress, by January 1, 1971. The Commission on Income Maintenance, of which Mr. Ben Heineman is chairman, will also no doubt have some recommendations relating to social security when it makes a report later this year. The 1971 White House Conference on Aging will provide an occasion for individual citizens and groups to express their views.

The range of specific questions and proposals for change that are likely to be considered by the Advisory Council on Social Security is very broad. Perhaps the most basic question they will face relates to the general level of benefits. Social security benefits are the most important source of continuing income for persons who have retired. Successive studies have shown that the majority of beneficiaries have negligible amounts of other income or assets that could readily and prudently be converted to cash. This situation is not likely to change very significantly in the future.

Private pension plans provide a valuable supplement for perhaps a fifth of the beneficiaries 65 and over and this proportion will increase somewhat. But too many workers are employed in small establishments or service industries where private pension coverage is limited, or move from one employer to another and reach retirement age with no pension rights or very small pensions based on earnings levels of many years earlier. Furthermore, relatively few private plans provide pensions for widows, who make up about 30 percent of the entire aged population.

We know very little about the extent to which private pensions do actually materialize for different groups of workers. The SSA has been making a special study of older beneficiaries newly coming on the rolls from which we hope to have more information on this point by the end of the year.

Except for home ownership, other forms of private savings are also highly concentrated. With increasing affluence, younger people should find it possible to save a somewhat larger proportion of their incomes and we may learn to manage the economy in such a way that neither inflation nor depression undermine the value of those savings. It is unrealistic, however, to expect most families to forego a significant amount of current consumption or the education of their children in order to accumulate large funds for the future. Social insurance benefits still offer the best assurance that all workers and their families can count on a continuing income at some reasonable level when earnings are interrupted or cease.

What is a reasonable level will, I am sure, be subject to continuing debate, as it should be. At present, of the nearly 25 million social security beneficiaries, about 10 million are able to live above the poverty level because of their social security benefits, but 8 million are still below that level. Even those above are generally quite low-income people. Only about 5 percent of the aged could live at a "moderate" standard as defined by the Department of Labor without their social security benefits. That standard was $3,869 for an aged couple in the fall of 1966. With today's prices it would be closer to $4200.

The Task Force report prepared for your Committee rightly places considerable emphasis on the relation between benefit income and earned income. This relationship is fundamental to the social insurance concept. It is also complex. Several interrelated aspects of the system must work in conjunction if the program is to provide basic income security for retired persons. The two objectives that are implied are first that, for the individual, retirement income should not be drastically below what he had to live on while he was working, and for the beneficiaries as a group the gap between their level of living and that of those still at work should not become progressively larger and larger over time.

EARNINGS REPLACEMENT

One set of program specifications that determine how well these objectives are met relate to the size of the benefit awarded. For the average worker and wife—who will have little other continuing income—should the retirement benefit be fifty percent, sixty percent, seventy-five percent of his previous earnings? And what do we mean by previous earnings? Benefits that are based on an individual's earnings averaged over a long period of time will be only remotely related to the earnings that are lost when his working career comes to an end. If earning levels increase only 3 percent a year, at the end of his working lifetime the average earner will be getting three times as much as he did when he started to work. Because there is a limit on the amount of earnings that are taxable and credited for benefit purposes, there is a special problem if benefits are related to earnings averaged over a long period. The limit today is $7800 and a man retiring today who had been earning $7800 for some time, would have average creditable earnings much below this amount, since in earlier years only $3000, $3600, $4200, $4800 or $6600 could be counted.

There are various ways of adjusting the benefit computation to reflect more nearly the current situation when the individual starts drawing benefits. Some plans use the earnings just before retirement as the base. Since earnings may decline in these years, and much more for some occupations or individuals than for others, other plans use the highest 5 years as the base. This is the formula in the Federal Civil Service Retirement System, for example. Alternatively, the highest 10 years could be considered. Provision could be made to take into account also continuity of coverage under the system, as Federal Civil Service does also, so that a long-term worker will get a higher benefit than will a short-term worker at the same earnings level. Under the present law, a man reaching 65 next year will have benefits based on average earnings over 14 years, with the number increasing year by year. The Advisory Council will, I assume give some attention to this problem.

Whatever the decision as to the relation of benefits to previous earnings, there is another set of questions as to what the system should do for the higher-paid and for the very low-paid as well as for the average worker. When it was started the social security program covered the entire earnings of about 95 percent of regularly employed men. In other words, the $3000 limit on taxable earnings affected only 5 percent of the highest paid. Today, only about 60 percent of regularly employed men have all their earnings covered by the $7800 limit. Thus, 40 percent are earning benefit rights that will be a smaller percentage of their preretirement earnings than is true for those earning $7800 or less.

There are very real advantages in providing through social insurance a significant degree of protection for those with above-average earnings. While higher paid workers are more likely to have private pensions and individual savings, they also should have the security of a protection that follows them from job to job and does not discourage the acceptance of new opportunities or depend on the success of an individual enterprise. Nevertheless above some level, replacement of earnings should be left to individual choice or arrangements worked out by nongovernmental systems. There is no absolute principle to tell us where the cut-off point should be. It is evident that any dollar amount must be changed from time to time as economic conditions change.

The earnings base also has an important effect on the financing of the system. Obviously, the lower the base, the higher the rate of contribution must be to maintain any given level of benefits.

In the U.S. social security system as in most others throughout the world, the benefits are designed so that the low-paid person gets a higher proportion of past earnings than does the high-paid person. It is recognized that the very low-income person has much less margin for reduction of income than does the higher-paid worker. This weighting of the benefit formula helps assure that most regular full-time workers at low earnings levels will not have to apply for assistance even if the social security benefit is their only source of retirement income.

A more difficult question concerns the size of the minimum benefit. Few regularly employed workers get a minimum benefit. Today, a worker who has regularly been earning even as little as $200 a month will get, not the minimum of $55 but a benefit of $101.60. Those getting minimum benefits include large numbers of women who worked only briefly under the program, as well as persons who worked largely in noncovered employment and may be getting benefits under other programs. Nevertheless a considerable number of those getting minimum benefits are poor and one way of reducing poverty would be to establish a high minimum benefit under social security. Such proposals raise a question as to whether social security is the right mechanism to use to guarantee minimum income support for all, as distinct from earnings replacement. Social insurance based on the concept of partly replacing earnings that are lost because of retirement in old age, death, disability, or unemployment is a powerful idea and can go a long way toward preventing poverty, but if we want to guarantee that no one will be poor, it may be more effective to rely for part of the job on some sort of an income-determined program that pays solely on the basis of need and without regard to previous earnings.

KEEPING BENEFITS UP TO DATE

Even if benefits at the time of award represent a reasonable replacement of earnings, their value deteriorates as time goes on unless they are adjusted. The deterioration is of two kinds. With rising prices, the purchasing power will be less. With rising national output and average levels of living, the relative position of beneficiaries will decline as compared with the general population.

Over the years, social security benefits have been adjusted—Congress has raised benefits seven times since they first became payable in 1940. Present benefits are at least as good in relation to the present cost of living as were the benefits in earlier years in relation to the cost of living at that time. Average benefits also reflect a small part of the rise that has occurred in average levels of living in recent years. There has, however, always been a lag in adjustments to rising prices and in some periods a very long lag.

We assume that the Advisory Council will want to look carefully at the pros and cons of an automatic cost of living adjustment as compared with those of periodic ad hoc adjustment.

In the absence of rapid inflation, automatic adjustment of the purchasing power of social security benefits would require no increase in contribution rates so long as the earnings base was kept up to date. Adjustment of benefits to keep up with rising earnings levels would increase costs as a percentage of taxable payroll.

OTHER ISSUES

Other issues which will certainly come up for reconsideration by the Advisory Council, and which are of particular concern to those now aged, are the questions of the extent to which benefits should be withheld because of earnings, the possibility of a credit for those who delay retirement, changes in benefit provisions for widows and working wives and some modification of the present provisions for workers who retire before age 65.

The 1965 Advisory Council was very much concerned about the large numbers of workers who retire before age 65 even though their benefits may be reduced by as much as 20 percent. We have been trying to find out more about the reasons for early retirement. It is clear that a considerable proportion of the group are people who can no longer perform the kind of work they previously did and for whom there is little realistic chance of retraining or of finding a different kind of job. At the same time they do not meet the strict definition of disability—inability to perform any substantial gainful activity—required to qualify for disability benefits. One of the several alternatives that the Advisory Council will presumably want to consider is the provision of benefits for older workers who are occupationally disabled.

MEDICARE

The Medicare program has brought a new kind of security to older people—the knowledge that if they suffer a serious illness, a substantial part of their medical costs will be taken care of by the health insurance program. As the report prepared for your Committee points out, aged persons as a group can expect more illness and heavier medical expenditures than younger persons. But for them as for younger persons, the burden falls unevenly and unpredictably. The Medicare program covers about 40 percent of the total health care costs of aged persons as a group; for those individuals who suffer a serious illness involving hospitalization, it takes care of 60 or 70 percent or more of the bill. For all, it gives a new sense of assurance about the future.

Under the present Medicare program, coverage of the cost of drugs is limited to those provided in a hospital or extended care facility or those given by a physician in his office which cannot be self-administered by the beneficiary. Prescription drugs outside the hospital now represent the largest single personal health expenditure that the aged must meet almost entirely from their own resources. There has been considerable Congressional interest in covering drugs under Medicare. The administrative and other problems would be substantial if a comprehensive program were adopted all at one time but there are alternative ways of getting started with the most pressing part of the job and gaining administrative experience. A DHEW Task Force has made one set of recommendations, which are now under further review. I have no doubt this problem will get increasing attention.

Other issues related to Medicare that will presumably be considered by the Advisory Council include the extension of Medicare to disabled social security beneficiaries. Such extension was recommended by a special advisory group that reported at the end of last year. They suggested that any supplementary medical insurance plan for the disabled should be placed on a social insurance prepayment basis, as hospital insurance is now under Medicare. This suggestion might also be considered for the aged.

The present financing plan requires older people to pay premiums at a time when they are likely to have limited income and assets. Furthermore, as medical care costs continue to rise, the premium also will have to go up.

If the medical insurance part of the program were financed in part, at least, through contributions based on earnings, the cost of protection could then be spread over a person's working lifetime instead of coming out of his retirement income. This is one of several possibilities for modification of the Medicare program that should be studied.

How, for example, can we make sure that the method of reimbursement is fully consistent with community health planning and with incentives for efficiency of operation as well as quality of services?

FINANCING

None of these extensions of protection or improvements in social security benefit levels can be had without cost. We shall want to weigh carefully the needs of the beneficiaries against the burden of higher contribution rates on those who are currently working.

The willingness of workers to pay the social security contribution reflects the importance which most families attach to survivor protection for their children, to the assurance of a continuing family income if severe disability makes work impossible, as well as an income to replace earnings and health insurance protection in old age. Nevertheless, particularly for those with very low incomes, a social security contribution of 5 or 6 percent of current earnings can weigh heavily. Certainly, the question of costs and financing must be carefully considered in relation to the many desirable benefit improvements that have been and will be suggested.

We realize, of course, that there are other costs that would be much greater in the absence of a social security program. The obvious cost is the direct charge for public assistance. Since 1950, the proportion of the aged population receiving assistance, for example, has been more than cut in half, dropping from 22 percent to 10 percent—largely as a result of the expansion and maturing of the social security program. Similarly, social security has changed the character of aid to families with dependent children from a program primarily of help to widows and orphans to one in which only 6 or 7 percent of the caseload is made up of such survivor families. Aid to the permanently and totally disabled also would be a much larger and more costly program in the absence of disability insurance.

Social insurance however should do much more than to relieve distress and meet minimum need. By providing in advance for risks to earnings loss that are common to all, it can assure a continuing income reasonably related to the previous level of living.

The success of the social security program rests in large part on the fact that people in general like to feel that they have contributed directly to their own protection and benefits—that they are earning their own way. This we should not give up. There is also great strength in a system which prevents poverty and makes it unnecessary for most people to turn to assistance. For the great majority of the population we can reasonably expect that earnings for those in the working years and earnings replacement through social security will make such supplementation unnecessary. Over the next few years we should find it possible both to strengthen and improve our social security system and to meet the residual income needs of the aged—and of younger families—more effectively than they are being met in many parts of the country today.

Mr. Chairman, your Committee has made a great contribution to wider public recognition and understanding of the special problems of aged people and also of the needs which they have in common with younger persons and families—the need for participation, for security, for adequate medical care, for an income on which they can count. The Department of Health, Education, and Welfare is concerned with all these questions. We welcome the opportunity to participate in these hearings. Several members of our staff are presenting information that you have requested at the panel session scheduled for tomorrow. We stand ready to offer whatever additional help we can towards clarifying the important issues and choices which face this country in moving toward a fuller share in abundance for the aged.

The CHAIRMAN. I will be very brief. First you introduced the idea of the statutory advisory council coming to study and I gather to make policy recommendations?

Mr. BALL. Yes, this council, Mr. Chairman, is primarily responsible for developing legislative recommendations on the substance of the program. We have other councils that deal with administrative questions. But this one is charged by the Congress to look into the level of benefits, financing, and other matters that are quite largely based in the statute.

The CHAIRMAN. And that advisory council has not been appointed yet?

Mr. BALL. No, but I expect it to be appointed very shortly.[2]

The CHAIRMAN. And is the council required by statute or are you anticipating making it a requirement that the council report by January 1 of 1971?

Mr. BALL. That is a statutory requirement, Mr. Chairman. Social security development has had a long history of very productive advisory councils. The idea of getting representatives of employers and employees together with representatives of the general public has worked well over the years. Almost all the major legislation in the social security field has grown out of such consideration by nongovernmental people and representing the total community.

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[2] The following were appointed to membership on the Advisory Council on Social Security: Arthur S. Flemming, Chairman; Bertha Atkins; J. Douglas Brown; Walter J. Burke; Kermit Gordon; Gabriel Hauge; Lee W. Minton; Thruston Morton; Bert Seidman; Charles A. Siegfried; Robert C. Tyson; Dwight L. Wilbur; Whitney Young.

The CHAIRMAN. The advisory council does report to the President, is that right?

Mr. BALL. It reports technically to the Secretary for transmittal to the Congress. Their report is required to be submitted to the Congress and to the trustees of the funds.

It is their report; it is not a report within the executive branch, it is a report of the council and it is required that their recommendations be transmitted to the Congress.

The CHAIRMAN. You mean the Congress did not make the President a partner in updating the social security structure?

Mr. BALL. He is a partner in the sense that his Cabinet officer appoints the committee members and receives the report for transmittal to the Congress, and of course the executive branch will make its own independent recommendations, taking into account the advisory council recommendations.

The CHAIRMAN. And that is what the President has done as of now, he has made recommendations; is that right?

Mr. BALL. Yes; the recommendations, as of now, are interim recommendations designed to bring the cash benefit level up to date to take into account the price increases taking place and to make the one reform in the retirement test that I discussed plus updating the exempt amount in the test because of increasing wages.

The CHAIRMAN. That is the 7-percent increase that the President has requested of the Congress?

Mr. BALL. Yes, sir.

The CHAIRMAN. After the members of the committee have inquired, I would like to review with you one of the charts that our committee has available to it that deals with just this—rising cost of living related to the 7-percent request of the President.

Thank you very much, Commissioner Ball.

You have been very, very helpful with your testimony.

Senator Hartke?

Senator HARTKE. First of all, I congratulate you on holding these hearings. I think Mr. Ball is one of the most informed men in the field of social security. I am aware of the fact that you are alert to what is going on in the public mind. We do have a so-called generation gap which is supposed to exist between parents and children, but I am witnessing another generation gap, and that is between social security beneficiaries and contributors, which is extending into this field of tax revolt and tax reform.

It is especially true in view of the substantial increase which went into the social security payment sector the beginning of this year coupled with the 10-percent surtax. What I would like to know is what is being done in the field of alerting the people to the danger of a complete erosion of the social security system and maybe abandoning of it as Milton Friedman suggested as the guaranteed income base?

Mr. BALL. Senator, I believe that there is a rather widespread lack of knowledge on the part of current contributors, particularly younger workers, about the degree to which they have current protection under the program. The great value of the survivorship protection, for example, is frequently not understood by the young worker in his late twenties, say, with two or three children.

He does not realize that in the event of his death his widow and children have very important protection under the social security plan—that also he is getting current protection every day against the risk of becoming disabled.

You ask what we are doing about that. We have put a great deal of emphasis on these facts in our informational program in recent times and we will do even more in the future to bring home to the contributor the value of these other parts of the program's protection.

I believe those who understand them find these features a very good reason for paying their social security contributions in addition to the fact that they are building something for their retirement. Retirement to these young people may seem a very long way off.

Senator HARTKE. In line with that view of thoughts about using television, have you ever asked the television people to provide the same type of informational guidelines that were given, for example, in the field of health?

Mr. BALL. Yes, Senator Hartke. We have a very extensive public service television program.

Senator HARTKE. Did you ever get it in prime time with short 60 seconds, 30 seconds free television time in the public interest?

Mr. BALL. Not very often on the network prime time shows.

Senator HARTKE. Isn't that what people watch?

Mr. BALL. But there is a very large amount of coverage in the local station areas and——

Senator HARTKE. At Sunday morning at 7 o'clock you mean, right?

Mr. BALL. Well, there is quite a bit of that, yes.

Senator HARTKE. That is about the time they get it. They fill in their public service time when no one is listening.

Mr. BALL. I would make clear to you though, Senator, that we have had very good cooperation from broadcasters in relation to specific campaigns where we had to get across to the public an important message in a short time. Take the signup in the Medicare program, where, as you know, 95 percent of all the people 65 and over in the country signed up for this voluntary program. All the media moved in and helped.

CRITICISM FROM THE YOUNG

Senator HARTKE. I understand the older people do. The problem with the criticism of the social security system today is coming from those under 30, which still comprises a majority of the population.

Mr. BALL. I think your point is well taken. We are pushing, and will push further, programs aimed at this group, and aim also for prime time on national television.

Senator HARTKE. That is fine. Let me say the second point, isn't it true that the social security contributions today are in and above the necessities of the payments of those requirements on an actuarial basis of the beneficiaries' needs?

Mr. BALL. The cash benefit program on a long-range basis has an actuarial surplus of a little over one-half of 1 percent of the taxable payroll.

Senator HARTKE. How much is that in a year, just tell us?

Mr. BALL. In the short run, year by year excess of income over outgo, if you took all the funds together—we will have an excess in fiscal 1970 of just a little over $7 billion.

Senator HARTKE. $7 billion more collected that is actually needed. One of the reasons these young people are complaining is that they are being overcharged for the cash benefits that are being paid to people. Isn't that true? You know that is true.

Mr. BALL. The long-range balance that I spoke of is just about enough, on a long-range basis to cover the cost of the 7-percent benefit increase the President has recommended. Once that were put into effect, then the long-range balance of the program would be just about in actuarial balance.

Now the issue of the short run—whether you want to have this large excess of income over outgo—whether you build a very sizable trust fund and have earnings on it which reduce later contribution rates is really to my mind an issue of financing method. Recent advisory councils have urged that there not be developed as large year-by-year surpluses as the present law calls for. They have urged that the yearly excess of income over outgo be held down to about a billion or two a year. The method of financing will again be an issue for this next council. They will again review the program to see whether the present contribution rate schedule should be changed.

Senator HARTKE. What I am saying to you is these young people are complaining about their take-home pay. That is what they count. These affluent poor, they are mortgaged to the hilt, their house, their car, their refrigerator, everything except their kids mortgaged. When they have to make this additional payment they are complaining. What they are complaining about is the sharp increase in cost which has produced about $27 or $28 billion in and above cash requirements. That excess over cash requirements is being utilized now in this combined budget to offset the other costs of the Government, is that not true?

Mr. BALL. In the combined budget, Senator, as you know, you include all income and outgo, so that the $7 billion excess I spoke of is an offsetting factor to other expenditures. I would not want there to be any misunderstanding on this, however. The basic law provides that all social security contributions can be used only for social security benefits and administrative costs.

Senator HARTKE. I understand that. I am talking about public opinion in its relation and its attitude toward social security. Isn't there a projected surplus in this combined budget that President Nixon submitted of a little over $5 billion, $4 billion of it coming out of social security funds?

Mr. BALL. Actually you have $7 billion——

Senator HARTKE. So if you took the surplus out there is nothing surplus in its whole budget except people who are paying to the social security funds. I don't blame them for being a little upset. We are paying for the costs of the war out of the social security fund, that is what it amounts to.

Mr. BALL. I don't think that is correct.

Senator HARTKE. Tell me where I am incorrect.

Mr. BALL. Because all of this money that comes in from social security contributions will be dedicated entirely to social security benefits and to the administrative costs of social security. It is true that we are taking in more in this coming year than we need to pay out in that year——

Senator HARTKE. And this is overfunded even this time and even your report says so.

Mr. BALL. It is overfunded in the long range as I——

Senator HARTKE. Doesn't your report say you are overfunded this year?

Mr. BALL. In the long range, a little over one-half percent of payroll in the cash benefits program. The point is, if you increase the benefits by as much as 7 percent, then you would not have to increase the contribution rates; that increase would be taken care of by the present schedule and the program would be in actuarial balance.

Senator HARTKE. Isn't in a fact that in the financial committee where I sit that the leading spokesman for the Republican administration is going to be their senior member, he has a consistent policy that saying any increase in benefits must be equalized by an increase in contributions, isn't that his policy?

Mr. BALL. Senator, he took that position last time when there was not this same kind of a long-range surplus——

Senator HARTKE. And he won, didn't he?

Mr. BALL. At that time there was not a sufficient long-range surplus to fully finance the benefits that were being proposed. I don't know what position he would take on this.

Senator HARTKE. I am not going to argue this any further, but what I want to say to you, I think it is high time we started dealing with the social security fund and the contributions as well as the benefits on the basis that this is a separate dedicated fund and not be playing footsy with it with trying to adjust the deficit we have in other departments. I think that is wrong, I think it is cheating the old people and cheating the young people.

Mr. BALL. I would not want there to be the slightest misunderstanding on this point—the factual situation is that all social security contributions can be spent only for social security purposes. It is not being used for other expenditures of Government except in the sense that it is invested in Government securities and thus borrowed for other Government expenditures and the borrowed funds will earn interest.

Now that would be necessarily true of any excess of income over outgo in any method you use to finance this program. You are not going to keep the money in a sack. You are going to invest it and it is provided by law that the funds be invested in Government securities and earn interest. The existence of the reserve means that people later on will not have to pay as high a contribution rate as they otherwise would.

That is the result of having a reserve fund. Now how far you want to go in the direction of reserve financing, I think is a very real question. I am not one of those who wants to build a big reserve fund. I am not necessarily defending the size of the excess of income over outgo in this year, either, that is an entirely separate policy mater, I am objecting only to the accusation that the funds are being incorrectly spent or are being used for a different purpose. That is not so.

COST OF LIVING INCREASE?

Senator HARTKE. During the campaign last year the candidate for President, now President of the United States, made a statement in Pennsylvania, and I am not holding you responsible for that statement. I asked the same question of Secretary Finch at the time of his being sworn in.

The President made a statement which said that as far as he was concerned that he was for the social security system and that he was in favor of tying the cost of living to the benefits which were going to be paid.

Now Mr. Finch as the Secretary designate at that time, and has since been confirmed, said that yes, he did make that statement. He said he had advised him against making that statement but that he did make that statement. I asked him at that time whether they intended to follow through with that recommendation.

So now I ask you as the Director of the social security fund, are we going to keep that commitment to the American people?

Mr. BALL. Senator, in my judgment the idea of tying the benefits automatically to the cost of living is quite a close question. I am not able at this time to come down 100 percent for it or against it.

Senator HARTKE. I am not asking you to do it, I am asking, are they going to recommend it. I am not asking for your personal opinion. You are part of an administration which has committed itself to that policy and has now the choice of either keeping that commitment or reneging on it. Now what is the present policy going to be? I understand that there are arguments pro and con. But I am now asking what the recommendation is going to be to the Finance Committee and to the Ways and Means Committee.

Mr. BALL. Senator, as far as I know at this time, the initial recommendations are for a cost of living increase of an ad hoc, one-time nature, increasing the general benefit level by 7 percent.

Senator HARTKE. And that is nothing new than any other increase that we have given to them in the past, isn't that true?

Mr. BALL. That is correct.

Senator HARTKE. This is an old policy and this is not the breakthrough and not the commitment made by President Nixon when he said he was going to tie the social security benefits to the increase in the cost of living, so these people say the cruelest tax of all is inflation, right?

Mr. BALL. Yes.

Senator HARTKE. That is a repeated statement, the cruelest tax of all is inflation and these people here are suffering from that cruel tax. The way to alleviate that is to say that if there is an increase in the cost of living that you would tie to it the benefits with a percentage increase based on cost of living, which is done in many labor contracts, for example, for those who work for a living.

I bought President Nixon's campaign pledge. I would just like to see him keep it.

Mr. BALL. The position, Senator Hartke, is that these recommendations that have already been made are interim recommendations to respond to the price increases that have taken place. The longer run, fundamental issues such as you are raising should await at least an interim report by this new advisory council.

Senator HARTKE. I am going to introduce the bill and I am going to see if people have the courage to put their vote where their mouth is.

Let me just ask you one final question. Prescription drugs are a big cost in expenses of these older people. What about something that is very necessary to these older people, what about hearing aids, eyeglasses and teeth, false teeth?

Mr. BALL. I think prescription drugs and the matters that you refer to, Senator, and also another uncovered part of health insurance, the question of relatively long-term care in nursing homes—now all of these——

Senator HARTKE. I understand this, what about teeth and eyeglasses and hearing aids?

Mr. BALL. All of these additions——

Senator HARTKE. I don't want to know about all of them. I am asking you about those. Is that an expensive proposition?

Mr. BALL. Oh, yes, very expensive. I would be glad to furnish an estimate for the record.* I know it is a very expensive matter. The reason is, Senator, particularly in the dental area, you have quite a backlog of unmet work.

Senator HARTKE. You have a lot of people with no teeth.

Mr. BALL. Are you speaking only of providing dentures? I thought you meant dental care.

Senator HARTKE. I am talking about false teeth. I don't know if you ever talk to people that need false teeth.

That is all I have.

The CHAIRMAN. Thank you very much, Senator Hartke.

Senator Miller, do you have any questions or any observations?

Senator MILLER. Thank you, Mr. Chairman. First I would like to commend the advisory panel for their excellent work and for their presentation. I have only a couple of observations.

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*The estimate, made by Robert J. Myers, Chief Actuary, was forwarded by Commissioner Ball under date of May 27, 1969.

We have prepared the actuarial cost estimate to cover hearing aids, eyeglasses, and dentures for people aged 65 and over. The cost estimate used the following assumptions:

(1) The hearing aids, eyeglasses, and dentures will be covered under the SMI program with the existing $50 deductible and 20% coinsurance.

(2) The reimbursement will based on usual, reasonable and customary charges.

(3) The benefit will cover the hearing aids, eyeglasses, and dentures, as well as the professional services related to the prescribing, fitting, and examination therefor.

The first-year cost will be higher than the ongoing cost, because there is some "need" accumulated from the past. The cost after the first year will be mainly due to replacements, change in physical condition, and new people reaching age 65.

FIRST-YEAR COST (CALENDAR YEAR 1970)

	(In millions)
Dentures	$1, 600
Hearing aids	750
Eyeglasses	330

SECOND-YEAR COST (CALENDAR YEAR 1971)

	(In millions)
Dentures	$600
Hearing aids	400
Eyeglasses	210

If somehow you could get this information available for the record, I would appreciate it. One of the items, I believe, the panel gave us was the percentage of people on social security and private pension plans. Of course, that is an important statistic but I think it would be helpful if you could make that a little more specific by giving us the number of people in the higher social security brackets who are on private pensions plans.*

My guess is that the percentage there will be very large and would be more meaningful to Senator Hartke and me on the Finance Committee if we had that information.

A second point is with respect to chart I. Professor, I think it would be helpful for us to have some idea to what extent that should be refined by the number who are receiving assistance from their children.

Now you may recall that a couple of years ago this committee spent considerable time evaluating the possibilities of having some income tax credits or deductions available to children who support their parents. I think that with that as a background, it might be helpful for you to refine that chart a little more for our benefit.

Now, Mr. Chairman, our colleague, Senator Prouty is unable to be here. He has several questions for Mr. Ball and I would ask permission of the Chair to submit these to Mr. Ball to answer for the record.

The CHAIRMAN. Without objection, it will be done. (See app. 3, p. 238.)

Senator MILLER. Mr. Ball, to put things in perspective, is it not true that the matter of the unified budget, which took into account the surplus in the Social Security trust fund, was handled in exactly the same fashion by the Johnson budget as by the Nixon budget?

Mr. BALL. Yes, sir.

Senator MILLER. So if there might be any cheating, which I understand you deny most vehemently, if perchance there might be, this existed in previous administration as well, is that not so?

Mr. BALL. I would hate to consider even the hypothetical possibility, Senator; it is not true in either situation. There is absolutely nothing that can remotely be considered improper about the consolidated budget. One might argue about its desirability but there is certainly nothing improper about this way of presenting it.

Senator MILLER. Thank you. Now as a matter of the record, Mr. Ball, you are familiar with the fact that 4 years ago I offered an

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*The following information was provided by Social Security Administration:

According to findings of the 1963 Survey of the Aged, beneficiaries with relatively high benefits were more likely than others to have private pensions. Data by primary insurance amount are not available on receipt of private pensions alone, but they are available in combination with public pensions other than OASDI (which are less than half the combined total of the two types of pensions). The following figures show the percent receiving retirement pensions other than OASDI by primary insurance amount:

	$40	$41 to $59	$60 to $99	$100 and over
Retired couples	15	11	14	39
Retired men, not married	3	2	14	36
Retired women, not married	4	6	11	42
Aged widows	5	2	2	5

The 1963 Survey showed also that couples without pensions were three times as likely as those with them to have low-income status, i.e., to be poor or near poor, and for nonmarried beneficiaries without pensions the likelihood was more than twice as great. These differences were even greater in the case of the more stringent poverty measure.

amendment in the Senate to put Social Security benefits on an automatic cost of living basis, are you not?

Mr. BALL. Yes; I am aware of that, Senator.

Senator MILLER. And I also offered that amendment last year; did I not?

Mr. BALL. Yes, sir.

Senator MILLER. May I point out for the information of my colleague from Indiana, that on November 21, 1967, a rollcall was taken in the Senate on that very amendment and it will be found that the Senator from Indiana voted no. I am delighted to know that he has finally got religion.

Mr. Ball, I understand that this is, as you term it, a long-range matter. Four years ago this came up, and what I can't understand is why we have to study it some more. I would like to see a reconsideration of this proposed 7-percent increase and to couple with that the automatic cost of living increases in our social security benefits.

I might add I have already offered my bill all over again. As a member of the Finance Committee, I assure you it will come before that committee, but it will be very helpful if you in the administration will support it.

I detect that the panel indirectly supports my proposal because you may note in their report that they refer to "constant purchasing power bonds" as one of the inducements for younger people to engage in a savings program.

Now, what is the difference between engaging in a savings program with constant purchasing power bonds and paying into a social security fund to obtain constant purchasing power benefits?

I think, Mr. Ball, that on the basis of my familiarity with this, and talking with a great many people, that we are overdue for this. I want to emphasize how important it is. Now how many billions of dollars were paid out of social security funds this last year? Do you have the figure on 1968, calendar year 1968?

Mr. BALL. It would be approximately $26 billion, I believe.

Senator MILLER. Can you give us an estimate of how much of that $26 billion was actually funded by the contributions of those receiving benefits?

Mr. BALL. In the cash benefit area it would be around 10 percent, I would think. That is, if you were to do it on a private insurance basis the part of the cost paid for by the combined contributions of employers and employees would represent about 10 percent of those payments.

Senator MILLER. Where does the other 90 percent come from?

Mr. BALL. Well, Senator, the social security program is designed so that you will meet the costs as they fall due on into the future out of the contributions.

Senator MILLER. I understand, Mr. Ball, I understand that perfectly, but where does that 90 percent come from? Are you saying that the 90 percent comes from people who are now working?

Mr. BALL. Yes, from them and their employers, and they in turn, when they draw retirement benefits, a significant portion of what they draw will come from the contributions of people working at that time.

Senator MILLER. How much would that portion be?

Mr. BALL. Of course they will have paid longer and at a higher rate, so instead of 10 percent it would be significantly more. I don't have an estimate in mind and it would depend on one's assumptions as to further trends in the economy, but let's say it might eventually be as much as 30 or 40 percent of the value of their benefits if they are kept reasonably up to date with the rising wages and prices. You are talking about their own contributions?

Senator MILLER. That is correct. Why should the current worker, and his employer, have to pay this tax on the employment tax basis? Why should he have to pay that in order to take care of this 90 percent that the present recipients didn't pay? Why shouldn't that come from the general fund in the Treasury into which tax money is generally paid according to relative ability to pay?

Mr. BALL. It seems to me you could almost make the case the other way around. Even the young workers who are going to be paying at maximum rates over their whole working lifetime—assuming that these benefits are kept up to date reasonably with rising prices and wages, as I would assume they would—will not through his own contribution be paying very close to what the benefits are worth.

Senator MILLER. Maybe I misunderstood you. I thought you were looking down the road and suggesting that maybe up to 30 or 40 percent would be paid for.

Mr. BALL. I am saying he is only paying, even in the long run—he is paying out of his own contribution only, say, 30 or 40 percent of the value of the protection. Now for those starting at 21, and paying at the maximum and considering only the employee contribution, as a group they will be paying about 80 percent of the value of their protection assuming that the program is not substantially improved. If it is kept up to date the proportion they will be paying will be much less.

Senator MILLER. Looking down the road the day may come when as much as 80 percent will have actually been paid by the beneficiaries and their employers for the benefits they are receiving?

Mr. BALL. Yes, Senator. Indeed if the benefits remain as in present law, the employee contribution alone could reach that level, but I think this will be a program that either on an ad hoc basis, or with an automatic adjustment provision such as you and Senator Hartke are proposing, will have constantly improving cash benefit levels so that actually people won't be paying for as high a proportion of their protection as it would appear from what we have just said.

Senator MILLER. I understand, but the information you have given enables me to illustrate this point. Looking down the road, the day may come, if things go on as they are now, where upward of 80 percent of the benefits received will have been paid by the beneficiary and the employer and only 20 percent will be made up for by the current tax payments of those on the payrolls, whereas today only about 10 percent of the benefits have been paid by the beneficiaries, as I understood your answer. So what I am concerned about, particularly, is not what it is going to be like 20 or 30 years from now, I am concerned about the younger people and their employers who are now paying social security to the tune of 90 percent of the benefits now being received.

Use of General Revenues

Now my question is with respect to that, why shouldn't that come out of the general fund of the Treasury into which tax money is paid according to relative ability to pay, instead of the regressive social security tax system which we are now using to fund the 90 percent of those benefits?

Mr. Ball. Senator, I think I can make two points that might be helpful in this discussion.

One is just to clarify what we have been saying earlier, at least for me—I just want to be sure I have been clear—that is that even in the long run, workers will not be paying more than the value of the protection that they get. They will be paying on the average about 80 percent of the value of their own protection with their own contribution but much less if the program is kept up to date with rising wages and prices.

But this is an evaluation of the relation of the protection to the contribution. It does not mean, in spite of the large excess of income over outgo in the early years that we are collecting anything like enough to build a fund so that the benefits of the future will actually come out of that fund and the earnings on the fund. To assure future benefits there will have to be a continuation of contributions by the next generation of workers.

That is just to clarify the way the system works.

Now, the rationale that you are suggesting as a basis for a Government contribution is one that has been considered before and has considerable support. The original advisory group that President Roosevelt set up and that developed recommendations for the program advocated a Government contribution on just the rationale that you are suggesting, Senator. That is to say they argued that one ought to set the contribution rates for both employer and employee for the long run at the value of the protection.

Then the accrued liability that grows out of having paid the first generation a full rate benefit even though they had contributed for a shorter time and at lower rates should be met, the advisory council suggested, out of a general revenue contribution.

I believe, as I suggested earlier, that the financing arrangements in this program are perhaps the key issue that the next advisory council is going to face, that we are all going to have to face. I am sure that the arguments pro and con about a general revenue contribution will be up again before them and that this rationale for it is one of the most impressive.

Senator Miller. I appreciate that answer. May I say this is not my original idea and I drew it from exactly the history I have just given us. I do believe that the social security tax system is a regressive type of tax and when there are benefits to be made up for that the current recipients have never paid in for, then I think this ought to come out of the general fund of the Treasury where we have relative ability to pay tax largely as the financing mechanism.

Social Security "Windfalls"

Now let me ask you this: I have seen some very interesting examples of what are called windfalls where someone may have originally paid $1,500 or $2,000 to qualify over a minimum period of time. But they receive $20,000, or $30,000 or $40,000 in benefits.

I am sure you have seen those examples. Now I am not questioning the benefits in the case of those who need them, but why should somebody who, let's say is retired and is making a pretty good income anyhow, perhaps $15,000, $20,000, $25,000 a year, receive that windfall? He doesn't need it and he certainly hasn't paid for it. Why shouldn't he get back the $2,000 that he has paid, and with respect to the balance, the windfall balance, why shouldn't that be stopped?

He hasn't paid for it and he doesn't need it.

My point is that as long as we persist in these windfalls for those who don't need them, it is the current working force that is making up the difference. I know an awful lot of young people trying to get along on what they are making to support themselves and a family and they can't afford it. To me it is adding insult to injury to have these windfalls paid to these people who don't need them. What my thinking is, that we might devise a minimum income area, $3,000 or something like that and say, well, if that is what your income is, go ahead and continue to receive it; it is a windfall but it has a social purpose.

But in the case of those who don't need it and haven't paid for it, I just don't understand why this continues. I don't know whether you have ever come over and made a recommendation on that or not. Do you have any comments on it?

Mr. Ball. Yes, Senator, I have several comments on that.

First of all, I really don't feel it is quite correct to characterize any payment beyond what the individual has paid in as a windfall. The benefit-contribution relationship might in parts of the program be considered strictly on an insurance basis. For example, in the survivorship part of the program an individual may have paid in for only a short period and then if he dies, his family may get a large amount back for a small contribution.

Senator Miller. I have no question about that.

Mr. Ball. The sort of cases you are thinking of are those that resulted, particularly in the very early part of the program, because the Congress wanted to make the benefit levels effective in the early years, even though the program had been going only a short time.

The benefits were based on an average wage and practically full-rate benefits were paid even though no one had paid in very much. Now, the long range design of the system is such, that this problem just gradually disappears. As I said earlier today, a man becoming 65 will have his benefit based on 14 years and ultimately he won't get even the minimum benefit unless he pays in 10 years. So these dramatic cases of very small contributions and high benefits are a transitional matter related to getting the program started.

Now, how could you cure this problem from the viewpoint that you raise it? The only way I can think of would be to introduce into the program some kind of an income test and not pay the benefits in full or at all depending on the other income people have.

To my mind that would have a very serious effect on this program and how it operates for the long run, and you would be doing it to cure a relatively short run transitional problem. The reason I say that is, as I suggested in some of my opening remarks, because I believe this method of paying benefits on the basis of the work people have done and their earnings, without regard to their other income, is important to our general economic incentive system and important to the way people feel about this program.

Since there is no income test you add whatever savings and other income you have and you add private pensions. As soon as we put in an income test—at whatever level you put it—you are going to be making it useless for some people to save and also making it useless for some to build up private pension credits.

I would much rather, Senator——

Senator MILLER. Pardon me just a minute. You are talking about a fundamental change in the whole social security system. I am not talking about that at all. I understand that these things will taper down, maybe 10 or 15 or 20 years from now.

But I have been told that literally billions of dollars have been paid out in the form of genuine windfalls, and I am not talking about this survivorship thing, and that a tremendous amount of that is going to people who never paid for it, and don't need it.

For the interim period until this thing shapes out, I have a hard time justifying tapping the young worker and his family for the tax money needed to pay those windfalls.

I have had older people who are well fixed say to me this is unfair, I get the check, in fact some of them send the checks back, but most of them don't, so I am not talking about a fundamental structural change for the long run, I am talking about an interim thing which would save the fund a good many, probably, billions of dollars, and would lighten the load on these people who are now being taxed.

INCOME TAX AS A LEVELER?

Mr. BALL. Senator, how would you feel about a part way solution of this problem which has always seemed to me desirable on broad grounds; that is, for the social security benefit to be considered as gross income for purposes of income taxation. Then for the individual you are talking about, who is relatively well off—as you know there are only about 4 million taxable returns for the total older population—for the individual in the higher income group, it seems to me, social security could well be part of taxable income.

Senator MILLER. I wish you would come over to the Finance Committee later on with a recommendation on that coupled with an adequate exemption amount. If you have a high enough personal exemption then the great bulk of your people are not going to be affected by it and I think this could get the job done.

I would hope you might present a recommendation to the Finance Committee which would be designed to eliminate these windfalls, somehow or other. Because I must tell you that there are a lot of people paying these taxes, especially the young people who read these instances in the newspapers and they don't like it.

I think it adds to the atmosphere that Senator Hartke was mentioning earlier. I appreciate your answer. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. I want to congratulate Senator Miller on these progressive steps he is taking and like the convert in the church who listens to the minister's sermon, I listened to President Nixon last summer and I was converted. I am willing to join the church now.

I will go so far as to say I just hope that he can convince the pastor that he has to also do as he says himself, you know, live up to his own admonitions. So I will be in that Finance Committee and I am going to join with Senator Miller and we are going to work together to really get some of these problems which I think the American people are entitled to have answers to at least.

I think public opinion basically is a very important factor and I would hope I can stop with this one and maybe go back and receive the same type of attention at least that some of these other fields of activities have had.

These advisory committees, they are not Government paid, are they?

Mr. BALL. No, only for the days that they meet; they are independent.

Senator HARTKE. Maybe they could come in with a recommendation and do some programing of some real snappy, live, relevant spots to tell people what it is all about.

Mr. BALL. We are developing a plan with some outside consultants on TV spots.

Senator HARTKE. I want to congratulate you on some fine testimony and congratulate our chairman for giving us a chance to participate.

The CHAIRMAN. Senator Miller?

Senator MILLER. I have four additional questions I would like to ask Mr. Ball to respond to the record on.

Mr. BALL. I will be very glad to do that.

The CHAIRMAN. They will be included. We look forward to your responses. (See app. 3, Item 1, exhibit B, p. 237.)

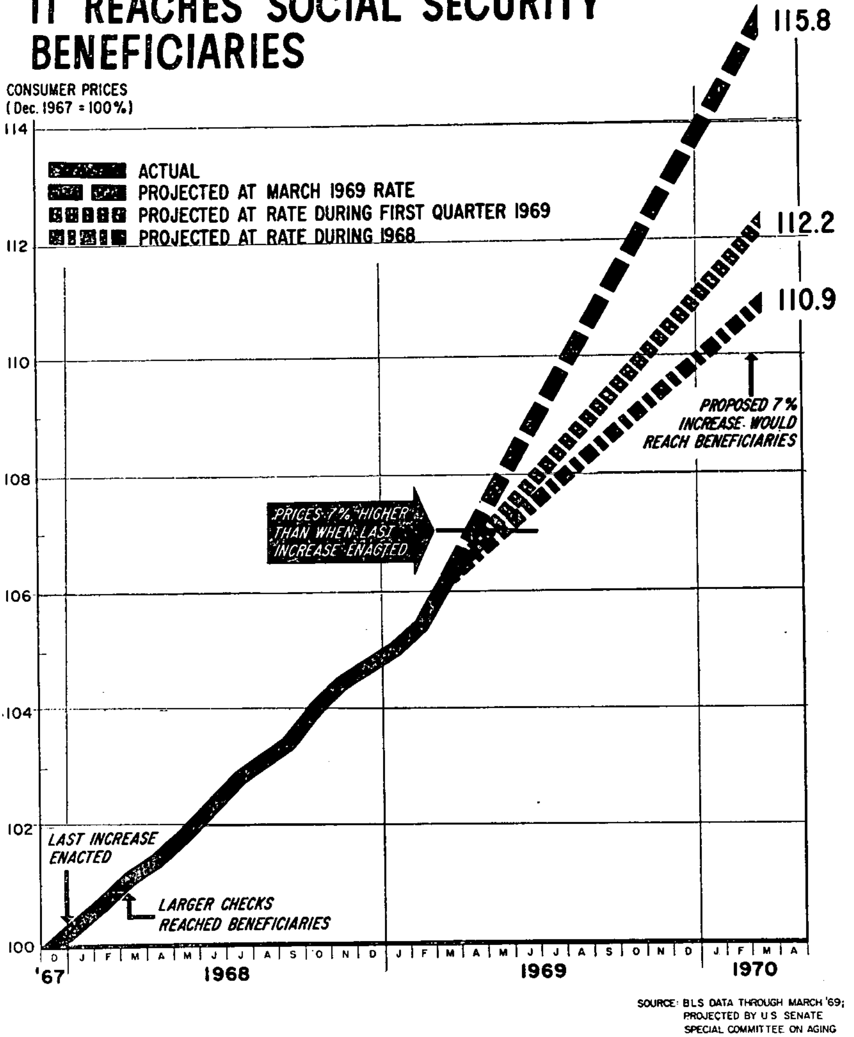
We have a chart that I would like to include in our hearing record that is before the folks in the hearing room. The chart describes or projects, in terms of the cost of living, a 7-percent increase in social security and what it would mean to the beneficiaries over a period of projected months. (Chart follows with Commissioner Ball's written comments.)

(Comments on chart, submitted by Commissioner Ball.)

You asked me to comment on a chart prepared for your committee that deals with the rising cost of living relative to the 7-percent benefit increase recommended by the President. This chart highlights the urgency of bringing inflation under control. There is no doubt that inflation is one of the most serious domestic problems facing the Nation.

The chart shows that a 6.2-percent increase in benefits would have been necessary by March of this year to offset the price rise since December 1967, and then projects the benefit increases that would be necessary by March 1970 to maintain the December 1967 purchasing power. These projections are based on three assumptions as to the price movement from March 1969 to March 1970: At the 1968 rate (4.7 percent), at the annual rate (6 percent) that prevailed in the first quarter of 1969, and at the annual rate of increase in March of 1969 (9.6 percent).

AT PRESENT RATE, PRICE RISE WOULD WIPE OUT A 7% INCREASE LONG BEFORE IT REACHES SOCIAL SECURITY BENEFICIARIES



If the price increase is measured not from December 1967 as in the chart, but, as I think more appropriate, from March 1968, when the higher benefits provided by the 1967 amendments were first paid, benefits in March 1969 would have to be 5.1 percent higher, not 6.2 percent to offset loss of purchasing power since March 1968. Whether and to what extent the 7-percent proposed increase will be sufficient to offset the increase in prices at the time the new benefit rate goes into effect remains to be seen. If at the time the legislation is considered it appears the 7 percent is not enough, then this figure should be reconsidered.

The CHAIRMAN. We did want to go into that now, but we have several people here waiting to get on a panel. We do want to get them on before we break and we are very grateful and appreciate very much your being with us, Commissioner Ball, with your able assistants.

Will our panel please come forward, Mr. Hutton, Mr. Schuchat is next, Charles Fichtner, Edwin Shelley, William Greenough, and Othie Burk.

STATEMENT OF WILLIAM R. HUTTON, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF SENIOR CITIZENS; THEODOR SCHUCHAT, RETIREMENT EDITOR, NORTH AMERICAN NEWSPAPER ALLIANCE; CHARLES C. FICHTNER, MEMBER OF LEGISLATIVE COUNCIL, AMERICAN ASSOCIATION OF RETIRED PERSONS AND NATIONAL RETIRED TEACHERS ASSOCIATION; EDWIN S. SHELLEY, PRESIDENT, NATIONAL COUNCIL ON THE AGING; WILLIAM GREENOUGH, CHAIRMAN, TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA, COLLEGE RETIREMENT EQUITIES FUND; AND OTHIE G. BURK, VICE PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES

The CHAIRMAN. Who is the chairman of this delegation, gentlemen?

Mr. HUTTON. I am elected, Mr. Senator, I am Bill Hutton and I am the executive director of the National Council of Senior Citizens. I want to submit for your record three brief statements; two of them from distinguished Americans who were former presidents of the National Council of Senior Citizens and one from our new acting president of the National Council. These statements are from our founder and first president, the Honorable Aimé J. Forand; our immediate past president who is now president emeritus, John W. Edelman; and from the current acting president—and I hope he will be our new president after our convention in June—Nelson H. Cruikshank.

The CHAIRMAN. We will include them in the record.

STATEMENT OF MR. HUTTON

Mr. HUTTON. The National Council seeks a meaningful increase in social security benefits. Our membership also seeks Medicare improvements including abolition of the deductible and coinsurance payments that deprive more and more eligibles from benefits of this great health program.

We do insist on inclusion of the cost of outpatient drugs under Medicare and the extension of Medicare to eyeglasses, false teeth, hearing aids, and other essential health items which are not now covered.

In addition, the National Council asks action by Congress to insure the needy elderly housing, housing at prices and rents they can afford. In short, the National Council of Senior Citizens asks for social growth to match the Nation's tremendous economic growth.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Hutton. We are glad to have the statements for the record from the past and present presidents.

(The statements referred to follow:)

Statement of Aime J. Forand

My name is Aime J. Forand. I served 18 years as Congressman from Rhode Island, retiring in 1960 for health reasons. For three years, I was president of the National Council of Senior Citizens. I have been President Emeritus of that organization since 1964.

I have always been interested in health care for the elderly and I take satisfaction from the fact that those 65 or over now have Medicare health insurance.

In the years since the Medicare program was the subject of nation-wide controversy, I have had the chance to evaluate forecasts and predictions of the groups that opposed this very worthwhile social program.

I recall the claims of many economists and social scientists that an expanding economy would lift all or nearly all the poor out of poverty and Social Security, Medicare and other measures to make a better life for them would not be necessary.

One part of this optimistic forecast has come true. The United States has become the wealthiest nation in the history of the world. However, instead of being better off, poor children are no better off and some are probably worse off with one in four U.S. children living in poverty.

The plight of the elderly poor is surely worsening year by year with one in every three elderly persons sunk in poverty.

This descent into the maelstrom for the helpless, infirm and elderly is taking place in a period of unprecedented prosperity for the majority of Americans.

The report of the task force set up by your Committee to go into this situation is, in my opinion, historic. It points up graphically the trend in our country to steadily rising living standards for the majority and more and more depressed living standards for the helpless poor, infirm and elderly.

It is especially revealing in its data on the growing gap between what a worker earns on the job and the much smaller income he is likely to have upon retirement.

I am very much impressed with this report entitled: "Economics of Aging: Toward a Full Share of Abundance." I salute Dorothy McCamman, consultant to your Committee, and the experts who joined in its preparation.

I am hopeful the report will generate real impetus toward a solution of this crucial national problem of persistent poverty in the midst of plenty.

Statement of John W. Edelman

I am John W. Edelman, retired President of the National Council of Senior Citizens and retired Washington, D.C., representative of the Textile Workers Union of America.

I am 76 years old and, during most of my lifetime, I have heard well meaning people professing interest in the problems of the poor, infirm and elderly justify inaction by saying our nation's resources were limited—too limited in fact to admit any real improvement for those at the base of the economic pyramid.

If there ever was justification for a do-nothing social policy, there is no longer any such justification in America.

With our gross national product approaching a trillion dollars a year, with the great majority of Americans better off than at any time in history, with our country far and away the world's richest, this idea that we cannot afford to lift the helpless poor, including the elderly who are the poorest of the nation's poor, out of their poverty becomes ludicrous.

The United States uses less of its national wealth for the social benefits than any other advanced industrial nation.

According to a report by the International Labor Organization, a United Nations affiliate, America ranks below 21 other nations in the percentage of national income devoted to social benefits.

Austria and West Germany set aside more than twice as much for social benefits out of their national income than does our country, this report reveals.

Even Ireland and Malta set aside more of their national incomes for social benefits than does the United States, according to the ILO report.

Of course, those who have shared the rise in U.S. living standards may have to make a few sacrifices to help our poor, infirm and needy elderly achieve a decent minimum of comfort and security.

I think the U.S. Senate Special Committee on Aging's task force report on the economics of aging may provide the incentive for needed action.

STATEMENT OF NELSON H. CRUIKSHANK

My name is Nelson H. Cruikshank. I am Acting President of the National Council of Senior Citizens and, for the Spring term, I am Visiting Professor of Social Science at Pennsylvania State University. I retired in 1965 after 12 years as Director of the AFL–CIO Social Security Department.

The National Council of Senior Citizens sees an urgent need for a substantial increase in Social Security benefits—an increase on the order of 50 per cent across the board with even greater improvement at the minimum benefit levels.

Our organization considers the 7 per cent so-called cost-of-living increase in Social Security budgeted by President Nixon a pitiful token that comes nowhere near meeting the desperate money problems of the elderly poor.

The inadequacy of the Social Security increase Mr. Nixon has proposed is shown by the report of your Committee's task force on the economics of aging. It reveals an awesome gap between a worker's income from wages and the income the same worker is likely to have after retirement.

As this report states, the retirement income gap is worsening every year and vast numbers of today's wage earners face a grim prospect indeed when the time comes for them to retire.

The Social Security increase proposed by President Nixon means the retirement income gap will continue. Millions of elderly poor—an estimated 8,000,000 at or below the poverty line and millions more who are perilously close to it—will be a little better off but they will continue to be deprived.

Mr. Nixon has called the 7 per cent Social Security increase he has proposed a cost-of-living increase but the sad fact is an increase of that amount in February, 1970, the time the President sees the proposed increase becoming effective, would make it fall considerably short of being a genuine cost-of-living increase if the present escalation of the Consumer Price Index continues.

I need not remind you that the March rise in this index was the largest in 18 years.

In fact, a 50 per cent across-the-board increase in Social Security would provide a very modest level of living for Social Security recipients. With a 50 per cent increase, an individual would average no more than $1,764 a year, and couples would average no more than $2,970 a year.

The National Council of Senior Citizens has been flooded with letters expressing disappointment with President Nixon's proposed 7 per cent Social Security increase.

Here are typical comments in these letters:

"I deplore the proposal (7 per cent Social Security increase). It is outrageous in view of the fact that Senators and Congressmen voted themselves a 41 per cent pay increase, effective immediately."

"I am a widow getting $74 a month on Social Security. If President Nixon could see how people like us live, I think he would want us to have a great deal more than a 7 per cent increase."

"After working all my life, my Social Security is not enough. I am on relief."

"With all the billions of dollars the Government has to spend, why can't they do better than a 7 per cent increase. Why do old people get the short end?"

These men and women live in poverty as do millions of their contemporaries.

Mr. Chairman and members of this distinguished Committee, I submit our society has failed these millions of unfortunate citizens.

A prosperous and vastly productive America can help them if we make up our minds to. Up to now, we have sought to cure poverty by studying the poor. I suggest we now consult our own consciences. The benefits asked by the National Council of Senior Citizens are reasonable and attainable if the American people are determined to include the poor, infirm and needy elderly in their vision of progress.

Mr. HUTTON. If I may, I would like to just give three brief highlights, one from each of those three statements. Aimé Forand says that in the years since the Medicare program was the subject of nationwide controversy, he has had a chance to evaluate the forecasts and the predictions of the groups that opposed this very worthwhile social program.

The CHAIRMAN. In my book he is the father of Medicare.

Mr. HUTTON. Thank you, sir; I believe most of us in the National Council also believe that. Forand says, "I recall the claims of many economists and social scientists that an expanding economy would lift all or nearly all the poor out of poverty and Social Security and Medicare and other measures to make a better life for them would not be necessary."

Forand says only one part of that optimistic forecast has come true—that is that the United States has become the wealthiest Nation in the history of the world. But the plight of the elderly poor is worsening year by year, with one of every three elderly persons sunk in poverty.

John Edelman, our immediate past president, says that with America's gross national product approaching a trillion dollars a year, with the great majority of Americans better off than at any time in history, with our country far and away the world's richest, the notion that we cannot afford to lift the helpless poor, including the elderly who are the poorest of the poor, out of their poverty, becomes ludicrous.

Edelman says the United States uses less of its national wealth for social benefits than any other advanced industrial nation in the world. He says according to a report by the International Labor Organization, the United Nations affiliate, America ranks below 21 other nations in the percentage of national income devoted to social benefits.

Austria and West Germany set aside more than twice as much for social benefits out of their national income than those of our great country. Even Ireland and little Malta set aside more of their national income for social benefits than does the United States.

Nelson Cruikshank, our new acting president, says the National Council of Senior Citizens sees an urgent need for a substantial increase in social security benefits, an increase on the order of 50 percent across the board with an even greater improvement at minimum levels.

Our organization, sir, considers the 7 percent so-called cost of living increase in social security, budgeted by President Nixon, a pitiful token that comes nowhere near meeting the desperate money problems of the elderly poor.

Finally, sir, on my own behalf, I would only like to say that poverty in any form is a national disgrace, and in the case of millions of the elderly poor, it is a terrible injustice to the men and women who have contributed so much to the prosperity of the great majority.

The CHAIRMAN. Mr. Schuchat?

STATEMENT OF MR. SCHUCHAT

Mr. SCHUCHAT. The subject of these hearings is the growing gap between the social security benefit and a moderate standard of living for retired people and the growing gap between the income of older people and the income of younger people.

Secretary Finch, however, has perceived another gap. In a statement issued on April 9, he said:

With regard to the need for greater emphasis on child development, we know that there are four times as many young people as aged in the U.S., yet:

Federal benefits and services of all kinds in 1970, including the social insurance programs, will average about $1,750 per aged person, and only about $190 per young person; and

The relative imbalance has been expanding, with the increase over the last 10 years for the aged standing at nearly $22 billion, compared to $11.5 billion for the young.

In my opinion, Secretary Finch is as wrong as he can be in this statement, and I recommend that he stop and think before maintaining this erroneous and divisive policy position, if this is indeed what his statement represents.

In the first place, he seems to be using the wrong figures. In 1969, the Federal expenditure per older person was $1,690, and in 1970 it will be an estimated $1,785, according to the Administration on Aging, a unit of the Department he heads. I don't know where he got the figure of $1,750 for 1970.

Second, these figures lie as they stand in Secretary Finch's statement, without explanation or clarification of any kind. He does not explain, for instance, that 85 percent of the Federal expenditures for older people currently come from trust funds to which the elderly themselves contributed heavily during their working years. In contrast, only 25 percent of the Federal expenditures for children come from trust funds.

Expenditures for Young and Old

He has tried to tell the American people that the Federal Government is spending $10 for each old person and only $1 for each child. The ratio of 10-to-1 that he apparently decries falls to a ratio of only 2-to-1, however, if we exclude the trust fund expenditures and stick to expenditures from general revenues.

Now, let us examine the nature of these expenditures. Of the Federal expenditures for older people, 98 percent are represented by income maintenance payments (76 percent) and health care (22 percent). So it turns out that the Federal expenditures per older American for everything except income and health care is less than $36.

In contrast, only 41 percent of the Federal expenditures for young people are represented by income maintenance (31 percent) and health care (10 percent). For children, the Federal expenditure for everything except income and health care is more than $99.

Next, let us consider why these data come out the way they do, with the Federal Government apparently expending much more for older people than for youngsters. The reason is obvious. The needs of most children for income and health care are met by their parents, and their needs for education are met to a very large extent by local and State governments.

However, the needs of old people for income and health care—to the extent that they cannot be met from their earnings or their savings or those of their relatives—are met to a very large extent by Federal programs, and remember that the recipients of this aid themselves contributed to the trust funds that provide 85 percent of it, as well as to the trust funds that provide a large part of the aid to children.

Just what message was Secretary Finch trying to convey when he issued this misleading fiscal comparison on April 9? Does he mean that the trust fund expenditures for older people are too high? Does he mean that the Federal Government should replace local and State government as the major source of education funds? How else would he redress the imbalance or close the gap that he thinks he has discovered?

Secretary Finch's statement of April 9 adds that: "We do not begrudge our expenditures on the aged; they are a group which needs special help. But the relative lack of emphasis on investment in children seems shortsighted in light of the high social and economic payoffs which such investments can have in terms of helping to produce fully effective members of society."

Mr. Chairman, in more than two decades of close association with the Department of Health, Education, and Welfare and its predecessor agency, I have never heard a more divisive and inflammatory statement by the Cabinet officer who heads it.

Mr. Finch has a mandate from Congress to look to the health, education, and welfare of the American people as a whole, not solely those whom he or his computers consider to have the potential of being "fully effective members of society" or of yielding "high social and economic payoffs." He is expressing a philosophy of his office, an approach to his responsibilities, that I believe Congress and the American people would reject out of hand, after but a moment's reflection.

That philosophy in Nazi Germany led straight to the gas chambers which were, let us never forget, originally erected to solve the "problem" of the crippled and mentally retarded.

Secretary Finch has frequently described himself as "a political animal." Taking him at his word, I offer some advice I trust he will heed. It is this.

Not a Question of "Payoffs"

The Department of Health, Education, and Welfare was not created to attain "high social and economic payoffs." Its programs were established by Congress on the basis of a profound moral obligation to help people, old and young, rich and poor, productive and improvident.

The improvement or expansion of one of its many programs has never been achieved at the expense of another. The Secretary can make quite a good case for Headstart without deprecating social security. If the American people want both, they can and will pay for both. We know we can never have too much health, education or economic security.

And so we expect our Secretary of Health, Education, and Welfare to champion all our needs. We expect him to demonstrate his humanitarian concern for all our people, not the chilling myopia of the cost accountant, who knows the price of everything and the value of nothing.

Mr. Oriol. Senator Williams has been called away but he should be back shortly. Before you leave there are two questions.

You said you tried to get the basis for the arithmetic used by Secretary Finch and you indicated you were unsuccessful. Where did you try to get that information and how much have you elicited?

Mr. Schuchat. I sought advice and assistance in his Department and the people who were in charge of these statistics supplied the statement, the numbers that I used in my statement and confessed that they were not consulted when his statement was drafted and they are unable to verify the numbers that he used.

It looks to me as if he got his statement from some speech writer who was shooting from the hip.

Mr. ORIOL. So there is a sense of mystery. Another question. You touched upon an either/or attitude; either you help the young or you help the old. This can be very misleading, can't it? It is almost an artificial challenge that if we do something for the young we can't do something for the old.

Mr. SCHUCHAT. Yes; I think that is the thrust of my testimony, as the Secretary picks up these heavy new responsibilities of his, I would like to guide him away from the pitfall of assuming that he can not discharge one of his responsibilities except at the expense of others. That is entirely fallacious.

Mr. ORIOL. Thank you very much. Mr. Fichtner, we appreciate your coming from Florida. We understand you have a background in economics as well as a current interest in elderly persons.

STATEMENT OF MR. FICHTNER

Mr. FICHTNER. I have not been active in the field of economics for about 30 years but I still maintain an interest. I should like to compliment the task force and the staff on the excellence of the committee's working paper.

I represent the American Association of Retired Persons and the NRTA. I might say that we thoroughly agree with the implications of the document. I have filed a statement with the chairman and the staff in six parts but since the speakers on the task force have covered the subjects so well on the first three, and I think Mr. Greenough of TIAA will have some excellent comments on another subject, I shall proceed at once to section IV.

This relates to the impact of inflation on older Americans.

The retired elderly are among those most severely and unfairly injured by inflation in the entire population.

INFLATION: A "TAX"

Inflation is no less a Federal tax than the income tax. Unlike the income tax, which bears an approximate relationship to ability to pay, the Federal inflation tax is regressive; it bears most heavily on those least able to pay.

A dollar of savings from work in the 1930's now has a purchasing value of only 35 cents, in the 1940's of about 45 cents, in the 1950's of about 71 cents, and in the early 1960's of scarcely 80 cents. The savings of older Americans in insurance policies, pension fund investments, annuities, and savings bonds have been eroded in the same drastic degree. Much of the speculative gains in land values, business enterprises and equities have been derived from the subtle transfer of billions of value, resulting from the depreciating dollar, from these past savings of older Americans.

More frightening is the runaway acceleration of rising inflation over the past 2 or 3 years. The Bureau of Labor Statistics consumer cost index has risen about 12 percent since early 1966, more than 5 percent over the past year and at an annual rate of 9 percent in the latest reported month.

Even so, the index does not fully measure the rising living costs of older Americans which have approximated 20 percent since early 1966. Hospital costs are up 52 percent, physicians' fees 21 percent and dentists' fees 15 percent.

The elderly pay about three times more for medical costs than do persons under 65. Homeownership costs—property taxes, repairs, care of property—are up 18 percent. While Medicare has been most helpful to those actually hospitalized, it has absorbed only 35 percent of overall medical costs of the elderly.

Money incomes of most retirants are either fixed or declining. Real incomes invariably are declining. Conservative investments, suitable for the elderly with short life expectancies, have been eroded. Bond market prices have been in a bear market since 1955 with market price averages down 35 percent and, therefore, down 54 percent in purchasing power. Few private pension plans have been adjusted for inflation among older retirees, say, those who retired in the 1950's or early 1960's.

I ran into a top executive of Ford Motor Co. a day or two ago who challenged that statement. I checked with the research specialist on this subject in the Department of Health, Education, and Welfare who had all the facts on the Ford Motor experience. Mr. Reuther indeed had reimposed this relationship of pension plans to those being currently retired.

The Department of Health, Education, and Welfare specialist reported, however, that his information indicated that the statement in your workpaper is essentially true. Very few of the older retirees have had their benefits increased. Obviously private pensioners have no bargaining power, cannot rely greatly on unions, or vote themselves higher salaries as did the members of the Florida Legislature a few days ago in voting themselves a 900-percent increase in salary on the grounds of offsetting eroding incomes.

Older people are the victims and not the beneficiaries of a low rate of unemployment in a tight labor market; relatively few are employed at rising wages but all suffer from higher costs of services.

Inasmuch as NRTA–AARP recognizes that past fiscal and monetary policies have been the source of recent inflation and the rapidly depreciating dollar, the association supported the tax surcharge and supports its continuance. The association strongly supports the objectives of a budget balance, reduced Federal expenditures of lesser priority, high interest rates, and the discontinuance of the investment tax credit, hopeful that these classical inflation control measures may eventually restore monetary value stability, so essential to the welfare of older Americans. As there are no signs of a slow-down and little likelihood of any restoration of buying power of the dollar lost in past decades, the program for amelioration of inequities suffered by the elderly must rest on the assumption that national policy may tolerate continued inflation in the future, albeit hopefully at a reduced rate.

With a Federal debt of $362 billion largely monetized into a conglomerate monetary system of inflated bank deposits, paper and base metals, many years, possibly decades, may be required to restore the American financial house to some semblance of order.

The bitter medicine of disinflation is healthful for the entire Nation in the long run, to the aging of every generation, including the very young. To be repudiated are such dishonest doctrines as that inflation is the only way to retire the vast public debt, or such fallacious doctrines as that inflation is essential to a desirable economic level of employment.

The Phillip's Curve, for example, is a dangerous rule to follow. The fallacy is apparent in economic history and, if you wish also in Germany today, which is following conservative classical fiscal and economic policies and enjoys full employment.

Continuation of the present rate of inflation can end only in social chaos and disaster.

Income Tax Deductibles

Because the Federal tax of inflation has borne so heavily on the retired, as a matter of equity and sound social policy, the level at which Federal income taxation begins should be raised and more deductible adjustments, not fewer, should be given to taxpayers over 65.

The withdrawal of full deductibility of medical expense since 1966 has been discriminatory and, in effect, a tax increase estimated at $210 million a year solely on the elderly.

Outside of Medicare, the elderly must pay for eye care, dental care, drugs and a rising share of hospital and physicians' charges. Health and health care costs, rather than death, continue to be the principal fears of most elderly.

The proposal of the Treasury to tax social security benefits and to eliminate double exemption deductions and the retirement income credit would be unfair and disruptive of financial planning for retirement. While the method of effecting these changes would further confuse an already complicated income tax, the NRTA–AARP endorses that phase of the proposal which would reduce taxes in the lowest income brackets.

The association, however, opposes the Treasury's plan for placing the cost of relieving lower income taxpayers largely on the moderate and upper-income retirees. The association submits that logically the loss of revenue should be assessed against the entire economic community, by which method the moderate and upper-income retired taxpayers would pay their full, fair share.

The Treasury proposal in its present devious form is inequitable, discriminating, and thoroughly unsound in financial, economic and social principle.

The Chairman. Mr. Fichtner, you refer to this as the Treasury proposal. That is not current. That is some time ago, wasn't it? Doesn't that bear the name Mr. Surrey?

Mr. Fichtner. Yes, it was published in February 1969, as part of the three volume recommendations. You are correct, it is the idea of Mr. Stanley Surrey and I think it is a second version of the same idea rejected more than a year ago by the House Ways and Means Committee.

The Chairman. I don't believe that has the dignity of current Treasury proposal, does it?

Mr. Fichtner. We hope the good judgment of the Congress will not accept the proposal. But I thought I had better get our opposition to it into the record.

The CHAIRMAN. All right. Very good.

Mr. FICHTNER. What should sound social policy of the Federal Government be toward the aged?

Among other measures, the foregoing observations, in summary, lead to several conclusions:

RECOMMENDATIONS

(1) Provision should be made for social security benefits, starting from a meaningful base such as $120 a month, to be promptly and automatically increased at least to parity with the consumer price index, as pledged in the platforms of both the Republican and Democratic parties in 1968.

(2) Provision should be made for additional upward adjustments on social security benefits in recognition of periodic increases in real national productivity. If necessary, this part of social security benefits would be assessed against general revenue sources.

(3) After study of other nations which have issued bonds of guaranteed purchasing power, consideration should be given to the issuance of U.S. retirement bonds whose money value would be correlated with the BLS consumers price index.

(4) Congress and the administration should exert every effort to restore honesty to the dollar; these powers reside solely in these branches of Government in their exercise of fiscal and monetary policies.

(5) The Federal tax code should retain the present double exemption provision for taxpayers over 65; it should retain the noninclusion of social security benefits as a matter of keeping faith with the retired; the retirement income tax credit should be updated; the full deductibility of medical expense should be restored; and finally, some type of deduction should be provided to offset the inflation tax based on losses of real value of past savings, similar to deductions now accorded to capital losses.

(6) Through the administration of the Internal Revenue Service and its controls on private pension systems, future plans in order to continue to qualify for tax deduction should be required to provide for upward adjustments in pensions being paid to older retired employees on a scale corresponding to improvements for pension plan participants in the active work force.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

(Statement follows:)

SOME OBSERVATIONS ON THE ECONOMICS OF AGING

(By Charles C. Fichtner, Legislative Council of National Retired Teachers Association and American Association of Retired Persons; President of Greater Coral Gables Chapter of A.A.R.P.)

I

Incomes of retired older Americans are low as compared with those of persons in the working population who have succeeded to equivalent jobs. Incomes of the retired are usually much lower in money terms and invariably much lower in *real* terms as compared with their preretirement incomes. The longer the period since retirement, the lower become these ratios. Moreover, the gap between the incomes of older and younger people is becoming wider in recent years.

II

By most standards, retirement incomes are inadequate. The myth that older persons need less income than younger people derives from only the fact that, having low incomes, the elderly necessarily spend less. Some years ago the American Association of University Professors and the Association of American Colleges formed a joint committee to develop standards for academic retirement plans including a *standard* of *adequate retirement income*. For a person with 35 working years or more, their original statement called for a retirement income of 50 per cent of average salary over ten years of service preceding retirement. In 1968, the AAUP–AAC statement of adequacy was revised to reflect rising taxes and inflation to read "two-thirds of yearly disposable income realized from his salary after taxes . . . during his last few years of full-time employment"—as "after-tax retirement income . . . in purchasing power . . . with provision for continuing more than half of such retirement income to a surviving spouse." Thus, the goal is fixed on *disposable* income *after* income tax and *adjustment* for inflation *with due provision for the surviving spouse.*

This standard is not an unreasonable one for other professions and occupations. Yet today 40 per cent of couples over 65 have incomes of less than $3,000*. The simulated projection for 1980 is that 50 per cent of couples over 65 will have incomes of less than $3,000 and that more than half of the single individuals over 65 will be limited to annual incomes of less than $2,000.

III

Dr. Juanita M. Kreps developed before the Senate Committee on Aging, December 5, 1967, the thesis that retirants have not participated in economic growth. Disposable real incomes, adjusted for inflation, have increased about 2 per cent per annum since 1946. During a typical period of retirement, real incomes of retirants have declined to 60 per cent of that of employed workers. If national economic growth were to advance to more than 2 per cent, the gap would widen; at 4 per cent, say, the decline would be to 35 per cent.

But what is national growth and whose growth is it? Growth in national economic productivity results from past capital accumulation and technological advances. Older Americans have contributed in full measure—in labor, brains and savings—to this delayed flowering of the economy. It would be a fallacy to assume that current and future gains in economic productivity are solely attributable to the present and future working force. Yet most private pension plans currently being improved adopt that untenable assumption. The widening gap between real incomes of retirants and those of employed workers is economically unjustified. The narrowing of the gap and, indeed, its elimination are properly objectives of public policy.

IV

The retired elderly are among those most severely and unfairly injured by inflation in the entire population. Inflation is no less a Federal tax than the income tax. Unlike the income tax, which bears an approximate relationship to ability to pay, the Federal inflation tax is regressive; it bears most heavily on those least able to pay.

A dollar of savings from work in the 1930's now has a purchasing value of only 35 cents, in the 1940's of about 45 cents, in the 1950's of about 71 cents, and in the early 1960's of scarcely 80 cents. The savings in insurance policies, pension fund investments, annuities and savings bonds have been eroded in the same drastic degree. Much of the speculative gains in land values, business enterprises and equities have been derived from the subtle transfer of billions of value, resulting from the depreciating dollar, *from* these past savings of older Americans.

More frightening is the runaway acceleration of rising inflation over the past two or three years. The Bureau of Labor Statistics consumer cost index has risen about 12 per cent since early 1966, more than 5 per cent over the past year and at an annual rate of 9 per cent in the latest reported month. Even so, the index does not fully measure the rising living costs of older Americans which have approximated 20 per cent since early 1966. Hospital costs are up 52 per cent, physicians' fees 21 per cent and dentists' fees 15 per cent. The elderly pay about three times more for medical costs than do persons under 65.

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*Research and Statistics Note, U.S. Dept. of Health, Education and Welfare, December 10, 1968, p. 3.

Home ownership costs (property taxes, repairs, care of property) are up 18 per cent. While Medicare has been most helpful to those actually hospitalized, it has absorbed only 35 per cent of overall medical costs of the elderly.

Most money incomes of retirants are either fixed or declining. Real incomes invariably are declining. Conservative investments suitable for the elderly with short life expectancies have been eroded. Bond market prices have been in a disastrous bear market since 1955 with market price averages down 35 per cent and, therefore, down 54 per cent in purchasing power. Few private pension plans have been adjusted for inflation among older retirees, say, those who retired in the 1950's or early 1960's. Private pensioners have no bargaining power, cannot rely on unions or vote themselves higher salaries to offset eroding incomes. *They are the victims, not the beneficiaries,* of a *low rate* of *unemployment* and a *tight labor market.*

Inasmuch as NRTA–AARP recognizes that past fiscal and monetary policies have been the source of recent inflation and the rapidly depreciating dollar, the Association supported the tax surcharge and support its continuance. The Association strongly supports the objective of a budget balance, reduced Federal expenditures of lesser priority, high interest rates, and the discontinuance of the investment tax credit, hopeful that these classical inflation control measures may eventually restore monetary value stability, so essential to the welfare of older Americans. As there are no signs of a slow-down and little likelihood of any restoration of buying power of the dollar lost in past decades, the program for amelioration of inequities suffered by the elderly must rest on the assumption that national policy may tolerate continued inflation in the future, albeit hopefully at a reduced rate. With a Federal debt of $362 billion largely monetized into a conglomerate monetary system of deposits, paper and base metals, many years, possibly decades, may be required to restore the American financial house to some semblance of order. The bitter medicine of disinflation is healthful for the entire nation in the long run, to the aging of every generation, including the very young. To be repudiated are such dishonest doctrines as that inflation is the only way to retire the vast public debt, or such fallacious doctrines as that inflation is essential to an economic level of employment. Continuation of the present rate of inflation can end only in social chaos and disaster.

V

Because the Federal tax of inflation has borne so heavily on the retired, as a matter of equity and sound social policy, the level at which Federal income taxation begins should be raised and more deductible adjustments, not fewer, should be given to taxpayer over 65.

The withdrawal of full deductibility of medical expense since 1966 has been discriminatory and, in effect, a tax increase estimated at $210 million a year solely on the elderly. Outside of Medicare, the elderly must pay for eye care, dental care, drugs and a rising share of hospital and physicians' charges. Health and health care costs, rather than death, are the principal fears of most elderly.

The proposal of the Treasury to tax Social Security benefits and to eliminate double exemption deductions and the retirement income credit would be unfair and disruptive of financial planning for retirement. While the method of effecting these changes would further confuse an already complicated income tax, the NRTA–AARP endorses that phase of the proposal which would reduce taxes in the lowest income brackets. The Association, however, opposes the Treasury's plan for placing the cost of relieving lower income taxpayers largely on the moderate and upper-income retirees. The Association submits that logically the loss of revenue should be assessed against the entire economic community, by which method the moderate and upper-income retired taxpayers would pay their full, fair share. The Treasury proposal in its present devious form is inequitable, discriminating and thoroughly unsound in financial, economic and social principle.

VI

What should sound social policy of the Federal government be toward the aged?

Among other measures, the foregoing observations, in summary, lead to several conclusions:

1. Provision should be made for Social Security benefits, starting from a meaningful base such as $120 a month, to be promptly and automatically increased at least to parity with the consumer price index, as pledged in the platforms of both the Republican and Democratic parties in 1968.

2. Provision should be made for additional upward adjustments on Social Security benefits in recognition of periodic increases in real national productivity. If necesary, this part of Social Security benefits would be assessed against general revenue sources.

3. After study of other nations which have issued bonds of guaranteed purchasing power, consideration should be given to the issuance of U.S. retirement bonds whose money value would be correlated with the BLS consumers price index.

4. Congress and the Administration should exert every effort to restore honesty to the dollar; these powers reside solely in these branches of government in their exercise of fiscal and monetary policies.

5. The Federal tax code should retain the present double exemption provision for taxpayers over 65; it should retain the non-inclusion of Social Security benefits as a matter of keeping faith with the retired; the retirement income tax credit should be updated; the full deductibility of medical expense should be restored; and finally, some type of deduction should be provided to offset the inflation tax based on losses of real value of past savings, similar to deductions now accorded to capital losses.

6. Through the administration of the Internal Revenue Service and its controls on private pension systems, future plans in order to continue to qualify for tax deduction should be required to provide for upward adjustments in pensions being paid to older retired employees on a scale corresponding to improvements for pension plan participants in the active work force.

The CHAIRMAN. Mr. Shelley?

STATEMENT OF MR. SHELLEY

Mr. SHELLEY. I offer my congratulations to this committee which requested the report and to the task force which prepared it. The report sets forth the concept of a more just and equitable participation by older people in the affluent American life. If put into practice, this concept would eliminate much of the uncertainty and fear with which most people approach old age. It might, indeed, make possible the realization of the rich potential of the last one-third of life, so frequently referred to by the optimistic euphemism, "the golden years"—a designation all too often unjustified by the harsh realities of age.

This economic concept of sharing in the Nation's abundance throughout the whole of life is buttressed by detailed factual information and economic analysis in the task force report.

I should like to comment on a few of the significant points covered by the report, and I ask your permission, Mr. Chairman, to file this statement on behalf of the National Council on the Aging.

1. The First Point Deals With the Elderly Poor

The report documents an economic condition among aged persons in this country which, if fully and properly understood, would be considered intolerable by legislators and voters alike. There seems to be a general impression that, with Social Security and Medicare, old people's financial problems are minimal. This impression may help to explain the difficulty in getting earmarked funds for the elderly poor in economic opportunity legislation even though, as this report shows, more than a third of all persons over 65 are poor or on the borderline of poverty.

The National Council on the Aging is now preparing documentation on poverty in old age in America based on project FIND, and any detailed discussion of that subject should await that report. A significant finding in the NCOA experience is the invisibility of the elderly poor. As was the case with hungry children, people cannot believe that elderly poor people exist in our country. Occasionally, when this situation is revealed, there are spontaneous outpourings of food, fuel, clothing, and volunteer help. In Washington, D.C., when the dire needs of a "FIND" couple were portrayed on a newscast, the station was flooded with offers of money and provisions for these individuals.

But our society has grown too complex to rely on individual generosity—good will must be registered at the polls! The time has surely come to establish a nationwide living standard, below which no elderly person in this country should be expected to live. And the standard should apply nationwide without allowing the accident of residence to remain the determining factor in minimum income. Incidentally, since the Bureau of Labor Statistics budget has been so widely accepted as "adequate," we should like to remind the committee of some comments on its inadequacy, when translated into goods and services, in NCOA testimony on consumer needs presented before this committee 3 years ago.

2. The Continuing Trend Toward Inadequate Income

It is generally assumed that a good share of the income problems of the aged is caused by special limitations suffered by those persons who are presently retired—for example, low wages received during their working life or the ineligibility of many for social security. Therefore, it comes as something of a shock to read the task force statement:

> If present trends continue, today's workers will face the same problem of income in retirement.

It should be noted that one alleged characteristic of the present generation of elderly poor is their low expectation from life and their docile acceptance of poverty. This situation is changing, as the attendance at this hearing so clearly indicates. The older poor will not be satisfied with poverty indefinitely. Today's militant youth will be mirrored in the increasing militancy of our older Americans.

The implication for public policy is the necessity to start now to consider alternative plans of action which apply not only to the present but to the future as well.

3. The Continuing Importance of Work as a Factor in Income Maintenance

The task force points out that employment is "still the largest single source of income for the aged group." This is true as a group, but it is not true for the four out of five older persons who are not in the labor force. Further, the labor force participation among those over 65 is declining. Granted that many older people are not able to work or do not wish to, there is considerable empirical evidence that more older people want to work than are able to find jobs.

In view of such evidence, we must question the wisdom of accepting the current trend toward decreasing employment of middle-aged and older workers as irreversible. It seems logical that every encouragement should be given to the Department of Labor to emphasize counseling, training, and placement of older workers, and that, in national efforts to implement the Employment Act of 1945, the desires and needs of older workers be given due recognition.

4. The Consequences of Enforced and Early Retirement

It has been obvious to careful observers of the problems of middle-aged and older workers that retirement, especially early retirement, is often a euphemistic term for unemployment. The National Council on the Aging believes that the factors which induce individuals to choose early retirement and the unfortunate economic results in terms of living standards and personal satisfactions, should be the subject of urgent study. By identifying the specific causes which lead individuals to accept such a disadvantaged income position for the rest of their lives, we can hopefully devise new and effective ways of correcting an increasingly intolerable situation.

Beginning with a conference held at Arden House in 1952, NCOA has been concerned with the question of compulsory retirement based on chronological age alone. At a seminar on "Technology, Manpower, and Retirement Policy," held in Washington, D.C., in 1965, a distinguished group of scholars and practitioners analyzed the implications of technological development for compulsory and early retirement. Dr. John T. Dunlop of Harvard University said at the opening session:

> The case for early retirement plans is sometimes placed primarily on the grounds of creating jobs for younger workers. In this form, early retirement is both a questionable retirement policy and a dubious employment-creating policy.

In a recent issue of the "Saturday Review," Goodman Ace, who writes a weekly column of humorous comment, refers to the fact that "it becomes obvious that as the number of 65-year-old retirements accelerates, our country's landscape from coast to coast will very soon be dotted with used man lots." Though there is an apparent trend toward compulsory retirement on the basis of age, we believe that the trend need not be accepted as irreversible. There are certain signs of a popular opposition to the concept, but a sense of helplessness about combating it.

Unless the trauma of enforced retirement experienced by an unknown number of persons can be cushioned by the assurance of an income reasonably comparable to earnings income, the compulsory retirement philosophy is likely to become less acceptable to future generations and indeed may become less and less acceptable to this generation. Now is the time to look for feasible alternatives to the "used man lot."

5. Alternatives in Social Security Provisions

The task force report makes it clear that we must look to social security as the primary mechanism to improve the income position of all older Americans and to provide the leadership toward a full or even a reasonable share in abundance. Obviously, there are many ways of extending benefits, and alternatives must be chosen. These alternatives, we believe, should be analyzed and clarified for better public understanding and choice.

6. Long-Range Goals

The most significant aspect of the task force report, in our estimation, is its bold new look. The documentation clearly shows that the solutions of the past will not suffice for the future.

We suggest that an important next step is to cost out alternative plans for meeting the goals we seek. We can then proceed in orderly fashion to assess priorities, to formulate the legislation, and to propose specific measures to be taken by the private sectors of our economy to make economic security in old age a reality. This is the only basis for that real social security which we set as a national goal some 30 years ago.

Although this testimony has focused on income adequacy, it should perhaps be noted that income cannot be entirely separated from facilities and services. Elderly persons are now discovering that it is not enough to have entitlement under Medicare for home health service if no home health aides are available in the community. Income that would enable the payment of at least a modest rent will not help if safe and suitable housing is not to be found in the neighborhood, nor is free carfare an advantage if there is no public transportation. The task of correlating the many facets of the income factor is formidable at every level, from the Federal Government to the rural township.

7. A National Information and Technical Assistance Center

The final point I should like to emphasize about the task force report is the urgency it reveals for planning and initiating appropriate action to meet both current crises and long-range goals. The National Council on the Aging has felt a growing concern about the proliferation of fragmented programs to meet a national problem of such staggering proportions.

The need, as NCOA sees it, is for a mechanism by which the complexities and interrelations of the problems of aging can be understood, and by which this understanding can be focused on action and utilized by individuals and agencies—public and private—which can or should contribute to the solution of problems of aging in our society.

For this purpose, the National Council on the Aging proposes to establish a National Information and Technical Assistance Center which will provide a focal point for all of our efforts to find more effective ways to deal with the interrelated problems of poverty, employment, housing, health, isolation, and loneliness. This Information Center will compile, assemble and maintain the most comprehensive and reliable information currently available on the problems of aging. It will bring together a professional staff to provide information and to undertake specialized studies tailored to specific needs of organizations and individuals. A highly sophisticated information and retrieval system, utilizing appropriate computer and communication techniques, will serve as the foundation for the new Center's functions. The Information Center will be linked with pertinent collections of information presently maintained by other public and private agencies and organizations. The work of the Center will greatly strengthen the basis for future public policy development and will provide guidelines for action on a nationwide basis.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Shelley. I think we will have to move along now. I would like to, as we hear each of you, explore further, but the exigencies of time are such we will now hear from Mr. Greenough.

STATEMENT OF MR. GREENOUGH

Mr. GREENOUGH. Could I request permission to put the full statement in the record* and I will skip parts of it for your lunch-hour convenience.

The CHAIRMAN. Yes.

Mr. GREENOUGH. Mr. Chairman, I am William C. Greenough, chairman of Teachers Insurance & Annuity Association and the College Retirement Equities Fund, TIAA-CREF. In your letter of invitation you asked me to comment especially on private pensions and on methods of relating pension income to changing economic conditions. This has to do with how we can:

1. Provide part of the security for our older citizens through portable private pensions.
2. Protect their retirement income from the dangers of inflation, and
3. Provide for them a rising standard of living commensurate with the rising productivity of our economy.

Perhaps I can best serve by describing how all three of these objectives have for many years been met in the private pension sector, through the unique TIAA-CREF retirement system for higher education. I will comment briefly on this nationwide system of portable pensions, and then on how to fund pensions so that they can adjust to changing economic conditions.

Pension portability—History.—Andrew Carnegie, in 1906, established the Carnegie Foundation for the Advancement of Teaching to support higher education by pensioning older professors, since few of them had been able, on their low salaries, to save enough for their old age. The "breakthrough" of this free pension plan was the idea of transferable pensions—the professor could move about among colleges and universities without losing any part of his pension. This transferability has been a tremendously invigorating force in American higher education.

After a while the free money for pensions ran out, so the Carnegie Foundation and the Carnegie Corp. established TIAA, in 1918, to provide contributory annuities, immediately vested and portable throughout higher education and throughout the Nation. The idea was that the college and the individual would jointly pay for an annuity, to be owned entirely by the individual, whether he stayed at one college throughout his career, as so many do, or transferred among several colleges while developing his special knowledge and experience, or, for example, transferred from a college into governmental service and then back into the academic world.

In no event would he forfeit his TIAA-CREF pension benefits accumulated while at the colleges. This transferability has meant true security for a profession in which most of the practitioners still are not too well paid. The college's and the individual's contributions

*See statement, p. 59.

were to be fully funded and invested through TIAA so that the pension expectations would always be realized.

This portable private pension system has worked well for half a century and it now covers more than 2,000 colleges, universities, scientific and other educational institutions and their more than 250,000 staff members.

Assured and immediately vested pensions are not only a possibility in the private sector, they are an actuality, and have been for the last 50 years. Right now, bills are pending in Congress, S. 1290 and H.R. 9010, to charter the College Benefit System of America in order to protect against certain dangers at the State level to the continuance of this nationwide system of fully uniform and portable annuities.

Inflation and annuities.—There was a continuing, challenging problem, one to which we are all addressing our attention today, the problem of inflation and of sharing equitably with our older people some part of the enormous increases in the productivity of this economy. Here, again, let me draw on actual experience.

Post-World War II inflation took an awful toll from the income of people living on fixed dollar annuities, professors along with everyone else. Faced with this situation, we instituted in 1950 at TIAA a series of studies to see what could be done.

We early came to the conclusion that "there was at least one major inflation during every period in American history equal in length to the working and retired lifetime of a single worker." As an example, people retiring in 1950 had started work two major and one minor inflations ago and one horrendous and several much smaller depressions ago.

Our economic study, "A New Approach to Retirement Income," also concluded that "security in retirement poses a difficult problem when it means not only providing a sufficient annuity income in dollars but also a reasonable income in current purchasing power."

The Variable Annuity

As a result of these studies, TIAA in 1952 established the College Retirement Equities Fund, the world's first variable annuity. These annuities are based on common stock investments, with the full performance of the investments flowing through to the participant during his retirement.

Although far ahead of its time, CREF was quickly adopted by our contributing colleges and universities and by most of the members in their retirement systems. At present 97 percent of the college staff members have elected to participate in CREF concurrently with their TIAA fixed dollars annuity.

Does this kind of a fund have some promise of providing a retirement income that does adjust better to cost of living and productivity increases? Here again, the longest and best experience is with CREF. If an individual had retired in 1952 on a TIAA and CREF annuity, his variable CREF annuity would now be paying him three and a quarter times as many dollars as originally.

That is, an original CREF annuity of $100 a month in 1952 would, starting May 1, now be paying $325 a month. I hasten to point out that this hasn't been a straight line up. Falling stock prices, as in 1957 and

1962, are reflected in reductions in CREF annuities those years. But the overall trend has been upward.

If a participant in a college retirement plan had, along with his college, commenced participation in TIAA-CREF in 1952, contributions of $50 a month to CREF to the end of 1968 would have equalled $9,600, and his credit in the CREF retirement fund would have been over $24,000—compound investment rate averaging nearly 11 percent a year.

I give this experience to date in order to comment, Senator Williams, directly on your question to me. It shows how some of the enormous productivity of our economy can be made to flow through to retired people without transferring, or taking it away, from those in the work force. This flowthrough in the case of CREF has helped make the academic profession more attractive, has helped bring able people into the profession in spite of strong competition and has helped keep them interested even though colleges cannot compete with governmental employments in terms of the power and scope of decisionmaking, or with private enterprise in terms of salaries and deferred compensation, profit sharing, bonuses and other such arrangements. Or even in tranquillity.

Other Adjustable Pension Arrangements. Following the innovation of CREF, a number of contrainflationary devices have developed. Variable annuities are now taking hold, and are to be found in many industrial and business firms and in the State retirement systems of Wisconsin, New York and New Jersey. Cost-of-living escalators are in the U.S. Civil Service retirement program, in the pension plans of several State retirement systems and in a number of private plans.

Plans incorporating differing formula escalators on the retirement benefits during old age are also being used. Separate accounts of life insurance companies have entered the picture and where the benefits are allowed to flow to the participant instead of reducing the employer's pension costs, are helping to provide added retirement security.

Interest in equity and escalator arrangements has also been high in other countries, especially Sweden, Holland, England and Japan.

Private Pensions and Productivity

Private sector pensions now have assets of over $145 billion. This includes State and local retirement systems, trusteed, negotiated and insured plans. These represent actual savings for retirement, available for investment in productive enterprise thereby enriching the lives of the workers as well as retired people.

These pension savings finance plants, equip them with modern machinery, build houses, shopping centers, roads, office buildings, airplanes, ships—products used by both retired and active people. These direct investments in productive enterprises have a number of desirable consequences.

The active workers in our labor force benefit through higher wages reflecting their increased productivity from modern, up-to-date plants and equipment and the power to run them. Pension plan savings provide a large and increasing part of the many thousands of dollars of plant and equipment available to each worker to increase his production, and to finance the house he lives in.

Thus the total product is increased instead of merely being shared or transferred differently, since savings help provide the capital investments that render the young participant in a pension plan more productive, while his greater productivity means increased corporate earnings returned, in part, to him through his participation in his pension plan.

The retired worker benefits directly from his share in the increased productivity made possible by his own savings. This is especially true if invested in equities under a pension plan permitting flowthrough to the retired person.

And he and the worker both benefit without detracting from the relative economic position of the other, that is, without transfer payments or other drains on either side.

It is estimated that a trillion dollar economy, which we may reach in terms of constant dollars by 1975, will require an additional $500 billion of invested capital in the 6 years between now and that time. In all probability a major portion of that great wave of capital development in this country will come from private pension savings. We must make sure that we don't kill it, that we do encourage it.

The CHAIRMAN. Thank you very much. We appreciate your addressing yourself to this specific part of our question.

I have a feeling that another committee will probably be calling on you for further testimony along the same lines, the Labor subcommittee. The Labor Committee will be going into pensions. I think your experience, the pattern you have developed so successfully may be helpful to our committee.

(The statement referred to follows:)

PREPARED STATEMENT OF DR. WILLIAM C. GREENOUGH, CHAIRMAN, TEACHERS INSURANCE AND ANNUITY ASSOCIATION AND COLLEGE RETIREMENT EQUITIES FUND

In the Special Committee's letter of invitation I was asked to comment especially on private pensions and on methods of relating pension income to changing economic conditions. This has to do with how we can:

1. Provide part of the security for our older citizens through portable private pensions.
2. Protect their retirement income from the dangers of inflation, and
3. Provide for them a rising standard of living commensurate with the rising productivity of our economy.

Perhaps I can best serve by describing how all three of these objectives have for many years been met in the private pension sector, through the unique TIAA-CREF retirement system for higher education. I will comment briefly on this nationwide system of portable pensions, and than on how to fund pensions so that they can adjust to changing economic conditions.

PENSION PORTABILITY—HISTORY

Andrew Carnegie, in 1906, established the Carnegie Foundation for the Advancement of Teaching to support higher education by pensioning older professors, since few of them had been able, on their low salaries, to save enough for their old age. The "breakthrough" of this free pension plan was the idea of transferable pensions—the professor could move about among colleges and universities without losing his pension. This transferability has been a tremendously invigorating force in American higher education.

After a whle the free money for pensions ran out, so the Carnegie Foundation and the Carnegie Corporation established TIAA, in 1918, to provide contributory annuities, immediately vested and portable throughout higher education and throughout the nation. The idea was that the college and the individual would jointly pay for an annuity, to be owned entirely by the individual, whether he stayed at one college throughout his career, as so many do, or transferred among several colleges while developing his special knowledge and experience, or, for example, transferred from a college into governmental service and then back into the academic world. In no event would he forfeit his TIAA–CREF pension benefits accumulated while at the colleges. This transferability has meant true security for a profession in which most of the practitioners still are not too well paid. The college's and the individual's contributions were to be fully funded and vested through TIAA so that the pension expectations would always be realized.

This portable private pension system has worked well for half a century and it now covers more than 2,000 colleges, universities, scientific and other educational institutions and their more than 250,000 staff members. Assured and immediately vested pensions are not only a possibility in the private sector, they are an actuality, and have been for the last fifty years. Right now, bills are pending in Congress, S. 1290 and H.R. 9010, to protect against certain dangers at the state level to the continuance of this system of fully uniform and portable annuities.

INFLATION AND ANNUITIES

There was a continuing, challenging problem, one to which we are all addressing our attention today, the problem of inflation and of sharing equitably with our older people some part of the enormous increases in the productivity of this economy. Here again, let me draw on actual experience.

Post-World War II inflation took an awful toll from the income of people living on fixed dollar annuities, professors along with everyone else. Faced with this situation, we instituted in 1950 at TIAA a series of studies to see what could be done. We early came to the conclusion that "there was at least one major inflation during every period in American History equal in length to the working and retired lifetime of a single worker." As an example, people retiring in 1950 had started work two major and one minor inflations ago and one horrendous and several much smaller depressions ago. Our economic study, "A New Approach to Retirement Income," also concluded that "security in retirement poses a difficult problem when it means not only providing a sufficient annuity income in dollars but also a reasonable income in current purchasing power."

As a result of these studies, TIAA in 1952 established the College Retirement Equities Fund, the world's first variable annuity. These annuities are based on common stock investments, with the full performance of the investments flowing through to the participant during his retirement. Although far ahead of its time, CREF was quickly adopted by our contributing colleges and universities and by most of the members in their retirement systems. At present 97% of the members have elected to participate in CREF concurrently with their TIAA fixed dollar annuity.

Does this kind of a fund have some promise of providing a retirement income that does adjust better to cost of living and productivity increases? Here again, the longest and best experience is with CREF. If an individual had retired in 1952 on a TIAA and CREF annuity, his variable CREF annuity would now be paying him three and a quarter times as many dollars as originally. That is, an original CREF annuity of $100 a month in 1952 would, starting May 1st, now be paying $325 a month. I hasten to point out that this hasn't been a straight line up. Falling stock prices, as in 1957 and 1962, are reflected in reductions in CREF annuities those years. But the overall trend has been upward. If a participant in a college retirement plan had, along with his college, commenced participation in TIAA–CREF in 1952, contributions of $50 a month to CREF to the end of 1968 would have equalled $9,600, and his credit in the CREF retirement fund would have been over $24,000—a compound investment rate averaging nearly 11% a year.

I give this experience to date in order to comment, Senator Williams, directly on your question to me. It shows how some of the enormous productivity of our economy can be made to flow through to retired people without transferring, or taking it away, from those in the work force. This flow-through in the case of CREF has helped make the academic profession more attractive, has helped bring able people into the profession in spite of strong competition and has helped keep them interested even though colleges cannot compete with governmental employments in terms of the power and scope of decision-making, or with private enterprise in terms of salaries and deferred compensation, profit-sharing, bonuses and other such arrangements.

OTHER ADJUSTABLE PENSION ARRANGEMENTS

Following the innovation of CREF, a number of contra-inflationary devices have developed. Variable annuities are now taking hold, and are to be found in many industrial and business firms and in the state retirement systems of Wisconsin, New York and New Jersey. Cost of living escalators are in the U.S. Civil Service retirement program, in the pension plans of several state retirement systems and in a number of private plans. Plans incorporating differing formula escalators on the retirement benefits during old age are also being used. Separate accounts of life insurance companies have entered the picture and where the benefits are allowed to flow to the participant instead of reducing the employer's pension costs, are helping to provide added retirement security. Interest in equity and escalator arrangements has also been high in other countries, especially Sweden, Holland, England and Japan.

PRIVATE PENSIONS AND PRODUCTIVITY

Private sector pensions now have assets of over $145 billion. This includes state and local retirement systems, trusteed, negotiated and insured plans. These represent actual savings for retirement, available for investment in productive enterprise thereby enriching the lives of the workers as well as retired people. These pension savings finance plants, equip them with modern machinery, build houses, shopping centers, roads, office buildings, airplanes, ships—products used by both retired and active people. These direct investments in productive enterprises have a number of desirable consequences.

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It is estimated that a trillion dollar economy, which we may reach in terms of constant dollars by 1975, will require an additional 500 billion dollars of invested capital in the six years between now and that time. In all probability a major portion of that great wave of capital development in this country will come from private pension savings. We must make sure that we don't kill it, that we do encourage it.

A full realization of the potentials of old-age income probably now requires that we give careful attention to the needs and desires of both our active and our retired people. In private pensions, I believe we need to reorient our thinking toward a "Pensions Are For People" system (as I have proposed elsewhere in the ERITD approach—Earned Retirement Income Tax Deferral). The basic idea would be to provide, as an alternative to present tax treatment, tax deferral on pension contributions only when those contributions become irrevocably vested in the participant, without any holdback either of his vested rights or investment performance. This approach would, I think, help encourage a great development in pension savings, productive investment of those savings, and flexible, innovative approaches to pensions to make all people covered by them more secure in their old age.

Thank you for the opportunity to appear before you.

The CHAIRMAN. Mr. Burk, you are anchor man on this morning's witness list.

STATEMENT OF MR. BURK

Mr. BURK. Mr. Chairman, I have filed a statement with you that I would like to have in the record.*

I could cover it within the five minutes allotted but I would like to comment on only a couple of points in it, since you have it available to you.

The task force is much to be commended for their study. The only difficulty that I find in most of these studies is that they completely forget about the people who have worked for their lifetime for their Government and have retired from civil service.

These studies all seem to be much confined to social security. The fact of the matter is that among some 2 million that are not under the social security program the civil service retirees constitute about 1 million, they and their survivors. Of this some 60 percent receive less than the so-called poverty level of $3,000 a year.

More than 80 percent of the widows receive less than $3,000 per year and more than 70 percent receives less than $1,800 per year.

The second point that I mentioned was the small number of civil service retirees who have other income so far as we have been able to determine. The civil service commission has published a booklet on their retirement planning program in which they say that only 37 percent of the civil service retirees have reported having been employed for pay at any time since retiring.

At the time of the study only 25 percent were employed, 16 percent part time and 9 percent full time. We get the same information from letters that we have received in our office. A number of questions have come in, hundreds of them, in fact, regarding taxes, retirement income credit as has been mentioned a few minutes ago, is a real problem and we can furnish hundreds of copies of letters from retirees and survivors who receive very low annuities.

I received one yesterday; he had worked 17 years and 8 months and he says he has $163 a month at age 63, disabled physically. So he has a real problem. It will barely make his house payments.

INCOME TAX INEQUITIES

The third point that I mentioned in my paper to your committee, Mr. Chairman and I mentioned also that I possibly should present it to the Senate Finance Committee but it is bound very closely to this question, the question of the income tax treatment of your civil service annuities. Now we know the retirement income credit was designed to give us equal treatment with social security. Having worked as a tax consultant for a couple of years and having made hundreds of income tax reports for people, I know that it does not do what it is supposed to have accomplished.

Besides that, it is so complex that many, many people cannot work it out and even some Internal Revenue employees cannot work the retirement income credit. I would like to mention, I did in my letter, only two of many letters about taxes this past season. Quotation from one,

*See statement, p. 64.

"The if's and but's, minuses and additions for a retiree to file an income tax report is only worthy of an expert or a Philadelphia lawyer to figure out."

From another gentleman, "Going on 75 years, I cannot work any more. I have to live, eat, and pay rent. What are we going to do? Something must be done and now, after all, we have to live. Is this the thanks they give the people who have served the Government the best part of their lives?"

I have probably 25 or 30 similar statements from people who are having problems with income taxes, claiming to have to pay for having it made in order to get their retirement income credit figured, some of them claiming as much as $50 a year expense and the fact that civil service annuities are taxable income, they are not exempt as social security and railroad retirement are.

Our people have to file an income tax report whether or not they have to pay a tax. In addition to that we have to file an estimated tax because we have more than $200 that is not subject to withholding.

We file an estimated tax for every quarter of the year. This is a real problem, Mr. Chairman, and if this committee could do anything to set up or to help establish a system where there would be more of a flat deduction from this rather than a complicated system of trying to give us credit, I think it would be much preferred by our people who have worked so many years under civil service.

Thank you, Mr. Chairman, for giving me this opportunity to appear before your committee.

The CHAIRMAN. Thank you very much, Mr. Burk. I will say in reference to your last observation about this committee and how we might be helpful, we are a special committee, we are under a granted jurisdiction to study and study in depth as we are doing here with the economics of aging, and relate our activity to the substantive legislative committees.

We saw an example of that this morning with two distinguished members of the Finance Committee who sit on the Aging Committee. You could see the linkage right there. We didn't have any converts but we had certainly strong evidence that what was before us here this morning will be carried to the Finance Committee where the legislation is handled.

We can do that along the lines you are suggesting. I would say that the civil service employees retirement, not the tax aspects, the other aspects, are handled by the Post Office and Civil Service Committee, is that right?

Mr. BURK. That is right.

The CHAIRMAN. And your whole pension program was developed before social security?

Mr. BURK. That is correct.

The CHAIRMAN. In that program I believe I am correct when I state that you do have an escalation provision for retirement income that reflects an increase in cost of living, is that right?

Mr. BURK. We do have that and we have had it, I believe, since 1962. We have had three increases under that cost of living which have been most helpful and, in fact, it is the only thing that has enabled some of our people to exist at all.

The CHAIRMAN. When is that computed for an increase? What period of time must pass before it is recomputed to see whether an increase in benefits will follow?

Mr. BURK. Mr. Chairman, it works this way, the Bureau of Labor Statistics, consumer index comes out, of course, on a point basis. Whenever the point basis increases by 3 percent and remains there for a period of 3 months, then at the beginning of the third month following that 3 months period, we will receive the highest benefit that the percentage point has reached during that 3 months period.

It so happens the increases have been 3.9 in each instance.

(The statement referred to follows:)

PREPARED STATEMENT OF OTHIE G. BURK

Mr. Chairman and Members of the Committee: I am Othie G. Burk, Vice President of the National Association of Retired Civil Employees, generally called NARCE. This organization was formed in February 1921 and has been in continuous operation since that time. We now have over 133,000 members with more than 1,100 chapters having been chartered, some in every State of the Union, Puerto Rico, Canal Zone, and the Philippines.

I want to thank you, Mr. Chairman, for giving me this opportunity to speak in behalf not only of our members, but of the other thousands of retired Federal Workers who depend upon this Association to plead their cause and defend their rights. I would like to present three points for your particular consideration at this time:

1. The latest established statistics available, as of June 30, 1967 show that more than 367,000 out of a total of nearly 581,000 employee annuitants received less than $3,000 per year. Almost 242,000 out of slightly more than 250,000 survivor annuitants receive less than $3,000 per year. Nearly 210,000 of the latter receive less than $1,800 per year. There are many among the 367,000 employee annuitants who chose annuities reduced by from 10 to 25 percent to provide for a surviving spouse. In many cases the spouse has been dead for as long as 17 years. The deduction is still held out and if he should remarry, the new spouse cannot receive it.

2. A very small percentage of Civil Service retirees have other income, so far as we can determine. From page 74 of the Civil Service booklet on Retirement Planning Programs I quote "Only 37 percent of the respondents reported having been employed for pay at any time since retiring". "At the time of the questionnaire only 25 percent were employed, 16 percent part time, and 9 percent full time." (This was in 1968). On page 85 under item 8, is another statement pertinent to this discussion, I quote, "For both retired and eligible employees who attended such programs the program content most needed involved—in descending order—Finances, Use of Time, Social and Personal Matters, Health, and Housing. Specific topics most needed were Retirement Benefits, What to Expect, and Part-Time Employment."

We have this same general information from two sources in our office. My file on tax questions this year indicates that few have other income or have qualified for Social Security. We can furnish copies of hundreds of letters from retirees and survivors who receive very low annuities.

3. The third point I want to mention probably should go before the Senate Finance Committee, but is bound very closely to the question we are considering today. That is the question of Income Tax treatment of Civil Service annuities. I will not go into details at this time but since Civil Service Annuities are subject to Income Taxes, not exempt as are Social Security and Railroad retirement pay, our people have to file reports whether they pay tax or not. The Retirement Income Credit does not serve the purpose to equalize the tax treatment with Social Security, and the Tax forms are so complex many Internal Revenue employees cannot work it out.

I would like to mention only two of many letters about taxes this past season. I quote, "The if and buts, minuses and additions for a retiree to file an Income Tax Report is only worthy of an expert or 'A Philadelphia Lawyer' to figure out". And again, "Going on 75 years I cannot work anymore. I have to live, eat, and pay rent. What are we going to do? Something must be done and NOW. After all we have to live. Is this the thanks they give the people who served the Government the best part of their lives?"

Mr. Chairman, these items are all closely related to the question of Economics of aging. We are not seeking favored treatment; but we would like to have equal rights under the law. Any assistance this Committee may be able to lend toward correction of glaring injustices would be much appreciated.

Thank you, Mr. Chairman, for giving me this opportunity to appear before your Committee.

The CHAIRMAN. We will stop there and we will be returning after a break for lunch and maybe this is one of the things we can go into and there will be many other things we can discuss with our task force and with all of you this afternoon.

There is one statistic that would be helpful; if our record of this hearing could show the membership of all of the dignified and distinguished organizations represented here today. Bring that with you later this afternoon.

Everybody wonders who you are speaking for or what your membership is. You can't speak for every one of your members, of course, but it would be helpful. I have a feeling Bill Oriol, who, with all of the staff, works so herculeanly to develop our hearing today and as we go on—probably knows all of your publications.

(The information requested follows:)

National Council on the Aging	15,000 to 18,000
National Council of Senior Citizens	2,500,000
American Association of Retired Persons and National Retired Teachers Association	1,850,000
National Association of Retired Civil Employees	133,000

We will reassemble at 2:15 p.m.

(Whereupon, at 1:20 p.m., the committee recessed to reconvene at 2:15 p.m., the same day.)

AFTERNOON SESSION

ROUNDTABLE DISCUSSION

The CHAIRMAN. Good afternoon. We continue this afternoon with a forum panel discussion of those who participated this morning, and I think maybe we had better have the record show the participants here this afternoon.

Will you identify yourselves for the record, please?

Dr. SCHULZ. James H. Schulz, associate professor of economics, University of New Hampshire.

Dr. KREPS. Juanita M. Kreps, professor of economics, Duke University.

Mr. HUTTON. William R. Hutton, executive director, National Council of Senior Citizens.

Mr. FICHTNER. Charles C. Fichtner, member of the legislative council, American Association of Retired Persons, and National Retired Teachers Association.

Mr. SCHUCHAT. Theodor Schuchat, retirement editor, North American Newspaper Alliance.

Mr. GREENOUGH. William C. Greenough, chairman, Teachers Insurance and Annuity Association of America, College Retirement Equities Fund.

Mr. BURK. Othie G. Burk, vice president, National Association of Retired Civil Employees.

Mrs. BREWSTER. Agnes W. Brewster, consultant on medical economics. Research associate, Leonard Davis Institute of Health and Economics, University of Pennsylvania.

Dr. SHEPPARD. Harold L. Sheppard, visiting associate of Joint Center for Urban Studies, Harvard-MIT on leave from the Upjohn Institute for Employment Research.

The CHAIRMAN. Give us your former positions in the field, please.

Dr. SHEPPARD. Research director of the Senate committee, and staff director of the Senate committee for 1959 and 1961, among other activities in the field of gerontology.

The CHAIRMAN. I think the staff of the committee will probably get into this discussion too, so why don't you all be included for the record.

Mr. MILLER. John Guy Miller, minority staff director.

Mr. ORIOL. William E. Oriol, committee staff director.

Miss McCAMMAN. Dorothy McCamman, consultant on economics of aging.

The CHAIRMAN. Juanita, I understand that you are going to sort of be the maestro of the afternoon in bringing the task force questions and observations to the panel we have.

Dr. KREPS. I am concerned that we refocus our attention on what I think was the major thrust of the task force report and in short the task force was concerned I think to concentrate—that is, on the problem of the deterioration in income level of the aged relative to the young. In doing this, we must take account of two phases of the problem:

One, the problem of having people understand and accept the circumstance that growth creates for those persons who are no longer in the labor force, and two, the question of what the economy should do to minimize that relative deterioration.

THE PRESSURES OF ECONOMIC GROWTH

To document the first point, let me go back to a statement in the task force report and ask again that we consider it. In the report we indicated that the major problem of the aged was not just one of inflation and price rise. Even in the absence of an inflation in price level, the aged—were they aged long enough—would be relatively deprived, because the process of economic growth constantly raises the incomes of those persons still in the labor force while leaving the incomes of the aged fixed.

If a person saved each year of his earning life that amount which would supposedly guarantee him 100 percent of his consumption level when he retired, the fact that his earnings went up every year would mean that when he reached retirement he would have, if the growth rate were 3 percent, not 100 percent of his consumption level, but about 50 percent.

This is 50 percent of his earnings when he goes into retirement. But the problem is magnified then by the fact that he may spend two decades in retirement, and if he does so his consumption level by the end of his 20 years will have dropped to almost 25 percent of the consumption level of the workers who remain in the labor force.

These figures indicate roughly the magnitude of the deterioration that occurs during the worklife and during the retirement span of a person in our economy.

What I would like us to consider this afternoon is the problem of how, in a high-growth economy, one protects the relative living levels of people who do not under our present institutional arrangements share in that growth. This is a question which is entirely apart from the question of inflation, which is admittedly an important one. But even if we stabilize the price level, we continue to face the growth-relative deterioration problem.

I hope this does not structure the discussion too rigidly, Mr. Chairman.

The CHAIRMAN. How would you suggest, Dr. Kreps, we proceed now?

I don't know whether I would conclude it is the heart or not of the problem; I think probably it is the hardest problem, harder than the situations presented solely by inflation and the rising cost of living which can have its automatics.

It is a little harder to find the automatic in the growth rate.

Dr. KREPS. I would like simply to ask whether there are any members of the panel that would like to discuss either of the two questions I am raising.

The CHAIRMAN. Mr. Burk?

Mr. BURK. Mr. Chairman, might I ask Mrs. Kreps a question? Do I understand from what you are saying or from at least a part of your question that you are wondering and that retirement income which has the escalator clause in it under the civil service law if again rather than be tied to the cost-of-living increase, that it be tied rather to the wage scale of the persons who have served a similar number of years in the level from which I retired?

Is this your question?

Dr. SHEPPARD. She means adjustment to the standard of living rather than to the cost of living.

Dr. KREPS. Yes. It is a question of adjustment to the standard of living of those persons still in the work force rather than adjustment on the basis of a change in cost of living.

Mr. BURK. My observation would be that this has been proposed a number of times before the Members of Congress and has never even got far enough for a committee hearing.

Dr. SHEPPARD. As old pedagogs I am sure Dr. Kreps would agree then it always helps to have repetition. We are not going to give up on the idea although I understand the reality of the situation.

I think part of the story of convincing the public is to make the point, one point among others, that our economy can afford it and as the report points out the ratio of the 65-plus population to the working age population is a relatively constant one over the past and will be over the future, so we are not going, we're not really increasing the greater burden on the working age population and I think our economic education in this country is rather woefully inadequate on such matters.

I hope the Senate plays an educational role in this matter.

Mrs. Brewster. Dr. Kreps, could you answer something for me? I have always assumed with retirement some of your needs were less, and when you speak of adjustment to the standard of living before retirement, are you talking about—are you taking these into account or is it the reverse side of the coin, your expenditures become less because your means become less?

I am talking about no more carfare; you don't have to dress as elaborately. As you grow older according to all the diet books you eat a lot less, and so forth.

I would appreciate illumination on that score.

The Retirement Budget

Dr. Kreps. I think the best answer to that comes from the Department of Labor BLS Older Worker Budget which indicates what it costs an elderly couple to maintain a particular standard. This standard is then priced for different parts of the country. From these dollar totals, one can get an idea of what is required to provide a given standard of living. The question of whether that is a lower dollar amount than would be required for a younger couple, is I think a moot point.

We generally concede that living costs are lower for an older couple, partly perhaps, because we are accustomed to seeing them living at a lower level than a younger couple.

But we don't have adequate information on the drop in the amount of money needed in retirement. Perhaps this is one area we ought to study further.

Dr. Sheppard. University of Pennsylvania studied this and found if older couples got $10,000 a year, they found a way of spending it. Isn't that a great miracle?

If they had $3,000 a year, they lived on $3,000 a year. So you can't just use what the aged are forced to live on now as a criteria for determining what they should be living on.

Mr. Miller. Is it not valid to raise the question at this point whether it does not work the other way?

I have been struck by the great parallel between the median incomes reported and the Bureau of Labor Statistics budgets. They seem to just go along together and it is a question that has puzzled me, really, to which comes first, the chicken or the egg. Is it a matter of everybody spending what they get and if they get enough you are going to spend more?

Dr. Kreps, I had another question on which I would like a little clarification.

On two counts you refer to the 48 percent consumption level versus the 100 percent at retirement, and then the 27 percent versus the 100 percent after two decades of retirement.

Is this per person, or is this per family unit?

Because I think this bears a relationship to Dr. Brewster's question, not just with reference to the cost of living per person, but to one of the points that has been made about the need for a higher income in the younger groups because they have children to educate, their houses to pay for, and so forth. Has this been taken into account?

My second question is, in this 27 percent versus 100 percent, is this a dollar after taxes or before?

Dr. KREPS. We were working with the savings of a worker as he worked through his worklife. The question was, How much he had to save in order to maintain in retirement 100 percent of his worklife consumption level? We did not correct in this case for family size.

I doubt however that you would want to say that 48 percent—or 27 percent—would be offset by a decline in family size.

But none of this has any substance because in fact people don't save that way. We were posing the most optimistic set of circumstances—a case in which the man saved systematically and significantly throughout worklife.

Our point was simply to illustrate that even if he did observe the most stringent savings rules, he would not have adequate retirement income.

Mr. ORIOL. I think Professor Schulz had a comment.

Dr. SCHULZ. Yes. I just wanted to add to what has been said that in 1967 the 51st International Labor Conference discussed what should be an appropriate level of living income for old age relative to the level of living in the working years. A resolution was passed at that time which set forth a minimal standard, ratio of pension to preretirement earnings, of 45 percent, and further a recommendation was made that countries not be satisfied with 45 percent, but they should try to reach 55 percent.

This was a conference participated in by all the developed nations of the world and many of the underdeveloped nations. The point that I would like to make is that if you look at chart I again of the task force paper you see the status in this regard of one of the richest countries in the world, the United States. Trends in U.S. pension systems, even under very liberal assumptions, will not provide pension-earnings ratios for a large proportion of people in the future that meet these very minimal international standards.

I think we have to keep working on developing information and data as to what the appropriate pension-earnings ratio should be, but we do have some guidelines already set out which the United States is not meeting.

Mr. ORIOL. I would like to point out Mrs. Geneva Mathiasen is representing the National Council on Aging. Another thing. The original question by Mrs. Brewster asked whether consumer needs of the elderly are down because income goes down on this, and so forth.

Senator Church has scheduled a hearing of his Subcommittee on Consumer Interests as part of the 22d Annual Conference of Michigan, which will be devoted to going into this area of consumer needs very, very explicitly.

Am I right, Mr. Fichtner, in your prepared statement wasn't there some commentary about university professors coming up with certain minimum needs?

Dr. FICHTNER. Yes. At AARP we feel that the notion that older persons need less income than younger persons is somewhat of a myth and derives only from the fact that having lower incomes the elderly necessarily spend less.

There is one item on which I think the elderly need less and that is when you reach 65 and over you don't have to save for your old age. You are there.

Mr. ORIOL. But I do feel it would be good if you could save. Especially as the report says this retirement period is of indeterminate length.

Dr. FICHTNER. I fear that very few older Americans can put much income aside.

Mr. ORIOL. It is interesting that we don't really expect savings to occur in the retired generations.

Dr. FICHTNER. What you asked about was something that I drew from Mr. Greenough's report. I am a member of the TIAA and CREF; it is one of the best investments I ever made. His annual report for 1968 tells about the views of the AAUP, the Association of University Professors, and the American Association of Colleges.

Sometime ago they approached the question of what is a reasonable income during time of retirement and at that time they called for an objective of 50 percent of terminal salary.

A person who worked in a university 35 years would aim at 50 percent of his average salary over the last 10 years preceding his retirement.

But last year they made a change which I think reflects the impact of higher taxation and mounting inflation. Their objective now is two-thirds of the individual's disposable income during his last few years of full-time employment.

In other words, the goal is fixed on disposable income after taxes and after adjustment for inflation with one important addition; namely, due provision for the surviving spouse.

I believe the TIAA and CREF have alternative contract arrangements for one-half or two-thirds of one's annuity income for the surviving spouse.

Now, if you aim at two-thirds of real income during a period of retirement, that is a rather lofty goal to apply to other occupations. It would require considerable effort not only on the part of compulsory Government plans and a betterment of private pension plans but also incentives to the individual to effect a large part of the savings himself, such as the university people do through the TIAA and CREF.

But I think two-thirds is not unreasonable as a desirable goal.

Mr. GREENOUGH. May I comment on that?

Mr. ORIOL. Fine.

Mr. GREENOUGH. The goals there Dr. Fichtner has explained very accurately, but you have to watch that you don't jump to the wrong conclusions. The "half salary" in the earlier report that is available is roughly the same as the two-thirds "disposable income" salary. The changes he mentioned before retirement were in taking out income taxes and taking out contributions toward annuities, taking out the various extra expenses that are not available as disposable income, and taking account after retirement of the different tax status and reduced or eliminated contributions to benefit plans. The new two-thirds goal takes into account the addition of these things, so it made the goal much more realistic for a married person, for a lower pay person, and yet did not change the basic goal, about two-thirds of your disposable income, or half of your pretax income, being available as a retirement benefit.

Rising Aspirations

Now the question that Juanita Kreps asked a little while ago is very important with respect to how do we meet the rising aspirations of our people in this country—rising aspirations that must continue to rise at all age levels and everything else.

I was startled at the figure that in the group studied by your task force, half of the persons over age 65, I guess it was, had not gone beyond elementary school. These are the older people now in our society. Only 1 out of 20 was a college graduate.

We now have the aspiration of putting at least half of our children in this country through college, the most extraordinary experiment we have ever had.

Who is going to do this? The people who are working are going to do it in one way or another. The delicate problem that Mrs. Kreps was close to but not specifically mentioning was, where do you do that part of the job of providing old age income?

That is, the public sector can do something that no private structure can possibly do. It can transfer income from one group, one person, one age level, one aspiration level to another. The private sector can't do that.

But at the same time the public sector involves a transfer payment from one section of the public to another. If at the same time, as I mentioned in earlier statements, we do those things tax wise to change our private pension system from being one that emphasizes the employer's needs and emphasizes the needs of one employer to what might be called a "pensions are for people" approach—it is the people covered, not the employer, that are really important in pensions—and build on that, then the productivity in our society brought about by the very capital investment in the pension plans can flow through to the retired people and at the same time increase the income of the young people.

So the division of function between the private and public sector is an extraordinarily interesting one and difficult one to hit a right level for the energy of an entire society.

Mr. Hutton. Mr. Chairman, I first wanted to comment—I agree with Dr. Sheppard that the statistics today on the elderly and their needs are extremely misleading in terms of the Bureau of Labor Statistics as to the question of what they need and what they do not need. Most of our older people actually have to begin their lives with decisions of what they must give up in order to eke out an existence. For them it is a question of having to assess various priorities in their lives, and some of them have some very cruel choices to make.

They have to decide sometimes whether the money which they make—which they have available this month—is going to go for food which they need to survive or is going to go for drugs to kill the pain of arthritis or other chronic conditions, and that is a very cruel choice for older people to have to make. Older people could have their incomes increased to $3,000 and $6,000 a year and still would not remotely be able to reach the standard of living of the worker, and this business of a cost-of-living increase without a matching rising standard of living of the worker himself, this is where this gap really occurs.

I think that I have to agree with Dr. Schulz here that the United States uses less of its national wealth for the social welfare of its citizens than any other advanced industrial nation. Before I came to this country 20 years ago I was a foreign correspondent. I had visited 67 countries of the world and I can tell you that we are so far behind all the little countries of Europe. I am proud of this Nation. I am real happy in America and I think it is a great land, but the one really sad feature is how little we help our older people. It is so criminal, really, that a nation as great as ours which is reaching a trillion dollars in gross national product can do so little for the aged.

MODEST RESULTS FROM 50-PERCENT INCREASE

First of all, what we have to understand is that if social security benefits were increased 50 percent which many of us are asking for now, the average single retiree's benefit would still be only $1,764 a year and elderly couples would still receive $2,970 a year.

Only the most modest needs in America would be met even if we had that 50 percent increase.

Now in conjunction with such an increase in benefit levels, obviously you have got to have a substantial increase in the contributions and benefit basis in social security.

I think it is imperative the fact that that base be kept up to date with changes in the earnings levels and I think that already the failure to do this has had very serious effects on widening of this gap.

I think to provide the aged with the adequate living standards they deserve, the contributions and benefits base should be immediately raised to $15,000 a year. In that way the same proportion of persons would have that entire earnings covered as was the case with the $3,000 earnings in 1935 and the wage base should rise automatically as the levels in wages rise.

In this country it is high time, in fact it is long overdue, that we decided on sharing social security financing with general tax revenue contributions.

Mr. ORIOL. Mr. Hutton, what reply do you give to those who say the kind of benefit increase you just described are inflationary?

Mr. HUTTON. I can't see really how vastly inflationary all this really is. You would have to work hard to convince me that giving older people a chance to live and survive is going to break a nation as strong as ours. With a gross national product of a trillion dollars, if we can't work out this problem, I would be greatly surprised, though I am not an economist.

I sometimes feel that maybe you need to be an economist to understand the social security system, but I cannot understand why we can't solve this problem. It seems to me that not to do so, not to increase social security so the older people have a decent living, is criminal.

I mean we know enough about life today to know that our elderly people are being deprived. Millions of older people in this country are having a lousy, miserable life and we don't seem to do anything about it except to give them just a little bit to keep them alive a little bit longer.

A 7-percent increase, for example, is lost already in the rising cost of living and the elderly are not going to benefit at all. We have a system even worse than that. We have a system in this country where the poorest of the elderly poor—even when Congress decides to get magnanimous and give them a 13-percent increase because they happen to be so poor—lose the "raise" which Congress gives them. Because the poorest are also on old-age assistance, the State takes their money away from them when social security is increased.

These are such desperate problems for the old people concerned. For the life of me I can't see why this should not be the biggest problem in Government today and the first priority.

Effects of 86 Percent Increase

Dr. Schulz. Could I just reemphasize the point Mr. Hutton made? Mr. Hutton talks about a 50-percent increase in social security. I made a projection assuming an 86-percent increase in social security benefits over benefit amounts specified by the 1965 Amendments to the Social Security Act, which is approximately a 6-percent annual increase in social security benefits and I projected to see what the retirement pension income of older people would be like in 1980, given this large increase.

Just one finding from that projection, for example, shows that over one-third of the retired couples in 1980 are projected as having, even given this very substantial increase in social security, total pension incomes—not just social security—of less than $3,000.

Now we all, I think, recognize that $3,000 worth of pension income today—not even talking about 1980—doesn't go very far. The finding dramatizes very well the fact that when we talk about a 50-percent increase in social security, we are really being very modest in our efforts to solve a very tough problem.

Mr. Schuchat. I would like to address myself first to the question that Mr. Hutton raised about the possible inflationary impact, or the question that you raised about the question of inflationary impact in case of an increase in social security. As long as the trust fund is collecting more contributions than it is paying out in benefits, benefit increases are not going to be inflationary and if Congress wishes to raise the benefits and avoid contributions to inflation, they have only to enlarge the wage base to alter the tax rates, and I am not willing to fix the contribution rates.

There is no reason why the social security tax rate should not be as progressive as the income tax rate. There is no reason in logic why the contributions have to be identical for the employer and employee.

There is a great deal we can do on the contributions side to assure sufficiency of funds and to negate any possible inflationary aspect.

There is one other point I wanted to make before we get further into discussions because it has been mentioned several times, and that is the question of what we are doing in this country, the treatment that older people are getting in this country in relation to that of other advanced countries.

That was mentioned this morning and has been touched on. There is an unfounded belief that our tax burden is rising, that our social welfare programs are burgeoning, that our economy just cannot support larger programs for the dependent groups in our midst including the aged.

Although unfounded this belief is fostered by many spokesmen who should know better and some of them are in the government.

Are taxes too high?

The OECD reports that our total tax burden as a slice of gross national product is less than that of five other industrialized free nations: the United Kingdom, Germany, the Netherlands, France, and Sweden.

(Comparative tables follow:)

How Much Welfare Can We Afford

It is a common belief that public expenditures for welfare and other poverty-related measures in the United States have reached intolerable "crisis" proportions.

The following comparative tables may be helpful in evaluating this assumption. It should, of course, be noted that these are national averages and do not, therefore, deal with the serious problem of discrepancies in expenditures among the various states and localities within the United States.

I. *Total tax burden as percent of GNP*

(Source: OECD):	*Percent*
United States	28.2
United Kingdom	30.3
Germany	34.8
Netherlands	35.7
France	38.6
Sweden	41.1

II. *Total welfare benefits as percent of national consumption expenditures*

(Source: ILO):	*Percent*
United States	7.6
Japan	8.3
Canada	12.4
United Kingdom	13.5
France	18.6
Austria	20.8
Western Germany	21.0

III. *U.S. Federal, State, and welfare expenditures (not including social insurance and education)*

	Amount	Percent of GNP
1939 to 1940	$4,900,000,000	5.2
1949 to 1950	11,400,000,000	4.3
1959 to 1960	14,900,000,000	3.0
1965 to 1966	23,400,000,000	3.3

Source: Social Security Administration.

IV. *Public assistance as percent of personal income totals*

(Source: Social Security Administration):

1940	3.4
1950	1.0
1955	.8
1960	.8
1965	.8
1967	.8
Sept. 1968	.8

Are our welfare benefits too high? Reference was made this morning to the International Labor Organization, the U.N. agency to which this

Nation adheres. The ILO reports that our total welfare benefits as a slice of total national consumption expenditures are lower than that of six other highly industrialized nations: Japan, Canada, United Kingdom, France, Austria, and Western Germany.

Are our public expenditures for social welfare getting out of hand?

The Social Security Administration says that Federal and State welfare expenditures (not including social insurance and education) have declined as a share of gross national product in the last three decades. That is table III. They have gone down as a result of GNP from 5.2 just before World War II to 3.3 percent in 1966. Are we spending too much for public assistance?

The Social Security Administration reports that public assistance expenditures as a slice of total personal income have been stabilized since 1955. That is table IV.

Mr. ORIOL. By public assistance do you mean all programs that are usually called welfare?

Mr. SCHUCHAT. Yes. In the 1950's we were putting 1 percent of personal income into this and from 1955 we have been putting 0.8 percent of personal income, and when people talk about going up in the first place it is not the elderly on the rolls going up. Even if you add younger people on the rolls they are not going up and they are not bankrupting us.

Now my point is that there is no crisis in the financing of public programs for the aged or for any other groups that benefit from these social welfare expenditures. As our economy grows, more dollars are available for these even if their relative share remains relatively fixed and in fiscal terms there is ample room to enlarge the share of these without bankrupting the United States any more than the United Kingdom, Canada, France, Western Germany, and Sweden, the Netherlands or Japan are bankrupting their economies by higher welfare outlays proportionately than we are making.

Those countries have stronger currencies on the international market than we do. They are not bankrupting themselves.

Dr. SHEPPARD. I just wanted to come back to a major point but before that make a quibbling correction of something Ted said.

I don't think it is quibbling now that I am working on some urban problems. Some of these welfare problems are crippling cities because of the way we finance our welfare programs, which is an argument in favor of some Federal financing or maybe 100 percent Federal financing on this, but that is another seminar.

I think we still come back in all this to the need for comment here from Mr. Greenough on the feasibility of adapting the concept by the public sector so that we can get beyond the hangups we always end up with when we deal strictly within the traditional ritualistic social security framework.

How can we adapt this idea of gearing our framework—gearing our retirement income mechanism to a rising standard of living that our country is capable of?

Mr. ORIOL. Dr. Sheppard, to build upon your question and lead to one I was going to pose, in fact I was going to address this to Mr. Greenough or Dr. Sheppard, the task force report had some very kind words to say for the idea of constant purchasing bonds, and when I first heard about it it just seemed to me like another reward for saving:

those who can put aside the funds during their work years could receive the benefits of having done that at a later time.

Then it was explained to me that the same thing could be done perhaps on a much broader basis by having the administrators of pension plans link into a constant purchasing power bond idea.

My question is very similar to Dr. Sheppard's, can that sort of thing be done on a much broader basis using your experience as a guide?

While you, Mr. Sheppard, are thinking that one over before we completely leave consumers I would like to ask Mrs. Mathiasen about some comments she made some 2 years back about the modest but adequate budget of the BLS at that time. You called for reform because this was based on certain unrealistic premises. Have you had a chance to analyze the 1966 moderate budget for an elderly couple and do you think that significant improvements have been made, or do you see big gaps ahead?

THE B.L.S. BUDGET

Mrs. MATHIASEN. I think it is just about the same as it always was, actually, somewhat updated to take into account inflation, but if you translate it into goods and services, it still is woefully inadequate in terms of what any one of us, I am sure, would consider an adequate standard of living.

If I may, I should like to make one other comment which I think is relevant to the questions you have asked.

I must say that I think we need to clarify a little more what is our big problem in getting this job done, the sharing of benefits of a growing economy in the country. I believe that our biggest job really is to show that it is possible and desirable.

We had a seminar, as you know, a couple of years ago, on "Technological Change and Retirement."

With some distinguished scholars participating, there was not an economist there who seemed to think that either providing retirement income as a proportion of gross national product or employment for all those people who want to continue to work is a big economic problem.

Apparently, if we want to do it we can work out how to do it.

If economics is not the problem, then it becomes important for us to put forward this kind of vision. It seemed to me the great thing about the task force report was that it made this concept of sharing in abundance seem like something that can be realized in the future once the concept is accepted. Our big problem appears to be to convince the people who are in a position of authority that it is a feasible and it is a desirable goal.

Mr. ORIOL. Professor Kreps, you indicated before you were about to take us in a new direction here. Shall we do the question I had to Mr. Greenough and Mr. Schuchat before we get into yours?

Dr. KREPS. Yes.

Mr. GREENOUGH. I think it is most important in this area to keep the economy growing. Nobody doubts that, and the greater the product thrown off by the economy the more we can transfer payments, the more we can increase payments all the way around and take care of educating our kids all the way through college and everything else.

It was 20 years ago when I became terribly worried about the cost of living and inflation problems and gave a good deal of thought at that time to how we could solve the problem, and the CREF development came out of that thinking.

At that time I thought that about the last thing any country should do was to have a cost-of-living-escalated bond. I thought that the pressures on a country to do those things that result in inflation, to have overly full employment, to finance wars by inflation rather than from taxes, and to get into the wars in the first place, was bad enough without adding cost-of-living escalators to Government bonds.

To do all of those things without facing up to some of the methods that will keep the price level straight, I thought was most unfortunate.

Twenty years later I don't see how I can come to any other conclusion but that savers should not be among the only persons paying, through inflation, for certain things in the economy. We were asked, when we first set up the CREF variable annuity if we were not removing the college professor from the fight against inflation.

We said, "Well, if so, too bad. He has been there too long, as have Government employees, retired people, and the rest of the people who have been really hurt by inflation while a great many of the citizens have not been."

The saver is in the same spot now and I really don't see any reason why we should not have purchasing power bonds, not only for retirement purposes as such and investment in retirement funds, but, if you will, a special kind of account in savings banks where the savings banks could invest their money in purchasing power-escalated funds.

We have witnessed a shift in 20 years from talking about common stocks and equities as being risky, and fixed dollar bonds, good old, solid bonds of our corporations and our cities and our Nation as being risk free, to the place where we are now demanding a premium for risk on bonds and we are going into common stocks to the place where you have got the yields quite low on the common stocks side of it.

Now, as a final point, you again asked how do you share the productivity through the public sector? The increasing productivity?

I do not think there is an answer to that. Maybe Dr. Kreps can comment on it. That is, any answer other than transfer programs. A decision by the political structure to make transfer payments. I have already said that a goodly amount of income transfer is quite good, going to the college education age, to the poverty groups, to the aged, and all that. But to do this through the CREF mechanism in the public sector I believe is impossible.

I think it would be quite inappropriate to have the social security trust fund or a second fund invested in General Motors, invested in General Electric or in IBM. And the rest of it. If you do that yes, the productivity of the private sector can come through. But I doubt if the Government is the structure for that kind of investment.

Mr. ORIOL. Mr. Schuchat.

Mr. SCHUCHAT. Yes. I can associate myself with Mr. Greenough's comments with this caveat. I am not completely sold on the constant purchasing power bond. I certainly agree there is a problem of transfer payments, and it is a problem as the task force points out of increasing the personal savings.

Now I would have that—I think it is unrealistic to expect people to save more in the face of continuing inflation as we pointed out this morning.

POSSIBILITIES FOR PRIVATE PENSIONS

I feel we could do a great deal more through the private pension system without neglecting continued improvements in social security.

I think first of all of assuring increasing vesting—requiring some minimal level of vesting—and increasing portability so the benefits that are funded are in fact available. And I don't know why Social Security Administration can't now say to employers, that if you will report vested benefits to us, say the name and social security number of the beneficiary, we will attach that information to his wage record and when he applies for his social security benefit we will remind him that 20 years earlier, 25 years earlier, he accumulated X years of credit in the XYZ retirement program.

All right. We can plug up that leak. Then I think we have to require funding of these benefits. We have to require funds, pension funds to work toward a much higher level of funding over a period of time.

Then the problem of insuring the funds against plant closure termination, that sort of thing; that is a lesser problem we know how to do that. The Swedes do it. The number of people affected there is not as great although I want to point out we know virtually nothing about number of people affected by mergers and the number of pension funds merged out of existence.

Mr. ORIOL. Why don't we know? What are their reporting requirements?

Mr. SCHUCHAT. Well, I think it is a great mystery and a great maze and none of the agencies have the academic people. I was interested in that the new Assistant Attorney General for antitrust has expressed himself being concerned with the human problems in the merger wave and I called up to ask one of his assistants whether he had in mind the phasing out of the pension plans and he had not thought of that one.

He had been thinking about the problems of the executives who get kicked out when the company is merged. My last point is I believe we are going to have to put some requirements not only on the amount of funding of private pension plans, but the manner of funding.

INVESTMENT OF PENSION FUNDS

The business of allowing the firm to invest the pension fund in its own securities, in mortgage loans to the trustees of the fund, that sort of hanky panky, I think we are going to have to use the pension funds to meet some of the social needs of the society as well as assuring quite a satisfactory yield.

We have said to the banks and to the insurance companies: A stated proportion of your assets have to be invested in certain ways. And I think we are going to have to say to pension funds that not only must they find and strive toward a target of full funding or something closer to it than they are now, but that a certain proportion of their assets are going to have to be invested, for example, in State and local bonds which finance public improvements which are badly needed. The projections of the Joint Economic Committee a year or so ago are so large that the bond people don't know how these needs are going to be met and I would suggest that we are going to have to turn to the last big unregulated source of money in this society, and that is the private pension plan.

Mr. ORIOL. Senator Williams, as you know, is also chairman of the Labor Subcommittee, which has jurisdiction over some of the things you mentioned.

Dr. FICHTNER. Mr. Chairman, may I address a question to Mr. Greenough who stated that the transfer of the annual growth factor of productivity through the public sector would have to be through transfer of payments.

I assume that this would be a transfer payment through the general tax revenue rather than by an increase of the social security tax. You inferred that you would add to the social security benefit a factor attributable to the growth rate of the economy.

Would that be financed through general tax revenue?

Mr. GREENOUGH. I did not comment on whether that should be done. I said it can only be done as a transfer payment, not as an increase in the total product itself. You are suggesting the possibility of doing it through the direct taxing route. And I don't see how you get it out and away from the worker—I don't see how through the direct tax route you get it to the retired person in the public sector except in the two ways we do it now—the social security system and old age assistance plus the various welfare and poverty programs.

Dr. FICHTNER. It seems to me that it would have to come through the income tax source rather than the payroll tax source to be equitable if you are trying to compensate the retiree for the annual, say, 2 percent increase in the annual productivity factor.

Mr. GREENOUGH. Maybe Dr. Kreps can comment on this. Just what factors would you choose? If you try to bring in a specific productivity factor as was proposed in 1961, I believe, in the White House Conference on Aging, and at other times, if you bring in a productivity factor, what would you use? We know what a cost of living factor is, we know that the index, while by no means perfect, while by no means reflecting accurately the costs of a kid in college versus a person who is working versus a retired person, still is pretty good. It is really quite workable.

But, on the productivity index, I never understood whether the suggestion was that you pass on the hourly wage rate during a time when you are either reducing or increasing the number of hours worked, or an annual average wage of some sort, or just what we are going to pass on, and I am not even certain just how good the figures themselves are.

Dr. FICHTNER. Possibly Dr. Kreps would like to comment on that. I assume it has something to do with the deflated gross national product figure on a per capita basis.

Dr. KREPS. In the European economies, Western Germany for example, it is the annual change in wages. This is supposed to reflect both the productivity increase and any increase in prices. This could be a rough guide.

By way of summary, may I just note then it seems to me we have in the course of the day made several distinctions that are important to review quickly for the record?

Analysis of Distinctions

We distinguished very early between the corrective that is necessary to offset the cost of living change and the corrective that may be necessary to keep retirement income apace with wage incomes. This is an important distinction which I submit has not been made very often in the past.

A second distinction is that between the incomes of the present elderly (or the economic status of the present elderly), as contrasted with what we expect to be the income position of the future elderly. This is a point which Professor Schulz has emphasized in his projections.

There is also the issue Commissioner Ball was raising this morning: How much should social security become a vehicle for preventing poverty, and how much should it be a system for replacing earnings?

It seems to me an important question for us to raise because it may suggest, for example, that social security benefits should be used for replacing earnings, and that we need some basic income for everybody, regardless of his past earnings records, which would be financed perhaps out of general revenues. Then we could put on top of that guaranteed minimum income the wage-related social security benefit. This has been suggested by Eveline Burns, by Margaret Gordon, by many other economists.

There is finally the distinction between reallocating this year's income or product (that is, reallocating 1969's output of goods and services) over all the people in the economy in 1969, as opposed to retiming the receipt of any one man's earnings over his lifespan. It seems to me that here we get involved in the dichotomies that we spoke of this morning. The question of whether to take goods away from the young and give them to the old is a legitimate one. What we are trying to achieve is a system in which a man reapportions in some more sensible fashion his own lifetime earnings, spreading some of these earnings into the retirement span.

But at any point in time what is being produced must be allocated among all the consumers in the society. In the year 1969 it becomes a question of allocating the 1969 output of goods and services. This division of the tótal product is made on the basis of income claims, the arrangements for which we make through social security benefits, private pensions, individual savings, et cetera.

You have a glazed look which tells me that I have not stated this well at all.

Mr. Miller. I would like, Dr. Kreps, to say that I think you have stated it beautifully and I think you put your finger on one of the things Bill Hutton is most concerned about.

I think you have played a role in making a distinction between the percentage increase in income to the person related to what they have been able to accumulate before retirement on the one hand, and the more pressing need, which is meeting the needs of those who, as you put it, were not able to allocate sufficient funds in their working years to take care of themselves.

I think that this is most essential. I think that Bill Hutton and I would agree that those people in the low-income group are the ones that have to be taken care of before we solve the other problem—and with reference to Ted Schuchat's comment about the public assistance—I think anyone who has looked at the record and sees you have approximately the same number of people on old-age assistance today as you had 10 or 15 years ago knows this is not due to an elevation in the position of the lowest portion of the older people. It has been due to a failure of the old-age assistance as administered by the various States to face realistically the rising costs and the needs of these people if they are going to have even the barest minimum of existence.

Mr. HUTTON. I thought it was excellent, and I would like to suggest some particular areas for priorities for older people who are living on pitifully low, inadequate insurance benefits.

THREE AREAS OF PRIORITY

I think there are three areas. First, obviously, is a substantial increase in benefits. For the social security system, we have to accept an adequate raise in social security benefits so that they more closely relate to wages.

Second, I think that I was quite astounded by the number of people who retire before 65, as I understood this morning, and I think that perhaps provisions allowing for retirement at age 60 at a rate that does not impose such a deep actuarial reduction as it does now, a very severe actuarial reduction. Another thing I was struck by is that many older people just cannot do the work that they were engaged in when they became 65, or even 60 or 61, yet they cannot be covered under the stringent disability definitions that we now have.

Currently, it requires that workers be unable to participate in any substantial gainful activity. This is very hard on older workers, who frequently suffer from chronic ailments, which make it impossible for them to work in their usual occupations. But they perhaps could do something else. In theory, they are still capable of working in some kind of job, however unrelated to their previous occupation, and so they are unable to meet a definition of disability.

There are three steps right there which I think would be very, very important.

Mr. ORIOL. While I am not too far away from Dr. Kreps' statement on being back to those who transfer from today's income, I think that most laymen, in fact even some of the newspaper reporters who covered the task force report, have a vision of today's middle-aged taxpayer—as Senator Williams said in his statement this morning—this middle-aged taxpayer, who is paying off his house, trying to get his youngsters through school, perhaps taking care of an older parent, and somehow, as you reported, is not quite prepared for his own retirement, I think that most laymen when they hear this word "transfer," think of it as somehow making that middle-aged taxpayer cough up something else.

In economists' terms, does not transfer suggest a national decision, a national method of allocation? For example, if we did not have the Vietnam War, right now, and have high military expenditures, we would be in a position to make national decisions on what kind of transfer?

Could you comment on that, as to what transfer really means?

Dr. KREPS. A transfer payment is a shift of a money income claim to a person who does not earn it in that period.

Dr. SHEPPARD. Through a public mechanism. It is not literally from x to y.

Mr. ORIOL. That is not x to y. It is a pooling, and a redistribution?

Dr. KREPS. Transfers can be accomplished through the private sector as well, as in the case of private pension plans, for example.

Our sympathy for the family head who has more obligations than he can meet, and our reluctance to tax him further to finance improvements in the incomes of the present generation is, of course, understandable. At the same time, we recognize that the level of support he gives to present retirees largely dictates the level he himself will enjoy when he retires. He must support the now retired, in return for which the workers of the future will support him. That is the nature of the intergenerational transfer. It is therefore misleading to view one's payment of a Social Security tax as unrelated to his own retirement income; the only way he can prepare through the public sector for his retirement is to support those people who are now retired.

He cannot, given the nature of the economic process, store up goods and services. As Herman Brotman pointed out, he does not go into retirement with a basement filled with goods and services. He goes into retirement with the income claims that he has acquired by reason of the fact that he has been supporting people who were in retirement. So we have some educating to do on the question of who supports whom, when, and how; we have done a very poor job of explaining to the people the nature of the intergenerational transfer.

CONFUSION ABOUT SOCIAL SECURITY

Mr. MILLER. Is this problem not complicated, particularly with reference to social security, by the confusion in the minds of the public which exists as to what social security is, as well as in the minds of the lawmakers?

For example, it has been described today as the replacement for earnings. It has, although not in this blunt a term, been described as a relief program.

As I recall today's hearings, at no point has it been described in the word which says what OASDI means to the average citizen. He regards is as an annuity.

Is it a relief program? Is it a program to replace earnings? Or is it an annuity?

Mr. ORIOL. I think one of our witnesses tomorrow, Mr. Pechman, will say that it is a built-in contradiction. I think he will discuss this further.

Mr. SCHUCHAT. I would like to add a brief note to Dr. Kreps' comments. That is to recall that we had much the same problem in explaining the desirability of Medicare, and it was not until the message got through to this hypothetical but very real middle-aged taxpayer that Medicare was going to relieve him of a burden, it was not going to be so much a benefit to his older relatives as it was going to be also a significant benefit to him, that is when the bill went through.

So the message can be gotten across, and the working segment of the population can learn that these transfer programs are to their benefit as well as to the benefit of the dependent nonworking segments of the society.

Mr. ORIOL. One of the groups of Americans who should be most interested in these hearings, and all that follow, are middle aged and younger. They have a direct concern in what has been said here.

Mrs. Mathiasen has a question, but before we do that, I would like to be arbitrary, if you would let me, and say that after this question we could begin perhaps with Professor Schulz and just go right down the line with your comments on what you think in the remaining hearings, and these hearings may go on for months, we should try to get more information on, subjects that we should explore. Let's put it that way.

I said I would be arbitrary, but if we want to continue this conversation until about 4 o'clock before we get into this down the line thing, we can do that.

Mrs. Mathiasen.

Mrs. MATHIASEN. I wanted to say that I think that, in reality, the only people now who retire with anything approaching an adequate retirement income are those who have a combination of social security plus a private pension plus some savings, although the latter may be in the form of homeownership.

I have a feeling that barring some political miracle, this will be the case for the immediate future, at least, not knowing how long it would take to bring about any other situation.

Therefore, reluctant as I am to talk about programs which benefit only a part of the retired population, I should like to ask Mr. Greenough a question about what possibilities he sees of extending private pension income. I think we know that this program has apparently hit something of a plateau, and that there are many problems now in providing private pensions to those people who are not already in some kind of pension plan.

It apparently is relatively easy to provide a pension plan for people in certain kinds of related employment, like university professors, health and welfare personnel, and so on. Is there any possibility that some of the lessons that have been learned through CREF can be applicable across the board for a number of miscellaneous small companies that would like to provide pension plans if there were a mechanism through which they could do it?

Mr. GREENOUGH. I should like to comment on that.

I think so, and I suspect at this point it is the private sector that can be most helpful.

Private pension systems, except those for college professors for unusual historical reasons, really grew up as one-company pension systems. One company had a program. It had to do something about the fact that it was dumping people, literally, in the town where it has a plant, with no income, so they set up private pension plans, and those continued to develop.

The greatest development, as you know, was during wartime, during wage and hour controls, and then after Inland Steel in the late 1940's. But all of it was a "one company" development. The regulatory provisions built up both at the Federal level and at the State level, and in the tax laws, again take account only of the one-company structure and fail to take into account the desirability of transferability of benefits.

EARNED RETIREMENT INCOME DEFERRAL

Geneva, since the time is short here, I did give a lecture at the Huebner Foundation last year in which I suggested consideration of what I called an ERID program, Earned Retirement Income Deferral arrangement, whereby the tax exemption for the cost of the company's contributions to the pension plan would only be given when the money was paid in on an individual's account and irrevocably dedicated to that individual, not to the pension fund, and only after vesting and full funding, which you have already mentioned, had occurred, so that the individual could take his pension right with him.

Without complicated arrangements and social security keeping records or anything else, the pension could go right with him. I think a good deal of attention needs to be given in the public and private sectors to encouragement of this kind of thing. Again, considering Dr. Kreps' definition of horizontal as well as vertical transfer situations at the public pension level, this kind of transfer from one person or one generation to another does not have to occur, because you can increase the total product. Really, it is our tax laws and our regulatory situations that are starting to delay this development at the present time.

SAVINGS THROUGH HOMEOWNERSHIP

Mr. ORIOL. Mr. Burk?

Mr. BURK. There was one comment a little while ago that the savings of our people might be in the form of a home. According to a number of letters I have received this year, sometimes owning a home is a liability rather than an asset, in that with the urban problems that we have, the taxation has become so great that they can no longer afford to pay taxes on the home, and the upkeep of the home, and provide food for themselves on the amount of income that they have.

They have to sell their home for what they can get for it, and go into some sort of retirement living and try to subsist on what level they have left.

This was just one brief comment.

I would like to address the other comment primarily to the economists in the group.

When I went into civil service, in 1929, and we were at that time paying a portion of every wage, every check, for retirement income, about that time the law was changed, that permitted retirement at age 62 at $100 a month. This was marvelous. In 1929, if you could have retired at $100 a month, you would have had no problems.

So we thought, "Well, now, if we could just manage to live until we reach age 62, and hang on to this job, we will be in tall cotton."

Well, the fact of the matter is that before I reached age 62, I dreamed of the day that maybe I could retire at $400 a month, and even at $400 a month there is a problem.

It is not all the younger people who have these kids in college, incidentally. I have a boy who will go into college this next fall, I hope, or will go into service, one or the other.

I have another young man who is 24 years of age, who has been turned down for the service, who will go into private employment this year, at wages, incidentally, higher than those that I retired from.

But my question that I would like to address to the economists is this: How much should that young man have to plan for at the time of his retirement at age 65, some 41 years from now? On what basis could he make an estimate?

My basis 40 years ago was way, way below what was necessary at the time of retirement.

Mr. ORIOL. Do we have a volunteer?

Dr. Schulz?

Dr. SCHULZ. Well, the question you ask is an impossible question, and I think you know it.

It is a good point to make that the problem facing the younger person in planning for retirement is a very complex one, and I as an economist planning for my own retirement, have a very difficult time juggling all the variables. I have great sympathy when I think about the people without technical training in this area who have to worry about it.

I think the task force paper has tried in various parts to highlight some of these problems facing people in planning for their own retirement, and in my statement this morning I pointed out that I felt very strongly that the individual alone cannot really do an adequate job. This is why I feel that it is good to have something like a social security system which can react to such things as a depression of the 1930's, an inflation following World War II, changes in the rate of growth that we cannot foresee right now and other unforeseen circumstances. To have a public system which can react to these things provides individuals with a more secure basis to build upon for their future economic security.

I say it is a very difficult question. I don't think there is any one answer as to what hypothetical level of pension income toward which I should be working.

PENSION FLEXIBILITY

I think we have to develop flexibility in pension institutions and our own personal planning to provide for some of the eventualities that will occur but cannot be completely anticipated.

Mr. BREWSTER. I would say he would be a very unusual man if he was worrying about retirement at age 24. When we get to the 50's and so forth, and when you can see the possibility and know you can count on social security and some other things, then you do a little more planning.

Dr. SHEPPARD. May a sociologist who minored in economics answer the question?

Mr. ORIOL. Go ahead.

Dr. SHEPPARD. My practical advice to your son is to tell him to continue in college, get a Ph. D., go to work for a university that has the TIAA-CREF, and along with social security he has basically his retirement problem solved.

It is the least risk approach I think to the problem.

In the meantime, I think we have a widespread social obligation to educate younger people about the fact that they are not going to remain under 30, and it is high time we got unafraid of the younger generation and talked back.

Mr. HUTTON. He could become a Congressman.

Mr. BURK. I appreciate that comment, Dr. Sheppard. The only thing is, I have put this man through two degrees. I have another one coming along, besides the other three that I put through one degree, and the time has come that I can no longer finance him to get this necessary doctor's degree that you speak about.

Thank you.

SUMMARY STATEMENTS

Mr. ORIOL. Shall we now begin our down the line discussion of points that you think should be covered before this study is concluded?

Let me also remind you that the final report by this committee should be very helpful in the preparations for the White House Conference on Aging in 1971.

Perhaps we could begin with Dr. Schulz.

DR. SCHULZ

Dr. SCHULZ. Three points: First, I just want to react to something I think I heard Mr. Miller say.

Mr. ORIOL. Mr. John Guy Miller?

Dr. SCHULZ. Yes, as to what our priorities should be. There are two questions, as posed by Dr. Kreps. One is the question of the current aged and their problems, and second is the question of the future aged. I want to say that I think that we can attack both of these problems simultaneously.

I can, as a taxpayer, be in favor of supporting the current aged population—realizing the times that they went through and the problems they have. At the same time I can be willing to forgo some current consumption from disposable income in expectation of higher retirement income in the future.

With regard to things that the committee should look into in the future, aside from those which have been highlighted in the task force paper, I would like to mention two.

First, I think that we should be more concerned about assessing the strengths and weaknesses of the highly innovative public pension plans in various other countries, particularly West Germany, Austria, Sweden, and Canada. I think we can learn a lot from their experiences.

I have surveyed the literature in English which describes these programs and evaluates them. I can report that there is little published information. We know the details of the various programs, how the laws read, and how they are set up, but we have very little evaluative information on the results of these new and, I think, in some cases very good pension programs.

Second, I think we lack sufficient information regarding the operations of the various private pension plans in the United States.

This committee can call in the Commissioner of Social Security to testify, as happened this morning, but it is much more difficult to call in the thousands of representatives of the various different types and varieties of private pension plans. It is not as easy to find out what is happening and what their goals are for the future, given the fact that private pension operations are highly decentralized.

It is one of the advantages of the private pension system, that it can take into account the great variety of presumably individual preferences of various industries and various types of workers. However, this advantage makes research in the area of private pension plans much more difficult. It is much more difficult to generalize about what is happening.

I think, however, we have to begin to gather a lot more information about the range of activities that are occurring. Just to cite one example of the kind of questions I think we should be asking, we talked today a lot about the variable annuity, the experience of CREF. Yet we really don't know, I think, how many private pension plans are operating in a manner similar to CREF. I think the number of them is very small.

One thing that should be considered is the possibility of more of these private pension plans taking the gains they are receiving from their pension fund investments in corporate stock and passing them on to the workers, as in the case with CREF. Instead of reducing the cost of private pension plans to the employers, which I think is now the most common practice, private pension benefits could be increased.

Mr. ORIOL. Mr. Hutton.

MR. HUTTON

Mr. HUTTON. Two things occurred to me. I am struck by the general lack of knowledge about our social security system on the part of the worker, and I know that in private industry when there is an idea, such as a new insurance policy, private industry throws a terrific amount of money into getting that down informationwise to the public.

I think that, if our workers had more knowledge about what social security really does, and what it does cover, we might have many more people who are interested in the problem of retirement, and I would like to feel that Government could back up knowledge about this plan, our social insurance plan, even though, Mr. Miller, we might not all be able to describe it correctly.

The social insurance plan as such has been agreed by the laws of Congress. We have a Social Security Act. I think if this was publicized by the Government to the extent that private industry does for private insurance programs we would have a great deal of understanding of this system, which would help us to improve the system.

The second thing is, I am concerned about the fact that every time the country has a war, or the problems of financing some struggle anywhere else, the first people who suffer are the older people.

They always held out promises of helping them a little bit more, but then suddenly it gets tightened up whenever there is a real problem.

I think we should have a look at how many times they have had to retrench on social welfare programs, just because of problems of our military engagements around the world.

Finally, I don't think that the people of the United States are ready to retrench one bit from a good social welfare policy, but I am afraid that the politicians are terribly overanxious to stand pat, and it takes an awful lot to move them.

I wonder whether we might not talk about how we can, all of us who are involved in this thing, get our knowledge across, or get our experiences across, to our lawmakers, who seem to be woefully behind the people when it comes to improvements in social welfare.

Mr. ORIOL. Dr. Fichtner.

DR. FICHTNER

Dr. FICHTNER. I have 6 points. Some are a duplication of what Dr. Schulz mentioned.

One, I think we need a comprehensive survey and study of private pension plans.

I tried to find material on this subject from various private and public sources. All reported they had very little.

Second, we are particularly concerned at AARP with the deteriorating economic situation of older retirees, those who retired 10 or 15 or more years ago. We feel that in most private pension plans there has been very little recognition given to an adjustment upward in the benefits to these older retirees, but we do not have much factual information on that subject.

We do have information in NRTA on State teachers' retirement plans, many of which have upgraded benefits rather substantially on a percentage basis but since they began generally at a low base, the present benefits are not extraordinary.

The third point is that, as remarked, there is needed an institution like CREF for many smaller pension plans.

I organized two pension plans when I was in private industry. In Buffalo, each of our two large banks offered pooled pension plans for smaller employers; both were quite successful. Both invested funds substantially in common stocks, as does CREF, but here is the rub. The capital gains were used I think, for the most part, but not always, to reduce the employers' cost, rather than to extend benefits of the older retirees.

I think there is a possibility of encouraging employers to recognize the plight of older retirees from this particular source.

Mr. ORIOL. Do you see any way in which there could be a governmentally supported incentive for this sort of thing?

Dr. FICHTNER. I suggested this morning that the IRS, through its firm control over private pension plans, might insist for continued qualification that some recognition be given to adjusting the pension benefits of older retirees to correspond somewhat to the benefits that normally increase year by year to those being currently retired.

It is a rather complicated situation. I think some of the failure to adjust the benefits of older retirees may be due to inertia of the management, as well as to the financial considerations; possibly due in some cases to the necessity of getting general stockholder approval in some large corporations, a rather cumbersome process, as well as the annoyance of going to the IRS on an amendment to the plan.

But whatever it may be, I think it deserves attention.

Fourth, I think this committee, and this will not be much of a task, could study the experience with bonds of constant purchasing power that are used in some other countries as well as Dr. Schulz mentioned, to explore their pension programs.

Such bonds should be an incentive to individual savings for old age.

I am convinced that many of our younger people are not saving for old age today because they see how savers have always lost purchasing power over the last generation in fixed investments such as bonds, savings and loan accounts, and that sort of thing.

In the fifth place there might be an investigation of the integration of mutual funds with pension planning; more and more mutual funds are being organized some of which are quite well managed. They have payout plans which are in the nature of pension benefits.

The mutual fund industry is becoming quite significant in this country. Total assets exceed $50 billion. Mutual funds can be very useful vehicles in providing benefits in old age.

Finally, I still think that the main thing is to educate Government authorities and the electorate on the vital economic and social importance of stable money, an honest dollar. If we had an honest dollar, and people had confidence in its future value, which I regret to say most do not have today, I believe it would stimulate thrift and savings, not only for old age, but for other purposes.

I cannot avoid the feeling that the present upsurge of inflation is impelled by a rush to get rid of depreciating dollars, and to buy land and homes and buildings; corporations are likewise so motivated to expand their capital investments even by borrowing at extraordinarily high rates, the highest in a century, because they feel that everything is going to cost more next year and in the years thereafter.

Mr. ORIOL. Thank you. Mr. Schuchat.

MR. SCHUCHAT

Mr. SCHUCHAT. I would suggest that the committee might want to take a look not only at the possibilities inherent in constant purchasing power bonds, but at some of the possibilities in permitting older people to in effect capitalize their largest remaining asset, that is, their residence.

We know that two-thirds of the people over 65 own a home free of mortgage, and there should be some mechanism by which this asset can be translated into current income.

It should not be beyond the bounds of our ingenuity of financial acumen to solve this problem.

Second, I think that when we think about private pensions, we sometimes fall into the trap of thinking of the person who goes to work and stays with one employer throughout his career, although we know that this is exceedingly rare, and I think we have to think in terms of mechanisms that will cumulate these pension credits, and some efforts have been made.

The industrial union department started a plan for small employers. It is interesting in the discussions today of TIAA and CREF, that the most mobile occupational group in our society are schoolteachers, and every State and city has a pension system for its schoolteachers, none of which is interchangeable with the others.

For that matter, the Federal Government has been remiss. There are a number of fields where people move from local to State to Federal levels, back and forth, and pension credits are not transferable, except, to my knowledge, in the Department of Agriculture. There is a mechanism for exchanging credits with State governments for agricultural people.

Of course, the State government employees are on joint Federal-State funding arrangements in agriculture, but we have the same type of person in education, over in the public welfare programs, and many other elements of government, and there is no possibility of interchange, although there has been legislation introduced to permit crediting.

Finally, the gist of my remarks today, or the underlying theme that I would like to leave, is that we talked about private systems and public systems, the private and public sector.

At bottom, however, all of these decisions are public decisions. All these decisions are governmental decisions. The shape of private pension funds is due to the law, and the regulation of the Internal Revenue Service.

As Dr. Fichtner suggested, these things could be transformed overnight. All we have to do is change the qualification, the requirements for a plan qualifying under the Internal Revenue Code, and you will see a tremendous transformation in the benefits that are payable.

If we want private pension plans to have their benefits keyed to changes in the Consumer Price Index, that is a very simple matter. That just takes an amendment of the code.

I realize an amendment of the code is not a simple matter, but there are no tremendous barriers here. All of these decisions are fundamentally governmental decisions.

The private pension system in this country, and the proliferation of private pension plans, started in 1942 with a governmental decision, and although wages were frozen, fringe benefits were not, and that is when we began to see private pension plans burgeon.

It was made profitable for employers to offer them, and when we make it profitable for employers to improve them, they will be improved.

Mr. ORIOL. Thank you. Mrs. Mathiasen.

MRS. MATHIASEN

Mrs. MATHIASEN. I should also like to suggest the possibility of costing out some alternatives in improvements in the social security system.

Dorothy McCamman will remember a committee that she staffed a few years ago, an NCOA committee, that tried to put together alternatives and the relative desirability of alternatives.

You heard this morning a very good example of the reason for that attempt. People here applauded the proposal to amend Medicare provisions to include prescription drugs. Somebody else prefers to include dentures and eyeglasses, and somebody else feels that the best thing is to get rid of the retirement test and make Social Security into a regular annuity. I am always amazed at the intelligent people who think that that would be a very desirable thing, perhaps the most desirable thing to do.

Miss MCCAMMAN. Or, may I interject, who applaud an automatic cost-of-living increase tied to a very inadequate benefit; it is the sheer magic of the automatic cost of living adjustment.

Mrs. MATHIASEN. There are all these various proposals to improve Social Security. I have never seen them costed out and presented together so that there is a possibility of rational comparison if, as I assume, we shall have to make some choices for the near foreseeable future.

I think that there is another reason for this costing out bit. It is that we have to get used to big figures. If, as was suggested by Mr. Schuchat this morning, the Secretary of Health, Education, and Welfare is somewhat impressed by the amount of money that is now being spent on social security, I think we ought to tell him how much it would cost to provide an adequate retirement income through social security. As I have said before, I get terribly upset about how much it costs to build a mile of road or a battleship, but many people, including Members of Congress, have been throwing around these big figures for such a long time that they no longer sound formidable.

I don't think we have done the same thing in the area of retirement income—to say this is what we want, and this is how much we are going to have to pay to get it—so that all of us can get accustomed to a new set of big figures We could then begin to get some concept of the size of the job to be done and some possibility of a rational choice when we have alternatives to choose.

Mr. ORIOL. Would you say that this costing out perhaps on several different bases should be one of the fundamental objectives of the White House Conference if not before?

Mrs. MATHIASEN. Well, you know, I have been saying this ever since the White House Conference was first talked about—that is, getting some concept of providing a minimum of income, goods, and services for everybody. Rather than dealing with the problem in little bits that affect a few people here and there, let's put it all together and see what kind of a package we have. I don't think we have any idea. We should probably scare ourselves to death as to the cost of what we would like to see.

Mr. ORIOL. Thank you very much. Mr. Burk.

MR. BURK

Mr. BURK. I think you were primarily asking for subjects that the committee might be discussing.

Primarily the thing that I think perhaps we ought to consider as a basic subject is the problem of this minimum living cost for our older people.

Since I am primarily concerned with those who have retired from civil service rather than those on social security, I think this should be a joint discussion, because certainly we who retired from civil service, those in our group who retired 15 and 20 years ago, have the same problems as those who retired on social security, so the problem is in the level of age, not the system from which they retired.

If it is good for a minimum annuity on social security to be $100 a month, or $200 a month, or $250 a month, it is equally as good for it to be true for civil service retirees, and I think something about the minimum annuity, and how do we raise these incomes for people who worked a lifetime on low wages and therefore draw low annuities?

You cannot do it by a percentage increase. How are we going to get them up to a decent level, where an automatic cost of living or any other automatic percentage increase might give them an adequate standard of living?

That is the only thing I would suggest.

Mr. ORIOL. Thank you, Mr. Burk.

Mrs. Brewster, you know that in the area of health costs and its effects on the economics of aging, this is such a deep subject that we hope to have a separate hearing on it, so we are looking forward to your recommendations in this area very much.

Mrs. BREWSTER. I have been deliberately avoiding that, Mr. Oriol, thinking carefully of the subjects here today, and if I may, would like to cover those points.

It seems to me that we are hampered by a lack of knowledge of private pension plans, and I am wondering if legislativewise something like the health and welfare disclosure legislation might not be indicated, so that we would have some facts here.

Another alternate possibility might be some questions, if it is not too late, in the 1970 census, for the aged as to their resources from pensions.

Mr. ORIOL. May I ask Mr. Brotman here now whether it is too late?

Mr. BROTMAN. It is too late to get additional information. We did get from the Bureau of the Census agreements to breakdown sources of income, but I don't remember whether we will be able to break out private pension plans. I think it is combined with one other category of source of income.

Mrs. BREWSTER. In my first suggestion I was thinking of the employer having to report, just as a health and welfare collective-bargaining plan has to report under that other legislation.

Mr. SCHUCHAT. If I may contribute to this, I think that the survey that the Social Security Administration is currently making of retired people, questioning them as to their source of retirement income, source and amount, is quite a large survey; they having interviewed 30,000 people in the first year, people of all ages approaching and in retirement. I believe that this survey will give us some idea of the sources of retirement income from private pensions.

Mrs. BREWSTER. It seems to me that we were groping for the growth aggregate here to compare the public and private sectors, as we moved ahead, and decided which direction to go.

I want to second the pursuit of the civil servant aspect, and would like very much to have us have someone from the Tennessee Valley Authority report on their pension plan, which does have a variable annuity built into it. Here is one Federal program that does.

Throughout the day, I have been wondering, when I have heard people talking about the 50 percent that a pension should equal, whether this statement, which appears on page 20 of our report—

> The average value of social security benefits was estimated to increase by 12 percent when account is taken of the addition of Medicare.

whether we might not pursue that a little bit, and see if that is indeed the case, because I kept wondering whether in the statements that were being made, that kind of adjustment has been made for the change since 1966.

I will come up with the questions I have been holding at a later time. It seems too late in the day to ask them now.

Mr. ORIOL. Yes, indeed. Dr. Sheppard.

DR. SHEPPARD

Dr. SHEPPARD. I am in the fortunate-unfortunate position of being next to last, and a lot of people have said things that I can now say I would have said, but they have also created some other thoughts.

I think I would like to repeat a sentiment felt for some of the discussion. We talked about incentives, how we want to add incentives and/or penalties that will achieve the social purpose of private pensions, not just incentives, but penalties if they are not, say, vested or funded, or what-have-you.

First, I am concerned about how we very often make a scapegoat out of the inflation phenomenon.

It seems that every time there is a depression or high-unemployment rate, we say we cannot afford to raise the retirement income of the elderly. Then, when we get the opposite of a depression and high-unemployment rates, the opposite being typically associated with inflation, we say that it is dangerous to raise the retirement income of the elderly.

It is like that old hole in the roof. When it is raining, you cannot go out now because it is raining. When it does not rain, no rain is coming through, so don't bother fixing the hole, which leads me to believe that the road to hell is frequently paved with good anti-inflation intentions.

Secondly, this is not directly a technical point, but I think it is a way of goading the public and our decisionmakers and the establishment into thinking more about this, and it has to do with the philosophy of preventive social science, that I believe there is an iceberg phenomenon going on.

The aged do get revenge. They manifest their discontent in ways perhaps different from students at Harvard and other campuses these days. They do it by the way they vote on local issues, which then aggravate other local problems, and programs, and I think we have the responsibility as opinion leaders not just trend followers to point this out to our enlightened policymakers.

Third, I am concerned about the sort of subtle if not overt trend toward earlier retirement as a contributor to our future poverty problem.

I have read about a certain Government document, a Budget Bureau memo, that sort of dismissed even the problems of the 55- to 64-year-old worker with some kind of statement to the effect that this is not an employment problem, it is a transfer payments problem.

Even the Budget Bureau seems to be reducing the age of the employable group, and raising the numbers of people who will be subject to inadequate transfer payments.

I think we have to take a direct look at the longrun and shortrun implications of the philosophy of early retirement and talk about this in a report, that sooner or later there is going to be a reversal of this trend toward earlier retirement.

The fourth point, and a more general one, is that I believe the Government has failed to educate the general public on why they should finance the retirement lives of adult persons who are no longer required by our economy to remain in production, at least under our present policies, failed to educate the public, and failed to educate itself.

In that connection, I think it might be a nice, novel idea, if not a gimmick, to provide for some attendance by under-35-year-old people at the White House Conference on Aging, through some approach that we believe in participatory democracy.

I think that any policy proposal, or many policy proposals in our country, if put in moral terms, the American people will respond, even the younger workers who are expected through transfer payments to support the elderly of today.

And finally I want to cross swords with Dorothy a little bit. I don't want to be scared away from the idea of automatic cost-of-living increases. I believe if we can get that passed, we then can get on to the battle of adequacy of retirement income, and using these various programs to guarantee a sharing of abundance in the American productive economy.

Mr. ORIOL. Would you say we should have some elderly at the White House Conference on Youth in 1970?

Dr. SHEPPARD. Why not?

Mr. ORIOL. Dr. Kreps.

DR. KREPS

Dr. KREPS. I am impressed with Bill Greenough's statement that the most important goal of our economy is a high rate of economic growth.

In line with this goal, it ought to be our function in youth to invest in human capital, that is, education.

It ought to be our function at middle age to be so productive that we can pay the transfer costs of supporting youth in school and old age in retirement.

But our problem seems to be not only a failure to generate a high enough rate of growth, but also a failure to be explicit about the distribution of the fruits of growth. I raise the question again, of who is to share in the growth and on what basis.

Returning to Geneva Mathiasen's statement that she would like to see the various alternative schemes costed out, because only in that way could we establish some order of priority, I would remind you of one of the first statements made this morning: we should try to estimate the costs of achieving the range of goals that we set, and within the budget constraints we have to face, then establish the necessary priorities.

Specifically, it seems to me that we have to push ahead on the question of relating retirement income to the growth of the economy, by suggesting that the committee have some models developed which would indicate the dimensions of such a program. We need a model which would indicate the dimensions of providing retirement income at different income levels, where the initial level is tied to the rate of productivity change or the rise in the wage level. These costs can then be translated into percent of payroll, or aggregate dollar amounts.

Further, we should have a model for the private sector, giving some indication of the variables involved in having business firms develop growth-related schemes for retirement income.

In brief, I would like to see us direct our thinking towards the goal of achieving a tie-in of retirement benefits, either public or private, with the growth of the economy.

Mr. ORIOL. Miss McCamman, did you have any questions before we conclude?

Miss MCCAMMAN. No, thank you.

Mr. ORIOL. I will close.

I know the Senator wanted to make a few points. One of them was just as the social security system has multiple purposes, so does this inquiry. We are desperately concerned with the problems faced by people now old, but as each of you have said in one way or another, we are looking to the future, to the retirement problems or the retirement successes that generations in the future might have.

Another aspect that has become very clear, especially this afternoon, is seeking after more knowledge in certain areas, and it is clear that if this committee formulates a list of areas of research, or if not research, the action-model-type approach that was just suggested, that we will be doing a great deal.

I think a third theme here is that we must of necessity take the broad picture. As the Senator said this morning, this is not a hearing about the social security system. This is not a hearing about private pensions. It is an attempt to draw together strands that too often in congressional considerations of necessity are never put together.

I think everybody here today is well aware of the high level of response that we have received from our task force members. In fact, our task force members have opened up new lines of inquiry here today, and I hope that we can continue to draw upon their volunteer help.

We appreciate it very much, and especially Dorothy McCamman, who has heard so many good things about the task force report—in fact it was unaimous today—and I am sure she must feel very good about it.

We also hope that there will be specialized hearings by individual subcommittees before the final wrap-up hearing by the full committee. This looks like something that will take many months.

This committee will resume the hearing tomorrow in this room at 10 o'clock, and we will have statements by two witnesses, followed by a panel discussion of Federal officials who will discuss various things discussed in the task force report and other matters.

Once again, thank you very much.

(Whereupon, at 4:45 p.m., the committee recessed, to reconvene at 10 a.m., Wednesday, April 30, 1969.)

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

WEDNESDAY, APRIL 30, 1969

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

The special committee met at 10 a.m., pursuant to call, in room G308 (auditorium), New Senate Office Building, Senator Harrison A. Williams, Jr. (chairman), presiding.

Present: Senators Williams and Saxbe.

Committee staff members present: William E. Oriol, staff director; John Guy Miller, minority staff director; Dorothy McCamman, consultant on economics of aging, and Patricia Slinkard, chief clerk.

The CHAIRMAN. Dean Schottland, would you come up and we will get underway with the second day of consideration of the economics of aging.

We had a very productive day yesterday and I am sure we are embarked upon another today.

We welcome you here, Dean Schottland, from Brandeis University. We are looking forward to this very much.

STATEMENT OF CHARLES I. SCHOTTLAND, DEAN, FLORENCE HELLER GRADUATE SCHOOL FOR ADVANCED STUDIES IN SOCIAL WELFARE, BRANDEIS UNIVERSITY

Dean SCHOTTLAND. Thank you very much.

My name is Charles I. Schottland. I am dean of the Florence Heller Graduate School for Advanced Studies in Social Welfare, Brandeis University.

With reference to the subject matter being considered today, may I with your indulgence further identify myself. I was Commissioner of Social Security from 1954 to 1959, and I had the opportunity of examining the subsequent income maintenance position of the aged as Chairman of the Income Maintenance section of the White House Conference on Aging in 1961.

At the present time, as president of the National Association of Social Workers I have just participated in that organization's delegate assembly held in Atlantic City a few days ago in which we debated the various alternative ways of assuring income to the American people.

I would like to share with you some of the ideas which I have come to believe after many years of study and participation in programs of income maintenance for the aged.

Most of my ideas are certainly not original, but perhaps their presentation will add to what has already been stated to your committee. Those of us who were interested and involved in the Social Security Act of 1935 and its administration in subsequent years had a vision and a dream.

We hoped that the time would not be too far in the future when the senior citizens of our land, having contributed a lifetime of service to their country and to their families, would be able to have sufficient income in their old age to take all of them out of poverty, and enable them to spend their last years on earth in security, health, and comfort.

We foresaw the end of old-age assistance as we expressed the hope that old-age security under the Socity Security Act would eventually encompass all of the aged on an income standard sufficient to maintain them in security and comfort.

Even as late as 1961, many still thought we would realize that dream and that vision if we just waited long enough. The background paper of the Income Maintenance Section of the 1961 Aging Conference summarized this view as follows: "The anticipated improvement in the income position of the aged makes this a transitional problem which should not be handled now through a method that commits us for the future."

But the background paper also took account of the very different view of others who believed: "Predictions about the income position of the aged in the future are thought to be overly optimistic."

Clearly, your task force report supports the latter view. As you say in your preface to the report, Senator Williams: "As no other document has yet done, it states a fundamental truth: The economic problems of old age are not only unsolved for today's elderly, but they will not be solved for the elderly of the future—today's workers—unless this Nation takes positive, comprehensive actions going far beyond those of recent years."

For those of us who were laboring on behalf of income for the aged, this vision, this hope, and this dream were an important part of our philosophy and our point of view.

Today, in the year 1969, this vision and this dream have been shattered because millions of men and women in their old age are today living in poverty, denied the elementary necessities of food, clothing, and shelter on a scale of comfort and decency, being supported on old-age assistance on a standard of aid that keeps them in poverty, or receiving old-age security payments on a standard which keeps them in poverty and forces several hundred thousand of them on old-age assistance, also.

This is not what we planned when Franklin Delano Roosevelt introduced the Social Security Act. It is not what we anticipated as the average income of Americans began to rise after World War II.

This is not what we looked forward to in 1961 at the Aging Conference. But it is the situation as the Task Force of the Special Committee on Aging of the U.S. Senate has made so abundantly clear in its report of March 1969, "Economics of Aging: Toward a Full Share in Abundance."

This report is a devastating indictment of the way we are treating the aged of America and puts to the fore certain questions. If many other industrial nations of the world such as Norway, Sweden, Denmark, and others have abolished poverty for their aged population, why cannot America, richer than these countries by any standard of measurement, not do likewise? Why is it not possible for the aged to have "a full share in abundance" in our society of abundance?

Your report showed certain things clearly, but I would like to bring them out as a preface to my remarks. Low income is the most important problem of older people; the older they get, the more serious the problem since they exhaust resources; and the future holds little promise that their economic position will improve.

Unless we take significant steps now to increase the income of the nonworking aged, we shall be saying to several million aged that America feels they must remain in poverty.

The foregoing summarizes the situation of many of the aged in America today, and the question is, what can we do about it? There are many suggestions now before the Congress and many ideas being discussed around the country to improve the income maintenance programs of social security and public assistance as well as consideration being given to such schemes as negative income tax, children's and family allowance and a variety of other methods to insure income when income stops because of broad social and economic factors such as old age, unemployment, and sickness.

"What Is Our Objective?"

When we think of improving the income position of the aged we are faced squarely with the answer to the question, "What is our objective?" Are we seeking an incremental approach and gradual improvement over a period of years in the income position of the aged?

If we are, what we are saying as a matter of policy and objective is that many of the aged should continue to exist in poverty, should continue to suffer deprivation because of lack of income while their situation is gradually improved through slow increments and increases in social security, public assistance, and other programs.

But if our objective is to make an immediate improvement in the income position of the aged, we must be prepared to take significant and bold steps, and I would like to outline some of these at this time. Our aim should be clear—the several million aged group should be removed from poverty quickly.

My recommendations fall into several categories. First, we must provide a substantial increase in the benefits to the aged under our social security program. Social security benefits constitute today the major source of income for most older persons.

Recommendations: Social Security

Therefore, any program to increase the income of such older persons must involve major benefit increases in benefits under OASDHI. A person receiving $80 a month at the present time, for example, is not going to be helped very much if we give him a 7-percent increase, thereby bringing his $80 a month to $85.60. I recommend that starting immediately Congress raise the minimum benefit to $100.

I believe, also, that we must maintain the wage-related benefit structure. And if we are to do so, we cannot have too small a spread between the minimum and the maximum. I, therefore, would urge as a second recommendation, the increase in the earnings base to $18,000. This will enable us to increase the maximum benefit and at the same time strengthen the financing of the social security program.

A third recommendation would be to increase benefits generally by 50 percent. By adopting this as a principle, it does not mean that every benefit should be increased by 50 percent, and I am not prepared at this time to make the specific recommendations as to how this might be distributed among family benefits, widows benefits, etc., but I believe that it is not too much to consider a 50-percent increase as a general goal.

Another recommendation that I would like to make is that we change the method of computing benefits so that they are more closely related to the earnings lost when the worker retires.

If the goal of social security is to replace lost earnings, it does not seem sensible to base benefits upon the lifetime average earnings as is now the case because a person may find his average life earnings has little relationship to the earnings that he has just lost by virtue of retirement.

I would recommend, therefore, that we consider basing social security benefits on the high 5 years of earnings for those persons who have long employment. Our objective should be to give the long-term worker higher benefits than the person with short-term attachment to the covered labor force.

I would also like to recommend that Medicare be extended to the disabled. The purpose of Medicare is to help finance the high expenses of medical care for the aged whose income is reduced because they are retired from the labor market. The disabled also have high medical expenses and also are retired from the labor market, and therefore present the same problems as the aged with respect to their retirement from the labor force, and I believe that Medicare should be extended to them.

If Medicare is extended to the disabled, the additional cost should be met in part, at least, from general fund revenues.

In this regard, I believe, the disability definition should be liberalized. At the present time, the definition, which provides that a person may be considered disabled only if he cannot engage in any substantial gainful employment, is too rigid and should be liberalized to a definition of occupational relationship, that is, the person should be considered disabled if he cannot engage in his usual occupation or calling.

It does little good to suggest that a ditch digger who can no longer engage in the hard physical work of ditch digging might become a bookkeeper or engage in some other type of work for which he is totally unprepared and unsuited.

If this liberalization of the definition could begin for those age 50 and over, it would contain and limit the cost but would, nevertheless, cover those older disabled who are not able to resume work.

Another recommendation I would like to make is to consider an adjustment of the actuarial reduction in benefits before age 65. More than half of the men and more than 70 percent of the women who are coming on the benefit rolls are receiving reduced benefits. The men actually get a double reduction.

First, they are reduced actuarially, and second, the 3 years they do not work, namely between the years of age 62 and 65, are used against them in figuring the average wage. In other words, they become 3 zero years in considering the average. I realize that this becomes a very complicated situation. Therefore, I am not making any specific recommendations.

May I interject at this point that what is happening in our social security system is that the actuarial reduction, making possible for men and women to come on the rolls at 62, is actually resulting in a situation which was never anticipated. Many persons coming on the rolls at age 62, 63, 64, are not really the kind of retirees we always thought of—they are unemployed people who can't find a job.

So, they get their old age security benefits. Furthermore, a large number of them are disabled people. They are not disabled in accordance with the strict definition of disability now in use, but at age 62 they are disabled enough so they are unemployable because of their disability.

As a result we find that one of the big costs in this 62, 63, and 64 year group is the fact that they are taking care of the slightly disabled who cannot work and they are taking care of the unemployed aged.

My basic recommendation is that this be reexamined. I do not believe that the actuarial reduction can be done away with immediately because of the high cost, and if we are to incur such a high cost, there may be other priorities such as increased benefits to which the additional funds ought to go. But I do recommend a reexamination of this area.

Shortcomings of Old Age Assistance

And, now may I come to what I consider a very important and controversial area, namely the present situation in old-age assistance. There are today over 2 million persons receiving old-age assistance through our public assistance or relief programs. This is a Federal-State partnership program with the States administering this program.

There is little question but that many of those receiving old-age assistance are living in poverty and, in some cases on a starvation basis. The average monthly payment on old-age assistance for the month of December 1968 was $69.50 per person.

But this would vary from monthly payments of $35.75 in Mississippi, $43.35 in Rhode Island, $56.80 in Maine, and $43.90 in Utah, to $105.55 in California, $104.65 in Iowa, and $116.15 in New Hampshire.

So, you can see that it doesn't have much to do with the area of the country. Here you have New England States among the lowest and the highest as well as other geographical areas where neighboring States will have a low and a high average.

Old-age assistance along with other public assistance programs is in a sorry state. States and local communities are straining their financial resources to pay their share of the bill, and at the same time we are maintaining people, in many cases, below the poverty standard. Without going into detail, I would like to make the following recommendations:

Recommendations

(1) The Federal Government should require a minimum standard binding upon all States so long as the program is administered by them.

(2) The Federal Government should assume 100 percent of the cost of old-age assistance. This is now being proposed by many State Governors and others, and I believe is a much sounder way of absorbing some of the costs of State government than some of the other proposals being made such as rebate of certain Federal taxes to the States.

(3) The above two recommendations could be instituted immediately. My third recommendation is that the Federal Government take over the administration of old-age assistance and administer it through the social security offices. Here we have a network of offices throughout the country which are well staffed, accustomed to dealing with aged persons, and with their operations computerized.

With the increasing use of the affidavit forms in old-age assistance throughout the country, I believe this could be handled by the social security offices as an interim step leading to the eventual abolition of old-age assistance. We should take cognizance of the fact that over half of the two million old-age assistance recipients are already receiving social security benefits.

(4) My fourth recommendation is a more long-range one, and that is, old-age assistance should be integrated with social security, and all aged should be brought into the old-age security system. We are already doing this for persons over 72 years of age. Under the so-called Prouty amendment, all persons who attain the age of 72 before 1968 receive $40 per month if they are not on public assistance, or another Government pension. Most of those receiving benefits under the Prouty amendment receive them pursuant to payments out of the general fund of the U.S. Government.

This leads me to my final recommendation. If we are to include the present recipients of old age assistance, and if we are to increase benefits substantially and carry out the other recommendations herein, we must have the Federal Government participate in the financing of social security through general fund allocations.

The United States is one of the few countries of the world where the benefits in social security are financed through employee and employer contributions alone. In practically every other country, the Government makes a contribution from general funds, and I think this is inevitable and is a more equitable levy on all citizens and not just upon workers and employers.

So long as we kept the system entirely related to a person's work connection, there was some logic in taxing only the worker and the employer. But now that we have admitted persons over 72 years of age who are not otherwise eligible, and particularly if we make some of the improvements that I have suggested herein, I believe that we are justified in using general fund money.

In conclusion, Mr. Chairman and members of the committee, my recommendations go to increasing substantially the level of benefits, improving and liberalizing the system, and transferring the recipients of old age assistance into the social security program.

But more important than these specific recommendations I believe that Congress should make it very clear that the time has come to stop incremental and minor program changes which still keep the aged living on a poverty level.

We must adopt as an objective the goal of getting every aged man and woman in the United States out of poverty and with sufficient income to live on a standard of health, decency, and comfort. These are the aims of my recommendations and suggestions.

The CHAIRMAN. Thank you very much, Dean Schottland. You have given us a great deal to think about in terms of improving the economic facts of life for older people.

At the very end your conclusion is that we should search for the ways to insure that aged men and women in the United States do not live in poverty. Now, to what studies and to whom do you look for conclusions as to what the dollar level is that divides between poverty and a person who is living at the next degree as a minimum decent standard of living?

Dean SCHOTTLAND. The best studies I think have been made by the Federal Government, the Department of Labor and Social Security Administration which have established certain income standards for poverty.

My own opinion is that these are too low. Nevertheless, they are an accepted standard by many groups and certainly they are clearly set forth and the bases for the studies are set forth, and I think these studies on the cost of living have established the poverty line and are the best source of information.

My own opinion is that they are too low for several reasons: Americans have become accustomed to alternative ways of living. When you price out a budget, Americans don't always buy the food that comes into this low-price budget. They may want different food. They may not want to live in the areas where the low rentals are.

So, I think as a practical matter for an aged person who might have been accustomed to much higher incomes while they were working, I think the standards are too low. Nevertheless, they are the acceptable standards in that they are being accepted by various groups over the country.

The CHAIRMAN. I would suggest that we turn to Senator Saxbe and then the members of our task force. I know you know them all personally.

Senator SAXBE. Dean Schottland, in general I am in agreement with your recommendations. I like them, so the questions I have to ask are not antagonistic but they open so many areas that I have not been able to reconcile in my mind that I want to pursue them somewhat.

First, as you suggest we could perhaps consolidate social security and old-age assistance. Now, this raises very interesting areas.

Would you do this on a basis of need or as a vested right?

A BASIS OF NEED?

Dean SCHOTTLAND. I would not do it on the basis of need. I think that if we continue this on the basis of need, then we are going to continue this present difficulty. What is need, what is the standard of need, and what happens in most of the States on this standard of need? It is a farce.

The legislature decides how much money will be appropriated. Then the welfare department makes up a budget of need based upon the amount of money available so if they have an average of $70 per person they make up a so-called scientific budget that equals $70. If they have $115 per person they make a budget of $115.

If they can't get the budget down low enough to make any sense they make a budget of need and say they will pay 60 percent of it. That saves their conscience. I think this ought to be done as a matter of right.

Senator SAXBE. The disturbing thing, it seems to me, is to suggest a minimum payment of $100; $100 won't feed these people. If you don't do this on the basis of need, what do they then do—go to the welfare department?

If you give them $100, now with combined social security and old age assistance, they are receiving $140. You have taken $40 away from them unless you have some factor in there for a basis of need.

Dean SCHOTTLAND. Senator, I am suggesting that $100 be the cash minimum. We must remember that the average now on old-age assistance also includes their medical care. I am assuming under social security they would also get Medicare, so if you added that in it would be substantially more than what they are receiving today with very, very few exceptions.

Senator SAXBE. I think at the present time they go through a rather complicated procedure of making a budget for this person, so much for room, so much for food, so much for laundry, so much for glasses, so much for all of these items and they add it up and it says $140.

Now, he is getting a check for $65 social security so they pay the difference. Now, I think that many persons who have additional income or savings or property or something like this at the present time are precluded from this, so I agree it should be a matter of right; but it seems to me that you better get the welfare keyed up on this because their only hope then would be to go to the welfare and it would be horsing around some more on the same basis of need.

Now, another thing, what about real property, what about personal property? Throw this all out?

Dean SCHOTTLAND. I think if you examine the income resources of the aged the income resources are so low with the exception of home ownership that I think to try to have any system over a long period of time based on need gets us into the same kind of difficulty we now have.

Yes, I would throw it out. I think that for this relatively small group in the population, it is many millions, but 10 percent or less of our population, I think that we ought to put this on the basis of a right earned through a lifetime of service.

The fact that some of them were working in uncovered employment or the fact that some of them were housewives and therefore do not have covered employment, or maiden aunts that had to bring up a youngster, should not prejudice their rights to social security in their old age.

Senator SAXBE. In this particular area I have done a lot of work with this and it is a very unpleasant area, as you know, because on old-age assistance they have to agree to a lien on their property and the children, if there are children, have to take a pauper's oath, or almost that, and if they have savings in the bank they have to dissipate those and they give them a certain period to dissipate them, so to qualify it is a very demeaning experience, especially for a person who has been somewhat frugal.

Now, if we would do away with all of this and put it as a matter of right at a level that would permit them to live, it would, of course, be a great benefit to a number of people who have saved, but I doubt if they look at it like that.

Because they would say we worked and we laid up and we have our property and we have our pension fund and we have all this and it is going to be a rather traumatic experience, it seems to me, to try to do all this.

I agree that it is inevitable, I think it is going to have to come, but I question whether you can cut off all the property, all the child support of children and all of the personal responsibility all at once.

Now, would you do it by one action or do you think it should be phased?

Dean SCHOTTLAND. I think it should be phased and my suggestions have gone to that. I have suggested national standards with eventually the Government taking over 100 percent of cost and then transferring the old-age assistance cases to social security.

I think we have to recognize a number of things. Many Governors who a few years ago were opposed to any transfer of this cost to the Federal Government are today in favor of it. Our own Governor told me that he had met with Governors who are in favor of it so that you are getting increasing support, I think, for Federal assumption of responsibility.

It will be even more serious as far as the States are concerned when the Supreme Court decision on residence becomes fully effective since many States have required residence laws for eligibility for old-age assistance, and the Supreme Court has now outlawed residence laws, as of a few days ago.

So, this will be an increased burden on the States. Also, Senator, when you speak of child support, child support is decreasing relatively for aged persons and this isn't due to just rejecting the aged parent.

One-third of all people reaching the age of 60 have a parent living so when we talk about child support we are frequently talking about an old person supporting a very much older parent.

So, we are not talking about the young worker supporting a parent, we are talking about old people themselves who are ready for retirement having to support a parent and particularly with longevity with the large number of persons now in their nineties who are increasingly going to reach 100, it is going to get very serious, and particularly since of the large number of persons in their old age, the largest number are women. They live longer than the men. I guess they worry us to death and we die sooner—but at any rate they live longer and have less income, except for those that inherit estates.

But they normally have less income and less social security benefits.

Senator SAXBE. One area that disturbed me in this, also, as people get older on their social security coming as a vested right, it is a matter of picking up the check. They can then find their own lodging, make their own arrangements with nursing homes, and so on.

Many of them do. It is this group that live in some of the most deplorable situations because they live in old, rundown hotels, they don't eat properly, there is no supervision. Now, on the other hand, on the old age assistance where they have a caseworker that is seeing them once a month, there is a tendency to demand that the facility furnish them adequate quarters that are not going to burn them to death and fall down on them, and that the meals are at least nutritional and regular.

If we make every one of these older persons a free agent by just mailing them a check once a month, aren't we going to have a pretty sizable gap there to fill in the social work?

Why Tie Services to Payments?

Dean SCHOTTLAND. Yes, but I think, Senator, it ought to be filled in another way. We ought to have community social services for the aged and for others, not tied to the receipt of cash benefits. There are a lot of people who need social services and some of them are in receipt of cash benefits, public assistance or old age security, and some of them are not.

We ought to give them services based on their need for services, not on their need for money. This has been one of the serious problems in our program of public assistance in this country.

In very few countries in the world—in practically no other country—are services tied to the receipt of cash. Most poor people need money. They may or may not need services. Many retired persons with money may need services. I think we ought to separate the services and the cash assistance.

We are beginning to do that now. The Federal Government has come out for the policy of separating them and I think this is a long awaited step in the right direction.

Senator SAXBE. I know specific instances where women actually run some kind of establishment or nursing home or maybe they could not qualify as a nursing home, maybe it is a boarding house—they will fight over these old people, kidnap them, and when they get this check they go into this old person and say sign and they usually have the person intimidated and they sign it and that is the last they see of it.

They give them newspapers to use for towels. I had to get a habeas corpus one time to get an old person out of a place like this where they just feel as though they are their personal property. They are old and frightened and they don't think so straight sometimes, and they become captives.

Now, I think that the Federal Government is going to have to be prepared or somebody is going to have to be prepared to see that there is someone that cares what happens to them. If we think that we can give them money and insure that they are not going to live in pretty sorry conditions, I think we need only talk to people who work in this group to know that money is important and we have got to have it.

But we have to see what happens to that money, too. That is one insurance that we have had on the old age assistance in the States where they have conscientiously performed the job.

Dean SCHOTTLAND. I agree with you, Senator, and I think there are many recommendations for Federal assistance in the social services; also some of the laws have resulted in upgrading some of the institutions.

The provision for Medicare which requires the nursing homes to be affiliated with a hospital has already resulted in upgrading the nursing homes by the hundreds all over the United States. This is a very, very wise provision.

I have been in at least 20 nursing homes that were terribly worried by this because they knew they would have to give better service and have better standards of medical care. So, it was a very wise provision in the law, I think.

Senator SAXBE. I know this has worked and there has been a lot of bureaucratic pull and haul between the States and the Federal Government on this, too, a lot of mix up of the State trying to hang onto a certain area until a nursing home operator throws up his hands on Medicare. They don't want to have anything to do with it.

One comes around and says he will do this laundry separate from your regular laundry and this kitchen has to be separate, and these are kinds of ridiculous things. It is State and Federal.

The person I am talking about primarily is the one that is not in a nursing home, one that is not even the so-called old age home or the situation where he is in the boardinghouse. He is in the shabby rundown hotel. He is in the shabby hotel living by himself.

He carries his money in his pocket. He trusts very few people. This guy is a special case. The man that is afraid, the man in the hotel, the boardinghouse. It is a delicate area and I just hope that when we do get further down this road that we will be able to realize that there is a high percentage of these people that fall into this.

They have no son or daughter that cares, anyway. They have no one but a caseworker, usually overworked, and usually incapable of finding a decent place for the guy. If we lose that we have lost. We are going to have a lot of derelict old people. Of that we can really be certain.

Thank you very much.

The CHAIRMAN. We will turn now to the task force and get the benefit of their questions and observations.

Dr. SHEPPARD. May I throw in a quick, unimposing question? Dean Schottland, I am interested in the sort of futuristic aspects of our task force report—that is the main theme in our report, the degree of concern we should have about the aged of tomorrow and not just aged of today.

I am interested in what is being done at a school like Florence Heller at Brandeis to orient professional social workers and some of whom I would hope are future policymakers at different levels of private and public organizations to this aspect in the report.

Are we sensitizing younger people who are in the field to those policies of today which will affect the status of people tomorrow? I hope I have made my question clear. Does it get into the curriculum and the teaching philosophy at the Florence Heller Graduate School?

Dean SCHOTTLAND. In our school, and I think others are similar, the problems of aging, the economics of aging, medical care of the aged and other services, are approached in two general ways.

First, there are specific courses and tutorial sessions on the problems of aging that are directly limited to the particular problems of aging. Then it is the task of those faculty interested in aging to see to it that every course has some aging component.

For example, I teach a course in social policy. The aging staff works with me to see that I discuss social policy problems and particularly national social policy problems related to aging. In the same way there might be a course in community planning or medical care and the aging components come into that.

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So, in these two ways we do this. I would like to say also that if we are interested in producing people who are dedicated to working with the aged, one of the ways that is very effective is through stipends or fellowships in the field of aging.

Now, many of the Federal agencies have specific stipends in their area for students that go to school on the graduate level and after 2 years under that stipend, the chances are the person remains in that field.

Because they come to like the field, the university requires that they do their dissertation or their research in that field and this is one way of increasing the supply. I think that the small number of stipends for persons interested in aging has resulted in not having the same influence on the supply of workers that the stipends from other parts of the Federal Government have had where many are very substantial.

Dr. SHEPPARD. Could I ask one more question, Senator, and I don't know whether it calls for a long or short answer. Wouldn't one of the advantages of putting OAA under the Federal program be to increase the number of black aged receiving funds in certain States? Am I right or wrong or am I indulging a stereotype to believe that in Southern States OAA might be missing some elderly Negroes who otherwise could more likely be under a Federal program?

Dean SCHOTTLAND. I have not seen any studies on it, but my impression is that would be correct. I think, however, we should also take cognizance of the fact that there are many aged persons with extremely low incomes, $60, $70, $80 a month who are making it on their own on practically a starvation basis because they don't want to be dependent upon their children, they don't want to apply to public assistance for a variety of reasons.

In a few cases, believe it or not, they don't know about it. They are getting a little senile and they just don't understand it. In other cases they may have cash surrender value on their life insurance and it is the one thing they want to leave to their children.

So, from your point of view and mine it might be foolish for them to go through 10 years of starvation for this but it is meaningful to them. Or they may have a vacant lot some place that they bought when they were 35 years of age and they want to leave that and under the law that has to be sold or utilized.

So, we have many aged who voluntarily are denying themselves benefits because of some arbitrary restriction on this question of need.

Dr. KREPS. Dean Schottland, I skip over your comment as to why men do not live as long as women. I come to a question of financing. On page 9 of your testimony you say:

> Now that we have admitted persons over 72 years of age who are not otherwise eligible, and particularly if we make some of the improvements that are suggested, I believe that we are justified in using general fund money.

GENERAL REVENUE FINANCING

I agree that it is time to talk about general revenue financing, although I don't think you have given the right reason. I wonder if you would like to comment on the extent to which you would like to see general revenue financing occur. You were one of the framers of the social security program, and, therefore, I would have attributed to you some addiction to payroll tax financing.

I am glad to see that is not true.

Dean SCHOTTLAND. We have to change our mind as we get older in order to keep up with these youngsters these days. I would think that there are several ways of approaching it, but a general guideline it seems to me would be to have Federal Government financing, general fund financing, for those portions of the program that are not directly related to employer or employee contributions or the costs are over and above them.

In the same way we have made a number of exceptions in the past. For example, military service before the military were covered. We gave credits for military service of $160 a month. The Federal Government theoretically paid this out of general funds.

I think that those items that are not generally related to the payroll tax in terms of benefits ought to be paid out of Federal funds.

There ought to be a definite understanding and definite contribution the way there is in most countries. A country will say it will pay one-third of the cost or it will match the cost on a certain percentage basis. I think it ought to be very definite so you do not have a question of annual appropriations.

This could be considered by the Congress regularly as to what they wish to do but I think that you can't keep changing the formula or you just have chaos.

Senator SAXBE. Don't you think it is about time we looked through the figures on that juggling? I mean here we talk about an actuarial situation when everybody knows it is not an actuarial situation. We collect $7 billion more than we spend and it goes up the spout.

By government transaction of saying we are loaning the money it goes into this so-called reserve fund which would compare to a private insurance company and actually it goes no place but in the general fund where it is spent.

Now, the thing that disturbs me about this is that we know that we can't actuarially fund social security. Eventually all of the money in the United States would be in the funds. I come from a State where they attempted to fund the State's fund.

We have $2½ million in there and it is growing and it is like a bear by the tail, you are afraid to hang on and you are afraid to turn loose.

The question is in trying to fund any large public pension system. Now, on social security we talk about dipping into the general fund and certain aspects of this going into the general funds. Now, in 1934, 1933, this was such a revolutionary concept that I realize we had to say this is going to be actuarially funded and you can go down to the bank and look at the money in the bank if it makes you feel any better, and we will show you a balance sheet and all that money is secure, and all that money is being kept in there and we are going to pay it back to you.

As we get into what has actually happened and you are talking about dipping to the general fund, don't you think it is about time that we really said, look, this is an obligation to the Federal Government. We will tax the employer 5 percent, we will tax the employees 5 percent. That tax will go into the general fund and then we will pay what benefits are necessary and we can get around all of this gobbledygook or this thing of saying we have a funded system.

Dean SCHOTTLAND. I would like to approach the answer in two statements.

First I think it is not correct, Senator, to state that it is just a fiction and not actuarially sound.

You see, actuarially soundness in private insurance means that if the board of directors of the insurance company decide to go out of business by not accepting any new policies, they must have sufficient reserves to pay off their contracts.

This concept has no place in a Government-funded program because you start with a different assumption; namely, that the Government is not going to go out of business. If the Government does go out of business there is no sense talking about actuarial soundness anyway.

So, the test of actuarial soundness in a Government program is, "Will the projected income plus the reserves take care of the projected outflow?" By that test, the social security system to date may be said to be financially and actuarially sound.

When we say the money that comes in is put into a reserve and it is just a paper transaction, so are all transactions in the financial world of the United States.

When the insurance companies get my premium, what do they do? They put it in the same kind of paper. They buy Government bonds, too, and there is no difference in the social security trust fund buying securities and the Prudential Life Insurance Co. buying Government securities.

So, we live in a paper economy. I have some green-back paper in my pocket, I wish I had more. It is just paper, but it has a value. I think that this is the only way we can work it out. There is no need to have a reserve fund which is sufficient to take care of all of the obligations if the program stops, because you start with the assumption that it will not stop.

Senator SAXBE. Don't you have a difference over the private insurance where their portfolio consists of a smaller percentage of costs and then they own interest in this corporation or that corporation, their portfolio expands to privately held producing companies that own property and make money and pay dividends and have an ever-increasing response to inflationary pressures?

Dean SCHOTTLAND. This has been thoroughly discussed by various committees of Congress. Alternatives have been explored. Congress has always felt over the years that social security funds should not engage in private business or speculation.

In some countries, the Latin American countries, for example, the social security funds are used to finance public housing, hospitals, and they take mortgages on them. The workmen's compensation fund in Italy has made a tremendous amount of money by speculation in land around Rome.

But in this country it has been felt by the Congress that social security funds ought to invest only in government securities.

Senator SAXBE. Isn't the reason for that everyone has felt basically this is an obligation of the Federal Government?

Dean SCHOTTLAND. I think so, yes.

Senator SAXBE. That is where I say I can't help but feel we have progressed far enough down the road that we can cut out the fiction and especially when we expand this to all older people. Now, you are bringing in there a lot of workers who never contributed or a lot of people, a housewife, and so on, that never contributed.

Strengths of Wage Payroll Tax

Dean Schottland. I guess I have a feeling that psychologically there is some strength in a wage payroll tax. I illustrate it by two incidents.

The State Department many years ago sent a team to the Soviet Union to study social security. I was the chairman of that team. One of the things I noticed particularly was every time we talked to a worker he would say, "I am grateful to my government for giving me social security."

No worker in America says he is grateful to his Government. He says I paid for this and I want it. The fact that he may not have paid it completely doesn't make any difference. He feels he is contributing. I think this is important.

I recall George Meany testifying before the House Ways and Means Committee when one of the Congressmen asked him how can labor be for such a tax, social security tax, which is a regressive tax.

He said, yes, but it is a regressive tax we like. We like it because we feel that as workers we are contributing. I think there is something important about that.

Senator Saxbe. That is true. But I wonder how long that is going to continue when the man sees the man who didn't contribute, never hit a lick all his life, drawing the same benefit he does.

Today he must demean himself under old-age assistance and he may draw his money but the other man who goes to the post office and gets his check says, I earned this, this is mine. I think once you expand social security to bring everybody in and give them the same benefits, the same minimum benefits, I realize there would be a difference in maximum benefits, I think you are going to lose a lot of this, shall we say, personal pride in their contribution.

Thank you.

Dr. Schulz. Dean Schottland, I would like to ask you about the early retirement problem. You recommend that serious consideration be given to the early retirement provision in social security with respect to the reduction of benefits and the possibility that this causes poverty.

The task force talked about this problem and in its report urged that consideration be given to alternatives to social security to meet the problem of people being forced to retire early, becoming disabled or unable to find jobs for other reasons.

I thought I sensed in your statement a suggestion that perhaps we should consider giving people retiring early a full benefit or close to full benefit. What I wanted to ask you, therefore, is whether you don't think that might be dangerous, dangerous in the sense that it would encourage more and more workers who might be able to work to ask for retirement at an earlier age. We might thereby be forcing the national standard of what is a normal retirement period lower and lower.

Dean Schottland. That is why I said we need to study this area and I was not prepared to come to grips with specific recommendations. It is a very difficult area. There is no question when we reduced the age of women for retirement purposes, this had a great effect.

No organized group was in favor of reducing the age of retirement for women. They all opposed it. But Congress was deluged with thousands and thousands of telegrams and letters from individual women and although even the proponents were not too serious about it, it was inevitable that it would be approved. Then the men had to opt for equality with the women so they asked for age 62 as the retirement age.

I think the employer does not feel guilty letting out a person if he can get his social security. I think this is bad business.

Mrs. BREWSTER. Dean Schottland, you suggested that old-age assistance should be incorporated in social security. By the same token, would you incorporate Medicaid for that group into Medicare?

Dean SCHOTTLAND. Yes; I see no reason why we should not. Many of the OAA recipients are getting Medicare anyway because you have 1,100,000 of the 2,100,000 OAA cases actually receiving old-age-security benefits who are already in Medicare.

Mrs. BREWSTER. This would mean some cutting back in the kinds of services they possibly are getting under Medicaid that are not included in Medicare.

Dean SCHOTTLAND. Yes, but I would assume that Medicare will continue to expand and include more and more services. I just think it is inevitable that we are not going to get partial medical services over a long period of time.

Senator SAXBE. Thank you, Dean, for your excellent presentation.

Mr. Pechman, I believe you are accompanied by Dr. Aaron and Dr. Taussig, associates of yours.

STATEMENT OF JOSEPH A. PECHMAN, DIRECTOR OF ECONOMIC STUDIES, BROOKINGS INSTITUTION; ACCOMPANIED BY HENRY AARON, SENIOR FELLOW, BROOKINGS INSTITUTION; AND MICHAEL K. TAUSSIG, ASSISTANT PROFESSOR OF ECONOMICS, RUTGERS UNIVERSITY [1]

Mr. PECHMAN. Mr. Chairman and members of the task force, we appreciate the opportunity to present to you the results of our study, "Social Security: Perspectives for Reform," (Brookings Institution 1968). In the statement, we will raise briefly three major issues of social security policy. These issues are discussed more fully in the summary of our book which we submit for the record.[2]

First, we believe that the widespread habit of regarding social security as a form of insurance is misleading and harmful, even though we agree that the insurance analogy helped sell social security to the American people 35 years ago.

Second, we suggest a series of reforms to improve the structure of social security benefits.

Third, we propose modifications in social security financing to remove inequities and to alleviate the heavy burden of the payroll tax

[1] Mr. Pechman is director of economic studies at the Brookings Institution, Mr. Aaron is senior fellow at the Brookings Institution and associate professor at the University of Maryland, and Mr. Taussig is assistant professor of economics at Rutgers University. The views in this paper are those of the authors and are not presented as the views of the trustees, officers, or other staff members of the Brookings Institution, University of Maryland or Rutgers University.

[2] See app. 3, pp. 253–263.

on the poor. As will become apparent, the tendency to regard social security as insurance impedes reform of both the benefit structure and the method of financing.

THE INSURANCE ANALOGY

In practice, the social security law created a system of benefit payments based on past earnings of eligible beneficiaries and a system of payroll taxes based on current earnings of workers. Within any age group, including those persons presently retired and those still working, the values of individual benefits and taxes—appropriately discounted—vary greatly.

Present beneficiaries as a group receive far larger benefits than those to which the taxes they paid, or that were paid into a private insurance fund. Furthermore, this situation will continue indefinitely—though to a decreasing extent—as long as Congress maintains benefit levels in line with higher earning levels.

The essential difference between private insurance and social security turns on whether an individual currently in the labor force is paying for the social security benefits of current retired workers and survivors or for his own or his family's future benefits.

In individual insurance, each person's premiums are contractually tied to his own and his family's future benefits. Social security benefits are based explicitly on the beneficiary's earnings history, not his previous payroll taxes.

Moreover, the level of payroll taxation has been set approximately to defray costs of benefits for the *currently* retired. The social security program has been financed on a virtual cash, or pay-as-you-go basis in recent years. The accumulated reserves are sufficient to cover only approximately 1 year of benefit payments at present benefit levels.

We wish to emphasize that there is nothing wrong with the idea that current taxes should pay for current benefits. Unlike a private insurance firm, social security does not require a reserve fund to meet its future financial commitments.

The financial soundness of the program depends only on the Government's effective power of taxation, and this power depends critically on the maintenance of a sound tax system in a healthy, growing economy. The faster the rate of economic growth, other things equal, the lighter the burden of taxation that will be required to finance any given level of future social security benefits.

To illustrate the artificiality of the insurance analogy, imagine a world identical to our own in all respects but one. The economy, population, incomes, government expenditures, including transfer payments, and taxation are the same as they are today.

The only difference is that no connection has been legislated in this imaginary world between any particular government expenditure and any particular tax. Instead, all revenues flow into a general fund and all expenditures are supported from it.

In particular, no one in this imaginary world has troubled to tie one of the long list of taxes, the payroll tax, to one of the long list of government expenditures, social security benefits.

You will agree, we feel sure, that if the legal connection between payroll taxes and benefits in fact did not exist, nothing essential need be changed because of the absence of that connection. Calculation of social security benefits in such a world could be done in the same way it is done today.

Taxes might continue to be imposed in the same patterns we know and dislike so well. However, in such a world the tendency would develop to evaluate social security benefits solely with regard to the effectiveness with which they meet the recognized problems of the aged, of survivors, and of the disabled.

Similarly, the payroll tax would come to be evaluated solely on the basis of its equity and resource allocation effects, exactly as other taxes are evaluated.

THE BENEFIT STRUCTURE

If the insurance analogy is abandoned, we feel that the following shortcomings in the present system will generally be recognized. First, although social security benefits are the major income source for most aged benefit recipients, minimum benefits are only a minor fraction of income levels used officially to define poverty—35 percent for widows, 42 percent for single retirees, and 50 percent for aged couples.

Second, some aged persons are excluded from benefits because of the industry or occupation in which they happened to spend most of their working careers, regardless of their total income or of the total amount of all taxes they paid.

Third, the aged group with less income and fewer assets than any other major subcategory of the aged, namely widows who had little work experience, receive smaller benefits than single retirees and aged couples.

Fourth, the benefit structure facilitates early retirement alike by those precluded from work by illness or lack of skills and those who voluntarily chose early retirement by making reduced benefits available to both.

Fifth, a ceiling is placed over benefits to large surviving families which provides inadequate income to the family forced to rely on social security benefits alone. The same ceiling is placed over benefits to large families headed by a disabled breadwinner.

These and other shortcomings of the benefit structure which we discussed in the attached report persist and are defended largely because, by historical accident, payroll taxes were linked to social security benefits, thereby lending superficial but misleading credence to the belief that social security benefits should be limited by previous payroll tax payments, as private insurance is limited by premiums.

May I interpose, Mr. Chairman, and submit to you a sampling of some of the letters that we received after our book was published and mentioned in newspapers in many places throughout the country.[1] We received a large number of rather poignant letters illustrating the hardships that occur as a result of the sharp distinctions that are made in the social security law to define qualification for benefits.

Mr. PECHMAN. To remove questionable provisions, reforms in the structure of the present system are all that is necessary. The cost of their removal is modest, in comparison with across-the-board benefit liberalization which does virtually nothing to remove most such inequities and aggravates some.

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[1] Material retained in committee files.

Suggestions for Reform

The major reforms we suggest are as follows:

1. All persons over age 65 should be eligible for social security benefits, if not covered by other retirement systems.
2. Widows' benefits should be raised to 100 percent of workers' benefits.
3. The 50 percent bonus of a married couple over a single person should be replaced by a flat dollar amount to reflect variations in living costs between one- and two-person families.
4. The benefits provided for dependents should also be kept in line with the costs of dependents in the family budget. If this revision is made, the ceiling on what a family may receive, irrespective of its size, should be eliminated.
5. Benefits for persons already retired should be adjusted automatically to keep pace with increases in the consumer price index.
6. Benefits payable before the normal retirement age should be confined to those who are incapable of working, as evidenced by illness, disability, or protracted unemployment.
7. The maximum earnings level for computation of benefits—now at $7,800—happens to have been fairly close to the median family income when it was adopted. This maximum should be raised automatically in line with increases in the general price level, but by no more.
8. Most important, the minimum benefit should be raised substantially. At a time when the poverty line for a single person is over $130 a month, it is unconscionable that some of our aged citizens must get along on the current social security minimum of $55 a month.

For the long run, we recommend a dual system of benefits to implement the two major objectives of the social security system—prevention of destitution among the aged poor and, for those with adequate incomes before retirement, benefits that are related to their previous standard of living.

The latter function should be performed by a strictly wage-related benefit, with the replacement rate roughly the same at all earnings levels between subsistence and the median earnings level. The income support function should be transferred to a negative income tax system or to a comprehensively reformed system of public assistance.

The negative income tax we propose is similar to those that have been discussed in the literature in recent years, and there is no need to describe it in detail. The advantage of this approach is that the negative income tax payment is reduced—and ultimately disappears—as total income—including the wage-related benefit—increases.

This dual system would be much more efficient and flexible than the present system. Either part of the system could be altered independently of the other. At present, any effort to improve social security with respect to the income support function typically requires substantial improvements with respect to the earnings replacement function.

For example, a program to raise minimum benefits to help the aged poor must in practice be joined with a general benefit increase, thereby making the cost of aiding the poor seem greater than it is.

This is aggravated, of course, by the fact that the present system supplements income regardless of the income status of the beneficiary;

in many instances, higher minimum benefits would be paid to individuals with adequate incomes. Under our system, the earnings-related benefit could be set at any desired percentage of past earnings, while negative income tax allowances to those with low-earnings histories would be sufficient to keep incomes above poverty levels.

FINANCING SOCIAL SECURITY

Although the payroll tax helped to pave the way for acceptance of the social security system, it leaves much to be desired as the main—let alone, the only—source of financing.

It lacks the built-in flexibility of the individual income tax and is particularly burdensome on the poor. At a time of national concern about poverty, a tax on the wages of the poor of close to 5 percent—10 percent if the employer's tax is counted, as it should be—is a public outrage.

It is true that social security benefits are heavily weighted in favor of the poor, but it should be remembered that the burden of the taxes levied to support these benefits is borne by a different group of people, many of whom will receive no cash benefits for three or four decades and, then, only if they survive.

People who are too poor to buy adequate food or decent housing or to satisfy other pressing and immediate needs should not be taxed in the name of supporting possible benefits payable in the distant future. This problem can be remedied only by relying on general revenues to finance benefits in whole or in part.

A number of methods are available for introducing general revenue financing. One method is to allow a full or partial credit for the payroll tax against the personal income tax liability of the individual—with refunds to those who do not pay income tax.

Another is to introduce a personal exemption into the payroll tax or to refund the payroll taxes paid by those with earnings below the poverty line. A third method is to enact a general negative income tax supported from the general fund which might be administered by the Social Security Administration for the aged poor.

In the immediate future, we believe that households not required to pay personal income taxes should be relieved of payroll tax burdens. Payroll taxes paid by members of such households or paid on their behalf by their employers should be refunded.

A special transition device would be needed to avoid the notch problem that would be created by imposing a full 10 percent tax at a given level and no tax below that level. There are a number of methods to take care of this problem.

The same minimum taxable levels for individual income tax purposes—for example, those recommended last week by the Treasury—should be used for payroll tax purposes. There is no reason why the Internal Revenue Service cannot refund the payroll tax paid on wages of workers with incomes below the poverty level, just as it now refunds overpayments on income tax.

The cost of this revision would be $800 million a year if only the employee tax is refunded, and $1.5 billion if both the employer and employee taxes are refunded. Refunds of both employer and employee taxes are justified if the payroll tax is borne by the workers, as most economists believe it is.

Almost every dollar of revenue lost through this revision goes to the poor, in contrast with any increase in the minimum standard deduction for income tax purposes, most of which would go to the nonpoor.

In closing, we wish to emphasize, as we did in our book, that social security is an institution in which the Nation can take just pride and its survival is no longer in question.

The important issues concern the priority of the various problems dealt with by the social security system. Our view is that the most urgent problems today are how to relieve the poor of the excessive tax burden they are now forced to bear and how to provide adequate benefits to the aged poor.

We believe that these objectives can be achieved provided that the Congress and the administration look squarely at the problems, not through the distorting lens of a false analogy to insurance. We can thereby make social security a more effective instrument of national policy.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Pechman. Senator Saxbe?

Senator SAXBE. You mentioned the possibility of leveling on income for the minimum payment. Now, would you limit this to those over 60, over 65, or would you have this as an across-the-board thing?

Mr. PECHMAN. We would oppose limiting it to the aged poor. We are in favor of the enactment of a general negative income tax. If such a device is enacted the Social Security Administration might administer it for the aged poor, although that is not necessary.

Senator SAXBE. In line with the remarks I made before I believe you can see my sympathy in trying to look through this fiction. On that score it seems to me the difficulty of determining at the time of payment whether a person should contribute or not should be one of the things that I would not want to unload on the employer.

In other words, at a time the person receives his paycheck whether or not to deduct the 5 percent contribution because of his poverty status——

Mr. PECHMAN. This would be refunded. It would be very difficult, I think, for the employers to administer this kind of a refund or exemption system. But there is no reason why it can't be done at the end of the year, just as, for example, the IRS now refunds excess taxes collected by individuals who worked for more than one employer.

Mr. AARON. May I add that, in principle, to avoid excessive refunds at the end of the year one would want to adjust withholding rates under the personal income tax so that the payroll tax became in effect a portion of the withholding tax.

The CHAIRMAN. We will go to the panel.

Dr. SHEPPARD. I am curious about this point No. 7 of your statement about the choice of a maximum earnings level.

Is it absolutely sheer coincidence that the $7,800 present maximum happens also to be the median family income, and why should we pick median family income as the maximum tax?

When social security started the maximum was $3,000 and didn't this cover at least 75 to 90 percent of salaries and wages at that time? Why don't we stick to the original principle of 90 percent which might raise it to as much as $15,000?

We shouldn't use the principle of whatever the median family income is.

Mr. PECHMAN. The median level is, as you say, quite arbitrary. It is our view that social security should never pay benefits based upon the full earnings of relatively high-paid individuals.

We suggest that some moderate cut off point be enacted, not necessarily having to do incidentally with the original $3,000 and 90 percent level enacted during the 1930's. That is a matter of judgment.

The considerations for any particular level are hard to evaluate. That is why we said that covering half the income distribution seems about right. To be specific, I can't see any reason why, with all the other problems we have in our system, you would want to base a social security benefit on $15,000 of earnings, on the assumption that that were the 90-percent level. If the wage-related benefit were 40 percent of earnings, you would have a $6,000 benefit for a single person. Maybe some decade hence, the United States will be able to afford $6,000 social security benefits, but before we get to that point we ought to solve many other problems.

Mr. AARON. I think the basic point that we want to make is that there is a certain plausibility about the fact that we are now at the median income level but that any further increases in the real income, real level of income, subjected to payroll tax should be made as a matter of explicit policy decision not because of irrational commitment to some historical level, or to any particular level that one might point to.

Dr. SHEPPARD. I don't know what the rationale in 1935 was for that 90-percent figure. I don't know how rational or irrational it was. Wouldn't part of this whole issue be irrelevant if you do go to straight general revenue financing?

Mr. PECHMAN. You still have to decide what benefits you want to pay to people who are retired. We are suggesting that most people would resent, to go to the extreme, if we actually paid full benefits on the basis of a $100,000 a year salary.

It would be perfectly silly. What you have to do is make a decision on what the maximum benefit should be. We suggest it should be a modest level, not a very high level.

Mr. AARON. Moreover, what the benefit should be set only after considering the other problems the country faces.

Mr. MILLER. I have a specific question. On page 5, point 1 of your statement, you say all persons over 65 should be eligible for social security benefits if not covered by other public retirement systems.

I am curious as to the rationale behind your exception of other public retirement systems.

Mr. PECHMAN. The major reason why the minimum benefits are not raised substantially is that a large portion of such an increase goes to nonpoor people, to aged persons who receive benefits from other sources, other public retirement sources.

For example, a member of the Foreign Service can work for 20 or 25 years, retire at the age of 50, and then for the next 10 or 15 years become fully eligible for social security. In that case he gets double benefits.

Mr. MILLER. I understand this but my question is related to the fact that a member of the diplomatic service, or a Senate employee, or a civil service employee, or career member of the Army, is participating in a retirement program essentially as an employee, in the same sense that the employee of General Motors is participating in a pension program or retirement program there.

I am just curious as to why you make this exception.

Mr. AARON. The reason for the exception is that because of the rising earnings history and other circumstances the extension of coverage of the system, it has been felt necessary to allow people to earn essentially full benefits after working in covered employment for a relatively brief period of time.

The benefit is computed according to a complicated formula based on the number of quarters in covered employment after 1950. As a result a person can achieve a full social security benefit in addition to full retirement benefits under other programs. If social security were revised so benefits were based only on the proportion of his working life an employee spent in employment covered by social security, then it might be possible to extend these benefits as well.

The real problem that we have in mind here with respect to recommendation No. 1 arises because some people don't fall in either of these categories, those who didn't work in covered employment and retired at some point in the past, who have through one set of circumstances or another qualified for no benefits whatsoever. It is our feeling that this group is the one about which we ought to be most concerned and that we ought to make sure receive some sort of public retirement benefit.

Mr. MILLER. My question really has two sides to it. I am referring to the tax structure. Why should a Federal employee be exempt from either a social security tax or the benefit? I can understand the constitutional problems with some State employees, which of course have been taken care of in a high percentage of cases by permissive legislation in the Congress and suitable voluntary action by the States, but why should not a Federal employee also pay social security taxes and receive benefits while he is a Federal employee?

Mr. PECHMAN. I see nothing wrong with that.

Mr. TAUSSIG. The problem is to coordinate social security with civil service retirement. We do discuss this in our book.

Mr. MILLER. From the standpoint of recognizing that the Federal Government is functioning as an employer in one instance and as a governmental agency in another instance.

Mr. AARON. A suitable techique for doing that is one which is used in many private retirement plans which are geared to the prevailing level of social security benefits at the time the person is receiving pensions.

There is no reason it seems to me why government employees could not be treated in a similar manner.

Mr. MILLER. I had hoped to ask this question of Commissioner Ball yesterday, but do you have any information as to the number of State employees who are not covered by social security, percentagewise or otherwise?

Mr. PECHMAN. It is probably somewhere in our book.

Mr. MILLER. Could you provide an answer to that question for the record?

Mr. PECHMAN. Yes.

(The material requested follows:)

According to current estimates, 2,600,000 Federal, State, and local government employees were not eligible for social security coverage in 1968.

The CHAIRMAN. Dr. Kreps?

Dr. KREPS. Refer to your point 6 in recommendation 6, in which you say that "benefits payable before the normal retirement age should be confined to those persons who are incapable of working," et cetera. Do you suggest that these benefits be at the same level as at that magic age 65? Or do you go along with the present scheme, in which we reduce the benefit and impose a penalty for early retirement?

BENEFITS TO REPLACE EARNINGS

Mr. TAUSSIG. We recommended that people should be paid benefits to replace earnings which they have lost. There is no justification in social policy for reducing those benefits. The conflict comes in providing full benefits for anyone who wishes to retire early, whether he is healthy and fully capable of being employed or not; payment of benefits in such circumstances induces early retirement.

However, people whose problems are serious enough so that they must retire before age 65 should get full benefits. People who are currently on reduced benefits, whether or not the reasons for providing those benefits were good or not to begin with, should now retroactively have those benefits raised to a full level.

Mr. AARON. May I illustrate the costliness by referring to page 135 of our book where we estimate that the cost of a retirement system with a retirement age of 62 would be approximately 30 percent greater than the cost of a retirement system with a retirement age of 65.

If one moves the retirement age down to 60, the cost is a little over 50 percent greater than that of a system with retirement age of 65. Both these estimates presume that the resources the Nation desires to devote to income maintenance for the aged are not indefinite or unlimited. In other words the lower the retirement age, the lower the benefit. We think that there are undesirable results from lowering the retirement age indiscriminately.

Dr. KREPS. Do you in parallel fashion make any recommendation regarding a possibly higher benefit if one retires later?

Mr. TAUSSIG. Yes, we suggested certain experiments. I think there is enough uncertainty and ignorance in this area that one can't make any definite proposals. But there might be a good payoff in experimenting with higher benefits for people who retire late. To some extent there is a social interest in encouraging later retirement for those who can work past age 65.

Dr. SCHULZ. I would like to ask a couple of questions. First about your proposal for a dual system. Some people argue that if you institute some sort of negative income tax scheme which provides minimumly accepted, adequate benefits to various people who have not prepared adequately for their retirement, then there is no justification for a compulsory social security system.

I am not sure whether you talk in your book about this question of compulsion with regard to the second half of the dual system and I would wonder what is your reaction to people who make this suggestion?

Mr. Pechman. We have a whole chapter on the question. We believe that there are two parts to the social security system, both of them worthy of public support. One is the income maintenance part for the aged poor and the other is for those who had adequate income before retirement.

Compulsion is justified on a number of grounds. First, there is no evidence that the private pension system is going to develop rapidly enough to take care of even modest benefits for a large majority of the working population. Second, if you didn't have a compulsory system, some people who had adequate incomes before retirement would not provide for their old age and we would, in effect, be paying them negative income taxes even though they had enough means before to take care of themselves.

Third, even if people would like to make provision for their own benefits it is very difficult when you start out in working life to decide how much you should put aside for your retirement.

A young man or woman who starts work at age 20 or 22, unmarried at the time, doesn't know whether he or she will get married, how many dependents he will have, or whether he will be faced with inflation or depression during the next 40 years of his life. So there are many uncertainties that face the individual that would prevent him from making adequate provision for retirement.

If you put all these reasons together, we think they make a very conclusive case for a compulsory system of social security benefits up to some modest amount. We don't go the whole way of course because, as I have already said, we don't want to pay full benefits on salaries of the $100,000-a-year men in our society.

Dr. Schulz. In the chapter to which you refer, I believe that you indicate that one of the other problems is that people who like to prepare for retirement themselves through their own personal savings and investment decisions find this very difficult—to deal with very sophisticated financial markets and to understand the risks involved.

The task force has recommended that consideration, additional consideration, be given to the idea of constant purchasing power bonds. As you know, there have been a number of distinguished economists who have discussed, favored, or pointed out the possible advantages of constant purchasing power bonds in general.

I was wondering whether you gentlemen had any opinion on this.

Mr. Pechman. On this one we will have to give you individual opinions, since we did not cover this question in our book. I am rather negative about the constant purchasing power bond. I would not want to put too many escalator clauses in our system, because they might tend to make Government officials relax about inflation. I think they ought to be put to the test.

On the other hand, the aged have no protection against price rises during their retirement and for that reason we do recommend an escalator for their benefit payments.

Mr. Aaron. I have no strong feelings, but it seems to me it does not get to the basic problem with which we are concerned in adjustment of benefits and in computation of the amount of benefits that a person would receive under a mandatory system. Our feeling is that benefits should be computed in such a way under a mandatory system that a basic level of income support is provided through the mandatory system.

If such a course is followed then it seems to me that creation of an institution such as this is of marginal significance for the aged and would have to be appraised on other grounds.

Mr. TAUSSIG. I will disagree a little bit. I agree with my colleagues that it is not the basic problem. But it would be a useful device if it were confined to the aged. It has its fiscal dangers, as Dr. Pechman pointed out, but I think a constant purchasing power limited to the aged could be a useful supplement.

MECHANISMS FOR AUTOMATIC ADJUSTMENTS

Dr. SCHULZ. On page 102 of your book you talk about automatic adjustments for either prices or wages and the relative advantages and disadvantages of the adjustments. Once again the task force has raised this issue and has suggested that we need to think seriously about some sort of mechanism for allowing the aged population once they have retired to share in the productivity and growth of the society.

I was wondering, since you didn't cover it in your statement, whether you might want to comment on this.

Mr. PECHMAN. I don't suppose we have any terrible objections against increasing the benefits of the aged along with higher productivity as well as higher prices. What we worry about, however, is that it costs money. The main thrust of our book is that you should regard the problems of the aged as a social problem just like all other social problems in our society and solve them to the extent that you can in order of priority.

We believe that it would be unwise to decide now to allocate enough of the Nation's resources in such a way that aged will receive increased benefits not only to keep pace with the increased living cost but also to keep pace with the earnings growth of the working population.

This doesn't mean that, at some affluent stage, we wouldn't want to see this done. But for the foreseeable future, we would want to limit the automatic escalation to cost of living increases.

Mrs. BREWSTER. I have one very minor question, but before that I want to say how very much I enjoyed the book.

Mr. PECHMAN. Thank you very much. We didn't, of course, touch your field.

Mrs. BREWSTER. The question that I have is this, as Dean Schottland suggested a 5-year basis for determining earnings, in your pamphlet you say 10 years. Would you have any objections to a reduction to 5 years?

Mr. PECHMAN. No, not any strong objection. Again, it is a question of cost. I think that we should go to 10 years first, see how that works out, what our fiscal resources are, and then if we find we want to take care of the aged in this way before other problems in our society, go to 5. But we don't have any strong objection to a 5-year basis.

Mr. AARON. For some workers shortening the period would reduce benefits. There are many workers, particularly relatively low-skilled workers, who reach their maximum earnings levels many years before retirement. As they near retirement pay rates may go down or periods of unemployment may increase for various reasons.

Furthermore, in a period when prices are rising, it is desirable, whatever the base period, to adjust earnings retroactively for the price change which occurs between the time the earnings were received and the time the worker retires and to use those real earnings levels in dollars of the retirement year in computing the benefits to be paid. For example, if real wages plus prices were to rise, say, 6 or 7 percent a year, which is not an unreasonable figure, within 5 years wages will have risen 34 to 40 percent. Going back even 5 years one would encounter what appeared to be relatively low wages if one did not allow for price changes that had occurred.

Mrs. Brewster. The Civil Service System is the high 5 years. Thank you.

Dr. Kreps. I would just like to get into the record one more point. Yesterday when Commissioner Ball testified, he laid out several leading questions that should be considered by the new advisory council on social security.

It seems to me that all the points that he stressed have been carefully considered by Mr. Pechman and his associates. The advisory council should take seriously these recommendations; this is a milestone in the study of social security.

Mr. Pechman. Thank you very much. But I do think they need the advice of an advisory council.

The Chairman. Thank you very much, Mr. Pechman. We are just advised there is a vote in the Labor Committee and we will have to leave.

This is Pechman day here at this committee.

Mr. Pechman. That is right. You are going to hear later from my sister, Mrs. Dorothy Rice.

The Chairman. You are invited.

We will adjourn until 1:30 p.m. Thank you very much.

(Whereupon, the hearing adjourned to reconvene at 1:30 p.m., the same day.)

AFTERNOON SESSION

(The special committee reconvened at 1:30 p.m., Mr. William E. Oriol, staff director, presiding.)

ROUNDTABLE BY FEDERAL PERSONNEL

HERMAN B. BROTMAN, ADMINISTRATION ON AGING; LOUIS RAVIN, DEPARTMENT OF LABOR; JOHN R. STARK, U.S. CONGRESS JOINT ECONOMIC COMMITTEE; LENORE EPSTEIN BIXBY, MOLLIE ORSHANSKY, AND DOROTHY P. RICE, SOCIAL SECURITY ADMINISTRATION

Mr. Oriol. Our panel here this afternoon are people who have already been very helpful to the committee in providing the kind of information very much needed. To assure that we make the best possible use of the information and ideas represented here, we thought that this informal panel mechanism would be very helpful today.

We would ask Dr. Kreps to lead into our discussion and, Dr. Kreps, would you begin now?

Dr. KREPS. I want to extend the thanks of the task force to those of you who are serving on this panel, who have been more than generous when we were looking for the facts and figures. It has long been my lot in life to be knocking on the door of Lenore Bixby or Herman Brotman to ask for data. In the past, I haven't done so in the name of the Special Committee on Aging. Usually it was for my own purposes. In preparing the task force report we have felt justified in asking you for a great deal of help. What we have done, as you know, is use your data with a very broad brush. I trust we haven't misinterpreted, and I know all of you well enough to know that you will be the first to tell us if we have. What we would like this afternoon is to see the extent to which we were unaware of new sources of information which you are putting together. Also, you may want to emphasize some of the implications of the data which you made available to us.

Suppose we begin with Mr. Brotman, from the Administration on Aging.

STATEMENT OF MR. BROTMAN

Mr. BROTMAN. Before I start, I would like to indicate how happy I am to be here. This has been quite an experience. As a Federal bureaucrat and more than that, a "research-and-statistics type," my analyses and publications have emphasized both current and developing problems and some of the projected problems but, of course, I am not supposed to make policy. I could only hope that the people who do make policy are reading these things and that they are getting out into the field where discussion will lead to formulation of policy.

I think the hearings here have indicated that this has been happening; it makes me very happy to see it happening. I am sure that this reflects the feelings of some of the other participants in the roundtable. Someone out there is listening, after all.

I would like to summarize from the letter that I sent to the committee.* Mine will be a somewhat special treatment since I had the opportunity of working fairly closely with the task force all during the preparation of the report. I thought my contribution might be most helpful if I tried to spellout and develop some concepts, perhaps at the risk of oversimplification. Incidentally, this is how I "sell" some of my statistics.

The first point I would like to talk about is why I say the income of older people is primarily a question of social policy. When an older person retires from full-time employment, he does not do so with a basement crammed full of the goods and services that he will need for the rest of his life. He, along with the rest of the population, will continue to get his needed goods and services from the current national production of all goods and services.

The size of his share of all currently available goods and services depends on his purchasing power in the marketplace and for most older people, that, of course, means his income.

The share going to the individuals in the so-called productive age group, those between 18 and 64, is determined by their income which is derived almost entirely from two sources, wages and salaries and returns on investments. These individuals have a substantial degree of control over the present size of, and the potential for change in, both of these income sources.

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*See app. 3, p. 243.

The under-18 group depends primarily on sharing the income of the 18 to 64 population. But, as the task force has shown, the income of the vast majority of the individuals in the older population depends primarily, when not exclusively, on income maintenance programs.

Since these programs are essentially benefit payments established by legislation or contract that "transfer" purchasing power or income to the elderly, they are all social policy decisions, not the individual's own choice or subject to his own effort. Such decisions are constantly being made, sometimes by purposeful deliberation, often by default.

When we recognize that the incomes of older people, and thus a major determinant of the quality of their lives, depend on social policy decisions, we realize that ultimately they represent the willingness of the rest of society to share. It has been said that a society can be judged by its treatment of the aged.

On the second point: the level of income of the older person as a three-layer structure. Regardless of source of income, be it the result of the individual's own savings and investment or private or public programs of transfer payments, it may be helpful in thinking about priorities if we imagine a three-layer structure.

A Three-Layer Structure

The first layer is concerned with the problem of the possibility of living at all. It represents the approach to adequacy, to meeting decent subsistence requirements and a little more. In my opinion, this must receive first priority attention. Until such needs are met, other things are just frosting, sometimes camouflaging a completely inadequate base.

The second layer is concerned with the cost of living. It represents the approach to compensation for price increases, a problem with serious impact on older people who, more than most other groups, are subject to fixed incomes. We must remember, however, that this is only a protective layer. Unless the amount of income was adequate to begin with, adjustments for price increases guarantee only that the elderly won't sink from an inadequate level of living to an even more inadequate level.

The third layer is concerned with the standard of living. It represents an approach that I would describe as awarding to the creators and builders of our economy a share of the fruits of its increasing productivity—a share in the increasing standard of living that goes automatically to those still in the labor force who can bargain for wage increases that exceed price increases. This must be recognized as an additional and desirable layer, but its priority comes to the fore only after we have provided our aged an adequate income that has been adjusted for price changes.

Urban-Rural Differentials

My third major point is on urban rural differentials. It has become a self-perpetuating commonplace to automatically assume that we may provide lower levels of income in rural areas than in urban areas because of differences in costs. This principle is evident in several programs and especially in establishing model or standard budgets and in computing poverty levels.

Recent data and the experience of program administrators raise serious questions about the general validity of the distinction and the specific size of the differential that is assumed in the computations. Significant changes have occurred in living and retirement patterns, in payments in kind, in availability of home-grown food, in community shopping facilities and practices, et cetera. The question of urban rural budget differentials need reexamination.

MINORITY GROUPS

My fourth point is on the aged members of minority groups. Negroes, Mexican Americans, and Indians make up smaller proportions of the older population than they do of the younger population because they suffer from higher death rates throughout their lifespans. This, plus their cultural lack of militancy makes them an almost invisible group.

Even the fragmentary data available, however, suggests that they are indeed a multiple disadvantaged group, in "double jeopardy" as described by the National Urban League.

A life history of low earnings and a disproportionate share of unemployment, that makes any personal retirement planning and preparation even more difficult than for the majority population groups, is crowned with proportionately low-retirement-income payments.

Simultaneously, the higher death rates raises questions about the equity of the benefit eligibility age and of the life expectancy figures which underly the actuarial determination of benefits. This area, too, needs further analysis, data gathering and research.

Mr. ORIOL. Mr. Brotman, about the special income problems of minorities, the committee has sent to various national organizations letters requesting their views and certain information from them in this area. The committee has already conducted hearings about elderly members of Mexican Americans. We are building to the type of information that you are just discussing.

Mr. BROTMAN. The availability of data on incomes of older minority group members is a serious question I think that needs some special researching.

INCOME OF WIDOWS

The fifth point is on income of widows. As has been repeatedly pointed out, the majority of older women are widows. The growing difference in death rates between males and females promises an even greater preponderance of older women in the future.

Today there are about 130 older women per 100 older men; by the end of the century, the ratio will be at least 150 to 100. And these widows are at the bottom of the income scale.

Close to 60 percent of the older women living alone or with nonrelatives live in poverty, 2.1 million out of 3.6 million in 1966, and another 10 percent are on the borderline. Among nonwhite older women living alone or with nonrelatives, 85 percent live in poverty, with another 5 percent on the border.

Comparisons of life expectancies of men and women provide startlingly dramatic forecasts of the dimensions and impacts of this problem.

Beginning at middle age, a wife whose husband is 5 years younger than she is, an unusual situation in our culture, such a wife has a 50-percent chance, that is 1 chance out of each 2 such couples, of eventually becoming a widow. If the wife is the same age as her husband, her chance of ending up as a widow increases to 2 out of 3 couples. If she is 5 years younger than her husband, her widowhood prospects increase to 3 out of 4 cases. If she is 10 years younger, the odds rise to 8 out of 10 and so on.

Let us consider the middle-aged or older woman who is already widowed and who is dependent on a son. Again, the comparison of life expectancies shows that if she is 30 years older than her son, there is 1 chance in 8 that she will outlive him. If she is 25 years older than her son, the chances that she will outlive him rise to 1 in 6. If the widow is only 20 years older than her son, the chances of outliving him jump to 1 out of 4.

The status of widows in all income maintenance programs should be reexamined in terms of today's realities and tomorrow's projections.

Additional Data

Since providing the income data for 1966 and 1967 included in the task force report, some additional data have become available. I would like to mention it now and ask that these tables be included in the record for the use of the task force.

The first information that has become available is a distribution of earnings of middle-aged and older male family heads in 1966 according to their work experience patterns for the year. I think that just one or two comments in addition to the submission of the tables might be in order.

For full-time, year-round workers, that is those who work 50 or more weeks per year and 35 or more hours in each of these weeks, the median earnings decrease with age once you get beyond age group 35 to 44.

Sixty-five-plus year-round, full-time workers had a median earnings of something over $5,000. In the next younger age group, 55 to 64, it was about $6,700. And in the 45 to 54 ages, it was about $7,500.

The implications of this are even more disturbing when we examine the whole distribution rather than just the median. Of the 65-plus male family heads who worked full-time, all year, 28 percent had earnings of less than $3,000 per year. This compares with about 10 percent for the 55 to 64 male family heads and about 7 percent of the 45 to 54.

Mr. Oriol. Does your category include self-employed as well as salaried?

Mr. Brotman. That is right.

Mr. Oriol. We do have the likelihood of large salaries of many self-employed raising the median?

Mr. Brotman. That is right. That is something I will mention in another connection.

Now, one of the tables in this series presents this information by occupation and to a large degree shows why the median for the older worker is lower than the median for the younger workers. It is because the older workers concentrate in the low-pay occupations, low paid professions, more than do the middle-age workers.

Miss. McCAMMAN. Perhaps we should be clear though that the use of the median means that the high incomes of self-employed raise the average less than if you used an arithmetic mean.

Mr. BROTMAN. That is true, too.

The other piece of new information that has become available is some significant additional detail on income of older families and older unrelated individuals, in addition to the preliminary data that appear in the task force report. One of these analyses is by type of family and the other is by the education of the head of the family. Furthermore, separate data permit a comparison of the average, or mean, and the median for the same distribution of older people.

The difference between the mean, or the average, and median, the point at which you have half of the people below and half above, is most extreme for the older population.

For the younger population groups, and this is for families, the mean exceeds the median by about 10 to 15 percent. In the older population group, the mean is almost 50 percent higher than the median and shows the impact of a small number of very wealthy aged people on the average for an otherwise low-income group. It justifies, I think, if any further justification is needed, the use of the median in talking about the income and earnings of older people.

This information, too, if you like, I can put in the record in the form of tables.*

Miss McCAMMAN. Very good.

Dr. KREPS. Thank you, Mr. Brotman. We will want to have access to all of this information in the final version of the task force report. Because of our time constraint, I am going to move ahead. By the way, where were you yesterday when I was being pinned to the wall on the question of what constitutes a transfer?

Mr. BROTMAN. I was suffering in the audience at not being able to speak up.

Dr. KREPS. Our next panelist is Mr. Louis Ravin of the Department of Labor. He is a specialist in the field of older workers. Mr. Ravin.

STATEMENT OF MR. RAVIN

Mr. RAVIN. It is a pleasure to be with so many of my old friends and associates. It is also a pleasure to start with some document like the task force report. You really feel you can come to grips with some of the problems that we are facing with this kind of help, and also, and I think I, if not all of us, have thought a little more clearly about what we have been talking about for years because of the excellence of this document.

I think I should say that I am here, not to represent the official views of the Department of Labor, but because of being so long associated with the Government's concern with the aging problem. That doesn't mean that my Department won't go along with my assessment of the invaluable report, but anything else that I may have to say by way of interpretation, I can't be sure. I have not spoken to President Nixon lately, so I am not sure where I stand.

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*See app. 3, pp. 245–249.

Personally, I am in accord with the substance of this report, although I have some reservations having to do with emphases rather than true differences. We need to be reminded that retirement benefits were intended as an alternative to income from employment. They are not a real benefit if employment does not remain a possibility. In that case you have a choice of selecting a car of any color you like, providing you like black.

A number of the task force members mentioned this close relationship with employment and the task force in its report recognizes that certain special problems exist which compound the general problem of low income. Among those requiring immediate attention, the report says, are employment opportunities in old age and implication of earlier times and trends and this is basically what I am addressing myself to.

Because the task force did such an excellent job of describing the inadequacy of present level of benefits and documenting the appalling fact that a high proportion of older persons are condemned to live out their lives in poverty or near poverty, and incidentally I knew it all of the time as the principal author of OEO task force report and older persons program, but it sometimes comes as a shock when you say it is presented in charts, and et cetera.

Anyway, because of this risk we run, the danger of failing to examine approaches other than and in addition to raising the levels of benefits which we much concede is the major avenue to amelioration.

But remember the present levels can be as high as they are or future levels can be increased without placing intolerable burden upon the employer, in part because a substantial proportion of older persons are still working.

I think Dr. Pechman or one of his associates made that point with respect to reducing the retirement age to 60 or 62. To indicate too simply the importance of this employment, think of the cost of replacing in full the income from such earnings.

Since earnings account for about the same proportion of aggregate income as social security benefits, a third each, by eliminating earnings and substituting benefits, we would presumably double the cost and double the payroll tax or equivalent increases from general revenues.

Labor Force Participation Declines

I am not an expert on this and I am sure that is not quite the way it would work, but how it would work can be corrected by several experts on my right I know. No one promises this complete cessation.

On the other hand, we will come close to it in the next 20 years if the trends of the last 20 years continue. For example, the labor force participation of white male 65 and over, 20 years ago was 46.6. In 1968, it was 27.3. In other words, an average reduction of 1 percent a year.

However, this isn't inevitable. In the last 3 years—1966, 1967, and 1968—these same participation rates, that is for older white males, have remained at slightly over 27 percent and for one even they are a little higher than they were earlier.

If we can't reverse past long-term trends, it may be possible to slow them down with some favorable results. After all, we control the economic trend, trends do not control us. The reason for the sharp drop-off in labor force participation at age 65 is not the health and work capacity undergoing a sudden change then, but rather that a long-time eligibility for benefits was set at age 65.

The reason there are now over a million retired workers between ages 62 and 64 collecting reduced benefits is that not so long ago there was a social policy decision to permit earlier retirement.

Now if you would want to reverse those decisions by raising retirement age, but we can make further or new social policy and say that for the future we want to see social security to some extent tied in with and adding to production of goods and services.

There are a great many jobs which the communities need to have done which are not now being done. This in fact has been advanced by Senator Williams, the chairman of this committee, and other sponsors of the community services programs. It can be further argued that such employment is counter inflationary to the extent that it meets real needs for services. If you increase benefits without at the same time increasing supply of such services, you have the inflationary situation.

The jobs I am talking about would have to provide real work rather than making new work and the work would have to be relatively efficient. At some point work productivity is so low that it is probably more economical to place a check in his mailbox rather than to place him in a job.

Community Service Programs

We are learning something about programs of this sort through community service projects which the Department of Labor is now funding in about 40 locations. I would like to make one last point. That is about individuals between age 62 and 64, the early retirees.

At the present time, when a man applies for benefits at age 62, he suffers 20-percent reduction in benefits. Now, as an aside but a very important aside, I would like to point out he also loses coverage against the health costs which are frequently provided by employers and is not eligible for Medicare until age 65, and that is a very serious defect and nobody seems to have mentioned it in the course of these hearings, although the question of covering the disabled has come up. I am sure it has something to do with costs.

Another aspect which I have not heard discussed previously and which apparently is generally unknown to retiring workers and even to many people working in this field, including myself until very recently, is that the early retiree can improve the situation if he is able to return to work. The recomputation of his benefits at age 65 would take into consideration months during that period in which he did not draw benefits or drew only partial benefits or disability benefits.

I have no knowledge about how frequently early retirees do return to employment, although Mrs. Bixby tells me they are making studies in that direction, but it is my impression now, without benefit of the studies, that most people are afraid that one way or another they will endanger their benefits rather than improve them if they go back to work part time or full time.

THE ROLE OF EMPLOYMENT

In addition to the financial impact on the individual, we need to have some social counting and analyses based on availability of number of options regarding worker retirements. Retirement could be made more flexible with respect to the needs and capacities of the individual and also the economy. We seek for the individual the widest possible range of real and reasonable alternatives to work or to retire, to work part time or full time, to retire early or later or not at all.

I think we ought to pursue that in a society like our own. Clearly continued employment is the best hedge against inflation to the individual but for most of the individuals this becomes impossible or undesirable at some point. The simplest answer to the needs of older persons always seems to be earlier retirement and higher benefits for everyone.

But this has been amply demonstrated to be quite costly. We need to improve on methods of financing cost but we also ought to add more option. We ought to consider thoroughly the additional option of work opportunities which offers the higher level of income in return for value received in continued services.

Dr. KREPS. Thank you, Mr. Ravin.

If I am allowed one editorial comment, I do think we have not talked nearly enough in these hearings about work in the latter part of worklife. Perhaps we can come back to some of Mr. Ravin's points later.

The next panelist is Mr. John Stark of the Joint Economic Committee, whose office recently published several volumes of studies under the title "Income Assurance in Old Age." The work was mounmental, including many studies which would otherwise never have been prepared.

STATEMENT OF MR. STARK

Mr. STARK. Dr. Kreps, you don't know how grateful I am for those gracious words. Praise and gratitude are not a long suit in our work here.

Mr. ORIOL. Mr. Stark, may I interrupt your comment about praise and gratitude. We on the Committee on Aging found the compendium very, very helpful. As you see, many of the statements made in it found their way into the task force report and we would especially like to acknowledge the assistance that Nelson McClung gave to it in the very earliest planning stages to what we have here today.

Mr. STARK. Thank you very much.

Let me say that we deeply appreciate the opportunity you have given us on the Joint Economic Staff to contribute to your very valuable study here. Of course, we have no special expertise in the problems of the aging but, as you say, our work on pensions is certainly relevant and beyond that, we have done various projections of needs in the economy as well as of the potential of the economy itself. Economic projection has advanced to the point where economists attempt to show the magnitude of the so-called fiscal dividend, that is, the resources that might be available for social programs at given points in the future.

Beyond that we all work in a continuum concerned with resources and allocation of public policy needs, and we have many mutual concerns. For these reasons, the opportunity is very much welcomed.

I will confine my comments on your study, in light of what I said, to a few brief remarks with the understanding that I am delighted to be available to answer any questions you might have about our work.

It struck me that one of the many impressive conclusions of the report is that low income is not a transitional problem for older people that eventually will solve itself under present trends. There has been an easy tendency to assume that increasing income would solve the problem over the years and it is most important to establish, as you have, that this is not the case, and that we cannot indeed resolve the problem without positive action.

Claims on "Fiscal Dividends"

Among the aspects of this situation that strike one who is concerned with general economic policy is the profusion of claims on the so-called fiscal dividends. Now it is true that there should be substantial increments to revenues over the years ahead if we choose to retain them in the public till rather than disperse them in the form of tax relief.

However, the competition for these dividends is intense. Military programs are a prime claimant, as we know, from the daily newspapers. The urban sector is another. Pollution control is a third. Poverty is a fourth.

It has been estimated that a general income-maintenance program for the whole population would cost a minimum of $12 billion a year and I stress that that involves a minimum program.

So the consequence is that the older people may have to get way back in line unless public policy intervenes.

A second factor involves the aggravating effect of inflation, a problem that we are very much concerned with in our general work in the Joint Economic Committee. There is no question but what inflation and the need for restraining it occupies a prime place in our report filed earlier this month with the Congress on the state of the economy.

Unlike the earlier part of the 1960's, the last few years have been characterized by a rising rate of inflation. Many competent observers question whether this can be arrested soon. We know the effect on the elderly is extremely harsh, and yet it is a reality that can't be overlooked or wished away. It is a harsh, everyday attrition.

A third factor involves the private pension program. Our own committee has revealed that in spite of extensive assets and nominal coverage, vesting is not nearly as prevalent as it is generally assumed; thus there are many people who do not have the coverage they think they have or whose coverage may not be as large as they think it is.

It is important in assessing the prospective conditions of older people to look carefully at the true effects of the private pension program, and may I say in conclusion that we hope to continue our work on pensions in the very near future. It is something that we consider very important.

Thank you.

Mr. ORIOL. One question. For our record, you have a subcommittee which has conducted hearings on income assurance programs during 1968.

Mr. STARK. That is correct; yes. Our subcommittee on fiscal policy under the chairmanship of Congresswoman Martha Griffith conducted hearings last summer; I think it was in July.

Mr. ORIOL. Can you now tell us of any other plans along this line on hearings that might bear direct relationship?

Mr. STARK. I would hope we could continue work on income maintenance. As to precisely what aspect we will concentrate on it, I can't say, but it is such a vital problem and such a prime claimant on our resources that almost inevitably we will be doing something this year.

Mr. ORIOL. We will certainly keep you informed and I think we will stay in close communication. Dr. Kreps.

Dr. KREPS. Our next panelist is Mrs. Lenore Bixby, whose work in the field of the income of the aged is well known to all researchers. With Janet Murrey she has published "The Aged Population in the United States," which is a classic work containing the results of the 1963 survey of the aged. She is Director of the Division of Retirement and Survivor Studies in the Social Security Administration.

STATEMENT OF MRS. BIXBY

Mrs. BIXBY. Thank you. I am very pleased at the opportunity to participate in this discussion. I thought the task force did an extraordinarily skillful job of putting together available data from a variety of sources.

Judging by the letter from Senator Williams, I take it my role today is to comment on materials that we are now developing rather than on policy issues. I just want to bring out a few points, relatively brief, that I commented on in my letter to him.*

We noted how heavily the task force report drew on the 1963 Survey of the Aged. We are pleased it was useful, but wish we had already had some later data, because the situation does change and rather rapidly.

The report comments on the steady decline in the labor force rate for the aged. It also states that a third of the income of the aged comes from earnings. That statement worried me because it was primarily based on the 1963 survey, and the proportion of men 65 and over who work at any time during a year dropped from 43 percent in 1960 to 35 percent in 1967. I therefore developed for 1967 some very rough estimates of aggregate income by source. I hope that by the end of this year we will have new data for 1967. Meanwhile my guesstimate is that by 1967 the earnings could not have been as much as 30 percent of the aggregate income of people aged 65 and over.

The comparison of the widening gap between old and young people, that is depicted so impressively on chart C,** necessarily drew on census data for families which didn't differentiate them by size, or by the sex and marital status of the head, or by employment status. The task force, I know, didn't need to be told that the interpretation of the change would depend somewhat on the extent to which it reflects the

*See app. 3, p. 264.
**See app. 1, p. 164.

declining labor force rate, the extent to which it reflects the fact that retirement income doesn't keep up with earnings, or the two in combination

We know both of these changes have occurred. I can not offer any data on the extent to which it is one versus the other. I can report that we collected data on the 1967 income and selected assets of people 65 and over in a national cross-section survey which is now being processed. We hope to have at least the preliminary findings by the end of the summer, to compare with some of the material that was obtained 5 years earlier in the 1963 survey.

This study—as the 1963 survey—will include some information on the economic situation of older people living in the homes of younger relatives. That is the group of aged persons who are most likely to be poor, and they are not normally identifiable in the census data for families with aged head or older people living alone.

The study we did last year, on the other hand, did not include people 62 to 64. Data on that age group from the 1963 Survey of the Aged I think provided much of the basis for calling attention to the low economic status of early retirees.

We do plan to classify the data on 1967 income by whether or not those who are drawing benefits had their benefits reduced because they were claimed before age 65. This will give us some light, I think, on the question. We also have underway another study which we are calling Survey of New Beneficiaries. That is a [mailed questionnaire] survey we have had underway since last summer with monthly mailings to recent awardees. This will provide some information on the income of workers awarded benefits at ages 62 to 64, those who waited till age 65, and a group who enrolled for Medicare but did not claim cash benefits because they were still working.

A Three-Way Comparison

So we will have a three-way comparison. The study was prompted most by the question of why so many people are retiring early. We ask a number of questions about reasons for leaving the last job that I hope will throw some light on the question that has recurred through these hearings on the reasons for the trend toward early retirement.

The study will also, we hope, throw some light on the question John Stark raised about pension rights. We are asking, in relation to current job, last job, and longest job, whether the person was covered by a private pension and whether they expect to get, or are already getting, a pension from that employment. This will perhaps be a lead of a different sort than anyone has had before on what the private pension system is and isn't accomplishing. We hope we will have some findings from this study by the end of calendar 1969.

This spring the Census Bureau started interviewing a sample of persons aged 58 to 63, whom we hope to follow for 10 years in a retirement history study. It will be a very useful vehicle for answering questions on the timing and reasons for retirement, but it will be a long time before it can provide more than a few answers so we have other studies underway, such as the survey of new beneficiaries that I mentioned.

We bought from Census some special tabulations of work experience data from the current population survey, with comparable tables for the years 1960 to 1967. They show that there was a significant drop between 1961 and 1962 in the proportion of men aged 62 to 64 who worked all year at full-time jobs. Since, in this same 1-year period, there was some increase for the age group 55 to 61, it would appear this was a response to the provision in the 1961 amendments that allowed men to draw benefits at age 62.

EARLY RETIREMENT

Let me just close by saying that there are many ways of looking at the early retirement question. It seems to me that the long-term impact is indicated by the fact that 40 percent of all retirement benefits now in payment status have been reduced.

The figure is 30 percent for men and about 54 percent for women. The difference in the average benefit for all beneficiaries (men and women combined) in payment status is about 20 percent. That is the full reduction if the benefit is claimed on reaching age 62. Obviously not all of the people who take early benefits take them at 62. So I think this reflects in part the fact that women, whose earnings and benefits are lower than those of men, make up more than half the total drawing reduced benefits and less than half the number without reduction. Moreover, in addition to what Mr. Louis Ravin mentioned as a disadvantage of the early benefit for men but not for women the 3 years from 62 to 65 must be counted as 3 of the 5 allowable dropout years when computing average earnings as a basis for computing benefits.

Miss MCCAMMAN. Lenore, could you give us any enlightenment on why there is that difference in the treatment of men and women?

Mrs. BIXBY. I can only guess. My impression is that at the time the proposal was made to put in the actuarial reduction for men, the aim was to keep it as cheap as possible and this provision kept it cheap.

Miss MCCAMMAN. One further question, if I may, before we leave this. The committee will be looking further into the question of homeownershp—boon or bane?—and various proposals that have been put forward for raising the incomes of the elderly through conversion of assets.

Will data be available from your 1968 survey on the imputed income from the owned home, on the same basis that you did it in the 1963 survey, at a fairly early date? You said early summer in general?

Mrs. BIXBY. I meant to say late summer. Perhaps we will have some data in early summer but we have not even planned any such procedure for allocating over the remaining lifetime the equity in the home. It is a rather time-consuming programing operation and most of us thought that the point had been made and it didn't necessarily need to be repeated. We will have the percent of homeowners at different income levels.

Dr. SHEPPARD. Is the summer date the same time we will get data on the reasons people are retiring earlier?

Mrs. BIXBY. No, that will be later in the year. The two studies are not quite in tandem. The one was started about 8 months before the other.

Dr. KREPS. The question of reasons for early retirement is critical. It may be that we will find a stronger relationship between the availability of private pensions than we realize. It may be that we will find some cyclical pattern, which will reflect the state of economic activity and availability of jobs. We are beginning to have enough experience with early retirement to permit some comparisons.

Going ahead then to the next panelist, we turn to Miss Mollie Orshansky, who is now so famous for having developed the Orshansky indexes of poverty. She is widely quoted and I am sure equally widely misquoted. She is also with the Social Security Administration, the Division of Economic and Long Range Studies.

STATEMENT OF MISS ORSHANSKY

Miss Orshansky. I read the Bible with new interest these days because I now know that the injunction "The poor you always have with you" means me personally. My assignment for the last few years has been to define poverty and near poverty for the Social Security Administration.

Under the criteria we have developed, in 1967 there were 26 million persons of all ages in poor households, on the basis of money income for the year. Of these, about 5.1 million had already passed their 65th birthday. If relationships from data for previous years held, there might be perhaps another one and a half to one and three-quarter million poor aged who aren't included in that 5 million. These we call "hidden poor"—persons with too little income on their own who escaped poverty only because the children and other relatives they live with have enough money for everybody.

I mentioned all of the poor. From the beginning the tradition in the Social Security Administration has been concern with economic security, not only for the aged but for all segments of the population—not just for our beneficiaries, but for all the people. In truth, with coverage under the OASDHI program for workers and their families today well-nigh universal they are all our potential customers and we care about them all, young or old.

Even for those men and women, fortunately the majority of our clientele, who escape early widowhood, or disability, and so come to us for benefits only in their old age, our interest in their economic position begins early in their lives. How comfortable a retirement a social security benefit can make possible is intimately related to what has gone before.

The social insurance program by virtue of its formula does proportionately better by the low-paid worker than by the worker with average or above average earnings. OASDHI alone, however, cannot atone retroactively in old age for the insufficient earnings of a lifetime.

Moreover, low old-age benefits, however high in relation to previous earnings, are not calculated to afford adequate support when there has been no opportunity earlier in life to accumulate additional resources, the kind that will help stretch the reduced current income that is typical of retirement.

We are, to be sure, concerned with the aged nouveau poor—those who before retirement had enough to get along but who suffer privation when regular wages stop and substitute payments replace too low a share of former income.

But many of the aged poor do not come newly to their impoverished status. They reach it rather as a logical consequence of what came before. The father and mother with too little income to care properly for their youngsters won't spend their tomorrows in gracious living. They won't have a home owned free and clear, substantial cash savings, or private pension plan—those things which added to a sizable OASDHI benefit will make life in retirement more pleasant.

How to define poverty and at what particular age? We will consider the problems of old age to begin our value judgments. One can argue long and hard, and some have, over the best and most expedient criteria. We have to remember that the kind of criteria we may need for program eligibility may well be different—may need to be more individualized and more accurate—from the rough ones that can help us pinpoint targets.

I must add in fairness although conceptionally the distinction is hard to maintain, many of us are beginning to realize that once we develop standards for overall evaluation they tend to be used for other purposes as well.

But one thing is certain. The differential in economic security or in the risk of poverty, if you will, between those who derive most of their income in earnings and those who don't is striking and will continue to be, no matter what criteria we use. Those who have little or no earnings must often depend on the largesse of the rest of us as reflected in public programs. Amounts payable under them are not likely to be generous.

Assuredly, many of the aged and their households do fall in the no-earners category but they are not there alone. For such units, because we do have programs for those who cannot work, the relevant issue is how much better could our pubilc payment programs be.

Non-Earners on Public Programs

I included in the statement that I submitted* a table showing, for example, that 80 percent of young poor families and 95 percent of aged poor families with no earnings during the year are now receiving a check from social security, public assistance, or other public income program. And we know, because such payments are almost always lower than the earnings which they purport to replace, that the families with no earnings that are living on public programs generally are not living well.

But those of our fellow citizens who do work do not always escape poverty, either, for themselves and their children. The low-paid worker who doesn't earn enough also has a problem. In over 90 percent of the poor families of younger men, either the man himself or some other family member does work. Even in the families of the aged men in poverty a third has some earnings.

Yet while in our society a job is the best insurance against poverty it is no guarantee, and for the younger poor in particular earnings may well preclude any payment at all from a public program. Many of our young workers are in this paradox along with some of our older workers.

Among wage-earning families, our older families do not do as well as the young ones. In truth, the aged worker stands a higher risk of

*See app. 3, pp. 284–291.

poverty than his younger counterpart even though he generally has fewer persons to support. Only one-sixth of all aged men held down a year-round, full-time job in 1967 compared with five-sixths of younger civilian male family heads, but the incidence of poverty among these aged fully employed workers was nearly twice that among younger men.

Disparity Between Earnings of Old and Young

And incidentally, in some of the newly provided statistics which Mr. Brotman was referring to we find some very telling figures, not only by age but by occupation. In all occupations men 65 and over who work year round, full time earn less than younger men, but the disparity is much greater in the poorer paid occupations.

Considering only men working year round, full time in 1966 we find that for professional, technical, and kindred workers earnings peak later than for others, and the ensuing drop is less. The period of highest earnings for the professional man is at age 45–49, 10 years later than the average for those in other occupations. Men aged 65 or older working at professional, technical, or kindred jobs throughout 1966 had average (mean) earnings 85 percent as great as those in the peak earning years. By contrast, among farmers, full-time workers averaged only 37 percent as much earnings in old age as farmers at the peak age of 40 to 44 years. Aged service workers holding a regular job all year averaged only 61 percent as much pay as their younger fellow workers at the peak, which came at age 35–39. Among laborers, of whom few worked at a year-round full-time job past age 65, wages of full-time workers aged 60–64 had already dropped to less than four-fifths of mean earnings at age 35–39. Apparently difficulties started early in this occupation class, and relatively fewer of such workers could count on regular employment in old age than was true for workers at other trades.

It is rather interesting but sad to note that those occupations like farming and service workers and laborers, in which earnings of those who do work in old age drop very fast, are those generally paying low wages. They happen to be the same occupations in which the poverty rate for all workers currently employed is very high.

These are also the occupations which have high representations in the reported work history of old-age recipients today. They are obviously the callings where the average OASDHI benefit based on the wage record is likely to be small.

Definitions of Adequacy

The degree to which our aged seem to fare worse than our young population depends in part on the definition of adequacy we use for a test. Under present standards, for example, a fifth of the poor are aged and the risk of poverty for someone aged 65 or more is nearly three times that for an adult 18 to 64. Because incomes of the aged are now so low we already have half of them in the poverty or near-poverty net. Raising the poverty line will not add as many aged poor as it will young working poor, so that the proportion of aged among the total in poverty might drop. Lowering the poverty line would exclude some young people from the count and so it would make the proportion of the poor that are past age 65 higher.

I mention this because, as you know, in the letter replying to Senator Williams, we did point out that there is now in process a revised series of tabulations counting the poor, backwards and forwards from the year 1963 when we first began. As part of this series there will be one set of statistics which will use an income of about 25 percent higher than the one we used before and another which will be about 25 percent lower.

The poor could be counted many ways. They have already been counted, I am afraid, many days. I feel that it really is not necessary in a divisive society such as we now have to add further to the trends that cause discontent by questioning the relative rights of the aged versus the young, or the black versus the white, or the worker versus the nonworker, or whether farmers are getting proper representation in poverty count relative to the nonfarm sector.

Dr. SHEPPARD. Or women against the men.

Miss ORSHANSKY. Or women against the men, or married persons against the single. The real question, it seems to me, is whether we as a nation have the means, can invoke the wisdom, and sustain the moral commitment to assure a minimum American standard for all of our citizens: when they work and when they don't; in youth and in old age; and for the majority as well as for the minority. We are not here to state policy, but for myself, I think I know we could find the answer; I hope we will find the answer; because all of us know we must find the answer.

Miss McCAMMAN. May I say that I wish Mollie would say something especially about women because I remember her classic statement: "Women have two chances to be poor. They can marry into poverty or they can make it on their own."

Miss ORSHANSKY. They are making it on their own very well these days because among the 5 million aged poor that we have, 5.1 million in 1967, we still have that same 2.1 million aged unrelated ladies as in 1964.

I think it is only fair to say that part of the situation we find for women, particularly for the elderly women living alone, is in one sense a measure of our success as well as a measure of failure. We do not pay enough to eliminate poverty in social security or public assistance or other benefits to people in old age who don't have much in the way of additional resources. Many of those with insufficient other income are women.

On the other hand, because social security, and I suppose other programs too, now make more generous and more realistic provisions for women and other workers than before, many women with their higher benefits choose to live by themselves—in poverty with their little bit of money—rather than with their children. All things considered, probably they and the children like it better. I don't think we ought to count these poor as a failure necessarily. But we might think more about not just encouraging independent living as a goal, but making it more comfortable when it does occur.

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Mr. ORIOL. I would like to thank Miss Orshansky for making a personal declaration with which we can all agree and also for developing new data, especially for this hearing. I appreciate it very much.

Dr. KREPS. Mollie Orshansky's technical competence—I suspect some of you don't know she started out as a mathematician—is surpassed only by her eloquence. I hesitate to rush ahead, Mollie, but perhaps we can come back to some of the points which you raised.

Our last panelist is Mrs. Dorothy Rice, who is Chief of the Health Insurance Research Branch of the Social Security Administration. She has submitted an excellent statement, which she will now summarize.

STATEMENT OF MRS. RICE

Mrs. RICE. Thank you very much for the opportunity to comment on the working paper prepared by the task force. As the other panelists have indicated, the task force is to be commended for bringing together a comprehensive set of facts, outlining the broad policy questions on the issue of economic security in old age, and pointing up the problems associated with the rise in medical costs and expenditures for the entire Nation and for the aged in particular.

I would like to summarize some of the points that I made in a letter to Senator Williams and to add a few additional afterthoughts.*

We know that the task force leaned heavily on the work we did on distributing the national health expenditures among the aged population and the population under age 65 for fiscal years 1966 and 1967—for the year before Medicare began and for the first year after the implementation of the Medicare program.

We are working right now on carrying this analysis forward to fiscal 1968 and we hope to have the information available within the next few months and at which time we will send it to the committee.

The additional data that are now available on the personal health care expenditures for the total population and the aged serve to underscore the conclusions of the task force with respect to rising medical care prices and the growing burden of medical bills for the aged.

The task force concluded that the problem of rising medical costs is one that requires immediate attention and even with the important protection of Medicare, many older people have mounting bills that must be paid out of pocket.

The recent accelerated rise in medical care prices certainly is beyond dispute and the facts speak for themselves. If you look at the 3-year period 1965 to 1968, the BLS consumer price index registered significantly larger increases for medical care prices than for all other consumer prices. Prices for all medical care services increased 23 percent: hospital daily service charges rose 48 percent, and physicians' fees incident 20 percent. During the same 3-year period all consumer prices rose 10 percent.

The very recent sharp rise in consumer prices is reason for real concern both for the economy as a whole as well as for the medical care sector. Last week the BLS released the March consumer price index which revealed an increase of 0.8 percent in 1 month, or an annual rate of almost 10 percent.

*See app. 3, pp. 292–296.

Inflation and Medical Costs

Prior to March, the medical care price index consistently rose faster than for all items. March marked the first month when the rise was the same for both indexes. The question that is foremost in our minds is "How will medical care be affected by the inflationary trends throughout the economy?"

In the area of health expenditures, a few additional facts for fiscal year 1968 may be of interest to the task force and to the committee, before we have the final distribution of the expenditures for fiscal 1968 by age and source of funds.

Personal health care expenditures in fiscal year 1968 are estimated at almost $46 billion, an increase of $4.5 billion or 11 percent over the previous year. On a per capita basis, these total personal health care expenditures amount to $229 a year.

According to the special analysis of Federal health program of the Bureau of the Budget, Federal expenditures for the aged, including Medicare benefits, amounted to $6.6 billion in fiscal year 1968 compared with $4.4 billion during the previous year. Almost all of this increase in Federal expenditures represents increases in Medicare benefits expenditures.

Medicare benefit expenditures amounted to $5.1 billion in fiscal year 1968, compared with $3.2 billion in the previous year, an increase of about $2 billion, or 62 percent. This large Medicare rise is due to a number of factors, in addition to the larger population group that was served in this later period and the increase in medical care prices. Part of the rise is due to payment of nursing home benefits during all of fiscal year 1968. Since this benefit became available on January 1, 1967, expenditures for this purpose was not covered for the first 6 months of the program so that only 6 months were reflected in the fiscal 1967 data. Part of the increase also stems from the fact that the first year of the program involved considerable lags in payments, especially in the medical insurance program (part B), so that the trust fund expenditures were relatively low especially during the first months of the program. A significant portion of the fiscal year 1968 disbursements was attributable to the services actually rendered in fiscal year 1967, but claims were not processed and paid until fiscal 1968 due to either the processing lags or delays by providers and beneficiaries in submitting their claims.

In fiscal year 1967, we found that Medicare benefits constituted 35 percent of all health care expenditures for the aged, a figure used by the task force. With the back bills from fiscal year 1967 and the payment of the nursing home benefit and other benefits for a full year, we are fairly certain that the proportion of total health care expenditures for the aged met by Medicare in 1968 will be considerably higher than the 35 percent.

Medicare: 46 Percent of All Medical Costs for Aged

You can look at this proportion of the expenditures for the aged relative to their total expenditures and the proportion covered by Medicare in several ways. When expenditures for the aged provided by other public agencies such as VA, public assistance, Department of Defense, and State and local governments are excluded, Medicare's contribution rose to 46 percent of the personal health care expenditures for the aged in fiscal year 1967. This percentage, of course, will also rise because of the same factors outlined above.

For hospital care alone, Medicare's share was 87 percent in fiscal year 1967, when expenditures for the aged under other public programs are excluded. For those people that are hospitalized and who incur very large hospital and other medical expenses, Medicare does cover a large share of their expenses as pointed out by Mrs. Brewster in her statement yesterday.

Of outlays for physicians' services less other public programs, the proportion covered by Medicare in fiscal year 1967 was 42 percent.

In calendar year 1967, we estimate that about 9 million persons, or about 45 percent of the aged exposed to risk in this period, had incurred sufficient charges for services covered under Medicare to meet the deductibles under either/or both parts of the program. Thus, in 1 full year, almost 1 out of 2 Medicare beneficiaries were eligible to receive some benefit under the program; 1 out of 5—(the figure quoted by Mrs. Brewster)—were eligible for benefits under the hospital insurance program, and 2 out of 5 were eligible for benefits under the medical insurance program.

The impact of Medicare is fairly clear—Medicare frees the older persons from fear of the heavy costs of illness and substantially large numbers of persons have received some direct benefit from this relatively new public program.

If adjustments are made in the first year of Medicare expenditures to account for incurred charges under both the hospital and medical insurance programs, the proportion of the total personal health care expenditures of the aged met by Medicare would increase from 35 to 39 percent, an important point that was made in the task force report.

Nevertheless, it is clear to me that these data serve to confirm the conclusions of the task force that even with the help of Medicare, the aged are still burdened with substantial medical expenses.

Dr. Kreps. Mr. Chairman, I am conscious of the deadline which you set for us earlier of 3 p.m., and we have hit it right on the nose. I would suppose everybody is pretty tired, but I yield to your judgment on whether you want to continue the discussion.

Mr. Oriol. I believe the questioning and discussion would be very valuable. If everyone is willing, perhaps we can continue.

PANEL DISCUSSION

Dr. Kreps. In that case, I should not be the one to ask questions since I have done so already, but perhaps Professor Schulz and Mrs. Brewster and Dr. Sheppard would like to raise questions of the panelists.

Dr. Schulz. I have no questions at this point.

Dr. Sheppard. I would like to hear Miss Orshansky elaborate a little bit more how progress makes for poverty, to be a little facetious; you talked about one of the possible explanations for the lack of decline in the number of those female unrelated poor, being that they have just enough money to get out from under younger adults' households and thus by living independently through the measures have come to be counted as poor. Is that what you are saying?

Miss ORSHANSKY. Yes; I must confess I don't remember just exactly what Mrs. Bixby put in her statement, but I think we have shown in various ways before, for example, that the percentage of aged women who live as unrelated individuals, maintain their own household or live with nonrelatives, is increasing in the last few years, certainly between 1959 and 1967 before we even had our poverty count. Lenore has a figure here which shows that in March 1961.

Mrs. BIXBY. In March 1961, 17 percent of all people 65 and over were neither the head nor the wife but they were living in families, and 17 percent were women living alone. Six years later the number of other relatives had dropped to 14 percent, and number of women living alone had gone up to 20 percent. The total numbers had gone up too, as you know.

It is this phenomena of moving out from joint families that I think Mollie referred to.

Miss ORSHANSKY. And I think I should say, and this may sound facetious, but it isn't, we set here in the Government the poverty line and estimate that some people complain very widely if they hear about it that the level is too high, but for many people who don't have very much, even let us say a thousand dollars instead of $1,600, which I think is about our minimum for independent living for an aged person, may seem worth getting out trying to live by yourself.

There may be an owned home. There may be help from children in other ways. That is, if there is no money that an elderly woman has, her children would perhaps find it hard to supply her with all of the cash she needs to be by herself, but if she does have enough to pay the rent, they could do something else.

I think one of the fascinating and I would say most successful claims that the social security program has meant for aged people but particularly for women is that practically all of the aged women now have some money of their own so that they can live by themselves or if they have to live with their children, they can have the dignity of having a little bit of independence and it is this weighing of independence and privilege as say against the poverty that I think we have to consider.

Dr. SHEPPARD. I think the same thing is happening with regard to the phenomena of female-headed families in general, and that is the kind of thing I have been working on in the last year.

Dr. KREPS. Mrs. Brewster.

Mrs. BREWSTER. I am a little surprised at Mr. Ravin's statement, that "if people retire at age 62 they will lose their voluntary health insurance." Could you explore that a little bit and let us know if this is really a phenomenon that is occurring. I would hope that most voluntary insurance is continued either as part of group coverage or by conversion until 65, so I was surprised.

Mr. RAVIN. I made the point, but I don't think I have at hand as good information as Social Security would on this. I think you are probably thinking that most employees would match the Government pattern in continuing insurance. My impression is to the contrary.

Mrs. BREWSTER. My impression is different because of the phenomena of the younger wife, who in general, in collective bargaining is continued under the coverage even when the husband goes over into Medicare, so I would like some clarification on that. I would like to ask also whether anybody holds any brief for the Federal form of health benefits.

I am struck with how many more options there are for civil servants under social security, including reduced pensions, that are alternatives one can do, and whether these are the sort of possibilities that we might look to someday for the social security benefit.

Mrs. BIXBY. I will make one comment. While many workers might like to have as many options under social security as are now available to civil service annuitants, I think this raises a serious question. There is a clear indication that dropping the eligibility age under social security has encouraged people to take early retirement even with a substantial reduction in benefits. This does raise a question as to the impact on the economy and a further question whether private pension schemes may be modified in such a way as to encourage employees to leave before they may want to.

Dr. KREPS. I would like to consider further the early retirement question. Your statement that struck me so forcibly was the one in which you interpreted the early retirement trend as follows: "OASDHI early retirement functions mainly as an intermediate disability program providing benefits for older disabled workers who are unable to meet the disability requirements." Could you elaborate?

Mrs. BIXBY. I was quoting Lawrence Haber, who has been directing our survey of the disabled under age 65. The sample was large enough to permit examination of data for those aged 60 to 61 and 62 to 64, respectively, out of the broader group. The finding that struck us particularly was that the proportion of men and of women who said they were severely disabled, occupationally or otherwise, limited in their ability to work, was about the same for those two age groups, but a very large proportion at ages 62 to 64 came in for early benefits. They couldn't apply for early retirement benefits at age 60 to 61. There was no indication that these disabled workers had any more support from other sources or much higher employment than those aged 62 to 64. The latter took a reduction to obtain retirement benefits. We have no way of knowing from this sample survey whether they might actually have met the eligibility requirements for disabled worker-benefits in terms either of the severity of the disability or of the work provision. The insured-status provision for disability benefits, as you know, is more severe for the disabled than it is for workers retiring on the basis of age. Two-fifths of all disabled men aged 62–64 were drawing early retirement benefits and three-fifths of the disabled women in this age group claimed early retirement or secondary benefits.

Mr. MILLER. Apart from the disability factor, does not the simple fact that a choice has been given which permits people to retire earlier suggest the validity of the truistic observation that if you give people choices, a certain percentage of the people are going to exercise a choice in the new way you are giving? This raises the question if you gave them the choice whereby if they deferred going on social security benefit rolls, and made it a real choice by giving them substantial increment in their benefits, would not many people decide to continue working beyond age 65, people who now from the absence of a choice go on social security and leave employment?

Mrs. BIXBY. I am sure there might well be some. We don't have much experience on this because there isn't the option. I think the fact that so many people are taking benefits before 65, even though you might say there is a bonus for waiting until 65, suggests that there are a good many factors mixed into this situation.

Mr. MILLER. I have another question. I was tempted to throw it at Mr. Brotman because he introduced the statistics to which I would make reference, but I think I will address it to Mr. Ravin because it is his professional area perhaps a little bit more.

There has been opposition in some quarters, as you know, to substantial liberalization or elimination of the work test under social security. I will address only one aspect of the arguments against such liberalization or elimination and that is the thesis that the OASDHI benefits are a replacement of earnings. My question relates in part to Mr. Brotman's statistics that, of those who are working full time who are past 65, most have substantially lower earnings than those in the younger age group.

Could it not be said, then, that even if they continue working, social security would represent a kind of replacement of lost earnings that they have never gotten?

I address that question to you, Lou. I hope you understand it.

Mr. RAVIN. Actually while their earnings are lower, the data in the task force report indicates that they are still much higher than the people that are only dependent on social security and are retired.

So I think, of course, this business of paying completely, under the present proposal is advance in the direction you are talking about, but it is simply a question of the huge cost involved.

Mr. MILLER. I was concerned with the philosophical question that it was a replacement of earnings.

Mr. RAVIN. I would like to go to your first question having to do with disparity of illness. Might not the explanation and difference between health reports 61, 62 and over, might not the difference relate to the way in which people answer questions. As long as they are working and you ask them about their health, obviously they are able to continue their work and they are not badly off. The moment they are forced into retirement and can't get another job so they take the lower benefits, then that same question is asked and gets a different response, well, I am really not well enough to work, is the implication of that. Because I cannot see any precipitant drop in a matter of 2 or 3 years in terms of health.

Mr. MILLER. In other words, it is more prideful to say, "My health will not permit me," than to say, "I just can't get a job."

Mr. RAVIN. I would speculate that in our society it is sometimes easier to say that "I am retired." This is respectable. And next to that it is respectable to say, "I am not working because I am not really well enough to work," and last of all, "I am not working because no one will give me a job."

That is a kind of shameful admission and I think it reflects to some extent, I am not challenging the statistics, people who take early retirement.

Mr. ORIOL. These hearings usually have an escalating cutoff time.

Let me throw out this question now and perhaps it will percolate while we are taking care of these individual things. I was going to address it to Mrs. Bixby.

Everybody is accustomed to go into social security for invaluable research findings. Everybody asks you for help. We all have a great resource there.

But the question I was going to direct to you—and perhaps others may care to join in and make a comment—what do you find that is now unknown that you would like to have information on, perhaps research outside of your own area, that if you got more of that kind of information it would be helpful to you? Let me throw that out now.

Mr. BROTMAN. I want to supplement what Mr. Ravin just said in connection with the income levels. The fact that older workers were fully employed, have lower earnings than younger workers who are fully employed is a result of several things that are mixed together.

To some extent it is true that there is a decrease in earnings with age, but I think that is a minor factor. What is more important is the occupational mix. The opportunities for older workers are much more prevalent in those occupations which are traditionally low paid.

It is true that there is some decrease with age but not occupational mix; you get an average as a result of more people in the low-grade occupations and the upper ages than in the lower ages.

So it is an oversimplification to attribute it all to age.

Miss MCCAMMAN. One question which anybody can answer who at the same time can think about the problem Mr. Oriol assigned you. All of us who work on statistics in the field of aging run into this basic problem that census underestimates the number of aged. This is quite clear since the number of people 65 and older registered for hospital insurance under Medicare is greater than the number of people that census shows as aged 65 and older.

And what do we do about it, especially here where we are concerned with projections to the future because we are underestimating the magnitude of the problem with which we are dealing?

Mr. MILLER. Do not the census data also understate everything else, including income?

Mr. BROTMAN. Could I start off a comment on that? The Census Bureau has just released new estimates of the population by age and by State; it is dated April 17, 1969. And for the first time in an official release they have a comparison of Medicare enrollment and their estimates for the 65-plus population by State.

I think that part of the answer to Mr. Miller's question is that all census data are to some extent underenumerations, but it isn't even across the board. For the very young, the minority groups and the very old it is much more serious.

The reason we have been dealing with census data primarily is that it gives us the rest of the characteristics of that older population. We know that Medicare enrollment of actual people is a better figure but we don't have any further classification breakdowns or characteristics of that figure so we have to compromise by accepting the census figure even though we know it is a much more serious underenumeration than the rest of the census.

There have been all kinds of attempts to arrive at some kind of reconciliation of the figures, but from the point of view of the census, this would be a tremendous job of fitting this into everything else that they publish on an estimated basis.

I think you will find too that there are deficiences in the estimating process itself. You will remember that the 1960 census, even with the underenumeration, came up with about half a million or more older people than the estimate for 1960 that the census developed as a change from the 1950 census. And I presume we will have the same situation in 1970 so we are going to have a series of deficiences in these data.

But for practical purposes, if you use these data for relationships, I think that we can get around part of that difficulty.

Mr. ORIOL. Mrs. Bixby, did you want to comment on that?

Mrs. BIXBY. I would like to throw one more fact into the pot in response to Mr. Miller's question, if I may.

That is, for the first time we have information from our program records on the average benefit of people who enroll for Medicare but don't want their cash benefit because they want to continue working. It is considerably higher than for those who take the benefit. For the last quarter of 1968, for example, men who had become entitled but had their benefits suspended would have gotten $139 a month. This compared with $113 paid to men who took benefits that were not reduced, meaning at roughly 65, and about $96 for those taking reduced benefits. So they obviously were the higher wage workers who were continuing to work.

Mr. MILLER. Of course my question was raised because of our concern for older people having a share of increased abundance of our society. I am sure that is a factor that is missed for many of these people with lower incomes.

Mrs. BIXBY. On your question, Mr. Oriol, there are many things we would like to know. We hope to try to find some of the answers to the more factual questions ourselves. But there are a good many more questions that involve psychological probing of the sort that probably had best be done by outside groups through contracts or grants.

I would like to know how older people really feel about work versus retirement in a sense that I don't think we are getting at it. We are trying to find out why they left the job when they did, but it is not quite the same thing.

I think it would be very important for many policy purposes to know what people consider an adequate income in old age and at younger ages, for themselves and other people. There have been enough opinion surveys done to show that the answer may be different for oneself and for other people. We should know also how people feel about taxes for the kinds of risk that are covered under social security and about the methods of paying for protection against risks.

I also think it would be very useful to have more research going into record checks of various sorts to compare, for example, actual health as measured by physical exams with reported health and disability as the National Health Survey has done. Record checks are possible—with appropriate safeguards—on what people say they have in the way of resources, employment, or insurance coverage, that would help validate the economic statistics that are produced through interviews and mailed questionnaires. The psychological probing, it seems to me, could get one information that might be helpful for a variety of policy issues.

Mr. ORIOL. I think it becomes increasingly clear that the committee has a great deal more work to do in this area and will continue to ask for help from our task force, and from everybody we have heard from and everybody we will hear from at other hearings in the near future.

So once again, with thanks to the task force and everyone who has been so helpful, we will adjourn but we will meet soon.

(Whereupon at 3:30 p.m., the special committee adjourned subject to the call of the Chair.)

APPENDIXES

APPENDIX 1

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

A WORKING PAPER

PREPARED BY A TASK FORCE

FOR THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

MARCH 1969

TASK FORCE ON "ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE"

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March 24, 1969.

PREFACE

The U.S. Senate Special Committee on Aging is now preparing for hearings which bear the title of this Working Paper: "Economics of Aging: Toward a Full Share in Abundance."

This document presents information on matters that will undoubtedly come under discussion at the hearings. While this Working Paper expresses the informed views of the distinguished task force members, its findings may differ from those ultimately determined by the committee. In addition, task force participants themselves have reserved the prerogative of revising this Paper if later evidence warrants.

Nevertheless, publication of this study is an important and timely event. As no other document has yet done, it states a fundamental truth:

The economic problems of old age are not only unsolved for today's elderly, but they will not be solved for the elderly of the future—today's workers—unless this Nation takes positive, comprehensive actions going far beyond those of recent years.

And it asks two questions worthy of careful attention by a concerned society:

"As a Nation, what do we intend for ourselves when aged and what for those who are already old?

"How are older people, now and in the future, to share in our economic abundance?"

Such questions cannot be answered simply by adding a few dollars to monthly social security payments, or by making modest improvements in our private pension plans.

What is needed now is an honest, hard look at today's inadequacies and failures in light of trends now clearly visible:

—More Americans are spending more years in retirement.

—The widening difference in income between members of the labor force and those in retirement.

—Rising health care costs.

—Pressures upon fixed income by many other factors, including inflation.

We should organize our knowledge about retirement income, and we should identify our areas of ignorance or inadequate interpretation. With this document, the Senate committee can begin a new phase of its work toward such ends.

This brief statement would be incomplete without a word of thanks to the task force members, who enthusiastically responded to my request for their help by contributing knowledge and thought. Special gratitude goes to Miss Dorothy McCamman, consultant for this study. Her interest in policy questions raised here is deep, springing from years of work with Government agencies and from earlier service with this committee. Without her hard work and long experience, this Working Paper could not have been written.

HARRISON A. WILLIAMS, JR.,
Chairman, U.S. Senate Special Committee on Aging.

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

CONTENTS

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

FACTS AND FINDINGS

The Task Force Report in Brief

I. Americans living in retirement are suffering from an income gap in relation to younger people. And as the gap widens, low income continues to be the Number One problem facing most of our 20 million persons 65 years or older, as well as other millions just a few years younger.

—The "gap" is widening: Median income of families with an aged head was 51 percent of that for younger families in 1961, but only 46 percent in 1967.

—Three out of 10 people 65 and older—in contrast to one in nine younger people—were living in poverty in 1966, yet *many of these aged people did not become poor until they became old.*

—An additional one-tenth of our aged population was on the poverty borderline.

—About five in 10 families with an aged head had less than $4,000 income in 1967; about one in five was below $2,000.

—Of older people living alone or with nonrelatives in 1967, half had incomes below $1,480, and one-fourth had $1,000 or less.

—Even the level of living set by the Bureau of Labor Statistics in its Retired Couple's Budget is well beyond the means of most older people, especially for those who retired years ago. The average social security benefit of a couple retiring in 1950 met half the BLS budget cost then, but today it meets less than one-third.

—Unemployment and early retirement among the 60 to 64 population are creating problems that demand much the same attention as that required by the population aged 65 and over.

II. More Americans are spending more years in retirement periods of indeterminate length and uncertain needs, causing a mounting strain on resources they had when they began retirement. For an ever-rising proportion of women—most of them widows—the problem is especially severe.

—Half of all people now 65 and over are about 73 or older. In the years ahead, the increase will be particularly great at the oldest ages. With the population 65 and older projected to rise 50 percent between 1960–85, the population 85 and older may double.

—Increasingly, the rising population of widows is attempting to live independently, even if independence is purchased at the price of poverty.

—Our "retirement revolution" reflects two trends: at one end an increase in the number of very old aged; at the other, earlier departure from the labor force.

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- **The Social Security system has failed to keep up with the rising income needs of the aged.**

To a large extent social security benefit increases in the past have resulted, not from legislation with the purposeful intent of tapping a greater part of the rising national product for old people, but rather as a secondary result of attempts to deal with the severe and potentially explosive hardship problems facing many older people. In consequence, these past efforts have been aimed primarily at maintaining the economic status of the aged at some minimal standard or subsistence level in the face of rising prices.

- **Sufficient evidence now exists to spotlight certain special economic problems of the aged which compound the general problem of low income. Among the areas identified for immediate congressional attention are:**

(*a*) Income maintenance of widows—a particularly disadvantaged group.
(*b*) Health needs and rising medical costs.
(*c*) Problems associated with homeownership and taxation.
(*d*) Employment opportunities in old age.
(*e*) Implications of early retirement trends.

Simultaneously, congressional attention should be directed to (1) the various techniques for measuring and projecting the income needs of the aged population and to their use in decision making and (2) the appropriateness of methods now used or proposed for use in the adjustment of retirement benefits to changing conditions.

- **A reasonable definition of adequacy demands that the aged population, both now and in the future, be *assured* a share in the growth of the economy.**

If old age is to be more than a period when people decline and die, some way must be found whereby the aged, who have helped in the past to provide the basis for rising living standards, are guaranteed a share in some of the "harvested fruits". What this requires is a substantial transfer of income from the working to the retired population in order to improve the *relative* economic status of the aged.

- **Such assurance can *best* be provided, or can *only* be provided, through governmental programs, particularly the social insurance system of OASDHI, which carry commitments for future older Americans—the workers of today—as well as for this generation of the aged.**

The financial soundness of the Social Security system depends, essentially, on the Government's taxing powers which, in a vigorously growing economy, permit great flexibility to meet changing retirement needs. And retirement needs *are* changing as expectations rise and as American families increasingly begin to evaluate the adequacy of their retirement income in relation to their standard of living prior to retirement.

- **Private group pensions and personal savings—tailored as they are to individual needs, preferences, and financing ability—will continue to be essential supplements to basic social security benefits in the future. The Government should explore and lend support to various methods of promoting and encouraging such supplementary sources of retirement income.**

X

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

CHART SECTION

This section presents through charts some of the facts and findings that shaped the Task Force Report. Here, in brief, is the story told by the charts.

Low income continues to be the number one problem of older people, and the problem becomes greater as they grow older.

—The social security benefit payable to a couple who retired in December 1950—despite periodic adjustment—would now purchase a much smaller fraction of the BLS "moderate" budget than at the time of retirement (Chart A).

—Six in 10 widows and other aged women living alone are below the SSA poverty line. Their numbers have increased, reflecting a desire to live independently even at the price of poverty (Chart B).

—The gap between the median income of younger and older people has widened in recent years (Chart C).

—For the December 1954 retiree, adjustments in social security benefits never quite caught up with price rises until the increase effective early in 1968—and then only momentarily (Chart D).

Even with the important protection of Medicare, many older people have mounting medical bills that must be paid out of pocket.

—Medicare met 35 percent of all health care expenditures for the aged in its first year, fiscal year 1967 (Chart E).

—Health care expenditures in that year averaged $486 per aged person, about 2¾ times the average for younger persons (Chart F).

—Of this $486, public programs including Medicare financed $286, leaving $200 for private financing. In the year before Medicare, the total per aged person was $423, of which $294 was financed privately (Chart G).

If present trends are permitted to continue, today's workers will face the same problem of inadequate income in retirement.

—Given the present pension structure, a majority of the aged in 1980 will have income from public and private pensions that is below any reasonable level of adequacy (Chart H).

—For most workers retiring in the two decades 1960–80, pension income will be less than half of past earnings (Chart I).

—Early retirement seriously reduces the proportion of earnings replaced by pension income (Chart J).

—For most workers during most of the working lifetime, the excess of income over expenditures leaves little margin for saving (Chart K).

AGED WOMEN LIVING ALONE IN POVERTY

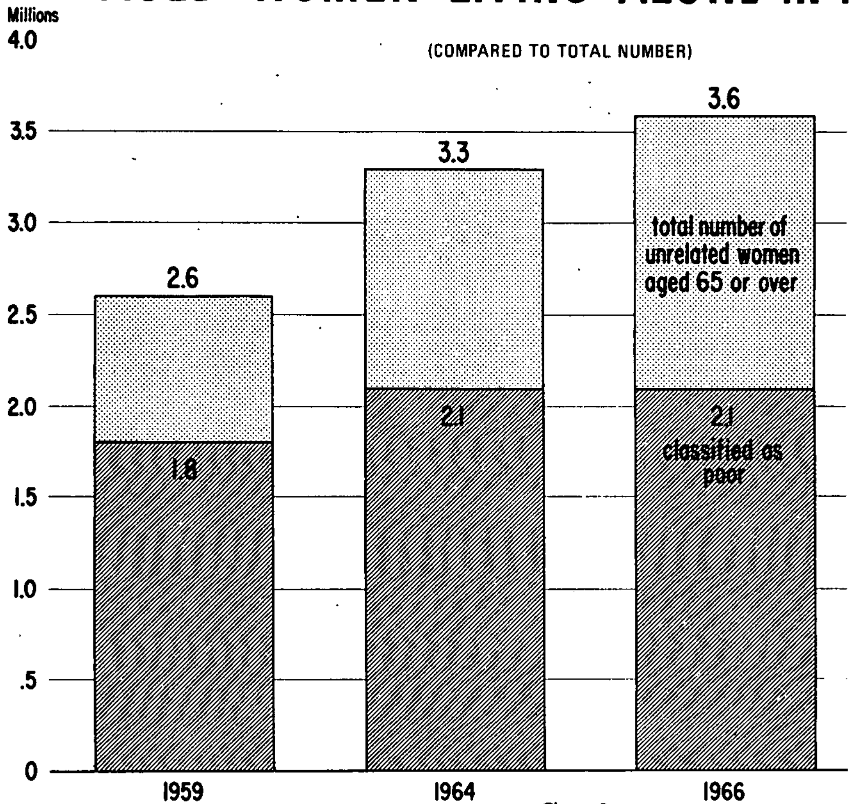

Chart B

Source: Social Security Administration

CHART B. AGED WOMEN LIVING ALONE IN POVERTY

SOURCE: Social Security Administration estimates reported in "Counting the Poor: Before and After Federal Income-Support Programs," by Mollie Orshansky, U.S. Joint Economic Committee *Compendium,* part II, table 4, page 188.

TECHNICAL NOTE: The index of poverty developed by the Social Security Administration is admittedly far from generous. It uses as its core the economy food plan of the Department of Agriculture. The index adds twice this amount to cover all family living items other than food. Except to allow for rising prices, it has not been adjusted for changes since 1959. The dollar amount used to determine the poverty line for an aged person living alone was $1,565 in 1966.

Using this index, 1.8 million aged women lived alone in poverty in 1959. They accounted for as much as 71.5 percent of the 2.6 million aged women classified by the Bureau of Census as unrelated females in 1959. By 1966, the number of aged unrelated women had climbed to 3.6 million. The number counted poor through use of the Social Security Administration's poverty index had increased to 2.1 million, but the proportion had dropped to 59.3 percent.

Data are not yet available to show the improvement that resulted from the 1967 Social Security Act Amendments.

THE FINDINGS: Widows and other aged women living alone are particularly disadvantaged economically. Six out of every 10 of them have incomes below the poverty line. The number of aged women living alone in poverty has increased in recent years, reflecting the desire to live independently even at the price of poverty. (See table 4 and discussion, pp. 14–16.)

THE INCOME GAP BETWEEN OLDER AND YOUNGER PEOPLE IS WIDENING

Trend in Median Money Income 1960-67

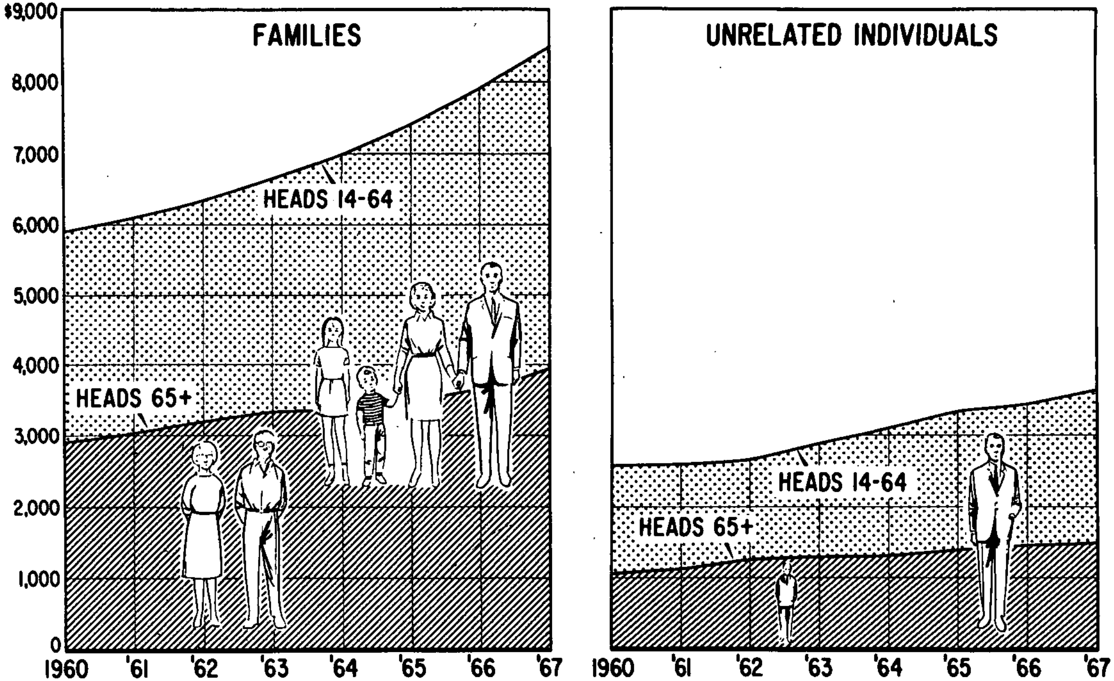

Chart C

Source: Bureau of the Census

CHART C. THE INCOME GAP BETWEEN OLDER AND YOUNGER PEOPLE IS WIDENING

SOURCE: Unpublished data from the U.S. Bureau of the Census shown in table 5, prepared by the Administration on Aging, U.S. Department of Health, Education, and Welfare.

TECHNICAL NOTE: For purposes of comparing the incomes of different age groups, the median (the amount which divides the distribution in half) is more appropriate than the mean or arithmetical average (which is heavily weighted upward by a few cases of very high incomes).

THE FINDINGS: The gap between the median income of younger and older people has been widening in recent years. The median income of families with a head age 65 or older dropped from 50.6 percent of the median of younger families in 1962 to 46.2 percent in 1967. The decline for older unrelated individuals has been even sharper, from 47.2 percent in 1962 to 40.5 percent in 1967. (See table 5 and discussion, p. 17.)

RISING PRICES OUTDISTANCE SOCIAL SECURITY BENEFITS

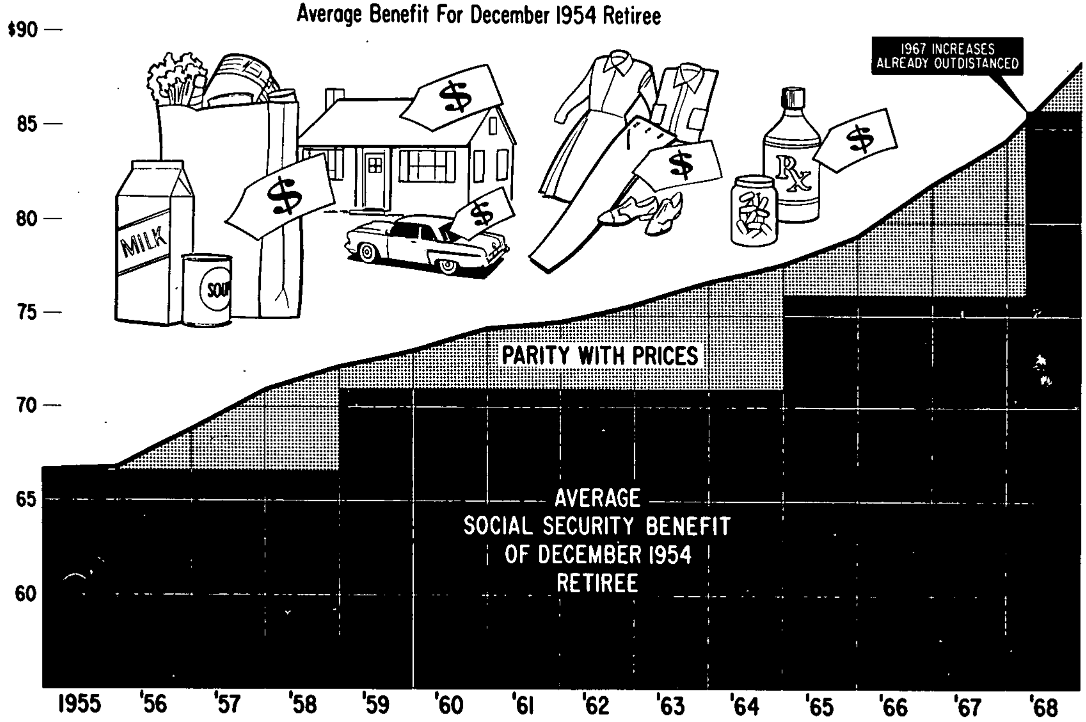

Chart D

Source: Social Security Bulletin, Dec. 1968

CHART D. RISING PRICES OUTDISTANCE SOCIAL SECURITY BENEFITS

SOURCE: "OASDHI Benefits, Prices, and Wages: Effect of 1967 Benefit Increase," by Daniel N. Price, *Social Security Bulletin*, December 1968, table 1, page 29.

TECHNICAL NOTE: Following the 1967 amendments—which raised benefit checks received in March 1968—the Social Security Administration analyzed the increases made by these and earlier amendments to determine to what extent they protect the retired worker against erosion of the purchasing power of his benefit. The Bureau of Labor Statistics' Consumer Price Index (CPI) is the measure of price changes used in this review. The analysis led to this conclusion:

"OASDHI retirement benefits have been increased to the point where thay have regained for the time being the purchasing power of the amount received by all workers at the time they came on the rolls."

The extent to which benefits have lagged behind price rises between adjustments and the extent to which the adjustment corrects for the rise varies, depending on when the retired worker came on the rolls. Charted are data for the December 1954 retiree—the most extreme example of the lag.

The average monthly benefit paid to the worker who retired in December 1954 was $66.60; (the chart point for "Parity with Prices" therefore also begins at this point). His benefit stayed at this level through 1958 while the price level edged upward. Effective in January 1959, his benefit was increased to $71, about a dollar less than the amount needed to achieve parity with prices. He continued to receive the $71 benefit over the next 6 years until the increase effective in January 1965 raised it to $76. By that time, the benefit would have needed to be $77.80 to have the same purchasing power it had had when he came on the rolls. It was not until the increase effective early in 1968 that his benefit caught up with rising prices. Barely caught up, since his benefit became $85.90 at the time when the amount needed for parity with prices was $85.40. And only momentarily, because parity with prices would have required a benefit of $88.50 by the end of the year.

THE FINDINGS: For some retirees, the adjustments in social security benefits over the years have been too little and too late to catch up with rising prices. (See table 10 and discussion, pp. 24–25.)

THE ROLE OF MEDICARE IN FINANCING HEALTH CARE EXPENDITURES FOR THE AGED DURING ITS FIRST YEAR (FY 1967)

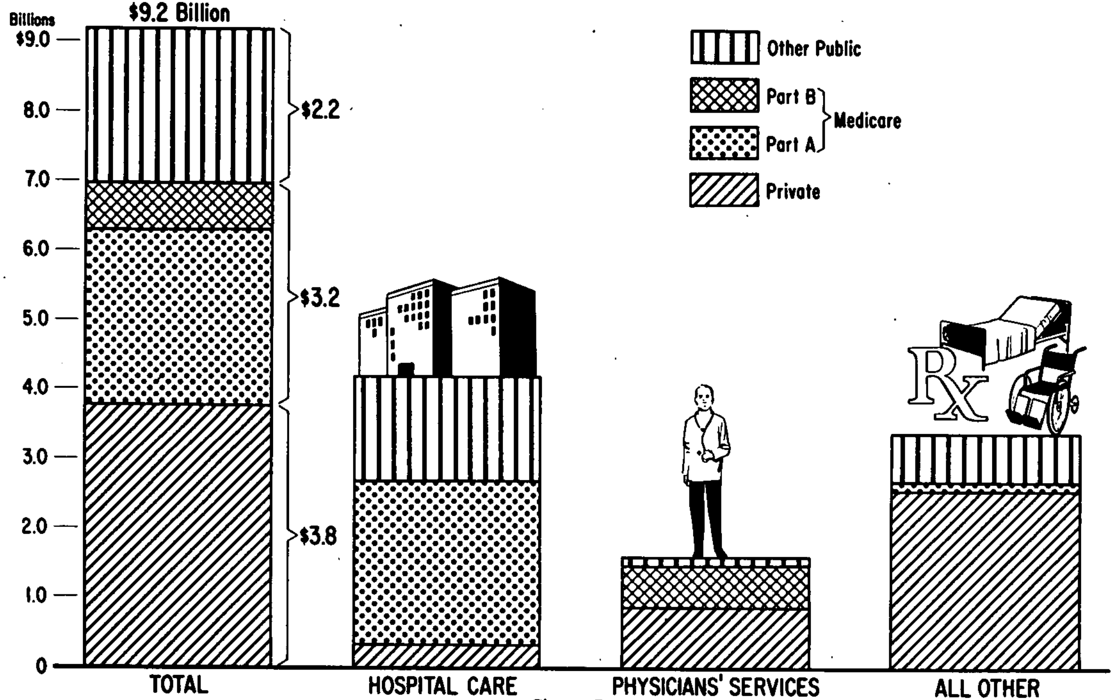

Chart E

Source: Social Security Bulletin, August 1968

CHART E. THE ROLE OF MEDICARE IN FINANCING HEALTH CARE EXPENDITURES FOR THE AGED DURING ITS FIRST YEAR

SOURCE: "Personal Health Care Expenditures of the Aged and Nonaged," by Dorothy P. Rice, Arne Anderson, and Barbara S. Cooper, *Social Security Bulletin,* August 1968, table 3, page 22.

TECHNICAL NOTE: Personal health care expenditures include all expenditures for health and medical care services received by individuals. Excluded are expenditures for medical-facilities construction, medical research, public health activities not of direct benefit to individuals (that is, disease prevention and control), and some expenses of philanthropic organizations. These data also exclude the net cost of insurance (the difference between health insurance premiums and benefits paid) as well as administrative expenses of several public programs.

Of the $9.2 billion in expenditures for the aged in fiscal year 1967, a total of $3.2 billion—or 34.6 percent—was expended under the public program of Medicare. In the distribution by source of funds, all expenditures under Medicare are classified as "public" even though the aged individual pays a monthly premium for Part B Medical Insurance. This serves to understate the amount financed by private funds and to overstate the public share.

The $626 million expended for physicians' services under Medicare in fiscal year 1967—its first year of operation—do not fully reflect the charges incurred under the program because there is a considerable lag between the time a patient visits a physician and the time the carrier receives payment from the trust fund for such a visit. (There are indications that incurred charges accruing under Part B Medical Insurance in fiscal year 1967 amounted to an estimated $1.1 billion instead of the $644 million actually expended; this would raise the proportion of total expenditures that were attributable to Medicare to roughly 37 percent.)

Public expenditures other than those under the Medicare program were largely through public assistance programs, commonly called Medicaid.

The category "all other" includes expenditures for dentists' and other professional services, drugs and drug sundries, eyeglasses and appliances, nursing-home care, and other health services.

THE FINDINGS: Medicare benefits paid in the first year of operation totaled $3.2 billion, 35 percent of the estimated personal health care expenditures of $9.2 billion for all people 65 and older. Of expenditures for hospital care, 57 percent was through the Medicare program. (See table 7 and discussion, pp. 20–23.)

AVERAGE HEALTH CARE EXPENDITURES PER PERSON

Aged & Younger, Fiscal Year 1967

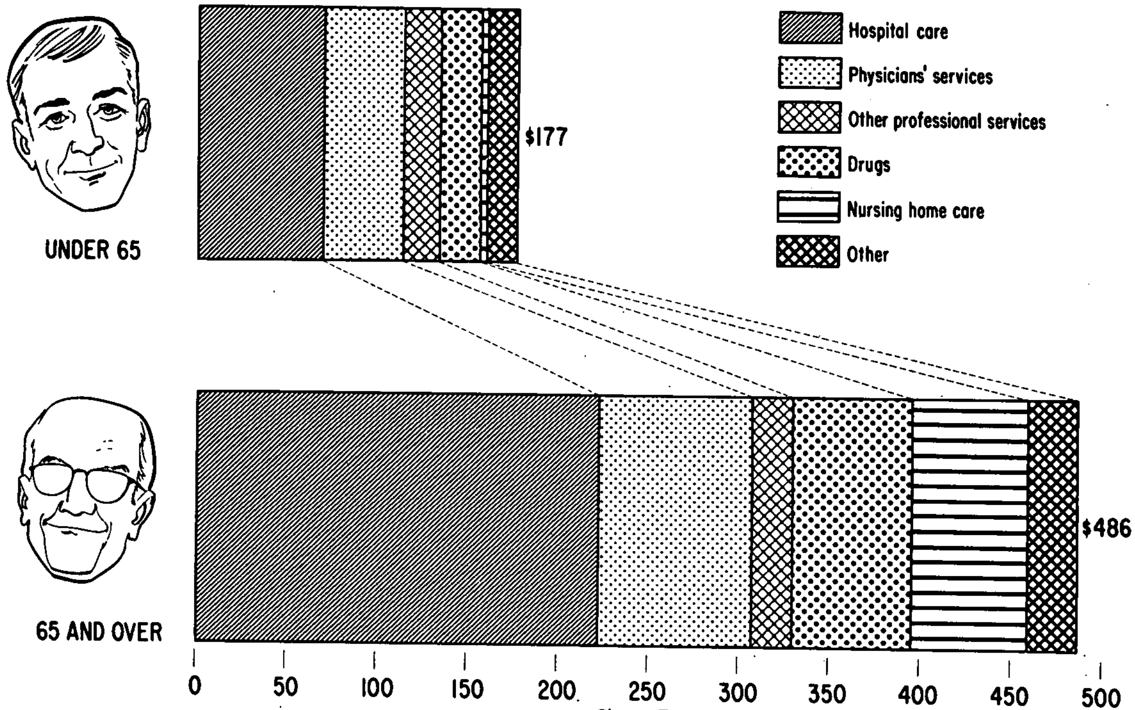

Chart F

Source: Social Security Bulletin, August 1968

CHART F. AVERAGE HEALTH CARE EXPENDITURES PER PERSON: AGED AND YOUNGER

SOURCE: "Personal Health Care Expenditures of the aged and Nonaged," by Dorothy P. Rice, Arne Anderson, and Barbara S. Cooper, *Social Security Bulletin*, August 1968, table 2, page 21.

TECHNICAL NOTE: Personal health care expenditures include all expenditures for health and medical care services received by individuals. Excluded are expenditures for medical-facilities construction, medical research, public health activities not of direct benefit to individuals (that is, disease prevention and control), and some expenses of philanthropic organizations. The data also exclude the net cost of insurance (the difference between health insurance premiums and benefits paid) as well as administrative expenses of several public programs.

The category "other professional services" includes expenditures for dentists' services and other professional services. The category "other health services" includes expenditures for eyeglasses and appliances and other health services.

THE FINDINGS: Personal health care expenditures in fiscal year 1967 averaged $486 per person 65 and older, about 2¾ times the average for younger persons ($177). The two age groups differ considerably in the average spent for the various types of medical care. For hospital care and for drugs, per capita expenditures of the aged are about three times those of younger people. The widest disparity is for nursing-home care; $64 was spent for the average aged person, compared with only about $2 per person under age 65. (See table 8 and discussion, pp. 20–23.)

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HEALTH CARE EXPENDITURES PER AGED PERSON BY SOURCE OF FUNDS

FY 1966 and 1967 (Before and after Medicare)

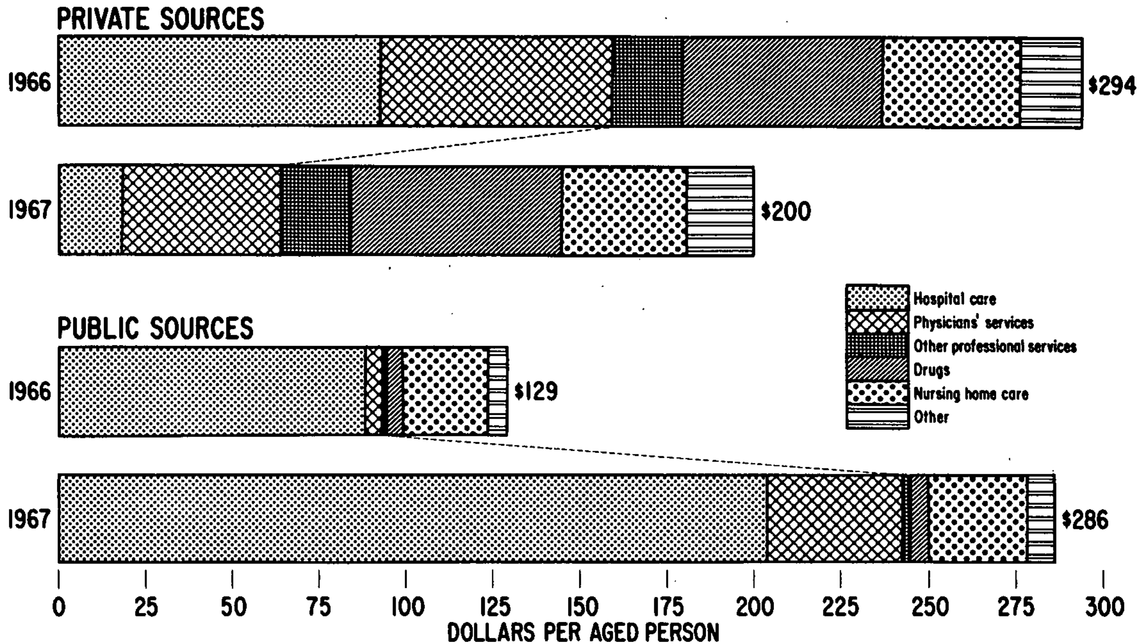

Chart G

Source: Social Security Bulletin, August 1968

CHART G. HEALTH CARE EXPENDITURES PER AGED PERSON, BY SOURCE OF FUNDS

SOURCE: "Personal Health Care Expenditures of the Aged and Nonaged," by Dorothy P. Rice, Arne Anderson, and Barbara S. Cooper, *Social Security Bulletin*, August 1968, table 2, page 21.

TECHNICAL NOTE: Personal health care expenditures include all expenditures for health and medical care services received by individuals. Excluded are expenditures for medical-facilities construction, medical research, public health activities not of direct benefit to individuals (that is, disease prevention and control), and some expenses of philanthropic organizations. The data also exclude the net cost of insurance (the difference between health insurance premiums and benefits paid) as well as administrative expenses of several public programs.

In classifying health care expenditures by source of funds, the Social Security Administration attributes to public sources all expenditures made through *public programs*. Thus, all expenditures under Medicare are classified as "public," even though the aged individual pays a monthly premium for Part B Medical Insurance.

The category "other professional services" includes expenditures for dentists' services and other professional services. The category "other health services" includes expenditures for eyeglasses and appliances and other health services.

THE FINDINGS: The average health care expenditure per aged person in fiscal year 1967 was $486, nearly 15 percent more than in fiscal year 1966. Primarily as the result of Medicare, the portion financed from public funds rose markedly in the first year of operation—from $130 per aged person in fiscal year 1966 to $286 in fiscal year 1967. There was a less sharp drop—from $294 per capita to $200—in expenditures classified as from private sources. (See table 8 and discussion, pp. 20–22.)

1980 PROJECTIONS OF PUBLIC AND PRIVATE PENSIONS

About half the couples below $3,000 and more than half the singles below $2,000

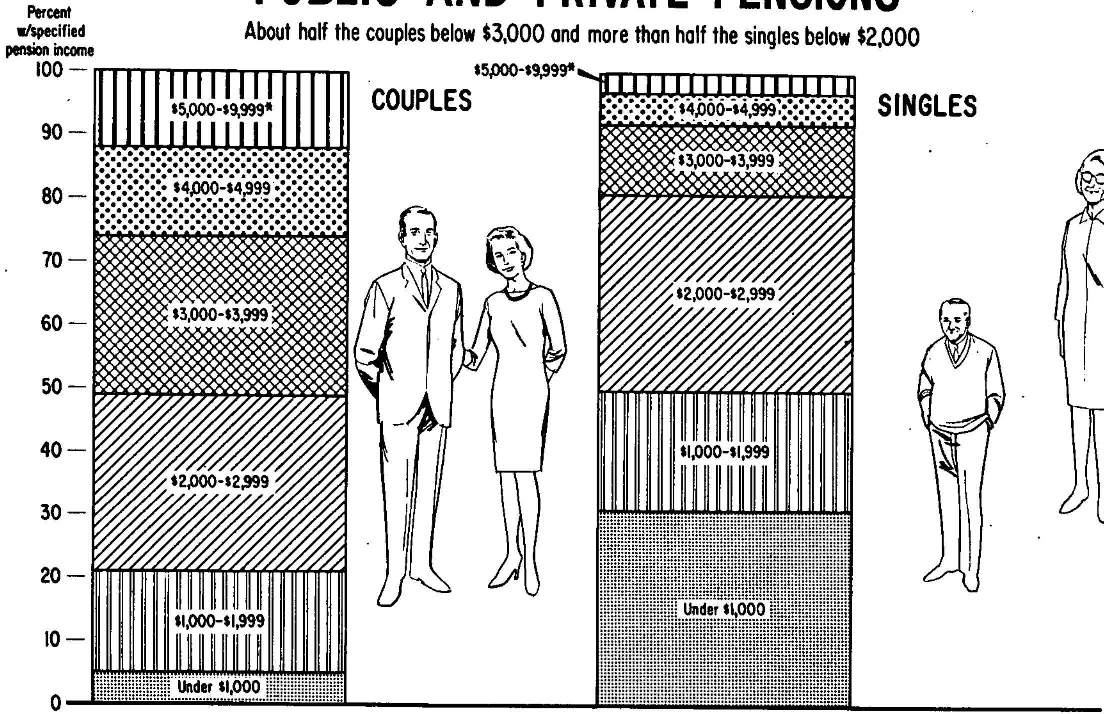

Chart H

*$10,000 and over = less than 0.5%

Source: Research Report No. 24, Social Security Administration

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CHART H. 1980 PROJECTIONS OF PUBLIC AND PRIVATE PENSIONS

SOURCE: "The Economic Status of the Retired Aged in 1980: Simulation Projections," by James H. Schulz, *Research Report* No. 24, Office of Research and Statistics, Social Security Administration, U.S. Department of Health, Education, and Welfare, January 1968, table 9, page 64.

TECHNICAL NOTE: This study uses a high-speed computer and the simulation technique to make projections of income from pensions (both public and private) in 1980. Beginning with a large sample of the U.S. population in 1960, the study identifies all married couples where the husband is 45 through 60 years of age and all unmarried individuals 45 through 60 years of age. These individuals are then "aged" 20 years through a "life process" model which simulates the activities that have an important influence on pensions (labor force exit and entry, job change. pension coverage, vesting, and unemployment), as well as the probability of death in each particular year, for each individual.

This simulation technique makes possible the combination of a large number of characteristics, each with specified probabilities of occurrence, for a large number of individual cases. The probability of the accuracy of the projection can thus be increased. At the same time, the differential effect of alternative assumptions and alternative program changes can be tested.

The assumptions made to project retirement benefits payable under the Social Security system are quite liberal. For example, the simulation assumes a rise in social security benefits (based on average creditable wages) of 4 percent annually—a much higher rate of increase than has been voted by the Congress in the past.

Private pensions are assumed to increase at an average annual rate of 3 percent.

The study also adjusts for the general rise in earnings in the economy and individual worker wage changes due to seniority, skill, and age factors.

THE FINDINGS: Given the existing institutional pension structure and certain minimum assumptions with regard to these institutional arrangements in the next decade and a half, a majority of the aged in 1980 will have pension income below any reasonable level of adequacy. Pension income will be below $3,000 for about half the couples, and below $2,000 for more than half the single individuals. (See discussion and table 11, p. 27.)

EFFECT OF EARLY RETIREMENT

Projected Ratio of Public and Private Pension Income to Preretirement Earnings

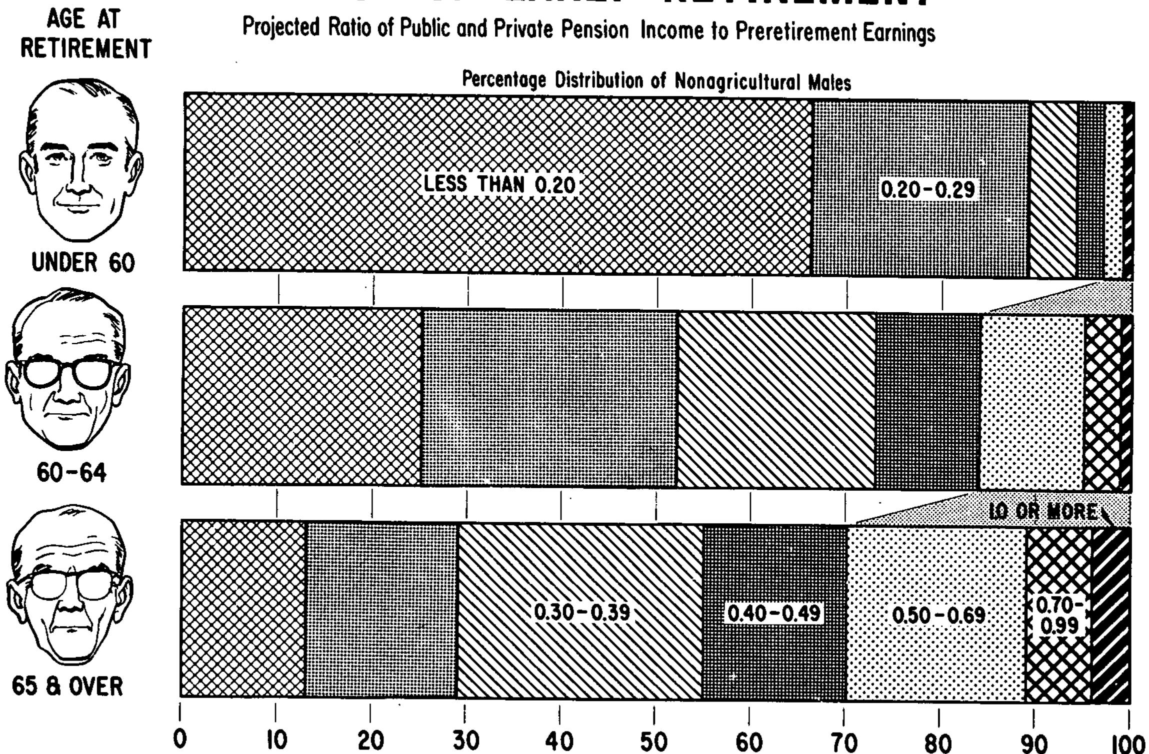

Chart J

Source: Joint Economic Committee Compendium, Part III, p.167

CHART J. EFFECT OF EARLY RETIREMENT

SOURCE: "'Early Retirement' Trends and Pension Eligibility Under Social Security," by James H. Schulz, U.S. Joint Economic Committee *Compendium*, part III, table 8, page 167.

TECHNICAL NOTE: Projections were made through a modification of the simulation model described under Chart H.

As part of a broad study of pension income adequacy in the future, preliminary findings are available to assess the effect of early retirement on the amount of wage replacement provided by pensions. Again, the P/E ratio is the ratio of the total of public and private pension income to average annual earnings during the 5 years prior to retirement. The data relate to married males who were age 45 to 60 in 1960.

The projection introduces a moderate upward trend in the male retirement rates between 1960 and 1980. This trend is based on BLS projections of participation rates for older males. Social security retirement benefit eligibility at age 62 is assumed available for men after 1962.

THE FINDINGS: The replacement ratios for men retiring before age 60 are much lower than for those retiring at the "normal" retirement age of 65 or more. Only about 3 percent of those retiring before age 60 are projected to have a replacement of 50 percent or more of their average annual earnings from pension income. In contrast, almost one-third of those retiring at age 65 or after are projected to have a replacement above 50 percent. (See table 14 and discussion, p. 32.)

THE MARGIN FOR SAVINGS, 1960-1961

Excess or Deficit of Average Annual Income (after taxes) over Average Annual Expenditures by Age and Occupation

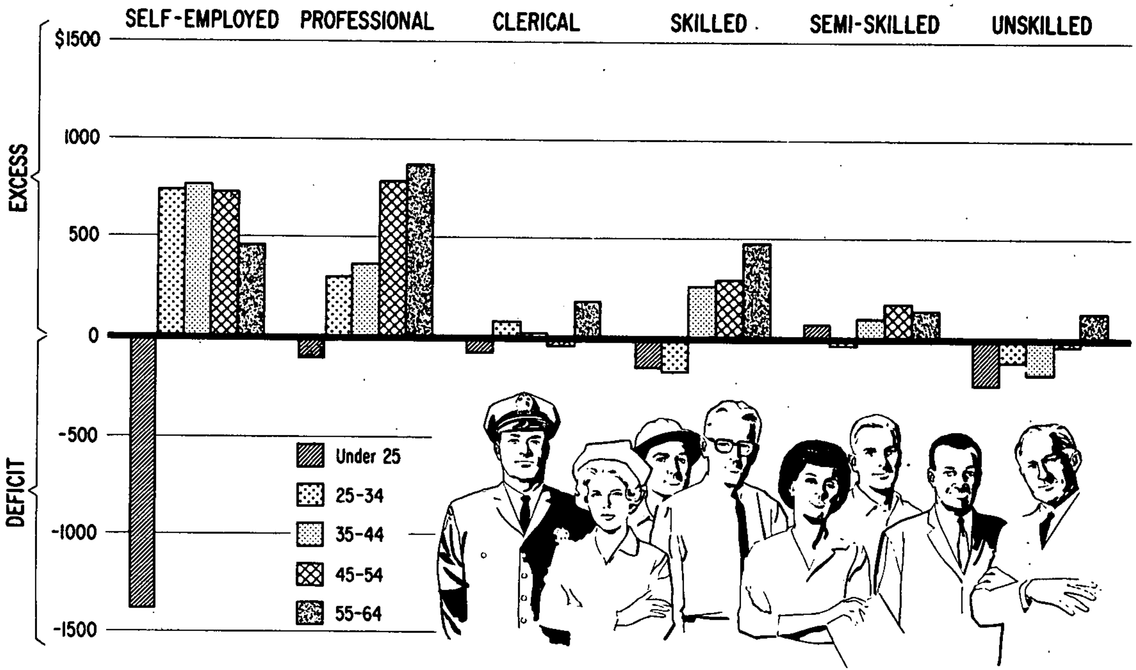

Chart K

Source: Based on BLS Report No. 237-B

CHART K. THE MARGIN FOR SAVINGS, 1960–61

SOURCE: Based on BLS Report 237–8, analyzed in "Lifetime Earnings and Income in Old Age," by Juanita M. Kreps and Donald E. Pursell, U.S. Joint Economic Committee *Compendium*, part II, pages 261–264.

TECHNICAL NOTE: Data used are from the Bureau of Labor Statistics study of Consumer Expenditures and Income in 1960–61. For several occupations at different ages of the family head, estimates are available of the 1960–61 average annual money income after taxes and of the 1960–61 average annual expenditures for current consumption and outlays for durables. This chart shows the annual excess or deficit of average income over average expenditures for each of the age cohorts in these occupations.

Since the amount of this excess or deficit is estimated from cross-sectional data, it does not of course reveal the financial picture of a particular family as it progresses through worklife. Nor—since it is based on averages—does it reveal the excess or deficit for a particular family in that occupation and age group. For example, the self-employed under age 25 had an average money income of $4,528 and an average expenditure of $5,912. This is shown on the chart as a deficit of $1,384, an amount that looks completely unreasonable unless interpreted as the difference between two averages based on all self-employed families in the age group.

THE FINDINGS: Annual incomes exceed expenditures of the self-employed and professional workers' families for most of the age cohorts, leaving sources of savings at practically all stages of worklife. Semi-skilled workers also have a small margin for saving. For clerical and skilled workers, expenditures are barely balanced by income in total, with the years of slight deficits roughly matched by years of small savings. In the case of unskilled workers, no balance of income with expenditure is achieved except by the 55 to 64 age group. (See table 15 and discussion, p. 35.)

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

TASK FORCE REPORT

INTRODUCTION

Every American—whether poor or rich, black or white, uneducated or college-trained—faces a common aging problem: How can he provide and plan for a retirement period of indeterminate length and uncertain needs? How can he allocate earnings during his working lifetime so that he not only meets current obligations for raising children and contributing to the support of aged parents but has something left over for his own old age?

The economic situation of the aged today speaks ill of the solutions to this problem in the past. But people now old were hampered in their efforts to prepare for their future by two world wars, a major depression and lifetime earnings which were generally low. The important question persists: What are the prospects for the future aged?

As a Nation, what do we intend for ourselves when aged and what for those who are already old? How are older people, now and in the future, to share in our economic abundance?

(1)

PART ONE

CHARACTERISTICS OF THE AGED POPULATION

Certain facts are needed as a frame of reference for consideration of the economic position of the aged, now and in the future.[1] Who are the people now 65 and older? How is the aged group changing? What are the population characteristics that help to explain low incomes in old age?

Every tenth American is 65 or older. Currently, there are about 20 million aged individuals. Fewer than 9 million are men and more than 11 million are women.

The rate of growth in the population 65 and older has slackened in recent years. In contrast to a 3.0 percent annual rate of increase for the decade 1950–60, the rate has averaged just under 2 percent during the Sixties.

Projections for the decade ahead indicate a growth rate for the aged population about the same as the rate for the total population. The ratio of the population aged 65 and over, consequently, is expected to remain nearly a constant proportion (about 18 percent) of the population in the "working ages" of 20–64 through 1985.

The population 65 and older is not a homogeneous group at any given date; the composition of the group is constantly shifting.

On the average day, roughly 3,900 people will celebrate their 65th birthday but about 3,080 already past 65 will die, a net increase of 820 a day. In the course of a year, this means a net increase of 300,000. In the course of 5 years, 35 percent of the population 65 and older are new additions to this age group.

The aged population is getting older. Half of all people now 65 and older are about 73 years old or over. Of every 100 older persons today, 63 (almost two-thirds) are under 75; 31 (almost one-third) are between 75 and 85; and 6 are 85 or over.

In the years ahead, the growth in the aged population will be particularly great at the highest ages. The population 85 and older may nearly double over the years 1960 to 1985, in comparison to a 50 percent projected increase for the total population 65 and older.

More of the aged in the future will be women, and most of these women will be widows. Women 65 and older already outnumber men by a ratio of 134 to 100 and this disproportion is expected to rise to 150 to 100 by 1985.

[1] The facts used here have been drawn primarily from *A Profile of the Older American*, by Herman B. Brotman, Administration on Aging, U.S. Department of Health, Education, and Welfare. The Task Force is indebted to Mr. Brotman for his assistance in providing data more recent than those in his published analysis and for his helpful advice.

A majority of all women 65 and older are now widows. The greater longevity of women—another 16 years at age 65 in comparison to 13 years for the men—coupled with the fact that women usually marry men somewhat older, accounts for an increasingly heavy preponderence of widows in the older population, especially at the higher ages. Widows now number 6.2 million; by 1985, the number will soar to more than 8 million.

Because of the high proportion of widows, fewer than 4 in 10 women 65 and older—but more than 7 in 10 of the men—are married and living with the spouse.

Most aged persons live independently in homes they own. Nine out of every 10 older men and almost 8 in 10 women live in their own households either as heads or wives of heads of the household. Of the rest, the majority are in the household of a member of their family rather than in an institution. At the time of the 1960 census of housing, about 70 percent of the households headed by older people occupied homes owned by a member of the household.

Their educational level reflects their advanced age. Half never went beyond elementary school. Nearly 17% are illiterate or functionally illiterate. Only 1 in 20 is a college graduate.

A growing proportion of retirees will have older parents still living. The ratio of persons aged 80 and over to those aged 60 to 64 was 34 per 100 at the time of the 1960 census and is expected to double—reaching 67 per 100—by the end of the century.

Also, as our population grows older, more people outlive their children. Probably as many as one-fifth of all older people today never had children or had children who preceded them in death.

The population aged 60-64—now 8.2 million people—demands much the same attention as that given to the population aged 65 and over. Early retirement from the labor force is becoming increasingly common and is all too often an involuntary and unplanned retirement, with an impact no different than that on persons over the traditional retirement age of 65.

PART TWO

ECONOMIC POSITION OF OLDER PEOPLE TODAY

AMOUNT AND SOURCES OF MONEY INCOME

Low income is still a major problem for older people despite improvement over the years in the money incomes of the aged population.

In 1967, only half of all families with a head 65 and older received as much as $3,928; nearly one in five had incomes below $2,000 (table 1). Of the older people living alone or with nonrelatives, half had incomes no larger than $1,480; one in four had as little as $1,000 or less.

Incomes of older persons have been rising, mostly as the result of fitful improvements in retirement payments. In 1967, however, the median income of families with an aged head was barely half that of younger families. The contrast was even greater for individuals; widows and other older people living alone or with nonrelatives had a median income only two-fifths as large as that of younger individuals.

The income distributions of those under and over age 65 vary markedly. Of the 7.1 million families with an aged head in 1967, almost 10 percent, or 700,000, had incomes under $1,500, as compared with 3 percent of the younger families. Almost 37 percent of the older families had incomes of less than $3,000; this was more than four times the proportion (8 percent) of younger families.

At the other end of the scale, 13.5 percent of the older families—about 950,000—had incomes of $10,000 or more. Almost 38 percent of the younger families had incomes of $10,000 and above.

Of the 5.1 million aged unrelated individuals—many of them widows—a quarter or 1.3 million had 1967 incomes of less than $1,000 and another quarter had incomes between $1,000 and $1,500. Only one quarter of the younger individuals—relatively half as many—had incomes below $1,500. Less than a tenth of the older individuals, but more than a third of the younger, had incomes of $5,000 or more in 1967.

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TABLE 1.—*Distribution of Families and Unrelated Individuals by Money Income in 1967* [1]

	Families				Unrelated individuals			
	Distribution		Cumulative		Distribution		Cumulative	
	Heads 14 to 64	Heads 65 and over	Heads 14 to 64	Heads 65 and over	14 to 64	65 and over	14 to 64	65 and over
Number (in thousands)	42, 764	7, 070			8, 048	5, 066		
Median income	$8, 504	$3, 928			$3, 655	$1, 480		
Percentage distribution:								
Total	100. 0	100. 0			100. 0	100. 0		
Under $1,000	1. 8	3. 7	1. 8	3. 7	16. 0	25. 0	16. 0	25. 0
$1,000 to $1,499	1. 2	5. 8	3. 0	9. 5	8. 3	26. 0	24. 3	51. 0
$1,500 to $1,999	1. 5	9. 2	4. 5	18. 7	6. 3	15. 0	30. 6	66. 0
$2,000 to $2,499	2. 1	10. 2	6. 6	28. 9	6. 1	9. 3	36. 7	75. 3
$2,500 to $2,999	1. 8	8. 0	8. 4	36. 9	5. 2	5. 6	41. 9	80. 9
$3,000 to $3,499	2. 6	7. 7	11. 0	44. 6	6. 6	4. 2	48. 5	85. 1
$3,500 to $3,999	2. 5	6. 4	13. 5	51. 0	4. 9	2. 7	53. 4	87. 8
$4,000 to $4,999	6. 0	9. 5	19. 5	60. 5	10. 2	3. 5	63. 6	91. 3
$5,000 to $5,999	7. 9	7. 3	27. 4	67. 8	10. 0	2. 4	73. 6	93. 7
$6,000 to $6,999	8. 6	6. 3	36. 0	74. 1	8. 0	1. 5	81. 6	95. 2
$7,000 to $7,999	9. 5	5. 1	45. 5	79. 2	5. 7	1. 1	87. 3	96. 3
$8,000 to $8,999	9. 0	4. 1	54. 5	83. 3	3. 6	. 8	90. 9	97. 1
$9,000 to $9,999	7. 7	3. 2	62. 2	86. 5	2. 2	. 5	93. 1	97. 6
$10,000 to $14,999	24. 8	7. 7	87. 0	94. 2	4. 8	1. 3	97. 9	98. 9
$15,000 to $24,999	10. 4	4. 3	97. 4	98. 5	1. 5	. 8	99. 4	99. 7
$25,000 and over	2. 6	1. 5	100. 0	100. 0	. 6	. 3	100. 0	100. 0
Head year-round, full-time worker:								
Percent of total [2]	76. 4	15. 4			52. 6	8. 0		
Median income	$9, 368	$7, 418			$5, 390	$3, 859		

[1] By age groups (14 to 64 and 65 and over). Data are estimates derived from the March 1968 survey of a national probability sample of households; they are subject both to sampling variability and to errors in response and nonreporting.
[2] Excluding Armed Forces.

Source: Bureau of the Census, as supplied by Administration on Aging, Social and Rehabilitation Service, Department of Health, Education, and Welfare, January 1969.

Low income in old age is closely associated with a decline in earnings.

This is all too clear from the data in table 1. Of the older families, 15 percent were headed by a year-round, full-time worker; their median income was $7,418, nearly double the median for all aged families. Of the unrelated individuals, 8 percent were full-time workers throughout the year and their median income of $3,859 was much more than twice that of all aged individuals.

Clearly, earnings during worklife have an important bearing on the adequacy of income in old age. But even among the minority who continue to work during old age, earnings decline drastically with advanced age as changes in the nature and extent of work take place.

The population 65 and older has an aggregate income of about $45 billion a year. The aggregate amount can be misleading, however, unless it is recognized that nearly $1 out of every $3 is in the form of earnings, a source which contributes nothing to the income of the overwhelming proportion of all older people.

Employment is still the largest single source of income for the aged group, despite the fact that four out of every five older persons are not in the labor force and that the other one in five tends to concentrate in part-time and low-paid jobs.

Earnings accounted for 32 percent of the aggregate money income of all persons aged 65 or over and their spouses, according to the Social Security Administration's 1963 survey.[2] Social security benefits ran a close second, contributing 30 percent. Railroad retirement and government employees' retirement benefits added 6 percent, and private pensions another 3 percent. Thus, two-fifths of the aggregate was in the form of retirement benefits. The aged group received 15 percent of all income through assets—income from interest, dividends and rents. Public assistance and veterans' benefits accounted for 5 percent and 4 percent, respectively.

Over the years, the proportion contributed by earnings has been declining sharply, with the drop offset by the increasing importance of social security benefits. In 1958, for example, when the aggregate was an estimated $25–30 billion, earnings were possibly as much as 40 percent of the total and social security benefits as little as 22 percent. (*Background Paper on Income Maintenance*, 1961 White House Conference on Aging, June 1960, p. 7)

Social security benefits are the major source of income for most older persons.

At the end of 1968, about 16½ million people 65 or older were drawing cash social security benefits under the OASDHI program. More than one million others are eligible for benefits except that they—or their spouses—have not yet retired. Persons currently receiving bene-

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[2] Findings of the Social Security Administration's 1963 Survey represent the most comprehensive source of information about the incomes of the aged and have been used extensively throughout this *Report*. These findings are presented in detail in *The Aged Population of the United States, the 1963 Social Security Survey of the Aged*, by Lenore A. Epstein and Janet H. Murray, U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, *Research Report* No. 19.

fits or eligible to do so on retirement make up 92 percent of the total population over 65.

Social security benefits paid at the end of 1968 averaged $98.90 a month for the retired aged worker, $51.20 for the spouse, and $86.50 for the aged widow.

As a measure of the important role of the social security benefit in maintaining income, the 1963 survey of the Social Security Administration found that a large number of beneficiaries had little cash income besides their benefit. In 1962, about one-third of the nonmarried beneficiaries received less than $150 in money income other than benefits during the entire year. One-fifth of the couples had less than $300 in addition to their benefits. There had been little improvement in this respect since 1957, when the income of beneficiaries had last been studied.

For the population aged 62 and older, the Social Security Administration's 1963 survey provides information that highlights the income differences that are associated with age and beneficiary status.

When the age group 62–64 is compared with the two older groups, it is immediately apparent that the nonbeneficiaries aged 62–64 are, in the main, regular members of the labor force (table 2). Earnings represented close to nine-tenths of the total income of the couples and non-married men in this grouping. Even among the non-married women, 70 percent had worked in 1962, so that earnings represented more than four-fifths of the total income of the group.

TABLE 2.—*Median Income; and Earnings and Retirement Benefits* [1] *as a Percent of Aggregate Money Income, by Age and OASDHI Beneficiary Status, 1962*

Beneficiary status	Median income			Earnings as percent of aggregate income			Retirement benefits as percent of aggregate income		
	Age 62–64	Age 65–72	Age 73+	Age 62–64	Age 65–72	Age 73+	Age 62–64	Age 65–72	Age 73+
Married couples [2]	$5, 200	$3, 340	$2, 325	82	45	27	7	34	49
Beneficiaries [3]	2, 470	2, 900	2, 430	48	25	26	38	48	51
Nonbeneficiaries	5, 900	4, 750	1, 680	89	76	18	2	9	36
Nonmarried men	1, 775	1, 765	1, 165	75	39	14	15	38	51
Beneficiaries [3]	1, 265	1, 610	1, 260	4	13	14	74	64	63
Nonbeneficiaries	2, 685	1, 980	860	87	66	9	4	11	22
Nonmarried women	1, 610	1, 280	885	62	27	10	20	42	36
Beneficiaries: [3]									
Retired	1, 220	1, 455	1, 120	34	23	18	56	53	54
Widowed	1, 350	1, 285	960	10	8	5	63	58	50
Nonbeneficiaries	2, 205	855	720	83	45	7	2	9	10

[1] OASDHI benefits, other public retirement benefits (but not veterans' benefits) and private group pensions.
[2] With at least 1 member aged 62 or over.
[3] Excludes part-year and parent beneficiaries.

Source: *The Aged Population of the United States, The 1963 Social Security Survey of the Aged,* tables 3.19 and 3.20, pp. 304–305.

It is equally clear that those who claimed reduced benefits before they reached age 65 did so because they needed the income from the benefit. Their incomes were lower than for beneficiaries aged 65–74 except in the case of widows (for whom there is no reduction at age 62).

For each classification by marital and beneficiary status, median incomes were smaller for the 73-and-over group than for the 65–72 age group. The disparity was substantial, however, only for couples and non-married men not drawing social security benefits: for couples, $4,750 compared with $1,680; and for the non-married men, $1,980 compared with $860. These figures clearly reflect the fact that employment provided three-fourths of the income of the non-beneficiary couples aged 65–72 but only 18 percent for the older ones; the corresponding figures for the non-married men were 66 and 9 percent. Presumably most of the workers aged 65–72 could have drawn social security benefits were it not for their employment, but those aged 73 and over were apparently not eligible.

Widows and other non-married women who were not on the beneficary rolls were the most seriously disadvantaged of all groups with respect to cash income. Moreover, those aged 65–72 were not much better off than those who were older. Their median cash incomes were $855 and $720.

Among the beneficiaries aged 65 and over, those under age 73 were somewhat better off than the older ones. The median income for beneficiaries 65–72 exceeded the median for beneficiaries 73 and over by about 20 percent in the case of couples and 30 percent in the case of the non-married groups. Differences in favor of the younger units might be expected for a number of reasons. First, the benefits of the younger units generally started later and consequently were based on employment at higher average earnings. Second, they not only could have been expected to have had higher assets when they retired but they would have had less time to use up the assets with which they entered retirement—an action that often reduces current income in later years. Third, they presumably have an advantage in the current labor market over older persons.

Each of these reasons apparently played a role in producing the somewhat higher incomes for the younger of the two groupings because the percentage distributions of aggregate income for the two groupings were not significantly different. Earnings made up the same proportion of aggregate income for each of the two age groupings in the case of beneficiary couples (about one-fourth) and non-married men beneficiaries (one-seventh). The proportion coming from interest, dividends and rents was no larger for beneficiaries aged 65–72 than for those 73 and older. The proportion from retirement benefits (mostly OASDHI benefits) was about the same, close to half in the case of couples, slightly more for retired non-married women and approaching two-thirds for the non-married men.

Perhaps the most significant differences were found among the two groups of aged widowed beneficiaries. Those aged 65–72 had a median income of $1,285, with 58 percent of the aggregate coming from retirement benefits and 4 percent from such sources as private individual annuities and contributions by relatives. For the widowed beneficiaries aged 73 and over, the median was $960 and the corresponding proportions were 50 percent and 16 percent. Income from interest, dividends and rents accounted for about the same share of the total income of the two groups of widows: 21 percent for those aged 65–72 and 23 percent for the older ones.

Of the "retired" aged 65 and older—those who did not work in 1962—only three-tenths of the couples and fewer than one-tenth of the unmarried had incomes of $3,000 or more.

These findings—again from the 1963 Social Security survey—are summarized in table 3.

TABLE 3.—*Size of Money Income for Persons 65 and Older Who Did Not Work in 1962*

Money income	Married couples	Unmarried men	Unmarried women
BENEFICIARIES			
Total percent	100	100	100
Under $1,000	5	29	45
$1,000 to $2,999	64	65	49
$3,000 to $4,999	20	5	3
$5,000 and over	10	1	2
Median income	$2, 410	$1, 320	$1, 095
NONBENEFICIARIES			
Total percent	100	100	100
Under $1,000	16	58	70
$1,000 to $2,999	58	35	26
$3,000 to $4,999	17	4	3
$5,000 and over	9	2	1
Median income	$1, 805	$885	$710

Source: *The Aged Population of the United States, The 1963 Social Security Survey of the Aged*, table 3.4.

ASSETS

For most older people, the major asset—often the only asset—is the home they own. Assets readily available for daily living are meager, especially for the aged with the lowest income.

Financial assets amounted to less than $500 for 37 percent of the couples and for more than half of the unmarried men and women, according to the 1963 Social Security survey.

Almost all aged persons have saved for their retirement years and accumulated some resources in the form of liquid assets, equity in their home or other real estate, etc. Persons in the retirement ages have more financial assets and less debt than the population generally.

Two estimates of asset holdings of the aged in 1962 are available, as follows:

	Federal Reserve Board estimate	Social Security Administration estimate
Average assets:		
Total	$30,008	$15,109
Liquid assets and marketable securities	4,957	3,783
Median assets:		
Total	9,860	5,840
Liquid assets and marketable securities	950	570

The two estimates of asset holdings by the aged would be expected to differ because the surveys differ, not only in definitions, but in the unit surveyed. The survey unit used in the Social Security Administration's study produces a lower value of assets because each aged couple or nonmarried person is treated as a separate unit; in the Federal Reserve Board survey, data for such persons who are members of a family—and these are the older persons who have the least assets—are pooled with data for the family unit.

Regardless of which dollar amounts are used, a major asset of older people is the owned home—not readily convertible to cash for daily living—and the lower the income, the lower the assets.

The hope that assets are an important potential for improving the income situation of today's older population has focused attention on the possibility of raising incomes through conversion of assets into income prorated over the remaining life expectancy.

Data from the Social Security Administration's 1963 survey provide a measure of such potential income. Each unit's assets were assumed to be capable of earning a 4-percent rate of return. The principal and appropriate interest amounts were then divided over the expected remaining years of the unit's life in equal annual sums so that the assets would be exhausted at the end of the period. The annual amount computed in this way was added to current money income (less income actually received from assets).

Use of this procedure obviously ignores the question of the feasibility or desirability of this form of asset management for the individual; particularly unrealistic, for example, is the conversion of the owned farm or other business holdings into prorated assets.

The effect on median income of assuming that assets are converted into life annuities may be summarized as follows:

Unit	Actual income	Potential income	
		Excluding home equity	Including home equity
Married couples	$2,875	$3,130	$3,795
Nonmarried men	1,365	1,560	1,845
Nonmarried women	1,015	1,130	1,395

The median potential income is about 10 percent greater than actual income when home equity is excluded and a little more than 30 percent greater when home equity is included. Reflecting the fact that asset holdings are larger at the higher income levels than at the lower, the addition of distributed assets to income increases the inequality of the income distribution. Of those with income of less than $3,000, fewer than one in four had asset holdings great enough to shift their income into a higher $1,000 interval.

Use of potential income other than the home equity would still leave more than a third of the aged couples and about two-thirds of the non-married aged with insufficient income to live independently at the BLS "modest but adequate" budget standards for that period.

INCOME NEEDS

The fact that older people have lower incomes than younger persons is not in itself proof that these incomes are inadequate. Nor is the fact that older people spend considerably less than younger people proof that their needs are that much less.

Older persons have lesser needs for some items, such as clothing. For those who are retired, work-related expenses—for example, costs of transportation to and from the job, meals away from home, social security taxes and union dues—are either completely eliminated or sharply reduced. The cost of raising and educating children—an expenditure that for years dominates most family budgets—is also usually ended. Furthermore, since they are more likely than younger persons to own their homes free and clear, they may be able to stretch a given income further than those who must pay rent or are still making payments on the mortgage. Their age entitles them to income tax benefits not available to those who have not yet reached age 65. On the other hand, their medical expenses are considerably higher than those of younger people. They can do less for themselves as physical ability decreases and may therefore have to incur higher expenses for maintaining the home if they live independently or for various forms of institutional care. Because they have more free time, their recreational costs could be higher.

According to the best expenditure data available, older people—who have about half the income of the younger—also spend about half as much as do younger people. However, the proportions of their total expenditures going to various types of goods and services differ considerably. Older consumers followed a pattern similar to low-income groups in general. For instance, the older units spend proportionately more on food, housing, household operation, and medical care than do the younger units.

Smaller expenditures by older consumers in many categories reflect their low-income position rather than lack of need for the goods or services. A recent survey showed that 84 percent of the households headed by younger persons owned an automobile but only 56 percent of the older households. Moreover, older households tended to own older automobiles. But if younger and older households at the same income level were compared, most of the differences disappeared. This survey also checked on ownership of major appliances such as washing machines and dryers, refrigerators, TV sets, dishwashers, air conditioners, etc. In every category except refrigerators, a significantly lower proportion of older households than of younger households reported owning such appliances.

One measure commonly used in assessing the adequacy of incomes to meet needs is the BLS Retired Couple's Budget for a moderate living standard. For the majority of the aged population, even this "moderate" level is well beyond their means.

A moderate standard of living for a self-supporting, retired couple in U.S. urban areas in the autumn of 1966 required an annual expenditure of $3,869. (*Retired Couple's Budget for a Moderate Living Standard*, U.S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 1570–4.)

The couple was defined in the Bureau of Labor Statistics study as a husband, age 65 or older, and his wife, self-supporting, living independently, enjoying fairly good health, receiving hospital and medical care protection under Medicare, and occupying a mortgage-free home.

In 1966, there were 4.2 million elderly husband-wife couples not on farms. How many had to make do on less than $3,869 is not yet known. Two out of five of them (1.9 million) had less than $2,675 for the year. Obviously then, the majority would find the level BLS designates as "moderate" well beyond their means.

> Indeed, among all families with an elderly head (including those with three or more members, units generally better off than elderly couples because of the income added by young employed adults), median income in 1966, as reported to the Bureau of the Census, was 6 percent lower than the BLS-priced budget. (*Social Security Bulletin*, October 1968, p. 3.)

Although no budget designed specifically for elderly persons without a spouse has been priced by BLS, an equivalence scale developed by the Bureau suggests that an elderly person living alone in a city would need about $2,130. Again, the number who had less than this amount is not known, but as many as two-thirds of all aged unrelated individuals not on farms had incomes below $1,900 in 1966.

The average social security benefit payable to an elderly couple who retired in December 1950—even though adjusted over the years—would now purchase a significantly smaller fraction of the Budget than at the time of retirement (Chart A).

Another measure of the inadequacy of the incomes of older people is in the large numbers with income below the poverty line as defined by the Social Security Administration.[3] Persons aged 65 and over continue to have a higher poverty rate than any other age group.

Three out of every 10 people 65 and older—in contrast to one in nine younger people—were living below the poverty line in 1966. Another one-tenth of the aged population was on the border of poverty. Nearly two-thirds of the aged poor are women.

Widows and other aged women living alone are particularly disadvantaged.

Six out of every 10 of them have incomes below the poverty line. In fact, the number of poor women living alone has actually increased over the years—from 1.8 million in 1959 to 2.1 million in 1966—a reflection of the increasing number who live independently even at the price of poverty (table 4 and Chart B).

[3] The measure used as counting the aged as poor in 1966 was $1,975 for an elderly couple not on a farm and $1,565 for an aged person alone. The amounts used in classifying aged persons as "near poor" were $2,675 for a couple and $1,900 for unrelated individuals.

TABLE 4.—*Trends in Poverty: Percent of Persons with Income below the SSA Poverty Index, by Age, 1959 to 1966*

[Numbers in millions]

Age	1959			1964			1966		
	Total persons, number	Poor		Total persons, number	Poor		Total persons, number	Poor	
		Number	Percent		Number	Percent		Number	Percent
All ages	176. 5	38. 9	22. 1	189. 7	34. 1	18. 0	193. 4	29. 7	15. 4
Under 18 [1]	63. 7	16. 6	26. 1	69. 4	14. 9	21. 4	69. 8	12. 5	17. 9
Families with male head	58. 2	12. 6	21. 7	62. 3	10. 5	16. 9	62. 5	8. 0	12. 9
Families with female head	5. 5	4. 0	72. 6	7. 1	4. 4	62. 6	7. 4	4. 5	60. 6
18 to 64 [2]	96. 8	16. 4	16. 9	103. 0	13. 8	13. 4	105. 7	11. 9	11. 2
65 or over	15. 9	5. 9	37. 2	17. 4	5. 4	30. 8	17. 9	5. 4	29. 9
In families	12. 1	3. 4	28. 4	12. 8	2. 6	20. 5	13. 0	2. 7	20. 5
Unrelated individuals	3. 8	2. 5	68. 1	4. 6	2. 8	59. 3	4. 9	2. 7	55. 3
Men	1. 1	. 6	59. 9	1. 3	. 6	47. 9	1. 3	. 6	44. 0
Women	2. 6	1. 8	71. 5	3. 3	2. 1	63. 7	3. 6	2. 1	59. 3

[1] Never married children in families.
[2] Includes ever-married persons under age 18.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey. (U.S. Joint Economic Committee *Compendium*, part II, p. 188.)

That persons aged 65 or older continue to have a higher poverty rate than any other age group is especially significant in the light of the greater emphasis in public programs on providing income in old age than at earlier stages.

The number of aged counted as poor in 1966 numbered 5.4 million, the same number as the count of aged poor two years earlier, and only half a million less than the count in 1959. In 1966, the 1.2 million aged couples in poverty represented one in five of all families counted poor; in 1959, these couples had accounted for only one in six of the total. While the financial fate of the aged living alone in 1966 was better than it once had been, it still spelled poverty for the majority (55 percent).

As compared with the situation in 1959 when aged unrelated individuals accounted for fewer than one-fifth of all households tagged poor, in 1966 every fourth household in poverty was that of an aged person living alone.

Again, this highlights the problem of the aged widow and other unrelated women. In 1959, there were 2.6 million of them, 1.8 million (71.5 percent) of whom were below the SSA Poverty Index. By 1966, the number of such persons had increased to 3.6 million, and the 2.1 million who were poor represented 59.3 percent of this larger group.

Two out of every five couples and two out of every three individuals had incomes below the "near poor" level in 1966.

Data are not yet available to show the effects of the 1967 Social Security amendments in reducing the proportion of aged people who live in poverty. At the time the amendments were enacted, it was estimated that 800,000 older persons would be moved out of poverty by the benefit increases to begin as of February 1968.

PART THREE

INCOME OF TODAY'S AGED IN PERSPECTIVE

In relation to the younger population, the median income of the older population has dropped in recent years.

The median income of families with an aged head dropped from 50.6 percent of the median of younger families in 1962 to 46.2 percent in 1967. The decline for older unrelated individuals has been even sharper, from 47.2 percent in 1962 to 40.5 percent in 1967 (table 5 and Chart C).

TABLE 5.—*Trend in Median Money Income of Families and Unrelated Individuals, 1960–67* [1]

Period	Families: Heads 14 to 64 (amount)	Families: Heads 65-plus: Amount	Families: Heads 65-plus: Percent of 14 to 64	Unrelated individuals: 14 to 64 (amount)	Unrelated individuals: 65-plus: Amount	Unrelated individuals: 65-plus: Percent of 14 to 64
1960	$5, 905	$2, 897	49. 1	$2, 571	$1, 053	41. 0
1961	6, 099	3, 026	49. 6	2, 589	1, 106	42. 7
1962	6, 336	3, 204	50. 6	2, 644	1, 248	47. 2
1963	6, 644	3, 352	50. 4	2, 881	1, 277	44. 3
1964	6, 981	3, 376	48. 4	3, 094	1, 297	41. 9
1965	7, 413	3, 514	47. 4	3, 344	1, 378	41. 2
1966	7, 922	3, 645	46. 0	3, 443	1, 443	41. 9
1967	8, 504	3, 928	46. 2	3, 655	1, 480	40. 5
Percent change:						
1960–67	+44. 0	+35. 6	---------	+42. 2	+40. 6	---------
1962–67	+34. 2	+22. 6	---------	+38. 2	+18. 6	---------
1960–61	+3. 3	+4. 4	---------	+. 7	+5. 0	---------
1961–62	+3. 9	+5. 9	---------	+2. 1	+12. 8	---------
1962–63	+4. 9	+4. 6	---------	+9. 0	+2. 3	---------
1963–64	+5. 1	+. 7	---------	+7. 4	+1. 6	---------
1964–65	+6. 2	+4. 1	---------	+8. 1	+6. 2	---------
1965–66	+6. 9	+3. 7	---------	+3. 0	+4. 7	---------
1966–67	+7. 3	+7. 8	---------	+6. 2	+2. 6	---------

[1] See footnote, table 1, p. 6.

Source: Bureau of the Census, as supplied by the Administration on Aging, Social and Rehabilitation Service, Department of Health, Education, and Welfare, January 1969.

In relation to the income a given older person had before retirement, he has suffered a substantial drop.

One study finds that the ratio of retirement income to income for the year before retirement was only one-quarter or less for one-third of the retirees.[1]

[1] See p. 236 of Part II, U.S. Joint Economic Committee *Compendium*.
The U.S. Joint Economic Committee *Compendium* to which reference is made throughout this *Report* is "Old Age Income Assurance", A Compendium of Papers on Problems and Policy Issues in the Public and Private Pension System, submitted to the Subcommittee on Fiscal Policy of the Joint Economic Committee, Congress of the United States, December 1967; Part I: General Policy Guidelines, Part II: The Aged Population and Retirement Income Programs, Part III: Public Programs, Part IV: Employment Aspects of Pension Plans, Part V: Financial Aspects of Pension Plans, and Part VI: Abstracts of the Papers.

The significance of the decline in income for an age group as it moves into retirement status has been summarized as follows:

> The crucial question is, what change takes place in the incomes of a given age group as it moves into retirement status? When we say that between 1949 and 1959 the income of the male 'aged' increased 55 percent, we are really not talking about the same intact population. In reality, the median income of men aged 55 to 64 in 1949 was $2,366, but by 1959 the same men (minus those who died, etc.) experienced not an increase in their median income but a decrease.
>
> More specifically, the best data available on this point are provided by the Bureau of the Census, in its January 1961 report on 1959 incomes. The median income of men born in March 1895 and earlier was $1,710 in 1949; 10 years later, the median income of the same group had *decreased* 8 percent, to $1,576. These figures, moreover, are in current dollars and not constant ones: an analysis using constant 1959 dollars would reveal that this group of men suffered an approximate 33 percent *decrease* in real income from 1949 to 1959, while during the same period of time the real median income for men aged 24 to 34 in 1949 *increased* by approximately 57 percent; for men aged 34 to 44 in 1949, the increase was approximately 34 percent. (*Action for the Aged and Aging*, S. Report No. 128, Subcommittee on Problems of the Aged and Aging, U.S. Senate Committee on Labor and Public Welfare, 1961, pp. 71–72.)

Moreover, unless positive action is taken, the economic position of persons NOW OLD will deteriorate still further in the years ahead.

Some of this deterioration is relative to the economic position of the younger population. The income gap between the retired group and the working group will widen in a period of national economic growth. With more years spent in retirement, this gap becomes even more significant.

The retirement life span for couples is now approximately two decades: a man with a wife several years younger who retires at age 65, must now count on providing for himself and his wife for 13 years followed by another 6 or 7 years for his widow. Over a period of this length, the consumption level enjoyed by younger workers would approximately double, assuming earnings rise at a rate of 4 percent annually—a not unrealistic assumption for the years ahead.

Some of this deterioration is relative to the individual's income position at the time of retirement.

A basis for evaluating the decline in income during retirement is provided by comparing the Social Security Administration's 1963 survey data for beneficiaries who were entitled before 1956 with data from the 1957 survey. Although the amount of their social security benefits had been raised during the intervening years to help ward off a more rapid deterioration in their economic situation, beneficiaries who had been entitled before 1956 had less *real* income in 1962 than 5 years earlier. Their income from other sources had decreased. The median income from sources other than benefits had decreased by 23 percent for married couples, 19 percent for retired men, 34 percent for retired women, and by as much as 83 percent for the aged widows. The longer a beneficiary is on the rolls, the more unfavorable his income position becomes when compared with the income position of persons more recently retired.

The causes of this further decline in already inadequate retirement incomes—the major threats to economic security in old age—can be identified as follows:

(1) Earnings drop as advanced age further curtails already limited employment opportunities.

Earnings—as measured by the 1963 survey of the aged—accounted for only 27 percent of the aggregate income of couples aged 73 and over, whereas earnings amounted to 45 percent of the aggregate for those aged 65–72. The contrast between the two age groups was even sharper for the nonmarried (who are on the average older than the couples): 14 percent as against 39 percent for the men, and 10 percent as against 27 percent for the women (table 2 above).

In comparison to the age group 65–72, only half as many men aged 73 and over and a third as many women worked in 1962. The earnings of the oldest workers averaged only three-fifths as much as the earnings of workers aged 65–72, reflecting the predominantly part-time nature of the jobs of the older group (table 6).

TABLE 6.—*Average Earnings of Workers Aged 65 and Over, by Sex and Work Experience, 1962*

Work experience and age	Males: Percentage of aged population	Males: Average earnings	Females: Percentage of aged population	Females: Average earnings
Usually full-time jobs: [1]				
65 to 72	30.9	$3,775	9.9	$2,132
73 and over	10.4	3,022	2.8	1,131
Usually part-time jobs:				
65 to 72	15.9	969	9.7	652
73 and over	12.5	765	3.1	525
All workers:				
65 to 72	47.0	2,835	19.6	1,410
73 and over	22.9	1,803	5.8	806

[1] 35 or more hours a week.

Source: *Social Security Bulletin*, June 1964; tables 4 and 5, p. 5.

In interpreting these data, it must be remembered that the earnings of the age group 73 and older were not held down by the social security retirement test—a test which undoubtedly causes some retired beneficiaries under age 73 to limit their earnings.

(2) Assets are reduced—in some cases, exhausted—leaving less income from this source.

For most aged people, the owned home is the most significant asset and they hold on to these homes despite advancing age. The 1963 Social Security survey found that aged widows entitled in 1955 or earlier were the only group with a significant drop in homeownership from 1957 to 1962. These widows were older, on the average, than other beneficiaries and with advancing age, more likely to share a relative's home.

Financial assets of the couples and nonmarried women who had been entitled to benefits as early as 1955, declined from 1957 to 1962. The decrease in 1962 dollars was 15 percent for couples, 20 percent for retired women and 11 percent for aged widows. Nonmarried men, on the other hand, increased their holdings substantially, possibly by surrendering life insurance policies or selling their homes or other real estate.

(3) Medical needs and the cost of meeting these needs rise with declining health.

The enactment of Medicare, the program of hospital and other medical benefits starting in July 1966, has made an important contribution to the economic security of older Americans. The average value of social security benefits was estimated to increase by 12 percent when acount is taken of the addition of Medicare (Memorandum of January 3, 1968, from Secretary Gardner to the President). Medicare benefits paid in fiscal year 1967 totaled $3.2 billion, 35 percent of the estimated personal health care expenditures of $9.2 billion for all persons 65 years and over (table 7 and Chart E). The value of Medicare in freeing older people from fear of the heaviest costs of illness—especially the costs of hospitalization—and in relieving younger people from the need to finance these costs for elderly parents is beyond measure.

TABLE 7.—*Estimated Amount and Percentage Distribution of Personal Health Care Expenditures for the Aged, by Source of Funds and Type of Expenditure, Fiscal Year 1967*

Source of funds	Total	Hospital care	Physicians' services	All other [1]
	Amount (in millions)			
Total	$9, 156	$4, 188	$1, 602	$3, 366
Private	3, 774	348	864	2, 562
Public	5, 382	3, 840	738	804
Medicare	3, 172	2, 406	626	140
Hospital insurance (Pt. A)	2, 508	2, 395	----------	113
Medical insurance (Pt. B)	664	11	626	27
Other public	2, 210	1, 434	112	664
	Percentage distribution			
Total	100. 0	100. 0	100. 0	100. 0
Private	41. 2	8. 3	53. 9	76. 1
Public	58. 8	91. 7	46. 1	23. 9
Medicare	34. 6	57. 4	39. 1	4. 2
Hospital insurance (Pt. A)	27. 4	57. 2	----------	3. 4
Medical insurance (Pt. B)	7. 3	. 3	39. 1	. 8
Other public	24. 1	34. 2	7. 0	19. 7

[1] Includes expenditures for dentists' and other professional services, drugs and drug sundries, eyeglasses and appliances, nursing-home care, and other health services.

Source: *Social Security Bulletin*, August 1968; table 3, p. 22.

In fiscal year 1967, the health care expenditures per aged person averaged about 2¾ times those of persons under age 65. Hospital costs accounted for a large part of the difference (table 8 and Chart F). The impact of Medicare in shifting some of the heavy costs for the aged from private to public sources is apparent from Chart G.

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TABLE 8.—*Estimated Per Capita Personal Health Care Expenditures, by Type of Expenditure, Source of Funds, and Age, Fiscal Years 1966 and 1967* [1]

Type of expenditure	Fiscal year 1966			Fiscal year 1967		
	Total	Private	Public	Total	Private	Public
			All ages			
Total	$184.89	$144.02	$40.87	$206.31	$143.44	$62.87
Hospital care	71.76	45.41	26.35	84.15	43.23	40.91
Physicians' services	45.27	42.29	2.98	48.11	41.35	6.76
Other professional services [2]	19.44	19.04	.41	20.29	19.64	.66
Drugs and drug sundries	25.40	24.57	.83	26.92	25.85	1.07
Nursing-home care	7.00	4.06	2.94	8.15	3.75	4.41
Other health services [3]	16.01	8.65	7.37	18.69	9.62	9.06
			Under age 65			
Total	160.39	128.65	31.74	177.39	137.57	39.82
Hospital care	60.46	40.50	19.96	69.87	45.81	24.06
Physicians' services	42.56	39.81	2.75	44.29	40.89	3.40
Other professional services [2]	19.31	18.97	.34	20.06	19.57	.49
Drugs and drug sundries	21.59	21.15	.43	22.94	22.27	.67
Nursing-home care	1.18	.45	.73	2.36	.41	1.95
Other health services [3]	15.30	7.77	7.54	17.87	8.63	9.25
			Age 65 and over			
Total	423.41	293.72	129.69	485.91	200.29	285.62
Hospital care	181.81	93.23	88.58	222.26	18.47	203.79
Physicians' services	71.68	66.49	5.19	85.02	45.85	39.17
Other professional services [2]	20.74	19.72	1.03	22.55	20.33	2.23
Drugs and drug sundries	62.60	57.85	4.75	65.38	60.45	4.94
Nursing-home care	63.68	39.21	24.47	64.16	35.98	28.18
Other health services [3]	22.90	17.23	5.67	26.53	19.21	7.32

[1] Based on Bureau of the Census estimates of midfiscal year data for total population, including Armed Forces overseas.
[2] Includes expenditures for dentists' services and other professional services.
[3] Includes expenditures for eyeglasses and appliances and other health services.

Source: *Social Security Bulletin*, August 1968; table 2, p. 21.

It is important to assess the achievements of Medicare in relation to the needs of an aging population in a changing economy, as well as to recognize Medicare's impact on the practice of medicine and the cost of medical care.

There can be no dispute over these facts:

(a) The prices of medical services have risen faster than the prices of other consumer goods and services. Since 1966, the consumer price index for medical care, and especially for hospital costs, has been rising at an accelerated rate:

Consumer Price Index (1957–59=100)

	June 1966	December 1968
All items	112.9	123.7
Medical care	127.0	149.1
Hospital daily charge	164.2	239.3
Physicians' fees	128.0	149.1

(b) With advancing age, older people have more physical disability that results in higher medical care costs (table 9).

TABLE 9.—*Indicators of Increasing Disability and Medical Needs with Advancing Age*

Indicator	Age group: 45 to 64	Age group: 65 to 74	Age group: 75 and over
Disability:			
Percent with 1 or more chronic conditions	65.8	80.4	87.4
Percent with chronic conditions that limit activity	19.8	42.6	60.5
Percent unable to carry on major activity	2.8	9.7	23.7
Bed disability days per person per year	7.2	11.1	19.4
Days of restricted activity per person per year	22.3	34.2	46.1
Physician visits: Number per person per year	5.0	6.3	7.2
Hospitalization:			
Discharges per 1,000 persons	147.9	181.3	195.6
Days per 1,000 persons	1,627	2,284	2,487
Average length of stay	11.0	12.6	12.7

Drugs:	45 to 64	65 and over
Number of drug acquisitions per person per year	6.6	11.4
Average cost per purchase	$4.10	$4.00
Annual cost per person	$31.80	$50.20

Source: "Age Patterns in Medical Care, Illness, and Disability, July 1963-June 1965," National Center for Health Statistics, Series 10, No. 32; and "Cost and Acquisition of Prescribed and Nonprescribed Medicines, July 1964–June 1965," NCHS, Series 10, No. 33.

(c) At the oldest ages, the need is especially great for the types of health care not covered by Medicare, notably long-term nursing home care (as distinct from post-hospital care in an extended-care facility) and drugs. At least half of all nursing home patients, for example, are aged 80 or older (in comparison to a median age of about 73 for the whole population 65 and older). A recent survey of nursing home patients found this age distribution: 12 percent, under age 65; 18 percent, aged 65–74; 41 percent, aged 75–84; and 29 percent, 85 and older (National Center for Health Statistics, Series 12, No. 2).

The increase in drug costs with advanced age is apparent from the following: aged persons who were unable to carry on any major activity (24 percent of those aged 75 and over in contrast to 10 percent of those aged 65–74) needed 21.7 prescriptions per year on the average at an annual cost of $88.97.

(*d*) Because Medicare requires that the individual meet half the cost of Part B by means of a premium payment (as well as paying the deductibles and co-insurance), the inflation of medical prices constantly adds to the problems encountered by the low income aged person in paying his own way. This situation will exist as long as the financing of Part B is geared to monthly premiums paid by the aged beneficiary rather than on a payroll tax spread over the rising earnings of the working population.

These facts have resulted in a problem that is basic to the economic security of the elderly population: Despite the important protection now provided by Medicare, increasing numbers of older people may have to pay ever larger amounts out-of-pocket to get the medical care they need. More may have to resort to the uncertain and uneven protection provided by State Welfare programs (Medicaid).

(4) Inflation erodes already inadequate retirement incomes, and this erosion continues over a longer retirement period.

While economists may disagree over the accuracy of present price indicators and over the causes and controls of inflation, there can be no disagreement as to the impact that real price increases have on fixed value assets and on fixed income sources not subject to adjustment; even an annual rise of only 2 percent will reduce purchasing power by 18 percent after one decade and by 33 percent after two decades.

The impact of inflation on retired persons will vary, depending in large part on the kinds of assets held and on the sources of income. But age has deprived most older people of the best weapon for fighting inflation—employment and participation in rising earnings levels.

For the aged group as a whole, the distribution of the aggregate income of the aged—discussed above—provides a clue to the overall impact of price rises. This impact has been described as follows:

> Based on an estimated 1968 annual purchasing power of over $40 billion among persons past 65, a 4-percent inflation would produce purchasing power loss to these citizens of roughly $1.6 billion per year. A 5-percent inflation would cost them over $2 billion per year. (Minority Views, p. 157 of *Developments in Aging, 1967*, U.S. Senate Special Committee on Aging.)

Without minimizing the seriousness of the threat of inflation to retirement incomes, the following facts must also be recognized:

(a) Earnings, which usually more than keep pace with a rise in living costs, constitute the largest single source of income for the population 65 and older—about a third of the $40–$45 billion aggregate estimated for 1968. If earnings are subtracted from the aggregate, the "vulnerable" portion becomes less than $30 billion. The potential purchasing power loss then becomes $1.2 billion per year with a 4-percent inflation rate and $1.5 billion with a 5-percent rate.

(b) The proportion of the aggregate income of the older population that comes from Social Security is fast catching up with the share from earnings—30 percent at the time of the Social Security survey. Through past legislative enactments, the benefits have been adjusted sooner or later, to more than correct for the rise in cost of living for most beneficiaries (table 10). That for some the increase has been too little, as well as too late, is apparent from Chart D.

Table 10.—*OASDHI Benefits for Worker Retiring in Specified Years: Average Monthly Benefit Amount Awarded, Amount Payable after General Benefit Increases, and Amount Needed to Maintain Parity with Prices and Wages, 1950–68*

			Average monthly benefit amount for—											
			September–December 1950 retiree			December 1954 retiree			December 1959 retiree			September–December 1965 retiree		
	BLS consumer price index (1957–59=100)	Wage index [1] (1957–59=100)		Amount [2] needed to maintain parity with—			Amount [2] needed to maintain parity with—			Amount [2] needed to maintain parity with—			Amount [2] needed to maintain parity with—	
December			Actual	Prices	Wages	Actual	Prices	Wages	Actual	Prices	Wages	Actual	Prices	Wage
1950 [3]	87.1	76.7	[4] $49.50	$49.50	$49.50									
1951	92.2	78.8	49.50	52.40	50.90									
1952 [3]	93.0	83.9	55.70	52.90	54.20									
1953	93.6	84.2	55.70	53.20	54.30									
1954 [3]	93.2	88.1	60.70	53.00	56.90	$66.60	$66.60	$66.60						
1955	93.5	93.9	60.70	53.10	60.60	66.60	66.80	71.00						
1956	96.2	98.9	60.70	54.70	63.80	66.60	68.80	74.80						
1957	99.1	97.6	60.70	56.30	63.00	66.60	70.80	73.80						
1958 [5]	101.0	102.0	60.70	57.40	65.80	66.60	72.20	77.10						
1959 [3]	102.3	107.1	65.00	58.10	69.10	71.00	73.10	81.00	[6] $84.90	$84.90	$84.80			
1960	103.9	103.9	65.00	59.10	67.10	71.00	74.30	78.50	84.90	86.30	82.40			
1961	104.5	112.8	65.00	59.40	72.80	71.00	74.70	85.30	84.90	86.80	89.50			
1962	105.8	115.2	65.00	60.10	74.30	71.00	75.60	87.10	84.90	87.80	91.40			
1963	107.6	119.3	65.00	61.20	77.00	71.00	76.90	90.20	84.90	89.30	94.60			
1964	108.8	127.2	65.00	61.80	82.10	71.00	77.80	96.20	84.90	90.30	100.90			
1965 [3]	111.0	133.3	69.60	63.10	86.00	76.00	79.30	100.80	90.90	92.20	105.70	[6] $99.70	$99.70	$99.70
1966	114.7	135.2	69.60	65.20	87.30	76.00	82.00	102.20	90.90	95.20	107.20	99.70	103.10	101.20
1967	118.2	140.3	69.60	67.20	90.50	76.00	84.50	106.10	90.90	98.10	111.30	99.70	106.20	105.00
1968 [3] [5]	119.5	141.2	78.70	68.00	91.00	85.90	85.40	106.70	102.80	99.20	112.00	112.70	107.40	105.60

[1] Based on BLS data for average spendable weekly wages for production workers (no dependents) in manufacturing industries.

[2] Calculated by increasing the benefit awarded by the percentage rise in the price or wage index since the date of award.

[3] Benefits increased under amendments to the Social Security Act.

[4] Average monthly benefit amount for workers who qualified under the insured-status provisions of the 1939 amendments.

[5] For 1958, November data; for 1968, March data.

[6] Includes amount before reduction for those whose benefits are subject to actuarial reduction due to early retirement. Excludes disability insurance conversions and transitionally insured workers.

Source: *Social Security Bulletin*, December 1968, p. 29.

PART FOUR

OUTLOOK FOR FUTURE GENERATIONS OF THE AGED

Identified here are major trends—some well established, others developing—that are important in evaluating the outlook for the future.

Given present trends, inadequate income will still be a problem plaguing future generations of aged people.

Poverty of the aged will NOT disappear. The existing pension system—public and private—can be expected to produce a sizeable shift upward in the distribution of penson income for aged persons. But this shift will still leave a majority with pension incomes that are below any reasonable level of adequacy.

A recent simulation projection [5] of income in old age concludes that in 1980 about half the couples and more than three-fourths of the unmarried retirees will receive $3,000 or less in annual pension income, both public and private; 86 percent of the unmarried aged could expect to receive less than $2,000. Three-fourths of the couples would receive pension incomes of $4,000 or less and only one in eight would have more than $5,000 (Chart H and table 11).

TABLE 11.—*Projected Total Pension Income Distribution for Retired Couples and Unmarried Individuals, 1980* [1]

(Percentage distribution)

Total pension income	Couples	Unmarried units
Total	100	100
Less than $1,000 [2]	5	32
$1,000 to $1,999	16	19
$2,000 to $2,999	28	31
$3,000 to $3,999	25	11
$4,000 to $4,999	14	5
$5,000 to $9,999	12	3
$10,000 and over	(3)	(3)

[1] Pension income includes benefits from Social Security, private pensions (including State and local plans), and Federal retirement programs.
[2] Includes units without pensions.
[3] Less than 1 percent.

Note.—Totals may not sum to 100 percent due to rounding.

Source: Social Security Administration *Research Report* No. 24; 1968, table 9, p. 64.

[5] First findings of the Simulation Projection are reported in "The Economic Status of the Retired Aged in 1980: Simulation Projections," by James H. Schulz, *Research Report* No. 24 of the Social Security Administration, U.S. Department of Health, Education, and Welfare, January 1968. Other findings used in the Task Force *Report* appear in the U.S. Joint Economic Committee *Compendium*.

More important, we can expect that increasing numbers of American families will begin to evaluate the adequacy of their retirement income in relation to their standard of living prior to retirement.

Using this standard of evaluation, present trends in the development of private and public methods of providing retirement income indicate an economic problem of major proportions: Vast numbers of Americans, accustomed to participating in the prosperity of a growing economy, face the prospect of having to restrict their retirement living to take account of the sharp drop in the financial resources available during the so-called "golden years".

The same simulation study has projected the ratio of income from both public and private pensions to preretirement earnings (the P/E ratio) for workers retiring between 1960 and 1980. Using average earnings for the 5 years prior to retirement as a measure of preretirement earnings, approximately three-fourths of the males and one-half of the unmarried females have projected P/E ratios that are less than 0.50. The P/E ratios, shown in Chart I, are as follows:

Projected ratio at retirement of total pension income to preretirement earnings for nonagricultural units

[Percentage distribution]

Ratio	Married males [1]	Unmarried males [2]	Unmarried females [3]
Less than 0.20 [4]	24	20	18
0.20 to 0.29	20	16	7
0.30 to 0.39	22	21	13
0.40 to 0.49	12	14	15
0.50 to 0.59	9	10	11
0.60 to 0.69	5	7	8
0.70 to 0.79	4	5	7
0.80 to 0.99	1	2	6
1 or more	3	6	15
Total [5]	100	100	100

[1] Ratios exclude the social security supplementary benefit for wife and her earnings.
[2] Widowed or never married.
[3] Never married only.
[4] Includes persons receiving no pension but some earnings.
[5] Totals may not sum to 100 percent due to rounding.

Source: U.S. Joint Economic Committee *Compendium*, Part II, p. 254.

The fact that some workers have P/E ratios close to or greater than 1 is explained, for the most part, by the minimum benefit provisions for low-wage workers in most public and private pension systems. The effect of these minimum benefit provisions is shown in table 12 where P/E ratios are tabulated by the preretirement earnings group of the pension recipient.

Table 12 also permits a comparison of the P/E ratios for married males, excluding the wife's earnings and her supplementary social security benefit, with the P/E ratio for the couple. The P/E ratio is raised by inclusion of the wife's benefit—equal to one-half the husband's benefit—but lowered by inclusion of any preretirement earnings she may have had. The net result is an improvement in the P/E ratios for couples. Nevertheless, only about two-fifths of the couples with preretirement earnings of $4,000 to $8,000—and a much smaller proportion of those with higher earnings—will receive pension income of as much as 50 percent of preretirement earnings.

The relatively low P/E ratios are due principally to three factors: (1) Low levels of private and public benefits; (2) large numbers of workers retiring early with reduced pension benefits; and (3) the average taxable earnings for social security benefit purposes (which are subject to a ceiling) are lower than actual preretirement earnings.

TABLE 12.—*Projected*[1] *Ratio at Retirement of Total Pension Income*[2] *to Preretirement Earnings by Preretirement Earnings Group*

(Percentage distributions)

Ratio	Average preretirement earnings[3] Less than $3,000	$3,000 to $3,999	$4,000 to $4,999	$5,000 to $5,999	$6,000 to $7,999	$8,000 to $9,999	$10,000 to $11,999	$12,000 to $15,999
(a) Nonagriculture married males								
Less than 0.20[4]	(5)	9	15	13	15	28	29	43
0.20 to 0.29	9	14	21	17	16	31	28	25
0.30 to 0.39	9	21	23	35	29	18	21	19
0.40 to 0.49	16	18	20	14	13	11	11	8
0.50 to 0.69	30	20	14	17	19	7	9	3
0.70 to 0.99	11	12	5	3	6	3	3	1
1 or more	23	6	3	1	1	0	0	0
Total[6]	100	100	100	100	100	100	100	100
(b) Nonagriculture unmarried females								
Less than 0.20[4]	23	5	5	5	9	9	22	17
0.20 to 0.29	4	7	6	22	21	29	39	25
0.30 to 0.39	8	17	15	19	21	31	17	33
0.40 to 0.49	10	20	23	18	20	17	17	8
0.50 to 0.69	18	37	31	27	25	10	4	8
0.70 to 0.99	17	11	11	7	5	5	0	4
1 or more	22	4	8	2	0	0	0	4
Total[6]	100	100	100	100	100	100	100	100
(c) Nonagriculture couples								
Less than 0.20[4]	0	3	10	4	9	16	12	20
0.20 to 0.29	2	6	14	9	16	19	23	28
0.30 to 0.39	8	19	18	28	19	22	24	22
0.40 to 0.49	15	9	12	16	16	20	21	15
0.50 to 0.69	21	38	28	31	25	20	14	14
0.70 to 0.99	13	8	11	8	12	4	4	1
1 or more	40	17	7	3	2	1	1	0
Total[6]	100	100	100	100	100	100	100	100

[1] Projected through Simulation Model described in Social Security Administration *Research Report No. 24*.
[2] Social Security, private, and/or Government employee pensions.
[3] Average of 5 years prior to retirement.
[4] Includes persons receiving no pension income but with some earnings.
[5] Less than 1 percent.
[6] Totals may not sum to 100 percent due to rounding.

Source: U.S. Joint Economic Committee *Compendium*, Part II, pp. 255–6.

Early retirement is a developing trend that could seriously counteract other trends serving to improve the income position of future aged populations.

More men are retiring early. During recent years, more than half of the men retiring did so before age 65. How much of this early retirement is voluntary, and how much is due to a lack of job opportunities for older men is not now known.

Of all currently payable social security benefits awarded to men each year, the proportion of reduced benefit awards has increased from 58 percent in the fall of 1962 to 70 percent in 1966 (table 13).

TABLE 13.—*Number of OASDHI Retirement Benefits Awarded to Men, with and without Reduction for Early Retirement, 1960–66*

[In thousands]

Period	Regular awards [1]			Awards moving to payment status [2]	Reduced benefit awards as percent of	
	Total	Not reduced	Reduced		All currently payable regular awards	All awards moving to payment status
1960	515	515	-------	594	---------	---------
1961 (Jan.–July)	302	302	-------		---------	---------
1961 (Aug.–Dec.)	482	203	279	876	58	32
1962	722	299	423	837	59	51
1963	592	239	353	675	60	52
1964	524	200	324	601	62	54
1965	518	198	319	601	62	53
1966	491	146	345	668	70	52

[1] Excludes (1) conditional and deferred awards and (2) conversions and transitionally insured awards.

[2] Currently payable regular awards plus estimate of those originally awarded as conditional or deferred that have moved to payment status. (Conditional or deferred awards are those suspended immediately following determination, chiefly because of earnings of the retired worker. Since September 1965, most conditional and deferred awards have been made primarily for the purpose of assuring eligibility for hospital insurance benefits.)

Source: Social Security Administration Research and Statistics Note No. 20, 1967.

At the time of the Social Security Administration's 1963 survey, it was clear that those who had settled for the reduced benefit did so because they needed the benefit, not because they were seizing the opportunity to retire early on an adequate pension. In short, their limited earnings made even a reduced retirement benefit attractive. Except among widow beneficiaries (for whom there was no reduction), those who claimed social security benefits before attaining age 65 were much less likely than the other beneficiaries to have income from assets. Fewer of these early retirees had private pensions, even though the growth of private pension plans might lead one to expect that a larger proportion of each successive age cohort reaching retirement would have rights to a private pension. The fact that the proportion with private pension income was lower than in the age group 65–72 but more of their aggregate income was contributed by pensions, highlights the heterogeneity of the beneficiaries who draw benefits before age 65, some of them to enjoy early retirement on adequate incomes but many to eke out retirement on reduced benefits and little else.

More workers—especially younger workers—"plan" to retire before age 65.

Surveys in 1963 and 1966 showed the following increase in the proportion who reported that they were planning to retire before reaching age 65:

Age of family head	1963 surveys	1966 surveys
35 to 44	25	43
45 to 54	23	33
55 to 64	21	22

Source: P. 239 of U.S. Joint Economic Committee *Compendium*, Part II.

A smaller proportion of the population aged 65 and older is expected to be in the labor force; earnings will represent relatively less of the income of the aged population.

There is every reason to expect that the downward trend in the labor force participation rate of older men will continue. Between 1920 and 1960, the participation rates of men 65 and older had declined from 57.1 percent to 32.3 percent. There was a further sharp drop to 26.9 percent by 1965.

The 1969 *Manpower Report* of the President projects a further decline, as follows:

[In percent]

Year	Total	Male	Female
1965 (actual)	17.1	26.9	9.5
1975	15.5	23.4	9.8
1980	14.9	21.8	9.9

Average earnings tend to be lower for aged workers, even for those working in full-time jobs. Older people still employed in many occupations are those who—often handicapped by the relatively low educational level of their generation—did not move up into higher paying occupations. Others who leave their lifetime work—voluntarily or involuntarily—become employed at lower paying jobs. Research by Kreps, Ferguson and Folsom on the industrial composition of older-worker employment contributes these findings in explanation of the drop in earnings:

> Apparently, the older person's opportunity for finding or retaining a job is greater in those industries that are growing less rapidly than the National average (or are actually declining), or in Services, which is the lowest paying non-agricultural sector. (*Employment, Income and Retirement Problems of the Aged*, Edited by Juanita M. Kreps, Duke University Press, 1963, p. 130.)

The 1965 *Report of the Secretary of Labor on the Older American Worker* offers further evidence of the decline in employment opportunities resulting from age discrimination. Approximately half of all private job openings were barred to applicants over age 55. Even in firms reporting that it was not the policy to discriminate against older workers, fewer than 3 percent of all workers hired during the period surveyed were aged 55–64; only a fraction of a percent were aged 65 and older (page 7).

Hence, realistic assessment of labor force conditions gives little hope that the economy will generate enough job opportunities to solve the income problem of older people, especially the oldest of them, now or in the years ahead. In the Nation's War on Poverty, emphasis has been placed on well-paying jobs as the best path out of poverty. But some other path must be found for the aged population.

Early retirement (plus any further increase in life expectancy) allocates a greater number of years to retirement and increases the cost of income maintenance of the aged population.

Incomes during this lengthened period will be lowered because of: one, the reduction in social security and other pension benefits that accompanies early retirement; two, the fact that any assets accumulated for retirement must be spread over a greater number of years; and three, inflation of the price level further erodes the purchasing power of available money incomes. The income gap between the retiree and the worker will become ever wider during this lengthened period.

A study of pension income adequacy in the future illustrates the effect that early retirement can have on reducing the amount of wage replacement provided by pensions—public and private—after retirement (table 14 and Chart J). The replacement ratios for men retiring before age 60 were much worse than those for men retiring at the "normal" age of 65 or more. For example, only about 3 percent of those retiring before age 60 are projected to have a replacement of 50 percent or more of their average annual earnings from pension income. In contrast, a little less than one-third of those retiring at age 65 or after are projected to have a replacement above 50 percent (page 167 of U.S. Joint Economic Committee *Compendium*, Part III).

TABLE 14.—*Projected*[1] *Ratio of Total Pension Income*[2] *to Preretirement Earnings*[3] *for Retired Nonagricultural Males*[4]

[Percent distribution]

Ratio	Age at retirement: Less than 60	60 to 64	65 or over
Less than 0.10	16	6	3
0.10 to 0.19	50	19	10
0.20 to 0.29	23	27	16
0.30 to 0.39	5	21	26
0.40 to 0.49	3	11	15
0.50 to 0.59	1	5	12
0.60 to 0.69	1	4	7
0.70 to 0.79	0	3	5
0.80 to 0.99	0	1	2
1.0 or more	1	1	4
Total	[5] 100	100	100

[1] Projected through Simulation Model described in Social Security Administration *Research Report No. 24*.
[2] Social Security, private pension, and/or Government employee pension.
[3] Average of 5 years prior to retirement.
[4] Married males only.
[5] Totals may not sum to 100 percent due to rounding.

Source: Joint Economic Committee *Compendium*, Part III, p. 167.

The possibility of a reversal in the trend toward early retirement cannot be ignored. As compared to today's older population, workers who reach old age in the future will undoubtedly have higher educational achievement and can be expected to have better health status; a higher proportion will be non-production workers. We question whether there is presently sound ground for believing that they will want to accept patterns of early retirement or even retirement at the ritualistic figure of 65. In other words, work and retirement patterns that have characterized the past few decades will not automatically be extended into the future.

Furthermore, the social and economic costs of increased numbers of persons in their sixties who are no longer in the labor force, may lead to a search for alternatives to their retirement. Population projections for the near future indicate that the age group 65 and older will remain a more or less constant fraction of the age group 20 through 64—the so-called "working age" group. It is often concluded from these projections that the economic costs of supporting the nonworking population will not be increased solely by a rising proportion of older people in the total population. With early retirement, the ratio is changed and the conclusion must be re-examined.

The pension policies of government and private industry clearly influence the retirement decisions of workers. Increased attention must therefore be directed to the social and economic implications of such policies and to the search for other solutions.

Early retirement on permanently reduced pension benefits is not the only solution to the problem of a rising number of unemployed older workers. In fact, there is increasing recognition that this is at best a palliative rather than a cure.

The resulting retirement income may be seriously inadequate—a step backward in the War on Poverty. The cost of supporting the nonworking population rises and there is a loss in real output resulting from the reduction in the labor force. By institutionalizing a lower age for initial eligibility for retirement benefits, the average age for retirement may be pushed lower and employment opportunities for older workers adversely affected.

Other solutions that more directly attack the basic problem merit serious consideration. These include: (1) improvement in public and private disability coverage and provisions; (2) institution of extended unemployment compensation benefits for older workers; and (3) job retraining—together with a vigorous labor market sustained by appropriate monetary-fiscal policy.

The developing recognition of the need to plan for retirement serves to accentuate the increasing uncertainty about what one is planning FOR.

Our Nation's aged population is growing older. But no one now middle-aged can predict how long he will live in retirement, even without any medical breakthroughs that could greatly extend life;

nor can a husband predict how long his widow will outlive him or what medical care needs for chronic and long-term illness he may need to finance out-of-pocket instead of through the governmental program that now concentrates on protection against short-term illness in old age; or what value his savings will have or at what rate it will be safe to use them up.

The individual's attempts to provide for his own old age are further complicated by the fact that there is no clear public policy as to the minimum income, if any, that society intends for all its members, including the aged. Nor is there any indication of the extent to which nonworking groups are to share in the fruits of economic growth.

PART FIVE

POTENTIALS FOR IMPROVING THE ECONOMIC SITUATION OF THE AGED

In the light of recent trends, what changes might occur that would improve the economic situation of persons who reach old age in the future? What are the possible solutions to the low-income problem of today's aged? Let's raise several possibilities and examine them.

PERSONAL SAVINGS

First, given the expectation of sustained prosperity, there could be significant changes in personal savings.

The retiree of the future will have had more working years in which income can be expected to exceed consumption requirements.

The questions are: How much of this excess will go into savings? How much purchasing power will these savings have decades hence when the worker retires? What are the potentials of proposals for converting savings into income which can be spread over the retirement period? How can voluntary savings be encouraged?

If past performance is a guide, private savings cannot be expected to contribute significantly to raising the level of income in old age. The earnings levels leave only a small excess of income over consumption expenditures for most families during worklife.

In the absence of longitudinal studies, the data in table 15 contribute to an understanding of the potential excess or deficit of family expenditures in relation to the income of different age groups in various occupational categories. The findings for 1961–62 (shown in Chart K) may be summarized as follows:

Annual incomes exceed expenditures of the self-employed and professional workers' families for most of the age cohorts, leaving sources of savings at practically all stages of worklife. Semi-skilled workers, whose expenditures are below income for families in the middle and later years, also have a small margin for saving. For clerical and skilled workers, expenditures are barely balanced by income over the worklife, with the years of slight deficits roughly matched by years of small savings. In the case of unskilled workers, no balance of income with expenditure is achieved except by the 55–64 age group.

TABLE 15.—*Excess or Deficit of Average Annual Money Income (after Taxes) over Average Annual Expenditures, by Age and Occupation, 1960–61*

Age	Self-employed	Professional	Clerical	Skilled	Semi-skilled	Unskilled
Under 25	−$1,384	−$98	−$67	−$138	+$58	−$223
25 to 34	+740	+299	+72	−151	−16	−104
35 to 44	+765	+364	+7	+260	+95	−169
45 to 54	+735	+789	−11	+287	+165	−19
55 to 64	+461	+875	+179	+479	+131	+116

Source: Derived from data in BLS "Consumer Expenditures and Income", supp. 2, pt. A to Report 237-238, pp. 30-61 and BLS Report No. 237-238, pp. 30-34.

With an outlook for sustained economic growth, how realistic is it to expect today's workers voluntarily to forego consumption in order to save for the years ahead when these savings would maintain only a fraction of the worklife consumption level?

The following model illustrates the difficulties of setting aside savings out of current earnings to provide a given level of consumption in retirement.

The model, developed by Juanita M. Kreps and John O. Blackburn, Duke University, is described in detail in their statement prepared for a hearing of the Senate Special Committee on Aging ("Long-Range Program and Research Needs in Aging and Related Fields," Hearings before the Special Committee on Aging, U.S. Senate, Washington, D.C., Dec. 5 and 6, 1967, Part 1, Survey, pp. 59–60).

It assumes that income earners save systematically for their own retirement by setting aside that fraction of income necessary to provide a retirement level of consumption equal to the level *of that year*. The worker's income is rising at a rate of *M* per year. Upon retirement, he takes his savings (plus interest) and buys an annuity providing whatever annual income can be purchased for the remainder of his life.

But since the retiree's savings were accumulated during an earlier period when earnings were lower than those of the present generation of workers, he will begin his retirement consumption at only a fraction of the worker's level. Only if *M* is zero would he start at 100 percent of the worker's level (table 16a).

Furthermore, he will have a fixed payment per year during retirement, while persons in the labor force continue to enjoy rising incomes at rate *M* per year (table 16b).

TABLE 16(a).—*Consumption Expenditures of New Retirees as a Proportion of Consumption Expenditures of Workers, at Various Rates of Income Growth*

Rate of income growth (*M*)	Retirees' consumption (percent of workers' consumption)
0	100
0.01	77
0.02	60
0.03	48
0.04	35

TABLE 16(b).—*Retirees' Consumption after 5, 10, 15, and 20 Years of Retirement as a Proportion of Workers' Consumption (Income Growth Rates of 0.02 and 0.03)*

Years in retirement	Retirees' consumption (percent of workers' consumption)	
	0.02 rate of growth	0.03 rate of growth
0	60	48
5	52	41
10	45	36
15	39	31
20	33	27

Source: "Long-Range Program and Research Needs in Aging and Related Fields," hearings before the U.S. Senate Special Committee on Aging, pt. I, Survey, December 1967, p. 60. Testimony of Juanita M. Kreps and John O. Blackburn.

Thus, under these assumptions, an annual rate of saving aimed at providing retirement consumption equal to one hundred percent of current consumption during worklife would in fact provide only a fraction—perhaps one-half to two-thirds—of consumption during worklife, and this proportion only at the beginning of the retirement period. During the course of the retirement years, the retiree's level of consumption falls further still, perhaps to as little as one-fourth of that enjoyed by persons still at work.

Even if the retiree of the future has accumulated significantly higher assets, it is likely that a large part of these assets will be in the form of homeownership. It is also probable that—like today's retiree—he will be reluctant to draw on these assets because of uncertainties about the future.

It is to be expected that assets will be drawn upon in retirement; the basic purpose of accumulating assets during the working years is to have a supplementary source of income in old age. The problem confronting the retiree, however, is essentially this: at what rate is it safe to convert assets into income to ensure their lasting through his own lifetime and the lifetime of his widow?

The solution to the problem of planned use of assets would seem to revolve around these questions:

Is homeownership more of a burden than an asset for older people, in view of rising property taxes and costs of home maintenance?

What are the effects on older people—financially and psychologically—of proposals for planned conversion of assets into income over the remaining lifetime?

What are the potentials of proposals for setting up banks or other institutional mechanisms for converting assets to income? Would older people participate? Are the proposals feasible financially?

Constant Purchasing Power Bonds merit serious consideration as a potential method of increasing voluntary retirement savings.

From time to time, proposals have been made for the issuance of Government bonds that would keep their "real" value—that would increase the amount of principal payments according to change in the cost of living index. The proposals are sometimes suggested as a method of encouraging savings by the individual, and sometimes as an investment device for private pension plans and health and welfare funds.

Proponents give these reasons for issuance of government bonds with a guaranteed purchasing power:

> A constant purchasing power bond would have an important social function in allowing savers to protect themselves against the risk of inflation and in this respect would be an especially attractive form in which to hold long-term savings for old age.
>
> At present, there is no low-risk inflation hedge available to the public. Individual savers, pension funds and other investors can obtain a measure of protection against inflation by buying equities, but these investments are subject to other risks which many savers—especially savers who are unsophisticated and have only limited amounts to save—may not wish to assume.

Such bonds could actually reinforce a long-range anti-inflationary policy: if the Government has a choice of a loan by ordinary bonds or by index bonds, choice of the latter manifests the belief of the Government in stable prices. Thereby the public might be induced to expect adjustments in the same direction, a most important achievement in a stabilization program.

The validity of these arguments favoring Constant Purchasing Power Bonds should be weighed against the arguments in opposition—the financial implications of the Federal Government's assumption of an indeterminate liability resulting in an open-end commitment with respect to the Federal debt; the implied concession by the Government that neither Federal securities nor other fixed-payment obligations provide an effective means of building up financial reserves for retirement; the introduction of another "escalator clause" by the Government intensifies public belief that inflation is inevitable and reduces resistance to inflation, etc.

PRIVATE PENSION PLANS

Second, the expansion and broadening of Private Pension Plans could serve to raise the incomes of future retirees.

More of tomorrow's aged will receive income from private pensions. But there is no cause for complacency about this source of income in the future in view of a number of considerations.

Even under earlier projections now known to be too optimistic, only a third to two-fifths of all aged persons in 1980 were expected to have income from private group pensions.

Assuming a high employment economy and a continuation of the current interest in retirement along with no significant changes in the present legal framework affecting private pension plans, the 1965 Report to the President on Private Employee Retirement Plans uses these projections:

Year	Population 65 and over	Persons 65 or over and their dependent wives receiving private pensions: Number	Persons 65 or over and their dependent wives receiving private pensions: As percent of population 65 or over
	Millions	*Millions*	
1970	20.2	4.2	21
1975	22.6	5.6	25
1980	25.4	7.0	28

The fact that pension coverage is concentrated among higher paid workers will mean that those in the greatest need in old age will be least likely to receive private pensions.

The imbalance in the coverage by earnings level of 27 million persons covered by private pension plans (including some presently retired) has been summarized as follows:

Of employees earning $3,000 to $5,999 yearly, 26% have pension coverage
Of employees earning $6,000 to $9,999 yearly, 47% have pension coverage
Of employees earning $10,000 or more yearly, 52% have pension coverage. (Source: U.S. Joint Economic Committee *Compendium*, Part IV p. 98.)

In addition, virtually none of the thousands of private pension plans makes provision for adjusting the benefit of the retired worker to increases in living costs. And the usual plan provides very little protection for survivors.

A study by the Bureau of Labor Statistics of private pension plans under collective bargaining in 1962 revealed, for example, that only half of the plans surveyed even had a widow's benefit option; that to collect a widow's benefit under most of these plans, the covered worker had to die *after* retirement; and where the widow option actually existed, it was necessary for the worker to give up one-fifth of his pension in order to provide his wife with one-half of the reduced benefit. To give his widow a benefit equal to the *full* amount of the *reduced* benefit, the worker's pension was reduced by about a third. The result of these private pension provisions is to severely discourage use of the option.

What are the possibilities that changes in the existing private pension plan structure could significantly raise retirement incomes in the future? What kinds of change would be needed? What are the potentials for increasing private pension plan coverage and the vesting of benefits through new institutional arrangements—for example, a Federal program of voluntary supplemental group annuities with contributions fully and immediately vested and completely cumulative?

A recent study of pension adequacy found that a *large rise in the level of private pension benefits would be necessary to significantly increase the number of retired individuals living in relative prosperity.* In addition, because a significant number of retired units are not now covered by private pension plans and because large gaps in coverage are likely to continue to exist in the future, *many retired unit incomes would be unaffected by these private pension benefit increases.* (Source: Social Security Administration *Research Report* No. 24.)

TAX RELIEF, PUBLIC SERVICES AND WELFARE

Third, various proposals for tax relief, increased public services, and improved welfare payments might be used to raise the incomes of the aged population, especially those already old.

The role of these proposals in improving the income position of older people, now and in the future, is largely dependent on the basic policy decisions that will determine the level of income our Nation intends for its older people and the channels through which they receive this income.

Slightly more than 2 million aged people now receive Old-Age Assistance, over half of them as a supplement to social security benefits. Levels of assistance payments vary markedly from State to State, a variation far beyond that justified by any State differences in living costs. Many States meet only a portion of the level of need set under their own standards. Because of the large Federal financial stake in this State-administered program, national attention is increasingly directed to such questions as: should Old-Age Assistance be Federally-administered? If State-administered, should uniform Federal standards be required?

In the months ahead, it can be expected that Old-Age Assistance and other welfare programs will be carefully scrutinized. Attention will continue to be directed to the possibility of reducing reliance on welfare through efforts to develop self-support of the potentially employable, thereby preventing prolonged dependency. Important as these efforts are for the younger population, they hold little promise for the aged; older people are not likely candidates for self-support through gainful employment.

The issues around the question of tax relief cannot be stated in terms uniformly relevant throughout the Nation because they go far beyond the question of treatment under Federal income tax laws. It must be recognized, however, that in many parts of the country, the tax treatment of the incomes of aged persons and—perhaps more important—of their real property is a major issue at the State and local level.

SOCIAL SECURITY

Fourth, the Federal Social Security program (OASDHI) could be the means of improving the income position of the aged population. Without substantial improvements in benefits, however, the existing system will not solve the problem of low income in old age, to say nothing of improving the relative economic status of the retired population.

Almost all future retirees will receive social security benefits and these benefits will reflect the higher earnings of recent years. The following developments could nevertheless cause benefits to be lower than envisioned: (1) a high proportion of benefits are permanently reduced because they are claimed prior to age 65; and (2) a growing portion of the earnings of higher paid workers cannot be replaced by benefits, since rising wage levels out-pace the maximum earnings that are credited under Social Security (table 17). According to recent estimates of the Office of Research and Statistics, Social Security Administration, 27 percent of all four-quarter workers had earnings above the $7,800 maximum in 1968. In 1938, fewer than 5 percent had earnings above the maximum then in effect ($3,000).

Table 17.—*Reported Taxable Earnings as Percent of Total Earnings of Wage and Salary and Self-Employed Workers under OASDHI, 1951–66*

Year	Maximum earnings taxable and creditable	Taxable as percent of total: Wages and salaries	Self-employment earnings
1951	$3, 600	84. 0	57. 9
1952	3, 600	82. 8	59. 6
1953	3, 600	80. 7	58. 8
1954	3, 600	79. 6	60. 0
1955	4, 200	82. 6	64. 2
1956	4, 200	81. 2	62. 7
1957	4, 200	79. 8	61. 2
1958	4, 200	78. 3	61. 7
1959	4, 800	81. 6	62. 6
1960	4, 800	79. 9	63. 0
1961	4, 800	79. 3	62. 7
1962	4, 800	77. 7	59. 8
1963	4, 800	76. 4	58. 9
1964	4, 800	74. 4	56. 3
1965	4, 800	73. 7	49. 3
1966	6, 600	83. 0	57. 1

Source: *Social Security Bulletin* Annual Statistical Supplement, 1966, table 25.

A recent simulation projection using relatively liberal assumptions to project retirement benefits under social security found that more than two-thirds of retired couples could be expected to receive $3,000 or less in social security benefits in 1980 (Social Security Administration Research Report No. 24).

PART SIX

PUBLIC POLICY ISSUES AND THEIR IMPLICATIONS FOR IMPROVEMENTS IN SOCIAL SECURITY

Before defining the issues that relate to improvements in the Social Security system itself, it is necessary to recognize that certain basic public policy questions cut across the broad issue of economic security in old age.

- **What is an adequate level of income for retired persons? Adequate in relation to the individual's level of living before retirement? Adequate to keep the average older person from want and dependency? Adequate to permit participation in the Nation's rising standard of living?**
- **What part in attaining this level should be played by governmental programs, by voluntary group action and by individual effort? And of the public segment, what share should be financed through payroll taxes and what through general revenues? What level should be provided by governmental programs as a matter of right without a means test?**
- **Is the economic problem of aging a temporary problem that requires a different solution—or a different "mix" of solutions—for today's aged than for those reaching old age in the future?**

These are questions that have public policy implications far beyond the reach of this Task Force Report. The data assembled here, however, should be helpful in reaching decisions.

The Task Force has not considered or recommended any specific policies or legislative proposals. However, the Task Force does support the following premises which it feels should serve as guidelines with respect to basic public policy determinations:

(1) The facts clearly show that the basic problem of low income in old age is not a transitional problem that, given present trends, will solve itself in the foreseeable future.

(2) To the extent that older people are to be "assured" of adequate income, the assurance must come through governmental action. Private pension plans and voluntary savings provide a promise of income, not a guarantee.

(3) Since the income security of each generation of retirees derives basically from a claim on the current production of the working population, it would appear that the emphasis on alternative methods of financing this claim has been exaggerated.

(4) The accepted level of income adequacy should be flexible enough to permit older people to share in the growth of the economy.

This is in part a question of equity: "Whose growth is it?" Increases in productivity of the currently employed result—not altogether from their own efforts—but in large part because of the capital accumulations and advances in technology that derive from past efforts.

(5) The existing social insurance system is a fast and effective way to deliver an income assurance that carries commitments for the future as well as for the current generation of the aged.

Against these broad social policy issues, the specific issues related to the social insurance program would seem to be these:

(1) By how much should the general level of cash social security benefits be increased to provide a basic floor of protection?

(2) Should benefits be raised for special groups of beneficiaries, particularly for widows, for those now drawing the minimum benefit, and for those who will become entitled in the future who have had earnings significantly above the present maximum earning base that is credited for benefits?

(3) Should the eligibility age for benefits be lowered? Should benefits payable before age 65 be computed without an actuarial reduction?

(4) Should the test that results in the withholding of benefits because of earnings be liberalized? eliminated?

(5) Should benefit adjustments be made automatically or through legislative amendments? And should adjustment be to a level that merely preserves—or restores—purchasing power, or to a level that provides a share in the Nation's increased productivity?

(6) How appropriate are the available indexes, including the Consumer Price Index, as measures of the need for adjustment and the amount of adjustment in retirement benefits?

(7) What improvements are needed in Medicare benefits? Should the voluntary medical insurance portion (Part B) be financed—as is the hospital insurance portion (Part A)—through rising earnings of workers rather than through premiums paid by the aged?

(8) What role should general revenues play in the financing of the Social Security system?

PART SEVEN

CONCLUSIONS

The task force, although not attempting to enumerate and evaluate the many policy alternatives that have been recommended to deal with the economic problems of the aged, believes that the facts and projections assembled in this Report support the following important conclusions:

- **Low income is the Number One problem of today's aged population.**
- **Low income in old age is *not* a transitional problem that, given present trends, will solve itself.**

Unless action is taken now, most aged will not have sufficient income to provide in retirement "a healthful, self-respecting manner of living which allows normal participation in community life."

- **The Social Security system has failed to keep up with the rising income needs of the aged.**

To a large extent, social security benefit increases in the past have resulted, not from legislation with the purposeful intent of tapping a greater part of the rising national product for old people, but rather as a secondary result of attempts to deal with the severe and potentially explosive hardship problems facing many older people. In consequence, these past efforts have been aimed primarily at maintaining the economic status of the aged at some minimal standard or subsistence level in the face of rising prices.

- **Sufficient evidence now exists to spotlight certain special economic problems of the aged which compound the general problem of low income. Among the areas identified for immediate congressional attention are:**

(*a*) Income maintenance of widows—a particularly disadvantaged group.
(*b*) Health needs and rising medical costs.
(*c*) Problems associated with homeownership and taxation.
(*d*) Employment opportunities in old age.
(*e*) Implications of early retirement trends.

Simultaneously, congressional attention should be directed to (1) the various techniques for measuring and projecting the income needs of the aged population and to their use in decision making and (2) the appropriateness of methods now used or proposed for use in the adjustment of retirement benefits to changing conditions.

- **A reasonable definition of adequacy demands that the aged population, both now and in the future, be *assured* a share in the growth of the economy.**

If old age is to be more than a period when people decline and die, some way must be found whereby the aged, who have helped in the past to provide the basis for rising living standards, are guaranteed a share in some of the "harvested fruits." What this requires is a substantial transfer of income from the working to the retired population in order to improve the *relative* economic status of the aged.

- **Such assurance can *best* be provided, or can *only* be provided, through governmental programs, particularly the social insurance system of OASDHI, which carry commitments for future older Americans—the workers of today—as well as for this generation of the aged.**

The financial soundness of the Social Security system depends, essentially, on the Government's taxing powers which, in a vigorously growing economy, permit great flexibility to meet changing retirement needs. And retirement needs *are* changing as expectations rise and as American families increasingly begin to evaluate the adequacy of their retirement income in relation to their standard of living prior to retirement.

- **Private group pensions and personal savings—tailored as they are to individual needs, preferences, and financing ability—will continue to be essential supplements to basic social security benefits in the future. The Government should explore and lend support to various methods of promoting and encouraging such supplementary sources of retirement income.**

Submitted by:

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APPENDIX 2

SENATOR WILLIAMS' LETTER OF APRIL 24, AND LETTER OF REPLY BY SECRETARY ROBERT H. FINCH OF APRIL 25

(Secretary Finch's testimony appears in appendix 3, exhibit B, at the end of Commissioner Ball's response to questions.)

APRIL 24, 1969.

DEAR SECRETARY FINCH: The Senate Special Committee on Aging has been informed by telephone that you will be unable to testify on April 29 at a hearing on "Economics of Aging: Toward a Full Share in Abundance."

I regret that you cannot reply affirmatively to my invitation of March 26 and my follow-up letter of April 14. I can well understand, however, the many demands upon your time, especially at this early period in your tenure.

It is gratifying that Social Security Commissioner Ball can be with us on Tuesday; he is a renowned expert on many subjects related to the workings of a vital social insurance program. I know he will be able to discuss some essential aspects of matters to come under discussion at our hearings.

The Committee, however, is conducting a far-ranging inquiry which includes, but is not limited to, the programs and policies of the Social Security Administration.

If you will again turn to the Task Force Working Paper sent to you on March 26, you will see that we are concerned about many other subjects related to HEW activities including:

1. Questions related to the present Federal-State system of public assistance.
2. Questions related to many proposals for widely varying income maintenance programs.
3. Inroads made by rising health care costs on the budgets of the elderly.

Obviously, discussion of such matters can best be made by the Secretary himself. For that reason I will ask, soon after next week's hearing, that arrangements be made to receive your testimony at a time more convenient for you.

We will, however, be glad to hear from Commissioner Ball on certain matters which should fall well within his area of special competence.

Sincerely,

HARRISON A. WILLIAMS, Jr., *Chairman.*

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE,
Washington, April 25, 1969.

DEAR MR. CHAIRMAN: This is in response to your letters of March 26 and April 14 concerning the hearings of your Committee on "The Economics of Aging: Toward a Full Share in Abundance."

I had hoped that I would be able to appear, but it has been necessary to rearrange my schedule drastically because of extended testimony on the budget revisions we have submitted.

I am therefore designating Mr. Robert M. Ball, Commissioner of the Social Security Administration, to represent the Department. He will be accompanied by appropriate officials. It is our understanding the hearings will be held in Room G–308 of the New Senate Office Building, at 10:00 a.m. on April 29.

Sincerely,

ROBERT H. FINCH, *Secretary.*

APPENDIX 3

ADDITIONAL MATERIAL FROM WITNESSES

ITEM 1. COMMISSIONER ROBERT M. BALL, SOCIAL SECURITY ADMINISTRATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

EXHIBIT A. RESPONSES FROM COMMISSIONER BALL TO QUESTIONS FROM THE CHAIRMAN

The chairman, in a letter shortly after the hearing, addressed the following questions to the witness. Questions and replies follow:

Question 1. What is the cost of the Administration's proposal for revising the so-called retirement test?

Answer. The President's recommendation for revising the retirement test is estimated to have a long-run cost of 0.08 percent of taxable payroll, and a first-year cost of approximately $300 million.

Question 2. What are the costs for various modifications in the present actuarial reduction provisions for early retirement, and specifically for making the change recommended by the Social Security Advisory Council that reported on January 1, 1965, (i.e., the period for computing benefits and insured status for men would be based—as is now the case for women—on the period up to the year of attainment of age 62, instead of age 65)? Has the Department of Health, Education, and Welfare supported efforts to implement the recommendation of the Advisory Council?

Answer. Social security benefits are payable under present law at age 62 (age 60 for widows), with the benefits for workers and their wives (or husbands) who start getting them before age 65 (and for widows who start getting them before age 62) payable at a reduced rate. The benefits are reduced to an amount that will on the average give the same total lifetime benefits that would have been paid if the benefits had not begun until age 65 (age 62 for widows) except that for wife's and husband's benefits the reduction is somewhat less than this. Benefits are also available to disabled widows and widowers at a reduced rate as early as age 50.

If the reduction factors that are applied under present law were decreased by 50 percent, the cost of the old-age and survivors insurance program would be increased by 0.46 percent of taxable payroll.

If unreduced benefits were paid to workers and wives (or husbands) at age 62, the cost of the program would be increased by 0.78 percent of taxable payroll.

Concerning the period used in computing retirement benefits, under present law the ending point of the period for a man, as you know, is the beginning of the year in which he reaches age 65, while for a woman it is 3 years earlier. If the law were changed to provide for shortening by 3 years the computation period for men, making it the same as for women, as the 1965 Advisory Council on Social Security recommended, the cost of the program would be increased by 0.10 percent of taxable payroll.

When, in 1961, the Kennedy Administration recommended to the Congress paying retirement benefits to men at age 62, it included in its recommendation a provision for use of an age-62 computation point for men. This part of the Kennedy proposal was not enacted, though. The new Administration has not as yet evaluated the proposal, but undoubtedly it will be considered by the Advisory Council on Social Security that has just been appointed.

Question 3. Among the areas you mention for consideration by the Advisory Council that will soon be appointed is the possibility of extending Medicare to disabled beneficiaries (page 40 of the transscript). I understand that recommendations in this area have already been made by the Advisory Council on

Health Insurance for the Disabled (which was required by the Social Security Amendments of 1967 and which reported on December 31, 1968). Why then is it necessary to await another Advisory Council's study of the subject? From this and my preceding question, you will undoubtedly sense that I am concerned—as I am sure you are—that repeated studies over the years by a series of Advisory Councils should not be used as a substitute for badly needed action.

Answer. The Advisory Council on Health Insurance for the Disabled, appointed under the 1967 social security amendments, was specifically required to consider the unmet need of the disabled for health insurance and to submit recommendations as to the method of financing such protection for the disabled. It found that there was a substantial unmet need for health insurance among the disabled and recommended that Medicare protection for the disabled be financed on the basis of increased social security contributions plus a contribution from general revenues. The new Advisory Council on Social Security is required by law to review ". . . the scope of courage and the benefits under, and all other aspects of, these [the social security cash benefits and Medicare] programs. . . ." Thus the question of extending Medicare coverage to disabled social security beneficiaries falls within the purview of the new council.

The Advisory Council on Health Insurance for the Disabled was not asked to deal with the more general question of evaluating the needs of the disabled in relation to other program improvements that might be made. The Advisory Council on Social Security, on the other hand, is responsible for reviewing all aspects of the social security program. It therefore is responsible for evaluating priorities among program improvements and for making recommendations in the light of these priorities and in the light of their findings and judgments on the financing available to the program as a whole.

Question 4. Our hearings permitted only the briefest of attention to Medicare and here again the expansion of benefits was identified as an area that the forthcoming Advisory Council will study. In relation to the present benefits, however, and in view of the program's major role in relation to financing hospital costs of the elderly, what is the Department of Health, Education, and Welfare doing—and what can it do—to reduce the need for hospital care or the length of a hospital stay?

Answer. The Department of Health, Education, and Welfare and others concerned with the financing, organization, and delivery of health care are generally concerned about high utilization of inpatient hospital services, both from the standpoint of the high cost of such services and from the standpoint of good patient management.

While no one proposes denying inpatient hospital care to those who actually require such care, there are feasible ways to reduce the need for, and the use of, acute hospital care—for example, greater emphasis on prevention and early treatment of illness; provision of less expensive alternatives to hospital care, and coverage by private insurers of these alternatives; discharge from the hospital as soon as possible; and continuous re-examination of health-related programs within the Department's jurisdiction to find ways to increase the availability and improve the quality of health care generally.

The Social Security Administration and the Department have taken a number of actions which should help, directly or indirectly, to reduce utilization of inpatient hospital services. Specifically, in the Medicare program under social security, which, as you know, was designed to cover a broad range of services and to avoid overemphasis on inpatient hospital care, action is being taken in a number of areas.

The Social Security Administration has sponsored a series of regional conferences on health care costs which brought together the leaders of the health community and the insurance industry, consumers and purchasers (both Government and private). Their aim was to approach the problem of rising health care costs at the State and local levels through the stimulation of experiments and innovations with incentives for cost effectiveness in the organization and delivery of health care services.

The Social Security Amendments of 1967 provided for experimentation with various methods of reimbursement to physicians, organizations and institutions participating under Medicare, Medicaid, and the child health programs; the Social Security Administration is now engaged in a nationwide attempt to develop and implement sound incentive reimbursement experiments under the Medicare program. These experiments are designed to provide incentives for economy in providing medical and other health services while maintaining or improving the quality of care provided. They should, therefore, help encourage the efficient delivery of health care and, in so doing, reduce unnecessary utilization of high-cost inpatient hospital care.

Another action that might affect utilization of inpatient hospital service is that the Administration has asked State agencies in their resurveys of participating health care institutions to intensify surveillance of utilization review committee mechanisms to assure effectiveness of professional review of admissions and necessity of services as well as length of stay.

We are continuously studying possible changes in the law (such as coverage of preventive care, drugs, and services of additional health practitioners) that might be made in the benefits provided under the Medicare program. As part of our examination of possible changes, we of course consider their effect on utilization of other services and any potential decrease in use of more expensive alternatives that might result if such changes were made.

Another approach to the problem of excessive use of inpatient hospital services is to reduce any incentives that now exist because insurance coverage emphasizes hospitalization and does not cover less expensive alternatives. The Department is studying ways of encouraging private insurers to make broad-spectrum health insurance coverage available on a widespread basis.

Further, efforts are being made to assure that communities have well-organized home health services, extended care facilities, nursing homes, clinics and good outpatient departments of hospitals. In addition to the efforts discussed above that promote development of these services, the Department has recommended changes which need to be made in the direction taken under the Hill-Burton program. When this program was initiated the country had less than 60 percent of the general hospital beds needed to care for its people. The most critical shortages existed in rural areas; consequently the program acquired a rural emphasis. Today about 90 percent of the Nation's need for general hospital beds is fulfilled. The priorities have changed and as pointed out in the Department's recent testimony before the Subcommittee on Public Health and Welfare of the House Committee on Interstate and Foreign Commerce: "The needs for today are basically twofold: (1) Modernization or replacement of existing and obsolete acute care facilities in the hospitals. (2) Expansion of other kinds of medical facilities which can reduce the pressure on hospitals and thus help curb skyrocketing medical costs." As a result of these changing needs and priorities, Secretary Finch has proposed a redirection for the Hill-Burton program which should go a long way toward achieving the maximum benefits for the American people in the most efficient and effective manner. (A copy of the Secretary's testimony is enclosed.)

[Enclosure]

STATEMENT BY ROBERT H. FINCH, SECRETARY OF HEALTH, EDUCATION, AND WELFARE, TO THE SUBCOMMITTEE ON PUBLIC HEALTH AND WELFARE OF THE HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

Mr. Chairman and Members of the Subcommittee, I am pleased to have this opportunity to discuss with you legislative proposals which would amend Title VI of the Public Health Service Act. Our purpose is to assure that the Federal Government will continue to exercise an appropriate and effective role in developing facilities to serve the health needs of the American people.

In exercising this role the time has come, in our judgment, to give new direction to the Hill-Burton program. For more than two decades, this program has been a major vehicle for Federal-State-local partnership in health. Its results are visible in nearly every city and community across the Nation. Through a total expenditure of $10.4 billion, of which the Federal contribution has amounted to $3.1 billion, many millions of Americans have had their lives prolonged and their strength restored in facilities made readily accessible to them.

When the Hill-Burton program was initiated, the country had less than 60% of the general hospital beds needed to care for its people. The most critical shortages existed in rural areas, where many families lived hours away from lifesaving care. As a consequence, the program acquired a rural emphasis. It has served its purposes well. Today, despite rapid population growth, 90% of the Nation's need for general hospital beds is fulfilled—thanks in large measure to Hill-Burton.

Now the priorities have changed. Today's needs are basically twofold:

1. Modernization or replacement of existing and obsolete acute care facilities in the hospitals.

2. Expansion of other kinds of medical facilities which can reduce the pressure on hospitals and thus help curb skyrocketing medical costs.

It is for this reason that we are proposing a radical redirection of the Hill-Burton program.

Looking first at the need for modernization of acute care facilities, there is a national requirement estimated by the States at $11 billion. It is obvious that a program of Federal grants cannot meet a backlog of such proportions.

We are, therefore, proposing a guaranteed loan program which we believe would stimulate the private capital it will take to bring about the modernization of acute care facilities.

With hospital needs met in this way, we would then propose a program of block grants to encourage the States to expand such other facilities as outpatient clinics, neighborhood health centers, skilled nursing homes and structures designed to increase efficient sharing of hospital resources.

Facilities for ambulatory care services such as those provided by hospital out-patient clinics and separate health centers will help balance our entire health delivery system. The distances traveled and hours spent in waiting for such services by millions of our people testify to the critical nature of this need in almost every community. The experience to date with the neighborhood health center indicates that this model is one highly productive way of serving individuals and families. Grant funds to encourage shared facilities should go a long way toward maximum utilization of scarce manpower and the prevention of unnecessary duplication of expensive equipment.

A related need is far greater availability of long term care facilities, especially skilled nursing homes. This need has been and continues to be accentuated by the growing numbers of our citizens in the older age groups, and by their increased capacity to pay for the care they require.

The resources to meet these and other needs of the health care system are large but ultimately limited. Therefore, it is imperative that they be invested wisely and used efficiently. It is essential that we prevent wasteful duplication and encourage cooperation and shared use of facilities.

This requirements imposes upon the health enterprise another important need—that of thorough and coordinated planning. The planning processes must involve not only all elements of our complex public-private health care system, but related resources as well.

As the members of this subcommittee well know, there are a multiplicity of such resources among Federal programs alone. Our estimates report that $295 million was paid for depreciation reimbursement to hospitals and other facilities through the Medicare and Medicaid programs in FY 1968. This payment relates directly to capital financing. Above and beyond these are the great sources of strength in the private economy which are or can be devoted to health purposes.

It is against this broad backdrop that we project our considerations of legislative proposals to amend Title VI of the Public Health Service Act. Further, we project our urgent concerns for strengthening the health care system against the background of fiscal reality and responsibility.

H.R. 6797, which has been introduced by the distinguished Chairman of the full committee, Mr. Staggers, and H.R. 7059, which has been introduced by Mr. Rogers, both address themselves to the needs I have discussed. Both recognize the magnitude of health facility capital financing requirements, as well as the necessity for greater local involvement in health facility planning.

However, the major thrust of H.R. 6797 and H.R. 7059 would continue the categorical grant support under the existing Hill-Burton Act. We have serious doubt that such a continuation would assure the construction, replacement, of modernization of other health facilities which are more urgently needed than general hospital beds: facilities for ambulatory care (including neighborhood health centers), extended care, rehabilitation, and shared facilities. We believe that continued application of grant funds to projects within the existing Hill-Burton categories would divert limited funds away from these needs.

In addition, H.R. 6797, while recognizing the need for multiple sources of Federal financial assistance, would have an impact on the Federal budget which is not consonant with this Administration's efforts to stem inflationary forces and establish patterns of greater Federal fiscal responsibility. Moreover, it would continue the existing legislative requirement of priority to projects in rural areas, even though our greatest needs are for modern facilities in the metropolitan areas.

Section 130 of the bill would extend for three additional years the provisions of Section 304 of the PHS Act, authorizing grants and contracts for the support of research and demonstrations relating to health facilities and services. We are now in the process of evaluating program accomplishments and future requirements in the field of health services research and development, with particular attention to the program functions administered through the National Center for Health Services Research and Development which was activated only last June, pending the completion of this program evaluation. Therefore, at this time, we would recommend deferment of any legislative action to extend or otherwise amend the provisions of Section 304 of the Act.

Mr. Chairman, to achieve the goals outlined earlier, a redirected Federal effort is essential. Specifically, we would propose that grant funds be allotted to the States as a block, rather than earmarked for specific categories. A grant authorization of $150 million, limited to construction, replacement, or modernization of the most critical types of health facilities, would result in the most effective use of Federal funds. We have not included the construction and modernization of acute hospital beds because we believe these needs can better be met through a guaranteed loan program. Additionally, we recommend the removal of the existing Hill-Burton categories to provide a better balance of health care facilities in the community by assisting those kinds of facilities which have traditionally been neglected or in short supply.

The proposed redirection of grant funds would afford an opportunity whereby limited Federal resources could most beneficially influence the organization and delivery of health care. Such redirection would relieve the pressures on acute care inpatient facilities by encouraging the use of other types of facilities under conditions less expensive than the use of acute care hospital beds. While firm estimates are not available for all health facility needs, there is a known need for an additional 164,000 extended care beds, 177 additional facilities for rehabilitation, and 82 ambulatory care facilities. The well documented health problems of the Nation's disadvantaged compels a further development of the comprehensive health services currently being provided by neighborhood health centers.

We propose that 80% of the $150 million grant program be allotted to the States for these purposes on the basis of population, per capita income and the need for the construction or modernization of these facilities.

We further propose that before annual allotments are made to the States, twenty percent of the grant funds appropriated by the Congress be reserved for direct project grants to be made by the Secretary, after consulation with the States, for innovative projects or projects reflecting critical needs of national significance. Such projects would be eligible for assistance up to 90% of project cost. They could include those facilities described earlier, as well as projects of an innovative nature which would materially improve the organization and delivery of health care. The judicious use of this project grant authority would permit program flexibility in taking advantage of changing health facility relationships and would encourage new relationships among health facility construction and health services as they evolve.

Our recommendations would authorize maximum Federal support up to 66⅔%, except for projects serving areas of greatest financial need where the maximum would be 90%. In addition to the increased Federal share, we recommend that the applicants for the latter projects be allowed to include in their matching participation the current value of equipment, services and facilities dedicated by them to the project. This is a reasonable adjustment to provide greater opportunity for participation by those least able financially to produce local matching funds. At the same time, it recognizes the value of local participation in funding projects.

In order to stimulate the maximum amount of needed health facility construction and modernization, we would add to the grant program a Federal loan guarantee authority which would guarantee a maximum of $500 million in loans annually. Within each State, the aggregate of loans to be guranteed annually would be determined in the same manner as the allotment of grant funds. All privately owned nonprofit health facility modernization or construction projects would be eligible for loan guarantees. Projects would be eligible to receive 90% guarantees on any loan. No loan, nor any combination of loan and grant under the grant program, could exceed 90% of the total cost of the project.

In addition to the proposed annual grant authorization of $150 million for health facilities other than hospitals, the $500 million loan guarantee authorization for nonprofit hospitals provides a substantially increased level of Federal support for facility construction beyond what Hill-Burton now provides. The repayment by hospitals of interest and loan principal will be especially assisted by the increasing and substantial Federal payments for depreciation under Medicare and Medicaid. Our estimates of these amounts are $295 million for FY 1968. These payments are also available to public hospitals for repayment of tax-exempt public borrowings for the construction and modernization of such hospitals.

This Administration is pledged to consolidate, whatever possible, related programs. Last year the Congress enacted a program of guaranteed loans for the construction of hospitals. We recommend that this program, which is administered by the Department of Housing and Urban Development, be replaced by a broader authority covering the needs of all types of health facilities.

With the exception of modernization grants, the present annual appropriation for health facilities construction is allotted to the States on the basis of a formula using State population and per capita income related to the per capita income of the United States. In addition, the Hill-Burton Act requires that the per capita income factor be squared. This squaring method results in an inordinately large allotment to those States with relatively stable populations and relatively low incomes. It was adopted at the inception of the program for lack of any better method for determining definitive need for health facilities. However, a more accurate basis now exists for determining need for health facilities by type and number. We propose that grant funds and loan guarantees be allotted to the States on the basis of financial need, population and need for construction and modernization of health care facilities.

As you know, the existing Hill-Burton legislation further requires that the States, in approving projects, give special consideration to health facilities serving rural communities. Although this provision does not apply to determining the priority among facilities in need of modernization, it does cover the construction of new facilities or additions to existing facilities. The provision had substantial validity during the early years of the program when the major national health facility problem was to provide additional health facilities for rural communities. However, as the population has shifted in the last two decades from rural to urban areas, so has the greatest need for health facility financial assistance shifted from rural to urban areas. We, therefore, recommend that the rural area priority requirement be eliminated, since it is no longer responsive to the health facility needs of today.

Mr. Chairman, the extension and revision of Title VI of the Public Health Service Act now pending before this Subcommittee must be considered, and its final form determined, in the light of the fact that it is but one part, though an important part, of the Nation's overall health program. It is the point of departure in this Congress in our joint efforts to increase the efficiency, strengthen the capacity and control the alarming rise in cost of our country's health care delivery system. The directions charted by this legislation can have a positive impact on each of these areas of legitimate Federal concern far beyond the initial impact of the dollars directly authorized.

The maximum utilization of local and State health planning agencies must be included in this legislation in such fashion as to anticipate the equivalent utilization of such agencies in other Federal programs. Accordingly, each project seeking financial assistance under this title should be submitted for review and comment to the appropriate areawide planning agency created under the provisions of Section 314(b) of the PHS Act. The State Hill-Burton plan should be approved by the State health planning agency created under Section 314(a) before awards from the State allotment are approved and funded.

We also have under consideration legislation that would provide for reimbursement through Medicare and Medicaid only to institutions whose future capital expenditures are in conformance with State and local health plans. These provisions will strengthen and reinforce the role of our local and State partners who have primary responsibility for planning their own health systems. This will be consistent with public statements in support of planning recently made by the Blue Cross Association and the American Hospital Association.

The success of the Hill-Burton program is attributable in large part to the competence and integrity of the State agencies in formulating and implementing their plans. The States have proved that they are able to develop plans responsible to the needs of their citizens and we, therefore, propose that the statute no longer require issuance of Federal regulations setting Federal criteria that the States must follow in the formulation or modification of their State plans. The State plan would include methods of determining need and priority which provide reasonable assurance that projects would be approved in the order of need and that the purposes of the proposal would be met. In addition to uniform construction standards, we would, of course, continue to require uniform data criteria for use in the development of the formula grant equation in distributing grants among the States.

Mr. Chairman, we have learned a lot about the Nation's changing health facility needs in recent years, and we now have both the opportunity and the responsibility to fulfill those needs. Legislation within the substantive and fiscal framework which I have outlined to the Subcommittee would go a long way toward achieving the maximum benefits for the American people in the most efficient and effective manner. The circumstances are too compelling to warrant delay in obtaining a better health return on the dollars we are spending in the health facility field. Accordingly, I am recommending that we not wait until expiration of the current Hill-Burton authorization but that the Congress enact a redirected program along the foregoing lines effective with the fiscal year commencing July 1, 1969.

My colleagues and I would be pleased to answer any questions which you, Mr. Chairman, and the members of the Subcommittee may have.

EXHIBIT B. RESPONSES FROM COMMISSIONER BALL TO QUESTIONS SUBMITTED BY SENATOR MILLER

Question 1. What could be done through social security to move still more aged persons off public assistance?

Answer. Clearly, Senator, any improvement in benefit levels will help. Many of the changes which I discussed earlier would also be of help in reducing the need for public assistance. These changes will undoubtedly be considered by the new Advisory Council.

Question 2. Mr. Commissioner, you talked about the problem of early retirement. How many people are now drawing reduced benefits?

Answer. At the end of 1968, 5 million retired workers were getting reduced benefits.

Of the men who started getting retirement benefits in 1968, 54 percent got reduced benefits. Of the women, 71 percent got reduced benefits. At the end of last year the average monthly benefit of men who did not start getting benefits until age 65 was $115, as compared with $95 for those who took benefits before age 65. One reason for the lower benefit for those who come on the benefit rolls early is, of course, the reduction in their benefit amount that is made to take account of the longer period over which the benefits will be paid. Another reason is that the benefits of men who come on the rolls before age 65 are nevertheless based on their average monthly earnings up to age 65—their average earnings (and consequently their benefit amounts) are reduced because years in which they had no earnings are included in the computation of the average.

Question 3. What is the status of the social security trust funds? Is there enough money in the funds to help support an increase in monthly cash benefits at this time or would contribution rates have to be increased?

Answer. Contribution rates would not have to be increased to support the benefit increase that the Administration has recommended. Under present law income to the old-age, survivors, and disability funds is expected to exceed outgo over both the short and long range. Over the long range, the income to the two funds is expected to exceed outgo for present-law benefits and administrative expenses by 0.53 percent of taxable payroll. This long-range surplus makes possible the 7-percent across-the-board increase in benefits being recommended.

As you know, the Administration is also recommending a liberalization in the retirement test and an increase in the contribution and benefit base from $7800 to $8400. If the several recommended improvements were enacted, the social security cash benefits program would be in close actuarial balance.

According to the most recent estimate, based upon revised assumptions which include higher-than-anticipated increases in per diem rates and utilization rates in hospitals and extended-care facilities, the hospital insurance trust fund has an actuarial deficit of 0.29 percent of taxable payroll. Under the Administration bill, this imbalance would be corrected.

Question 4. I understand that retirement benefits for women are figured only up to age 62 but the benefits for men are figured all the way up to age 65. Wouldn't men get higher benefits if they were figured only up to age 62 the same as for women?

Answer. Changing the law to provide for shortening by 3 years the period for computing benefits for men in retirement cases, making it the same as for women, would result in an increase in the retirement benefits payable to men and on the benefits payable to their wives and, in the case of those living beyond age 62, to their survivors. Men forced to retire before age 65 now suffer a double reduction—their average earnings (and consequently their benefit amounts) are reduced because years in which they had no earnings are included in the computation of the average, and the benefits based on those earnings then are reduced. Shortening the period by 3 years would not only get away from the double reduction that occurs under present law for men who retire before age 65; it would liberalize the benefit computation for all men, including those retiring at age 65 or later, and would also make payable more quickly the higher benefits that will become possible under the $7,800 contribution and benefit base that was provided under the 1967 social security amendments. The reason why this happens is that with a computation period shorter by 3 years than it would be under present law, fewer years prior to the effective date of the new, higher base would have to be included in the computation and the average monthly earnings would consequently be higher.

This would be an equitable change in the social security law, and would generally result in higher benefit levels. I do not think there are any considerations against the change except that it would increase the cost of the program—by about 0.10 percent of payroll. It thus needs to be evaluated in terms of priority against other changes which would affect costs. The new Advisory Council will undoubtedly consider this change in relation to other desirable changes.

EXHIBIT C. RESPONSES FROM COMMISSIONER BALL TO QUESTIONS BY SENATOR PROUTY AS SUBMITTED BY SENATOR MILLER

Question 1. Commissioner Ball, for at least the last five years, I have attempted to have legislation passed which would either eliminate or significantly liberalize the "retirement test" or "earnings limitation." Do you feel that in this period of almost full employment there can be any justification for the continuation of the earnings limitation?

Answer. The present retirement test is not satisfactory. A problem that concerns us greatly is the effect the test has on incentives for people to work. Under the present test it is possible for people at certain earnings levels to actually have less income—that is, social security benefits plus earnings after taxes—than if their earnings from work were lower. It is not right that people who do additional work or take a job at higher pay are disadvantaged. The test should be revised so that people would have an incentive to earn more and so that the more they earn the more income they will have.

The President has recommended a change to accomplish this. Under present law, $1 in benefits is withheld for each $2 of earnings between $1680 (the annual exempt amount) and $2880, but above $2880, $1 in tax-free benefits is withheld for each $1 of earnings. Under the President's recommendation, only $1 in benefits would be withheld for each $2 of earnings above the annual exempt amount regardless of how high the earnings might be; there would be no point at which $1 in benefits would be withheld for each $1 of earnings.

The President has also recommended that the exempt amount be increased from $1680 to $1800. This change would update the test to take account of the increases that have occurred in earnings levels.

As to whether there can be any justification for the continuation of the earnings limitation in a period of almost full employment: I think the issue is not, as the question implies, primarily a matter of the test encouraging people to retire so as to make jobs for other people. Instead, it is a matter of the basic structure of the program. I thing there is much to be said for the idea of a program which partially makes up for income lost as a result of retirement, which the present program does, as against a program which pays benefits merely on the basis of the attainment of age 65. And this would be true regardless of whether we were in a period of full employment or not. Moving over to a straight annuity program instead of a retirement program would increase program costs by about $2½ billion for the first year and by a larger amount in future years. The increase in benefit payments would go largely to people who are still earning as much as they ever did.

The retirement test provisions are of course continually under study and this is one of the areas that the new Advisory Council on Social Security will no doubt examine.

Question 2. Considering the overall strategy behind the workings of our income maintenance system do you feel that the time has perhaps come for increasing the minimum social security payment to a level adequate for eradicating poverty?

Answer. Social insurance in the United States and in most other countries is designed as a partial replacement for earnings that are lost when an individual retires in old age or becomes disabled or dies or is unemployed. The fundamental concept is that the program provides insurance that partly makes up for this loss, and the amount of benefits paid is a proportion of past earnings. This is a very powerful idea, and throughout the world has made a very substantial contribution to social and economic security. But the concept does have limitations. In some instances a person who reaches old age has worked only sporadically during his life, and then at very low wages. In a system with limited coverage, he may have worked only part of the time in covered employment. The question arises whether, in seeking a minimum income guarantee for all older people, it is wise to rely entirely on the method of social insurance, as I have described it, or whether it is better, for people with little or no covered earnings, to supplement the social insurance approach through some other system—possibly through an improved public assistance program, perhaps operated by the Federal Government, or possibly through some other general-revenue-supported system.

If the minimum payment under the social insurance program were to be increased so that in all instances the payments were high enough to eradicate poverty, a considerable proportion of the contributions of workers and their employers would go to people who have worked little under the program and contributed very little to it, with a consequent reduction in payments to regular, long-term workers.

There seems to be quite general agreement that the level of social security benefits for a regular, full-time worker at low earnings should be at least sufficient so that he would not have to apply for assistance, even if his social security benefit is his only income. The minimum payment now does not go to people who worked regularly under the program at low wages (at an average wage of $200 a month the benefit for the retired worker is somewhat over $100) but goes rather to people with relatively short periods of covered employment.

Social security was designed from the beginning to play a major role in the prevention of poverty among low-income workers, and there has always been a weighted benefit formula favoring those with low earnings. The thought was that although benefits should be essentially wage-related—that is, higher benefits for those who earn more and pay higher contributions—the replacement of past earnings should be at a higher percentage for low earners than for middle or high earners, since the low-paid worker and his family have less margin for reduction in their income than does the worker with average or above-average earnings.

Represented in your question is one of the basic theoretical problems on the benefit side of the program. How far should we go with a weighted benefit formula and with a minimum benefit within the framework of contributory social insurance? And how much of the job of providing a minimum income guarantee to all people is compatible with the social insurance approach?

Question 3. If we should increase the minimum social security benefit to an adequate level, do you feel as a matter of policy it would make more sense to utilize general revenue financing or social security trust fund financing?

Answer. As I indicated in my answer to question 2, the underlying issue here is whether a minimum-income guarantee should be provided under social security to everyone regardless of the amount of his earnings under the program and regardless of the extent to which he has participated in the program. I believe it is important to preserve in social security the concept of partial replacement of past earnings. Over time, with the nearly universal coverage that social security has, we will get away from the present situation in which many people are getting low benefits because they had less-than-full coverage in the past and therefore get benefits based on spotty or irregular records of covered employment. I believe that an improved social security program following the principles of contributory social insurance, with the benefits continuing to be related to earnings, will very greatly reduce the extent of poverty among older people in the future. I also believe that if, beyond that, a minimum income in old age were guaranteed—either through social security or a supplementary system—a good case can be made for financing from general revenues the amounts by which the payments exceed what can be justified in the wage-related contributory system.

Question 4. Mr. Ball, I have been equally concerned over the years about those individuals who through no fault of their own were never covered by the social security system and consequently are unable to receive benefits when they reach age 65. It was for that reason that I introduced an amendment to the Tax Ad-

justment Act of 1966 which provided a flat monthly amount to individuals who became age 72 before December 31, 1967, even though they were not otherwise covered by social security. Now I understand that nearly a million individuals have received that benefit which is paid by the Social Security Administration but financed by general revenue. Do you feel that the criticism leveled by some that this was a windfall to people who did not need it is justified?

Answer. As you said, nearly a million persons have received benefits under your amendment to the Tax Adjustment Act of 1966. A total of about 1.1 million such benefits were awarded in the 27 months through the end of 1968. But approximately 140,000 were withheld at time of award because of receipt of a Government pension, and half again as many because of receipt of public assistance (estimate based on the experience with the first 750,000 awards). A small number of people had their benefits reduced to offset small pensions. It seems probable that few of those drawing Government pensions larger than the flat benefit at time of award were ever moved to payment status. Some receiving public assistance, however, may have preferred the special benefits and dropped off the public assistance rolls.

All the available evidence indicates financial need among most people age 72 and over who are not drawing regular social security benefits—and among many who are drawing such benefits. The Social Security Administration's 1963 Survey of the Aged showed that persons age 73 and over who did not have insured status under the OASDI program generally had low incomes. Of the uninsured, about 80 percent of the couples had (in 1962) less than $3,000 and about 90 percent of the nonmarried persons age 73 and over had incomes of less than $2,000. Thus the available data suggest that most of the people receiving the special age-72 payments have low incomes.

A recent survey of persons age 65 and over who receive the special payments provided under your amendment will yield information on their other income sources, total amount of income other than the special payments, home ownership, and financial asset holdings. Data from this survey are being processed now, and we hope to have them in late summer or early fall.

Any system which pays benefits without regard to the income and assets of the individuals involved will necessarily pay some people who are financially quite well off even though most of the people who get the payments have low incomes. Therefore, any payment that is made without regard to need on the one hand, and is not contributory or wage-related on the other hand, is bound to lead to some criticism as a windfall to people who do not need it.

Question 5. I remember the time that the Prouty Amendment was debated the Social Security Administration estimated that approximately 350,000 people would be entitled to the benefits. As it turned out over 3 times that many people qualified. Does this fact indicate that our statistics concerning the economic status of the elderly are grossly inaccurate?

Answer. At the time the 1966 amendments was adopted, it was estimated that 370,000 persons would receive benefits in the first full year of operations (October 1966 to September 1967). Actually, about 825,000 persons received benefits during the first year. Thus, the estimate, though considerably off, was not as far off as the question would indicate. The estimate was not based on statistics dealing with the economic status of the elderly. Therefore, the quality of the estimate has no bearing on the accuracy of our statistics concerning the economic status of the elderly.

Question 6. As I recall, the last major study concerning the economic status of the elderly was a study done by the Social Security Administration in 1963. Do you feel that we now need another survey of comparable magnitude?

Answer. We do need another survey comparable to the one we did in 1963. We had planned a few years ago to make a study similar to the 1963 Survey, but we have been unable to do it. Other studies in the area of the aging have seemed to us to have higher priority.

At present we are conducting a special survey to obtain data on 1967 income and assets of people aged 65 and over. Also, in view of the widespread concern about early retirement, we have undertaken a survey of new beneficiaries, with special emphasis on early retirement. This survey is expected to provide more information than we have ever had before on private pension plan coverage and the level of income at the time of retirement, and to give us significant insight into why people apply for retirement benefits before age 65. Preliminary data from both of these studies will be available later this year.

I am hopeful, though, that a major survey on the scale of the one conducted in 1963 can be undertaken in the near future.

Question 7. Commissioner Ball, I am sure that you share my concern for the 2 million older Americans now receiving public assistance. How many of those 2 million older Americans also receive social security benefits?

Answer. I do share your concern for the people who must rely on old-age assistance to meet their needs. In many States the payments are inadequate, and there is wide variation from State to State.

In December 1968, the average old-age assistance payments ranged from $35.75 a month in Mississippi to $116.15 in New Hampshire; the maximum payments ranged from $50 a month in Mississippi to $325 in the State of Washington. Of the 2 million old-aged assistance recipients in May 1968 (the latest date for which figures are available), about 1,154,000 were also getting social security benefits. In the long run just about everyone getting old-age assistance will be getting it as a supplementation to his social security benefits, because, as I indicated earlier, nearly everyone 65 and over will be eligible for benefits under social security. Moreover, in the future, the need for supplementation will decline. This is because there will be a much smaller number of beneficiaries than there are now whose work was not covered under the program until after their best working years had passed and whose benefits therefore are based on a rather unrepresentative record of their lifetime earnings.

Although about 57 percent of the people on old-age assistance also receive social security benefits, only about 7 percent of the more than 16.5 million social security beneficiaries age 65 and over get old-age assistance payments. The proportion of the total population age 65 and over who are getting old-age assistance has dropped from 22 percent in 1950 to about 10 percent today.

Question 8. As you know, for a number of years Senator Cotton and I have sponsored legislation which would blanket-in all those older Americans receiving old-age assistance under the social security system. Do you at this time see some advantage in the transfer of this type of income maintenance from the States to the Federal level?

Answer. The major advantage of transferring from the State to the Federal level the function now performed by the old-age assistance programs would be to make the payments to older people more nearly adequate in those States that now make only very small payments. (For States in which the payments now exceed the level that might be paid by any Federal program there would remain a role in supplementing the Federal payments.) A second advantage is that under a Federal program, certain restrictive requirements now in effect in some States could be eliminated, thus enabling more aged people who are in need to get payments. Another advantage is that a Federally financed program would release for use in other programs State funds now being used for assistance. At the present time in most States the financing of the public assistance is a heavy burden, a burden which seriously impedes the State in carrying out other essential public services.

If there is to be a straight Federal assistance program, the question arises of whether it should be administered by the Social Security Administration. Social security district offices are located throughout the country and are generally accessible to most people. In addition, we have the recordkeeping and computer facilities to administer such a program, although we would of course have to staff up for the operation.

If the Social Security Administration were to administer such a program, everything possible should be done to assure the public that the Federal old-age assistance program is entirely different and completely separate from the contributory, wage-related program now administered by the SSA. It should be made as clear as possible that the two programs are being administered by the same agency only because of the administrative advantages that result, and that there is no expectation or contemplation that the two programs will be merged. Even with a very intensive public information campaign, there would still be some confusion and therefore some disadvantage resulting from the undertaking by the Social Security Administration of such an assignment.

Question 9. Along this same line I have been concerned about those unfortunate citizens who no longer qualify for part A of Medicare when they reach age 65. Do you feel that it would be an insurmountable burden for the Federal Government if we simply permitted anyone reaching age 65 to qualify for part A of Medicare?

Answer. The cost to general revenues of providing hospital insurance benefits on a permanent basis to people who did not meet the work requirements for insured status under social security would be significant but would not constitute an "insurmountable burden." The real issue, in my opinion, is not cost but whether, when all the considerations are taken into account, such a provision is desirable.

In my view the issue involved in blanketing-in under Medicare, on a permanent basis, everyone reaching age 65—as against doing so on a transitional basis, as in the original Medicare law—is primarily an issue of equity.

A permanent blanketing-in arrangement would be inequitable to the millions of workers who are required to contribute toward protection for themselves and their dependents because their work is covered under social security. Covered workers would object to being required to pay hospital insurance premiums, perhaps over a working lifetime, while "free" coverage was provided for uninsured. Such free coverage would tend to jeopardize public understanding and acceptance of the social security and Medicare program generally.

The provision in present law for a transitional blanketing-in was included because it was thought best that protection should be available to people who, at the time of enactment of the new program, were already in the higher age brackets and therefore may have had little or no opportunity to work in covered employment. Specifically, the law provides that people who attained age 65 prior to 1968 are not required to have had any coverage under the social security or railroad retirement programs to be eligible for hospital insurance. Under the provision, people reaching age 65 in 1968 and thereafter must have gradually increasing amounts of covered work until 1975 (1974 for women), when the amount of work needed for hospital insurance protection under the special provision will be the same as that needed for monthly cash benefits. It was thought unfair that such coverage, financed from general revenues, be continued indefinitely while the great majority of workers are required to make contributions toward their own protection. Since social security coverage is now virtually universal, it has not seemed unreasonable that, starting with 1968, people reaching age 65 must have some work credit in order to qualify for benefits.

A substantial proportion of the small group who will not be eligible for hospital insurance were eligible for social security coverage but they or their employers did not elect for them to be covered—e.g., retired employees of State and local governments, for whom coverage has been made available but who have not been covered under State coverage agreeements.[1] Most of the others are retired Federal employees, many of whom may be eligible for Federal Employees Health Benefits Act benefits. With regard to Federal civilian employees, the Social Security Administration submitted a report to the Congress in January 1969 which recommended that Federal employees be covered under the hospital insurance provisions of Medicare on a contributory basis.

The additional cost of providing hospital insurance benefits for all persons age 65 and over without regard to their insured status would be $85 million in 1970, increasing to $290 million in 1980.[2] If one does not include payments with respect to Federal employees under FEHBA—and, as indicated above, it is reasonable to make this exclusion—the additional general revenues cost would be about $55 million in 1970, rising to about $210 million in 1980. These amounts are, of course, in addition to the payments from general revenues with respect to people qualifying for hospital insurance on the basis of the special transitional insured status provisions in present law—estimated to be $500 million in 1970.

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[1] Under the provisions of the Social Security Act, social security coverage for employees of the States and their political subdivisions is available only through agreements between the Secretary of Health, Educaton, and Welfare and the individual States. Each State decides what groups of eligible employees will be covered, subject to provisions in the Federal law which assure retirement system members a voice in the coverage decision.

[2] These cost estimates are based on a proposal (made by Senator Prouty in 1967) under which the present 5 years residence and nonsubversive requirements would be retained and the exclusion of retired Federal employees eligible under FEHBA would be dropped.

Over the next few years, the number of people reaching age 65 who would qualify under a blanketing-in proposal would increase slightly as the population grows and as increasing amounts of work are required under the special transitional provision. And, of course, hospital costs will also be increasing over this period. The proportion of people reaching age 65 who will not be eligible for hospital insurance on the basis of the regular social security work requirements will decline.

ITEM 2. HERMAN B. BROTMAN, CHIEF, RESEARCH AND STATISTICS, DIVISION OF PROGRAM AND LEGISLATIVE ANALYSIS, SOCIAL AND REHABILITATION SERVICE, ADMINISTRATION ON AGING, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL AND REHABILITATION SERVICE,
Washington, D.C., April 21, 1969.

Hon. HARRISON A. WILLIAMS, Jr.,
U.S. Senate,
Special Committee on Aging,
Washington, D.C.

DEAR SENATOR WILLIAMS: Thank you for your letter of April 10, 1969, inviting me to submit comments for the record and to participate in the April 30 Round Table on the report of your Task Force, "Economics of Aging: Toward a Full Share in Abundance."

Your committee and its staff are to be heartily congratulated for recognizing the highest priority of this aspect of our older American's situation and for selecting such a high calibre task force of experts to bring together, analyze, and evaluate the current and future implications of the most significant data available.

As you know, in addition to my long professional relationships and joint efforts with the individual members of your task force, going back in most cases to ten or more years, I had the rewarding privilege and great pleasure to serve as an informal and unofficial consultant to the task force during the past few months. This gave me the advantage of having had my materials and ideas considered in the preparation of the report. By the same token, it places me at a disadvantage since it leaves me less to say now that the report is published.

However, I would like to offer some concepts supplementary to the excellent report, which may prove of help to the future concerns of the committee. These ideas are not brand new; I, and others, have been stating and restating them in our analyses for many years in an effort to encourage action by the program planners and developers and by the legislators.

1. Income of Older People: A Question of Social Policy

When an older person retires from full-time employment, he does not do so with a basement crammed full of the food, goods, and services that he will need for the rest of his life. He, along with the rest of the population, will continue to get his needed goods and services from the current national production of all goods and services. The size of his share of all currently available goods and services depends on his purchasing power in the market place and for most older people, that means his income.

The share going to the individuals in the so-called productive age group, those between 18 and 64, is determined by their income, derived almost entirely from two sources: wages or salaries and returns on investments. These individuals have a substantial degree of control over the present size of, and the potential for change in, both income sources. The under-18 group depends primarily on sharing the income of the 18 to 64 population.

But, as the task force has shown, the income of the vast majority of the individuals in the older population depends primarily, when not exclusively, on income maintenance programs. Since these programs are essentially benefit payments established by legislation that "transfer" purchasing power or income to the elderly, they are social policy decisions, not the individual's own choice or subject to his own effort. Such decisions are constantly being made, sometimes by purposeful deliberation, often by default.

When we recognize that the incomes of older people, and thus a major determinant of the quality of their lives, depend on social policy, we realize that ultimately they represent the willingness of the rest of society to share. It has been said that a society can be judged by its treatment of the aged.

2. Level of Income of the Older Person: A Three Layer Structure

Regardless of the source of income, be it the result of the individual's own savings and investments, organized private programs, or public programs of transfer payments, it may be helpful in thinking about priorities if we imagine a three layer structure.

The first layer is concerned with the possibility of living at all. It represents the approach to adequacy, to meeting decent subsistence requirements and a little more. In my opinion, this must receive first priority attention. Until such needs are met, other things are just frosting—sometimes camouflaging a completely inadequate base.

The second layer is concerned with the cost of living. It represents an approach to compensation for price increases, a problem with serious impact on older people who, more than most other groups, are subject to fixed incomes. We must remember, however, that this is only a protective layer. Unless the amount of income was adequate to begin with, adjustments for price increases guarantee only that the elderly won't sink from an inadequate level of living to an even more inadequate level.

The third layer is concerned with the standard of living. It represents an approach that I would describe as awarding to the creators and builders of our economy, a share of the fruits of its increasing productivity—a share in the increasing standard of living that goes automatically to those still in the labor force who can bargain for wage increases that exceed price increases. This must be recognized as an additional and desirable layer but its priority comes to the fore only after we have provided our aged an adequate income that has been adjusted for price changes.

3. Urban-Rural Differentials

It has become a self-perpetuating commonplace to automatically assume that we may provide lower levels of income in rural areas than in urban areas because of differences in costs. This principle is evident in several programs and especially in establishing model or standard budgets and in computing poverty levels.

Recent data and the experience of program administrators raise serious questions about the general validity of the distinction and the specific size of the differential that is assumed in the computations. Significant changes have occurred in living and retirement patterns, in payment in kind, in presence of home-grown food, in community shopping facilities and practices, etc. The question of urban-rural budget differentials needs reexamination today.

4. Aged Members of Minority Groups

Negroes, Mexican-Americans, and Indians make up smaller proportions of the older population than they do of the younger population because they suffer from higher death rates throughout the life span. This, plus their cultural lack of militancy, makes them an almost invisible group. Even the fragmentary data available, however, suggests that they are indeed a multiple-disadvantaged group, in "double jeopardy" as described by the National Urban League.

A life history of low earnings and a disproportionate share of unemployment, that makes any personal retirement planning and preparation even more difficult than for the majority population groups, is crowned with proportionately low retirement income payments. Simultaneously, the higher death rate raises questions about the equity of the benefit eligibility age and of the life expectancy figures which underly the actuarial determination of the level of benefits. This area needs further analysis, data gathering, and research.

5. Income of Widows

As has been repeatedly pointed out, a majority of older women are widows. The growing difference in death rates between males and females promises an even greater preponderance of older women in the future. Today, there are about 130 older women per 100 older men; by the end of the century, the ratio will be at least 150 to 100. And these widows are at the bottom of the income scale.

Close to 60% of the older women living alone or with nonrelatives live in poverty (2.1 million out of 3.6 million in 1966) and another 10% are on the border line. Among nonwhite older women, 85% live in poverty, with another 5% on the border.

Comparisons of life expectancies provide startlingly dramatic forecasts of the dimensions and impacts of this problem. Beginning at middle age, a wife whose husband is five years younger than she is (an unusual situation in our culture), has a 50% chance (1 chance out of each 2 such couples) of eventually becoming a widow. If the wife is the same age as her husband, her chances of ending up as a widow increases to 2 out of 3. If she is five years younger than her husband, her widowhood prospects increase to 3 out of 4 cases. If she is ten years younger, the odds rise to 8 out of 10, and so on.

Let us consider the middle-aged or older women who is already widowed and who is dependent on a son. Again, the comparison of life expectancies shows that if she is 30 years older than her son, there is one chance in eight that she will outlive him. If she is 25 years older than her son, the chances that she will outlive him rise to one in six. If the widow is only 20 years older than her son, the chances of outliving him jump to one out of 4.

The status of widows in all income maintenance programs should be reexamined in terms of today's realities and tomorrow's projections.

May I conclude by thanking you for the opportunity to submit these concerns for the consideration of the committee. As always, the Administration on Aging is ready to provide to the committee any data or knowledge available to us.

Sincerely yours,

HERMAN B. BROTMAN,
Chief, Research and Statistics, Division of Program and Legislative Analysis.

[Enclosure]

MEDIAN EARNINGS AND WORK EXPERIENCE OF MALE FAMILY HEADS WITH SOME EARNINGS, BY AGE, 1966

[Numbers of persons in thousands; ages as of March 1967]

Work experience	Number of male family heads					Median earnings				
	Total, 16 plus	35 to 44	45 to 54	55 to 64	65 plus	Total, 16 plus	35 to 44	45 to 54	55 to 64	65 plus
Full-time jobs:[1]										
50 to 52 weeks	30,900	8,360	7,814	4,893	951	$7,124	$8,034	$7,452	$6,692	$5,045
40 to 49 weeks	2,932	695	637	456	113	5,758	6,303	6,321	5,439	4,654
27 to 39 weeks	1,290	259	279	248	84	4,240	4,538	4,743	4,342	2,750
1 to 26 weeks	1,309	187	206	264	221	2,707	3,386	3,458	2,906	1,609
Part-time jobs:[2] 1 to 52 weeks	1,849	168	242	309	744	1,639	3,393	2,375	1,875	1,025

[1] Full time equals 35-plus hours per week.
[2] Part time equals less than 35 hours per week.

Source: Bureau of the Census.

DISTRIBUTION OF YEAR-ROUND, FULL-TIME, MIDDLE-AGED AND OLDER MALE FAMILY HEADS, BY AMOUNT OF EARNINGS AND AGE, 1966 [1]

Earnings	Distribution 45 to 54	Distribution 55 to 64	Distribution 65 plus	Cumulative 45 to 54	Cumulative 55 to 64	Cumulative 65 plus
Number (thousands)	7,814	4,893	951			
Percent	100.0	100.0	100.0			
Less than $1,000	1.8	2.5	11.0	1.8	2.5	11.0
$1,000 to $1,999	1.5	2.9	11.8	3.3	5.4	22.8
$2,000 to $2,999	3.4	5.0	5.2	6.7	10.4	28.0
$3,000 to $3,999	5.8	7.6	8.3	12.5	18.0	36.3
$4,000 to $4,999	7.3	10.1	13.1	19.8	28.1	49.4
$5,000 to $5,999	12.1	12.2	12.9	31.9	40.3	62.3
$6,000 to $6,999	13.7	14.0	11.3	45.6	54.3	73.6
$7,000 to $9,999	29.2	24.2	13.0	74.8	78.5	86.6
$10,000 to $14,999	17.3	13.8	6.2	92.1	92.3	92.8
$15,000 to $24,999	5.6	5.6	5.5	97.7	97.9	98.3
$25,000 and over	2.3	2.1	1.7	100.0	100.0	100.0

[1] Year round equals 50-plus weeks; full time equals 35-plus hours per week; age as of March 1967.

Source: Bureau of the Census.

MEAN EARNINGS IN 1966 OF 14-PLUS AND 65-PLUS MALE YEAR-ROUND, FULL-TIME WORKERS, BY MAJOR OCCUPATION GROUP OF LONGEST JOB

Major occupation group	Total 14 plus— Number (thousands)	Total 14 plus— Percent	Total 14 plus— Mean earnings	65 plus— Number (thousands)	65 plus— Percent	65 plus— Mean earnings
Total	35,465	100.0	$7,464	1,106	100.0	$5,604
Professional, technical, and kindred workers	5,072	14.3	10,068	130	11.8	10,026
Farmers and farm managers	1,572	4.4	4,280	157	14.2	1,925
Managers, officials, and proprietors, except farm	5,566	15.7	10,145	216	19.5	7,337
Clerical and kindred workers	2,626	7.4	6,564	84	7.6	5,522
Sales workers	1,902	5.4	8,224	70	6.3	(1)
Craftsmen, foremen, and kindred workers	7,379	20.8	7,202	145	13.1	5,793
Operatives and kindred workers	6,977	19.7	6,137	123	11.1	5,030
Service workers, including private household	2,284	6.4	5,267	125	11.3	3,706
Farm laborers and foremen	421	1.2	2,941	29	2.6	(1)
Laborers, except farm and mine	1,666	4.7	5,013	27	2.4	(1)

[1] Base too small.

Source: Bureau of the Census.

MEDIAN AND MEAN MONEY INCOME IN 1967 FOR FAMILIES BY YEARS OF SCHOOL COMPLETED AND AGE OF HEAD

Years of school completed	Heads 25 plus			Heads 65 plus			Ratio of mean/median income	
	Number (thousands)	Median income	Mean income	Number (thousands)	Median income	Mean income	25 plus	65 plus
NUMBER AND AMOUNT								
Total	46,673	$8,168	$9,218	7,070	$3,928	$5,771		
Elementary school:								
Less than 8	7,256	4,633	5,653	2,484	3,053	4,404		
8	6,487	6,470	7,321	1,788	3,835	5,353		
High school:								
1 to 3	8,222	7,662	8,284	902	4,390	5,854		
4	14,014	8,822	9,593	1,018	5,156	6,606		
College:								
1 to 3	4,628	10,176	11,102	390	6,024	7,628		
4	3,378	12,058	13,507	260	6,950	10,151		
5 or more	2,687	13,588	15,689	228	8,713	11,702		
Median years of school completed	12.1			8.6				
PERCENT DISTRIBUTION AND INDEX								
Total	100.0	100.0	100.0	100.0	100.0	100.0	112.8	146.9
Elementary school:								
Less than 8	15.5	56.7	61.3	35.1	77.7	76.3	122.0	144.2
8	13.9	79.2	79.4	25.3	97.6	92.8	113.2	139.6
High school:								
1 to 3	17.6	93.8	89.9	12.8	111.8	101.4	108.1	133.3
4	30.0	108.0	104.1	14.4	131.3	114.5	108.7	128.1
College:								
1 to 3	9.9	124.6	120.4	5.5	153.4	132.2	109.1	126.6
4	7.2	147.6	146.5	3.7	176.9	175.9	112.0	146.0
5 or more	5.8	166.4	170.2	3.2	221.8	202.8	115.5	134.3

Source: Bureau of the Census. Computations by AOA.

MEDIAN AND MEAN MONEY INCOME IN 1967 FOR FAMILIES AND UNRELATED INDIVIDUALS, BY TYPE OF FAMILY AND AGE AND RACE OF HEAD

PART A. NUMBERS AND AMOUNTS

Race of head and type of family	All ages			65 plus		
	Number (thousands)	Median income	Mean income	Number (thousands)	Median income	Mean income
Total:						
Families	49,834	$7,974	$9,019	7,070	$3,928	$5,771
Male head	44,501	8,400	9,464	5,944	3,867	5,746
Married, wife present	43,292	8,441	9,508	5,621	3,837	5,702
Wife in paid labor force	15,845	9,956	10,803	876	6,372	7,931
Wife not in labor force	27,447	7,611	8,760	4,745	3,492	5,291
Other	1,210	6,814	7,899	323	4,509	6,511
Female head	5,333	4,294	5,305	1,126	4,421	5,903
Unrelated individuals	13,114	2,391	3,637	5,066	1,480	2,412
Male	4,845	3,544	4,740	1,305	1,813	2,941
Female	8,269	1,923	2,991	3,761	1,412	2,228
White:						
Families	44,814	8,274	9,334	6,486	4,071	5,942
Male head	40,806	8,597	9,679	5,511	3,971	5,889
Married, wife present	39,821	8,629	9,710	5,250	3,929	5,824
Wife in paid labor force	14,134	10,232	11,094	786	6,745	8,260
Wife not in labor force	25,687	7,783	8,949	4,464	3,576	5,395
Other	985	7,353	8,408	261	4,965	7,210
Female head	4,008	4,879	5,823	974	4,780	6,237
Unrelated individuals	11,318	2,481	3,786	4,605	1,520	2,500
Male	3,963	3,904	5,048	1,120	1,906	3,114
Female	7,356	2,007	3,106	3,485	1,439	2,303
Negro:						
Families	4,589	4,919	5,916	547	2,609	3,578
Male head	3,316	5,783	6,775	399	2,551	3,590
Married, wife present	3,118	5,854	6,856	350	2,556	3,561
Wife in paid labor force	1,565	7,333	8,175	85	3,561	4,700
Wife not in labor force	1,553	4,693	5,528	265	2,364	3,193
Other	198	4,525	5,499	49	(1)	(1)
Female head	1,272	3,015	3,676	148	2,808	3,547
Unrelated individuals	1,640	1,769	2,651	425	1,127	1,491
Male	775	2,804	3,329	164	1,299	1,885
Female	865	1,358	2,044	261	1,058	1,243

PART B. PERCENT DISTRIBUTION OF NUMBERS; INDEX NUMBERS AND RATIO OF INCOME AMOUNTS

Race of head and type of family	All ages				65 plus			
	Number	Median	Mean	Ratio mean/median	Number	Median	Mean	Ratio mean/median
Total:								
Families	100.0	100.0	100.0	113.1	100.0	100.0	100.0	146.9
Male head	89.3	105.3	104.9	112.7	84.1	98.4	99.6	148.6
Married, wife present	86.9	105.8	105.4	112.6	79.5	97.7	98.8	148.6
Wife in paid labor force	31.8	124.8	119.8	108.5	12.4	162.2	137.4	124.5
Wife not in labor force	55.1	95.4	97.1	115.1	67.1	88.9	91.7	151.5
Other	2.4	85.4	87.6	115.9	4.6	114.8	112.8	144.4
Female head	10.7	53.8	58.8	123.5	15.9	112.6	102.3	133.5
Unrelated individuals	100.0	100.0	100.0	152.1	100.0	100.0	100.0	163.0
Male	36.9	148.2	130.3	133.7	25.8	122.5	121.9	162.2
Female	63.1	80.4	82.2	155.5	74.2	95.4	92.4	157.8
White:								
Families	100.0	100.0	100.0	112.8	100.0	100.0	100.0	146.0
Male head	91.0	103.9	103.7	112.6	85.0	97.5	99.1	148.3
Married, wife present	88.8	104.3	104.0	112.5	80.9	96.5	98.0	148.2
Wife in paid labor force	31.5	123.7	118.8	108.4	12.1	165.7	139.0	122.5
Wife not in labor force	57.3	94.1	95.9	115.0	68.8	87.8	90.8	150.9
Other	2.2	88.9	90.1	114.3	4.0	122.0	121.3	145.2
Female head	8.9	59.0	62.4	119.3	15.0	117.4	105.0	130.5
Unrelated individuals	100.0	100.0	100.0	152.6	100.0	100.0	100.0	164.5
Male	35.0	157.4	133.3	129.3	24.3	125.4	124.6	163.4
Female	65.0	80.9	82.0	154.8	75.7	94.7	92.1	160.0
Negro:								
Families	100.0	100.0	100.0	120.3	100.0	100.0	100.0	137.1
Male head	72.2	117.6	114.5	117.2	72.9	97.8	100.3	140.7
Married, wife present	67.9	119.0	115.9	117.1	64.0	98.0	99.5	139.3
Wife in paid labor force	34.1	149.1	138.2	111.5	15.5	136.5	131.4	132.0
Wife not in labor force	33.8	95.4	93.4	117.8	48.4	90.6	89.2	135.1
Other	4.3	92.0	93.0	121.5	9.0	(1)	(1)	(1)
Female head	27.7	61.3	62.1	121.9	27.0	107.6	99.1	126.3
Unrelated individuals	100.0	100.0	100.0	149.8	100.0	100.0	100.0	132.3
Male	47.3	158.5	125.6	118.7	38.6	115.3	126.4	145.1
Female	52.7	76.8	77.1	150.5	61.4	93.9	83.4	117.5

[1] Sample too small.

Source: Computed from pt. A, Bureau of the Census.

ITEM 3. DR. JOSEPH A. PECHMAN, DIRECTOR OF ECONOMIC STUDIES, THE BROOKINGS INSTITUTION, WASHINGTON, D.C.

EXHIBIT A. RESPONSES FROM DR. PECHMAN TO QUESTIONS FROM THE CHAIRMAN

The chairman, in a letter written shortly after the hearing, addressed the following questions to the witness:

MAY 12, 1969.

Dear DR. PECHMAN: You will remember that at the conclusion of your testimony at our April 30 hearing, you graciously agreed that I might ask further questions after reviewing the Brookings pamphlet, "Improving Social Security Benefits and Financing".

I would now like to pursue one question raised in general terms by Dr. Sheppard about gearing the maximum earnings amount to median family income. My concern relates specifically to the working wife.

We in the legislature receive countless letters from working wives who feel that they get no return for their contributions, especially when the 50 percent wife's benefit is higher than that based on her own earnings. They receive scant consolation from the knowledge that they have had disability insurance, survivor's protection for their children, and that they can retire on their own benefits without waiting for their husbands to retire.

As I understand your proposal, the earnings of the husband and wife would be combined for purposes of computing the benefit; a couple would receive a flat $30 more than a single worker. The combination of earnings would give the working wife a clear-cut advantage over the non-working wife if the combined earnings were below the taxable maximum. But since you do not propose raising the present maximum in recognition of the combination of earnings, the working wife of a man with earnings close to or above the maximum would receive no credit at all for her own earnings.

Would you please explain (1) why you did not propose an increase in the maximum taxable earnings to accompany the combination of earnings and (2) how the retirement test would work in such cases.

My other question relates to your proposal that all persons over 65 be eligible for social security benefits, if not covered by other retirement systems. What would you do about those persons whose coverage under other retirement systems yields a lower benefit than that proposed under the Social Security system?

My thanks in advance for your further help in the Committee's work.

Sincerely,

HARRISON A. WILLIAMS, Jr., *Chairman.*

(The following reply was received:)

THE BROOKINGS INSTITUTION,
Washington, D.C., May 14, 1969.

DEAR SENATOR WILLIAMS: I am very happy to respond to the questions you raise in your letter of May 12 regarding some details of the proposals in our Brookings book on social security.

1. With respect to the working wife, there is no problem in the event that financing of social security comes out of general revenues, as we prefer. In this circumstance, the wage-related benefit would depend upon the *combined* earnings of the husband and of the working wife, up to the statutory limit of benefits.

With a system in which the financing of the benefit is related to the payroll tax, we propose that a married couple be regarded as a unit for payroll tax purposes. Thus, a married couple would be required to pay tax on earnings up to the same limit that is applied to single persons and taxes of married couples in excess of amounts due on the taxable limit would be refunded. This would remove the inequity of taxing couples with a working wife more heavily than those without working wives. Separate records would be maintained on wives to be used in the event of divorce or early death of her spouse, but in the normal case would not be used.

As to the retirement test for married couples, we believe that retirement benefits should not be paid for persons who are younger than age 65 and who are employable, and this applies to married couples with and those without working wives. There would, of course, be a transition problem for those who are already retired early, but we do not think it would be necessary to remove them retroactively from the benefit rolls.

2. With regard to blanketing in of all persons over age 65, two answers are necessary. If the anti-poverty and wage replacement functions of social security come to be dealt with independently, then we believe that, for purposes of the negative income tax portion of our system, all other income (including other retirement benefits) be deducted from the negative income tax allowances. With respect to the wage-related pension, benefits from public retirement systems should be treated as benefits from private retirement systems (i.e., as supplements to social security). However, if the anti-poverty and wage-related functions of social security continue to be dealt with under a single system, we feel that recipients of public retirement benefits should receive only a fraction of the normal social security benefit. Thus, if a worker has spent 30 years in the civil service and ten years in outside employment covered by social security, the worker might be allowed to receive a social security benefit roughly one-fourth as large as that to which his wage history would have entitled him after a forty year period of employment under social security.

I hope this clears up these particular questions for you.

Sincerely yours,

JOSEPH A. PECHMAN,
Director of Economic Studies.

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EXHIBIT B

BROOKINGS
RESEARCH
REPORT
94

Improving Social Security Benefits and Financing

Highlights of
SOCIAL SECURITY: PERSPECTIVES FOR REFORM
by Joseph A. Pechman, Henry J. Aaron, and
Michael K. Taussig

THE BROOKINGS INSTITUTION
1775 Massachusetts Avenue, N.W.
Washington, D.C.

This report is adapted from

SOCIAL SECURITY: PERSPECTIVES FOR REFORM

352 pp. Cloth $6.75 Paper $2.95

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The findings and conclusions are those of the authors and do not necessarily represent the views of the trustees, officers, or staff members of the Brookings Institution.

BROOKINGS

RESEARCH

REPORT

94

Improving Social Security Benefits and Financing

FOR MOST PEOPLE, retirement is a severe economic jolt. When the paychecks stop, income declines sharply. Social security benefits help, but they are usually inadequate. This book, by Joseph A. Pechman, Henry J. Aaron, and Michael K. Taussig, reviews the social security system and makes recommendations for its improvement, including new methods of financing and changes in the benefit structure. The book is the fourth in the Brookings series of Studies in Social Economics.

Poverty is a common affliction among the aged, despite the growth of social security in the United States. Nearly 30 percent of those over 65 are officially classified as poor by the Social Security Administration—that is, their income including social security amounted to less than $1,970 (in 1966 prices) for a couple and less than $1,565 for a single person.

This situation exists despite the fact that in early 1968 about 24 million people were receiving checks under the Old-Age, Survivors, and Disability Insurance program which total $2 billion each month. These payments amount to about 3.5 percent of all personal income of the nation. But however large the total of benefit payments may be, the average payment to a retired worker is low—in June 1968 it was $103 a month. The minimum payment in 1968 is $55 for a retired worker who is not married; a maximum of $218 for the same worker was authorized in the 1967 amendments to the Social Security Act, but it will be many years before anyone is eligible for this maximum.

Social security[1] in the United States has grown from small beginnings in 1935 to a preeminent position among domestic federal activities. The program has operated with efficiency and integrity. From the beginning through 1967, about $180 billion in benefits had been distributed without a single serious incident of fraud or corruption. Fears that political opposition one day might destroy the program have long since been dissipated. In 1967, when budget stringencies forced cuts in many domestic programs, Congress *raised* annual social security benefits by $4 billion. It is apparent that the survival of social security as a permanent American institution is no longer in question. The problem now is how to improve the program to make it more effective.

Rationale of Social Security

When social security was enacted in 1935 considerable emphasis was placed on those of its aspects which resembled private insurance: "contributions" are paid by the worker and the employer into a trust fund; interest is credited on trust fund balances; and benefits are formally based on the worker's previous earnings. Public acceptance of the system as a permanent government institution was advanced by that analogy.

The insurance analogy is no longer applicable to the system as it has developed. Present beneficiaries receive far larger benefits than the taxes they paid would entitle them to, and this situation will continue indefinitely as long as Congress maintains benefits in line with higher current wage levels. The trust fund balances have not grown significantly since the mid-1950's, so that the payroll taxes paid by workers have not been stored up or invested but have been paid out currently as benefits. When benefits promised to people now working come due, the funds for their payment will be provided out of tax revenues as of that future date. Thus, social security is in reality a compact between the working and nonworking generations, a compact that is continually renewed and strengthened by every amendment to the basic act.

[1] Social security is generally associated with benefits paid to workers and their wives on retirement. The program also provides payments to the disabled, to dependents, and to survivors of deceased participants. Health insurance for the aged (Medicare) was added to the program in 1966 but is not discussed in this book.

In this conception of social security, payroll taxes are not regarded as insurance premiums but rather as a financing mechanism for a large, essential government program. They are the third largest tax source after individual income taxes and corporation income taxes and must be evaluated as any other major tax source of the federal government. Social security today is too intimately linked on both the benefit and the tax sides of the total government budget to other federal programs and to the nation's stabilization efforts for fiscal autonomy to make sense.

Improvements in Benefits

The structure of benefits under the present social security program is deficient in a number of respects.

- While benefits are adjusted for family size, they are based on earnings of individual workers—not, as they should be, on family earnings. As a result, families enjoying identical living standards while the head is working may have very different living standards after retirement, death, or disability.
- Working husbands and wives are treated as separate *taxable* units, a principle that can cause them to pay much more into social security and receive less on retirement than a retired man whose wife did not work.
- Widows receive lower benefits than retired workers, although their husbands may have contributed as much or more and their needs are no less urgent.
- Single retired persons are treated far less generously than couples. Whereas a low-income married couple needs only about 30 percent more income than a single person to achieve the same living standards, the social security benefit of the couple is 50 percent higher.
- The ceiling on benefits hurts large families eligible for survivor benefits.

To improve the program, total annual earnings of married couples up to the maximum ($7,800 in 1968) should be the base on which benefits are paid; widows' benefits should be raised to 100 percent of workers' benefits; the 50 percent "bonus" of a married couple over a single person should be replaced with a flat dollar amount; and adjustments should be made to permit larger payments to large survivor families.

But more important, the minimum benefits should be substantially increased. If dependents' benefits are kept in line with the costs they impose on the family budget, the ceiling on what a family may receive, irrespective of its size, should be eliminated.

There is considerable disagreement about the cutoff point for the calculation of benefits. The social interest in providing retirement benefits declines as earnings rise, but there is no objective basis for deciding how high the cutoff point should be. Some congressmen and labor union officials have suggested $15,000 as the maximum annual earnings on which taxes should be levied, a rather high figure considering that the median income of an American family in 1968 will be slightly above the present maximum taxable earnings of $7,800. As a practical compromise, the median family income would be a good figure to use in adjustments of the ceiling in later years. Benefit payments of 40 to 50 percent of annual family earnings up to this level is a reasonable goal.

Financing Social Security

Social security is financed by an earnings tax levied on workers, their employers, and the self-employed. In 1968, the tax is 3.8 percent each on employees and employers on earnings up to the $7,800 cutoff point, a total of 7.6 percent; the tax on the self-employed is 5.8 percent, or approximately 1.5 times the employee tax. Beginning in 1973, the combined employer-employee tax will be 10 percent, and the self-employed tax will be 7.0 percent.

All economists believe that a major share of the payroll tax is borne by the wage earner, in his capacity either as worker or consumer or both; most, in fact, believe all of it is paid by him. The employer may pass his share of the tax back to the worker or forward to the consumer through increased prices for goods and services.

The use of past earnings to establish the right of the individual and his family to benefits is widely accepted. But as there is no need for maintaining a relationship between taxes paid and benefits, are there better ways of financing social security?

Since the social security tax is a flat tax on earnings up to a maximum, it is particularly burdensome on the poor. It is grossly inferior to the individual income tax not only on this account, but also on the ground that it does not allow for differences in ability to pay through personal exemptions and deductions. For these reasons, the payroll tax should be deemphasized when war expenditures decline and economic growth generates further increases in federal income tax receipts.

Several different approaches might be taken to reduce the importance of the payroll tax in federal finances.

First, part or all of the payroll tax could be converted into a withholding tax for income tax purposes. No formal change in the payroll tax need be involved; at year-end individuals would receive credit against their income taxes for the amount of payroll taxes paid. Withholding rates under the personal income tax would presumably be reduced to avoid excessive refunds.

Second, persons might be allowed a personal exemption in payroll tax computation. Those with incomes below exemption levels would not be subject to the tax.

Third, contributions from general revenues might be used to help finance the social security system, a possibility that was foreseen in the earliest days of social security. Two suggestions that have been made for support from general funds are:

- Cover the differences between the benefits paid to retirees in the early decades of the system and the employer-employee taxes paid on their earnings plus accumulated interest.
- Make up the difference between payments made by low-paid workers and the benefits they receive.

Finally, the Old-Age, Survivors, and Disability Insurance program might be combined with a liberalized assistance system or some variant of a negative income tax. The negative income tax payments to the aged in such a system would be financed out of general revenues.

Agenda for Reform

The foregoing discussion indicates that the social security system is in need of reform. The study divides the necessary changes in three groups: (1) proposals for immediate legislative action; (2) partial reform; and (3) total reform.

IMMEDIATE LEGISLATIVE ACTION. In the next round of social security legislation a number of urgently needed changes should be made. These changes would cost no more than increases in benefits under the major social security bills enacted in the past.

1. The income tax law should be amended to provide refunds of social security taxes paid by persons whose earnings do not exceed their personal exemptions plus the minimum standard deduction. The savings would go almost entirely to households classified as poor. Such a change in the law would cost approximately $0.7 billion if the exemptions are applied only against the employee tax. The entire cost could be recovered by eliminating the special income tax exemption and other

tax concessions now allowed to persons past 65. These deductions are disproportionately beneficial to those with relatively high income.

2. The family should be the unit used for computation of benefits. This could easily be done by setting a deadline after which benefits would be based not on the separate earnings histories of husband and wife but on their combined earnings.

3. The widow's benefit should be raised to 100 percent of the worker's benefit, since the income needed by a widow for a given standard of living is no less than that needed by a person who never married.

4. Minimum benefits should be raised to $75 a month for single retirees and $105 for couples.

5. Benefits should be computed on the basis of average earnings during the ten years of highest earnings. In the long run, the costs of this change would be large, but they could be financed by the revenue produced by constant tax rates applied to a constantly growing tax base.

6. Benefits should automatically be adjusted to price changes.

7. The ceiling on payments to families should be eliminated, and additional benefits of $30 a month per dependent should be paid to households with surviving children.

PARTIAL REFORM. The proposals that follow should be regarded as medium-term goals to be attained perhaps over the next decade.

1. In the absence of an effective program of income supplementation to prevent poverty, minimum social security benefits should be set high enough to eliminate poverty. These goals could be achieved if the basic benefit were set at $90 a month plus 30 percent of average earnings up to the median family income level. Average earnings of $100 a month would be presumed as a minimum. To reflect the effect of family size, approximately $30 a month should be added to the basic benefit for each dependent including spouses. Under this formula, the minimum benefit for a single worker would be $120 a month and for a couple $150 a month. For those whose average annual earnings were $7,800 (the taxable earnings ceiling at present), the benefit would be $285 a month for single persons and $315 for couples. This formula would assure all aged persons sufficient retirement income to prevent poverty. Families with equal standards of living before retirement would receive benefits that would enable them to have roughly equal, although lower, standards after retirement. Present payments would be maintained in

the few unusual cases where the proposed formula would provide lower benefits.

2. The present practice of basing benefits on earnings since 1951—after dropping the five lowest years—gives too much weight to years in which subsequent inflation, in effect, lowered earlier wages. To remedy this defect, average earnings might be computed on the basis of the five highest years.

3. The benefit formula should continue to be based on earnings with a specified cutoff point. This is now $7,800. The level should be adjusted upward no faster than the rise in median family income. Assuming that this growth continues at the rate of 4.5 percent annually—the rate between 1956 and 1966—the maximum earnings level would rise to almost $10,000 in five years, $12,000 in ten years, and $23,500 in twenty-five years.

4. Benefits should be adjusted automatically to meet changes in the consumer price index.

5. With the improvement in general health and gradually increasing longevity, there is no need to encourage early retirement in our economy. (Workers can now opt for reduced social security benefits at 62.) The problems of those who are too young to qualify for old-age benefits but are unable to work should be met through the disability program or unemployment compensation, or both.

6. The payroll tax is the most burdensome tax levied by the federal government on the poor, and it should eventually be replaced by income taxes. The payroll tax on employees should be regarded as a part of the withholding tax under the individual income tax, with overpayments to be refundable after the individual files his final tax return. The employer's tax should be replaced by general revenues. There should be no difference in taxes levied on wages and salaries and on the earnings of the self-employed. The payroll tax might be retained as a withholding tax to focus attention on social security and on the fact that support of the current aged by the working population establishes the claim of the latter group for future support.

A comparison of the benefits described above with benefits payable under the 1967 amendments to the Social Security Act is made in Table 1. Each household is assumed to become eligible for benefits in 1968, to have the earnings shown in the first column during 1967, and to have experienced a 4 percent a year increase in its earnings since 1956.

TABLE 1. *Comparison of Social Security Monthly Benefits for 1968 Retirees under Current Legislation and Proposed Formula*[a]
(In dollars)

Earnings in 1967		Single Retiree		Retired Couple		Surviving Widow and 2 Children	
Annual	Monthly	Current legislation[b]	Proposed formula	Current legislation[b]	Proposed formula	Current legislation[b]	Proposed formula
800	67	55.00	120.00	82.50	150.00	82.50	180.00
1,800	150	81.10	131.66	121.70	161.66	121.70	191.66
2,800	233	99.30	154.80	149.00	184.80	154.40	214.80
3,800	317	116.20	177.97	174.30	207.97	206.40	237.97
4,800	400	134.30	201.11	201.50	231.11	262.40	262.40[c]
5,800	483	150.00	218.89	225.00	248.89	311.20	311.20[c]
6,800	567	156.00	227.69	234.00	257.69	329.60	333.60[c]
7,800	650	156.00	228.00	234.00	258.00	329.60	333.60[c]

[a] Earnings are assumed to grow at the rate of 4 percent a year. Average monthly earnings (AME) under current legislation computed for 1956-67; AME's under proposed formula were computed on the basis of the five highest years.
[b] Benefits as provided under the 1967 amendments to the Social Security Act.
[c] Beneficiary would have lower benefits under the proposed formula and would choose option of having benefits computed as under present law. Benefits under the proposed formula are $261.11, $278.89, $287.69, and $288.00 for earnings in last year of $4,800, $5,800, $6,800, and $7,800, respectively.

TOTAL REFORM. The proposals above involve, first, correcting specific defects in the present structure and, second, beginning to rebuild it. The following proposals would complete the modernization of the social security structure.

The basic dilemma in considering reform of the social security system is that the United States has attempted to solve two problems with one instrument—how to prevent destitution among the aged poor and how to assure people who have adequate income before retirement of benefits that are related to their previous standard of living.

Two separate systems are needed. The first should be strictly wage-related, with the benefit computed at the same percentage of earnings at all levels. For the citizens who would not benefit from such a social security program, a negative income tax system or a comprehensively reformed system of public assistance should be adopted.

Negative income tax or public assistance allowances, payable to *all* households with incomes below specified levels or breakeven points, would close a portion of the gap between household incomes from all sources and these specified levels. The minimum allowance provided by the negative income tax should be at least equal to a minimum subsistence standard of living for families of all sizes.

For the aged, the proposed system would require two calculations—

one for retirement benefits based on past earnings, the other for the negative income tax based on total money income. Choice would be made of the more advantageous benefit.

The negative income tax alternative would require the beneficiary to waive benefits related to earnings and to be subject to the negative tax rate on all income, except the basic negative income tax allowance. Choice of the earnings-related benefit would mean that the beneficiary would pay positive income tax rates on all his income *including* the benefit.

The following example illustrates how the negative income tax and the earnings-related benefit would operate. Assume aged persons are granted an earnings-related benefit equal to 50 percent of past average family earnings. Assume also that the basic negative tax allowance is set at $1,800 for a married couple and that all other income for those electing to receive the allowance would be subject to a negative tax rate of 50 percent. For couples with no other income, the negative tax allowance would be elected when past average earnings were less than $3,666, since the earnings-related benefit at this level after taxes would be exactly the same as the negative income tax allowance. (The retirement benefit on $3,666 would be $1,833; the positive income tax on this amount for a married couple with no dependents is $33, leaving a net benefit of $1,800.)

On the other hand, a couple with $1,000 of other income would choose to receive an earnings-related retirement benefit when their past average earnings were $2,828, producing a retirement benefit of $1,414. With total income of $2,414, the couple's positive income tax payment would be $114, yielding an after-tax income of $2,300. If this couple had chosen the negative income tax allowance ($1,800), the tax on their other income would be 50 percent, or $500, thus yielding the same income after tax, $2,300.

This illustrates an attractive feature of the negative income tax approach: as total income, including retirement benefits, increases, the negative income tax payment is reduced and ultimately disappears.

The system described builds on the historical development and the present organization of social security. But it would be very expensive, since it involves closing the poverty gap for persons in all age groups. It would also almost certainly be highly controversial. Nevertheless, it is superior to the present system and should be a long-range goal of government policy.

ITEM 4. LENORE E. BIXBY, DIRECTOR, DIVISION OF RETIREMENT AND SURVIVOR STUDIES, OFFICE OF RESEARCH AND STATISTICS, SOCIAL SECURITY ADMINISTRATION

APRIL 22, 1969.

DEAR SENATOR WILLIAMS: In accordance with your request of April 11, 1969, I have reviewed the Working Paper, "Economics of Aging: Toward a Full Share of Abundance," with emphasis on the use of material from the 1963 Survey of the Aged and the additional data we have in process of development. I think the Paper makes very skillful use of the available data to outline the economic situation and prospects of the aged, as a basis for posing policy alternatives.

I am glad to be able to provide a set of 7 tables (not yet published) showing distributions by detailed ages and by benefit amounts at the end of 1967 for retired workers by sex, and for widows and wives. These tables with the accompanying highlights may be useful to the Special Committee on Aging, particularly in considering questions about the situation of widows. Since this detailed information for December 1967 cannot reflect the benefit increase under the 1967 Amendments, effective February 1968, I am including as Table 8 a comparison of the benefit distribution for all retired worker beneficiaries and all aged widow beneficiaries in December 1968 with that in December 1967.

With respect to the Working Paper itself, I have two suggestions for somewhat different emphasis. I have discussed with Miss McCamman a few minor technical points not worth your attention.

The discussion of the very disturbing gap in income between young and old draws attention to the effect of the decline with age in labor force rates. It would seem to me well to emphasize the comparable point in comments on the widening gap. Changes in the characteristics of the families with head 65 and over undoubtedly account for some of the change in the ratio of income of old to young families in 1967; relatively more contain only two members, allowing less possibility that the family income includes earnings of a younger adult member; and, more important, relatively more are completely retired, as evidenced by the rise from 57 percent in 1960 to 65 percent in 1967 in the proportion of men who reported no work at all in the designated year (see enclosed Table A). Relatively more of the unrelated individuals were women and relatively more were without earnings. I make this point not to minimize the critical situation of the aged, but rather to suggest it would be more fruitful for policy purposes to study changes over time in the income situation of older families and persons alone classified by their employment-retirement status. The relative income position of the aged may have worsened because they are less often employed, or because average retirement benefits of various types have lagged behind earnings, or for both reasons. The Task Force members did not have at hand the data necessary for such a differential analysis.

I am glad to be able to report that the Office of Research and Statistics of the Social Security Administration has collected information on the incomes of the aged which will make possible comparisons of the income in 1967 compared with that in 1962 for aged couples and nonmarried men and women classified by labor force status and whether or not they were on the social security cash benefit rolls. These data are now being processed and we hope to have the first preliminary findings this coming summer.

The role of earnings in the aggregate income of the aged has probably dropped well below the one-third shown by the 1963 Survey of the Aged (cited on page 7). The findings of our new survey of the economic resources of older people in 1967 will also throw light on this matter, both in total and by type of unit. Meanwhile, a preliminary rough estimate based on tax returns and reports of agencies operating income maintenance programs suggests that in 1967 the aggregate income of the aged population probably exceeded $50 billion, with less than 30 percent in the form of earnings.

More or less comparable information will be obtained on income for recent beneficiaries aged 62–64 in our Survey of New Beneficiaries. This Survey, designed to find out about the reasons for early retirement and pension rights of retirees includes a control sample of persons 65 and over recently awarded retirement benefits and another of persons enrolled for Medicare who chose not to claim cash benefits because of continuing employment. Findings of this study, based on the answers to questionnaires mailed monthly, should start to become available next fall and we hope will be helpful to your Committee and others concerned with estimating the probable trend in retirement age and the situation of early retirees.

Preliminary analysis now in progress of the work-life experience of men who in 1966 claimed benefits at ages 62–64 shows that early retirees are a heterogeneous group. Earnings records maintained by the Social Security Administration (as a basis for computing benefits) show that nearly one-third of the men who claimed benefits at age 62 in 1966 had had substantial earnings—at or above the taxable limit—and regular employment, i.e., some covered employment in each of the 15 years prior to entitlement. Presumably most of them were also eligible for a private pension and may have had other resources as well. Almost as many of the men who applied for benefits at age 62 (28 percent compared with 32 percent) had never earned as much as $3,000 in any year and one-third of this group had covered employment in less than 9 of the 15 years. They include, of course, workers with varying degrees of disability who were ineligible for disability benefits because of insufficient total or recent covered employment or because they did not meet the severity-of-disability provisions of the law as suggested below. Men claiming benefits at age 62 were about five times as likely not to have worked the year prior to entitlement as men who waited till age 65 or later for cash benefits.

A major vehicle for answering questions on the timing and reasons for retirement is the Longitudinal Retirement History Study, pivotal project in the Social Security Administration's set of interlocking studies of retirement in the United States. It is a 10-year study whose primary objective is examination of the retirement process, starting this spring with a sample of persons 58 to 63 years old. The characteristics of this and related studies are described in an accompanying paper entitled "The Social Security Administration Program of Retirement Research."

Special tabulations of annual work experience data from the current population survey suggest that the age at which benefits are payable clearly influences the level of employment. There was a significant drop from 1961 to 1962 in the proportion of men aged 62–64 working all year at full-time jobs, compared with some increase for those aged 55–61. Presumably this was in response to a provision in the 1961 Amendments of the Social Security Act permitting men to claim actuarially reduced benefits at age 62, three years before the normal pensionable age.

The long-term impact of early retirement is indicated by the fact that at the end of 1968, 40 percent of all retirement benefits in current payment status were reduced (30 percent among men and 54 percent among women). The average monthly benefit with reduction was substantially lower than the average for those who waited till age 65 to claim a benefit: for men $95 vs. $115, for women $78 and $92. The proportion of new awards to retiring men workers that are reduced continued to rise from the level cited in the Working Paper (page 30). In 1968, they accounted for 83 percent of all currently payable awards, and 54 percent all awards moving to payment status. The latter figure has more significance than the former which is necessarily calculated on an "eroding" base. Further work on this measurement problem is in process. (These data are shown in the enclosed copies of Tables Q–5 and Q–6 to appear in the June issue of the *Social Security Bulletin.*) The awards table shows also that for the last quarter of 1968 men who did not wish to draw cash benefits because of employment but filed to establish eligibility for Medicare were awarded monthly benefits of $139 (and then suspended) compared to $113 for those awarded currently payable benefits not reduced and $96 for those reduced.

As is shown in Report No. 3 from the Social Security Survey of the Disabled: 1966 (July 1968): "four-fifths of the men receiving early retirement benefits were disabled and more than one-third of them were severely disabled. Of the nonbeneficiaries aged 62–64, one-fourth were disabled; only 6 percent were severely disabled. One-half of the women aged 62–64 receiving early retirement benefits were disabled and more than one-third were severely disabled. In contrast, less than one-third of the female nonbeneficiaries aged 62–64 were disabled and only one-tenth were severely disabled. It would appear that the OASDHI early retirement provisions function mainly as an intermediate disability program, providing benefits for older disabled workers who are unable to meet the disability requirements, unwilling to apply for disability benefits, or unaware of the disability benefits available. As such, the effect of the present program provisions is to liberalize the disability requirements for disabled people aged 62–64 in exchange for a reduction in the cash benefit paid to the beneficiary."

I hope my comments and the information provided proves useful in the deliberations of the Special Committee on Aging. I shall, of course, be glad to try to answer any questions that may arise.

Sincerely yours,

LENORE E. BIXBY,
Director, Division of Retirement and Survivor Studies.

[Enclosures]

HIGHLIGHT COMMENTS ON AGE AND BENEFIT AMOUNTS FOR AGED BENEFICIARIES

Age of retired workers (Table 1)

During the period 1940–67 the average age of retirees has increased 4.3 years for men and 4.1 years for women. Most of the increase occurred during the decade of the 1940's; since 1950 the increase in average age has been only 0.9 year for men and 1.1 years for women. The increase in average age occurred despite the lowering of age requirements for entitlement of retirement benefits.

Since 1950 the proportion of retirees aged 65–69 has decreased from 39 percent to 30 percent for men and from 48 percent to 31 percent for women. The larger relative decrease in retirees aged 65–69 for women can in part be attributed to the greater propensity among women than among men to become entitled to benefits at ages 62–64 and to the longer life span of women. Retirees aged 70–74, both men and women, also decreased percentagewise during the same period, but only by about 5 percentage points. On the other hand, retirees age 75 and over at 35 percent for men and 31 percent for women, have increased since 1950 by 8 and 12 percentage points respectively.

Benefits for retired workers (Table 2)

Benefits for retired workers varied as between men and women and as among age group. A larger percentage of lower benefits, particularly those at the minimum, went to women than to men, and within each group to those aged 62–64 and aged 85 and over. At all ages relatively more women than men got benefits at $44.00 or less. A greater proportion of the higher benefits went to men and particularly to those aged 70–74. Women aged 70–74 were also somewhat more likely than others to get higher benefits.

Benefits for widows by age (Table 3)

The average monthly benefit amount for widows aged 65–69 exceeded the averages for widows in all other age groups. With each older age group there was a steady decline in the average amount of benefit.

The percentage of widows getting $44 or less was twice as high for those aged 85 and over as for those under 70 years. Similarly, the percentage of benefits of $100 or more was highest among widows aged 65–69 and lowest among widows aged 85 and over and for those 60–61, which are subject to an actuarial reduction.

Benefits for aged wives (Table 4)

Close to a fifth of all aged wives got benefits of under $30, including about a fourth of the wives aged 62–64 and of those 85 and over. The average amount was about $45 a month for the entire group and for wives aged 75–79, the highest for any age group, only $3 more. The lowest average amount went to wives aged 62–64.

Benefits to retired worker "families" (Table 5)

More than 60 percent of the retired men were classed as single-person "families," i.e., no dependents drawing benefits on their records. About one-third of the retired men were in worker-wife "families", as their wives also were drawing benefits on their records.

Only 2 percent of the women retirees (including married and widowed as well as single) had dependents drawing benefits on their records.

Some of the men and women shown as single-person "families" are married but each member of the couple is getting benefits on his or her own record. Some of the women are dually entitled, that is part of the retirement benefit is based on the husband's earnings record. It is roughly estimated that about 300,000 women are dually entitled as wives and about 400,000 are as widows.

Retired workers, aged wives and widows by age group and corresponding average benefit amounts (Table 6)

Average benefit amounts for both retired men and women were highest for those in age group 70–74 and lowest for those in age group 62–64. For retirees at all age groups, the average benefit amounts for men exceeded those for women. The excess amounted to $26 for retirees in age group 70–74, and for retirees in age group 62–64 to $16. The greater tendency among women to retire earlier than men at reduced benefit rates has undoubtedly contributed somewhat to the lower level of benefits. Mainly, though, the lower level of benefits for women is attributable to lower average earnings.

Average benefits for widows exceeded those for retired women through age 65. The averages were approximately equal at the older age levels. The average benefit amount for a widow was about $2.50 higher than that for a retired woman.

Retired women and aged widows with benefits of under $70 and $100 or more (Table 7)

About twice as many retired women as aged widows were getting less than $70 a month, as well as $100 a month or more. Percentagewise, also, more retired women than widows were getting both the lower benefits and the higher benefits but the margins of the differences were considerably smaller.

The percentages with benefits under $70 was much higher for retired women than for aged widows in each age group up to 75. For the others, the percentages were about the same.

The percentage of persons getting benefits of $100 or more was much higher for widows than for retired women at ages below 70, particularly at 62–64 when workers' benefits are subject to actuarial reduction but not those of widows. The reverse was true for those aged 70 and above.

Benefits for retired workers and aged widows, December 1967 and 1968 (Table 8)

Comparison shows a decline at the lower levels and a rise at the higher level, reflecting primarily the benefit rate increase authorized by the 1967 Amendments which became effective in February 1968 and also new awardees entitled to benefits on the basis of relatively high earnings.

TABLE 1.—BENEFITS IN CURRENT-PAYMENT STATUS FOR RETIRED WORKERS: NUMBER AND AVERAGE AGE, AND PERCENTAGE DISTRIBUTION BY AGE, BY SEX, 1940–67

At end of year	Total number (thousands)	Average age	Percent of retired workers aged [1]—						
			Total	62 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 and over
Men:									
1940	99	68.8	100	-----	74.4	17.4	6.4	1.6	0.2
1941	175	69.8	100	-----	65.6	23.0	8.9	2.3	.3
1942	224	70.5	100	-----	57.3	28.6	10.9	2.9	.4
1943	261	71.1	100	-----	49.2	34.1	12.7	3.4	.6
1944	323	71.5	100	-----	42.7	38.6	14.2	3.9	.7
1945	447	71.7	100	-----	39.9	40.2	15.1	4.0	.7
1946	610	71.9	100	-----	38.0	41.1	15.7	4.4	.8
1947	756	72.1	100	-----	36.5	40.4	17.4	4.9	.9
1948	900	72.3	100	-----	35.6	39.1	18.9	5.4	1.0
1949	1,100	72.3	100	-----	36.3	37.0	19.8	5.7	1.1
1950	1,469	72.2	100	-----	39.1	33.7	20.2	5.9	1.2
1951	1,819	72.3	100	-----	38.8	32.4	21.2	6.2	1.4
1952	2,052	72.6	100	-----	36.9	32.9	21.7	6.9	1.6
1953	2,438	72.6	100	-----	37.3	32.5	21.3	7.2	1.7
1954	2,803	72.6	100	-----	37.2	32.8	20.6	7.6	1.8
1955	3,252	72.7	100	-----	35.7	34.8	20.0	7.6	1.9
1956	3,572	72.9	100	-----	34.2	35.2	20.3	8.2	2.1
1957	4,198	72.9	100	-----	34.9	34.2	20.4	8.2	2.3
1958	4,617	73.0	100	-----	33.9	34.3	20.6	8.6	2.6
1959	4,937	73.1	100	-----	34.0	33.7	20.9	8.7	2.8
1960	5,217	73.2	100	-----	33.8	33.1	21.1	9.0	3.1
1961	5,765	72.8	100	4.1	32.7	31.0	20.2	8.7	3.2
1962	6,244	72.7	100	6.5	31.4	30.4	19.4	8.9	3.4
1963	6,497	72.7	100	7.0	30.9	29.8	19.7	9.1	3.5
1964	6,657	72.8	100	7.2	30.0	29.7	19.8	9.6	3.7
1965	6,825	72.9	100	6.9	29.7	29.5	19.9	9.9	4.1
1966	7,034	73.1	100	6.9	29.5	29.2	19.8	10.2	4.3
1967	7,160	73.1	100	6.8	29.5	28.5	20.2	10.3	4.6

See footnotes at end of table, p. 268.

TABLE 1.—BENEFITS IN CURRENT-PAYMENT STATUS FOR RETIRED WORKERS: NUMBER AND AVERAGE AGE, AND PERCENTAGE DISTRIBUTION BY AGE, BY SEX, 1940–67—Continued

At end of year	Total number (thousands)	Average age	Percent of retired workers aged [1]— Total	62 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 and over
Women:									
1940	13	68.1	100	...	82.6	12.8	3.9	0.6	(2)
1941	25	68.9	100	...	75.2	18.2	5.4	1.1	0.1
1942	36	69.5	100	...	68.4	23.5	6.5	1.4	.2
1943	45	70.0	100	...	60.4	29.8	7.8	1.7	.2
1944	55	70.5	100	...	52.6	36.1	9.1	2.0	.3
1945	71	70.8	100	...	47.1	40.0	10.2	2.3	.3
1946	92	71.1	100	...	43.3	42.5	11.2	2.6	.4
1947	119	71.4	100	...	41.2	42.6	13.0	2.8	.5
1948	148	71.6	100	...	39.9	41.3	15.0	3.2	.5
1949	186	71.7	100	...	39.8	39.0	17.0	3.6	.6
1950	302	71.1	100	...	48.4	32.9	15.0	3.2	.5
1951	459	70.8	100	...	51.5	30.6	14.2	3.1	.6
1952	592	71.0	100	...	50.2	30.9	14.7	3.5	.6
1953	784	71.1	100	...	49.8	30.9	14.8	3.9	.7
1954	972	71.2	100	...	49.0	31.2	14.8	4.2	.8
1955	1,222	71.3	100	...	47.8	32.3	14.6	4.4	.8
1956	1,540	70.9	100	7.3	42.5	30.7	14.0	4.6	.9
1967	1,999	70.5	100	13.3	39.7	28.2	13.4	4.5	1.0
1958	2,303	70.7	100	13.0	38.3	28.7	13.9	4.9	1.2
1959	2,589	70.8	100	12.9	37.3	28.8	14.4	5.2	1.4
1960	2,845	71.0	100	12.6	36.3	29.0	15.0	5.6	1.6
1961	3,160	71.1	100	13.0	35.4	28.5	15.4	5.8	1.8
1962	3,494	71.2	100	13.3	34.3	28.5	15.7	6.2	2.0
1963	3,766	71.4	100	13.0	33.5	28.3	16.4	6.6	2.2
1964	4,011	71.6	100	12.9	32.3	28.1	17.1	7.1	2.4
1965	4,276	71.8	100	12.2	31.6	28.1	17.6	7.7	2.8
1966	4,624	72.1	100	11.8	31.0	27.7	18.1	8.3	3.1
1967	4,859	72.2	100	11.4	30.7	27.1	18.7	8.7	3.4

[1] Age at birthday in stated year.
[2] Less than 0.05 percent.

Source: Social Security Bulletin, 1967 Annual Statistical Supplement (in press), table 77.

TABLE 2.—BENEFITS IN CURRENT PAYMENT STATUS FOR RETIRED WORKERS—PERCENTAGE DISTRIBUTION BY MONTHLY BENEFIT AMOUNT, BY AGE AND SEX, AT THE END OF 1967

[Based on 5-percent sample]

Monthly benefit amount[1]	Age[2]													
	Men							Women						
	Total	62 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 and over	Total	62 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 and over
Total number[3]	7,127,790	486,286	2,109,310	2,043,882	1,439,681	726,487	322,144	4,805,135	553,798	1,490,469	1,309,476	884,328	408,417	158,647
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
$35.20	.6	9.2	(4)					2.0	17.0	(4)	(4)			
$35.30 to $43.90	3.2	7.1	8.1	1.2				10.2	11.4	17.3	11.1	2.3		
$44	6.2	.4	1.5	6.3	9.0	12.7	18.1	9.9	.8	2.5	7.6	18.5	28.7	35.2
$44.10 to $49.90	2.2	4.8	2.6	1.5	1.6	2.1	3.1	5.5	9.3	6.0	4.8	4.0	4.7	5.5
$50 to $59.90	5.2	9.5	5.3	3.8	4.7	6.0	8.7	12.0	18.2	12.5	10.5	9.5	10.8	13.4
$60 to $69.90	6.7	11.9	7.1	4.9	5.7	7.6	10.3	12.3	13.6	11.7	12.6	11.8	12.6	13.5
$70 to $79.90	8.3	9.8	7.7	7.1	8.0	10.6	13.3	11.2	9.5	10.1	10.4	13.7	14.2	13.1
$80 to $89.90	8.9	8.8	8.0	7.9	8.9	11.9	14.2	10.1	6.3	9.5	10.6	12.4	11.5	8.3
$90 to $99.90	8.5	11.1	8.5	7.3	8.0	10.4	10.3	8.8	5.9	8.8	9.9	10.3	7.2	5.1
$100 to $109.90	9.5	20.2	10.1	7.7	8.4	9.1	6.1	7.5	6.1	8.5	8.8	7.0	4.4	2.2
$110 to $119.90	12.8	5.3	10.0	12.9	18.3	16.4	9.0	4.4	1.6	4.8	5.4	5.0	3.3	2.1
$120 to $129.90	15.6	1.8	12.2	23.6	19.8	8.9	4.2	3.3	.4	3.5	4.5	3.9	1.7	.9
$130 to $139.90	12.1	.1	18.8	15.6	7.4	4.2	2.6	2.8	.1	4.4	3.7	1.6	.9	.8
$140 to $149.90	.1	(4)	.1	.2	(4)	(4)	(4)	.1	(4)	.1	(4)	(4)	(4)	(4)

1 For persons aged 62 to 64 at entitlement benefits are actuarially reduced by 5/9 of 1 percent for each month under age 65 for which a benefit is paid. Benefits with reduction for early retirement may be represented in all amount of benefit intervals, and account for almost all cases in the intervals less than $44.

2 Age on birthday in 1967.

3 Excludes transitional insured beneficiaries.

4 Less than 0.05 percent.

Source: Social Security Bulletin, 1967 Annual Statistical (in press), table 82.

TABLE 3.—BENEFITS IN CURRENT PAYMENT STATUS FOR WIDOWS—NUMBER AND AVERAGE MONTHLY AMOUNT AND PERCENTAGE DISTRIBUTION BY MONTHLY AMOUNT AND AGE, AT END OF 1967

Age	Average monthly amount	Number	Percent of widows receiving							
			Total	$44 or less	$44.10 to $59.90	$60 to $69.90	$70 to $79.90	$80 to $89.90	$90 to $99.90	$100 and over
Total	$74.99	2,766,736	100.0	14.5	14.4	13.6	12.7	10.9	17.4	16.4
60 to 61	74.36	122,743	100.0	11.8	14.4	11.3	10.7	23.5	25.6	2.6
62 to 64	79.29	328,525	100.0	11.0	12.0	11.3	10.6	12.9	21.1	21.2
65 to 69	81.04	563,481	100.0	10.7	11.0	11.2	10.9	9.8	18.7	27.7
70 to 74	77.65	636,036	100.0	12.3	12.8	12.7	12.2	10.4	19.0	20.4
75 to 79	72.79	558,830	100.0	16.2	15.0	14.5	13.9	10.7	17.6	12.1
80 to 84	67.35	370,002	100.0	19.9	18.9	17.6	15.8	10.0	12.1	5.6
85 to 89	62.91	150,816	100.0	23.8	23.4	19.4	15.2	8.0	7.1	3.0
90 to 94	59.99	32,842	100.0	26.2	27.9	19.4	14.1	6.3	4.1	2.0
95 and over	58.42	3,461	100.0	27.9	30.9	18.2	13.1	4.6	3.3	1.8

Source: Social Security Bulletin, 1967 Annual Statistical (in press), table 82.

TABLE 4.—BENEFITS IN CURRENT PAYMENT STATUS FOR WIVES AGED 62 AND OVER—NUMBER AND AVERAGE MONTHLY AMOUNT, AND PERCENTAGE DISTRIBUTION BY MONTHLY AMOUNT, AND AGE, AT END OF 1967

Age	Average monthly amount	Number	Percent of wives aged 62 and over receiving					
			Total	$29.90 or less	$30 to $39.90	$40 to $49.90	$50 to $59.90	$60.00 or more
Total	$44.90	2,503,276	100.0	19.1	16.0	26.7	19.5	18.9
62 to 64	39.48	369,470	100.0	23.9	18.6	43.0	13.2	1.2
65 to 69	44.00	821,397	100.0	20.0	16.4	29.2	18.1	16.4
70 to 74	47.08	718,188	100.0	16.7	15.0	22.0	19.8	26.6
75 to 79	48.10	407,777	100.0	15.7	13.9	17.5	25.4	27.5
80 to 84	44.88	149,958	100.0	19.8	16.5	21.9	24.2	17.5
85 and over	41.63	36,486	100.0	25.6	19.8	24.2	18.7	11.8

Source: Social Security Bulletin, 1967 Annual Statistical Supplement (in press), table 83.

TABLE 5.—BENEFITS IN CURRENT-PAYMENT STATUS FOR SELECTED RETIRED-WORKER FAMILIES—PERCENTAGE DISTRIBUTION BY MONTHLY BENEFIT AMOUNT, BY COMPUTATION STARTING DATE, AT END OF 1967

[Based on 5-percent sample; average benefits shown to nearest 10 cents]

Monthly family benefit amount [1]	Retired worker only [2]						Retired worker and wife [3]			Retired worker, wife,[4] and 1 child		
	Men			Women								
		Based on earnings after—			Based on earnings after—			Based on earnings after—			Based on earnings after—	
	Total	1950	1936	Total	1950	1936	Total	1950	1936	Total	1950	1936
Total number	4,390,100	3,055,900	1,334,300	4,777,800	3,596,600	1,181,200	2,421,900	2,160,700	261,200	92,700	82,800	9,900
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than $44	4.3	3.5	8.3	12.2	10.2	18.2						
$44	6.5	3.8	19.5	9.9	7.4	17.5						
$44.10 to $49.90	2.5	1.3	8.1	5.6	3.8	10.9						
$50 to $59.90	5.7	3.3	17.7	12.0	8.8	21.5	[5] 1.6	[5] 1.4	[5] 2.6	[6] 6.8	[6] 6.5	[6] 9.4
$60 to $69.90	7.2	5.4	16.0	12.3	11.8	13.9	7.5	5.0	28.1	9.1	6.8	28.5
$70 to $79.90	8.6	7.8	12.5	11.2	12.8	6.5	2.7	1.9	9.4	3.9	2.4	16.2
$80 to $89.90	9.2	9.0	10.3	10.1	12.2	3.7	3.3	2.4	10.1	3.4	2.2	13.4
$90 to $99.90	8.9	9.4	6.3	8.8	10.4	3.9	3.9	3.3	9.0	4.9	4.2	10.6
$100 to $109.90	9.7	11.5	1.2	7.5	8.8	3.4	5.1	4.6	9.3	4.0	3.8	5.3
$110 to $119.90	12.3	14.8	[7 8] 0	4.4	5.7	[8] .4	5.2	4.8	8.5	2.7	2.7	2.1
$120 to $129.90	14.0	16.8		3.2	4.3		5.5	5.0	8.8	3.2	3.3	2.6
$130 to $139.90	11.1	13.3		2.8	3.7		5.7	5.5	7.5	2.3	2.3	2.3
$140 to $149.90	[9] .1	[9] .1		[9] .1	[9] .1		5.8	5.9	4.9	2.1	2.1	1.9
$150 to $159.90							7.6	8.3	[10] 1.8	2.3	2.4	1.3
$160 to $169.90							9.3	10.5		3.0	3.0	2.8
$170 to $179.90							11.9	13.3		2.9	3.1	1.1
$180 to $189.90							12.0	13.4		3.2	3.4	1.5
$190 to $199.90							7.9	8.9		3.6	4.0	.6
$200 to $209.90							5.0	5.6		3.7	4.1	[11] .4
$210 to $219.90							[12] .1	[12] .1		4.6	5.2	
$220 to $229.90										6.3	7.1	
$230 to $239.90										6.4	7.2	
$240 to $249.90										5.2	5.9	
$250 to $259.90										5.9	6.6	
$260 to $269.90										8.0	8.9	
$270 to $279.90										[13] 2.4	[13] 2.7	
Average monthly amount per family	$92.50	$99.30	$61.00	$71.90	$77.50	$56.30	$144.20	$150.50	$94.30	$166.80	$176.10	$87.90

[1] Benefits payable to a retired worker aged 62–64 at entitlement are actuarially reduced by 5/9 of 1 percent for each month before attainment of age 65 for which the benefit is drawn. Benefits payable to either a wife beneficiary aged 62–64 at entitlement without a child beneficiary in her care or a husband beneficiary aged 62–64 at entitlement are actuarially reduced by 25/36 of 1 percent for each month before attainment of age 65 for which the benefit is drawn. Cases involving actuarial reduction may be represented in all amount-of-benefit intervals for which values are shown and account for all cases in the $35.20 to $43.90 interval.

[2] Excludes transitional insured beneficiaries.

[3] Wife's entitlement not dependent on having entitled children in her care. Excludes transitional insured beneficiaries.

[4] Wife's entitlement dependent on having entitled children in her care.

[5] $51.70 minimum possible.

[6] $57.20 minimum possible.

[7] Less than 0.05 percent.

[8] $101.70 maximum possible. Individuals also entitled to a widow or parent benefit may receive up to $138.60.

[9] $152 maximum possible.

[10] $152.60 maximum possible.

[11] $203.50 maximum possible.

[12] $228 maximum possible.

[13] $304 maximum possible.

Source: Social Security Bulletin, 1967 Annual Statistical (in press), table 82.

TABLE 6.—RETIRED WORKERS, AGED WIVES AND AGED WIDOWS BY AGE, PERCENTAGE DISTRIBUTION AND AVERAGE MONTHLY BENEFIT IN CURRENT-PAYMENT STATUS, END OF 1967

Age	Retired workers			Aged wives	Aged widows
	All	Men	Women		
Total number (in thousands)	11,933	7,128	4,805	2,503	2,767
	Percent distribution				
Total	100.0	100.0	100.0	100.0	100.0
60 to 61					4.4
62 to 64	8.7	6.8	11.4	14.7	11.9
65 to 69	30.0	29.5	30.7	32.8	20.3
70 to 74	27.9	28.5	27.1	28.7	23.0
75 to 79	19.6	20.2	18.7	16.3	20.2
80 to 84	9.7	10.3	8.7	6.0	13.4
85 and over	4.2	4.6	3.4	1.5	6.8
	Average monthly benefit				
Total	$85.70	$94.80	$72.30	$44.90	$74.99
60 to 61					74.36
62 to 64	67.83	76.16	60.52	39.48	79.29
65 to 69	86.69	95.66	73.98	44.00	81.04
70 to 74	92.10	102.15	76.20	47.08	77.65
75 to 79	88.30	96.60	74.70	48.10	72.79
80 to 84	79.70	87.40	67.90	44.88	67.35
85 and over	72.70	78.30	62.50	41.63	62.30

TABLE 7.—NUMBER AND PERCENT OF RETIRED WOMEN AND AGED WIDOWS WITH MONTHLY BENEFITS UNDER $70 AND $100 OR MORE IN CURRENT PAYMENT STATUS, BY AGE GROUP, END OF 1967

Age	Monthly benefits under $70				Monthly benefits of $100 or more			
	Retired women		Aged widows		Retired women		Aged widows	
	Number (thousands)	Percent	Number (thousands)	Percent	Number (thousands)	Percent	Number (thousands)	Percent
All ages	2,499	51.9	1,180	42.5	862	18.1	453	16.4
60 to 61			46	37.5			3	2.6
62 to 64	389	70.3	115	34.3	45	8.2	70	21.2
65 to 69	753	50.5	185	32.9	317	21.3	156	27.7
70 to 74	610	46.6	241	37.8	293	22.4	130	20.4
75 to 79	408	46.1	255	45.7	155	17.5	68	12.1
80 to 84	232	56.8	209	56.4	42	10.3	21	5.6
85 and over	107	67.6	129	68.8	10	6.0	5	2.8

TABLE 8.—BENEFITS FOR RETIRED WORKERS AND WIDOWS—PERCENTAGE DISTRIBUTION BY MONTHLY BENEFIT AMOUNT IN CURRENT-PAYMENT STATUS END OF DECEMBER 1967 AND 1968

Monthly benefit amount	Retired workers [1]		Widows [1]	
	December 1967	December 1968	December 1967	December 1968
Total number (thousands)	12,019	12,421	2,770	2,916
Total percent	100.0	100.0	100.0	100.0
Less than $70	36.0	27.4	42.6	30.8
Statutory minimum or less [2]	(15.6)	(17.0)	(14.5)	(17.1)
$70 to $99.90	27.2	24.1	41.1	32.5
$100 to $129.90	28.4	24.3	16.3	36.7
$130 and over	8.4	24.2		

[1] Data include a small number of beneficiaries entitled under the transitional insured status provision. Data do not include person receiving special age 72 primary benefits. Data for widows also include a small number of widowers.

[2] The statutory minimum was $44 in 1967 and $55 in 1968. Benefits below the minimum are due to actuarial reduction and to the inclusion of persons entitled under the transitional insured status provision. For widows, benefits below minimum could also be due to family maximum.

TABLE A.—WORK EXPERIENCE OF PERSONS 65 YEARS OLD AND OVER, BY SEX, 1960, 1963, AND 1967

Work experience	1960	1963	1967
MEN			
Total civilian noninstitutional population:			
Number (thousands)	6,963	7,548	7,866
Percent	100	100	100
Did not work	56.9	62.4	65.1
Worked	43.1	37.6	34.9
Worked at full-time jobs:[1]			
50 to 52 weeks	16.8	14.3	14.2
Less than 50 weeks	9.7	8.3	7.1
Worked at part-time jobs:			
50 to 52 weeks	6.7	6.0	5.6
Less than 50 weeks	9.9	9.0	7.9
WOMEN			
Total civilian noninstitutional population:			
Number (thousands)	8,585	9,497	10,362
Percent	100	100	100
Did not work	84.2	84.9	86.1
Worked	15.8	15.1	13.9
Worked at full-time jobs:[1]			
50 to 52 weeks	3.1	4.1	4.0
Less than 50 weeks	5.1	3.0	2.6
Worked at part-time jobs:			
50 to 52 weeks	4.3	3.0	3.0
Less than 50 weeks	3.3	5.0	4.3

[1] 35 hours or more a week.

Source: U.S. Department of Labor, Bureau of Labor Statistics data for 1960 and 1963 were published in special labor force report No. 19, "Work Experience of the Population in 1960," table A-1 and special labor force report No. 48, "Work Experience of the Population in 1963," table A-1. Dates for 1967 will be published in a forthcoming issue of the Monthly Labor Review.

THE SOCIAL SECURITY ADMINISTRATION PROGRAM OF RETIREMENT RESEARCH

(By Lenore E. Bixby and Lola M. Irelan*)

Philosophies of aging and social arrangements for aged have varied with types of society. (1) Modern industrial society is characterized by the belief that the elderly are entitled to dignified economic security, whatever may be their ability to work. The Social Security Act of 1935 marked the fruition of this principle for the United States. The Act rested upon more than a decade of social gerontological research in the United States, (2) and specifically on studies by the Committee on Economic Security.

Since their establishment, the Social Security programs have themselves contributed regularly to advancement of gerontological knowledge. Effective administration of major income maintenance programs requires continuous evaluation, as the original Social Security Act recognized by including a mandate to study problems of economic insecurity and make "recommendations as to the most effective methods of providing security through social insurance." (3) Within a year after first payments were made in 1940, the first of a continuing series of evaluative sample surveys was begun.

Design of the surveys has changed, paralleling evolving technology in the general field of survey research. The first study was a limited, two-city survey of beneficiaries of the program. A short series of similar local surveys followed. In 1951, for the first time, a national sample survey of aged beneficiaries was conducted, and replicated in 1957. (4) The next survey, in 1963, not only was national in scope, but provided a control group of nonbeneficiaries, and represented all persons aged 62 and over. (5) A new 10-year longitudinal study of a national sample, begun in March of this year, will yield further perspective on problems of aging.

*Division of Retirement Survivor Studies, Office of Research and Statistics, Social Security Administration. This is an expansion of a paper read at the 21st Annual Meeting of the Gerontological Society at Denver, Colo., November 1, 1968, and will appear in the summer 1969 issue of the Gerontologist.

The substance and emphasis of the studies have varied as the program expanded and issues changed. From a comparatively limited old-age insurance scheme for workers in industry and commerce, the program has developed until today monthly cash benefits are paid to one in eight persons in the entire population, and all those 65 and over are protected against major health care costs. Categories of workers who should be covered is no longer a major issue. Nor is the type of protection for the aged.

The level of living of social security beneficiaries continues to be a major criterion of program adequacy. The 1963 Survey of the Aged drew attention to the unfavorable economic situation of early retirees—workers who choose to take reduced benefits before the age of 65. (6)

The last Advisory Council on Social Security, in its 1965 Report, urged the study of conditions surrounding retirement before age 65. (7) The Council noted the small benefits going to early retirees and suggested the possibilty of a less drastic benefit reduction for early retirement. (The Council concluded, however, that more information was needed because such a provision not only would be expensive but also might have a sharp impact on retirement policies in general and private pension plans in particular. The Council called for data on reasons for retirement, work experience, private pension rights and other sources of retirement income, and the worker's role in family support. For other aspects of legislative planning there is urgent need also for information about characteristics of workers who will become entitled to minimum or near-minimum benefits in the future, and on the effect of varying retirement-earnings-test provisions.

To meet these data needs, the Social Security Administration (SSA) is conducting interlocking studies of retirement in the United States. The pivotal project is the Retirement History Study, a 10-year study of a large sample of people who will be followed, in biennal interviews from pre- to post-retirement. Accompanying this longitudinal survey are a number of more focused, less extensive, pieces of research: periodic cross-section surveys of all older people, a mailed questionnaire study of early retirement, and some in-depth analyses of social security earnings records.

THE RETIREMENT HISTORY STUDY

The Retirement History Study (RHS), which began in the Spring of this year will be the first longitudinal survey undertaken by the Social Security Administration. The need for longitudinality in studying change over time is generally acknowledged, but is honored more in the breach than in the observance, owing to the difficulty and cost of diachronic studies. The leap from synchronic comparison of age groups to assumptions of temporal continuity between them is frequently made, although such assumptions ignore historical change, human reaction to it, and the fact that the characteristics of a birth cohort itself are potent factors in its own environment. (8) The value of longitudinality for the study of process has been established. (9) Its particular applicability in studies of aging is attested by the increasing numbers of gerontologists engaged in longitudinal research. (10)

The SSA's RHS has several unique features. The sample is to be nationally representative, it covers the gamut of occupations, and, for the first time in a longitudinal aging study, covers large numbers of women.

Its primary objective is to understand the whole retirement process, including the role of retirement planning. Respondents are now, at the study's outset, between 58 and 63 years old, a range which nets large numbers of people a few years before their retirement. Married men, non-married men, and non-married women are represented. Housewives, to whom retirement is usually irrelevant, are intentionally excluded as primary respondents, but some information is being collected on work experience, attitudes, and morale of wives of the men in the sample. If the latter die, their widows will be continued in the study.

To permit some isolation of the effects of aging and retirement from those of possible changes in the general economic situation during two-year intervals between interviews, the data will be analyzed for 3 age sub-cohorts—those 58 and 59, 60 and 61, and 62 and 63 years old. The sample is designed to permit reliable identification of differences between a 10-percent change in one cohort and a 15-percent change in another over a 2-year period. Detection of relative change in means of different variables within or between cohorts will also be possible. To sustain capacity for these analyses over the minimum ten years of study, allowing for normal sample attrition, sample size was set at 12,650 persons not in institutions at the study's outset. (11)

It is basically an area sample of persons aged 58–63 as of March 1969 in the Census Bureau's 449 PSU design for the Current Population Survey. Resources of 21 lapsed rotation groups were necessary to meet analytic requirements. Use of the 449 areas where the Census Bureau has a staff of trained interviewers, should facilitate collection of data from movers. It is estimated that only ½ of 1 percent of each early wave will need to be interviewed outside sample PSU's.

The first collection of data is a base line project to obtain descriptive information on certain facets of current living situations. The interview schedule covers five general areas: labor force status, retirement planning and expectations, health care and expenditures, family contacts and certain aspects of comsumption, and finally, finances.

A detailed picture of current work life will be obtained covering the kind of work a respondent does, the number of hours he works, salary, unemployment and job-seeking behavior, and attitude toward his job. Similar information is obtained on the immediately previous job and the job which was held longest.

In this first inquiry, concentrated efforts have been made to learn what retirement plans, if any, are made by 58- to 63-year-olds. Respondents are asked whether and when they expect to retire, what their reasons are, and whether they have done any retirement planning. Questions cover plans to move, plans to work after retirement, expected expenses and expected resources, and subjective attitudes toward retirement. Persons who describe themselves as already completely or partly retired are asked to report retrospectively on age at retirement, reasons, and whether or not retirement was planned. A number of subjective items are included as morale indicators.

Recall questions cover health experience for the calendar year preceding this first interview, including receipt and costs of treatment by physicians and dentists, incidents of hospitalization, drug prescriptions, nonprescription medicines and other medical supplies and services. Health insurance coverage and other resources for payment of medical expenses are inquired about. A subjective measure of physical disability is included, the same as that used to screen for disabled for the 1966 Social Security Survey of the Disabled. (3) In addition the respondent is asked to compare his health with that of others his age.

Proximity, numbers, and frequency of contact with close relatives are covered, as are receipt of financial support from or contributions to these relatives. Information on selected consumption items is sought with the hope that the data will yield direct indicators of changes in level of living. Food and housing expenses, transportation, gifts and selected recereational items are covered.

As in SSA's cross-section surveys of the aged, there is a relatively thorough listing and description of the sources and size of income and assets and an accounting of debts.

Appended to the basic schedule is a section for spouses of sample members, consisting of work items and a few attitudinal questions.

With the 1969 data as a baseline, subsequent biennial surveys will record the retirement process as it develops. Early analysis and reports will focus on retirement patterns and determinants of retirement timing, especially the relation between pre-retirement income and expected post-retirement income. The influence exerted by health, anticipated post-retirement needs and resources, employer policies, and significant work history will also be studied. As sample members retire, time-dimensioned data will accrue in several areas where only impressionistic or cross-sectional data are now available. We will learn the extent to drastic benefit reduction for early retirement. The Council concluded, however, which mobility is related to aging and retirement. Changes in consumption practices and in activity patterns will be observed. The question of retirement's effect on health can be studied in context. Accessibility of close relatives, shown to be an important factor in the lives of older people, (14) will be followed. The extent of older people's work life and various combinations of work and retirement will be analyzed. Morale and its sources will be studied throughout the ten years of the project.

Findings from this study of the retirement process will be supplemented and deepened, at several points, by data collected in certain other SSA studies. Comparison with such data is also expected to reveal any possible biasing of RHS data brought about by repeated interviewing as well as by sample losses.

CROSS SECTION SURVEYS

The Study of New Beneficiaries

Because RHS will not yield significant information for several years on the circumstances surrounding and influencing retirement before the age of 65, a special Survey of New Beneficiaries (insured workers just awarded social security benefits) was started in Summer 1968. It was designed to produce quickly a limited amount of high quality data for a new 1969 Advisory Council on Social Security. Specifically, it will examine the characteristics of men and women aged 62 to 65, with special emphasis on labor force attachment, reasons for leaving last job, and self-perception of retirement status.

For several years, cross-sectional samples are to be selected monthly from all persons newly awarded old-age benefits, using one of the 100–PSU designs of the Bureau of the Census. Each monthly sample will be approximately 3,500 individuals from a universe of about 90,000 to 110,000. Data collection will be via mailed questionnaire, with non-respondents approached by two mail and one personal interview follow-up. Mailing questionnaires permits a large sample at relatively low cost.

The correlates of retirement being explored include occupational characteristics, compulsory retirement provisions, pre- and post-retirement earnings, private pension coverage and receipt, benefits and other sources of income, physical disability, and certain attitudes. A large amount of detail will accrue on the transition from work to retirement, particularly changes in earnings, hours worked, and type of work done. Retirement expectations are also examined for those currently in the labor force, primarily persons enrolled for Medicare but not electing cash benefits. The same questions are asked on physical disability and comparative health as in RHS, and will be used in analyzing factors in age of retirement.

For retirees, monthly collection of data allows responses on reasons for retirement close to the event, and will make possible study of seasonal factors as distinct from fluctuations associated with changes in the national economy. A continuing mail survey permits flexibility: deletions when sufficient data have been accumulated and additions as new questions arise.

Studies of the Population 65 and over

While comparison of data for any two sets of people born at different times indexes social rather than individual change, periodic surveys of the socio-economic status of all aged beneficiaries are essential for evaluation of Social Security programs. The series of cross-section sample surveys begun in the early 1940's therefore continues.

Early in 1968 data were collected on the 1967 income and work experience of persons 65 and over, by two brief supplements to the Current Medicare Survey (CMS). (15) Supplements to this ongoing survey made it possible to obtain relatively quickly (again for use of the Advisory Council on Social Security) current socio-economic data similar to some of those from the 1963 Survey of the Aged. When analyzed, they will permit comparison of the economic situation of all beneficiaries (and nonbeneficiaries) aged 65 and over with that of new beneficiaries, both early and "regular" retirees.

During the 10 years of the RHS it is likely that at least two national cross-section surveys of the aged will be undertaken either as independent surveys or CMS supplements. If conducted as CMS supplements, they may be undertaken relatively frequently, perhaps biennially, because cost of sample selection is minimal, but at some sacrifice of content. If conducted independently, they would probably be scheduled once in 5 years. They could then cover a broader range of subjects than in 1968 without jeopardizing the goodwill of respondents. In any case, few data need be collected on receipt of and outlay for medical care services, which are obtained in detail from the CMS panel of some 4,000 persons, with a diary used to underpin monthly interviews.

The general cross-section surveys will serve not only to identify possible bias in RHS data resulting from repeated interviewing and sample attrition, but also will provide information on persons past 72 years of age, a group particularly difficult to study longitudinally because of high morbidity and mortality. While this age group forms an important component of the beneficiary population, whose needs must be considered, it seems wise to allocate proportionately less research resources to them than to recent retirees and to a group representative of the retirees of the next decade.

RECORD ANALYSES

In addition to these population surveys, several retirement-related analyses of social security records are underway. The Continuous Work History Sample, a 1-percent sample of all persons who have been in employment covered by Social Security, is a rich and unique source of information on work-life experience. (16) Its data on recency, regularity and type of employment, and on earings levels (best and latest) are being analyzed to compare men and women who claim benefits before age 65 with those claiming them later. Data on the insured who do not take cash benefits because of employment and on uninsured workers aged 62 and over are also being studied. These economic data, with cross-tabulation by race and size of cash benefit, provide an important supplement to the attitudinal and employment data from the RHS and mailed questionnaire surveys.

CONCLUSION

The social security program must be continuously appraised to determine its effectiveness in meeting the needs of retirees and other groups it is designed to serve. Policy issues of central interest at present relate to the age of retirement, the effect of the retirement-earnings test, benefit levels for different groups, and the appropriate role of private pension plans.

The surveys and special analyses described above are designed to provide facts for such appraisal. The RHS will illuminate the factors important in the entire process of retirement. Meanwhile, the Survey of New Beneficiaries will provide a stock of data on reasons so many workers claim benefits before age 65, on the role of private pensions, and some indication of the extent and correlates of employment shortly after entitlement to benefits. The 1968 cross-section survey will yield data on demographic and economic characteristics of the population 65 and over, and thus update knowledge of the post-entitlement situation of social security beneficiaries compared with older persons yet insured and those who continue at work regardless of eligibility for cash benefits.

To make the findings promptly available to administrators and legislators responsible for policy decisions and to the academic community, first analyses from the studies will appear as *R&S Notes* and in the *Social Security Bulletin*. The detailed findings of the cross-section surveys will then be reported in separate monographs of the Research Report series of the SSA's Office of Research and Statistics. Findings of the RHS will be published in a series of Research Reports, with the first on pre-retirement status. (17)

In national studies, particularly longitudinal ones, certain refinements of detail must be sacrificed. Through a small research grant program, the SSA makes grants to support extra-mural research on current issues surrounding income-maintenance and health insurance programs. (18) With such support, as well as under other auspices, a number of studies relating to retirement have been undertaken which will supplement the SSA's program of retirement research. Some relate to specific industries or areas, others are more general but likely to probe some questions in considerable depth.

Small studies in depth may enrich the national survey findings. At the same time broad national surveys provide a frame of reference for industry or local-area surveys. Together they make it possible to reflect in policy decisions the changing composition and needs of the aged in contemporary society.

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(18) Grant funds, authorized by Section 1110 of the Social Security Act, are administered in cooperation with the Social and Rehabilitation Service. See a small brochure issued by the Social Security Administration in 1968 entitled *Research Grants in Social Security*, for the areas of research of particular interest to Social Security Administration, and for application procedures.

TABLE Q-5.—OASDHI CASH BENEFITS: NUMBER AND AVERAGE AMOUNT OF RETIRED WORKER BENEFITS IN CURRENT-PAYMENT STATUS WITH AND WITHOUT REDUCTION FOR EARLY RETIREMENT, BY SEX, 1956–68

At end of selected month	Beneficiaries				Average monthly benefits				
	Total number	Without reduction for early retirement	With reduction for early retirement: Number	With reduction for early retirement: Percent of total	All benefits	Without reduction for early retirement	With reduction for early retirement: Before reduction [1]	With reduction for early retirement: After reduction	With reduction for early retirement: Percent reduction
TOTAL									
December:									
1956	5,112,430	4,997,401	115,029	2.2	$63.09	$63.43	$53.64	$48.17	10.2
1957	6,197,532	5,811,422	386,110	6.2	64.58	65.61	55.33	49.08	11.3
1958 [2]	6,920,677	6,351,854	568,823	8.2	66.35	67.79	57.06	50.27	11.9
1959	7,525,628	6,761,722	763,906	10.2	72.78	74.78	63.18	55.16	12.7
1960	8,061,469	7,112,265	949,204	11.8	74.04	76.47	64.19	55.78	13.1
1961	8,924,849	7,468,585	1,456,264	16.3	75.65	78.81	67.92	59.42	12.5
1962	9,738,500	7,647,575	2,090,925	21.5	76.19	80.10	70.69	61.88	12.5
1963	10,263,331	7,662,499	2,600,832	25.3	76.88	81.49	72.39	63.31	12.5
1964	10,668,731	7,598,690	3,070,041	28.8	77.57	82.92	73.66	64.32	12.7
1965	11,100,584	7,581,386	3,519,198	31.7	83.92	90.12	80.48	70.56	12.3
1966	11,658,443	7,651,755	4,006,688	34.4	84.35	91.04	82.01	71.56	12.7
1967	12,019,371	7,562,820	4,456,551	37.1	85.37	92.81	83.46	72.77	12.8
1968	12,421,371	7,433,671	4,987,700	40.2	98.86	107.70	[3]	85.67	[3]
1967									
December	12,019,371	7,562,820	4,456,551	37.1	85.37	92.81	83.46	72.77	12.8
1968									
March	12,085,503	7,510,799	4,574,704	37.9	98.20	106.36	[3]	84.79	[3]
June	12,188,476	7,467,539	4,720,937	38.7	98.33	106.74	[3]	85.01	[3]
September	12,335,002	7,452,614	4,882,388	39.6	98.60	107.23	[3]	85.43	[3]
December	12,421,371	7,433,671	4,987,700	40.2	98.86	107.70	[3]	85.67	[3]
MEN									
December:									
1956	3,572,271	3,572,271			68.23	68.23			
1957	4,198,086	4,198,086			70.47	70.47			
1958 [2]	4,617,208	4,617,208			72.74	72.74			
1959	4,937,032	4,937,032			80.11	80.11			
1960	5,216,668	5,216,668			81.87	81.87			
1961	5,764,685	5,491,225	273,460	4.7	83.13	83.84	76.94	69.01	10.3
1962	6,244,155	5,587,209	656,946	10.5	83.79	85.26	80.03	71.24	11.0

1963	6,497,372	5,551,896	945,476	14.6	84.69	86.81	81.63	72.21	11.5
1964	6,657,410	5,460,407	1,197,003	18.0	85.58	88.37	82.72	72.85	11.9
1965	6,825,078	5,389,166	1,435,912	21.0	92.59	96.12	90.14	79.35	12.0
1966	7,034,343	5,345,011	1,689,332	24.0	93.26	97.37	90.98	80.26	11.8
1967	7,160,800	5,222,465	1,938,335	27.1	94.49	99.33	92.53	81.53	11.9
1968	7,309,987	5,096,114	2,213,873	30.3	109.08	114.99	[3]	95.48	[3]
1967									
December	7,160,800	5,222,465	1,938,335	27.1	94.49	99.33	92.53	81.53	11.9
1968									
March	7,192,454	5,183,197	2,009,257	27.9	108.27	113.57	[3]	94.61	[3]
June	7,224,321	5,142,014	2,082,307	28.8	108.45	113.98	[3]	94.80	[3]
September	7,276,499	5,117,636	2,158,863	29.7	108.73	114.47	[3]	95.12	[3]
December	7,309,987	5,096,114	2,213,873	30.3	109.08	114.99	[3]	95.48	[3]
WOMEN									
December:									
1956	1,540,159	1,425,130	115,029	7.5	51.16	51.41	53.41	48.17	10.2
1957	1,999,446	1,613,336	386,110	19.3	52.23	52.98	55.33	49.08	11.3
1958 [2]	2,303,469	1,734,646	568,823	24.7	53.55	54.62	57.06	50.27	11.9
1959	2,588,596	1,824,690	763,906	29.5	58.81	60.34	63.18	55.16	12.7
1960	2,844,801	1,895,597	949,204	33.4	59.67	61.61	64.19	55.78	13.1
1961	3,160,164	1,977,360	1,182,804	37.4	62.00	64.87	65.84	57.20	13.1
1962	3,494,345	2,060,366	1,433,979	41.0	62.61	66.10	66.41	57.59	13.3
1963	3,765,959	2,110,603	1,655,356	44.0	63.42	67.48	67.11	58.23	13.2
1964	4,011,321	2,138,283	1,873,038	46.7	64.28	69.01	67.88	58.87	13.3
1965	4,275,506	2,192,220	2,083,286	48.7	70.07	75.36	73.82	64.50	12.6
1966	4,624,100	2,306,744	2,317,356	50.1	70.79	76.40	75.47	65.21	13.6
1967	4,858,571	2,340,355	2,518,216	51.8	71.92	78.28	76.46	66.01	13.7
1968	5,111,384	2,337,557	2,773,827	54.3	84.24	91.82	[3]	77.85	[3]
1967									
December	4,858,571	2,340,355	2,518,216	51.8	71.92	78.28	76.46	66.01	13.7
1968									
March	4,893,049	2,327,602	2,565,447	52.4	83.39	90.31	[3]	77.10	[3]
June	4,964,155	2,325,525	2,638,630	53.2	83.59	90.74	[3]	77.29	[3]
September	5,058,503	2,334,978	2,723,525	53.8	84.02	91.35	[3]	77.74	[3]
December	5,111,384	2,337,557	2,773,827	54.3	84.24	91.82	[3]	77.85	[3]

[1] Estimated.
[2] November data; December not available.
[3] Data not available.

TABLE Q-6.—OASDHI CASH BENEFITS: NUMBER AND AVERAGE MONTHLY AMOUNT OF RETIREMENT BENEFITS AWARDED, WITH AND WITHOUT REDUCTION FOR EARLY RETIREMENT, BY STATUS OF AWARD, 1956–68

[Partly estimated; quarterly data exclude and annual data include foreign beneficiaries]

Period	Number of awards (in thousands)							Reduced benefit awards currently payable as percent of—			Average monthly amount of award			
			Currently payable										Currently payable regular	
				Regular [3]										
	All awards	Conditional and deferred [1]	Conversions and transitionally insured [2]	Total	Not reduced	Reduced	Awards moving to payment status [4]	All awards	All currently payable regular awards	All awards moving to payment status [4]	All awards	Conditional and deferred	Not reduced	Reduced
TOTAL														
1956	934	44	----------	890	775	115	909	12	13	13	$67.25	(5)	(5)	(5)
1957	1,425	68	6	1,351	1,072	280	1,414	20	21	20	67.50	(5)	(5)	(5)
1958 [6]	1,042	73	23	945	752	193	1,022	19	20	19	74.50	(5)	(5)	(5)
1959 [7]	1,090	115	36	939	723	217	1,027	20	23	21	81.50	(5)	(5)	(5)
1960	982	98	42	841	634	207	934	21	25	23	81.75	(5)	(5)	(5)
1961	1,362	144	51	1,166	629	537	1,284	39	46	42	77.50	$102.00	(5)	(5)
1962	1,347	176	51	1,120	427	693	1,270	51	62	55	78.75	102.75	(5)	(5)
1963	1,146	131	51	964	351	613	1,066	54	64	58	80.25	103.75	$92.25	$67.50
1964	1,042	120	45	877	291	586	976	56	67	60	81.25	106.25	97.00	67.50
1965	1,183	209	99	875	296	579	979	49	66	59	85.50	115.25	99.50	70.25
1966	1,648	639	118	890	259	631	1,136	38	71	56	93.75	118.00	92.50	74.75
1967	1,157	321	75	761	127	634	1,034	55	83	61	89.75	116.25	90.00	76.00
1968 [8]	1,236	350	81	804	131	673	1,111	54	84	61	103.75	134.00	103.50	86.75
MEN														
1956	564	35	----------	530	530	----------	547	----------	----------	----------	75.75	(5)	(5)	----------
1957	896	53	6	838	838	----------	897	----------	----------	----------	75.50	(5)	(5)	----------
1958 [6]	674	57	22	594	594	----------	660	----------	----------	----------	83.25	(5)	(5)	----------
1959 [7]	702	90	34	579	579	----------	655	----------	----------	----------	91.25	(5)	(5)	----------
1960	630	77	38	515	515	----------	594	----------	----------	----------	92.00	(5)	(5)	----------
1961 (January–July)	377	45	30	302	302	----------	876	----------	----------	32	90.75	(5)	(5)	----------
1961 (August–December)	565	68	15	482	203	279		49	58		80.50	(5)	(5)	(5)
1962	904	138	44	722	299	423	837	47	59	51	86.00	(5)	(5)	(5)
1963	736	102	42	592	239	353	675	48	60	52	88.50	106.25	99.75	74.75
1964	652	93	36	524	200	324	601	50	62	54	89.75	108.75	104.00	74.75
1965 (January–August)	431	57	28	347	132	214	601	50	62	53	91.00	109.25	105.25	76.50
1965 (September–December)	312	107	35	171	66	105		33	61		99.75	121.75	110.50	81.75
1966	1,060	502	67	491	146	345	668	33	70	52	103.00	119.75	102.25	83.50
1967	716	246	53	416	67	349	634	49	84	55	99.25	118.50	99.50	85.00

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1968 [8]	763	266	59	438	73	365	677	48	83	54	114.25	136.50	111.25	97.00
1967 (October–December)	170	70	13	87	13	74	(5)	44	85	(5)	101.50	120.50	97.75	84.00
1968 (January–March) [8]	194	62	11	121	22	99	(5)	51	82	(5)	114.25	135.25	115.75	98.25
April–June	205	70	15	120	19	100	(5)	49	84	(5)	112.25	134.25	107.50	96.75
July–September	193	68	17	108	17	91	(5)	47	84	(5)	114.50	137.25	112.00	97.50
October–December	171	66	16	89	14	75	(5)	44	84	(5)	116.25	138.75	113.25	96.25
WOMEN														
1956	370	10	----------	360	245	115	362	31	32	32	54.50	(5)	(5)	(5)
1957	529	15	(9)	514	234	280	517	53	54	54	54.00	(5)	(5)	(5)
1958 [6]	368	16	1	351	158	193	362	53	55	53	58.50	(5)	(5)	(5)
1959 [7]	388	25	2	361	144	217	373	56	60	58	63.75	(5)	(5)	(5)
1960	351	21	4	326	119	207	340	59	64	61	63.25	(5)	(5)	(5)
1961	420	31	6	383	125	258	408	62	67	63	61.50	(5)	(5)	(5)
1962	444	38	7	398	128	270	433	61	68	62	64.25	(5)	(5)	(5)
1963	410	28	9	372	112	261	391	64	70	67	65.75	94.75	75.75	57.75
1964	390	27	10	353	90	263	375	67	74	70	67.00	98.00	81.00	58.50
1965 (January–August)	254	17	9	228	59	169	379	66	74	69	68.75	99.25	84.00	60.00
1965 (September–December)	186	28	28	130	38	92		49	70		71.25	112.50	84.50	61.75
1966	588	138	51	399	113	286	468	49	72	61	77.00	111.25	80.50	64.00
1967	441	75	21	345	61	284	399	64	82	71	74.75	108.50	79.25	64.50
1968 [8]	473	84	22	366	59	308	434	65	84	71	87.25	125.50	94.25	74.75
1967 (October–December)	107	21	5	81	13	67	(5)	63	84	(5)	75.25	111.50	80.50	62.50
1968 (January–March) [8]	117	20	4	93	14	78	(5)	67	85	(5)	86.50	123.50	95.25	75.25
1968 April–June	125	24	6	95	17	79	(5)	63	83	(5)	87.50	123.75	93.00	74.75
July–September	122	20	6	96	15	81	(5)	66	84	(5)	87.75	125.50	95.50	76.25
October–December	108	20	6	82	13	70	(5)	64	85	(5)	86.75	128.25	94.25	72.75

[1] Conditional or deferred awards are those suspended immediately following determination, chiefly because of earnings of the retired worker. Since September 1965, most conditional and deferred awards have been made primarily for the purpose of assuring eligibility for hospital insurance benefits.

[2] Conversions are awards of retired-worker benefits to disabled-worker beneficiaries on attainment of age 65; transitionally insured awards are those made to persons aged 72 and over with 3 to 5 quarters of coverage.

[3] Excludes disability conversions and transitionally insured as well as conditional and deferred awards.

[4] Currently payable regular awards plus those originally awarded as conditional or deferred that have moved to payment status; excludes conversions and awards to the transitionally insured.

[5] Data not available.

[6] January–November data.

[7] Includes December 1958.

[8] The average monthly amounts are as of March 1968 and reflect the benefit increases authorized by the 1967 amendments to the Social Security Act.

[9] Less than 500.

ITEM 5. MOLLIE ORSHANSKY, DIVISION OF ECONOMIC AND LONG-RANGE STUDIES, OFFICE OF RESEARCH AND STATISTICS, SOCIAL SECURITY ADMINISTRATION

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
Washington, D.C., April 28, 1969.

DEAR SENATOR WILLIAMS: The Working Paper issued last month by the Task Force for the Special Senate Committee on Aging presents much useful material and thought-provoking interpretation. The report points up sharply the growing economic disadvantage of persons with earning power limited or lacking altogether, who must therefore in large measure look to sources other than earnings for support.

The fact that aged men and women are less likely to work regularly than younger persons and that they earn less when they do work is the main reason why poverty is so much more prevalent among the aged. When families are matched by work experience and sex of the head, aged families are not so much worse off than others. For example, the poverty rate for families of all aged men in 1966 was nearly triple that of younger ones, but when the family head worked the year round the rate of poverty among the aged was only twice that of the others. And, indeed, when the family head does not work at all, the average aged family will do better than a corresponding younger family because social security and other public support programs are more readily available to older people. Among the families headed by men who did not work at all in 1966, 28 percent of the aged were in poverty, compared with 37 percent when the head was aged 55–64 and 40 percent if he was under age 55. ("Shape of Poverty in 1966," *Social Security Bulletin*, March 1968, Table 7.) Comparable detail for 1967 is not yet available but preliminary findings for households headed by a year-round full-time worker are compared by age of head in Table 1. Only 1 in 6 of aged male family heads in 1967 worked full-time the year-round compared with four out of five men age 25–64.

In 1965, the latest year for which such information is available, half the income of all families with an aged head came from earnings, including earnings by younger family members. Nearly a third of reported income represented payments from a public income program. Among families with head aged 25 to 64, all but 7 percent of aggregate income came from earnings of one or more family members. Among the poor aged families, three-fourths of the year's income was from a public program, most often OASDHI. Even among the younger poor families one out of very four dollars of cash for the year was a public program payment (Table 2).

For the aged poor, most of whom were already benefiting from Social Security or other public income maintenance provision, it was the amount of the payment that was critical. Such payments are almost always less than the earnings for which they must substitute. For the younger poor, there is the additional complication that in a majority of cases earnings may preclude any payment at all from public programs. In over 90 percent of the families of young men in poverty, either the man himself or some other family member had worked during 1965. Among poor families of aged men only one in three had any earnings. But whereas seven-eighths of the aged poor families with earnings also had some public program benefits, only 1 in 4 of the younger families with earnings had such benefits. It there were no earnings, some 80 percent of the young poor families and 95 percent of the older ones were receiving public income maintenance (Table 3).

These data are fragmentary, but I believe they suggest the kind of information we need to assess progress and identify the gaps. Information on the amount of payments under separate programs and the persons to whom they go is available regularly in operating statistics of administering agencies, but it is only infrequently and through special studies that it is possible to learn about other resources of recipients and to determine how the individual programs complement each other. Limitations of these statistics are outlined on pp. 26–28 in "Shape of Poverty in 1966."

We are happy to make available to the Committee some figures carrying forward through 1967 the trends in poverty among the aged (table 4). Income data for the year 1968, which could reflect the increased Social Security benefits voted in 1967 will not be available until later this year. At the request of the Bureau of the Budget, Office of Statistical Standards, which took over responsibility for decisions as to the construction of the poverty index for 1968, the Census Bureau will publish the basic poverty tabulations on a slightly revised basis for 1968 and for earlier years.

The Social Security Administration hopes to continue periodic assessment of the economic status of the aged as well as that of younger persons. Mrs. Bixby has outlined some important special studies now under way, but it is true that the annual Census income sample facilitates comparison of different groups in a broader context, and serves as interim benchmark in the years when more intensive studies are not available. We agree that it would be desirable to continue both trend data and special analytic studies, and hope that SSA will be able to continue to work in this field.

Any definition of poverty implies basically a resolution of many value judgments. Among the most controversial in the SSA index has been the farm-nonfarm equivalence ratio to which you refer. When the index was originally drawn, available evidence suggested only a 60 percent equivalence for farm residents, but we acknowledged it subject to revision. And indeed within 6 months it was changed to 70 percent as more recent studies became available.

The ratio of 70 percent was not based solely on the amount of home-grown food. It reflects also the fact that farm families normally obtain housing, some utilities and transportation as part of the farming operation rather than paying for it directly. Such items may be counted with business expense when reporting income to the Census Bureau; and result in lower net cash income. In any event food consumption studies showed that out of available cash income, farm family food purchases represented an average of one-third, the same as for nonfarm families. The Review Committee for the Budget Bureau has in the last few weeks agreed to accept a recommendation by the Department of Agriculture to raise the farm poverty criterion to 85 percent of that for a comparable nonfarm family. It is not yet certain how much increase in the number of aged poor will accrue from the smaller farm-nonfarm differential. One might postulate a lesser farm-nonfarm differential for aged than for younger families because even the nonfarm aged generally own their home, but I think it would be unwise and unwieldy to make such distinction.

Annual price adjustment based on the changes in the cost of the Economy Food Plan, a practice we ourselves had proposed to change, has been abandoned. The new series will start with our base year criteria for 1963 and use the Consumers Price Index to adjust it year by year.

There is still no agreed tactic as to when and how the poverty index is to be adjusted to the rising real incomes an expanding economy makes possible for the majority. From one year to the next the change will be small. but over time the gap between a relatively static poverty threshold and a quickly rising general income level can loom large: Between 1959 and 1967 the poverty threshold for a nonfarm family of 4 dropped from half the median income of 4-person families to less than two-fifths. There must be a framework for adjusting the poverty line for changes in the level of economic activity and the resultant rise in wages and general standard of living.

The Social Security Administration poverty index was originally developed as a tool for analysis and evaluation. Its use for program eligibility purposes raises a whole set of additional questions which are not immediately relevant.

I hope these brief comments answer adequately the questions you raised.

Sincerely yours,

MOLLIE ORSHANSKY,
Division of Economic and Long-Range Studies.

[Enclosures]

TABLE 1.—INCIDENCE OF POVERTY IN 1967 AMONG HOUSEHOLDS WITH MALE HEADS, BY WORK EXPERIENCE AND AGE OF HEAD

Work experience of male head in 1967	Families with male head: Aged 25 to 64	Families with male head: Aged 65 and over	Unrelated male individuals: Aged 25 to 64	Unrelated male individuals: Aged 65 and over
	All households (in thousands)			
Total	35,705	5,944	2,917	1,305
Year round, full time	28,657	1,027	1,884	131
Other	7,048	4,917	1,033	1,174
	Poor households (in thousands)			
Total	2,137	1,123	481	555
Year round, full time	1,035	63	125	15
Other	1,102	1,060	356	540
	Percent of households in poverty			
Total	6.0	18.9	16.5	42.5
Year round, full time	3.6	6.1	6.6	11.5
Other	15.6	21.6	34.5	27.4

Source: Derived by Social Security Administration from special tabulations by Bureau of the Census from Current Population Survey for March 1968.

TABLE 2.—SOURCE OF INCOME AND POVERTY STATUS IN 1965: PERCENT OF INCOME FROM SPECIFIED SOURCE FOR POOR AND NONPOOR HOUSEHOLDS, BY AGE AND SEX OF HEAD

Source of income in 1965	All households				With male head				With female head			
	Poor and nonpoor		Poor		Poor and nonpoor		Poor		Poor and nonpoor		Poor	
	Head aged 25 to 64	Head 65 and over	Head aged 25 to 64	Head 65 and over	Aged 25 to 64	Aged 65 and over	Aged 25 to 64	Aged 65 and over	Aged 25 to 64	Aged 65 and over	Aged 25 to 64	Aged 65 and over
FAMILIES												
Number (in thousands)	38,334	6,894	4,371	1,497	34,709	5,767	2,982	1,168	3,625	1,127	1,389	329
Average income	$8,380	$5,030	$1,980	$1,480	$8,790	$5,030	$2,120	$1,480	$4,390	$5,050	$1,680	$1,510
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	92.9	52.2	69.5	15.9	95.2	49.5	82.4	12.8	73.0	66.0	34.3	26.7
Public income-maintenance programs	3.6	30.9	25.6	76.0	2.1	32.7	15.5	80.8	16.9	21.8	53.3	59.3
Social security benefits	1.5	24.5	7.8	59.2	.8	26.2	6.1	64.9	7.9	15.9	12.3	39.3
Public assistance	.9	1.4	14 8	11.2	.2	1.1	6.2	10.0	7.1	3.1	38.4	15.1
Other programs	1.2	5.0	3.0	5.6	1.1	5.4	3.2	5.8	2.0	2.8	2.6	4.9
Other sources	3.5	16.9	4.9	8.1	2.7	17.8	2.1	6.4	10.1	12.2	12.4	14.0
UNRELATED INDIVIDUALS												
Number (in thousands)	6,294	4,679	1,650	2,623	2,675	1,279	500	575	3,619	3,400	1,150	2,048
Average income	$4,160	$2,010	$810	$940	$5,290	$2,400	$890	$980	$3,330	$1,870	$780	$930
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	88.2	26.6	48.0	3.9	93.0	36.1	52.2	4.2	84.6	23.0	45.9	3.9
Public income-maintenance programs	5.1	47.6	37.7	85.9	3.4	47.6	42.1	89.4	6.4	47.6	35.4	84.8
Social security benefits	2.3	36.5	20.5	67.8	1.1	36.6	20.7	71.1	3.1	36.4	20.3	66.7
Public assistance	.8	4.8	10.0	13.8	.5	3.5	12.9	12.8	1.0	5.3	8.4	14.1
Other programs	2.0	6.4	7.2	4.3	1.7	7.5	8.5	5.5	2.3	6.0	6.6	3.9
Other sources	11.8	73.4	14.3	10.2	3.6	16.3	5.7	6.4	9.0	29.4	18.7	11.3

Source: Derived by Social Security Administration from special tabulations of Bureau of the Census from Current Population Survey for March 1966.

TABLE 3-A.—FAMILIES RECEIVING INCOME FROM SPECIFIED SOURCES IN 1965, BY AGE OF HEAD AND POVERTY STATUS

[Numbers in thousands]

Source of income in 1965	Families with male head						Families with female head					
	Aged 25 to 64			Aged 65 and over			Aged 25 to 64			Aged 65 and over		
	Total number	Poor		Total number	Poor		Total number	Poor		Total number	Poor	
		Number	Percent		Number	Percent		Number	Percent		Number	Percent
Total	34,708	2,982	----------	5,767	1,168	----------	3,626	1,389	----------	1,127	329	----------
Earnings	34,237	2,697	100.0	3,285	419	100.0	2,896	781	100.0	804	158	100.0
Public income-maintenance payments	5,716	601	22.3	2,625	362	86.4	1,226	368	47.1	655	127	80.4
Social security benefits	2,049	205	7.6	2,490	330	78.8	761	150	19.2	567	97	61.4
Public assistance	72	18	.7	77	38	9.1	68	36	4.6	73	22	13.9
No public assistance	1,967	187	6.9	2,413	292	69.7	693	114	14.6	494	75	47.5
No social security benefits	3,667	396	14.7	135	32	7.6	465	218	27.9	88	30	19.0
Public assistance	491	202	7.5	46	27	6.4	300	185	23.7	57	22	13.9
Other income only	3,176	194	7.2	89	5	1.2	165	33	4.2	31	8	5.1
No public income-maintenance payments	28,521	2,096	77.7	660	57	13.6	1,670	413	52.9	149	31	19.6
No earnings	471	285	100.0	2,481	748	100.0	729	607	100.0	323	171	100.0
Public income-maintenance payments	376	232	81.4	2,409	707	94.5	510	430	70.8	302	161	94.1
Social security benefits	252	133	46.7	2,252	629	84.1	160	101	16.6	251	119	69.6
Public assistance	31	21	7.4	165	77	10.3	14	12	19.8	46	16	9.4
No public assistance	221	112	39.3	2,087	552	73.8	146	89	14.7	205	103	60.2
No social security benefits	124	99	34.7	157	78	10.4	350	329	54.2	51	42	24.6
Public assistance	78	76	26.7	61	52	6.9	342	325	53.5	42	38	22.2
Other income only	46	23	8.1	96	26	3.5	8	4	.7	9	4	2.3
No public income-maintenance payments	95	53	18.6	72	41	5.5	219	177	29.2	21	10	5.8

Source: Derived by Social Security Administration from special tabulations by Bureau of the Census from Current Population Survey for March 1966.

TABLE 3-B.—UNRELATED INDIVIDUALS RECEIVING INCOME FROM SPECIFIED SOURCES IN 1965, BY AGE OF HEAD AND POVERTY STATUS

[Numbers in thousands]

Source of income in 1965	Unrelated male individuals						Unrelated female individuals					
	Aged 25 to 64			Aged 65 and over			Aged 25 to 64			Aged 65 and over		
	Total number	Poor		Total number	Poor		Total number	Poor		Total number	Poor	
		Number	Percent		Number	Percent		Number	Percent		Number	Percent
Total	2,675	500	----------	1,279	575	----------	3,619	1,150	----------	3,400	2,048	----------
Earnings	2,427	303	100.0	372	72	100.0	2,788	551	100.0	779	230	100.0
Public income-maintenance payments	331	84	27.7	250	49	68.1	300	70	12.7	566	188	81.7
Social security benefits	51	32	10.6	231	39	54.2	150	47	8.5	539	167	72.6
Public assistance	7	7	2.3	3	3	4.2	4	4	.7	16	8	3.5
No public assistance	44	25	8.3	228	36	50.0	146	43	7.8	523	159	69.1
No social security benefits	280	52	17.2	19	10	13.9	150	23	4.2	27	21	9.1
Public assistance	32	18	5.9	6	6	8.3	11	8	1.5	14	14	6.1
Other income only	248	34	11.2	13	4	5.6	139	15	2.7	13	7	3.0
No public income-maintenance payments	2,096	219	72.3	122	23	3.9	488	481	87.3	213	42	18.3
No earnings	248	197	100.0	907	503	100.0	830	598	100.0	2,621	1,818	100.0
Public income-maintenance payments	171	134	68.0	861	473	94.0	497	319	53.3	2,265	1,577	86.7
Social security benefits	106	74	37.6	766	411	81.7	306	201	33.6	1,992	1,363	75.0
Public assistance	14	12	6.1	72	60	11.9	22	17	2.8	208	171	9.4
No public assistance	92	62	31.5	694	351	69.8	284	184	30.8	1,784	1,192	65.6
No social security benefits	65	60	30.5	95	62	12.3	191	118	19.7	273	214	11.8
Public assistance	46	46	23.4	60	49	9.7	94	73	12.2	204	189	10.4
Other income only	19	14	7.1	35	13	2.6	97	45	7.5	69	25	13.8
No public income-maintenance payments	77	63	32.0	46	30	6.0	343	279	46.7	356	241	13.3

Source: Derived by Social Security Administration from special tabulations by Bureau of the Census from Current Population Survey for March 1966.

TABLE 4.—TRENDS IN POVERTY: NUMBER AND PERCENT OF PERSONS POOR, BY AGE, 1959-67

Age	Total noninstitutional civilian population [1] (in millions)				Persons poor [2] (in millions)				Incidence of poverty (percent)			
	1959	1964	1966	1967	1959	1964	1966	1967	1959	1964	1966	1967
All ages	176.5	189.7	193.4	195.7	38.9	34.1	29.7	26.1	22.1	18.0	15.4	13.4
Under 18 [3]	63.7	69.4	69.8	70.1	16.6	14.9	12.5	10.7	26.1	21.4	17.9	15.3
Families with male head	58.2	62.3	62.5	62.3	12.6	10.5	8.0	6.6	21.7	16.9	12.9	10.6
Families with female head	5.5	7.1	7.4	7.8	4.0	4.4	4.5	4.1	72.6	62.6	60.6	53.1
18 to 64 [4]	96.8	103.0	105.7	107.4	16.4	13.8	11.9	10.3	16.9	13.4	11.2	9.6
65 or older	15.9	17.4	17.9	18.2	5.9	5.4	5.4	5.1	37.2	30.8	29.9	27.8
In families	12.1	12.8	13.0	13.2	3.4	2.6	2.7	2.4	28.4	20.5	20.5	18.0
Unrelated individual	3.8	4.6	4.9	5.1	2.5	2.8	2.7	2.7	68.1	59.3	55.3	53.4
Men	1.1	1.3	1.3	1.3	.6	.6	.6	.6	59.9	47.9	44.0	42.5
Women	2.6	3.3	3.6	3.8	1.8	2.1	2.1	2.1	71.5	63.7	59.3	57.2

[1] Includes also Armed Forces in the United States living off post, or with families on post.

[2] Income for year of family or unrelated individual below SSA poverty income measure appropriate for family size, composition, and farm-nonfarm residence. SSA poverty measures are adjusted annually to conform to change in price of USDA economy food plan. Data for 1967 not strictly comparable with data for earlier years because of change in Census Bureau procedures for estimating income of nonrespondents. Had the revised procedure been followed in 1966, the number considered poor for that year would be 28,800,000 rather than the 29,700,000 shown here.

[3] Never-married children in families; for 1967 also includes the small number of ever-married family members under 18 who are neither the head or wife of head.

[4] Includes all family heads and wives under 18, and for 1959 through 1966 all ever-married children under 18.

Source: Derived by the Social Security Administration from special tabulations of Census Bureau from Current Population Survey.

MEN AND WOMEN IN POVERTY IN 1966

NUMBERS AND PERCENT OF PERSONS AGED 16 AND OVER IN HOUSEHOLDS WITH INCOME BELOW THE SSA POVERTY LEVEL

[Numbers in thousands]

Age and family status	Men: Total population, number	Men: In poor households, Number	Men: In poor households, Percent	Women: Total population, number	Women: In poor households, Number	Women: In poor households, Percent
Total aged 16 and over [1]	61,630	6,904	11.2	68,643	11,171	16.3
Living alone [2]	4,538	1,251	27.6	7,776	3,517	45.2
Living in families	57,092	5,653	9.9	60,867	7,656	12.6
Head	43,751	4,276	9.8	5,172	1,809	35.0
Wife of head				42,553	4,069	9.6
Other family members	13,341	1,377	10.3	13,142	1,778	13.5
Aged 16 to 21 [1] [3]	9,074	1,204	13.3	9,912	1,574	15.9
Living alone [2]	238	115	48.3	1,336	209	62.2
Living in families	8,836	1,089	12.3	9,576	1,365	14.3
Head	761	150	19.7	99	76	76.8
Wife of head				2,022	298	14.7
Never-married children	7,889	917	11.6	6,983	904	12.9
Aged 16 to 17	3,443	497	14.4	3,207	508	15.8
Aged 18 to 19	2,852	315	11.0	2,519	294	11.7
Aged 20 to 21	1,594	105	6.6	1,257	101	8.0
Other family members	186	22	11.8	472	87	18.4
Aged 22 to 54 [1]	36,576	2,833	7.7	39,493	4,568	11.6
Living alone [2]	2,248	333	14.8	2,050	541	26.4
Living in families	34,328	2,500	7.3	37,443	4,027	10.8
Head	30,283	2,187	7.2	3,161	1,335	42.2
Wife of head				31,180	2,251	7.2
Other family members	4,045	313	7.7	3,102	441	14.2
Aged 55 to 64 [1]	8,179	933	11.4	9,038	1,594	17.6
Living alone [2]	751	239	31.8	1,751	633	36.2
Living in families	7,428	694	9.3	7,288	961	13.2
Head	6,900	635	9.2	789	166	21.0
Wife of head				5,803	685	11.8
Other family members	528	59	11.2	696	110	15.8
Aged 65 and over [1]	7,783	1,934	24.8	6,153	3,437	33.9
Living alone [2]	1,284	564	43.9	3,594	2,132	59.3
Living in families	6,499	1,370	21.1	6,559	1,305	19.9
Head	5,806	1,304	22.5	1,122	234	20.9
Wife of head				3,548	835	23.5
Other family members	693	66	9.5	1,889	236	12.5

[1] Excludes persons in institutions in March 1967.
[2] Or with nonrelatives only.
[3] Includes ever-married persons under age 16.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

ITEM 6. MRS. DOROTHY P. RICE, CHIEF, HEALTH INSURANCE BRANCH, DIVISION OF HEALTH INSURANCE STUDIES, OFFICE OF RESEARCH AND STATISTICS, SOCIAL SECURITY ADMINISTRATION

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
Washington, D.C., April 22, 1969.

DEAR SENATOR WILLIAMS: Thank you for the opportunity to comment on the Working Paper prepared by a Task Force for the U.S. Senate Special Committee on Aging, entitled "Economics of Aging: Toward a Full Share in Abundance." The Task Force is to be commended for bringing together a comprehensive set of facts and outlining the broad policy questions on the issue of economic security in old age.

I have been asked to comment on the interpretation that was placed by the Task Force on the health expenditure data for the aged. Based on the information that we supplied, the Task Force concluded that the problem of rising medical costs is one that requires immediate attention and that "even with the important protection of Medicare, many older people have mounting medical bills that must be paid out of pocket."

The recent accelerated rise in medical care prices is beyond dispute—the facts speak for themselves: In the three-year period 1965–1968, the BLS consumer price index registered significantly larger increases for medical care prices than for all other consumer prices. Prices for all medical care services increased more than one-fifth; hospital daily service charges rose nearly 50 percent; and physicians' fees increased one-fifth. During the same three-year period, all consumer prices rose one-tenth (see table 1).

Rising medical care prices are the concern of all segments of the population, not only older persons. And the control of continued accelerated increases in medical care prices is one of the most important challenges facing the Nation today, as pointed out by the Task Force in its Working Paper.

What is the impact of rising medical prices on older people who now have protection against their high hospital and medical bills under Medicare? The Task Force pointed out that the costs of long-term nursing home care and drugs are not covered by Medicare and with advancing age, these items loom large because of increasing disability and medical care needs. In addition, Medicare financing under the supplementary medical insurance plan requires premium amounts to be paid by enrollees to be set at a level that together with the matching contribution by the Federal Government is estimated to cover the costs of benefits and administrative expenses over a given period. The rate of increase in fees for physicians' services obviously is a significant factor in determination of the premium rate to be paid by enrollees in the program and continued increases in this medical care service undoubtedly will result in increased premium payments.

The Task Force also indicated that required payment of deductibles and co-insurance in the face of inflationary movements of medical prices "constantly adds to the problems encountered by the low income aged person in paying his own way."

It is in this area that research is currently underway in the Social Security Administration that will be of special interest to the Special Committee on Aging. Our research plans include analysis of the effects of the $50 deductible and coinsurance. Since July 1, 1966, the effective date of the Medicare program, we have obtained information on utilization of and charges for medical services from our Current Medicare Survey, a continuing monthly household survey of a sample of medical insurance enrollees. Demographic and economic supplements have been added to our basic questionnaire and we can identify the characteristics of persons who never or seldom use services, and consequently do not meet the deductible, as contrasted with persons who have higher rates of utilization. We plan to relate medical care utilization with income, education, possession of health insurance other than Medicare, size of household, welfare, status, and source of payment for costs not covered by Medicare.

The Current Medicare Survey will also produce information on use of medical care services not covered by Medicare, such as drugs, payments for physical examinations, dental services, eyeglasses and eye examinations, hearing aids, and services of uncovered practitioners. Expenditures for these uncovered services will be analyzed in relation to the economic and demographic characteristics of the aged.

Another study of special interest is our "Before and After Medicare" study. We have contracted with the School of Public Health and Administrative Medicine of Columbia University and the National Opinion Research Center to carry out a national study of the impact of the Medicare program on the utilization and charges for hospital and medical services used by persons 65 years and older. The initial phase of the study will provide baseline data from household interviews of about 6,000 aged persons, describing the utilization of and costs incurred for various types of hospital and medical services during the year prior to the beginning of Medicare. The second phase of the study involved interviewing a similar sample in November 1967 with respect to their use of hospital and medical services during the preceding 12 months. Preliminary analysis of the data, including comparisons with pre-Medicare data should be available in early 1970.

We will, of course, continue our analysis of the national health expenditures. Data are not yet available on the distribution of personal health care expenditures of the aged and non-aged in fiscal year 1968 comparable to the 1967 data employed by the Task Force in its Working Paper. Work is now in process in this area and should be available within the next few months, at which time we will forward the information to the Committee.

Some preliminary rough estimates are available for certain segments of the fiscal year 1968 data which may be of interest to the Committee:

Personal health care expenditures in fiscal year 1968 are estimated at $45.9 billion, an increase of $4.5 billion, or 11 percent over the previous year.

Medicare benefit expenditures amounted to $5.1 billion in fiscal year 1968, compared with $3.2 billion in the previous year, an increase of about $2 billion, or 62 percent. This large rise is due to a number of factors in addition to the larger population group served and the increases in medical care prices. Part of the rise is due to the payment of nursing home benefits during all of fiscal year 1968. Since this benefit became available on January 1, 1967, expenditures for this purpose were not covered for the first 6 months of the program so that only 6 months data were reflected in the fiscal 1967 figure. Part of the increase also stems from the fact that the first year of the program involved considerable lags in payments, especially in Part B, so that trust fund expenditures were relatively low especially during the first months of the program. A significant portion of fiscal year 1968 disbursements was attributable to services actually rendered in fiscal year 1967, but claims were not processed and paid until fiscal 1968, due either to processing lags or delays by providers and beneficiaries in submitting claims.

In fiscal year 1967, we found that Medicare benefits constituted 35 percent of all health care expenditures for the aged. With the back bills from fiscal year 1967 and the payment of the nursing home and other benefits for a full year, the proportion of total health care expenditures for the aged met by Medicare in 1968 will be considerably higher than 35 percent.

When expenditures for the aged provided by other public agencies (Veterans Administration, Public Assistance, Department of Defense, State and Local Governments) are excluded, Medicare's contribution rises to 46 percent of the personal health care expenditures of the aged in fiscal year 1967. This percentage also will increase in 1968 because of the same factors as outlined above.

If adjustments are made in the first year of Medicare expenditures to account for incurred charges under both the hospital and medical insurance programs, the proportion of total personal health care expenditures of the aged met by Medicare would increase from 35 percent to 39 percent (see table 2). (The Task Force arrived at a figure of 37 percent because it only accounted for lags in Part B.)

According to the Special Analysis of Federal Health Programs of the Bureau of the Budget, Federal expenditures for the aged, including Medicare benefits, amounted to $6.6 billion in fiscal year 1968 compared with $4.4 billion during the previous year. Almost all of this increase in Federal expenditures represents increases in Medicare benefit expenditures. It is likely that there will be a relative decrease in the proportion of total aged expenditures paid for from private sources in fiscal year 1968 compared with the previous year.

One final point that requires some clarification is the classification of premium payments made by aged persons under the voluntary medical insurance plan. In our system of accounts under the Social Welfare Expenditures, we have classified all expenditures under Medicare as outlays under public programs, including expenditures financed by the premium payments by aged persons who voluntarily enrolled in the program. The Task Force in its Working Paper stated:

"In the distribution by source of funds, all expenditures under Medicare are calssified as "public" even though the aged individual pays a monthly premium for Part B Medical Insurance. This serves to understate the amount financed by private funds and to overstate the public share."

We recognize that since enrollment in the program is voluntary, the premium payments made by the individual could be regarded as private payments. It seems to us much more realistic to treat the entire program as a public program, and to treat the premium payments just as we treat employee contributions for social insurance.

In response to your request, however, we have estimated the difference in the proportion of expenditures that would be shown as coming from private funds if the SMI premium were so classified. As you realize, total expenditures under Part B have been less than the amounts paid into the Trust Fund from premiums and the matching general revenue payments. The most reasonable approach would seem to be to infer that half the expenditures were made from the government contribution. It is then necessary to subtract from the premium financed expenditures the amounts paid by welfare agencies (from public funds), on behalf of assistance recipients. The resulting $300 million, if added to private outlays, would increase private as a percent of the total personal health care expenditures for the aged from 41.2 percent to 44.5 percent.

Regardless of how premium payments are allocated, the above data serve to confirm the conclusion of the Task Force that even with the help of Medicare, the aged are still burdened with substantial medical expenses.

I hope the above information is useful in the deliberations of the Committee. Please let me know if we can be of further service.

Sincerely yours,

DOROTHY P. RICE,
Chief, Health Insurance Research Branch.

[Enclosures]

TABLE 1.—CONSUMER PRICE INDEX AND PERCENTAGE CHANGE FOR SELECTED MEDICAL CARE COMPONENTS, SELECTED YEARS, 1946–68

[1957–59=100, unless otherwise specified]

Item	Price index[1]						Percentage change						
							Average annual					2 years, 1966–68	3 years, 1965–68
	1946	1960	1965	1966	1967	1968	1946–60	1960–65	1965–66	1966–67	1967–68		
CPI, all items	68.0	103.1	109.9	113.1	116.3	121.2	3.0	1.3	2.9	2.8	4.2	7.2	10.3
CPI, all services	63.9	105.6	117.8	122.3	127.7	134.3	3.7	2.2	3.8	4.4	5.2	9.8	14.0
Medical care, total	60.7	108.1	122.3	127.7	136.7	145.0	4.2	2.5	4.4	7.0	6.1	13.5	18.6
Medical care services	58.4	109.1	127.1	133.9	145.6	156.3	4.6	3.1	5.4	8.7	7.3	16.7	23.0
Hospital daily service charges	37.0	112.7	153.3	168.0	200.1	226.6	8.3	6.3	9.6	19.1	13.2	34.9	47.8
Physicians' fees	66.4	106.0	121.5	128.5	137.6	145.3	3.4	2.8	5.8	7.1	5.6	13.1	19.6
Drugs and prescriptions[2]	74.6	102.3	98.1	98.4	97.9	98.1	2.3	−.8	.3	−.5	.2	−.3	0

[1] Annual average price index.
[2] Index base for prescriptions, March 1960; for over-the-counter items, December 1963.

Source: Consumer Price Index, Bureau of Labor Statistics.

TABLE 2.—COMPARISON OF PERSONAL HEALTH CARE EXPENDITURES OF THE AGED MET BY MEDICARE WITH MEDICARE PAYMENTS ON AN EXPENDITURE AND AN INCURRED BASIS, FISCAL YEAR 1967

Source of funds	Expenditure basis [1]		Incurred basis [2]	
	Amount (in millions)	Percent distribution	Amount (in millions)	Percent distribution
Total	$9,156	100.0	$9,856	10.00
Private	3,774	41.2	3,774	38.3
Public	5,382	58.8	6,082	61.7
Medicare	3,172	34.6	3,872	39.3
Hospital insurance (part A)	2,508	27.4	2,808	28.5
Medical insurance (part B)	664	7.3	1,064	10.8
Other	2,210	24.1	2,210	22.4

[1] Rice, Dorothy P., Anderson, Arne, and Cooper, Barbara S. "Personal Health Care Expenditures of the Aged and Non-aged." Social Security Bulletin, August 1968, table 3, p. 22.
[2] Amounts incurred under medicare estimated by the Office of the Actuary, Social Security Administration.

APPENDIX 4

LETTERS FROM INDIVIDUALS AND ORGANIZATIONS

Letters and statements appearing in this appendix respond to letters sent by Senator Harrison A. Williams, committee chairman, prior to the hearing. Replies were received from national organizations, universities, and individuals. A copy of the letter follows:

The U.S. Senate Special Committee on Aging will begin hearings on "Economics of Aging: Toward a Full Share in Abundance" on April 29–30.

At this initial hearing, it will be impossible to hear from all the witnesses who could make an important contribution to the Committee's study, the nature and extent of which is indicated in the enclosed Working Paper. Because the findings of the Working Paper are tentative and because we are anxious that our study reflect as many views as possible, I am inviting you to submit written comments for inclusion in the record of the hearings.

We would welcome your expert reaction to the facts and findings presented in this Working Paper and your judgment as to its usefulness as a survey of major public policy issues related to retirement income. We would like also to have your suggestions for lines of inquiry the Committee might pursue in greater detail in future hearings.

I look forward to hearing from you no later than May 30.

With kind regards,

Sincerely,

HARRISON A. WILLIAMS, Jr.,
Chairman, Senate Special Committee on Aging.

The following replies were received:

JUNE 23, 1969.

DEAR SENATOR WILLIAMS: Thank you for your letter inviting me to comment upon the recent publication of the Committee on the economic position of older people, "Economics of Aging: Toward a Full Share in Abundance".

On the whole, the members of the Task Force which prepared the report are to be commended for their treatment of the complex and pervasive nature of income support in retirement and old age. The chart section of the working paper is particularly noteworthy for its graphic presentations of the rising gap between Social Security benefits and a moderate standard of living, for its dramatization of the unique plight of the aged woman who lives alone, and the sobering 1980 projections regarding the future income position of older people, and the data on trends in early retirement.

As excellent as the overall data is, I am concerned over the omission of any meaningful data or observations regarding the Old Age Assistance program and other public assistance programs attempting to meet the financial needs of low income aged persons. The numbers of persons receiving Old Age Assistance is approximately 2,000,000, about 10 percent of the total population age 65 and over. This group has generally been recognized as the most severely economically deprived in the older population. I believe that no solutions to the problem of poverty in old age should overlook the unique needs of older people receiving public assistance.

Another general criticism, which I offer in a constructive vein is that there was no discussion of the interrelationships between such income maintenance schemes now receiving some popular attention, such as the various negative income tax proposals, the guaranteed income proposal, or federalization of the adult public assistance programs, to the various issues of income maintenance identified by the working paper. If further reports are planned by the Committee, I would hope that there would be some assessment made of these income maintenance approaches with regards to their relevance to the income needs of older people.

You also asked for my comments regarding the usefulness of the report as a survey of major policy issues related to retirement income. I think the policy issues outlined in the working paper are all crucial ones that need the attention and the evaluation of the Congress.

Finally, as the Committee proceeds to investigate this subject, it would be my hope that priority attention could be given to the following areas of inquiry:

1. The cultural, economic, psychological, and social implications of early retirement in American society

This area has already been highlighted in the working paper. I would see it as a most crucial area for the Committee's further study. Early retirement needs to be better understood in terms of its various causes, its meaning to various groups of retirees, and its social and economic costs to society. Contrary to some opinion, I often think that early retirement is not a threat to many persons if it is accompanied by an adequate retirement income and opportunities for second, third, or fourth careers throughout life of either a vocational or avocational nature. However, for many, early retirement now means a greatly reduced income, subsequent depressed standard of living, and no or very limited opportunities for new types of work or constructive social activities. Our retirement patterns, particularly the common practice of compulsory retirement, no longer make any sense. However, we have yet to design any new systems that take into account the ability and vitality of many older people who want to remain productive members of the labor force. In the absence of such new systems, we shall continue to follow our present retirement practices which impress me as being outmoded and primitive for an advanced society.

2. The introduction of general revenue financing as a major vehicle for financing Social Security and increasing benefit levels in the Old Age, Disability, and Survivors Insurance programs

The United States is the only industrial nation in the world that does not rely heavily on a basic general revenue contribution in the financing of its social insurance programs to protect against the risks of retirement, disability, and death of the family breadwinner. Congress on two occasions in recent years, provided for general revenue financing, in the Social Security program, the payment towards medical insurance under Part B of Medicare and the blanketing in of the uninsured persons over 72 that was a part of the Tax Adjustment Act of 1966. If benefit levels are to be raised to anywhere near an adequate level for beneficiaries who worked at low wages while in covered employment, and if the present regressive nature of the social security contribution rates on low income wage earners is to be lessened, broader use of general revenue financing is indicated.

I believe that one of the reasons why more general reliance on general revenue financing has not occurred is the fear that government contributions might detract from the public acceptance of the program as a contributory social insurance program and tinge it with a "welfare" image. Certainly, this charge will be made but I have confidence that an effective rational exists to interpret this change of financing, and that moreover, such a change could be accomplished in ways that would still preserve much of the contributory and wage related characteristics of Social Security.

3. Health needs and rising medical costs

The great legislative achievements of both Medicare and Medicaid are being threatened by spiraling medical care costs that must be brought under some control other than being left largely to traditional forces at play in the health marketplace. The facts illustrated in the working paper clearly show the relationship of this problem to the economic position of older people. I believe the Committee should investigate the feasibility of such legislative approaches as broadening the existing coverage of Medicare to cover payment of prescription drugs and long term nursing home care, placing the financing of Part B on a contributory basis, increased funding for community based health and social services as preventive weapons against undue hospitalization and institutionalization, and introducing specific quality and cost control provisions in the operation of the Medicaid program designed to deal with abuses in charges that are being made by providers and evaluate the quality of care received by recipients. In addition, I would urge additional attention be given to legislation that would provide greater incentives to group prepayment medical plans, such as represented by the Kaiser Health Plan, the Health Insurance Plan of New York City and others, to extend their arrangements to larger numbers of older people and the poor desiring this form of voluntary health insurance coverage.

4. The problem of the aged widow

The working paper dramatically focuses attention on the serious plight of older women—particularly the widow. Here is a very large group in the older population whose multiple economic and social needs have never been fully appreciated in the development of public policy. The Committee could perform a most useful service by devoting a separate set of hearings and special studies on the subject of the older widow, directed to developing specific recommendations for an action program.

Again, my appreciation for asking me to comment on the working paper. I believe it is an excellent document, and again compliment you and the members of the Senate Committee for initiating it.

Sincerely,

WILLIAM D. BECHILL,[1]

Associate Professor of Social Work and Chairman, Social Policy Sequence, School of Social Work, University of Maryland.

ROCHESTER, *N.Y., June 7, 1969.*

DEAR SENATOR WILLIAMS: You kindly sent me a copy of the Working Paper on Economics of Aging, prepared by a task force for your committee. My comments on this most interesting paper has been delayed while I was preparing a talk to be given to the Municipal Finance Officers Association on the Future of Social Security. I am enclosing a copy of this speech, in which you will find quotations from the working paper of your task force, as well as comments on several of the issues discussed.

If you or your staff have any comments on my paper, I would be glad to have them.

With congratulations for the splendid work you are doing for the Aging and with kind regards,

Sincerely,

MARION B. FOLSOM.

[Enclosure]

TORONTO, ONTARIO, *May 28, 1969.*

SOCIAL SECURITY

A most significant measure of the social progress of a nation is the degree of protection provided the wage earner and his dependents against the major economics hazards of life—accidents, illness, premature death, dependent old age and unemployment. The protection can be provided by the individual, his employer, or by the government, or by any combination of these three.

In the United States, with its great natural resources, its democratic government, and the initiative of its people, and—until the beginning of this century—its ever-beckoning frontier, the reliance until comparatively recently had been upon the individual to provide for himself and his family, with the employer providing a place for gainful employment. Government was called upon to provide only for the few who, because of illness, misfortune, lack of capacities, or lack of family support, became destitute.

European countries, which had reached maturity much earlier, had adopted by the first years of this century social insurance measures against illness, dependent old age, and unemployment—with family allowances in some countries.

With the exception of the enactment of Workmen's Compensation legislation in several states, very little action had been taken by the government prior to the Thirties. In spite of the high level of prosperity of this country in the Twenties, the number of the destitute was increasing, due in part to the beginnings of the shift of population from rural to urban areas. The depression greatly emphasized the need for governmental action. The result was the Social Security Act of 1935, which has been the foundation of our present income-maintenance program.

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[1] Mr. Bechill is former commissioner, U.S. Administration on Aging.

With the current concern and discussion of poverty and the present welfare system, it is essential that we maintain our perspective, looking especially to the progress we have made since the Thirties.

The philosophy of the Social Security Act was that the individual still should make every effort to take care of himself, that the employer should assist him in providing this protection and the government should provide the minimum basic protection to enable the individual to maintain a decent standard of living.

The initial fears which most employers and many others had in opposing this program in the early days have not been borne out and most people now appreciate its value. The Old Age Insurance system is an outstanding demonstration of the values of social insurance. The success has been due to the soundness of the original concept, periodic objective studies leading to adjustments and expansion, Congressional adherence to sound financing, and capable administration. The cost of administration is approximately 2 percent of disbursements.

To quote from the 1965 report of the Advisory Council on Social Security: "The social security program as a whole is soundly financed, its funds are properly invested, and on the basis of actuarial estimates that the Council has reviewed and found sound and appropriate, provision has been made to meet all of the costs of the program both in the short run and over the long-range future."

Without this system, the number now on Old Age Assistance would be several times higher, with the heavy additional burden on general revenues.

Tripartite advisory councils, appointed periodically, have proved to be effective mechanisms for helping to expand and improve the system, to keep it up to date and on a sound financial basis. There has been an unusually good record of Congressional acceptance of the recommendations of these councils, composed of representatives of industry, labor, and informed public citizens. These periodic advisory councils which study and make recommendations to Congress and the Executive Departments are now provided by statute.

During this period there has also been a rapid growth of supplemental employer pension plans, greatly stimulated by the Social Security Act. Employers soon realized that to maintain the standard of living of the retired worker more nearly in line with his previous standard, supplemental plans were necessary. The Social Security Act assisted greatly in reducing the cost of introducing a sound supplementary plan. The most recent estimates by the Social Security Administration indicate that 27½ million employed workers were covered by supplemental pension plans at the end of 1967 and that 3.4 million retired workers or their survivors were receiving benefits.

Although the number and coverage of these supplementary plans have been steadily increasing, more than half of employed persons are still not covered, and the number of beneficiaries represent a comparatively small proportion of retired persons.

We thus have two distinct classes of wage earners: (1) those employed by large or well-established companies with supplementary pension and other voluntary employee benefit plans costing on the average almost 20 percent of the payroll, including governmental employees, and (2) employees of smaller or unstable concerns, especially in trade and service, and casual workers, whose wages are generally lower and with few or inadequate pension or other employee benefit plans.

Not only are there serious gaps in the present coverage of private pension plans, but the vesting period is seldom less than fifteen years. With present mobility, many employees receive good wages but do not accumulate pension rights.

At present and it seems likely for many years to come, the majority of workers will have to depend upon their own savings and upon Social Security to obtain adequate protection for their old age.

We have made substantial progress in recent years in individual savings. A study shows that total per capita savings in the United States, in terms of current dollars, are about 2½ times what they were in 1930. Thus, Social Security has not resulted in any decline in incentive of the individual to save. Although accumulated savings of retired persons are undoubtedly larger than in the past, many studies indicate they are still meager for large numbers of them.

The combined efforts to date of the government, employers, and individuals, have not met the needs of large numbers of the aged persons. A recent study by the task force for the Special Committee on Aging of the United States Senate points out that the Americans living in retirement have not participated in the increased standard of living of the country; that, on the other hand, the income gap in relation to younger people is steadily widening and that the number one problem facing each retired person is still that of income; and that governmental and private plans are not improving fast enough to reverse the present trend. The task force concluded that: "Such assurance [of a share in the growth of the economy] can best be provided, or can only be provided, through governmental programs, particularly the social insurance system of OASDHI, which carry commitments for future older Americans—the workers of today—as well as for this generation of the aged."

This task force also stated: "Private group pensions and personal savings—tailored as they are to individual needs, preferences, and financing ability—will continue to be essential supplements to basic social security benefits in the future. The government should explore and lend support to various methods of promoting and encouraging such supplementary sources of retirement income."

What improvements in the Social Security system are needed now and in the long run?

Coverage

The system has now almost reached maturity, with about 90 percent of the population over 65 being eligible for benefits. If the Civil Service and the Railroad Retirement systems were included, 95 percent of those reaching 65 during 1968 were eligible under the Federal system. The only large group not now covered under the Social Security system are the Federal employees and a portion of the employees of state and municipal governments who have not come under the system voluntarily. Several Advisory Councils have recommended that the Federal Civil Service retirement system be converted into a system supplemental to the Social Security program, the same as private pension plans and most state and local retirement systems. Such action would provide better protection to the short service employees.

Steps should also be taken to cover the remaining municipal employees in the system.

Level of Benefits

Those over 65 now represent almost 10 percent of the population, compared with 4 percent in 1920. We are now approaching the time when this proportion will become relatively stabilized and when the Social Security system will reach maturity, with the resulting stabilization of the contribution rate to finance old age benefits.

Receipts will naturally increase as wage levels improve and so will benefits. Steps must be taken periodically, however, as in the past to prevent benefits, based on career wages, from getting out of line with wages at retirement. It has been found, both in private and in governmental pension plans that to be effective, pension plans must be kept adjusted to current wage levels. This can be largely accomplished by basing benefits on the average for the highest five or ten years, rather than on career earnings.

Over the years the level of benefits has increased somewhat faster than the cost of living, but not as fast as productivity or the level of wages, with the results the Senate Committee staff pointed out. This has been due in part to the original philosophy of the system to provide basic protection against dependent old age, leaving it to the individual, assisted by the employer, to obtain additional income to provide a standard of living more nearly in line with that enjoyed before retirement. While this philosophy might have been sound during the depression days of the Thirties, our present economy and present social conditions probably call for adjustments.

Under this philosophy some retired persons have benefited from this three-way approach. But it is particularly important to recognize that large numbers of retired workers will not have the benefit of supplemental pension plans and that those who need it the most because of misfortune and other causes, have not been able to accumulate appreciable savings for their own old age. Thus a high proportion of retired persons are still dependent to a large extent upon Social Security payments.

They have also suffered from the fact that benefits have not kept in line with improved wages and do not reflect the improved standard of living. This deficiency, of course, can be corrected only by substantial increases in the level of benefits. In the past, adjustments have been made periodically, often after a thorough study has been made by an advisory council of the changes needed.

There is general agreement now that a substantial increase in all benefits across the board is needed to adjust the level to recent increases in living costs.

It has been proposed that in the future the benefits be increased automatically, based on the cost-of-living index, the method now used by the Federal Civil Service System. Two objections have been raised against such a program. If large groups in the economy are automatically protected against the effects of inflation, this in itself is apt to aggravate the situation rather than correct it. There might also be a tendency to increase benefits only by the rate of increase in cost-of-living index and prevent the retired persons from receiving any appreciable benefit from increased productivity of the economy.

There has been a lag at certain time in the past in increasing benefits, but with the statutory provision for an advisory council to study the system periodically, this defect could be corrected. The benefits could be recommended to reflect not only the increase in cost of living, but also higher productivity and wage levels.

In raising the level of benefits, care must be taken that the minimums for part-time or intermittent workers are not above the level of covered wages while employed and that benefits for those who have contributed for only a short time are not out of line with those with long contribution record.

There is general agreement that the widow's benefits should be increased from the current level of 82½ percent of the husband's benefits to 100 percent. We should also expect that the periodic studies will result in adjusting the level of survivors' benefits to improvement in the level of basic benefits. Some adjustments are needed now.

There has probably been more criticism and less understanding of the earnings test for retired workers than of any other feature of the system. All advisory councils have agreed that the purpose of the Old Age Insurance Plan is protection against loss of income due to retirement and is not to provide endowment income beginning at age 65. There seems to be little justification to provide an automatic increase in income beginning at age 65 to a person who remains in gainful employment. Also, paying benefits to all those reaching age 65 would necessitate a substantial increase in the contribution rates in order to provide benefits to those who are least in need.

There should, however, be upward adjustments from time to time, as in the past, in the amount of earnings the retired person can have without any reduction in benefits, and also increase in that part of his earnings from gainful employment of which he will be able to keep half.

Wage Base

The wage base for determining contributions and benefits has been increased from the original base of $3000 at a much lower rate than the increase in the general wage level. As a result, the benefits of a much larger proportion of workers are based on a smaller part of their earnings. The 1965 Advisory Council did not think it was practicable to go back to the original 1935 relationship when almost every covered worker would have his total earnings counted for benefits. But in order to have the system more nearly meet the needs of the workers in the average or higher earnings levels, the Council felt that the relationship established in 1950, when the base was raised to $3600, was feasible. At that time the $3600 base covered about 85 percent of total earnings, and all the earnings of 80 percent of all workers and 62 percent of the regularly employed men.

The change in the wage base in 1967 went a good way in correcting the situation and further upward revisions are needed. The extent of the adjustment will be one of the tasks of the new Council and of future councils.

It is also more desirable to meet the costs of providing more protection for the workers of higher earnings by increasing the base for his contributions than by increasing the contribution rate for everyone. The system also gains from an actuarial standpoint by increasing the tax base, because of the lower rate of benefits computed on the higher wages. These factors will contribute substantially to delaying future increases in contribution rates.

Financing

The OASI Trust Fund had a balance on December 31, 1968, of $25.7 billion, an increase of $1.5 billion over the previous year and an increase of $7.2 billion during the previous five years. The interest received during 1968 amounted to $940 million, or more than double the administration expenses. Administration expenses for fiscal year 1968 represented 2.0 percent of the contribution income and 2.2 percent of the benefit payments.

Contribution rates scheduled in the present law are 4.2 percent each on employer and employee during 1969 and 1970; 4.6 percent each in 1971–72; and 5 percent each in 1973 and later. In their 1969 annual report, the Trustees of the Fund estimate that with these scheduled rates and assuming a 3½ percent annual increase in average earnings of covered workers, the trust fund would reach a balance of $95 billion in 1975 and $170 billion in 1980.

There was general agreement many years ago that, unlike the financing of private pension plans, the accumulation of a large reserve fund to meet future liabilities was neither feasible nor desirable for several reasons. With the taxing power of the government it is not necessary to rely much upon interest on the fund to finance benefits. Large excess collections over benefit payments during the period of accumulation would have a deflationary effect upon the economy. The 1965 Advisory Council felt that a schedule of contribution rates sufficient to support the system over the long range future should be kept in the law, but that decision as to putting the increases into effect should be largely based on the estimates of cost over a fifteen or twenty year period. It felt that the rates should be established to provide each year an excess of collections over benefit payments, thus gradually increasing the contingency reserve fund over the years.

If the policy recommended by the 1965 Council were carried out, the 1969 estimates of the Fund Trustees would indicate that the increase in contribution rates scheduled for 1971 and 1973 could be postponed and still permit reasonable increases in benefits.

It has frequently been proposed that rather than have any further increase in the contribution rates, the funds should be provided by general revenue. The early councils, prior to World War II, felt that by this time contributions from general revenue would probably be desirable. It was thought that by this time Old Age Assistance, financed from general revenue, would be at a much lower level. This has not occurred because of the failure to obtain universal coverage in the early years and because benefits under Social Security have not entirely eliminated the need for additional payments to some beneficiaries. The situation is also quite different than in pre-war years because of the substantial increase in the progressive individual income tax and in the corporation tax.

With the drain on the general revenue to provide the cost of the welfare and health programs, and with the continuation of substantial payments for Old Age Assistance, it is my feeling that we should continue to rely on the contributory payroll taxes for Old Age Insurance and to rely on general revenues to subsidize the cost of future health programs, especially for those in the lower income groups.

Early Retirement

One reason for the lower benefits being received by many retired persons is that they took advantage of the earlier retirement provision, with reduced benefits. With the improvement in the general health of the people and with the increasing length of life, efforts should be made to encourage workers to remain in gainful employment until 65 and not to encourage early retirement.

The provisions of the disability program could be modified to enable those in the upper ages who are not physically able to be in gainful employment to qualify for benefits. And, of course, a change in normal retirement age to 62 would greatly increase the contribution rates, both of employees and employers, and be in conflict with the social desirability of increased employment for the aged.

Welfare

Basic changes will undoubtedly soon be made in the Federal-State Public Assistance programs: the Old Age Assistance, the Aid to the Blind, the Totally and Permanently Disabled, and Families of Dependent Children. It has been proposed that all persons eligible for these grants be blanketed in with the Social Security system in order to simplify administration and reduce administrative costs, with the system being reimbursed from general revenues for the cost of blanketing in these recipients. It is my opinion that necessary changes are long overdue in the Family Aid to Dependent Children program, but they can be made without interfering with the Social Security system. Minimum standards can be established, and subsidies given to enable low-income states to reach these standards. There would undoubtedly be much criticism from the contributors under the Social Security system if these large groups of noncontributors were brought into the system; nor is the Social Security Administration Agency set up to deal with welfare problems or recipients.

A consolidated welfare system can be established and operated by a separate Federal agency without interfering with the present very efficient Social Security Administration. It would be especially unfortunate if the criticism of the present welfare system, especially the Aid to Dependent Children, which will not be entirely eliminated by the change in the system, would be transferred to the Social Security Administration which now stands so high in public favor.

Medicare

Part A of Medicare is, on the whole, now being well administered with the local administration being delegated to the voluntary insurance agencies. The administration of Part B has been more difficult but difficulties are now being overcome.

Medicaid, or the medical and health assistance under Title 19, on the whole has been subject to much criticism, especially in states such as New York where the eligibility levels and the extent of coverage were above those contemplated in the Congressional Act. Resulting cutbacks are now causing much difficulty.

This experience with Medicaid is another demonstration of defects of welfare or relief as contrasted with social insurance for meeting human needs. The 1965 Advisory Council pointed out the advantages of the social insurance approach, which has been so well demonstrated by the Old Age Insurance system, as follows:

"The Council strongly endorses the social insurance approach as the best way to provide, in a way that applies to all, that family income will continue when earnings stop or are greatly reduced. * * * It is a method of *preventing* destitution and poverty rather than relieving those conditions after they occur. And it is a method that operates through the individual efforts of the worker and his employer, and thus is in total harmony with general economic incentives to work and save. It can be made practically universal in application, and it is designed so as to work in ongoing partnership with voluntary insurance, individual savings, and private pension plans * * *.

"The fact that the program is contributory * * * protects the rights and dignity of the recipient and at the same time helps to guard the program against unwarranted liberalization * * *."

The expansion of social insurance to cover costs of health and medical care for all ages will be the most pressing and interesting problem for the next decade. Several proposals are being advanced. Many of us in New York State are behind the program recently proposed by Governor Rockefeller to the Legislature for compulsory health insurance. Under this proposal, each employer would be required to cover his employees and their dependents for health insurance benefits, starting with hospitalization benefits, with the employers plan being administered by the insurance agency. The State would cover the unemployed and those on relief and subsidize the low-income worker in meeting his contribution.

While many workers are already covered under voluntary health insurance plans, those who need it the most—probably 20 to 25 percent of the total—are not protected. The cost of providing medical care for the indigent is the principal cause of the rapidly rising cost of welfare.

The ideal health insurance plan, in my opinion, would be to have the states adopt plans of this type with the Federal government later enacting legislation along the lines of the Federal-State Unemployment Insurance System. This, however, would be a very slow process, but experimentation by several states would be very helpful in developing nation-wide programs.

Other proposals which are being advocated are the gradual extension of Medicare provisions to lower age groups, starting at age 60 or 55; expanding Medicare to cover the disabled; liberalizing eligibility provisions under the Total and Permanent Disability provisions.

Many feel, however, that the ultimate solution is a complete contributory health insurance program on a nation-wide basis, similar to that of the Old Age Insurance Plan. Subsidy could be provided from general revenues for the low-income workers and uncovered groups.

Private Pension Plans

With our free enterprise economy there will continue to be a great need for supplemental pension plans in order to allow persons in all wage levels to maintain a standard of living more nearly in line with that before retirement. The OASI system should continue to provide the basic protection for the gainfully employed. Even if benefits in the future reflect more of the improved productivity of the economy than in the past, employers will generally find it desirable to go beyond this basic protection, especially for those in the upper wage and salary levels.

The government in the past, through its tax provisions and integration rules for Social Security, has encouraged the expansion of these plans and this encouragement should continue. As most supplemental plans, in industry and local and state governments, are integrated with Social Security, a change in the wage base requires adjustments in the supplementary plans. It is important that the integration rules be not changed in a way which would discourage the continuation or expansion of these plans.

Over the years the number of these plans and persons covered should gradually increase and the plans be put on a firmer financial base. Many municipal plans are in need of financial strengthening.

In the meantime, steps should be taken to reduce the vesting periods under these retirement plans so that more workers would accumulate pension rights. Canada has set the example in making it compulsory for supplemental plans to provide a ten-year vesting period for those leaving after age 45.

Over the past forty years the Nation has made tremendous progress in providing retirement and health protection for the aged through the three-way approach—the individual, active employer assistance, and a broad governmental program.

The Social Security contributory system has proved to be a sound foundation for this progress and upon which future progress can be achieved. It has also demonstrated how the social insurance principle can be used to provide greater protection of the wage earner and his dependents against other major economic hazards. In the search for measures to reduce poverty further and to provide income maintenance for those at the poverty level, careful study should be made of the advantages in expanding social insurance, which fits so well into our free incentive system.

MARION B. FOLSOM.*

HARVARD UNIVERSITY,
DEPARTMENT OF ECONOMICS,
Cambridge, Mass., May 2, 1969.

DEAR SENATOR WILLIAMS: The Working Paper, *Economics of Aging: Toward a Full Share in Abundance*, is a very useful survey of the economic position of the aged. It makes it very clear that the incidence of poverty is high among the aged. And it poses the major public issues in a clear and general fashion.

As your Committee moves ahead in this work, studying some issues in more detail as a background for future legislative proposals, let me call some particularly strategic economic issues to your attention.

1. What is the most effective and most desirable approach toward income maintenance for the aged? Should old age assistance be replaced by a generalized Social Security program—perhaps including some regional payment differentials to account for variations in the cost of living? Or should the role of old age assistance be diminished by including the aged in a universal minimum income allowance (negative income tax) plan?

2. What should be the role of direct services provided specifically for the aged? Apparently, public housing for the aged is a great success not only because of the rent subsidy but because of the associated special facilities and services. Should such programs be made available for the non-poor but with a more self-financing basis?

3. Now that the Federal Government has taken over a large part of the financing of medical care for the aged, what structural changes in the provision of medical care should the Federal Government foster to assure that the extra financing actually produces better medical care for the nation? Initially, Medicare has certainly contributed to rising medical costs and has led to some redistribution of medical care from the non-aged to the aged. The Federal Government has not met the challenge on the supply side of medical care.

4. Given gradually increasing longevity, are we putting sufficient resources into research to prolong physical vigor in old age?

5. What should be government policy toward the choice of retirement age? Changes in the Social Security laws over the last ten years have encouraged earlier retirement, thus prolonging the period of inactivity and impairing the

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*Mr. Folsom is former Secretary of the U.S. Department of Health, Education, and Welfare.

economic position of early retirees. This tendency toward a lower retirement age, which is of course part of a long run historical trend, was accelerated during the period of high unemployment from 1958 to 1965. In a fully employed economy, with ample job opportunities, it is less desirable to encourage earlier retirement. On the other hand, the technological changes and the decline of agriculture in the economy do leave some older workers unemployed and with little future job opportunity. Would it be wiser to change the Social Security system in a direction of not encouraging early retirement on a general basis, but devising special programs for older workers whose job opportunities have disappeared for technological or personal health reasons. In practical terms, this question requires examination of the retirement tests under Social Security, the benefit structure for early retirees, and consideration of possible new programs aimed specifically at the 55-65 year old worker with a long history of work experience.

I hope you find these questions useful and I wish you the best of success in your forthcoming inquiries.

Sincerely yours,

OTTO ECKSTEIN.

OHIO UNIVERSITY,
DEPARTMENT OF ECONOMICS,
Athens, Ohio, May 27, 1969.

DEAR SENATOR WILLIAMS: Thank you very much for your kind invitation to respond to the Task Force document. I am enclosing a summary of my reaction to the material as you requested. I apologize for coming so close to the May 30 deadline but I did want to take as much time as possible in evaluating the working paper. I hope these remarks will be useful to your committee.

As for items for inclusion in future examinations of the working of our income maintenance system for the aged I would like to see one possibility explored in some detail. This is whether it would be feasible to broaden the set of options available to the aged with respect to the age at which they retire both by extending the early retirement options (which have proved so popular) and by providing actuarial increments to Social Security benefits for those who postpone retiring beyond age 65. I honestly feel that policy modifications of this sort could move us much closer to an optimal income maintenance system for the aged.

Again, I thank you very much for the opportunity to respond to the working paper.

Sincerely,

LOWELL E. GALLAWAY, *Professor of Economics.*

EXHIBIT 1

REMARKS ON ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE, BY LOWELL E. GALLAWAY, PROFESSOR OF ECONOMICS, OHIO UNIVERSITY, ATHENS, OHIO

The Task Force document is extremely thought-provoking. It paints a picture of a precipitous decline in the relative economic status of the aged through a series of comparisons and concludes from this that we are rapidly approaching a crisis situation in the area of income maintenance for the aged. This is an interesting conclusion and, if valid, argues that we must give serious thought to revamping our present system of providing income for the aged.

Unfortunately, to my mind, the Task Force's findings are suspect on at least two counts. First, I feel that the evidence purporting to document the decline in the relative economic status of the aged over the past several years is quite weak. Second, it is my view that focusing solely on the behavior of money income levels of the aged presents a distorted view of the changes in their relative social welfare position in the United States. I will discuss these criticisms in the order in which I have voiced them.

My first complaint concerns the failure of the Task Force to take into consideration the impact on the real income levels of the aged of the introduction of Medicare. Turning to Table 5 (page 17) of the Task Force report we observe that between 1960 and 1967 median income of aged families as a proportion of median income of non-aged families declined from 49.1 to 46.2 percent. However, if the addition of Medicare benefits is included as a component of income, this observed decline disappears. From material presented in the Task Force report

I would estimate that on the average the addition of Medicare has led to an increase in real family income of the aged of about $250 a year. Incidentally, this is probably a minimum estimate. Addition of this amount to the median income of aged families raises their relative income to 49.1 percent which is exactly what it was in 1960. Consequently, a realistic appraisal of changes in the relative income position of the aged suggests that there has been little change since 1960. A similar adjustment for unrelated individuals indicates that their median income level in 1967 was about 44.5 percent of that of non-aged unrelated individuals. This is 3.5 percent higher than it was in 1960 although 2.7 percent lower than in 1962.[1]

Some additional evidence is offered by the Task Force to document the decline in the relative economic status of the aged. This is developed by comparing changes in the Bureau of Labor Statistics Retired Couple's Budget for a Moderate Living Standard (MLS) with changes in levels of Old Age Benefits (OAB) under Social Security. The conclusion which is drawn is that in 1950 OAB for a December retiree and his wife would have purchased about one-half of the budget while they would currently purchase only a third of the budget for that same couple.

This seems to be imposing evidence of a relative decline in the economic status of the aged. However, again it is somewhat misleading. To demonstrate this I will rely on the material presented on page XIII of the Task Force report. The major difficulty with the conclusion advanced by the Task Force is that the MLS budget has risen over time much more rapidly than would be expected on the basis of increases in the general standard of living or increases in prices. Between December 1950 and December 1966 the MLS budget increased by 131 percent. During the same interval wage levels in the economy rose only 76 percent. If the MLS budget had increased by the same proportion as wage levels, it would have been only $263 instead of the $344 the Bureau of Labor Statistics reports. This would seem to indicate that changes in the MLS budget have been much more substantial than general advances in income over this period. This is somewhat misleading in that prices for the commodities purchased by the aged appear to have increased more rapidly than prices in general. Specifically, the Bureau of Labor Statistics indicates that about one-half of the increase in the MLS budget between 1950 and 1966 is due to price increases. This means that prices for the market basket of commodities purchased by the aged rose by about 50 percent whereas general price levels rose by only about 35 percent.

After adjustment for these differential price level changes it can be estimated that the real increase in standard of living implied in the MLS budgets is in excess of 50 percent. By contrast, the change in real wage levels over the same period was only about 30 percent. Thus, the MLS budgets include increases in the real standard of living of the aged which are two-thirds greater than those enjoyed by the population as a whole. But, how can this be? Why has the MLS budget risen so much more rapidly in real terms than wage levels? The answer lies in the definition of the MLS budget. It is "intended to represent a measure of what *retired couples themselves consider an appropriate level of living.*"[2] I have deliberately italicized a part of the quote that has been cited to emphasize that it is the aged's own conception of what is a moderate standard of living that is determining in constructing this budget. Apparently, their perceptions of what is moderate have been shifting more rapidly than real living standards in the economy as a whole.

This should not be so surprising. I suspect that it is generally true that people's conceptions of what is a moderate standard of living are very substantially affected by the standard of living they are currently enjoying. If this is true, it may well be that the more rapid increase in a real standard of living which is incorporated in the MLS budgets reflects nothing more than an improvement in the general standard of living of the aged. There is some evidence that this is precisely what has happened. For example, if we focus on the September–Decem-

[1] There may be some question as to which year is the appropriate one with which to compare 1967 levels of relative income of the aged. There seems to be some relationship between general levels of economic activity and the relative income position of the aged. Note that the relative income of the aged rises during years when aggregate unemployment is high (1961 and 1962) and falls steadily as the unemployment rate drops. This is probably due to income levels of the aged being less sensitive to variations in labor market conditions than income of the non-aged. Consequently, 1960 may be a more appropriate year to compare with 1967.

[2] *Economics of Aging: Toward a Full Share in Abundance,* Special Committee on Aging. U.S. Senate. U.S. Government Printing Office, 1969, p. XIII.

ber retiree in 1965, we find that his old age benefits under Social Security would purchase approximately one-half of the MLS budget for December 1966—almost exactly the situation faced by the 1950 retiree despite the more rapid increase in the real standard of living between 1950 and 1966 implied in these budgets.

The calculations for the 1965 September–December retiree illustrate quite aptly what the fallacy is in making the type of comparison shown on pages XII and XIII of the Task Force report. Such a comparison focuses on changes in the relative economic position of the aged over the course of the full period of retirement rather than appraising changes over time in the average economic status of the aged during the retirement portion of their life. The type of comparison which is made is valuable for purposes of gaining insight into the stability of the relative income position of the aged throughout their retirement. However, it sheds little light on changes in the relative economic position of retirees who enter retirement at different points in time. For this type of comparison calculations such as those reported for the 1965 September–December retirees are required.

To summarize my reaction to the MLS budget comparisons, I would make the following points:

(1) The MLS budgets are relative in character in that they measure what the aged themselves consider to be a moderate standard of living.[3]

(2) Over time the real standard of living implied in the MLS budgets has increased more rapidly than the general standard of living in the economy.

(3) Consequently, it is not surprising that the old age benefits under Social Security which are received by an individual who retires in, say, 1950 do not increase as rapidly as the MLS budget. Actually, if the real standard of living implied in the 1950 MLS is allowed to increase at the same rate as real wages and an adjustment is made for Medicare, the benefits in 1966 would purchase about 45 percent of the 1966 MLS budget.

(4) A more appropriate type of comparison is what portion of the MLS can be purchased by old age benefits for people retiring at different points in time. When such comparisons are made there is no indication of any decline in the relative position of the aged. In fact, for the 1950 retiree old age benefits would buy 50 percent of the MLS while for the 1966 retiree they would buy somewhere between 50 and 55 percent of the MLS depending on which MLS is used.

(5) Given the relative increase in the real standard of living implied in the MLS a strong argument can be made that the old age benefits received under Social Security will now purchase a higher standard of living relative to the economy as a whole for a current retiree than they would in 1950. If the 1966 MLS is adjusted to include the same increase in the real standard of living as took place in the economy as a whole between 1950 and 1966, the old age benefits received by a September–December 1965 retiree would buy 58 percent of the budget reported on page XIII of the Task Force document.

(6) Nothing in what I have said to this point should be interpreted as maintaining that present living standards of the aged are satisfactory. I do not wish to pass judgment on this matter. However, I would seriously question the interpretations of the data found in the Task Force report which argue that there has been a serious deterioration in the relative income position of the aged in recent years. The magnitude of any such change has been seriously overstated by the report.

I turn now to my second basic criticism of the Task Force report, namely, its overemphasis of money income comparisons in evaluating the economic status of the aged. Generally speaking, money income levels can be used satisfactorily as a measure of economic welfare assuming no significant changes in non-monetary components of economic welfare. Unfortunately, in the case of the aged there may well have been some very significant changes in these non-monetary factors. I refer here to the very substantial decline in labor force participation among the aged. This decline is of the magnitude of about 20 percentage points for males in the post World War II period and has contributed very substantially to a decline in the relative money income position of the aged. The median income of families with an aged head expressed as a percent of that of families

[3] Some indication of the extent to which they are relative is given by the fact that the MLS budget in December 1966 was $322 a month for couples living in a mortgage-free home and $344 a month for those living in rental housing. This suggests that possession of a mortgage-free home is worth only $22 a month. A more likely explanation is that income levels of aged couples with a mortgage-free home are higher and, thus, their notion of what is a moderate standard of living is higher.

with a non-aged head decreased from 58.3 percent in 1947 to 46.2 percent in 1967. The bulk of this decline took place between 1947 and 1960 (from 58.3 to 49.1 percent) and, as already noted, if a correction for Medicare is made, there has been no decrease since 1960.

As I have indicated, the falling labor force participation rate of aged males is undoubtedly the prime cause of the declining relative income position of the aged. From the standpoint of interpreting the significance of the decrease in relative income levels, the crucial question is what has caused the drop in labor force participation among aged males. There are two basic views on this matter: (1) that which interprets it as being the result of increasing age discrimination in employment opportunities or (2) that which views it as reflecting a tendency on the part of the aged to voluntarily withdraw from the labor force in response to the presence of old age benefits available through the Social Security system. The Task Force document obviously adopts the first of these views while I have long been an advocate of the latter.[4] Whichever view is accepted, there is strong evidence of a systematic negative relationship between labor force participation of the aged and the relative level of old age benefits.[5] Two interpretations may be put on this evidence: if the increasing age discrimination argument is accepted, it would imply that as old age benefits rise relative to economy wide income levels employers are increasingly willing to discriminate against older workers and, consequently, they are forced out of the labor force. On the other hand, this evidence is quite consistent with the premise that the aged respond to higher levels of old age benefits by increasing the amount of leisure they wish to have at the expense of money income levels. The interesting aspect of this interpretation of post-World War II changes in labor force participation of the elderly is the voluntary nature of the choice which is made by the aged. This voluntary element suggests that the aged are happier, more satisfied, or what have you with a leisure-income mix which places greater emphasis on leisure. In effect, they can be viewed as substituting leisure for money income which results in a reduction in money income since leisure is not assigned a price in our economy.

From the standpoint of evaluating the performance of our present system of income maintenance for the aged, the interpretation put on the evidence of a relationship between relative levels of old age benefits and aged labor force participation is critical. If it is viewed as indicating that increased availability of old age benefits leads employers to discriminate against the aged to a greater extent, the net effect of our Social Security system on the overall social welfare position of the aged may well have been negative. This is implied by their presumably being forced to accept a leisure-income mix which is less satisfactory to them than that which would exist in the absence of old age benefits. To me, acceptance of this interpretation of the evidence indicates a belief that the Social Security system has utterly failed to alleviate the problem of income maintenance for the aged and that the aged would have been better off without the system's ever having been devised.

In all honesty, though, I simply cannot accept this line of reasoning. Rather, it appears to me that the Social Security system has made available to the aged a greater range of choice concerning their leisure-income mix and that sizable numbers of them have chosen to leave the labor force for what they consider to be a more satisfactory combination of leisure and income. In the process, it would seem evident that the overall social welfare position of the aged has improved. This I regard as the positive view of the performance of the Social Security system.

At this point I feel I should summarize my remarks. Essentially, I have quarreled with the Task Force report on two counts: (1) its interpretation of the evidence with respect to the extent of the decline in the relative economic status of the aged and (2) its preoccupation with money levels of income and misinterpretation of the reasons for declining labor force participation among the aged. I find myself in the position of concluding that if I accepted the

[4] See my *The Retirement Decision: An Exploratory Essay*, Social Security Administration. Research Report, No. 9, U.S. Government Printing Office, 1965 and "The Aged and the Extent of Poverty in the United States," *Southern Economic Journal*, October 1966, pp. 212–222.

[5] See my "Negative Income Tax Rates and the Elimination of Poverty: Reply," *National Tax Journal*, September 1967, pp. 338–343 for cross-section evidence based on the 1960 Census. For time series evidence see *The Retirement Decision, op. cit.*, and "The Aged and the Extent of Poverty," *op. cit.*

substantive findings of the Task Force report, I could not accept the policy recommendations. To me, the interpretation of the evidence implies that the Social Security system has failed completely. Consequently, I could not take seriously the recommendation for an expansion of the system. It seem to me that they are in the same position as the physician who, having prescribed a certain type of medicine for a patient and finding him becoming increasingly sicker, concludes that the appropriate course of action is larger dose of the very same nostrum. They may be right—but I seriously doubt it. Instead, I prefer to think that the Social Security system has contributed very substantially to improving the social welfare position of the aged and that, consequently, we should legitimately consider some expansion of the system—particularly in certain areas where it can be demonstrated that inequities have developed. Admittedly, this approach removes the sense of crisis and urgency that permeates the Task Force document. However, enacting legislation in an atmosphere of artificially induced crisis is not the surest way to produce needed social changes. I would much rather see the Congress act out of a firm conviction that changes are needed because they are appropriate and not because of any false sense of emergency.

STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The National Association of Manufacturers is pleased to have the opportunity of presenting its views on the Working Paper prepared by the Task Force on the Economics of Aging entitled "Economics of Aging: Toward a Full Share in Abundance".

The NAM is a voluntary organization of member companies—large, medium and small in size—which account for a substantial portion of the Nation's production of manufactured goods, as well as for the employment of millions of people in manufacturing industries.

NAM'S INTEREST

Since Social Security benefits constitute the basic layer of retirement income for almost 4 million retired workers who are currently receiving benefits from the private pension system and for some 30–40 million active employees who have been voluntarily covered by private pension plans, the business and industrial community has a vital interest in matters affecting the Social Security System.

NAM recognizes that a problem exists with respect to retirement income for many older people and that the senior segment of our population is increasing in longevity and relative numbers. NAM is further aware of the fact that these older citizens, many of whom are living on a fixed income, are experiencing a rapid erosion of purchasing power due primarily to the ravages of inflation.

We are therefore pleased to note that this Special Committee on Aging has been created and has undertaken a study of the various problems confronting this significant segment of our population.

COMMENTS ON THE WORKING PAPER

The Task Force is to be commended on the Working Paper. It is a very informative document in many respects—complete with helpful charts, tables, statistics and commentary. Some of the conclusions tend to paint a very bleak picture and some seem to be based on unsubstantiated opinion. The main difficulty we found was that the selection of data seems to prejudge the answers. Since the Working Paper seems to emphasize, or even over-emphasize the importance of the future role of Social Security, you may be interested to know that the NAM Employee Benefits Committee is currently preparing a position paper on Social Security which is expected to be completed within the next few months. While we applaud the efforts of the Committee and the Task Force to assemble facts on this very important subject and to spell out the problems, we question whether this brief report can do any more than scratch the surface.

Several general comments can be offered although, similar to the caution expressed by the Task Force, we wish to reserve the prerogative of revising them if later evidence warrants.

BASIC PURPOSE OF SOCIAL SECURITY

NAM believes that in our contemporary society, the compulsory Social Security program is an accepted, recognized system which has gained acceptance as a generally sound "social insurance" program designed to protect eligible individuals against destitution and want in their old age. Over the years, it has been broadened to cover other risks such as death, total and permanent disability, and to provide medical protection for the aged. Earned right, however, continues to be the concept of benefits. We believe this to be the proper concept and urge that all modifications be viewed from this frame of reference.

POVERTY AND NEED

On several occasions in the paper the Task Force refers to poverty and declares that "X" percentage of aged people do not have income sufficient to raise them above the "poverty level" which is defined by the Social Security Administration in a statistical measure derived from the BLS "modest but adequate" budget for a retired couple. The Task Force also states that: "Public assistance accounted for 5 percent of income received by the aged groups." If only 5 percent of the income received by the aged people was in the form of public assistance, then it would seem that the Social Security program is really accomplishing its intended objective. In addition, only approximately 7 percent of all Social Security recipients receive public assistance. This latter figure would seem to corroborate the premise that the Social Security program is operating as designed.

Perhaps further consideration must be given to the term "poverty" and a better definition determined. Indeed, it would seem that the whole question of "adequate" income is not really defined. There are bound to be substantial differences in living expenses after retirement, as well as in income. It is too easy to institutionalize both the "poverty line" and the "modest but adequate" budget.

NAM believes that the statistical and mechanistic approach to the measurement of poverty and "standards of living" needs to be more thoroughly investigated and critically reviewed before it is accepted as a basis upon which vast sums of money and radical changes in philosophy are predicated.

WILL THE AGED ALWAYS BE POOR?

This assumption and conclusion by the Task Force seems to be contrary to recent evidence. In 1950, the aged comprised 54% of the recipients of the four major categories of public assistance. By 1965, the proportion was less than 30 percent; and in January 1969, they accounted for 22 percent of the total. What has been accomplished during this period with the assistance of OASI could conceivably be accomplished by the private pension system in the future, especially if it receives the necessary encouragement.

One other factor which points up the seeming paradox between the facts and the conclusion is the statement made by the Task Force that most aged persons currently live independently in homes they own. Nine out of ten older men and almost 8 in 10 women live in their own homes either as heads of households or as their spouses. This should be compared with 1960, when only 70 percent occupied their own homes. As the Task Force implies, most of this ownership was in homes either fully paid for or substantially free of mortgage debt. We would suspect that when this ratio is compared to that of the younger working population, it would be found that a far lower percentage would have such a favorable housing situation. Such an improvement in the number of "independent" households maintained by our older citizens seems to be substantial—an increase of 10–20 percent in 9 years, and would appear to be a very encouraging fact and not deserving of the pessimism voiced by the Task Force.

INFLATION

NAM believes that there is no greater danger to the financial security of our aged population than that which is posed by inflation—past, present and future. While the incomes of our aged retired people remain relatively static, prices are continually climbing and taxes increasing. As a result the purchasing power of their relatively fixed income has rapidly diminished.

While it must be fairly obvious, it is worth pointing out explicitly that the fiscal and monetary policies of the federal government have had a profound effect on the living habits of people, and these influences are reinforced and multiplied by actions taken in the area of the Social Security program. These actions have not encouraged people to save, they have not encouraged the growth of private pension plans, and they have endangered the sound relationships that should exist as between private efforts and the efforts of the government.

The Task Force repeatedly mentions the fact that people have not saved enough to provide for their old age and asks several times whether it is realistic to expect people to save and to forgo consumption when this would require that they substantially reduce their present standards of living? Perhaps a halt to the creeping inflation of earlier years and the running inflation of current years would have enabled a better rate of savings.

Economic forces in the future seem to trend in the direction of a savings shortage. The expected population distribution, for example, will result in a relatively high proportion of people in the younger and older groups where a relatively large proportion of personal income is spent rather than saved. Middle and pre-retirement age groups, where more is saved out of incomes, will be shrinking relative to total population.

It would seem that saving must be encouraged and not discouraged through increased social security and other taxes. Studies conducted separately by the National Bureau of Economic Research and by the Survey Research Center of the University of Michigan indicate that provision for retirement through company pension plans actually encourages individuals to save more rather than less. Thus, according to these studies, people who think they will have enough for retirement tend to save more than people who foresee financial problems during retirement.

Social Security, on the other hand, does not and should not accumulate large reserves. However, social security does reduce aggregate saving because of the redistributive effect of the taxes used to finance the program. Taxes are levied on many who are in a position to save, and benefits are paid in the main to non-savers. Although Social Security may in former years have had the effect of spurring the growth of private pension plans by making people more aware of the need for providing for old age, this is not necessarily the case for the future. In fact the opposite is more likely to be true. Unduly large increases in Social Security benefits or expanded coverages make the danger of displacing private funds a very real one.

It cannnot be emphasized too strongly or too frequently that it is only because savings of a private nature have been funded over the years to build up income-generating capacity that the economy can support a public pension system such as Social Security.

EARLY RETIREMENT

The Task Force makes several references to a continuing trend to earlier retirement and points up the fact that this contributes to "inadequate" income for retired people since earlier retirement invariably means a reduced retirement income. They also imply that the reason for these early retirements may be "involuntary". Considering the tight labor market that exists and the new law prohibiting discrimination in employment on account of age, this would not seem to be the case.

As a matter of fact, a recent survey by the Social Security Administration points out the fact that a substantial number of people in the 60–65 age bracket simply did not want to work and voluntarily terminated their relationship with the labor force so as to collect benefits on an immediate basis rather than wait for age 65. Certainly if this was by free choice on the part of the individual, he must be satisfied with the reduced benefit he receives. The Task Force does say, however, that the possibility of a reversal in this trend cannot be ignored.

If older people want to work and are needed in work forces, perhaps consideration should be given to liberalization of the earnings test instead of a non-wage related increase in benefits.

CONCLUSION

NAM again wishes to compliment the Task Force for identifying some of the major factors and spelling out come of the areas that need further exploration. For example, on page 44 of the Working Paper, the Task Force asks 8 questions which seem to us to be of paramount importance. The answers to these questions must be determined before it can be concluded that the Social Security program has serious shortcomings.

NAM agrees that certain basic public policy questions cut across the broad issue of economic security in old age and that such questions have implications far beyond the reach of the Task Force. These questions can only be decided by the Congress after exhaustive public hearings in which knowledgeable and expert opinions are solicited from all appropriate sectors. In view of the importance of the Social Security System to the entire country, we believe it is essential that such an approach be adopted. NAM stands ready to assist the Committee in its continuing analysis of the system.

DUKE UNIVERSITY MEDICAL CENTER,
Durham, N.C., June 5, 1969.

DEAR SIR: Since I consider the hearings on "Economics of Aging: Toward a Full Share in Abundance" as very important—indeed as a necessity, I am enclosing herein, as you requested, my comments pertaining to a) my "reaction to the facts and findings" contained in the Working Paper you enclosed; b) my judgment regarding the usefulness of that Working Paper "as a survey of major public policy issues related to retirement income;" and c) my "suggestions for lines of inquiry the Committee might pursue in greater detail in future hearings."

My overall reaction to the facts and findings contained within that Working Paper was that the Task Force had faced clearly the major problems and issues of retirement income presently confronting aged Americans, and those which are likely to continue to confront future generations of aged Americans unless there is some significant and positive change in patterns of retirement income.

One issue, however, which tended to be obscured was that of the attitudes which the younger members of the current labor force may have toward continued increases in their own social security and other taxes now to provide benefits for an aged population to which they do not yet belong, and which, no doubt, drains resources from them which they might at least purport to use for savings for their own subsequent retirement years. In short, I wondered to what extent any consideration had been given to a different type of assumption that some (hopefully, a very small minority) might make about the aged: to what extent should they be permitted to live on and on in complete dependency stages. I believe that the United States may be rapidly approaching a point where some real decision may have to be made about priorities of funds for the very young and for the very old, unless substantial outlets are available for all. For example, some of my friends (voting citizens-all) have raised the question of the types of values which permit a nationwide, medical program for those who are 62 or 65 years of age and over, while, at the same time, there is no such nationwide program for the newly born and subsequently through the early lifestages. It is, indeed, I think, a question which has to be given further consideration. One aspect of dealing with that type of question, however, has to do, in all probability, with the specialization of labor, whereby your Committee, although entitled the "Special Committee on Aging" tends to focus upon the older age groups, and other Committees, no doubt, focus upon younger groups.

In any case, retirement income for most aged persons is certainly inadequate, as the Task Force showed, and, in my judgment, the United States as a society and as a nation is obligated to confront these types of problems clearly. Moreover, because I believe that the national resources definitely available, we are also obligated to solve them quickly, honestly, and fairly.

You indicated that it was impossible to give "special attention to the Minority groups among our aged population" at the first general hearing. Perhaps, then, it might be appropriate to indicate what you, no doubt, already know fully well: on the average, the retirement income for Negroes is even more bleak than that depicted within the Working Paper; the likelihood of Negro compulsory withdrawal from the labor force at even earlier ages during the next several decades is probably higher than the overall picture; the home ownership of aged Negroes is certainly lower, which means that their overall assets are considerably lower; and the social security and OASDI benefits tend to constitute, along with low earnings from employment, their major sources of retirement, but these benefits are generally even more limited than the average.

According to 1966 census data, e.g., about 52 percent of all husband-wife Negro families, with a head of 65+ years of age, had 1965 family incomes under $2,500. In 1960, the average size urban household of such families, where the head was 65–74 years of age, was 3.06, with corresponding sizes of 3.51 and 4.09 for their rural nonfarm and rural farm counterparts. When the head was 75 or more years of age, the average urban household size for him was 2.84, with 3.10 and 3.61 for the rural nonfarm and rural farm respectively. For other male head, 65+, the household size was slightly higher, and the same was true for female heads, 65+ years of age. In short, then, the average number of persons for whom an aged Negro household head is likely to be responsible tends to be somewhat higher than for the average American generally.

Another aspect worth noting is that the average, aged Negro who is widowed is likely to have become widowed at an earlier age than her white counterpart, which means that she is confronted with the problem of the loss of a spouse's income at a much earlier age. I need not remind you that most Negroes are married and with spouse during their young adult and middle-age years.

Essentially, I feel that, insofar as Negro aged are concerned, one might well utilize the age category of not only 60–64, as does the Working Paper, but also the age category of 55–59.

With the exception of one possible major public policy issue already indicated, I think that the Working Paper converses adequately with these issues and I am assuming that in the course of its work, the Committee will make more concrete recommendations about precise ways of implementing the suggestions to increase retirement income of those in need. I personally think that an adequate level of income for retired persons should be at a level to "permit participation in the Nation's rising standard of living"; and that the national government must set some standards or requirements, and not allocate to local and state governments the task of regulating the minimum benefits nor determining eligibility at or below those set by the federal government. I certainly, then, believe, that benefits must be raised for specific groups of beneficiaries, which are by no means restricted to Negroes, but to all aged persons whose incomes are presently (and will be) below that level required for adequate living.

I think that I have already indicated to you some months ago that I felt the eligibility age for benefits should be lowered at least for those groups whose life expectancy was lower, and in light of the increasingly earlier age at retirement, it is quite necessary to lower generally the minimum eligibility age—at least to 57 years. I think there should be no actuarial reduction in benefits at this earlier age provided that the person is a victim of compulsory retirement, as opposed to voluntary retirement.

With respect to Medicare benefits specifically, I might add that a recent research study undertaken by a group of my students concerned about medicare use and attitudes among Negro females residing in public housing in Durham revealed that approximately 85 percent of the group sampled did have Medicare. However, the vast majority of the remaining 15 percent who were not so covered were most often not covered because they did *not* have $4 each month for coverage under Part B. Hence, their retirement incomes ought to be sufficient at least to provide participation in the voluntary medical insurance portion, if they so desire.

I probably should also add that adequate levels of retirement incomes should be adjusted for homeowners and for renters, for, again, many Negro aged find themselves in rental property.

The lines of inquiry which the Committee seems to be pursuing are, I think, directed toward those most useful in leading to proposed legislation and other acts necessary to improve retirement income. I do think it would be useful in subsequent hearings, however, to add more detail on specific retirement income problems confronting various minority groups in order to determine if they have any unique problems and characteristics warranting specific attention in subsequent legislation. I would imagine that the U.S. Bureau of Census probably has some very specific data on older Negroes, obtained from some recent data, and could give a much clearer picture of certain needs. I know that there ought to be some discussion on attitudes and practices of major and minor employment hiring personnel toward hiring older Negro males and females, and there ought to be some testimony regarding some of the types of problems older Negroes have encountered in not being able to utilize Medicare. The same, I think, is true of other minority groups—e.g., Mexican-Americans, American Indians who at least live off of reservations, and perhaps, for those on reservations as well, and the like. Present employment patterns of these groups should be highly significant in helping to project future trends. Above all, I suspect, we need a very serious study of the present work and retirement patterns of Negroes.

Again, I am sorry that I was not able to comply with your suggested deadline, but I hope that the Special Committee on Aging will continue to call the nation's attention to some of the most serious problems confronting the aged today—and tomorrow—so that some very viable solutions may be forthcoming.

Very truly yours,

JACQUELYNE J. JACKSON, Ph. D.,
Assistant Professor of Medical Sociology.

UNIVERSITY OF KENTUCKY,
Lexington, Ky., May 20, 1969.

DEAR SIR: I appreciate the opportunity to comment on your working paper "Economics of Aging: Toward a Full Share in Abundance." The authors have integrated an enormous amount of information into a meaningful framework, and the document should serve as the basis for a dialogue on the economic problems of the aged. There are, however, a few points which I believe the Subcommittee should consider.

1. Poverty among the aged is discussed and analyzed in the report apart from poverty among other groups. Consequently, the working paper does not include any references to the variety of new income maintenance proposals, particularly negative income tax proposals. This is unfortunate. Not only is the report incomplete, but it also fails to recognize that the Nation seems to have articulated a goal to end poverty. As the report indicates, however, the Nation has not articulated a precise goal for income maintenance for the aged. In view of the Nation's articulated goal of ending poverty, the working paper should focus some attention on how to achieve that goal before calling upon the Nation to adopt new goals.

2. The report correctly indicates that workers who retired in the early 1960's did so because they "needed the benefit," and not "because they were seizing the opportunity to retire early on inadequate pensions." (p. 30) Is that true for workers who are retiring early in 1968 and 1969 when unemployment is low and labor shortages exist? If workers are having difficulties holding jobs in relatively prosperous periods, should we not inquire into the nature of work assignments in our society? Are we making work so arduous and difficult that individuals must escape from it at a relatively early age? On the other hand, individuals who are retiring may be willing to accept reduced income in favor of increased leisure. Isn't that a choice our Nation should make available to as many people as possible? The Subcommittee should raise these issues and invite responses from management, labor, and the public.

3. The report should indicate specifically the changes in the Social Security program that would be most effective in improving the economic position of the aged. Obviously, "substantial improvements in benefits" (p. 40) would improve the economic position of the aged, but other changes should be more specifically identified and evaluated in terms of priorities. As an example, the report indicates that aged women are a particularly disadvantaged group (p. 14), but it does not indicate exactly what could be done to aid these beneficiaries and what priority this group should receive.

4. A similar judgment can be made regarding the report's discussion of the role of private pension plans. For example, private pension plans provide very little protection for survivors. Shouldn't the Subcommittee raise the question as to whether protection to survivors should be made a possible prerequisite for tax deductibility? As you know, the Congress has been considering legislation which requires private pension plans to vest benefits and fund liabilities. These proposals, as well as one to require private pension plans to provide survivor benefits, are likely to raise many objections, but public discussion of these proposals are likely to result in significant voluntary improvements.

Thank you again for inviting me to comment on your working paper; I look forward to your hearings.

Sincerely,

JOSEPH KRISLOV, *Professor.*

THE PRESIDENT'S COMMISSION ON INCOME MAINTENANCE PROGRAMS,
Washington, D.C., May 27, 1969.

DEAR SENATOR WILLIAMS: I have read with keen interest the committee print, "Economics of Aging" but there simply is not time enough to permit me to prepare a paper of detailed comments on it.

Were I preparing a paper, my comments would take the form of a critique of private pension funding. Present funding rules, I suggest, unnecessarily raise the current contributions cost of plans and restrict coverage of the working population. My views on this subject are presented in an article "The Economics of Pension Finance," forthcoming in the *Journal of Risk and Insurance.*

With best wishes,

NELSON MCCLUNG, *Deputy Executive Director.*

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., May 26, 1969

DEAR SENATOR WILLIAMS: Your letter to George Meany, President of the AFL-CIO, inviting comments on the working paper of the Senate Special Committee on Aging entitled: "Economics of Aging: Toward a Full Share in Abundance" has been referred to me for reply.

The report is excellent and describes in a most imaginative and creative way the economic problems of the aged. The fine response to the report is indicative of this. Hopefully, maximum efforts will be made to give this report the widest possible distribution for were the report fully comprehended by legislators and the public, the economic plight of aged population would not be tolerated.

We are particularly pleased that the report supports the policy positions of the AFL-CIO for resolving the income problems of the aged. Like the report, the AFL-CIO maintains that since the major source of continuing income for the aged is their Social Security and since a majority of them will never be able to fully participate in the labor force, the Social Security System by means of more adequate benefits is the major and most effective mechanism for resolving their economic problems.

In addition, the report calls attention to what the AFL-CIO has been pointing out for some time. Because Medicare only meets about 50% of the cost of medical care for the aged, major improvements will have to be made in order to relieve them of the still heavy financial burden of health care. Similarly, there should be liberalization of the disability provisions so that workers who, because of a combination of age and ill health, are unable to work or secure work at their usual occupation should be entitled to disability benefits when not eligible for regular Social Security benefits.

Concurrently, with this last change, we feel efforts should be made in both the social security and private programs to make retirement as flexible as possible so that an older worker has the broadest possible range of alternatives from among which he can make a free choice depending on his individual situation to work or to retire, to work full-time or part-time, to work for pay or as a volunteer.

I am enclosing the AFL-CIO policy resolution on the Old Age, Survivors, Disability and Health Insurance Programs which outlines in detail our positions on these matters and also states our position on the many policy issues raised by the report.

Major improvements in the Social Security Act would not resolve all of the income problems of the elderly. Millions of the aged and older workers would still need help from other programs. The AFL-CIO suggests a number of supplemental efforts:

1. The most important is a full employment policy. The greatest advance that could be made toward greater employment opportunities for older workers would be full employment opportunities for everyone.

2. Millions of older workers will require training and retraining to adequately compete in the labor market. Retraining and training should be considered in the broadest sense. Even old age should be, to the maximum extent possible, a time of service and continued self-development.

3. The impact of technology on older workers should be handled through retraining, job redesign, and normal attrition and not through lay-off. In other words, new hiring and increased employment in the economy would depend essentially on the expansion of economic activity.

4. Vigorous enforcement of the Age Discrimination Act of 1967 is essential. This will require considerable prodding by Congress and greater appropriations.

5. Improvement in other social insurance and welfare programs such as unemployment compensation and public assistance would be of considerable help to large numbers of the aged and older workers.

Per your request, I am including suggestions for future inquiries by the Senate Special Committee on Aging. It is difficult to limit the suggestions since the problems of aging on which greater inquiry and exposure are needed are so numerous. Some good possibilities are cost and delivery of health services, long term institutional care, housing and consumer problems.

Thank you for the opportunity to make these comments and I hope these observations will be helpful to you.

Sincerely,

BERT SEIDMAN,
Director, Department of Social Security.

EXHIBIT 1

OLD AGE, SURVIVORS, DISABILITY AND HEALTH INSURANCE

Organized labor, beginning with the fight to pass the original Act, has been one of the strongest supporters of Social Security legislation and has played a key role in the improvements that have been made over the years. After the successful fight for Medicare, organized labor is once again leading the struggle to bring improved social security protection to the American people.

GENERAL BENEFIT INCREASE

A large proportion of our aged population is poor: and even for most of the elderly who barely manage to stay above the poverty line, destitution is an ever-present threat. At the present time, the average benefit for an individual is about $84 a month and for a couple about $144. This is below the poverty standard of the Social Security Administration of about $1500 for an individual aged 65 and over $1850 for an aged couple. According to the Social Security Administration, 5 million persons aged 65 or over are living in poverty and another 5.5 million are kept out of poverty only by their Social Security benefits.

The 7.5% increase in benefits in 1958 failed to restore the lost purchasing power of benefits since the last previous increase and the 7% increase in 1965 fell short of restoring the 1958 buying power. Benefits were eroded further by the approximate 7% increase in the consumer price index since the increase in 1965. We deplore the inadequacy of the 13% across-the-board increase provided in the report of the House-Senate Conference Committee of December 8, 1967. It will do little more than restore lost purchasing power during the past ten years. The elderly were denied the opportunity to enjoy the increased standard of living that has taken place during this period. It is tragic that those whose past labor has contributed so much to our national welfare are themselves kept in a deplorable economic plight and are denied participation in the fruits of their own labor.

The 1965 AFL–CIO Convention called for an increase of at least 50% in benefits in several steps over the next few years. We strongly supported the President's recommendation for an across-the-board increase of 15% in benefits this year as a first step toward the 50% goal. The 13% rise provided by the Conference Committee on December 8 is not even an adequate down payment toward achievement of that goal. The AFL–CIO urges Congress to enact additional higher increases to make this 50% goal a reality as soon as possible. After benefits have been substantially improved, they should be adjusted at frequent intervals by some appropriate measure of the increase in an active worker's earnings in order to insure beneficiaries a share in our increasing standard of living.

MINIMUM BENEFIT INCREASE

Social Security should play a greater role in helping to eliminate poverty. One of the most significant contributions to that effect would be a substantial increase in the minimum Social Security benefit. As a first step the President recommended and the AFL–CIO strongly supported raising the minimum benefit from $44 to $70 for the individual and $66 to $105 a couple. According to recent surveys, 25% of those receiving the minimum benefit were receiving public assistance. Less than one-sixth of the couples and less than one in twenty-five of the single workers had other retirement benefits. A disproportionate share were Negroes and farm workers—those who receive extremely low wages even when employed full-time.

The rise in the minimum benefit provided in the December 8 conference report from $44 to $55, is not nearly enough. The minimum Social Security benefit should be substantially raised as an effective blow against poverty.

WAGE BASE

The taxable wage base has not been raised commensurate with increases in wages. This lag has not only reduced funds needed to improve benefits, but has also contributed to the inadequacy of benefits for higher-paid workers especially because workers earning more than the base amount do not receive benefits related to their full earnings. When Social Security first began, about 95% of the earnings of those in the program were covered by Social Security. The Senate version of the Social Security bill would have raised the earnings base to $8,000 and eventually to $10,800. The rise in the wage base to $7,800 provided in the December 8 conference report leaves a significant percentage of earnings of higher-paid workers untaxed and their potential benefits commensurately low. At least $15,000 would be needed to cover the same percentage of payroll as was taxed at the start of the program. If wages rise faster than the wage base, income from contributions will be based on a gradually declining proportion of total payroll. Higher benefits will require higher tax rates on a smaller proportion of earnings. This will place a disproportionate burden on low-wage workers and restrict essential improvements in the program. In order to improve both the benefit and financial structure of the program, the wage base should be increased to at least $15,000 and there should be automatic adjustments of the base in accordance with increases in the wage level.

GENERAL REVENUE FINANCING

The Social Security contribution rate is scheduled to go up to 4.8% in 1969, and, ultimately, to 5.8%. Though the low-wage worker receives an economic bargain in terms of benefits received for contributions paid, the tax is a difficult burden for him during his working life. Many low-wage workers are paying more in Social Security contributions than in income tax. Since the contribution rate is uniform for all salary levels and exempts higher levels of income, it falls particularly heavy on low-wage workers. We question whether the Social Security tax rate should go much higher, if indeed it should be raised at all. Instead, future Social Security improvements should be financed by increases in the earnings base and by a gradually increasing general revenue contribution to the Social Security Trust Fund in which all taxpayers would share.

RETIREMENT AGE

The impact of automation and other technological and structural changes on employment in recent years has created serious problems for the older worker who is not yet 65 and therefore not eligible for full Social Security benefits. There are a number of changes that should be made in the Social Security Act to meet more effectively the interrelated problems of old age, disability and unemployment.

We urge adoption of an occupational definition of disability for older workers so that any disabled worker after age 50 or 55 who is unable to handle his usual occupation would be entitled to Social Security disability benefits. Many older workers, who suffer from chronic ailments are no longer able to perform their regular jobs and find it almost impossible to secure other employment; yet they cannot meet the stringent definition of disability now in the Social Security law. An occupational definition of disability is essential to help resolve the plight of this growing number of unfortunate people so that older workers made jobless by physical impairment are eligible for Social Security benefits.

The number of drop-out years of low or no earnings in computing the average wage should be increased. Presently, a worker can drop out only five years of low or no earnings. In addition, the period of years used in computing a worker's average wage should end at age 62 for men as it now does for women. Because of the low wage base in earlier years, most workers retire on low Social Security benefits not adequately related to wages at the time of retirement.

The problem is compounded for older workers who are laid off because of plant closing, ill health, or technological changes prior to the age of eligibility for Social Security benefits. Additional drop-out years would be of considerable help in providing more adequate Social Security benefits for these workers.

A more adequate benefit structure, coupled with a considerably less than full actuarial reduction to age 60, would permit a flexible zone of retirement for older workers. This would allow an individual a greater retirement choice by recognizing that the appropriate retirement age varies with the financial situation of an individual, with physiological, psychological and occupational characteristics, and with the state of the labor market. This approach also would permit private pensions a greater degree of flexibility to coordinate with Social Security.

DISABILITY PROVISIONS

There are serious inadequacies in the protection provided by the disability provision of the Social Security law. Benefits are not paid unless an individual is totally disabled for at least 6 months and unless he meets the unusually stringent definition that the disability is totally incapacitating and will last at least 12 months or is expected to result in death. This means that many workers are incapacitated for many months without either regular income or benefits. The economic impact on the family can be catastrophic causing deprivation that may last years beyond the date of recovery of the breadwinner. The Social Security Act should be amended so that benefits will be paid for total disability that lasts longer than one month without regard to its subsequent expected duration.

HEALTH INSURANCE FOR THE AGED (MEDICARE)

The Medicare legislation enacted in 1965 was a breakthrough in the fight to provide adequate health care for the elderly. But the job of making that health care complete has yet to be accomplished. Because of deductible features, coinsurance and the exclusion of essential health services, only about 50% of the cost of medical and hospital care of the elderly is met through the Medicare program. Medicare should cover prescription drugs, eye examinations and other health needs of the elderly now excluded. The prime purpose of a health program should be to prevent illness. Financial barriers and exclusion of essential items deter the elderly from seeking medical care until illness becomes acute. These barriers to effective health care should be eliminated as soon as possible. To achieve efficient coordination at lower cost, hospitalization (Part A) and voluntary supplementary medical insurance (Part B) should be combined in a single fully financed program.

A glaring defect of this year's Social Security bill as passed by both the House and Senate is the failure to cover Social Security disability beneficiaries under Medicare. All the reasons for providing health insurance for the aged apply even more strongly to the disabled. They experience a higher incidence of illness, live on low incomes and have great difficulty in obtaining and paying for health care. The relatively high per capita cost of covering the disabled has been used to justify their continued exclusion. In fact, it is the strongest argument for covering them since it indicates a greater incidence of illness, and, therefore, a greater social need. Though the disabled deserve priority, all Social Security beneficiaries in time should be covered by Medicare.

Organized labor is concerned by the rapidly rising cost of the Medicare program and especially by the announcement that the monthly premium for more than 17 million voluntary participants in the Supplementary Medical Insurance Program (Part B) will be increased 33⅓% next April—from $3.00 to $4.00 per month. This means an individual will have to pay nearly $100 ($50 deductible and $48 yearly premium) plus at least 20% of all bills before he can receive any reimbursement. This is not only an unconscionable financial burden on the elderly whom Medicare is intended to serve, but it may force those with the most limited means to drop out of the program.

Instead of requiring Medicare participants to pay unreasonably high premiums, effective controls should be established to hold down escalating hospital and physicians charges. Hospitals should be allowed to include the depreciation of plant and equipment in "reasonable cost" for hospital reimbursement only if such amounts are used for either capital or non-capital purposes under conditions approved by State planning agencies. Doctors in the Medicare program should be required to accept assignments and abide by the "reasonable and customary fee." Consideration should be given to holding their fees in line with increases in the price of other goods and services. Each intermediary (private insurance and service companies which actually determine the level at which charges and fees are reimbursed by Medicare) should have an advisory board with majority consumer representation, including members of organized labor and the elderly. Consideration should be given to the adoption of a fee schedule for physicians' fees and any major change in this fee schedule should require review by the advisory board and approval by the Secretary of Health, Education, and Welfare.

In line with labor's historical position, we support continued development of the Social Securty program. We deplore the unfounded attacks made by conservative publications against the program in order to impede improvements. It is soundly financed, economically administered and paying benefits related to earnings as a matter of right. The AFL–CIO urges prompt action to secure the aforementioned improvements in the Social Security Act and similar changes, where applicable, in the Railroad Retirement Act: Therefore be it

Resolved, That Congress substantially increase Social Security benefits so that the AFL–CIO goal of a 50% increase in benefits will be a reality as soon as possible. Benefits at this higher level should then be adjusted in accordance with some appropriate measure of increase in wages to guarantee that beneficiaries will share in our increased standard of living rather than be left behind in the march of economic progress.

That the minimum benefit be increased sufficiently to lift the burden of poverty from large numbers of the poorest among the elderly.

That the wage base be raised to at least $15,000 and adjusted periodically thereafter in line with active workers' earnings to provide a fairer and more soundly financed Social Security System.

That the cost of future Social Security improvements be paid for in part by general revenue contributions to the Social Security Trust Fund.

That provision be made in the Social Security program to establish a flexible zone of retirement between age 60 and 65 by permitting benefits at age 60 at much less than a full actuarial reduction and by making older disabled workers, not totally disabled but below the normal retirement age and no longer able to engage in their usual occupation, eligible for disability benefits.

That disability benefits begin after one month and continue for as long as total disability lasts.

That the Medicare program be improved by removal of financial deterrents and coverage of excluded services and that it be broadened to include the disabled immediately and, as soon as possible, all Social Security beneficiaries.

AFL–CIO Policy Resolution on OASDI, Seventh Constitutional Convention, December 7–12, 1967.

TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA,
COLLEGE RETIREMENT EQUITIES FUND,
New York, N.Y., May 29, 1969.

DEAR SENATOR WILLIAMS: I appreciate your invitation to comment on the Working Paper prepared by your very able Task Force. It effectively highlights the range of issues which face us in improving the financial independence of older people. It seems to me that as citizens we are in broad agreement on the objectives of enhancing the dignity of the elderly, even though we may disagree at times on matters of detail and on the best means of achieving our goals.

My own studies in this area, particularly the materials included in *Economic Aspects of Pensions* published last year by the National Bureau of Economic Research, have convinced me of the necessity of looking at this problem in the broad context of our economic environment. That is to say, the aged are such a significant portion of our total population that we must constantly bear in mind their situation whenever we address major issues of economic policy.

As a case in point, current efforts to reduce the rate of inflation are especially vital to those who have lost the ability to protect their living standards by earnings from full-time productive employment. Similarly, federal revenue sharing could lighten the local tax burden on real estate. This is especially significant because home ownership is a principal asset of older people. Improving the economic status of the aged, in short, is an objective of public policy in areas far beyond the specific terms of the OASDHI programs. The scale of taxes and benefits under Social Security, on the other hand, requires that their effects on economic growth and stability be analyzed along with study of the effects of other revenue and expenditure policies. It is disturbing that in the revision of existing arrangements so little consideration is given to the economic impact of such major fiscal measures running so far into the future.

In light of these considerations, it seems highly undesirable to relate social security benefits by formula to changes in the Consumer Price Index, which was never constructed to deal with the problem of measuring the real living standards of retired individuals and family units. Periodic careful reviews of payroll tax rates, covered wages, and benefit levels, integrated with provisions made for medical care, are required to make adjustments to the realities of the living standards of the elderly. Concurrently, it is essential that the fiscal effects of changes be considered in relation to other aspects of tax policy.

The related goals of extending supplemental pension arrangements by governmental and private employers need to receive the impetus of affirmative public policies. The trend toward earlier vesting and full funding of public and private pension programs can be encouraged as a mechanism for accommodating the level of total benefits to the varied circumstances and living costs of people in different localities and walks of life. It is by no means clear that we have begun to exhaust the ingenuity of our financial institutions in serving a much greater proportion of the retirement saving needs of the American people.

Your Working Paper clearly suggests that a range of efforts will be required before we can honestly say that we, as a nation, have adequately applied the fruits of our rising standard of living to enhance the dignity of old age. Despite the progress made to date, it is evident that private resources need to be applied in even greater measure to the achievement of our aspirations for older people.

Sincerely yours,

ROGER F. MURRAY.

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES,
New York, N.Y., May 29, 1969.

MY DEAR SENATOR WILLIAMS:

* * * * * * *

There is much information and analysis of considerable value in the Report of the Special Committee's Task Force. Yet, there appears to be one regrettable omission. The thrust of the paper is directed at possible measures to improve the lot of the aged poor, but there is no reference to any of the various proposals now being espoused aiming at general income maintenance for all Americans, including the elderly. A wide variety of such proposals is being discussed intensively, including both an evolutionary approach through the general welfare system as well as more novel approaches such as several versions of a negative income tax.

Should the nation adopt general income maintenance as its goal, the problem of the aged would become a sub-set of the more general problem of low incomes regardless of age. The task then at hand might be how best to integrate the Social Security System (and other transfer payment programs) into the more general structure of income maintenance. The consideration of this possibility by your Comimttee might serve to avoid measures which could at a later time turn out to be difficult obstacles in the way of integration.

A second point I should like to make concerns the role of private pension plans. I note that your Task Force, at the very end of its Report, terms private group pensions and personal savings "essential supplements" to basic social security benefits and urges the government to explore and lend support to methods of promoting and encouraging such supplementary sources of retirement income. Yet, the body of the paper and its statistical material do not appear to give much weight to the potential of providing future retirement income through private pension plans. It is worth noting that between 1955 and 1967 alone the number of persons covered under private pension plans rose from 16.4 million to 31 million, or from 25% of the civilian labor force to 40%. Furthermore, the reserves held to cover future benefits under these plans nearly quadrupled (to $104 billion). reflecting both broader and improved benefits payable. The growth of these reserves in turn provided the funds for investments that have helped create jobs and improve productivity. It would seem clear that preserving and strengthening the incentives for private pensions, and for that matter personal savings, should indeed be carefully considered in any legislative proposal that may emerge from your Committee's deliberations. In any event it seems to me that governmental measures affecting the elderly, including Social Security, should be regarded as "floors of protection", with private plans providing the mainstay above the floor.

With best personal wishes.

Faithfully yours,

JAMES F. OATES, Jr.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF ECONOMIC OPPORTUNITY,
Washington, D.C., May 21, 1969.

DEAR SENATOR WILLIAMS: I was pleased that you asked us to comment on the Working Paper entitled "Economics of Aging: Toward a Full Share in Abundance."

I have enclosed comments which were prepared by Dr. Burton Weisbrod and Dr. Lee Hansen who are staff members of the OEO funded Institute for Research on Poverty at the University of Wisconsin. While their analysis is not intended to serve as a policy statement by OEO, their comments are, I think, most relevant. I am also enclosing an article of theirs on this area which recently appeared in the *American Economic Review* which suggests that the well-being of many aged persons is not fully represented by measures of current income.

I hope that OEO can be of assistance in furthering the work of your committee, and that OEO will be invited to respond to specific concerns and proposals which may come to the attention of the committee as your analysis of this issue proceeds.

Sincerely yours,

RICHARD F. OTTMAN, *Acting Assistant Director.*

[Enclosure]

EXHIBIT 1

INSTITUTE FOR RESEARCH ON POVERTY,
THE UNIVERSITY OF WISCONSIN,
May 15, 1969.

MEMORANDUM—Economics of Aging: Toward A Full Share in Abundance

We have put our heads together to present the following comments on the Working Paper.

On the whole it is a quite thoughtful, well-considered, and useful study. Its main—but we think serious—fault is the complete and unquestioned acceptance of "the aged" as a suitable classification of people. The aged are obviously a heterogeneous group in all respects except age. Many of the aged are ill, but most are not. Many have "little" income but some have much. Many own no significant amount of assets, but others are wealthy indeed. And so on. Why, then, treat all the aged alike?

There are sensible answers to this question, but the question deserves thorough exploration—which it does not receive in the report—before we launch efforts to raise income for all the aged.

Second, in the interest of exposing important issues, it would have been desirable if the report had developed the arguments for and against the idea that the aged "should" not only *maintain* the living standard they had before retirement, but that their post-retirement living standards should *rise* with the general growth of the economy. This is an important—and controversial—value judgment that carries significant policy implications.

It may be true, as the report states (p. 18), that the income gap between the retired and the working will increase if retirement income is fixed with reference to pre-retirement income. But insofar as some of the aged can invest their wealth in real assets they will also share in the economy's growth.

This leads to the matter of the wealth owned by the aged. The attached table 4 from our December, 1968, article in the *American Economic Review* indicates that although half of the aged families (we did not study the "unrelated individuals") had current incomes under $3,000 in 1962, the average (median) net worth (assets minus liabilities) was more than $9,700.

Similarly, the top panel of table 6 showed that there was substantial net worth even among families with very low incomes. Families with incomes under

$3,000 had an average income of only $1,800, but average net worth of more than $6,600.

A significant amount of this net worth is, as the *Economics of Aging* paper states, in the form of housing. Yet there is an important question as to whether such wealth should be ignored when the degree of "poverty" among the aged is in question. Home ownership does simply lower expenditures for "rent." And there is also the unanswered question of whether some of the aged may have more housing and larger quarters than they "need." We have no easy answers; the questions do deserve attention.

Several possibilities come to mind. One issue bearing investigation is the possible establishment of a mechanism. That would permit the conversion of illiquid forms of wealth, such as homes, while still permitting the aged to have use and control of these forms of wealth. The notion of a "house bank" whereby the asset value of a home could be converted into a lifetime annuity is appealing. Another somewhat different possibility for assisting the aged is to experiment with a transfer program which is related to family resources—both current money income and assets. As an example, the State of Wisconsin has a tax forgiveness program for the aged which is geared, through an explicit formula, to the amount of current family income, the amount of property tax paid (or assumed to be paid by renters), and state income tax liability. Such a program assists those who presumably are most in need of financial supplementation.

Attention should also be directed to taking a broader view of the welfare of the aged than is conveyed by information on income and asset values. For example, the implementation of Medicare acts to raise the well-being of the aged; indeed, one of the arguments used to support passage of Medicare was that it would help to reduce poverty among the aged. One rough estimate made several years ago of the annuity value of Medicare suggested a figure of between $150 and $200 per year. Such a figure is not inconsistent with the indication in the working paper that active Medicare benefits to the aged in 1967 amounted to almost $300 per aged person. Nor is it inconsistent with the fact that total Medicare benefits in 1967 amounted to $3 billion, against total purchasing power of about $40 billion for the aged in calendar year 1968. In short, the importance of goods-in-kind which are specific to the aged deserves greater attention.

In conclusion, the report's emphasis on uncertainty (p. 37) is valuable. Indeed, in our minds, it is the uncertainty about (1) length of life following retirement, and about (2) extraordinary medical expenses, that is fundamental to dealing with financial problems of the aged. If the financial implications of these uncertainties could be dealt with—and we think they can be through some sort of (social) insurance program (Medicare is a large step)—then poverty among the aged might be treated as part of a solution to poverty in general. That is, perhaps, it is the uncertainty that is the heart of the problem of poverty among the aged.

STATEMENT OF WALTER P. REUTHER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURE IMPLEMENT WORKERS OF AMERICA, UAW

On behalf of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America—UAW, of which I am President, I thank this Committee and its distinguished Chairman, Senator Williams, for the invitation to submit this statement.

The more than 1.7 million active and retired members of the UAW and their families share the stake which all Americans have in overcoming the fundamental problems highlighted in the Committee's task force working paper on the "Economics of Aging."

The findings set forth in the task force paper lead to an inescapable conclusion: The "economics of aging" in America is now—and, in the absence of informed, comprehensive and prompt action, will continue to be—an "economics of want" for vast numbers of our older citizens.

The data collected and the insights obtained from the working paper, underline and reinforce previous findings by government and other researchers on the poverty of many of the elderly. The harsh reality of the long-standing income inadequacy of the aged has been the basis of the UAW's continued efforts to increase the income of retired workers both through Social Security improvements and collective bargaining activities.

The UAW's concern with the plight of the elderly is in no way lessened because the great majority of our retirees have negotiated pension benefits to supplement Social Security as a significant element in their total retirement incomes. We will continue to work to improve retirement conditions for our members as well as for all Americans. We are convinced that the major social and economic problems confronting many elements of our society are indivisible. The progress and well-being of our members are indissolubly linked with the progress and well being of society as a whole.

I believe that the true worth of a society can best be judged by what it does to meet its social and moral responsibilities. Today, one of our nation's greatest moral obligations is to provide meaningful opportunities for our senior citizens to live out their lives with a full measure of economic security and human dignity.

We cannot deal with the problems of older Americans in a vacuum, however. Our ability to resolve them effectively and realistically will depend on what we do in many other areas where today we face comparable crises and challenges.

The UAW is convinced that meeting the requirements of the elderly need not conflict with urgently needed measures in such fields as health, education, housing and environmental control. With tax reform, increased military accountability and ending the war in Viet Nam, America readily can do what must be done for all age groups. Delay in establishing these conditions, however, is no excuse for delaying action programs to deal with the most urgent problems of our older population.

America has the resources to meet the problems of the aged without sacrificing basic services for our youth. We must reorder our national priorities and establish a primary commitment to meeting human needs. We must, as a nation, demonstrate the will and determination to take the positive actions needed to resolve all these problems—today as well as for future generations.

I view the task force report as the basis for an "action agenda"—a call for the effective mobilization of our nation's resources toward meeting the long neglected needs of older persons. Previous piecemeal approaches to meeting these needs have repeatedly fallen short of achieving any reasonable measure of adequacy.

The facts presented in the report make it abundantly clear that a major overhaul is required. In previous testimony before both Houses of Congress, I have elaborated on the need for an action program to provide the basis for a secure and dignified retirement for our nation's aged. Today, the need for action is more urgent than ever before.

IMPROVEMENTS IN SOCIAL SECURITY

1. Toward Meeting Income Problems of the Aged

To date, Social Security legislation has plainly failed to provide sufficient retirement income to permit a secure and dignified retirement after a lifetime of work. In raising Social Security benefits our approach can no longer be the the shortsighted one of—to cite the words of the task force paper—"maintaining the economic status of the aged at some minimal standard or subsistence level in the face of rising prices."

In our free and abundant economy, we cannot justify condemning the elderly to existence at the bare margin of subsistence. This, the wealthiest nation on earth, can afford to base its social insurance legislation on the principle of providing retirees with an adequate income geared to protection of their pre-retirement standard of living and assuring them a continuing share of our rising national product.

As a clearly attainable goal, our Social Security system should assure retired wage earners of income from the pubic program that is equivalent to at least two-thirds of average covered earnings in the years before leaving the work force. Only then can Social Security truly be an effective base for the kind of retirement security which our country is capable of providing and which our older population—now and in the future—has every right to enjoy.

We need to establish an alternative to the present system which ties benefit increases to election years and other political considerations. To maintain Social Security as the assured base of a meaningful retirement, regular benefit adjustments should be provided in order to reflect changing economic conditions.

As a first step toward meeting long-range goals, the UAW urges immediate enactment of Social Security amendments to provide—

(*a*) a minimum benefit of $100 per month for workers retiring at age 65; a similar minimum would apply for disabled workers and for eligible widows beginning at age 60;

(*b*) a $150 minimum benefit for elderly couples;

(*c*) an across-the-board increase of 50% for benefits over the minimum.

Clearly, any delay in implementing improved benefit levels would seriously erode their value. Already, the rising cost of living has wiped out more than half of the last (1968) benefit increase; which was, even then, inadequate.

As the task force report states, Social Security benefits are the major source—frequently the only source—of income for most older persons. A significant increase in benefit levels is the single most important action we can take to meet the pressing financial needs of the aged generation. Such benefit increases would, by themselves, hearteningly reduce the disproportionately large part of the nation's *total* poverty problem, which is directly associated with old age.

Failure to act promptly, or temporizing with token adjustments, can in no way be justified. There is no moral or economic basis for asking Social Security beneficiaries—among the worst victims of inflation—to bear the major burden of the fight against inflation.

2. Financing New Benefits

Increases in benefits for present beneficiaries (and for those soon to retire) should be financed from existing surpluses in the Social Security trust funds and from general revenues of the Federal Government. This approach is essential if current retirees are to share in the fruits of our country's constantly increasing productivity.

The tax base for Social Security requires expansion. In 1935, the full earnings of 98% of all covered workers were covered by the maximum Social Security tax base legislated in that year. In 1968, despite an increase in the covered earnings base in that year, the maximum Social Security tax base covered the full earnings of approximately 80% of all covered workers.

The UAW advocates legislation that would increase the present Social Security tax base to $15,000. The base should be immediately increased to $10,000, with succeeding increments phased over several years. The substantially higher tax base would simply cover a proportion of income approximately equivalent to that initially provided in the 1935 Social Security Act.

As an important element of general tax reform, the present unfair and regressive burden of the payroll tax on lower-paid workers should be lightened by exempting from such tax an amount at least equal to the individual income tax exemption. For example, a worker who presently earns $5000 anually pays $240 in Social Security taxes. An exemption equal to his present individual income tax exemption would save such a worker, $29 or 12% of his current tax.

Workers whose wage incomes still leave their families in poverty should receive *additional* tax relief.

Reliance on an increasing degree of general revenue financing of benefits (ultimately to finance approximately one-third of the Social Security system) will also aid in reducing the burden of regressive payroll taxes. General revenue will not, however, obviate the need to raise the tax base.

3. Meeting the Trend to Early Retirement

The problems of early retirees in obtaining a full share of our nation's abundance are especially well documented in the task force report. In this respect, UAW members are again relatively well off as a result of provisions included in many or our negotiated pension programs. Special benefit provisions including supplements until full Social Security benefits are available have facilitated early retirement of thousands of UAW members in recent years.

The response to our negotiated early retirement benefits suggests that a viable economic base for early retirement is potentially one of the most important means of opening up jobs for younger generations of workers by enabling older workers to retire early after long years of productive service. Studies of UAW early retirees indicate, moreover, that with such an economic base, the overwhelming majority are finding their life in retirement to be a rewarding experience.

Many early retirees, however, are forced retirees; forced to retire because of increasing rates of technological change, plant closings or declining health in the face of the exacting pace of many kinds of industrial employment. Because they often leave the labor force involuntarily, early retirees frequently face drastic cuts in incomes. The task force report cites data which promise little prospect for future improvement in the incomes of early retirees.

Unfortunately, our public OASDI system, unlike private pension plans, is unable to distinguish between those who choose voluntarily to retire and those who are displaced and forced prematurely to retire. To meet the needs of the increasing number of those retiring early, for all reasons, but particularly to aid those forced into retirement, appropriate Social Security revisions are needed to—

(*a*) permit retirement with full benefits for both men and women as early as age 62, with subsequent reduction to age 60 soon to follow;

(*b*) provide for the computation of benefit entitlements on the basis of the worker's five highest years of earnings.

PRIVATE PENSIONS

The UAW has pioneered in the development of pension plans covering industrial workers in this country. Negotiated pension programs are an important source of retirement income for the approximately 200,000 UAW retirees currently receiving pensions. More than 20,000 UAW members will be retiring and qualifying for pensions this year. And thousands more will be joining their ranks in the years ahead as a result of retirement under UAW negotiated pension provisions.

Today, increasing numbers of other workers are retiring under collectively bargained and other pension plans. However, as the task force report documents, only about 20% of all those over age 65 are presently receiving a private pension as a supplement to their Social Security. While more of tomorrow's aged will be receiving private group pensions, even the most optimistic estimates assume that no more than 40% of those over age 65 will have income from this source in 1980.

Neither the UAW nor the nation as a whole can afford to be complacent about this source of income for the future. In addition to the generally low benefit levels and limited coverage of private plans, they also suffer from the overall uncertainties of individual private enterprises.

Business failures, plant shut-downs and other factors arising from technological change and competitive forces have resulted in the unforeseen and often abrupt termination of an otherwise sound pension plan at a time when currently accrued assets are insufficient to meet accrued benefit liabilities. Such pension plan terminations all too frequently subject affected workers to the double tragedy of lost jobs and loss of substantial prospective pension rights at a stage in life when they have little or no opportunity to earn further benefit entitlements.

Immediate legislation to enhance the security and overall effectiveness of private pensions is clearly required. The UAW advocates prompt enactment of measures to—

(*a*) provide pension reinsurance under a broadly based governmental program in order to guarantee the availability of presently committed pension benefits;

(*b*) establish minimum vesting provisions in order to provide an increased measure of pension portability and worker mobility;

(*c*) establish a procedure whereby each private plan would notify the Social Security Administration whenever an individual acquires a vested right to a pension benefit. When the individual subsequently applies for Social Security benefits, he would be notified of all private plans under which he has accrued vested rights; and

(*d*) provide for the issuance of Federal "purchasing power bonds" which would be available as pension investments for qualified plans that provide for adjustment of their benefit rates to prevent the erosion of real retirement income through inflation.

MEETING HEALTH NEEDS

As the task force report points out, Medicare (in its first year of operation) met only slightly more than a third of the health care expenditures of the aged. An additional 25% of their health care expenditures was met by Medicaid.

The continued relatively rapid rise in health care costs (approximately twice the rate of price increase for all other goods and services) coupled with the relatively large volume of health care services used by the elderly (almost three times the average for younger persons) means that the elderly will continue to pay a disproportionate share of their income for health care of questionable quality.

With 45% of the costs of Medicaid being incurred on behalf of the aged, this program is providing some measure of protection against the rising health care costs of some of the elderly poor. But the program is only operative in 40 states and is steadily becoming very much more restrictive in the range of services being provided, the actual financial aid available under any one type of service, and the way in which changing application of eligibility rules restrict the needy population groups which the State programs are prepared to serve.

Because of the very uneven scope and qualify of services provided under Medicaid and the increasingly restrictive eligibility conditions, this program is failing to assure a decent level of protection for the aged poor. The failure to control the level of charges being accepted for payment under State programs is clearly tending to inflate the costs of health care services for both the aged and the population, generally.

Particular hardships are effected on the elderly by the demeaning nature of the tests of eligibility under Medicaid; the failure of State programs to organize effective and acceptable health systems to reach the poor and meet their needs; and Medicaid support of dual, and highly unequal standards of service for the poor, as distinct from services available to the more affluent.

The general inadequacy and high price of health care are serious national problems. This, in spite of the fact that this country is already spending more on health care, estimated at $58 billion in 1969, and a larger proportion of its Gross National Product, estimated at 6.5%, than any other industrialized nation in the world.

In our present health care non-system, not even the rich consistently receive the level of health care of which our nation is capable. It has been estimated recently, that for one-quarter of our nation, medical care is "either inexcusably bad, given in humiliating circumstances, or non-existent." An additional 50% of the United States' population was estimated to be receiving only "passable" medical care.

1. National Health Insurance

It is apparent that more and more Americans are beginning to recognize the failure of our existing health care non-system. The United States can no longer accept partial and uncoordinate approaches to solving the complex problems of the provision and financing of health care.

With our vast economic and scientific resources, it is possible to provide high quality, effective health care for all Americans, but only through improved systems for the delivery of services. And only national health insurance can provide the leverage and financial and technical support to make the necessary changes in the present disorganized approaches.

A system of national health insurance, as an integral part of our Social Security system would provide the leverage to develop a quality system of health care for all, at a cost our nation can afford. Such a system would permit active workers and retirees economically to budget their health care needs. It would ease the problems of saving for old age as well as further reduce the health and financial unecrtainties of the aged.

Sound comprehensive health care is a major requirement of all the elderly. National health insurance can best meet this requirement. Until such a national program is achieved, however, we must work to improve Medicare and Medicaid.

2. Necessary Improvements in Medicare and Medicaid

We in the UAW are proud to have been counted among the original supporters of the principle that adequate health care through Social Security is a right to be enjoyed by all our older citizens. While the enactment of Medicare was one of the most significant pieces of social legislation since the 1935 Social Security Act itself, Medicare requires significant improvement before it reaches the potential rightly expected of it. Medicare's effectiveness has been seriously limited by the restrictions placed on it. These restrictions have compelled many of the elderly to rely on the uncertain and substandard "means test" medicine available through Medicaid.

Present efforts to control the rapidly rising costs of Medicare and Medicaid are not sufficiently broad in scope, misdirected in their application, and to date, have proven ineffective. There is little real evidence of a broad-scale Federal effort to deal with monopolistic pricing policies of the providers of service under Medicare. There has been even less success with what utilization controls have been applied to modify the use of hospital, nursing home and physician services under that program. The retention of deductibles, coinsurance payments and dollar limits on services under Medicare has played no part in controlling costs and merely retains economic barriers to care which cannot be justified for this low income group.

Of equal concern, is the current Federal-State reaction to rising costs under Medicaid. State efforts are being directed to restricting constantly the scope of the services offered and increasingly defining eligibility provisions to restrict coverage, at the expense of the beneficiaries of the program. These efforts must be refocused on the providers of service through effective utilization and cost control systems.

The recent Federal restrictions placed on State programs in respect to the level of payments to physicians under Medicaid, represent a useful and overdue step. More effective restraints are necessary, however. The Federal Government must initiate comparable checks on the costs of institutional care, dental services, and drugs.

Existing systems of medical utilization review and cost control under Medicare have been uneven in performance and ineffective in preventing many abuses. Moreover, no such review system has been required under the Medicaid program. We, therefore, propose that the Federal Government assume primary responsibility of establishing effective "utilization and review" programs for both Medicare and Medicaid.

The UAW urges the prompt establishment of effective "utilization and review" programs by the Department of Health, Education and Welfare. Well developed, decentralized, regionally-based programs, operating through each HEW Regional Office, in cooperation with State plan administrators, State and local health departments and area hospital and medical groups, are required, if the necessary remedial controls are to function effectively.

In future testimony before this Committee, I plan to discuss in detail some of the medical problems facing our nation's elderly. At that time, I will present more extensive proposals to reform Medicare and Medicaid. For the present, however, Medicare's overriding importance to the elderly requires specific comment.

The UAW believes that Medicare should be given every opportunity to live up to its full potential. Immediate action toward this end, should include—

(*a*) the removal of artificial and arbitrary time limits on the duration of necessary care in hospital and extended care facilities;

(*b*) the removal of patient deductible and coinsurance payments under both Parts A and B of Medicare;

(*c*) the provision of necessary prescription drugs on an outpatient basis, in order to reduce the burden of this cost of health care;

(*d*) the inclusion under Part A of the cost of services provided by hospitals to both inpatients and outpatients and the costs of professional and technical personnel related thereto, so that the current program will no longer interfere with the traditional means of operation of hospitals;

(*e*) the provision of a single capitation system of payment to group practice plans which would permit them more economically to render a more comprehensive level of service, covering both hospital, medical and other services which can be made available by such plans; and

(*f*) the strengthening of Federal regulations for standards of quality and cost controls, particularly to stop the present escalation of medical care cost through the abuse of the "Reasonable and Customary" method of payment to physicians.

OTHER NEEDS OF THE AGED

In making these brief comments, I have not attempted to review all of the data and insights in the task force report. Like the report, I have emphasized economic and health considerations. As I'm sure this Special Committee is well aware, the social problems of the aged are also of real importance and require continuing attention and research.

Problems of the "generation gap," for example, may have their harshest impact on the aged and advanced aged. As the number and percentage of the elderly living well past the age of 70 increases, so too are all the associated problems likely to increase. Protection of the aged against violent crime and as consumers, are both areas of national concern that are likely to grow in importance as the size of the population of aged Americans increases.

The task force report has performed an invaluable service through its thorough documentation of facts placing the problems of the aged in perspective. Facts, themselves however, are sterile, unless they motivate meaningful action.

We, as a nation, and Congress, as representatives of the people, now need to demonstrate a sense of urgency in dealing with the human problems of our older citizens. In this and other areas of social need, only an urgency comparable to that which has motivated the full utilization of our resources in the conquest of space will suffice.

I have often repeated my unlimited faith in the ability of free men and our free institutions to meet the complex and urgent social problems that call for solution in America. If we are prepared to make the commitment, we can transform our technological revolution into a revolution of human fulfillment. A revolution shared in by young and old alike.

RICE UNIVERSITY,
Houston, Tex., May 28, 1969.

DEAR SENATOR WILLIAMS: Thank you very much for sending me a copy of the task force report on the economics of aging. My own views and findings are very much in agreement with those of the report. I naturally find it a very useful statement of basic problems.

The point I would stress most is the need to find the means to prevent a drastic lowering in the standard of living upon retirement. In a wealthy democratic society, it is clearly not enough to prevent simply acute poverty among our senior citizens. A man who has worked all his life must be able to maintain his dignity in retirement. The average man cannot do so if this retirement income drops by more than one-fourth to one-third below previous earnings from work. We must therefore think in terms of a retirement income of two-thirds to three-fourths of previous work related earnings. And this income must be allowed to keep pace from year to year with the growth of national income. Only this kind of arrangement will in the long run forestall a widespread sense of deprivation and discontent. People are aware of the potentials of our economic system, and their expectations are geared to the possibilities of a very affluent country.

The question which naturally follows is what should be the respective roles of social security, private pensions, and other sources in securing this income. Ideally, we want to maintain as much freedom as possible in the management of our personal financial affairs. Realistically, many people, including the vast majority of wage earners, are not in a position to manage an adequate retirement income on their own, in spite of the basis now provided by social security. There are, of course, people, especially among the well-paid salaried employees, who participate in generous pension programs and have other resources. But for those who are not long term participants in employer supported group programs, the outlook is not promising. Even if they are regular savers, the risks and costs of searching out and managing a dynamic retirement program are overwhelming. I have in mind a program which provides for growth in the pension during retirement.

We should therefore expect that private efforts and a minimal social security system will not be adequate. At the same time, it would not be advisable to discourage private efforts. This would suggest that we need a compromise arrangement under which social insurance is compulsory up to a certain retirement level. Beyond that, individuals should be allowed to contract out of the system when they can show that they have made adequate provisions. Schemes of this nature exist in other countries. They allow a combination of public and private efforts toward establishment of an adequate retirement income.

There are many technical problems to be solved if a program of this kind is envisaged. This should be one of the directions into which research may be guided. The fundamental aim is to enable the American citizen to maintain in retirement roughly the standard of living he has achieved through a lifetime of work. This is the retirement income I consider required for maintenance of social harmony in the long run. We cannot afford to continue turning our aged into a massive underprivileged minority.

Sincerely,

GASTON V. RIMLINGER,
Professor of Economics, Chairman.

MARTIN E. SEGAL CO.,
New York, N.Y., June 2, 1969.

DEAR SENATOR WILLIAMS: The report of your Special Committee's Task Force, "Economics of Aging: Toward a Full Share in Abundance", is a very useful definition of the basic issues involved in providing economic security for the aging.

Permit me to suggest proposals that may be particularly significant in assuring adequate income for the aging.

The Social Security System (OASDHI) will continue to be the bedrock of security for the aging. For a large proportion of the population, private pension plans will not be significant and, for the past several decades, there has been too much uncertainty, inflation, and ceaseless change for personal savings to be a major source of old-age security.

Social Security benefits should be made more adequate. The benefit level should be higher in relation to earnings, particularly for workers who have had a long period of covered employment. Benefit levels should be brought closer into line with wage levels at the time of retirement either by weighting the formula by earnings in the five years before retirement (but with due regard to length of covered employment) or by a system of revising past wage credits upward on the basis of a national wage index.

Benefits should be subject to automatic adjustment to the cost of living. Social Security beneficiaries should not suffer reduction of their purchasing power, even temporarily; control of potential inflation should be found elsewhere than in the already-meagre resources of the aging. Automatic adjustment would not remove incentive for further improvements in the Social Security program; rather, attention would focus those changes in the program which would go beyond a simple adjustment to consumer price increases.

Attention should be directed to the possibilities of encouraging "second careers"—changes in middle-age from jobs which are difficult to continue to jobs which can be performed with satisfaction through the sixties. There is no reason why the job that is held at 40 should still be held at 50, if a change can be made which might sustain full earning capacity for a much longer period of years. A truck driver should be able to become a clerk. A development of this kind might be encouraged by sabbatical leaves, education and retraining programs, and by special supplements to unemployment insurance so as to buffer the risk of change.

Encouragement should be given to the development of plans or arrangements by which a large part of the equity which an elderly person holds in his home could be translated into current income. This would not solve the problem of poverty in old age, but it would release a large source of current income for a substantial percentage of the aging.

We trust that these comments are useful to your Committee in its important mission of seeking adequate economic security for the aging.

Sincerely yours,

ROBERT TILOVE.

NATIONAL URBAN LEAGUE, INC.,
New York, N.Y., May 23, 1969.

Dear SENATOR WILLIAMS: I appreciate your invitation to react to the facts and findings proposed by the Task Force on the Economics of Aging.

I have asked Dr. Inabel Lindsay, a National Urban League Trustee, and Chairman of our Committee on Family and Individual Services, to prepare our reactions for your committee.

Cordially,

WHITNEY M. YOUNG, Jr.,
Executive Director.

[Attachment]

STATEMENT OF INABEL B. LINDSAY, DSW, MEMBER, PART-TIME PROFESSIONAL AND EXECUTIVE CORPS, HEW, CHAIRMAN, COMMITTEE ON INDIVIDUAL AND FAMILY SERVICES, NATIONAL URBAN LEAGUE

ECONOMIC AND SOCIAL SITUATION OF THE NEGRO AGED

Chronologically, my age places me in the category of "older Americans" and ethnically, I am identified as a Negro. Consequently, my interest is not only professional (being a social worker with substantial experience in working with and for the aged) but also personal. I am one of the fortunate few, privileged after retirement, to have employment which is both stimulating and financially productive.

In 1964, the National Urban League published a pamphlet titled "Double Jeopardy" which called attention to the severe hardships suffered by the majority of aged Negroes. Their history usually reflects low paid employment, a disproportionate amount of unemployment and underemployment, inadequately cared for health with consequently high death rates, greater necessity to resort to public assistance, and, for most, family situations which could offer little aid.

Since 1964, greater awareness of the problems of the aged has developed. In a number of research projects undertaken within the past decade some special attention has been given to the nonwhite aged, and since more than 90 percent of the nonwhite population in the U.S. is Negro, this consequently has revealed considerable new factual data on the plight of the Negro aged. These data suggest some improvement over the situation depicted in "Double Jeopardy," but not enough to eliminate the gap between this multiply-disadvantaged group and the majority population. The life situation—special problems, needs and potential remedies—of this group deserves research more specifically focused on it.

In proportion to their relative population percentage, more aged Negroes than whites have below poverty level incomes. In a recent report on "Residence, Race and Age of Poor Families in 1966" (Social Security *Bulletin* for June 1969) the authors, Carolyn Jackson and Terri Velten, present data which shows that in those families headed by individuals 65 and over, 47 percent of the non-white families were poor as compared with 20 percent of the white families. Even though this tremendous disparity is not as great as for younger families, the consequences may be more disastrous, coming as it does at a time when the family head cannot look forward to increased earning potential through better education, job training and decrease in employment discrimination.

There is also marked differential in incomes of Negro and white beneficiaries of social security payments. By virtue of various liberalizing amendments to the Social Security Act since 1955, there are increased numbers of nonwhites included among those eligible for cash benefits from OASDHI programs. However, the benefits gained for women and dependent children through the liberalizations are of considerably greater significance than those for retirees. Of this latter group, only 8 percent were nonwhites at the end of 1967, as compared with a mere 6 percent in 1955. The same source (Janet H. Murray, "Old-Age, Survivors, Disability, and Health Insurance: Changes in the Beneficiary Population," Social Security *Bulletin*, April 1969) reveals the disparity in income benefits between racially identified male beneficiaries. The average benefit for nonwhite male beneficiaries was only 79.2 percent of the average for white beneficiaries. Such data reflects the continuing employment disadvantage of blacks who historically have held lower paying jobs in less secure employment. Although tangential to the specific plight of the aged Negro beneficiary, it is significant that when the disability provision of the Act was liberalized in 1967 by the removal of the age limitation, the percentage of nonwhite beneficiaries included among the disabled was substantially increased; thus reflecting the fact that nonwhites are more apt to be employed in occupations of greater hazard.

The older Negro in his less advantaged economic position, not only supplies the evidence of earlier prejudice and discrimination in employment, but also the inadequacy and inferiority of his early education. In earlier hearings before this Committee (July 24, 1968) former Secretary of Labor Wirtz, suggested that there ought to be a second period of compulsory education to begin at age 60, in order to help individuals at that age begin to prepare for things which they could do meaningfully and usefully after 60. Such a program would be very helpful to the Negro in the earlier years of "old age." Several of the research and demonstration projects on aging have demonstrated the feasibility of training older workers for services with their contemporaries. These programs have utilized the elderly as interviewers, as homemakers, and community workers. It would seem especially beneficial to involve blacks for such important tasks in those cases where the nonwhite subjects, conditioned by the cultural heritage of segregation to resist free interchange with whites, might participate more freely with other Negroes.

Although the elderly Negro is severely handicapped economically, he suffers additional disadvantages in other areas. His health needs, for example, are stringent. Although there has been notable increase in longevity over decades, his death rate continues disproportionately high, and the morbidity rate for this group exceeds that of whites in comparable age groups. These problems reflect in part both the inadequacy and unavailability of preventive and remedial health services. Other influencing factors include the high cost of medical care, which with their disadvantaged economic position, many aged Negroes simply cannot afford. There is hope for some relief for this pressing need in the new programs of Medicare and Medicaid, but in the brief history of these programs it seems probable that progress will be slow and that Negro beneficiaries will profit at a noticeably slower rate. Here is another area deserving early research.

Health and housing are closely related. Many studies in the past have demonstrated that substandard housing significantly and adversely affects the health of those who must live in it. Also studies showing the distribution of the elderly poor indicate a heavy concentration of them in central cities. Coupled with the fact that black poor are similarly concentrated, it is easy to deduce that inferior housing increases the disadvantage of the older Negro. Further, aged Negroes to a much greater extent than whites are forced to share housing with relatives or friends. The phenomenon of overcrowded, delapidated living quarters for them is a familiar one to social workers and others in the fields of human service.

Economic necessity also often forces older Negroes to work beyond retirement age and it is a common occurrence to find an aged mother, aunt or less closely related woman serving as housekeeper or baby sitter for the children of younger families where the mother must go out to work.

Not a great deal is known of the extent and amount of services required to lift the level of living of aged Negroes to one of at least minimum adequacy. Historical and cultural identification with the church as a major resource meeting their social and recreational needs has facilitated the establishment of more church sponsored programs than in other sectors of society. Yet it is evident that programs for income-maintenance, health care (with emphasis on preventive as well as remedial services), housing, education and recreation are all urgently needed. It should be very productive to extend the concept of the multi-service facility to this group and funds for research and demonstration could be most fruitfully utilized.

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