ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON HOUSING FOR THE ELDERLY

OF THE

SPECIAL COMMITTEE ON AGING

UNITED STATES SENATE

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FIRST SESSION

PART 4—HOMEOWNERSHIP ASPECTS

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ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

(HOMEOWNERSHIP ASPECTS)

THURSDAY, JULY 31, 1969

U.S. SENATE,
SUBCOMMITTEE ON HOUSING OF THE ELDERLY
OF THE SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to call, in room 4200, Senate Office Building, Senator Frank E. Moss (chairman of the subcommittee) presiding.

Present: Senators Moss, Saxby, and Gurney.

Committee staff members present: William E. Oriol, staff director; and John Guy Miller, minority staff director.

Senator MOSS. The subcommittee will come to order.

OPENING STATEMENT BY SENATOR MOSS

Senator MOSS. Today the Subcommittee on Housing for the Elderly of the U.S. Senate Special Committee on Aging will hear from witnesses who have come to discuss "Homeownership Aspects of the Economics of Aging."

As the title may suggest, our hearing is part of a larger study which began earlier this year when a task force for the full Committee on Aging acting at the request of Committee Chairman Harrison A. Williams submitted a working paper called the Economics of Aging: Toward a Full Share in Abundance.

That working paper has become a much-discussed and highly praised document. In very hard-hitting terms it made these points:

The gap between retirement income and the income of those still in the labor force is widening, not narrowing.

Approximately 7 million older Americans live in poverty or near poverty. For widows or other elderly women living alone, the ratio is more than 50 percent.

The economic insecurity of the elderly is not solely the concern of today's older Americans. Unless we make major changes in public policy and then follow up vigorously with action, people who are now middle aged or younger will face an even worse retirement income problem when they reach later years.

Health cost problems are severe, even with the vital protection medicare provides.

With the task force report as an invaluable guide, the Special Committee on Aging has gone to work at what may be the most comprehensive congressional inquiry yet made into all aspects of the economics of aging.

Senator Williams conducted 2 days of survey hearings by the full committee in April.

The Subcommittee on Consumer Interests, with Senator Frank Church as chairman, conducted a hearing on consumer problems of the elderly in June.

Just 2 weeks ago Senator Edmund Muskie and the Subcommittee on Health looked into health aspects of the economics of aging.

And now here today the Subcommittee on Housing will take testimony on a matter of vital importance in any study of the economics of aging: the question of maintaining homeownership in later years.

The Task force was emphatic in recommending that this subject receive special attention because:

1. For most of the elderly, the home is the only major asset.
2. And yet, rising property taxes and other costs are making it increasingly difficult for them to hang on to their homes.
3. For those who may wish to sell their homes and live in smaller quarters, there may be two difficulties:
   (*a*) Unavailability of alternative quarters at reasonable prices and suitable location, and
   (*b*) A limited market for a structure which may be old and in a neighborhood which is not attractive to new buyers.

To provide some help, several State legislatures are granting tax exemptions or reductions in real estate property tax. But the question arises: how often can this device be used without arousing negative reaction from other hard-pressed taxpayers?

Obviously, such issues are largely the concern of State and municipal officials. But at the Federal level there should at least be concern and understanding of such issues and, if possible, action that may make it possible for local officials to deal more effectively with local problems.

We have no ready-made answer here for the problems I have mentioned, but we do have a receptive ear for worthwhile suggestions.

We have a statement from Chairman Williams that we will insert in the record at this point as though read.

STATEMENT BY SENATOR WILLIAMS

Mr. Chairman, I wish to thank you for your decision to call today's hearing on a matter of considerable importance and direct relevance to the overall committee study of "The Economics of Aging: Toward a Full Share in Abundance."

As you know, a task force submitted a report on that subject earlier this year and made a strong recommendation that "problems associated with homeownership and taxation" receive intensive attention at the earliest possible date.

The reasons for the task force concern were understandable and compelling. They pointed out that the elderly spend proportionately more on housing than younger people; they questioned the feasibility of transforming homeownership into liquid assets, and they indicated that rising property taxes are rapidly making it more and more difficult for the elderly to maintain homeownership, even in those States where special tax reductions are provided for older persons.

There is a clear need for careful, intensive attention to the many questions that arise when we consider the special problems of older Americans who find that their fixed incomes do not meet current needs, despite careful planning and money management in earlier years. Their problem is almost universal; whether they live in old homes in cities or in pleasant suburban surroundings. The suburbs, in fact, can cause a specially poignant problem for persons who have lived all their lives in a community, only to find that it is too expensive for them in retirement years. I feel so strongly about this issue that I intend to seek direct field testimony from suburban homeowners.

I am especially pleased that Senator Richard Coffee of Mercer County, N.J., is here today. The Senator has been recognized—most recently by the National Council of Senior Citizens—as a leader among State legislators in demonstrating effective interest in the problems of older Americans. He will, I am sure, have much of value to give to the subcommittee today.

Mr. Chairman, I will close now in order for the witnesses to begin.

Senator Moss. And now I would like to begin, but not without a word of thanks to Mr. Herman Brotman of the Administration on Aging. He has prepared an excellent fact sheet which I am sure will be very useful during the discussion which follows, and I submit it now for the record.

(The document referred to follows; testimony resumes on p. 746.)

Selected Data on Homeownership Among Older Persons

(Prepared by Herman B. Brotman, Chief, Research and Statistics Administration on Aging, Department of Health, Education, and Welfare)

PROPORTION OF HOMEOWNERSHIP

The 1960 census enumeration found more than 9.2 million dwelling units with 65-plus heads of households (households include families or individuals). Of these units, some 6.4 million or 68.8% were owner occupied; the remaining 2.9 million were renter occupied. Approximately 80% of the owner-occupied dwellings were mortgage free.

An estimated 30% of units occupied by households with 65-plus heads were substandard.

Home ownership rates varied widely among the States. While the National average was 68.8%, five states showed rates under 60% (District of Columbia, 43.7; New York, 47.2; Hawaii, 52.9; Massachusetts, 55.8; and Rhode Island, 59.1), and three showed rates of 80% or more (Kansas 81.7; and Indiana and Iowa, 80.0).

DWELLING UNITS WITH HEAD OF HOUSEHOLD AGED 65 AND OVER, BY TENURE AND STATE, 1960

State	Total	Owner occupied		Renter occupied
		Number	Percent of total	
Total, 51 States	9,244,944	6,362,156	68.8	2,882,788
Alabama	147,194	97,560	66.3	49,634
Alaska	3,431	2,475	72.1	956
Arizona	53,291	37,875	71.1	15,416
Arkansas	117,061	83,372	71.2	33,689
California	812,364	502,553	61.9	309,811
Colorado	95,078	65,479	68.9	29,599
Connecticut	125,146	83,615	66.8	41,531
Delaware	18,219	13,447	73.8	4,772
District of Columbia	37,410	16,364	43.7	21,046
Florida	325,445	248,590	76.4	76,855
Georgia	164,083	104,965	64.0	59,118
Hawaii	12,587	6,656	52.9	5,931
Idaho	35,756	28,041	78.4	7,715
Illinois	532,293	355,966	66.9	176,327
Indiana	251,277	200,916	80.0	50,361
Iowa	187,556	150,112	80.0	37,444
Kansas	141,743	115,836	81.7	25,907
Kentucky	165,936	124,234	74.9	41,702
Louisiana	143,185	94,741	66.2	48,444
Maine	55,580	40,428	72.7	15,152
Maryland	111,360	78,681	70.6	32,679
Massachusetts	302,284	168,675	55.8	133,609
Michigan	350,529	279,783	79.8	70,746
Minnesota	197,404	150,543	76.3	46,861
Mississippi	110,296	74,901	67.9	35,395
Missouri	290,282	205,806	70.9	84,476
Montana	40,602	28,867	71.1	11,735
Nebraska	96,518	75,895	78.6	20,623
Nevada	11,358	7,239	63.7	4,119
New Hampshire	34,591	23,604	68.2	10,987
New Jersey	286,654	185,727	64.8	100,837
New Mexico	30,784	23,867	77.5	6,917
New York	901,428	425,409	47.2	476,019
North Carolina	167,314	123,202	73.6	44,112
North Dakota	32,081	25,240	78.7	6,841
Ohio	493,316	369,321	74.9	123,994
Oklahoma	157,652	119,968	76.1	37,685
Oregon	109,541	82,357	75.2	27,184
Pennsylvania	595,614	435,913	73.2	159,701
Rhode Island	48,273	28,546	59.1	19,727
South Carolina	85,637	56,858	66.4	28,779
South Dakota	41,067	32,139	78.2	8,928
Tennessee	169,396	122,072	72.1	47,324
Texas	444,029	334,901	75.4	109,128
Utah	36,927	28,582	77.4	8,345
Vermont	22,480	15,653	69.6	6,827
Virginia	151,152	113,356	75.0	37,796
Washington	170,680	121,281	71.0	49,399
West Virginia	97,159	72,105	74.2	25,054
Wisconsin	218,215	166,934	76.5	51,281
Wyoming	15,776	11,506	72.9	4,270

Source: Bureau of the Census.

INCREASES IN PRICES (AS OF APRIL 1969)

	1957-59 average	Percentage increase since December 1963
Total Consumer Price Index	26.4	17.5
Housing	25.3	17.2
Shelter	31.6	21.9
Rent	17.8	
Homeownership costs	37.1	
Mortgage interest rates	33.5	
Property taxes		28.1
Property insurance rates	46.0	
Maintenance and repairs	38.4	
Commodities		17.0
Services		32.9
Repainting living and dining room	67.9	
Reshingling roof	51.4	
Residing house		26.5
Replacing sink		34.7
Repairing furnace		35.0
Fuel and utilities	12.6	
Oil and coal	17.4	
Gas and electricity	11.2	
Telephone	3.3	
Water and sewerage service	43.3	

Thus, while the income of older persons has not risen as rapidly as that of their younger counterparts (Note: In the ten years between 1957 and 1967, the real income of older families corrected for price changes increased 32.9% while the real income of younger families increased 36.2%.), those housing costs most important to home owners rose even more rapidly than the general price levels.

MAINTENANCE, REPAIR, ETC. (1-HOUSING-UNIT OWNER-OCCUPIED PROPERTIES)

AVERAGE DOLLAR EXPENDITURE FOR MAINTENANCE, REPAIRS, AND IMPROVEMENTS IN 1967, BY AGE OF HEAD OF HOUSEHOLD AND REGION

	Total United States	Northeast	North central	South	West
All households	$216	$275	$215	$172	$211
Male head, wife present	224	277	222	183	224
Head under 45	246	328	249	177	248
45 to 64	228	261	232	217	186
65 and over	151	165	138	110	281
All other	175	283	171	115	130
Not reported	242	23	269	331	356

PERCENT DISTRIBUTION OF EXPENDITURES FOR JOBS OF $25 OR MORE FOR MAINTENANCE, REPAIRS, AND IMPROVEMENTS IN 1967, BY AGE OF HEAD OF HOUSEHOLD, STRUCTURAL PURPOSE OF EXPENDITURE, AND OBJECT OF EXPENDITURE

	Total	Age of male head, wife present: Under 45	45 to 64	65 and over	All other
Total	100	100	100	100	100
Structural purpose:					
Maintenance and repairs	24	20	24	40	31
Improvements	76	80	76	60	69
Additions and alterations	59	69	57	41	51
Major replacements	16	11	20	19	18
Object:					
Payment to contractor or hired worker	73	64	75	79	84
Building materials purchased by owner	27	36	24	21	16

Analysis of expenditures by households for maintenance, repairs, and improvements shows the usual lower expenditures by older persons, because of income limitation, even though the age of the housing unit would lead to an expectation of higher rather than lower needs. Nevertheless, proportionately, older home owners had to spend substantially more than younger families on maintenance, replacements and repairs rather than improvements and on getting an outsider to do the job rather than on "do-it-yourself."

HOMEOWNERSHIP, BY AGE OF HEAD OF HOUSEHOLD, APRIL 1967[1]

[Numbers in millions of households]

Age of head	Total		Owner occupied		Renter occupied		With 2d homes	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Total	58.8	100.0	37.6	63.9	21.2	36.1	1.7	2.8
Under 35	13.9	100.0	5.6	40.0	8.4	60.0	.1	1.0
35 to 64	33.6	100.0	24.0	71.4	9.6	28.6	1.2	3.5
65 and over	11.4	100.0	8.1	71.0	3.3	29.0	[2].3	3.1

[1] Prepared by Administration on Aging.
[2] Of the 345,000 household heads aged 65 and over with 2d homes, 303,000 owned their primary home and 42,000 rented their primary home.

Source: Basic data from Bureau of the Census.

Senator Moss. I want to call as our first witness the Honorable Wilbur J. Cohen who was formerly Secretary of Health, Education, and Welfare and now dean of the School of Education of the University of Michigan.

We appreciate the very fine Federal service that Mr. Cohen has performed and welcome him as an old friend before the committee. We look forward to hearing his suggestions on this subject that we have.

Glad to have you.

STATEMENT OF HON. WILBUR J. COHEN, DEAN, SCHOOL OF EDUCATION, UNIVERSITY OF MICHIGAN

Mr. Cohen. Thank you, Senator Moss.

I would like to say first what a very fine report the task force prepared that you referred to in your statement. It is indeed a very excellent working paper. I have studied it very carefully. I think it charts the way for the Congress to go into this whole field. I only wish it were appropriate today to discuss many aspects of that report which I happen to feel very strongly about in connection with immediate improvements for senior citizens.

Senator Moss. We hope that we can call on your services at later hearings when we do go into other aspects of the working paper.

Mr. Cohen. I would be very happy to do that, Senator.

I appear before you today to discuss with you the problem of housing, property taxes, and their impact upon our senior citizens and our economy as a whole.

Approximately two-thirds of all aged persons in the country 65 and over own their homes. In 1967 about 13 percent of the aged who owned their own home had a net equity in a home of between $1,000 to $4,999, 26 percent had between $5,000 to $9,999, and about 52 percent had a net equity of $25,000 or more. About 9 percent in the study their equity was not known.

About 13 percent of home-owning aged families had some mortgage debt averaging about $4,400 in 1967.—Source: 1967 Survey of Consumer Finances which we produce at the University of Michigan, Institute for Social Research, 1968.

Many older persons wish to move to smaller or more convenient quarters when they retire or as they become older and more frail. Some older persons wish to sell their homes when their spouses die and move into rented quarters. Some wish to move from colder climates to warmer areas. Some live in the inner cities, and their homes deteriorate and they cannot find satisfactory substitute housing at a price they can afford.

All of these very human problems become major problems for older people. Older people fear the security of losing their homes. They have anxieties about the financial transactions. They fear being defrauded. They are sometimes hard of hearing or senile or cannot see very well and cannot understand the complexities without adequate help. As people become older they live longer due to the development of modern drugs and there are not enough organizations to help people in this situation.

All of these considerations make it desirable to have a friendly and reliable organization for older people which could help them with their housing needs.

Public Corporation Proposed

I suggest the establishment of a public corporation by congressional legislation which would buy, sell, rent and renovate residential property for senior citizens.

The corporation in my opinion would be a unique melding of both the private and public sectors. The corporation could consist of three persons nominated by the President of the United States with the advice and consent of the Senate. It could have authority to issue bonds up to $100 million with the principal and interest guaranteed by the United States. It could also have authority to issue 5 million shares of common stock at a par value of $10 a share. The Federal Government could contribute $10 million as a revolving fund for 5 years, interest free, to enable the corporation to begin its work.

The officers and employees of the corporation would not be employees of the Federal Government other than the three members of the corporation appointed by the President and Senate and not more than the five or 10 senior executives designated by the board.

These provisions are designed to give the corporation maximum flexibility in the administration of its work, to compete fairly in salaries, rents, sales, prices and other economic and financial matters but to all provide a service to senior citizens that takes into account longer range considerations than merely shortrun financial advantages which are inherent in the financial market.

Thus, the corporation could purchase the home of an aged person who was ill and pay the aged person a monthly annuity which might enable him to meet extraordinary medical or nursing home costs and thus avoid the individual having to go into medicaid.

Or the corporation could pay for remodeling of the large home, and many people live in large homes as a result of the children they had years before. This would make it possible for one or more additional aged persons to live there, thus making it financially feasible for all the aged to have a comfortable residence at a reasonable rental without making a major shift for the homeowner.

Another illustration, the corporation might advance the downpayment for an aged person at a modest charge for purchase of a new home in another location while the aged person retained his old home to see how the new situation worked out.

There have been a number of instances that I am familiar with where an older person sells his home, moves to another location and then finds that that is not a satisfactory adjustment for the remainder of his life. There may be no friends there, there may be no medical care, there may be other problems that make the individual nostalgic to return.

I think this is also true because of the development of many of these so-called retirement villages. People are attracted to go into them and then later on they find that they don't like them. I think we have got to have some method to enable older people to have an adjustment period. This has many financial difficulties for them that could be overcome by an organization that was friendly, was understanding and was committed to helping older people rather than looking how to make a fast buck off of older people's housing needs.

I happen to believe that such a corporation along the lines that I have suggested would yield a reasonable return to its shareholders and bondholders and provide services which are not now available to senior citizens at a reasonable cost with little or no net cost to the Federal Treasury.

Impact of Property Taxes

Now I would like to turn to another point and that is property taxes. In recent years there has been a trend in State legislation exempting all or part of the value of the homestead of a senior citizen from State and local property taxes, and this is a trend while I was Secretary which I endorsed and supported. But this legislation, in my opinion, has not been solely to give a tax advantage to senior citizens. It is a recognition of the fact that there are many low-income persons among our aged citizens who live on fixed incomes. As you pointed out, there are somewhere between 5 million aged in the poverty group and some 2 million more who are in the near poverty group. These people who live on fixed income, many of them in the poverty group, just simply cannot see their way clear to take on any additional financial obligation. So this trend, the State legislation recognizes the reality that senior citizens have been voting against property tax increases for educational and other local public services.

Millage increases from property taxes, particularly for education, have been defeated in increasing numbers in recent years and this is a very tragic situation in my opinion for the education of the country. While there is a substantial demand for tax reform at the Federal level, in my opinion there is also a substantial demand for reduction and repeal of State and local property taxes on residential property.

Now I am not only concerned about this, Senator, because of its adverse impact on our educational system which is so important for the creativeism and dynamism for the betterment of our country, but what concerns me most is that we avoid any conflict or controversy between the interests and needs of older persons and younger persons.

Sometime ago I talked with an older person asking her to vote for a bond issue for elementary and secondary education in my community. The woman said, "I have paid school taxes all my life. My children are grown up. I will be living on a fixed income of social security and a small pension for the rest of my life, and I don't know how much longer I am going to live. Younger people who have the prospects for increased earnings should pay increased property taxes for schools." This is the reality we face. We must do something about it—and I believe State legislatures and the Congress, all of us, must do something about it and do it soon.

Aid to Education

We need vastly increased funds for education in this country, and I am simply delighted with the action of the other body in increasing education. I think that is a great blow for freedom in this country in expanding their Federal aid to education because the State and local bodies cannot finance this adequately through the proper action. I believe we must increase Federal and State funds for this purpose and reduce the relative impact of local residential property taxes on educational and public services purposes. I believe we should also include in appropriate Federal legislation an incentive to reduce or repeal residential property taxes which would have a tremendous impact and advantage not only to senior citizens but to our educational systems.

This incentive should be included in an appropriate bill providing Federal aid for elementary and secondary education or for other essential public services.

One way is could be done, and this is merely illustrative, is to earmark a given sum for education such as $400 million—roughly $2 per capita—and allot this amount in relation to State and local tax effort, exclusive of residential property taxes, thus giving an incentive to State and local taxation from nonproperty tax sources. I believe we should do something along these lines before Congress adopts any general shared revenue legislation on a noncategorical basis. I believe this has a much higher priority than any of the proposals I have seen for shared revenue.

In conclusion, Mr. Chairman, I believe that we need to improve our social security and medical care programs for our senior citizens as your task report has indicated.

I believe we also need to improve our educational and medical care programs for our children and youth. I believe we can in the United States fulfill both of these steps without making them competitive.

The first step in this effort is the reduction and eventual elimination of the State and local property tax on homes and the closing of loopholes in the Federal and State personal and corporation income taxes and an increase in the yields of the inheritance and gift taxes. The reason I say this, we need a lot more Federal revenue to help the elderly and the children, and this cannot be done without a complete reform of our tax system.

Practically every proposal that is made in this field in your report involves additional costs, additionl revenue. We have got to find a way to finance that, and I believe that is the greatest single factor inhibiting our ability to improve the conditions for our aged and our children and our educational system and to eradicate poverty.

I believe we can meet the needs of our senior citizens and our young people with a modern tax system. I hope that when the tax reform bill comes before you, you will keep in mind that we cannot meet the needs of the aged and our youth without a more modern and more adequate Federal, State, and local tax system.

That concludes my statement, Senator.

Senator Moss. Thank you very much, Dean Cohen, for a thoughtful and creative statement. As always, you have given us some ideas, new fields in which to think, to try to find a solution to our problem.

You spoke of the possible conflict between youth and older people and the fear that this might grow. Recently, Secretary Finch was quoted as saying in effect that Federal expenditures for the elderly are disproportionately high when compared with expenditures for youth.

Expenditures for the Aged

What is your comment on that?

Mr. Cohen. Let me say first my opinion is that expenditures for aged and expenditures for youth are both too low. Both of them are inadequate at the present time, and I do not believe that it is really fair, therefore, to compare them in any valid sense. Secondly, one must remember that when you are talking about programs for youth you have the earning capacity of the parents present in financing certain elements of education and upbringing for children which are not present among the aged, who have, for the most part, retired.

Out of the 20 million aged there are probably not more than a million working full time and maybe another million or two who work part time. The bulk of the aged over 65 and practically all of them over 70 or 72 or 75 are not working. The problem that the aged have is different than that of people who are younger. They are out of the labor market. They are living on a fixed income. They have no other way, as inflation and as costs rise, to get extra income, unless their pension is improved—because they cannot get it from increased earnings, they probably cannot get much more from their children or any other source—they are in a straitjacket.

Now, whatever the difficulties for young people, young parents, at least for a man who is the head of his family with his wife and a couple of children, he has his good health, his future earning capacity, he is in a position to borrow, lend—I won't go any farther than that, at least to commit himself financially, to get more money.

I went through that myself when my children were in college. At a time when I had three children in college I was greatly in debt and I feel rather opulent right now that my three children have completed college. I was in debt, but I had the prospects of an earning capacity. I believe it is this difference in the economic situation and the outlook for the future, as far as the aged and the working groups are concerned, that make it unfair and improper to compare either the finances of the Federal Government, as far as what it is doing in this field, between aged and younger people.

Now after I have said that, I feel very strongly that we must do more for our younger people. There is no question in my mind that Federal aid for education is grossly inadequate. In the last year that I was Secretary, Federal aid for elementary and secondary schools was only 7 percent of the total elementary and secondary expenditures in this country.

Now I can just tell you this. My conclusion is that unless the Federal Government is willing to finance at least 25 or 35 percent of the costs of elementary and secondary education, our elementary and secondary education system in this country is going to deteriorate to the point where Russia and China will have a better educational system than we have. Consequently, I think we have to do more about it.

Proposed: 50 Percent Social Security Rise

I think we can also do more for our aged without a competitive situation. I favor, for instance, a 50-percent increase in social security benefits. I think there is absolutely no reason why with a proper financial program we could not in the next 2, 4, or 6 years increase social security benefits 50 percent. I see no reason why we cannot eliminate those 5 million aged persons from the poverty group if we wanted to do it and do it next year by congressional action.

Senator Moss. I take it that your proposal here today then is not in lieu of the social security increase, it is a supplement to a social security increase.

Mr. Cohen. Yes. As I indicated, if I were testifying today about social security, my first recommendation would be that we raise the first benefit from $55 a month to $100 per month for aged persons. That would be $150 a couple. Now that change alone would remove a very substantial group of that 5 million from the poverty group.

I do not have the latest figures but I am sure it would be in the several millions. As I said, I favor a 50-percent increase in the next few years but I see no reason why you could not have a 15-percent increase across the board next year. I hope Congress when it gets to the social security increase will do at least 15 percent. I think it is feasible, I think it is actuarially possible, I think it is financially possible. I think it could be very easily worked out.

Senator Moss. I think you have partially answered one of the questions I was going to put to you, that there is a bill in the House, it is H.R. 10615, which would grant a Federal income tax credit for low income elderly persons whose local property taxes are excessively high in relation to their total income. You pointed out, however, that so many of our elderly no longer have income large enough to make it necessary that they pay a Federal income tax so the mentioned proposal might not be very helpful to them. I wonder what your comment would be.

Mr. COHEN. Yes. Well, I think that is the completely wrong approach to deal with that problem for this reason. Of the 20 million aged persons, if my memory serves me correctly, only about 4 million pay an income tax. About 16 million of them do not pay any income tax at all now. So you are not doing anything for the 16 million who do not pay a Federal income tax.

Of that 4 million that pay an income tax, a large portion of them are the most wealthy persons in the United States—I mean they are the people who have built up large fortunes. In the group of the aged we have the most wealthy people in the United States because of their age and investment, and we have the poorest.

Since so few of them pay an income tax, in my opinion, what you want to do is relieve the property tax pressure on the man or woman who has a $1,000 or $1,500 income who does not pay a Federal income tax. I think a much more radical approach would involve, as I said, some kind of an incentive system in the Federal law like in the education bill which would give a State, a Governor or a legislature an incentive to reduce or repeal State property taxes.

Senator MOSS. I appreciated your discussion of the need to raise the benefits under the Social Security system and I am in large measure in agreement. It has been suggested by some, however, that to increase social security benefits would just further feed inflation. What is your answer to that?

Mr. COHEN. Well, first let me say the recommendation made by President Nixon to increase social security benefits 7 percent would only just about restore aged people to the situation they were in a couple of years ago or when the last social security increase was completed. So a minimum 7 or 8 percent increase in social security is needed simply to restore them to the position where they were before.

A SHARE IN PRODUCTIVITY

Now I am not a believer in the principle that the aged should only be treated in terms of changes in prices in the United States. They should share in the productivity of the country. Productivity has been going up 3 or 4 percent per year. Therefore, I believe that the aged should receive the increase in price changes that have occurred plus a productivity increase. That is my justification for a 15 percent increase which would roughly not only restore them in price level but have them share in the productivity increases that are occurring.

Now when you say that, then you come back to the question, Doesn't this fan the flames of inflation? Well, in one sense one has to admit yes, but so does every other increase in our economy fan the flames of inflation. I do not believe that the aged and other people living on fixed incomes should be the people who pay the price of inflation.

Again, as I said, if you are a younger person and you are in the labor market, even if inflation exists you look ahead and you see the possibilities of improving your status. But these 20 million aged people, there is no other prospects for their improving their earning or other status for the most part except by some kind of a system like social security or pensions which is an accounting system that cuts them into the total affluence and improvement of the economy.

It is, therefore, Senator that I do not look upon increases in social security as either inflationary or deflationary or flationary or whatever you want to call it but simply as an economic, moral and deserving method by which all of us as human beings, as fathers, as heads of families, as sons, as daughters, as grandchildren share with our senior citizens the total productivity of our great Nation. If this does have some inflationary effect, then I believe the answer to it is through our tax and fiscal system to assure that proper safeguards are set up in the economy but not at the sacrifice of our senior citizens.

Senator Moss. Thank you.

You mentioned the idea of block grants and indicated you thought at least in the education field, we should stay with categorical grants. Just the other day before the Western Governors' Conference, Vice President Agnew told the Governors, and I quote him "Through revenue sharing and an enlarged responsibility per welfare costs the administration will try to lighten your burdens." He also said that revenue sharing should be structured to reward the active State government and that the special effects of population density and poverty will be recognized and suitable adjustments will be made.

Does this approach appeal to you?

Mr. Cohen. Well, I think there are about three or four items in there, Senator, that I would like to comment on if I may. I will try to take them one by one.

First, I favor continuation of categorical grants but on a somewhat wider orbit than they are at the present time. I believe it is possible to both consolidate and broaden the grants that have been passed in recent years by Congress. Let me give you two illustrations to just indicate the principle.

"One Single Block Welfare Grant"

First, in the welfare field there are five categorical grants for welfare: for the aged, for the blind, for the disabled, for children and for medical care. There is no reason in my opinion why you could not make that one single block welfare grant and have it somewhat broader than it is now giving a State a discretion in that area.

Take education as another illustration. In the Elementary and Secondary Act there are now six titles, six different grants for education and with a number of subgrants in them. I think it would be possible to make that into a single block grant or at least two, and there are other grants in the higher education field and so on in which it would be possible to coordinate, consolidate, simplify and broaden. I do not favor the sort of block grant approach that just lumps everything together.

I don't think that fits in with the committee jurisdictions of Congress. I don't think that fits the mentality of the congressional mind which looks at problems in terms of specific areas and its impact on the State and local government. I don't think it follows the principle of accountability which is so necessary in our system.

You then asked me about shared revenues, and I would like to say this first. I am not unalterably opposed to shared revenues but I do not think now is either the right time or the right place, nor are the suggestions that Vice President Agnew made the right provisions in a shared revenue bill. I think, however, his point that if the Federal Government were to take over the financing of the entire welfare cost, if the Federal Government were to increase Federal aid to education from the 7 percent I mentioned to 25 percent, this would be a tremendous financial advantage to the States in dealing with the problems they are having and is a much more logical way of dealing with the State and local fiscal problem than shared revenues.

Problems With Shared Revenues

I believe that there are several problems in shared revenues. First, the political problem from the Senators and Congressmen's point of view. Let me put it this way. Why should a Congressman run for election every 2 years or a Senator every 6 years asking his constituents to increase Federal taxes so that the Governor possibly of another poltical party can remain in office? Quite frankly, I do not see the political sense in that kind of a situation.

What you are asking in shared revenues is to put all the tax raising burden on the Congressman and Senator and all the spending joy and beneficial return on the Governor and the mayor who are probably the two fellows who are looking for the Senator's seat and the Congressman's seat in the next election.

Senator Moss. The fellow that raises the taxes ought to have a chance to spend them.

Mr. Cohen. Well, I have been around here long enough to know that. The way I would put it, the tail ought to go with the hide. The man who has to defend raising the taxes ought to be able to defend the justice and equity of the expenditure.

Now even if that political problem were resolved, there is still another problem. I did hear a very important Member of the House say some weeks ago, and he said this in open public session, "I am perfectly willing to share Federal revenues with the States if they are also willing to share the Federal deficit."

I have heard no Governor, no mayor come in to Congress and say, "If you share the revenues with me, we will put up more money to help reduce the Federal debt." In other words, shared revenues is a kind of a one-way street and I do not think it has the political attractiveness that many of its supporters seem to indicate.

And I say this regardless of political party. I think this is not a political partisan issue that I am talking about, it is an issue that is a characteristic of our Federal-State political system. But after I have said that, let's assume that Congress were going to seriously consider shared revenue. I would say that should not have the first commitment on Federal revenues with the tremendous need now to solve the problems of poverty, our senior citizens, education, children and the other problems I indicated. I think it is more important to go in the direction of reducing the property taxes as I have indicated.

Finally, in connection with your question, if shared revenues were going to be included, then I think there should be in that kind of a bill what I would call a provision that took into account State and local tax effort.

Let me give you this illustration. At the present time State and local tax effort roughly ranges from 7 percent of income in Ohio to something like 12 percent or more in New York. I do not quite see why the Federal Government should bail out Ohio at the present time when its State and local tax effort is so significantly below the effort that the citizens of New York are making. It is much more logical to help New York simply because they are making an effort which is 50 percent greater relatively than Ohio.

Ohio is benefiting from this lower State and local tax effort by trying to attract industry away from other States into Ohio while the other States which are raising more taxes to have a better education system are in a most difficult situation. Therefore, sharing of Federal revenues to States that are not putting up a reasonable share of State and local tax effort seems to me to be the wrong way to go about it at this time unless you were to recognize, as I would, in a State sharing that Ohio would get very, very little of that money until it came up at least to the median where a lot ought to go to the State that is doing a superhuman effort in trying to meet its local needs.

Senator Moss. I agree with you on that. I think there ought to be an item in the formula that rewards the States which make the effort to utilize their own tax system.

Mr. Cohen. Let me put it this way, Senator. I would be pleased if there were Federal sharing of tax revenue for States to reduce their property taxes, but supposing the State reduced its income taxes. Well, I think that would be a very unfortunate development.

Space Versus Domestic Needs

Senator Moss. I have another question about the difference of opinion that exists within the present administration about the values of space exploration. Secretary Romney says that the domestic problem should take priority over space exploration. Vice President Agnew the other day said that it was a specious reasoning to assume that we could not afford a venture into space. According to the New York Times of July 29, he also said:

> We do not need a transfer of dollars from the space program to other programs, we need a transfer of its spirit induced into American dedication to purpose and hard work.

What, in your opinion, is needed to help overcome the intense problems of the elderly, the Romney formula or the Agnew formula?

Mr. Cohen. Well, I don't share either point of view. Let me try to give you my approach to the problem. I do believe that we must spend a great deal more in dealing with our domestic problem. I believe it is scandalous the lack of support in dealing with the poverty program, the urban blight, racial relations, segregation in education. I could list a whole host of problems which you are more familiar with than I am.

I see no reason with an economy that is approaching $1 trillion a year in gross national product within the next 18 months, why we do not have the resources both to deal with the space program and our domestic problem. I believe that it would be possible to cut at least a billion or $2 billion out of the defense budget without in any way impairing our defense situation.

I believe it would be possible to raise $2 or $3 billion more per year by closing the tax loopholes. I believe that there are other ways in which we could yield the amount of money that we need without really adversely affecting the space program or our defense program and yield the money for domestic purposes.

During this recent inflationary period nobody has talked about an excess profits tax which ought to be considered. No one is really seriously considering the Metcalf bill on the severance tax with all of our resources under the ground being wasted.

You know, I could sit down and outline to you a financial program to raise the revenue for our domestic needs that I think would enable us to have a good, solid defense program and a reasonable space program. Now I am not saying that maybe we ought to stretch the space program out. Maybe we are going too fast, maybe we are putting too much resources in too short a time.

I am not an advocate of complete abandonment of the space program because I happen to believe that many remarkable technological and scientific results are going to be achieved. For instance, in space medicine, I think that all of the work that is being done in miniaturization, testing the effect of human life and other life under changed circumstances, is going to produce remarkable developments that will be of great benefit to us. So I do not want to abandon the space program, I want to stretch it out. I do think, Senator, that we can do all of these if we had a sensible tax policy and a more intelligent review of expenditures.

Senator Moss. Well, thank you very much, Mr. Secretary. We do appreciate your coming. We knew that you would contribute to our record the keen analysis and fertile ideas that you always bring to us. I think you are as much of an expert as we could find in this field. We are most grateful that you come to share with us your thinking on these subjects.

As I said earlier, we call, and certainly want to continue to call, upon you to assist us as we delve further into this study of the economics of the aging. We are pleased to have you give your estimate of the task force report which is the beginning structure for this study. We hope to make out of this an elaborate study on complex problems in the aging field which certainly deserve the attention we are trying to give them now.

Thank you very much.

Mr. Cohen. Thank you, Senator.

Senator Moss. We are pleased to have Mrs. Marie McGuire, Special Assistant for Problems of the Elderly in the Department of Housing and Urban Development to appear before us today. We had hoped that Margaret Schweinhaut could be with us but I understand that problems have prevented her appearance. We are happy to have you and look forward to your statement.

STATEMENT OF MARIE McGUIRE, SPECIAL ASSISTANT FOR PROBLEMS OF THE ELDERLY, HOUSING AND URBAN DEVELOPMENT

Mrs. McGUIRE. Thank you very much, Senator.

I am delighted to be here, because, as we have indicated before, the work of this committee in exploring into the vital issues affecting older people, is extremely helpful to those administering or trying to improve programs for the elderly.

We, like Dean Cohen, found the task force report interesting, helpful, and very revealing in terms of the economics of aging which this committee is pursuing during the year.

I have before me a brief statement which I would like to read in part and comment on, and a longer statement giving the details of the HUD programs which are responsive to your particular interest now, primarily homeownership, the rehabilitation of homes, and alternate resources in rental programs where they are more appropriate.

Senator MOSS. Thank you. The longer statement will be placed in the record in full and we are happy to have you highlight portions of your statement at this time.

(See appendix 1, p. 811.)

Mrs. McGUIRE. Thank you.

I shall go back a little and reflect for a moment on the fact that our elderly have been in the massive population movements of this century and they have taken part in the great achievements which have made it possible for many to enjoy the high standard of living all of us have today. But as you know and as we know, many older people have been left behind and are not sharing fully in this advance.

Many continue to live in their old homes, which often are in desperate need of repair and which lack some or all modern conveniences. Many of these homes are too large and expensive to maintain on small retirement incomes. Increasing taxes pose a problem even though 17 States have laws of various kinds to help relieve this problem.

At the same time, our senior citizens have gained a vast increase in leisure time—just when their incomes, on the average, are reduced by half. For many, this occurs when their physical abilities have waned, their mobility decreased, and family size diminished. How to use this great increase of free time constructively may be the most serious problem many older people face, even ranking, for some I think, with problems of low income.

HOMEOWNERSHIP VERSUS RENTAL

A major decision which faces most elderly families and persons is the kind of housing they want for later years. Should they remain in their own homes, or should they move into an apartment?

The benefits of homeownership vary. Under certain circumstances, living in one's own home can be achieved at a lower total cost than in a rented house or apartment. In some States, tax exemption or abatement offer real advantages to the elderly homeowner. Further, an owned home represents an asset which may be used as collateral for loans or possibly in the future as a source of an annuity.

Many owners, however, particularly those living alone—and I think this is more often single women—often remain owners simply because they cannot afford more suitable alternatives. While most older people own their homes, many mortgage free, many may be unable to afford the financial burden associated with upkeep and operation. I believe the statistics Mr. Brotman distributed today on homes owned by all the people would substantiate this conclusion.

We recognize also that the physical arrangements of their homes can either facilitate or limit social contacts with family and friends and the activities that older people can enjoy.

The sort of housing senior citizens choose is reflected in the HUD study which suggests that the high rate of homeownership among the elderly, 69 percent as compared with 62 percent for the population as a whole, is due mainly to adjustments made earlier in life.

In brief, we want to help older people to remain independent as long as feasible, which is their own primary objective. At the same time, we hope to expand their effective range of housing choices and at rates they reasonably can afford.

We recognize that what may be suitable for one person may have little merit or appeal for another. Certainly, we do not want to tell people what kind of housing they should live in. This is a highly individualistic decision. I think we should be in a position to offer suggestions and choices but not make the final decision for the older person.

Now for just a short while I should like to discuss the various programs in HUD that will appeal to the older person desiring to be a homeowner. The FHA which has the primary responsibility in HUD for homeownership programs and it administers several, the largest and most important of which is the section 203(b) program.

FHA's policies permit the elderly to qualify as mortgagors if their incomes appear sufficient to cover housing expenses and other obligations. This is true even for those who expect to retire shortly, since FHA's primary concern is that their incomes be reasonably related to fixed obligations, including housing expenses, especially during the early part of the mortgage period.

The elderly benefit from a special provision, however, which permits a mortgagor 62 and over, who is the owner-occupant, to borrow or otherwise acquire the required cash investment and settlement costs. This applies only to persons 65 or over. This applies among others to section 203(b), the basic and largest FHA home mortgage program, the cooperative and condominium programs, and the new section 235 subsidized interest rate program for homeownership.

While these various programs are available to the elderly, only a very small percentage of FHA home mortgages involve principal mortgagors 60 or over at the time the insurance is obtained.

Cumulative figures—that is, by 60 or over—of both the new and existing units insured over the 9-year period 1960–68 show that only 1.1 percent of the mortgagors were 60 or over, or about 37,000 out of 3,500,000.

However, with regard to the new section 235 program we see a different trend. About 3.7 percent of the approximate 1,600 cases insured during the first quarter of 1969, which was the beginning of the administration of this program, involved household heads of 60 or over. This is a substantially higher proportion than in the other programs and suggests that 235 may have considerably more appeal to the elderly than other FHA home mortgage programs. Undoubtedly, this is because of the added assistance to the older person desiring to be a homeowner through the interest subsidy that exists in the 235 program.

Traditionally public housing has been a rental program for low-income people, including the elderly, and is the largest program in the Department for the elderly. Today we are exploring homeownership possibilities as well as rental oportunities in public housing. Whether or not they will be of interest to the elderly to any great extent, we don't yet know. The chances are, because of the limited income of people living in public housing, the eventual ownership of public housing units by tenants might be limited, particularly for the elderly.

This committee also is interested in those homeowners who want to keep their homes but who have a problem paying for upkeep and repair.

Home Rehabilitation

Two home rehabilitation programs have considerable potential as aids to the elderly. These are the section 312 loan and section 115 grant programs. Originally available only in urban renewal and concentrated code enforcement areas, the 1968 act permits their use, under certain conditions, in other areas with a substantial number of structures requiring rehabilitation.

These loans are available for up to \$10,000 per unit, or not over \$14,500 in high-cost areas, for 20-year terms at 3 percent. Families with incomes of \$3,000 or less—this would take in the poverty section Mr. Cohen spoke of—are eligible for grants of up to \$3,000, or the cost of rehabilitation, whichever is less. Those with incomes of over \$3,000 also are eligible if their housing expenses exceed 25 percent of their incomes. It is possible to obtain both a loan and grant and, in some cases, the 3-percent rehabilitation loan also may be used to refinance the family's existing mortgage in conjunction with the plan.

The elderly represent a substantial portion of the recipients of these grants and loans. You will note as of December 31, 1968, a little over 60 percent of the grants and over 20 percent of the loans had been made to owner-occupants 62 or over.

As of this date, some 8,600 grants had been made for a total of \$13.9 million. Of these, 5,500 for \$8.8 million were made to the elderly, averaging \$1,600 per grant. A total of about 5,000 loans for \$26.1 million to owner-occupants had been approved as of December 1968. About 1,100 of these loans for a total of \$4.4 million were made to the elderly, with the average loan a little under \$4,000.

These data indicate that the programs are particularly useful in helping many elderly persons to rehabilitate their homes so that they, too, can live in standard housing.

The 1968 Housing Act included two provisions which expanded HUD's ability to help those subject to relocation. One of these permits HUD to make "additional" payments over 2-year periods of up to \$500 per year to assist displaced elderly single persons and displaced families of all ages to obtain suitable replacement housing, either rental or ownership.

In addition to that, it was found that while the appraised value of the house in a relocation area was paid, oftentimes this was not sufficient to provide an adequate and modest replacement house. Therefore, the Congress in its wisdom made it possible to add to the appraised valuation of the home up to $5,000 in order that the house to which they would move would be adequate and they would be able to pay for it. These replacement payments can make the difference for many who want to buy again rather than to become renters.

The home equity plan has been raised by your task force. Studies have been made by the President's Council on Aging and HUD of this problem. You will hear tomorrow from Prof. Yung-Ping Chen of the University of Los Angeles about a current study of the reaction of the older person to the use of home equity to supplement current income. HUD is funding this study.

275,000 Rental Units

Now with respect to rental programs for the elderly, I think you will be interested to know that combining all the major programs earmarked as specifically for the elderly, the Department today can report over 275,000 dwelling units of new housing or rehabilitated housing designed specifically for the elderly. This does not include, of course, the great number of older people who live in all HUD programs, not identified as housing for the elderly.

In addition to housing, the FHA nursing home program had made cumulative commitments totaling over 63,000 beds.

As you know, our new section 236 mortgage interest assistance rental program can be used for housing the elderly and the 202 direct loan program is being phased into it. I am sure section 236, which permits interest rates as low as 1 percent, will play a very important role in facilitating the development of housing for our lower income senior citizens, as our other programs have in the past.

In summary then, Senator, for the foreseeable future, I think that the majority of older people will continue to be homeowners. However, multifamily rental housing may very well increase in popularity over time for a variety of reasons, as discussed in my supplementary statement.

At the present time, senior citizens housing, both conventional and Government-aided, places major emphasis on housing for independent living for the well elderly. Nursing homes are available for those who need skilled care, but little emphasis is placed by the market as a whole on housing for those who need only limited personal care. The need for personal care housing is greatest among the low-income elderly. This subject is now under study by the Department.

Mr. Chairman, my supplementary statement includes further comments with regard to the items discussed here very briefly.

Thank you again for the opportunity to be here.

Senator Moss. Thank you very much, Mrs. McGuire, for a very fine statement. We are pleased to have the more detailed statement also in the record for us to carefully study. As you pointed out, we are going to hear tomorrow from Dr. Yung-Ping Chen on this matter of annuities.

Do you have an opinion as to whether there is a reluctance of the old people to give up their equity in return for an annuity? Is there a built-in resistance to this?

RELUCTANCE TO ACCEPT LIENS

Mrs. McGUIRE. My own personal opinion, I am not stating the Department position, would be that there has been more reluctance on the part of the general public to accept what is considered a lien on the homes of older people than on the part of the older person himself.

I cannot imagine that an older person who is having a hard time living on a very limited society security income would be reluctant to have an increase in his standard of living, a decrease in worry and concern over tomorrows plus retention of his home. However, I also think that many older people, particularly those who are poor, feel that the only asset they have to leave to their children, the only estate, is their house, no matter how poor, or small or inadequate. There may well be a sentimental reaction to this in the mind of the older person hoping to leave something tangible. Thus we can expect reaction both ways. I would suspect that we will find that many older people and the children of the older people who have home equities, will be very happy indeed, to lighten the burden on the older person during his lifetime. I think this would be particularly applicable to those in the elderly group under the $3,000 income level.

Senator MOSS. What is your reaction to the nonprofit corporation proposal that Dean Cohen gave?

Mrs. McGUIRE. It seems to me it bears some relationship to the public-private partnership plan now in the Department. I was wondering whether it is necessary to have such an institute exclusively for older people and their housing needs. However, it is an interesting proposal. Certainly some recognition of the fact, as you stated so well, that older people need help and assistance is indicated. They simply cannot always handle the problems of financing, or overcome their fright that the little money they have in the house may be taken away fraudulently.

I presume the corporation would have the responsibility of taking the old house, selling it, and helping the older person reinvest in a more appropriate residence. I assume what Mr. Cohen also had in mind was that funds now going into housing programs of great variety somehow would be related to such a public-private corporation more sensitive to the needs of the older person in the housing field.

I do not know what relationship this would bear, however, to the present sponsors of housing for older people, many of whom are nonprofit sponsors who have traditionally been interested in older people and are helping many of them to achieve the right housing solution.

Senator MOSS. In your opinion how much farther can the States go or should the States go in reducing or relieving property tax on elderly people to retain their own homes?

ASSISTING HOMEOWNERS

Mrs. McGUIRE. Well, it seems to me that we must first decide that older people who want to stay in their own homes should be assisted to do so. I cannot imagine that we would have other than that goal, either by States or by the Federal Government. It seems to me it is entirely human and right that there should be some relief, and I would be hopeful that one day all States will recognize this and give some property tax relief to the older person of very low income, thus permitting him to remain in his home.

Senator Moss. You pointed out the fact that these rehabilitation loans are available for homes for the elderly, but since such a large proportion of the elderly are low income I wonder how useful that could be to these people who have such a low income anyway. Of course there is a grant part to it but the loan part is the one I worry about.

Mrs. McGuire. Are you saying how useful would this be in other than the now restricted areas in which it is used?

Senator Moss. Yes. I am wondering about the very low-income elderly people and their access to rehabilitation. I wonder what availability there really is in this to these people who have such a limited income.

Mr. McGuire. I think the statistics have shown that in the cases where incomes are low, grants are made and loans are made in combination with them, and the elderly are taking advantage of them. I think we also should consider however, that when funds are provided for the rehabilitation of homes we must determine the economic feasibility of rehabilitation. The structural condition of many of these homes would indicate they should be torn down. Also the effect of the general neighborhood condition might determine whether there should be an investment in a home in a neighborhood so blighted.

Related to home rehabilitation is the kind of existing local controls and local interest in upgrading the total neighborhood or local responsibility for preventing a further slide into blight. All of these considerations relate to the use of either the grant or loan fund as well as the financial ability to repay the loan. These considerations in many instances, will limit the feasibility of investment in the homes for the older person.

Senator Moss. So there would be areas where it would not be desirable to make the loan even if the person applied for one. There is also the limitation, of course, on the income of the person precedent to his application for a loan because, presumably he must be able to make the repayment.

Mrs. McGuire. Yes, that is right.

Senator Moss. Well, we appreciate your very fine paper and your testimony, Mrs. McGuire. We are going to hear further from the General Counsel tomorrow. We appreciate the good work you are doing.

Mrs. McGuire. Thank you.

Senator Moss. We now have the Honorable Richard Coffee who is a State senator from Mercer County of New Jersey, and he will be accompanied by Mr. John Shannon, assistant director of the Advisory Committee on Intergovernmental Relations.

Would those gentlemen come forward and sit at the table, please. Mr. Shannon does not seem to be here so we will be pleased to proceed with you, Senator Coffee. Glad to have you here before the committee.

STATEMENTS OF HON. RICHARD COFFEE, STATE SENATOR FROM MERCER COUNTY, N.J., AND JOHN SHANNON, ASSISTANT DIRECTOR, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Mr. COFFEE. Thank you very much, Senator Moss.

Distinguished members of the Subcommittee on Housing for the Elderly, I am Richard J. Coffee, a member of the New Jersey Senate from Mercer County. To locate that for you, Mercer County is in the center of the State north and south. My county constituency includes the capital city of Trenton and also the growing area of Princeton which is the second largest metropolitan area in my county.

Senator MOSS. I should say, Senator, that Senator Williams who is the chairman of the full Committee on Aging had hoped to be here to welcome you. He is conducting an executive session of another subcommittee and working on the coal mine safety bill and could not be here today. In a statement he submitted for the record he pays tribute to your leadership in the State legislature, and this is one reason we wanted to have you present before this subcommittee. I welcome you myself and pass that on from Senator Williams.

Mr. COFFEE. I would like to say that we in New Jersey are indeed gratified and proud that your distinguished chairman and our distinguished fellow New Jerseyite, Harrison A. Williams, has devoted himself to all the people and that he has served and is serving as chairman of the Senate's Special Committee on Aging.

I am, of course, going to limit my comments to the needs of older New Jerseyites, although I am sure that their needs do not differ materially from those of older people in other States.

It is well established that New Jersey's older population is predominately a homeowning group. According to a Rutgers University study based on the 1960 census, except in the oldest years the proportion of owner-occupied residences is just short of two-thirds, and it drops gradually to 59 percent in the 85 and older bracket. While these statistics are almost 10 years old, I see no reason to doubt that they still apply.

The fact that rapidly rising property tax rates in New Jersey have placed an almost unbearable burden on homeowners has been especially true in the case of those eking out an existence on social security benefits or some fixed and limited income. As in most of our populous States, the base of local government financing in New Jersey is the real property tax. Accordingly, as the services of government increase, so does the burden on the property owner. This hits hardest at our older residents because of their lack of sufficient income, and many of them are facing financial problems which have reached crisis proportions.

I am going to suggest ways in which the Federal Government can help, but before I do I want to point out that we in State government are trying to do all that we can.

State Tax Relief

For example, we have at the present time a constitutional provision which gives a homeowner 65 or older with an income of $5,000 or less an annual property tax deduction of $80. This is clearly no longer adequate and generates obvious inequities. Furthermore, the burden of these deductions is borne by the taxing district—in New Jersey, the municipality.

I have introduced a constitutional amendment which would remove both the $80 deduction limitation and the $5,000 income ceiling, would extend eligibility to single females at age 62, would include renters of nonsubsidized property, and would make the State responsible for the entire cost of the program.

It has been estimated that the cost of this program would be $35 million or more in the first year of its operation—I have to relate this figure to our total State budget. Last year we reached a billion dollar budget for the first time. To support this tax relief from present State revenues does not appear to be economically feasible, yet the fact remains that many of our older residents desperately need the additional help while most of our municipalities are in no position to provide it.

I am sure that this distinguished committee appreciated the dilemma, and I would like to suggest that this is a most inviting area for Federal and State cooperation.

I should point out that mine is not the only program which is before our State legislature but all of them are aimed at the same target, referring to other legislation which has been introduced which has greater property tax relief for our senior citizens.

Unlike many States of the Union, New Jersey is somewhat unique in its physical makeup. The community makeup runs the gamut from rural southern Jersey with its agrarian-based economy to the highly urbanized and industrial-based economy in the northern section of our State. Each area presents similar and quite distinct problems for the elderly. The property tax structure varies in these areas considerably.

Rising Taxes, Declining Tax Bases

It is readily accepted that the severest situation facing the elderly as a result of the increasing taxes on real property exists in our urban areas. Cities such as Trenton, Newark, and Camden are faced with declining tax bases and ever increasing demands for governmental services with the result that these large cities have reached the point where their tax rates are literally driving homeowners from the city. In this mad rush, property values have plummeted and homes are selling anywhere from $5,000 to $10,000 below what their realistic market value should be.

Caught in this dilemma, and most seriously threatened, are the elderly. Living as they are on fixed incomes with a sizable portion of their resources invested in their homes, they are being drained on one hand by very high tax rates and soaring maintenance costs while, on the other hand, they cannot afford to sell because of the financial loss they would incur. Too, the market for city residences has dried up significantly. Unless massive State and Federal aid is aimed at these cities to drastically reduce the tax burden or to give adequate property tax relief to these senior citizens, they will continue in the grip of a financial bind from which there is no escape.

While it is true that tax rates in rural areas are generally much lower than in the cities, New Jersey cannot take much consolation in this fact. My State is, as you know, the most urbanized State in the Union, and the rural areas are steadily shrinking. It will not be too long before the process of growth will bring to the present nonurban sector many of the problems which are now being faced by the cities and by the suburbs, particularly in the field of education.

Since education is and always has been a national commitment of the highest priority, I am of the opinion that this is an area which cries out for increased Federal aid. Former Secretary Cohen touched on this point when he testified prior to my appearance.

I know that in New Jersey our communities are staggering under the burden of rapidly rising school costs, that State aid is inadequate, with no prospect that it can be significantly increased in the near future, and that too many of our children are being educated in hopelessly outmoded facilities.

Vital Role of School Aid

I just recently served on a commission in my home State which is called the Public Aid to Public School Districts Commission. We have completed our work and have made a recommendation that New Jersey almost immediately raise an additional $200 million to place in a new formula as State aid to public school districts. New Jersey happens to be a little bit low in our opinion in its State aid to public schools. I am referring now to elementary and secondary level education—$200 million—let me compare that amount and show you what it means to a State like New Jersey to raise this kind of money. If we enacted a State income tax, as an example, at the same rates that New York State presently has, we would raise in the initial first year approximately $450 million. The recommendation of this commission was that immediately $200 million be given to the local school districts for State aid for schools. Of course if we talk about $200 million or any amount near that, we are talking about perhaps a new tax in New Jersey which would have to be a State income tax.

Increased Federal aid to education not only would better serve our national commitment, but in a more practical way could help to materially reduce the property tax which hangs like an albatross around the neck of each impoverished elderly homeowner.

Turning now from the area of tax relief as a means of saving homeownership for the elderly, there is another emergent problem to which I would like to address myself. There is and probably always will be the elderly who, no matter what tax deduction programs exist, will be unable to maintain homeownership due to their very limited financial status. While I believe the majority of governmental leaders would like to be in the position to guarantee homeownership for the elderly, we know that this is not economically possible. Therefore, an alternative must be provided to insure that this group of senior citizens will be afforded decent, safe, and pleasant housing facilities. In my estimation, any new federally financed housing programs most certainly must include an adequate amount of housing for the elderly.

These housing units should be architecturally designed with the senior citizen in mind and include the various safety devices and newly developed conveniences that will ease the burdens of old age.

Obsolete, Large Homes

Another area of housing which has proved troublesome and is especially present in our urban areas are the large homes owned by the elderly which because of their present life style are obsolete. Quite often these large older homes house one or two people whereas they were designed to accommodate a younger and larger family. Here again the senior citizen is trapped. As a general rule, these houses are mortgage free and represent a major lifetime investment for the elderly but, because of their size, cannot be sold for their true worth.

I suggest that through a governmentally financed program these houses could be bought from the elderly and renovated to serve as homes for the poverty stricken larger families which are predominant in our urban areas. In turn, the senior citizen could be given, in lieu of the purchase price of the home, a newer, smaller and safer residence which would be less costly to maintain while at the same time safeguarding his sense of security and human worth.

A program such as this, I believe, could beneficially serve the interest of all parties concerned. The senior citizen would still be a homeowner and could live in dignity, as could the lower income family, and the cities' problem of decaying houses which blight our urban neighborhoods could be alleviated.

There are and will continue to be a great variety of solutions posed to this critical problem of housing for the elderly. My own State has just in this past year proposed a $12½ million bond issue aimed at providing housing for the poverty stricken. This is but a drop in the proverbial bucket, for a recent study by the New Jersey Department of Community Affairs has projected that there are 600,000 housing units which are substandard in our State which is 30 percent of all New Jersey housing. Out of this it is estimated that 90,000 are inhabited by the elderly.

These, gentlemen, are very brief comments which understandably merely scratch the surface of the problems existing in the field of housing for the elderly. I sincerely trust that I have been of some assistance today and have added in some small part to the body of knowledge that is being gathered by this subcommittee, and out of these hearings I would hope will come some meaningful relief for our overburdened senior citizens.

I thank you for the opportunity of testifying before your esteemed committee today.

Senator Moss. Thank you, Senator Coffee. You have indeed contributed to our information and knowledge on this subject. The leadership that you have demonstrated in the New Jersey Senate in this field of the elderly is one that makes us particularly want to share your views.

Concerning your suggestion that there be some way to buy up the older large homes and renovate them and make a transfer, would this fit into Secretary Cohen's idea of a corporation to do this, do you think?

Mr. COFFEE. I am not entirely familiar with Secretary Cohen's proposal but as I listened to it unfold it seemed to me that there is a possibility that this type project would fit into having a corporate arrangement of the type that he mentioned.

Senator MOSS. Well, it was completely new to me when he proposed it today. His idea is that really a Government-owned corporation be operated by appointed officers and their sole objective would be to serve the elderly people in the capacity of being able to purchase property and sell property and so on, helping them in this finance situation. It seemed to me your idea might fit in fairly well with what Secretary Cohen suggested. Maybe the two of you have been thinking somewhat parallel on this.

I was interested also in your discussion of the property tax deduction, your proposal in the State legislature. Isn't the key to this whole thing whether New Jersey can get a new income tax bill? If New Jersey was to depend almost entirely on property tax and sales tax, you cannot go on giving more exemptions to property tax, can you?

Mr. COFFEE. Unfortunately, and I am reluctant to relate this as a resident of New Jersey, but we do have, I believe, the highest per capita real estate property tax of any State in the country. Of course, I am not bragging when I say this, I think that situation should be changed. It is my opinion and I think the opinion of many other thinking people in our legislature and people of our State that until we have a broad-based State income tax many of these programs which are needed so badly, including more aid for the elderly, will not come about until we have such a new tax.

Senator MOSS. Are your schools financed entirely on property tax as far as the contribution in New Jersey?

Mr. COFFEE. There again, the greatest portion of our school tax comes from the real estate property tax base. Somehow or other we have been leaning in this direction for a number of generations. As a result, the amount of money that the State contributes to local school districts when compared to the national average of State aid to school districts in other States is one of the lowest. That is why we have recently recommended an upgrading to at least meet the national average of State aid to our public school districts.

Senator MOSS. So Dean Cohen's tax proposal would have a very considerable impact on New Jersey, would it not?

TWO BASIC APPROACHES

Mr. COFFEE. Yes, Senator. It would seem to me there are two basic approaches to meeting some of the problems of the elderly, what I call the very direct approach which would be the programs such as buying up their houses and still giving them a place to live and if they had a surplus of funds from that it would be put into some account for them to have at their own disposal. That sort of thing is "direct help."

Now I mentioned the "indirect help" and I think that not only New

Jersey but in other States if there were more Federal moneys for education countrywide that this would give relief to State by State local government problems and certainly relieve the property-tax problem.

In addition to that, I think another indirect way that every State could be helped, and I know this would be so true in New Jersey, we would be helped tremendously if the Federal Government would assume the full responsibility for all of our welfare programs. I am one of those who happens to feel that welfare is truly a national problem, with people moving as they do today. The shifts in population over State lines, as an example, the States cannot be held accountable for this. I think that the Federal Government must do more.

Now if more was done in the area of welfare and all the categorical assistance programs, if more was done from the Federal Government in aid to education, I think that our elderly citizens and many others would be substantially helped. This kind of indirect approval takes a little longer as opposed to the direct aid programs.

Senator Moss. Getting back to this corporation of Dean Cohen's, I think he was suggesting a Federal corporation. Would you see any advantage in having State corporations of this sort over a Federal one to do this buying and selling of property adjustment for the elderly?

Mr. Coffee. Well, obviously there are two directions in which we could go, Federal or State control. I would think that if both could be considered we might end up with a joint Federal-State program with the Federal Government encouraging the State to participate and giving them some incentive to initiate such programs.

Senator Moss. Thank you very much, Senator Coffee. You have made a very fine contribution and we appreciate very much your coming here to testify before our committee.

We are glad to note that John Shannon has arrived. We would like to hear from you, Mr. Shannon.

Mr. Shannon is the assistant director of the Advisory Commission on Intergovernmental Relations.

I have your statement before me. We will be glad to have you proceed in whatever manner you like. The full text of this written statement and the tables will be printed in the record and you may use it as a basis for emphasizing parts of it or summarizing, however you care to use it.

(See appendix 1, p. 817.)

STATEMENT OF JOHN SHANNON

Mr. Shannon. Thank you, Mr. Chairman.

I am John Shannon, assistant director of the Advisory Commission on Intergovernmental Relations.

We on the commission appreciate this opportunity to appear before your committee. Our concern for this particular problem stems from our interest in promoting the effective and equitable operation of the local property tax. We believe that a very persuasive case can now be made for taking corrective action so as to shield low-income householders from the full impact of the property tax.

Our conclusions are based on several studies. For example, all the available evidence now points to the fact that the average homeowner in the larger cities in the United States turns over about 4 percent of his total household income to the local property tax collector (table 1).* Thus, a family with $10,000 on the average will pay about $400. When you take this fact as the norm, I then think we probably could muster considerable support throughout the country for the general conclusion that any residential property owner who had to turn over more than 10 percent of his total money income to the local property tax collector was carrying an extraordinary burden in relation to the national average.

If we use what we consider a rather tough standard, 10 percent, which would be two and a half times above the national norm, we estimate that there are now 3 million householders bearing excessive property tax loads. Table 2* here sets forth our breakdown; it actually is based on a projection of the 1960 census. At that time about 1,600,000 homeowners were turning over 10 percent of their total money income to the local tax collector. Based on all available evidence we believe it has now crossed the 3-million mark.

Regressive Property Tax

Even these national norms and national estimates really blur the stark picture of regressivity of the local property tax. Evidence from Wisconsin's recent experience reveals that there were over 8,000 elderly homeowners with total money incomes of less than a thousand, including social security and railroad retirement and all the rest, who were turning over on the average 30 percent of their total money income, their subsistence income, to the local property tax collector.

The real basket cases, if you wanted to use that harsh term, would be the 1,300 elderly homeowners with an average income of about $300 total money who are forced to turn over on the average about 58 percent of their meager incomes to the local tax collector.

We believe it is a mighty sad commentary on an affluent society when low-income elderly persons are forced through the property tax wringer in order to finance public schools and local government. There is absolutely no question in my mind that there are hundreds of thousands of low-income families in general and elderly homeowners in particular who are being forced to liquidate their assets in order to pay the tax on shelter.

The point must be made that these low-income elderly persons can receive little or no direct comfort in many of the plans for lessening their Federal income tax liability. Their incomes are so low that this type of tax relief passes right over their heads. Most of the tax reduction benefit accrues to elderly persons in the middle- and upper-income brackets. Thus we have the rather paradoxical fact that while the National Government is forgoing an estimated $2.5 billion in Federal income tax revenue in order to help elderly families, local property tax collectors are taking about $3 billion from families with incomes below $5,000 and probably half of this amount comes from the households of the elderly.

So we have got the perennial situation of the air conditioner fight-

*See appendix 1, Item 2, p. 818.

ing the furnace. To a great extent local taxes are short circuiting national policies.

It also must be emphasized that the steady increase in local property taxes also tends to short circuit any attempt to help these elderly householders by increasing social security benefits. The steady increase in local property tax can largely offset a modest hike in social security benefits. Last year, for example, local property tax collections on a nationwide basis rose from $28.2 billion to almost $32 billion. While some of this increase can be attributed to real economic growth—new construction, et cetera—a substantial percentage can be traced to the decision of local authorities to increase the tax on existing improvements.

A Call for State Action

The advisory commission has recommended that State and Federal action can go a long way toward pulling the regressive stinger from the local property tax. In its report "Fiscal Balance in the American Federal System" the Commission called on the States to help local governments finance the cost of relieving undue local property tax burden.

In support of this recommendation, the advisory commission noted that while the value of the family residence serves as a fairly good proxy of ability to pay taxes in a rural society, and it still does in suburbia, total household income stands out as a far more precise measure of taxable capacity in our modern urban society. This point can be grasped quickly from examples of the hardship that the payment of residential property taxes imposes on low-income households.

With retirement, the flow of income drops sharply and a $300 or $400 tax bill that could be taken in stride when the flow of income was up pretty high now takes a disproportionate claim when the income flow drops to around $1,500. By the same token, if the flow of income falls sharply as a result of the death or physical disability of the breadwinner or due to unemployment, then again the payment of the residential property tax can exert an extraordinary burden.

We believe that there is at least a partial success story here. The most notable State attempt to cope with the regressive impact of the local property tax is to be found in Wisconsin's "circuit breaker" plan to protect low-income elderly householders and renters from property tax overload situations. This tax relief plan is financed entirely from State funds and administered by the income tax division of the Wisconsin State Tax Department.

The efficiency of this approach is reflected in the remarkable transformation of a highly regressive tax into an essentially proportional levy at relatively modest cost to the State treasury. In 1966 approximately 60,000 beneficiaries, elderly homeowners and renters, were granted property tax relief at the cost of about $5 million—less than 1 percent of the total property tax take.

If you go back to table 3, you see how they pulled the regressive stinger or at least they flattened it out. The last two columns show the before and after on property tax relief, and it is remarkable what they can do for $5 million or $6 million. Even this has certain constraints built in so that it could be made more sophisticated than it is.

The Wisconsin Plan

Under the Wisconsin plan the relief is granted by the State to all elderly homeowners on that part of the tax load deemed to be excessive in relation to their household income. The legislature took the position that any homeowner who had to turn over more than about 5 percent of his total money income was carrying an extraordinary burden and on that part in excess the State rebates.

To insure that only the truly needy persons would receive property tax relief, the applicants must list all forms of money income, including such sacrosanct items as social security and veterans' benefits and railroad retirement payments. In fact, they ask for just about everything except the imputed value of vegetables grown in the backyard. It is a real attempt to get at total money income.

The elderly renter is also given relief on the assumption that 25 percent of his rental payment to the landlord is a property tax payment pure and simple. So he also can get relief.

Under the Wisconsin procedure, the applicant for homestead tax relief files a statement as a supplement to the Wisconsin State income tax return. After audit the eligible beneficiary receives compensation for that part of the tax deemed extraordinary. It can take either form, as a direct credit against his State income tax or as a cash rebate. The vast majority of these 60,000 beneficiaries have such low income that they have no Wisconsin State liability. In a technical sense they have a negative tax credit situation going for them and this necessitates a direct cash refund, a check from the State treasury back to the homeowner or to the renter.

The reduction of tax disparities between high- and low-income communities within metropolitan areas can be cited as a beneficial side effect of the Wisconsin plan. Because the poor tend to cluster together, the mailman will deliver most of the property tax refund checks to households in the low-income communities. To translate this into the Wisconsin situation, the mailman is going to deliver many more checks to the south side of Milwaukee than to the upper residential income suburbs. Thus, the granting of tax relief to the low-income elderly moves in the "right" equalization direction from both the interjurisdictional and interpersonal standpoints.

The point can also be emphasized that this does violence to the local fisc. It is financed strictly out of State funds and it neither erodes the local tax base nor interferes in any way with the local assessment or tax collection process. As a result, this type of property tax relief receive strong support from local school authorities and government officials.

Wisconsin's pioneering effort conclusively demonstrates that it is not necessary to force low-income householders through the property tax wringer in order to finance public services, and the commission has urged all States to follow Wisconsin's lead. To hasten implementation of its recommendation, the commission has drafted a model bill to provide property tax relief for low-income families that draws heavily on the Wisconsin statute.

I will submit an exhibit of our model bill.[1]

[1] See exhibit A, p. 823.

As illustrated in the following table, Minnesota and Vermont have now adopted the Wisconsin circuitbreaker approach. Oregon and the State of Washington have also shown a strong interest and probably will become the law in those two States next year.

Less sophisticated State plans for abating part of the property tax payment to avoid extraordinary tax burdens have been enacted by Utah, New Jersey, Maryland, and California.

We have a table here that summarizes the various efforts of States to come to the aid of the low-income homeowner.*

An "Ideal" State Tax Relief Plan

Based on recent State experiences it is now possible to set forth the characteristics of an ideal" State property tax relief plan.

First, it should have broad beneficiary coverage. To insure equitable treatment for all residential property taxpayers, the tax relief plan should come to the aid of all overburdened property taxpayers—those under 65 as well as those over 65 and the renters as well as the homeowners.

Second, in order to gain legislative support you need adequate safeguards against abuse. To insure that aid goes only to the truly needy, all types of cash income, including social security, should be cranked into my compilation of family income and probably a dollar limit of $400 or $500 should be set on the amount of relief granted to any taxpayer. This is to prevent criticism that you might be subsidizing some elderly person who happens to live in a mansion. So if you have a top cutoff point of $400 or $500, there is a safeguard there.

Third, and this is the most difficult thing, you need an efficient tax relief formula, one that can shield the low-income householders on the one hand and their interest and yet minimize the drawdown on scarce State resources.

One way to determine extraordinary burden would be to grant relief only on that part of the property tax payment that is in excess of say 8 percent of the household's total money income. As previously noted, this approach would direct aid only to families in greatest need, bearing in mind that the average family burden is around 4 percent. The cost of such a program would probably run in the neighborhood of $300 to $400 million for the 50 States.

A more sophisticated formula would grant relief if the local residential property tax exceeds a certain percentage of the family's Federal or State income tax payment. For example, the average family today turns over about $2.50 to the Federal income tax collector for each $1 it turns over to the local residential property tax collector. Thus, we could argue that a family should certainly be entitled to property tax relief if the tax on its residence exceeds the family's Federal income tax liability.

It must be noted that before a family could receive tax relief under this approach, linking it to a State or Federal income tax schedule, it would be absolutely necessary to compute their Federal income tax liability on the assumption that all cash income is counted in the Federal tax base. You would have to count in that social security and veterans' retirement payments and so on.

*See appendix 1, item 2, p. 821.

By linking the tax relief formula to a State or Federal income tax schedule, it is possible to completely shield the incomes of low-income families from the property tax collector's reach or at least make a complete rebate. It also recognizes family size in the property tax relief program because the income tax is geared to personal exemptions.

We estimate that it would cost approximately $400 to $500 million to finance this more sophisticated type of property tax relief.

Now you could use various formulas. The one that I use here is pretty stringent. If you said, well, any family that had to turn over as much as half or more to the local property tax collector as it turns over to the Federal should be granted relief. Then the price tag would jump from about $400 to $500 million to about a billion.

I would like to express my personal view, not the commission's, with respect to the role that the National Government might play in this field. The Federal Government could hurry history along by providing a financial reward to those States that extend property tax relief to low-income families. The Federal incentive might well take the form of reimbursing the State for say one-half of the cost that it incurs in taking such remedial action. Corrective action must be taken—an affluent society has no excuse for putting this type of tremendous burden on very low-income householders in order to finance its schools and local governments.

Thank you.

Senator Moss. Thank you very much, Mr. Shannon.

I was particularly interested in that description of the Wisconsin circuitbreaker. That seems to be an equitable and relatively simple way of relieving those who are pressed most by this local property tax. I think there is general agreement that this is one area where we must find relief.

What would be your response to those who say that instead of starting a new series of tax variables that make the thing more complicated that we attack the problem simply by getting more money to the elderly people, better income, and then let them pay all their taxes like anybody else? Do you think that is feasible?

Mr. Shannon. It could be feasible. I do believe that that approach, however, is much more expensive. Any general scheme of inflating the incomes of the elderly will be very costly and the price tag alone will tend to deter congressional action.

Cost: $500 Million

In the meantime by using this very sophisticated "rifle" approach you can minimize the drawdown on the Federal Government's resources. For approximately a half billion dollars—a cost that could be shared by the Federal or State Governments—you could make sure that no low-income person in the land had to experience an extraordinary property tax burden, but it will require these technical adjustments in the tax field and this is one of the prices you pay for trying to develop more equity.

Senator Moss. Do you think this relief afforded by this program to the elderly low-income taxpayers might cause the cities to raise their taxes sharply since there is little pressure now on the low-income group?

Mr. SHANNON: I suppose that if you had a micrometer and could measure all these nuances you might detect some reduction in pressure as far as the city council or the school board is concerned. The type of relief that we are talking about here is rifled in on the very low income so that the middle and upper incomes and the business firms will still pay the tax and pay any increase in the tax. As a result, I don't think that you will have an undue diminution of public interest in the local tax and budgetary process while at the same time achieving a far more equitable distribution of the local tax load.

Obviously, if you extended this form of tax relief across the board, it would be equivalent to having the local government back a truck up to the State treasury or the Federal Treasury. So you do have to put income constraints, but in the limited context that we have been talking about I don't think you would see any sharp reduction in citizen interest in the fiscal affairs of the local government.

Senator MOSS. Thank you, Mr. Shannon. You have given very interesting testimony and some information and suggestions that this committee would like to consider. It has been helpful to have you come and testify before us and we appreciate it.

We terminated just about right. Those three bells mean I have a live quorum on the floor. So we are now in recess until tomorrow morning at 10 o'clock.

Mr. SHANNON. Thank you, Mr. Chairman.

(Whereupon, at 12:08 p.m., the subcommittee recessed, to reconvene at 10 a.m., Friday, August 1, 1969.)

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

(HOMEOWNERSHIP ASPECTS)

FRIDAY, AUGUST 1, 1969

U.S. SENATE,
SUBCOMMITTEE ON HOUSING FOR THE ELDERLY
OF THE SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to call, in room 4200, Senate Office Building, Senator Frank E. Moss (chairman of the subcommittee) presiding.

Present: Senators Moss, Gurney, and Saxbe.

Committee staff members present: William E. Oriol, staff director, and John Guy Miller, minority staff director.

Senator MOSS. The subcommittee will come to order.

This is the second day of our hearings on the homeownership aspects of the economics of aging. This is based primarily on a task force report which was made for this committee. This is the Housing Subcommittee so we are concerned with the housing problems of the elderly. We had some very excellent testimony yesterday and we look forward to a continuation of the fine caliber of response today.

Our first witness this morning will be the Honorable Sherman Unger who is General Counsel of the Department of Housing and Urban Development. We will be pleased to have you proceed as you wish, Mr. Unger. Would you identify for the record the gentlemen who accompany you.

STATEMENT OF HON. SHERMAN UNGER, GENERAL COUNSEL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY HILBERT FEFFERMAN AND WILLIAM D. HUGHES

Mr. UNGER. Good morning, Senator.

On my left is Hilbert Fefferman of the Office of General Counsel, and on my right, William Hughes who works with our Department on programs of housing for the elderly.

I am pleased to have this opportunity to appear before your subcommittee.

Yesterday Mrs. Marie McGuire, our assistant for Problems of the Elderly and Handicapped, furnished you detailed information on housing programs for the elderly administered by the Department of Housing and Urban Development, along with background data. This morning my prepared testimony will cover the several specific questions you asked of our Department. I will also try to answer any additional questions the chairman and the members may wish to ask.

First, you asked whether departmental policy encourages the elderly to continue or to undertake homeownership or to move from large to smaller homes.

We neither encourage nor discourage any of these changes for their own sake because too many factors should enter into the decision of the individual elderly person to move. These include financial and physical capacity to maintain the present home; the availability of cheaper or more suitable housing in the old neighborhood or in new acceptable locations; and personal preferences, such as a strong attachment to the old home, garden and furniture, or a strong desire for smaller or easier-to-maintain quarters.

Our basic policy is to increase the overall supply of housing suitable for the elderly, including units which low- and moderate-income persons can afford. The aim is to permit the individual to choose among types of homes and types of tenure, including fee ownership, cooperative or condominium ownership, and rental.

Helping the Homeowner

Second, you asked how existing Federal programs, especially those enacted last year, may be used to help continue or provide homeownership, and whether additional Federal legislation is needed for this purpose.

Our programs, which are described in detail in the materials submitted yesterday, contribute to this purpose in several ways: (1) They are intended to increase the supply of housing suitable for the elderly; (2) they provide interest rate subsidies making it possible for lower-income elderly to acquire homes; and (3) they provide grants and low-interest-rate loans for the rehabilitation of existing homes in areas being, or to be, upgraded.

The FHA section 235 homeownership program enacted in 1968 is especially significant in that it permits interest rates to be reduced to as low as 1 percent to enable lower income persons to acquire a new home or an ownership interest in an apartment which is part of a cooperative or condominium.

Another 1968 provision authorized a new type of relocation payment to homeowners displaced as a result of HUD programs. The owner of the home which is taken may find that the amount received for it is not enough to pay for a modest home elsewhere in the community. This often happens to the elderly when the value of their homes has declined as their neighborhood became blighted.

The replacement housing payment, which may not exceed $5,000, is equal to the difference between the actual price received for the old home and the average price in that locality of a modest dwelling adequate in size for the displacee and his family. It is payable only if a replacement home is acquired within 1 year. The amount received for the old home, plus the added payment, will enable many displaced families to remain homeowners.

In view of the extensive housing legislation passed last year, we do not believe that basic new legislation is needed at this time. Indeed, our Federal housing laws could probably be improved if an attempt were made next year to prune them and simplify them on the basis of experience of the new administration.

Rehabilitation Programs

At this time, we need to obtain adequate funding of our programs and to improve their administration. However, as Mrs. McGuire stated yesterday, we are looking at the issue of how best to provide housing for elderly people who are to frail for fully independent living, but are not in need of medical or nursing care.

Third, you have asked how the Federal rehabilitation programs may be used to help the elderly maintain homeownership.

The major HUD rehabilitation programs which serve this purpose are the grant program under section 115 of the Housing Act of 1949 and the loan program under section 312 of the Housing Act of 1964. The programs are primarily for use in urban renewal or concentrated code enforcement areas or other substandard areas which are planned for future renewal or code enforcement activities.

The grant program provides up to $3,000 for low-income homeowners, including the elderly, to make improvements to their homes. The loans, which bear 3 percent interest, are available in amounts up to $10,000 per dwelling unit, or up to $14,500 in high-cost areas. In some cases, the same homeowner may receive both a loan and a grant. As of the end of last year, a little over 60 percent of the grants had been made to homeowners 62 years of age or over.

I might observe that the House Ways and Means Committee has voted a tax reform that would allow a fast writeoff for housing rehabilitation—a 5-year writeoff. This would serve as an additional incentive in the case of older apartments which are so often occupied by the elderly.

Fourth: You have asked us to submit for the record summaries of HUD studies dealing with the housing conditions of the elderly.

Our principal contribution to the assembly of information in this field was the funding of volume VII of the U.S. Census of Housing, 1960, entitled "Housing of Senior Citizens." The volume presents data on the characteristics of housing units occupied by persons 60 years of age and over at the time of the 1960 census and data on the characteristics of these persons.

The statistics presented in this volume, though outdated, are nevertheless of value in understanding the housing market for the elderly. The number of elderly households and persons, their ages, incomes, marital status, present living arrangements, the conditions of their dwelling unit, presence of plumbing facilities, rent paid, value of house owned—these are the raw materials of a housing market analysis for the elderly.

This information has been used by HUD for market analyses on a national basis and for surveys of specific local markets. I have been told that our general studies have already been made available to your subcommittee. Any other studies that the subcommittee or its staff members may wish to obtain will, of course, be made available by our staff.

Fifth: You have asked what gaps exist in federally supported housing programs which would serve the needs of those elderly who want an apartment or other form of shelter instead of maintaining a large home.

The Housing and Urban Development Act of 1968 provided major new programs, with interest rates as low as 1 percent, to enable lower-income persons, including the elderly, to live in good, inexpensive apartments. Under the new section 235 homeownership program, the apartments may be located in cooperative or condominium projects.

Under the new section 236 program, the apartments will be leased. Up to 20 percent of the units in any one project assisted under the section 236 program may receive the additional benefit of rent supplement payments, thereby serving persons of even lower income. Also, where the project is designed primarily for occupancy by the elderly or handicapped, it can include related facilities for their use, such as dining, work, recreation, and health facilities.

These two programs, if adequately funded, can fill the major gap which previously existed in providing privately owned apartment-type shelter for lower-income persons. As mentioned in answer to your second question, we are studying the issue of how best to provide housing for those elderly who are frail, but not ill.

Sixth: You asked what priority HUD now places on housing programs for the elderly.

The Department is guided by the national housing goal, first stated in section 2 of the Housing Act of 1949, of "a decent home and a suitable living environment for every American family." We believe that this requires programs in which housing for the elderly and for families with children proceed in good balance.

At one time, prior to the mid-1950's, there was an imbalance in legislation under which little provision was made in our housing programs for the special needs of the elderly. This led to a period of "catching up," in which major emphasis in the low-rent public housing program was placed on providing housing for the elderly.

"A REASONABLE BALANCE"

In fiscal year 1969, a reasonable balance was sought by setting a target of approving applications in this program at a rate of about one-third for the elderly and two-thirds for other families. The same goal has been established for fiscal year 1970.

This will not result in a reduction of housing made available for the elderly. Although the percentage is less, the actual number of dwellings being provided for the elderly has increased. Let me give you an example. The actual number of units increased from 9,300 during the full 12 months of fiscal 1965 to 17,000 in the first 6 months of fiscal 1969.

Seventh: You have asked what difficulties arise from the conversion of the section 202 direct loan program to the section 236 interest-reduction program in providing rental housing for middle-income elderly persons.

Minor difficulties did arise as a result of initial unfamiliarity and procedural changes. These difficulties were increased by mortgage money shortages. However, the transition is being eased by the continued use, to the greatest extent possible, of the existing section 202 policies, procedures and staff, and by mortgage purchases made by the Federal National Mortgage Association.

The initial difficulties are not significant as compared to the advantages of the conversion. Indeed, unless we convert from a direct loan program to one that provides interest subsidies for funds obtained on the private market, we will never get away from a small, insufficiently funded program.

Section 236 uses private financing backed by FHA mortgage insurance, with interest costs that can be reduced to as low as 1 percent. By contrast, the section 202 program depends upon Federal financing at a fixed 3 percent interest rate. The reliance on private funds will, in the long run, assure a much steadier and a substantially larger flow of activity. In addition, the lower interest rate enables the new program to serve elderly persons of lower income. You may actually be providing some units under 236 that would not be possible under 202.

Eighth: You asked what variations exist among the States in the availability of public housing for the elderly.

We have prepared two charts in response to this question. The extensive information contained in these charts shows that there is considerable variation among the States.

You may wish to insert the charts in the record of your hearing, and we will present them.

Senator MOSS. They will be inserted in the record of the hearing at this point in your testimony.

Mr. UNGER. Thank you, Mr. Chairman.

(The charts referred to follow):

COMPARATIVE STATISTICS ON POPULATION AND UNITS DESIGNED FOR ELDERLY

	Population 1966 (thousands)	Population rank	Housing units under reservation Dec. 31, 1968: Total	Elderly designed	Elderly units rank	Percent elderly units	Percent rank	Housing units under management Dec. 31, 1968: Total	Elderly designed	Elderly units rank	Percent elderly units	Percent rank
Total	195,049		1,004,953	237,542		23.5		698,396	95,348		13.7	
Alabama	3,517	21	39,525	4,570	22	11.6	42	29,380	1,921	19	6.5	39
Alaska	272	50	1,014	25	49	2.5	49	532	0	47	0	47
Arizona	1,618	34	5,300	361	43	6.8	47	3,408	61	45	1.8	43
Arkansas	1,955	31	11,205	3,983	25	35.5	14	7,904	2,203	17	27.9	11
California	18,918	1	51,400	9,546	9	18.6	35	37,538	3,593	9	9.6	32
Colorado	1,977	30	6,021	1,289	32	21.4	30	4,450	751	28	1.7	44
Connecticut	2,875	24	17,002	4,736	21	27.9	24	13,090	2,608	12	19.9	15
Delaware	512	46	2,440	569	40	23.3	28	1,886	269	38	14.3	23
District of Columbia												
Florida	5 941	9	36,527	7,477	11	20.5	32	21,935	2,046	18	9.3	33
Georgia	4,459	15	49,344	5,717	13	11.6	43	38,179	3,012	10	7.9	36
Hawaii	718	40	4,760	764	38	16.1	39	3,354	343	34	10.2	29
Idaho	694	42	639	360	44	56.3	7	299	120	42	40.1	8
Illinois	10,722	5	70,099	18,512	2	26.4	26	54,412	10,904	1	20.0	14
Indiana	4,918	12	16,646	4,747	20	28.5	22	8,144	1,590	20	19.5	16
Iowa	2,747	25	1,197	1,028	35	85.9	1	554	391	32	70.6	1
Kansas	2,250	29	5,922	3,280	27	55.4	8	1,492	161	39	10.8	26
Kentucky	3,183	22	21,967	5,079	15	23.1	29	15,183	1,537	21	10.1	30
Louisiana	3,603	19	28,197	3,815	26	13.5	41	19,871	1,446	24	7.3	37
Maine	983	38	1,709	977	36	57.2	6	396	0	47	0	47
Maryland	3,613	18	19,293	2,158	29	11.2	44	13,118	428	30	3.3	41

Massachusetts	5,383	10	36,918	12,334	5	33.4	16	25,605	4,809	5	18.8	18
Michigan	8,374	7	25,035	8,822	10	35.2	15	15,104	2,278	14	15.1	22
Minnesota	3,576	20	18,019	11,460	7	63.6	4	8,596	4,140	8	48.2	4
Mississippi	2,327	28	7,732	345	45	4.5	48	6,217	125	41	2.0	44
Missouri	4,508	13	22,928	5,455	14	23.8	27	13,826	1,482	23	10.7	27
Montana	702	41	1,578	141	47	8.9	46	1,048	16	46	1.5	45
Nebraska	1,456	35	7,409	5,000	16	67.5	2	5,339	2,895	11	54.2	3
Nevada	454	47	2,976	799	37	27.3	25	2,132	506	29	23.7	12
New Hampshire	681	44	3,553	1,871	30	52.7	9	1,789	794	27	44.4	5
New Jersey	6,898	8	47,895	14,754	3	30.8	18	38,156	8,919	2	23.4	13
New Mexico	1,022	36	3,591	651	39	18.1	36	1,819	287	36	15.8	20
New York	18,258	2	112,508	21,855	1	19.4	34	88,061	8,527	3	9.7	31
North Carolina	5,000	11	30,943	4,880	18	15.8	40	17,317	1,247	26	7.2	38
North Dakota	650	45	1,052	543	41	51.6	10	712	279	37	39.2	9
Ohio	10,305	6	41,969	11,937	6	28.4	23	30,297	5,418	4	17.9	19
Oklahoma	2,458	27	12,801	4,273	24	33.4	17	2,223	421	31	18.9	17
Oregon	1,955	32	6,479	2,779	28	42.9	13	3,738	1,522	22	40.7	7
Pennsylvania	11,582	3	73,023	14,466	4	19.8	33	50,938	4,633	6	9.1	34
Rhode Island	898	39	9,775	4,808	19	49.2	12	6,723	2,204	16	32.8	10
South Carolina	2,586	26	9,763	1,030	34	10.6	45	7,124	290	35	4.1	40
South Dakota	682	43	1,208	209	46	17.3	37	910	95	43	10.4	28
Tennessee	3,883	17	36,487	6,306	12	17.3	38	25,267	2,268	15	9.0	35
Texas	10,752	4	52,612	11,163	8	21.2	31	38,849	4,463	7	11.5	25
Utah	1,008	37	53	0	50	0	50	30	0	47	0	47
Vermont	405	48	865	440	42	50.9	11	251	140	40	55.8	2
Virginia	4,507	14	19,058	1,238	33	65.0	3	14,253	86	44	0.6	46
Washington	2,980	23	14,567	4,370	23	30.0	21	8,643	1,326	25	15.3	21
West Virginia	1,794	33	5,208	1,570	31	30.1	19	2,726	382	33	14.0	24
Wisconsin	4,161	16	8,341	4,930	17	59.1	5	5,564	2,412	13	43.4	6
Wyoming	329	49	400	120	48	30.0	20	20	0	47	0	47
Puerto Rico												
Virgin Islands												

COMPARATIVE STATISTICS ON POPULATION AND UNITS DESIGNED FOR ELDERLY

	Occupancy by elderly families as of December 31, 1968				Elderly population (U.S. Census) and percent in occupancy			
	Number [1] of families	Number of families State rank	Percent of total families	Percent State rank	Population 1966 65 and over (thousands)	Percent elderly to total population	Percent of elderly in public housing	Percent State rank
Total	240,722		34		18,382	9.4	1.3	
Alabama	10,851	8	28	34	289	8.2	3.8	2
Alaska	69	48	13	48	7	2.6	1.0	29
Arizona	847	34	25	39	123	7.6	.7	35
Arkansas	3,214	23	41	11	211	10.8	1.5	16
California	7,984	11	21	43	1,611	8.5	.5	38
Colorado	2,142	30	48	8	172	8.7	1.2	23
Connecticut	4,922	16	38	18	269	9.4	1.8	9
Delaware	572	37	30	31	40	7.8	1.4	18
District of Columbia								
Florida	7,916	12	36	21	743	12.5	1.1	28
Georgia	13,943	5	37	20	327	7.3	4.3	1
Hawaii	785	35	23	41	38	5.3	2.1	7
Idaho	152	43	51	6	64	9.2	.2	43
Illinois	18,549	2	34	25	1,059	9.9	1.8	11
Indiana	2,571	26	32	30	471	9.6	.5	36
Iowa	132	44	24	40	345	12.6		48
Kansas	482	38	32	29	257	11.4	.2	44
Kentucky	5,344	14	35	23	314	9.9	1.7	13
Louisiana	5,172	15	26	37	270	7.5	1.2	8
Maine	87	46	22	42	111	11.3	.1	47
Maryland	3,366	21	26	38	261	7.2	1.3	21
Massachusetts	10,045	9	39	13	607	11.3	1.7	14

Michigan	5,727	13	38	17	713	8.5	.8	32
Minnesota	4,425	18	51	4	391	10.9	1.1	25
Mississippi	2,233	28	36	22	204	8.8	1.1	27
Missouri	3,754	19	27	36	529	11.7	.7	33
Montana	355	40	34	27	67	9.5	.5	37
Nebraska	3,119	24	58	1	175	12.0	1.8	10
Nevada	642	36	30	32	24	5.3	2.7	5
New Hampshire	910	33	51	5	73	10.7	1.2	21
New Jersey	14,555	3	38	16	640	9.3	2.3	6
New Mexico	262	41	14	47	62	6.1	.4	40
New York	33,066	1	38	19	1,893	10.4	1.7	12
North Carolina	4,885	17	28	33	362	7.2	1.3	19
North Dakota	244	42	34	24	62	9.5	.4	41
Ohio	12,734	7	42	10	957	9.3	1.3	20
Oklahoma	464	39	21	44	272	11.1	.2	45
Oregon	1,802	31	48	7	206	10.5	.9	30
Pennsylvania	13,971	4	27	35	1,198	10.3	1.2	23
Rhode Island	3,539	20	53	2	96	10.7	3.7	3
South Carolina	2,415	27	34	26	172	6.7	1.4	17
South Dakota	80	47	9	49	78	11.4	.1	46
Tennessee	9,700	10	38	14	342	8.8	2.8	4
Texas	13,037	6	34	28	878	8.2	1.5	15
Utah	0	50	0	50	70	6.9	0	50
Vermont	131	45	52	3	44	10.9	.3	41
Virginia	2,742	25	19	46	326	7.2	.8	31
Washington	3,304	22	38	15	301	10.1	1.1	26
West Virginia	1,264	32	46	9	183	10.2	.7	34
Wisconsin	2,213	29	40	12	445	10.7	.5	39
Wyoming	4	49	20	45	29	8.8		49
Puerto Rico								
Virgin Islands								

[1] Includes 13,453 handicapped families classified as elderly.

Mr. UNGER. This completes my prepared statement in response to the subcommittee's questions. I would be pleased to help the subcommittee further in answering any questions you have.

Senator MOSS. Well, thank you very much, Mr. Unger. That is a fine statement and we are very glad to have your testimony.

Secretary Romney has made references to Project Breakthrough which I understand would attempt to increase the supply of low-cost housing by using new construction techniques, among other things. What plans do you have in this program for the elderly, they may expect reductions in the cost of housing available to them?

Mr. UNGER. I am cetrain that they can. If Breakthrough is a success, there should be a reduction in cost for all Americans, including the elderly.

Senator MOSS. And you made reference to roughly a two-third to one-third ratio of housing, one-third being designed for elderly persons so they would be included in the construction if Breakthrough comes about and is successful?

Mr. UNGER. I feel confident that they would, and if Breakthrough is successful we would hope that we can reduce the cost of housing across the board, while maintaining the ratio in our public housing program.

Senator MOSS. Yesterday Wilbur Cohen, the former Secretary of Health, Education, and Welfare, proposed that a public nonprofit corporaton be established to buy, sell, rent, and renovate residential property for the elderly. I believe you have been provided with a copy of that proposal. What is your reaction to the proposal? How would it mesh with the existing Federal housing programs of the elderly?

COMMENT ON PUBLIC CORPORATION

Mr. UNGER. I had a chance to review it this morning. A couple of thoughts occurred to me. One is that perhaps what Mr. Cohen has recommended here might readily be done through the National Housing Partnership and local organizations cooperating with it. I see no reason offhand why it could not be done that way.

Second, while I personally find the proposed corporation's goals desirable, I have some concern about federally guaranteed bonds or paper for $100 million and am further concerned that the Federal Government would then put another $10 millon into the private corporation where there would be no Federal control over what it is doing. While the goals are desirable, I am not sure this is the best way to achieve them.

Senator MOSS. Let me assume, Mr. Unger, that an elderly widow whose income was so low that she would be eligible for public housing wishes to sell her large, outmoded house and move into a small low-rent apartment. How would the money derived from the sale of the house affect her eligibility for public housing?

Mr. UNGER. It would depend on the value of the house, Senator. There are asset limits in public housing. If her net receipt from the house were substantial enough so that she could qualify for other housing, she would have a problem.

Senator MOSS. What is the cutoff amount? Do you have that?

Mr. UNGER. I believe there are special provisions for the elderly that take the assets up above the general limits—I know that the public housing limits vary among the local housing authorities, but if I remember correctly we are talking about assets in some localities as high as $10,000 to $20,000. I could submit that, I don't have the precise figures.

Senator MOSS. If you would submit it.

(The material referred to follows:)

Almost all local housing authorities have established asset limits, usually based on income limits. The asset limit is often set at 1½ times the income limit for admission to occupancy and twice the income limit for continued occupancy. The resulting range for nonelderly occupants is generally between $5,000 and $10,000.

With encouragement from the Department of Housing and Urban Development, many local authorities have set higher assets limits for the elderly, with the general range being from $7,500 to $15,000 and two localities permitting assets of $20,000.

Senator MOSS. Could you give me a rough estimate of the range that you think it is in?

Mr. UNGER. Perhaps $5,000 to $20,000 for the full range. I thought I made the point or Mr. Fefferman did, that the limits are higher for elderly than for other people. We will verify or correct the figures for the record.

CONCERN ABOUT "202" PROGRAM

Senator MOSS. Mr. Unger, you described the transition from the 202 direct loan program to the 236 program as rather minimal and with minor difficulties. I think you know, however, that there has been great concern among nonprofit sponsors of housing for the elderly about this transition from one program to another. Just recently Mr. Richard Fullerton, a consultant on housing for the elderly, described the 236 program as "public money going to the lenders in large amounts instead of public money going to the elderly in small amounts."

I have a letter dated March 3 from Mr. Fullerton which spells out other potential problems. Now I will read part of his letter to you and ask for your comments on whether his warnings are coming true. He says in part:

202 is accepted on the local scene in many ways.

1. Local taxes are waived or abated. 236 will be fully taxed, raising rents about $30.

2. Local zoning is adjusted to serve. The Project by its very nature will be subject to all the parking and other zoning requirements of commercial apartments.

3. Even the utility companies' "single metering" for a great savings to the tenant. 236 projects will require a separate meter for every apartment, everyone will pay more.

202 is a program guided and controlled by the sponsoring church or charitable organization.

236 is a builder's and broker's dream whereby they take great profits out and leave the church to manage a costly and awkward mortgage and the government to foot the bill.

202 has its own architectural criteria which realistically fit the needs of the elderly.

236 is subject to all of the FHA minimum property standards.

202 provides benefits for the tenant, the needy.

236 provides huge benefits for the opportunists, the greedy.

The intent of Congress was and is that section 202 should continue to function while section 236 is being tested.

Pretty strong language. What comment do you have?

Mr. UNGER. I have had the benefit of several lengthy conversations with Reverend Fullerton and I feel that clearly he does understand 202. I am not certain that Reverend Fullerton understands 236.

I cannot remember each point that he is making here; however, I think it is quite clear that under 236 rentals will often be less for the elderly than under the 202 program. I would say that the rental could be as much as 10 percent less than it would be under 202.

I don't think that it is a builder's dream. If it is, what it does do is attract more people to build more units for less Federal money. I think it is patently clear, Mr. Chairman, that the 236 program will allow the Federal Government sooner to further our goals by having units built. We get more units for the Federal dollar, in other words, and it ends up being rented at lesser cost to the renter.

Senator GURNEY. Mr. Chairman.

Senator MOSS. Yes, Senator Gurney.

Senator GURNEY. Do we have any record in the record of Mr. Fullerton's credentials?

Senator MOSS. Yes. He is a consultant on housing for the elderly. It is called the American Institute of Housing Consultants, Inc.

Mr. UNGER. I understand, Senator, that Reverend Fullerton was, or is, a minister who went into the housing consultant business working with both church and nonchurch, nonprofit groups. He is paid a consultant fee under 202.

Senator GURNEY. I think that is the thing probably the record ought to show. Mr. Unger has said that he works closely with the kind of people that have been building under 202, the nonprofit church groups. As a matter of fact, Mr. Fullerton lives in my home county in Florida, I know him well. I think the record ought to show that he does work for those kinds of people, so I am sure he would be interested in section 202.

Senator MOSS. I think that Mr. Unger said that he thought Mr. Fullerton knew 202 very well and he was not sure he knew 236. But since he made these rather sharp statements, I just wanted to get the response for the record because we would like to have it in the record.

Mr. UNGER. If I may, one point I do remember that was made by the Fullerton record that the building standards would be different in 202 and 236. The standards are generally the same, and since in both cases the projects can be owned by nonprofits, there is no necessity for the construction, or local zoning, or parking arrangements, or utility metering, or charitable control to be different.

Senator MOSS. The first point that you remember is, he talked about the difference in local taxes in 202. In 202 there is a waiver permission of tax whereas it would apply under 236, and then he estimated this would raise the rent $30.

Mr. UNGER. It won't raise the rent. The rent actually will be less under 236 except where tax exemption is denied.

Senator MOSS. Well, what about the property tax situation?

Mr. UNGER. They can, and in many instances will, change the State laws to meet that. Connecticut now allows similar benefits for both and many States equally deny tax benefits to both.

Senator MOSS. Would you like to respond?

Mr. FEFFERMAN. The response has already been made as to changes in State laws, but we can add this experience we base it on. Every time the Congress gives this type of benefit, we prepare model State legislation as a technical service. It works through to the State laws because cooperating groups of State people ask for these drafts whenever there is a major change in the Federal law. It does not take very long to change the State laws when only a cross-reference needs changing. In fact the very laws that refer to section 202 could easily be amended to refer to section 236 and we think they will be. Furthermore, we wish these State laws were initially written more generally so they would not need an amendment every time the Congress changes a section number, and we make that recommendation, too, simply as a matter of legislative draftmanship.

Senator MOSS. Well, to answer then the exemption laws or State laws now directed to 202-type housing and that they would have to be broadened or pointed to 236 type, is that right?

Mr. UNGER. We have set the same criteria; it would be up to the States to interpret their laws accordingly, or to perfect them.

Senator MOSS. Yes.

Senator SAXBE. Mr. Chairman, it seems to me this is the sort of thing we should not encourage, because we right now have such a tremendous mass of property off the State duplicates—we expect more police, we expect more roads, we expect everything from the city or the State. If we put these projects on and take them off the dulpicate, then the Federal Government is going to have to give them money in another form. I certainly would not encourage the legislatures to exempt everything that comes along, no matter how good the purpose.

Senator MOSS. Well, there is the problem, too, by giving the exemptions where you have a greater concentration of the property that gets the exemption that is not paying its share.

Senator SAXBE. District of Columbia.

Mr. UNGER. I would like to have my response in the record specific. The 10 percent lower rental was calculated on the basis of not paying taxes in either program, and again I suspect that Mr. Fullerton did not compute 236 through when the circumstances were favorable, but only when they were unfavorable.

Senator MOSS. Thank you.

Do you have further questions, Senator Saxbe?

Senator SAXBE. In regard to the separate project, is this the best way for the elderly to live, or is some incouragement being given to include them in regular projects?

Mr. UNGER. Yes, that is what we are doing. Under 235 which is for individual homeownership, under public housing, and under section 236, we are trying to move across the board to effect housing for the entire Nation and at the same time concentrating on the problems of the elderly. We are not trying to group them altogether and then set them off. There are certain projects where we may be able to put in additional facilities, if that is their desire.

"THE GOLDEN AGE VILLAGE"

Senator SAXBE. I cannot help but think that from what I have been told that the Golden Age Village is really Dullsville. Everyone in it is elderly and everyone is cut off from people in active life—from children and families. I think that we should take a look at some of the experiences they have had in especially Scandinavian countries where they put the elderly in with younger families. These people do find more interest in life and the golden years really do mean something rather than just eking out a few years to final demise.

Mr. UNGER. I agree with you, Senator Saxbe. I recently had a chance to go through some of those villages in Stockholm and observe the same thing. Under our programs they have options whereby they can go with elderly or with another group. The option is theirs. We do not dictate where they go.

Senator SAXBE. Well, I know you don't dictate but under the FHA and other loan programs I think that there could be active encouragement to provide a certain number of units in each project with access.

There are certain things that elderly people need in the way of rails on the bathtubs and showers and certain types of elevator access—things like this that could be accommodated in every project. I can't help but think that we should do this—and if you notice, in Stockholm that is what they did. On every floor they put a certain number of units that are adaptable to the elderly.

Now another thing, Mr. Chairman, that I wanted to raise in regard to the rest home program, nursing home, the convalescent home, medicare center, what have you. The FHA has approved many of these loans and people have undertaken them. There has been quite an enthusiastic response. We need these beds all over the country because the one thing that we do not like about medicare is the fact that people have to go to the hospital. The hospitals are already overcrowded. They pay $50 a day or maybe $80 a day, as Dr. Knowles told us, when they do not need that kind of treatment. Perhaps they could be in a $10 or $20 a day facility. So we should encourage this.

Recently the 2 percent which was, as I understand it, a return on equity investment has been terminated. As a result, some of these institutions are in financial distress. There is a large one in Columbus, Ohio, that is now in bankruptcy court and it is empty because it is going through this transitional period. I am not acquainted with the management of it, all I know is what I read in the papers. Are you aware of this change in policy? I believe it came last year, not this year.

Mr. UNGER. I believe that that is a program that comes out of HEW and we service it, Senator, as far as providing mortgage insurance for some of the nursing homes.

Senator SAXBE. But it is connected to FHA because the money comes from FHA, the rent payment comes from HEW.

Mr. UNGER. Right, except that the one in Columbus happens not to be an FHA project.

Senator SAXBE. And it is going to put a lot of your outfits in foreclosure unless we can get a coordination there if the 2 percent is too much.

Mr. UNGER. I believe, though I am not prepared to testify on it, that there is a concurrent resolution that has been introduced that I believe calls on HEW to correct this.

Senator SAXBE. I was not aware of that. If that is true——

Mr. UNGER. I am not sure that it has been introduced but I do remember it is under consideration.

(Information furnished later identified the resolution as H. Con. Res. 302.)

Senator SAXBE. I think this is an area of very close coordination because you want these centers to relieve housing pressures and they want them to relieve hospital pressures and it is a kind of inbetween, between HUD and HEW, and it is a cordination that necessary.

That is all I have, Mr. Chairman.

Senator MOSS. Senator Gurney.

FUNDING FOR PROGRAMS

Senator GURNEY. What was your funding last year under these programs?

Mr. UNGER. Referring to 235 and 236 specifically, Senator, last year in fiscal 1969 the Congress funded $25 million for each program. This was the first year of the program. Then in the recent supplemental appropriation bill we asked for full funding of the authorization, or another $50 million for each program. The House I believe voted $25 million; the Senate I believe voted $50 million; and it came out of conference at $45 million each.

Senator GURNEY. $45 million each over and above the $25 million?

Mr. UNGER. Yes. So we were $5 million short of full authorization and it could all be used now.

In the fiscal 1970 we asked for full funding of $100 million for each program. If my memory is correct it came out of the House with $80 million for 235 and $70 million for 236. We have appeared before the Appropriations Committee on the Senate side. I can say that we have applications pending in each program that would use the $70 million and the $80 million right now. There is a great interest in the program, it is not going any faster only because we do not have the money.

Senator GURNEY. How is it broken down among the States?

Mr. UNGER. I could not answer that. I could look. If your question is how are the States participating in these programs, I can give you that.

Senator GURNEY. Are the State allotments based——

Mr. UNGER. There are allotments to regions. The regions are changing, as you know, and the allotments will reflect that.

Senator GURNEY. And then within the regions the decision is based as to where it will go?

Mr. UNGER. That is right; it depends on applications received within the region.

Senator GURNEY. Have you had any experience yet under this 236 loan program to get any idea of the loans, the amounts of the loans, the term or length of the loans and interest and that sort of thing?

Mr. UNGER. Yes, we have.

Senator GURNEY. How does it run on an average, what are the loans?

Mr. UNGER. I cannot tell you from memory but I can supply that.

Those figures refer only to elderly. I think it would be better to give you accurate figures on that. I can get them for you for the record quite quickly.

Senator GURNEY. I think it might be useful if we had them for the record.

(The following was supplied:)

Section 236 funds allocated to projects started under the Section 202 program total $2 million from the 1969 appropriation. A tentative allocation of $5 million has been made for 202 projects from the 1969 supplemental appropriation for 236 funds. These funds are being earmarked for specific projects having approvable 202 applications.

On the basis of the first $2 million allocation, the distribution is tentatively as follows:

State	Number of projects	Number of units	Mortgage, amount	236 funds
California	4	372	$5,572,300	$298,084
Connecticut	1	100	1,540,000	82,380
Florida	3	452	6,429,500	343,940
Georgia	1	199	2,750,000	147,109
Kentucky	1	178	2,546,000	136,196
Maryland	1	192	2,827,000	151,228
Mississippi	1	198	2,860,000	152,993
Missouri	1	195	2,745,000	146,873
Minnesota	2	273	4,119,000	220,341
Oklahoma	1	151	1,993,200	106,624
Pennsylvania	4	574	8,349,000	446,622
Total	20	2,884	41,731,600	2,232,390

The $5 million has not yet been distributed.

No Section 202 case has progressed to the point of commitment under 236. However, it is assumed that all will have 40 year mortgages and require most of the interest reduction payment, bringing net interest down to 1% from a market interest rate of 7½%.

We have a few applications which have been processed as 236 projects from inception and which have funds reserved. A sample of those sufficiently advanced to indicate expected size and mortgage amount is listed as follows:

State	Number units	Interest rate (percent)	Mortgage amount
Texas	365	6¾	$6,350,000
Pennsylvania	152	7½	3,054,400
Connecticut	170	7½	3,125,000
Connecticut	52	7½	575,000

Note: We expect the subsidy in these cases to bring interest to as low as 1 percent or near 1 percent.

Senator GURNEY. How are they processed? Can you give us some explanation of that?

Mr. UNGER. Yes. They are processed through the field. The same people that were in the field working on 202 are trying to use the same techniques and standards that we had on 202 because it was a program that was in being, the difference being we get more units under 236. They could come into the local and regional office to be approved.

Senator GURNEY. I expect some attention is paid to financial ability, and what I am saying there is that people do not get into something too deep that they cannot afford to handle.

Mr. UNGER. That is correct. However, we work with nonprofit sponsors that really don't have a great deal of money behind them because they are interested in doing something that is worthwhile, and we try to work with them to make sure that the project is economically feasible.

Senator GURNEY. I was curious in one question the chairman asked and your response to it, new housing techniques. Certainly we cannot meet the housing needs in this country either in the elderly field or otherwise unless we have them.

Now my question is, how are you going to get them; particularly when you have unions fighting you all the way in construction methods? I am thinking of the *Philadelphia Door* case if you are familiar with that. Are you familiar with that?

Mr. UNGER. I am familiar with the *Door* case and I am familiar with your bill and Senator Goldwater's bill.

Senator GURNEY. How do you expect to get over this hurdle?

Mr. UNGER. The administration has not taken a position on either bill. I might say that the Department, myself particularly, is very concerned about the problem. I am aware of it and I am aware of the bill.

Senator GURNEY. I am really not asking whether you are backing my bill or not, I would not expect you to.

Mr. UNGER. The bill does not present a problem.

Senator GURNEY. I do certainly know, and I think anyone else certainly knows who has any awareness of the problem at all, that there are not going to be any new housing techniques unless the unions give somehow and permit the application of new building methods, new materials, which they have not so far. I am just curious how it is going to be accomplished.

Mr. UNGER. We have had the benefit of meeting with the presidents of most of the building trades and they have indicated both an interest in our program and a desire to cooperate. There have been in special instances, of late, a couple of agreements around the country where the building trades have agreed to work in factories at industrial rates as opposed to building trade rates. We would hope that the power of persuasion will show that we are aggregating a market where there is more work; they will expand, they will be kept busy so that they give their cooperation. We would like to make it attractive for everyone.

Senator GURNEY. I hope your hope is realized but it will be a new dawn that has different colors than we have seen to date.

Thank you.

Senator MOSS. Any staff questions?

Thank you very much, gentlemen, for your testimony. This is helpful to us in making our record, and we appreciate it.

We will now hear from Professor Yung-Ping Chen of the Department of Economics of the University of California, Los Angeles, who has made a study of the problem of housing for the elderly and will now testify for us.

Dr. Yung-Ping Chen is associate professor of the Department of Economics, University of California, Los Angeles. We are very glad to have you, sir, and look forward to hearing your testimony.

STATEMENT OF YUNG-PING CHEN, PH. D., ASSOCIATE PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF CALIFORNIA, LOS ANGELES

Mr. CHEN. Thank you, Mr. Chairman.

I regret that the U.S. Post Office has not cooperated to the fullest so that, as I understand it, my written testimony has not arrived before I came into the room here this morning. I am at a loss as to how I should proceed thinking that you Senators and others have not read the highlights of my testimony which I have prepared specifically for the presentation today.

Senator MOSS. I think we do have the highlights here.

Mr. CHEN. Yes. Did you have an opportunity to review this?

Senator MOSS. Well, we have had a chance to scan but not in very much detail here. Now in addition to the highlights you have a larger statement that you prepared and that is what has not arrived, is that right?

Mr. CHEN. That is correct. That will be in the record afterward.

Senator MOSS. Yes. We will see that it is placed in the record in full. I would suggest that you use this memorandum of the highlights and amplify or emphasize those parts that you think you would like to expand upon and then if questions occur to us we will ask.

Mr. CHEN. Thank you for that suggestion. Instead of reading from these highlights I shall paraphrase as I go along and improvise as I see fit and answer questions as they arise.

I should say that the main purpose of my presentation today is to indicate the general principle for a housing-annuity which I have devised, and I have devised this housing-annuity under what I call the actuarial mortgage plan. The reason for suggesting such a new concept is twofold. On the one hand I am quite impressed with the generally low level of income or inadequate level of income that older people in this country receive. I refer to the incomes that they receive currently.

On the other hand, I am concerned with the desire by many older people to remain in their own homes, to live independently, and for that reason many of them hold on to their homes despite advancing age with financial and other difficulties.

In essence, my plan is trying to make a theory work. The theory is that a person's economic status or circumstances should be judged not only by his current income but also with inclusion of his assets minus liabilities; namely, net worth.

We learn from statistics that nearly 70 percent of the aged—that is, age 65 and older—own and occupy their own houses. More than 80 percent of them own their homes free of mortgage. Although some older persons would desire other type of housing accommodations, a very large number of them apparently prefer independent living and hold on to their homes despite the advancing age.

There are problems with homeownerhip, and among them is a growing difficulty relating to residential property taxes. These taxes create a financial problem for older people because many of them, as I said before and is well known, receive low incomes. As a response, probably tax laws in many, many States now provide means through exemptions, credits or deferrals to reduce their taxes.

I feel that there are limits to such preferential tax treatment and we may be near them. Basically, the policy of tax concession is vulnerable to objection in view of the economic circumstances of older people relative to those of the nonaged. I might say that I have made a study of the various exemptions, credits and deferrals arrangements in State laws in this country and if they interest you we could amplify them later or have them available in the record.

Senator Moss. I think we do have a copy of the study and we can utilize it.

Mr. Chen. What I just referred to is a separate one.

Senator Moss. Well, we will be happy to have that, too

Mr. Chen. Thank you.

(See appendix 1, p. 849.)

The Actuarial Mortage Plan

Mr. Chen. Very briefly, I think an actuarial mortgage plan in the form of a housing annuity can serve two purposes: First, to enable older homeowners to realize the fruits of savings in the form of home equity; and second, to enable those homeowners, who wish to remain in their homes either for physical convenience or for sentimental attachment, to do as they wish.

Suppose we picture someone today 65 years old with very low income and he has a home free of mortgage perhaps at a market value of $10,000, $15,000, $20,000, $25,000. What can he do with his housing situation? Property taxes have been rising and there is no great letup as far as we can see. Exemptions, credits and deferrals do help some older people but the extent of financial assistance is definitely limited. Annually some older homeowners may save $70, $150 or somewhere around there. Their income problem as I see it is a main issue.

The tax rebate can help, of course, but it can help only very little. If we were able to design a system to make it possible for older people to get the worth of their capital, namely, home equity, into currently expendable cash, at the same time when they can hold on to their home for whatever reason that they have, then I think we will be doing a very substantial job.

It seems to me that the psychological problems attendant upon sale of the home when the owner is not ready—that is, not quite willing to sell—can be a very traumatic experience. I should hasten to add that older people, as in the case of younger persons, have a great variety of tastes and preferences and this is manifested not only in housing but in every sphere of consumption. My plan will open up an additional option which is not now available to those older people who would like to have their home and to realize on a continuing basis some addition to income based on the equity that they have built up over the years.

Now the advantages of such a plan are many. First, I believe I have already stated it would increase their income. No. 2, it will enable them to hold on to their home ownership. No. 3, I believe this plan would and has the spirit of self-reliance on the part of the older people. Fourthly, related to it, this plan because of its result of increasing income would reduce the pressure on public transfer payments. There are other advantages which would be brought out in the formal statement as well as in responses to your questions.

Analysis of Problems

Now let me turn to the problems. I think it is only fair for the proposer of a program to cater to the problems that would arise. The No. 1 problem I think relates to inheritance. As I talked to many people about this plan, one of the first questions people ask is, you are depriving older people of the uprivilege of bequeathing their property to their heirs.

I might say that this is, of course, a considerable consideration. However, it is my observation that at least in the contemporary situation parents are generally more concerned with providing their children with good education, passing on a "heritage" rather than bequeathing physical assets to younger persons.

Secondly, on the same point I feel that I would treat the building up of equity as a form of saving and in old age when there is need for more income some financial mechanism ought to be available for them to use past savings. It seems to me that in many cases to increase income for sustaining life in later years would be a more weighty consideration than conserving the capital to be passed on to the heir.

There are some additional problems relating to technical aspects of putting the plan into operation. These are mainly actuarial problems; that is, how to calculate potential income from home equity, what kind of mortality table you would use, what kind of interest rate do you use and things of this sort. In general I would say that the annuity payment on the basis of home equity would be determined by the following factors: (1) the net equity value of the property; (2) the mortality experience; (3) the interest rate assumption; (4) I would include the rate of price inflation expected over time.

To conclude this phase of my presentation I would call attention to the possible involvement of the forthcoming White House Conference on Aging and the proposed Aged Research Commission which Senator Williams has suggested. I feel that there are merits in this plan but at the same time these are technical problems to be resolved. I strongly recommend that the actuarial mortgage plan be made a topic of study under the auspices of the White House Conference and the Aging Research Commission which I hope will be established.

Senator Moss. Thank you. This is, of course, a very interesting proposal. Basically you suggest that the elderly person would sell the fee—that is, his equity that he has built up in the land—retaining a life estate in effect, is that right? He would continue to live in the property for the remainder of his life.

Mr. Chen. Indeed.

Senator Moss. But he would not have any fee to pass on upon his death, the life estate would terminate.

Mr. Chen. That is right. He has life tenure with a series of annuity income once the arrangement is made. However, I should add that in the plan there are provisions for people who wish to change their place of residence afterwards either for physical reasons or for other considerations, and I think that arrangement can be made to enable them to do so. Also I should indicate that this is a completely voluntary contract that the homeowner would enter into with an insurer.

Senator Moss. Would this be with just any traditional financial institution that the person would deal with?

Role of Life Insurance Companies

Mr. Chen. My first thought is that the life insurance company is the natural financial intermediary. Of course as I thought about it more, pension funds can be a fruitful source as well.

Senator Moss. Well, the annuity then would of course vary according to the value of the estate so some elderly people might be able to get quite an adequate annuity and perhaps others would get very little. Would not many of our elderly still require other supplemental sources because they would not have enough in the annuity to take care of themselves?

Mr. Chen. I would feel this way. Even in the case of those homeowners who with this plan would get relatively small increments of income, they possibly would require other assistance but these other means of assistance will be correspondingly reduced or be smaller because of the additional income that they would be able to raise with this plan.

Senator Moss. Have any of the lending institutions, insurance companies or others who have shown any interest in this idea been willing to discuss it?

Mr. Chen. Yes. As a matter of fact, I have an actuary friend whose name is Timothy Giles and he has been assisting me in looking into some of these actuarial aspects of the plan.

I would say that I have spoken with two larger insurance companies in the country and both their actuarial staff and the real estate department people have shown a much higher level of interest than I had anticipated. I am very much encouraged by their voluntary assistance. In one of these companies there is an informal study group being formed consisting of the major figures in the company to render assistance in whatever way they could to help. So I feel that this idea is not only sound in theory but it is very possible it can be practically applied.

Senator Moss. Under the proposal, who would pay the property taxes after the fee had passed and the life estate vested in the older person?

Mr. Chen. There can be various arrangements on payment of property taxes. One possible way, of course, would be that the issuer or the insurance company or the pension fund or whatever would assume the responsibility of paying the taxes. This, of course, would reduce the monthly income that the homeowner annuitant, as I call him, would receive. This may or may not be a desirable way in that the older homeowner would get off considering or thinking about taxes completely if this arrangement is made.

Secondly, of course, the homeowner can be a taxpayer pure and simple. He would pay taxes out of all sources of income, this annuity being an additional source.

Senator Moss. Are you aware of the proposal that former Secretary Cohen made yesterday calling for the creation of a corporation? How would that fit in with your plan or what comment do you have on it?

Reservations About Public Corporation

Mr. Chen. I was given a copy of his statement an hour ago and while the previous witness was testifying I glanced through it, so my reactions at this time are not very well considered. I should say that former Secretary Cohen has a fertile mind and any ideas from him deserve serious consideration. Personally, as little as I have seen of it, it was described in a page and a half. I would not at this point be wholeheartedly in favor of such a corporation or the creation of a public corporation.

My reason I think is twofold. No. 1, there are at the present time under HUD a large variety of programs: rent supplement, public housing, rehabilitation loans and grants, mortgage insurance and others. I do not know what Mr. Cohen has in mind in dealing with these existing programs in relation to this corporation that he is talking about.

No. 2, I believe that the housing-annuity as I have proposed can do a much better job than one aspect of his proposal relating to his corporation buying the home of someone who is ill. I think that the housing-annuity ought to be made on a much more comprehensive basis. As I see it, if private enterprise such as an insurance company or even a savings and loan association can take on such a new procedure then it may be a healthier competition in this field. I think that the approach I have proposed here can do a much more effective job than the aspect of Mr. Cohen's testimony relating to home purchase.

Senator Moss. Do you have any rough estimate of the amount of annuity that this plan would create among the elderly people if it were adopted and accepted?

Mr. Chen. I do not have an aggregate estimate. I think that perhaps we could think in terms of what a person can do now as opposed to what a person can do with the plan that we are talking about.

Suppose you have $10,000 of cash today and you go into an insurance company and buy what they call a single premium annuity and you have a wife with you of the same age, say 65. You could probably get a monthly annuity ranging between $53 to $60.

Senator Gurney. Say that again. I cannot hear you.

Mr. Chen. For $10,000 of cash you could purchase an annuity for yourself and your wife, both 65 years of age——

Senator Gurney. Sixty-five?

Mr. Chen (continuing). Sixty-five—ranging from $53 to $60 a month. I have just checked on these amounts offered by something like

10 to 12 insurance companies in the country and that is how I came up with this range.

Now the housing annuity that I am talking about would bring to this couple something less than one-half of this range. So I would say $25 to $30 per $10,000 of equity. This amount of course sounds very small but I think several things have to be kept in mind. No. 1, this couple has the life tenure in the home. If they sold the house to realize the cash, they would have to move into rental housing, and have to pay rent. You cannot live, I don't believe, in a comparable housing accommodation for say $25 or $30 a month. This amount would be the difference between what you can buy with cash and what I estimate that you can buy with equity.

Senator Moss. Well, that is interesting. I wonder if you might furnish for the record three or four hypothetical cases perhaps using different ages and single occupancy where one of the spouses die and things of that sort.

Mr. Chen. Yes.

(See appendix 1, p. 827.)

Mr. Chen. I have with me a lot of data which would be too lengthy to recite here. These computer printouts which contain the various amounts of annuities people might expect on the basis of a large number of assumptions. Of course I have here the age combination of man aud wife as well as different ages for male alone and different ages for female alone.

Variables in Computation

Also as I mentioned before, there are variables that go into the computation of such an annuity—interest rate, the rate of depreciation on the house, the rate of price inflation over the depreciation of that in value, also the proportion of the value of the lot to the total value of the property. The rate of depreciation of the house of course is relative to the remaining economic life of the house.

I have assumed on each of these variables a wide range of possibilities and fed them into the computer. I have not been very successful with the computer and it has taken a lot more time to get the results. I think we are on the right track. Certainly before the record is closed I should be in a position—I will say I hope to be in a position—to give illustrative figures for the ranges of annuities under various circumstances.

Senator Moss. Do you see any role of Federal incentives that might encourage elderly people to adopt this procedure?

Mr. Chen. Well, as I see it the incentive that the Federal Government may set up to further this plan would relate more to guaranteeing this program for the sake of the insurer and the insured.

Senator Moss. Some Federal guarantee.

Mr. Chen. That is right. The problem as I see it for the insurance company or whatever issuer it happens to be relates quite a good deal to the difficulty in foreseeing x number of years hence the value of the property. It is now worth $20,000 or $30,000 or $40,000 but what is it going to bring by the time the insurance company takes hold of that property? This is a rather difficult evaluation problem.

I have worked into the plan a renegotiation clause and that briefly is this: The homeowner can enter into a contract with an issuer today, for instance, on the basis of the various factors, interest rate and so on and so forth. The homeowner will be assured of a given amount of income per month but there is no telling whether the property—I should not put it so strongly.

I think I should correct it by saying it is highly possible that his property may increase in value over a period of time or it may depreciate in value over a period of time. What happens if the property is appreciated? Obviously, the homeowner is not getting his money's worth in the annuity payments and because of that consideration some homeowners may not wish to join the plan.

So I have thought that a periodic reappraisal procedure may be adopted so that if the property appreciates, the homeowner will reap the benefit of the increase in value. This not only has the benefit of increasing annuity income but it gives the added incentive for the homeowner to keep up the property. Because the disincentive effect is there when the person is assured of income and he knows that he is not going to pass on the house, he may let it go. So with the annuity income he gets he would be more financially able to fix up the house.

Now the other problem relates to depreciation. Suppose the property goes down in value.

Senator Moss. Or suppose the tax rate changes.

Mr. Chen. That is right. Now let me comment on the depreciation first and then pick up the property tax aspect.

With the renegotiation clause it works both ways. The homeowner would be faced with an additional uncertainty element because what happens if it depreciates for reasons not his own? If it works both ways, his income would go down and this is not very desirable in my view. I think it is for that problem that the guarantee program set up with an insurance idea, a premium I think could be paid for such an insurance underwritten by FHA to guarantee the value of the property over its economic life.

Property Tax Problems for the Young

Now coming to the property tax, I think that in relation to income older people do definitely pay a very high percent into property taxes, very high percent of their income. Actually as I see it the problem of property taxes inflicts upon not only the old but the younger homeowners as well. The point has often been made that the expenditures for housing represent a large proportion of the budget of the elderly person. This is true, but I think it is often forgotten that for some younger age categories of homeowners the proportions of their budgets for housing are likewise very high.

I have made some analysis of this based on the 1960–61 consumer expenditure survey conducted by the Bureau of Labor Statistics. I was quite impressed with the high proportion of budget of the elderly for housing, but at the same time I saw younger groups, some of them, pay as high or even higher proportion of their incomes for housing. It seems to me that the housing needs of younger people in some sense are even more pressing than those of the older people simply because a house is a good place, perhaps a necessity, for raising children.

Senator Moss. Mrs. McGuire when she testified yesterday indicated that you had recently undertaken a further study for HUD. What does this study involve?

Mr. Chen. The study has just begun really. It has to do with a pilot survey of 400 households in Los Angeles County to study the attitudes or restrictions of people, mainly the elderly, to the actuarial mortgage plan that I have devised. I am very interested in discovering how people in general feel about this new alternative. It seems to me that many things that people do are the result of what are available to them.

We hear a lot about retirement community living. We hear a lot about people's preferences to remain in their homes. We also hear about a lot of people wanting to sell their present home which may be too large and move into smaller ones. I think these preferences are probably correct. However, if we give people additional alternatives, the choice pattern may be different, I am very interested to find out with this additional alternative how people wish to express their different preferences which relate to housing. Also, I am quite concerned and interested to find out how people would view this particular means of realizing their savings which they cannot do at the present time.

Senator Moss. Thank you very much, Dr. Chen. It is very interesting to have you appear before us and give us the details of your proposals.

Senator Gurney may have some questions.

Senator Gurney. It certainly is an intriguing idea.

Let me ask you, how long has this idea been explored? Are you the originator of it?

Mr. Chen. Yes. I started looking into the tax provision for older people a few years back, not only property tax but income tax. Also a few years ago I started examining the financial basis of our social security system. So I have been concerned with income maintenance in old age for a few years now.

Somewhere in 1963 and 1964 I came up with certain statistics and I formed a theory which is nothing very novel in itself; namely, a person has to be judged not only by current income but also by his net worth. I was quite amazed that older people were labeled as poor in large proportions. The statistics on poverty always show a great proportion of older people in poverty and I could not quite reconcile that with the asset positions of older people which were substantial.

Theoretically you can say on the basis of income and assets or net worth of older people as a group they are actually better off than many of the younger groups. But that does not really solve the problem because unless you are able to utilize your net worth you can only live by your current income. So that led me to think of the plan that we talk about. I think this is an original idea.

Senator Gurney. May we pursue that time limit a little more because that is what I am getting at. When did you originate this plan? I mean when did you talk to insurance companies about it?

Mr. Chen. Well, it was quite a bit later when I talked to the insurance company.

Senator Gurney. Could you give us the year?

Mr. Chen. Oh, I would say I talked to the insurance company in

1966 in connection with a paper that I did for the Joint Economic Committee.

Senator GURNEY. I think you mentioned you had probed it with two large insurance companies.

Mr. CHEN. Yes.

Senator GURNEY. There was a good colloquy between you and the chairman about this and he asked many very good questions about the economics of it. But if it is a sound economical idea, my question would be why have not some of the insurance companies gone ahead with it? Why are they reluctant? What difficulties do they see in it?

Mr. CHEN. I think that one major problem relates to people's mental condition in doing things traditionally. I mean nobody has ever thought of liquidating home equity in this manner. I am not certain even now that this is the best practical idea. I think the basis of it is sound.

So simply because of convention I would say that people have not thought about it. Also, I do not think that the insurance company is concerned in general with social objectives. I think what I am talking about here is a financial mechanism which would serve social purpose.

The third problem as I see it is that insurance companies are not going to make a great deal of money off of this. This is not exactly a profitmaking proposition. I think that is why I suggested that the Government guarantee would probably be quite necessary in order to make it work.

First, the insurance company does not have the capital to begin with. In the case of the conventional annuity, the insurance company gets the cash now to be invested and makes payments in the future.

In any case, here the insurance company does not have any money right now.

Senator GURNEY. That is one obstacle I saw myself. The question that I was going to ask you, How is that overcome?

Mr. CHEN. I have two thoughts on that. No. 1, I may get away from the insurance company and say pension funds—we have a lot of them. Certainly, this being a program for the elderly, it should be a proper concern by the pension funds, and they have large sums of money which could be used for this purpose.

No. 2, which is not at all mature in my thinking, I think the Federal Government may be able to make loans to an insurance company up to a certain proportion of the equity that we are talking about. Say a $20,000 home is worth now——

Senator GURNEY. Of course the problem with that is that there you run into the tying up of a lot of money which is what we are all trying to avoid here; in other words, to hit upon a scheme where you can provide income to elderly people without vast appropriations which, perhaps, we cannot afford.

Mr. CHEN. Yes. I realized that is a problem.

Senator GURNEY. Actually, I thought that this suggestion of yours was one which would overcome that, and that is why it might be attractive.

Mr. CHEN. No, it would. I think it would.

Senator GURNEY. But not if the Government puts up the money.

Mr. CHEN. No, the initial lending money would be needed simply to get it going, and once the turnaround is taking place then it can be a self-perpetuating proposition. You see, at the very beginning the insurance company, or any insurer, does not have any money because the houses are not sold, but over a short period of years some of these houses would be sold so that they would get the capital that way.

Senator GURNEY. Well, 10 years, perhaps 15, depending on what your age is.

Mr. CHEN. Depending on the age of participants. I think it may be shorter than that. If you have a 70-year-old, a lot of 70-year-olds taking up this plan and in 2 or 3 years they decide to move to a convalescent home or some other place, then the house would be on the market. So I would venture to say that it may not take as long as 10 years. It would be a short period.

Senator GURNEY. Doctor, does your written testimony, which is not available today, go into these hard economic facts about this more extensively?

Mr. CHEN. Yes; I hope to do so. In fact, Mr. Giles and myself have written a joint paper [1] which deals more with the actuarial aspects of the plan, and I myself am doing a more extensive analysis of the economic aspects of this.

Senator GURNEY. What about the insurance company comments; will they be in your other testimony?

Mr. CHEN. Well, I would have to seek their permission to quote them. I know that insurance companies many times operate like the Defense Department, requiring clearance and so on.

Senator MOSS. Classified.

Mr. CHEN. Classified, indeed.

In fact, I would have acknowledged the one person in the footnote in my joint committee paper but before I did I checked with him. He checked with the public relations department of his company and he said it was better not to identify him with the company or his name alone. So I will check with them. These are progressive companies; they are known to have gone into innovative types of insurance.

Senator GURNEY. I ask these questions because I think the idea is an interesting one and worth probing and maybe it does have merit. In order for the committee to evaluate it, I think we need as much information on these economic facts as we can get.

Mr. CHEN. I will do my best to get all the reactions from them I can.

Senator GURNEY. $10,000 sounds good on the surface, providing you can get around the taxes and some of the other things that are troublesome.

Thank you, Doctor.

Senator MOSS. Thank you. Have you talked also with any pension funds about the financing?

Mr. CHEN. No; I have not talked with pension funds people. I have talked with some consulting actuaries in the field of pension funds and they felt that from the point of view of the initial investment, the

[1] See app. 1, exhibit 2, p. 845.

availability of money, pension funds may well be better outlets than the insurance companies.

Also, I might add, that in order for the insurance companies to get into the act, so to speak, many laws and regulations would have to be revised. These insurance companies are governed or regulated by State commissioners of insurance and their investment and other practices are under close scrutiny. On the other hand, pension funds—while they are supervised and regulated in general by the Labor Department—have much greater latitude in what they do.

Senator Moss. Thank you very much, Dr. Chen. We surely appreciate having you come and give us the benefit of your study and we look forward to having you supply some of the things we have asked for that will be in the record. We look forward to having further consultation with you. As Senator Gurney was indicating, this is a new idea, it seems to have a lot of aspects that recommend it. We are still circling around the edges to see what the problems are.

Thank you very much.

Mr. Chen. Thank you, Mr. Chairman. It has been a privilege.

Senator Moss. Now I am going to have to leave. There is one gentleman who has been here for 2 days who has prepared a statement and was not indicated as a witness. We will be glad to receive his statement for the record. If you care to make any oral remarks, you may do so but I am going to have to leave. I have had a delegation waiting up there since 11:30 and they sent a note to me just now asking "How much longer?"

I can turn the gavel over to Senator Gurney if he would like, to make this introduction and include the statement after which he could adjourn the hearing.

Would you do that for me, Senator Gurney?

Senator Gurney. Be glad to, Mr. Chairman. I do have to leave myself at 5 minutes of but we have 10 minutes.

Senator Moss. All right.

Mr. Tips. I can get through in 5 minutes.

Senator Moss. Thank you, sir. We appreciate your preparation of this statement. The whole statement will go in the record, of course.

STATEMENT OF CHARLES R. TIPS, DALLAS, TEX., PRESIDENT, HOMEOWNERS OF THE UNITED STATES OF AMERICA

Mr. Tips. Mr. Chairman, I appreciate the opportunity of being here listening to the things that were said and talking a little bit to you and put my statement in the record.

I do want to congratulate the committee on the very fine work that the committee has done. Over the years I have been familiar with it by having been one of the national vice presidents of the American Association of Retired Persons who testify on most of the things that come up. I am particularly interested in the Older Americans Act in which I think you did a good job.

Senator Gurney. I might say, Mr. Tips, you probably had better identify yourself so it does appear in the record.

Mr. Tips. I am Charles R. Tips from Dallas, Tex. I am president of the Homeowners of the United States of America.

Senator GURNEY. Delighted to have you here, Mr. Tips.

Mr. TIPS. I might say that my experience in this field extends over a period of more than 50 years. I have been interested in housing, had direct experience working in the various capacities, including housing for the elderly, as well as general homeownership.

One of the most interesting things about the conference here to me has been the repeated statement about the number of homeowners. Of the older people some 9 million are owners or occupants of homes at the present time of which they say 70 percent were occupied by the owners, and of that 70 percent I believe 80 percent were free of mortgages.

Now figuring the 9 million occupied by owners at $10,000, which is a normal basis for it, that would be $90 billion of homes owned by homeowners who are occupying them. I think when we figure that this has been provided over the years here by the free private enterprise system it shows where they can come from. That is being added to every year as people pass the age of 65 and come into the older citizens class. So that number is increasing. I am sure that the next census will show a very great increase over what that is.

This shows one other thing. It shows that the time for an elderly person to purchase a home is not after they get past 65 but when they are young, when they are first married and start raising a family. They buy it because they can then pay for it during the period when they have the highest earning capacity. In solving these problems I think one of the things we need to consider most is the overall picture of homeownership with it.

ACTIONS ABROAD

I have had the opportunity of studying some of the things they are doing in foreign countries. I was one of the Texas representatives to the White House Conference on Aging in January 1961. I made a trip on my own expense to Europe to see what they were doing in these other countries in housing for the elderly. I found that one of the things that they are united on, and I am glad you mentioned this today, there about the Scandinavian countries—I did not get up that far but I did study in Italy and in Germany and in Holland and in England.

I found particularly that in Germany and in England that they were copying a good deal of what had been done in Holland but they were building housing for the elderly immediately adjacent to the high rise buildings that they were building for workers there on reclaimed land but they were immediately adjacent.

I talked to the chief architect of the Bonn Republic and he told me of the plans he was making for Frankfort, and I had the opportunity to see that development in 1967 when I made a trip around the world to study housing and homeownership in 20 different free countries. They were building the housing project with the apartments there. They were building immediately adjoining it a playground for children and building apartments on it for families that would have four bedrooms. These were restricted to these people because they figured it was similar to the home that they liked and enjoyed.

I found the same thing. I am the owner of the Ambassador Hotel in Dallas, Tex., which was a pioneer in that part of the country of homes for retired people. It is immediately adjacent to City Park where they have a children's playground and it has been quite an attraction for the older people.

So one of the specific things I would say is that an isolated retirement village is not the answer to the housing problem for the older people.

I think one of the other important things, of course, the vital thing for the older people, is the income that they have. The project we have just been talking about is fine as far as it would go, but according to the statement it would provide maybe $25 a month income for the people who feel $25 amounts to a good deal sometimes to a person, but there are a good deal of complications with it.

Now the thing that I think could be done here and very much so is to encourage the older people to continue working when they can. Now the way the law is designed it strictly discourages the people because when you get up to 62 and 65, as the case may be, if they work even for a small amount of work there is a deduction from their social security payments. If they get over a certain amount, it is cut off altogether until they get to be 72.

I am drawing social security but I am past 72 so there is no problem on it. I think one of the biggest things we could do for the whole economy is to eliminate this deduction that we have for work that they do. Our country is built on work and I think that creates the wealth of our country. This was put into the law back when we had 20 million people unemployed when the social security first went in and they were trying to make jobs for younger people and to get the older people out of the way. We have not got that situation now. We have a shortage especially of skilled labor.

I know in particular from direct experience that there is a great scarcity of registered trained nurses over the whole United States at the present time, and I know some of them who will not work over 1 or 2 days a week, if they work at all, because it would deduct from their social security. So we are deprived of skilled work that is very much needed at the present time.

Senator Gurney. I might say I thoroughly agree with you, as do other Members of Congress. I have a bill in to accomplish that. I subscribe wholeheartedly to your point.

Mr. Tips. I would like to have a copy of the bill then. Maybe I can bring a little influence to some other people to help support what you are working on. This is tremendously important, I think, and would certainly add a great deal more than some of the other things that they have talked about here.

Now another important thing is what the free enterprise system is doing with the JOBS program for the hard-core unemployed started by the National Alliance of Businessmen. I believe it is doing a good job. I have been working with them and my understanding is that they put 100,000 of these hard-core unemployed to work during the past year. There is no reason why that program should not be encouraged.

We have with our homeowners organization an idea that we can do a great deal in the same capacity by using the hard-core unemployed people for work in maintenance and for beautification work and any kind of services where there is a shortage of workers. I think that we could get to where those people can be employed.

I think that aging homeowners should be encouraged to stay in their homes. A good deal of that is done by private charity. I know in Dallas they have this and I am sure they have in nearly every other place where they have Meals-on-Wheels and visiting nurses, and other programs that are taken care of by local charity. This can be done without calling on the Federal Government necessarily for any help in connection with it. They need help on maintaining the home but the cities can do a great deal of that also by maintaining the streets and seeing that the utilities are there.

Now that matter of financing of cities is, of course, difficult. I know there is a big problem all over the whole United States. At the same time it ties in with things that the Government is doing and can be tremendously helpful with that.

ROLE OF PRIVATE INDUSTRY

I have mentioned what private industry is doing. I saw in Hong Kong in 1967 when I was there a project getting underway. The Mobil Oil Co., had an island where they had some vacant land and were putting it into housing. They are building condominium apartments that they are selling to low-income workers.

I have talked this last week to Mr. W. W. Keeler who is the chairman of the board of Phillips Petroleum Co. They have a worldwide operation. He tells me that originally they built homes for their workers where they opened up an oil field and had to have facilities. They built homes for them and furnished them. The people didn't like it. Now they have gotten entirely away from that. They buy land and they guarantee loans, if necessary, so that the workers themselves can build the home. He said on the last place they have opened up they have bought enough land to take care of 5,000 homes for people to be near where their industry is. I think if other people would do this it would be helpful.

One of the things that the homeowners of the United States and Homeowners International want to do is to encourage this idea of home ownership, not only for the elderly people but all of them because it ties in together and it should be considered pretty much as the same thing.

All of us have been quite thrilled with putting some men on the moon. I think we have the complete capacity here now to help all of our people to buy homes. With the minimum wages that are in effect now and with long-term financing that is available and some additional Federal help through the FHA—those things can make it possible for every worker to own a home. I think that is what we should aim at and what we should try to do in the United States.

I think if the Government will cooperate with private industry, we can solve the problem of housing not only for the elderly but for all of our people.

I thank you for the opportunity of being here with you.

(The prepared statement of Mr. Tips follows:)

PREPARED STATEMENT OF CHARLES R. TIPS

Gentlemen, your invitation to talk to you today about Housing for the Elderly is greatly appreciated. I thank you. I am familiar with the great work your committee has done for us older Americans in the past.

My talk will be based on my personal experience over a period of more than half a century, and my study and observation on a world-wide basis. In the beginning it is important to remember that the vast majority of elderly people live in homes they either own or rent.

My first experience in providing housing began when I was twenty years old. In 1913 I founded and began the building of the City of Three Rivers, Texas. I lived in a tent until we could build a small two story hotel in which I lived until I married and built a home. The first lots I sold were to elderly people who had the money saved up to build a home. Some of their children and grandchildren are still living in Three Rivers.

The best thing I did in building the town was to employ Harland Bartholomew, great City Plan Engineer of St. Louis and later of Washington, D.C. and many other cities to make a City Plan for Three Rivers. Mr. Bartholomew is a member of Home Owners of the U.S.A. and I prize his friendship and advice greatly.

Military housing was my concern for two years, 1917 and 1918 in the first World War as an infantry officer. Again during the second World War, 1941 through 1945, as a regimental commander, as a camp commander and as chief instructor of a group of Chinese Armies, I was responsible for the housing (among many other things) of thousands of men.

Between the two World Wars, as president of a glass container manufacturing company at Three Rivers, Texas, I helped in providing housing for our employees. We brought in skilled mechanics, mould makers, and machine operators and department heads from the north. Nearly all of them purchased homes, rather than renting, and became good citizens of the community. The same thing held good for the Mexican workmen. We put in a special subdivision for their homes, which they liked. This experience in building low cost housing for a minority group worked out very well. They all took pride in being home owners. This building program was brought to a grinding halt by the great depression of 1929 through the nineteen thirties. The factory was shut down. Many people lost their homes. I lost everything I had.

As conditions improved during President Roosevelt's administration, I did some building in Houston. These were low cost homes that were sold for from $4,000.00 to $6,000.00. One of them was awarded a national grand prize in a contest conducted by General Electric Company. After the war some of these homes were sold by their owners for more than double the amount we got for them. This building program ended when I was called back into active duty in the army.

In 1946, after the war, I bought a small tract of land in Dallas and started some building. There was a great demand for low cost GI housing for returning veterans, who could get long term financing under the GI Bill passed by Congress. My son, who had also been in the Army, and I built and sold about 500 homes. We bought land at $500.00 to $1,000.00 per acre. We kept buying adjoining land as we could. In addition to residential subdivisions, we developed two small shopping centers and an industrial district. Land in Dallas has kept increasing in value. Some that could be purchased twenty years or less ago for $1,000.00 or less per acre, is selling, when zoned for apartments, at $10,000.00 per acre. When zoned for business some of it is sold for $40,000.00 and much more per acre.

One tract of land we developed, adjoining the municipally owned Cedar Crest Golf Course, was purchased from the Miller family for $1,000.00 per acre. William Brown Miller came to Texas from Kentucky on horseback and brought his family in a covered wagon. In 1847 he purchased 1280 acres of farm and grazing land for one dollar per acre in what is now the central part of Dallas. He built a log cabin in which he and his family lived. As he prospered, in 1855 he built a typical Southern Colonial two story mansion, mostly from hand hewn cedar and other timber cut off of his own land. The log cabin and the mansion are now preserved in City Park, by the Dallas Heritage Society, as historical landmarks.

Cedar Crest Country Club Estates on the Miller land was developed by us for luxury homes in the $20,000.00 to $60,000.00 class. This became one of the best communities in Dallas or any other place, all home owners, of all ages from newly married couples to Mrs. Minnie Miller in her nineties, still living in

Millermore, the mansion in which she was born. All took great pride in their homes. There were weekly meetings of the home owners, often with covered dish dinners. There was a contest for the best lawn, and another contest with prizes for the most beautiful and appropriate Christmas decorations. People drove out from all over the city to see them.

This was an all white community. One home owner traded his home in on a larger one in another part of town. The new owner sold it to a Negro. Some real estate salesmen, using scare tactics started a block busting campaign. Many owners sold their homes at a sacrifice. They were afraid property values would decrease greatly.

This proved to be untrue. The community is now entirely colored. Property sells for as high a price as it ever did. The Negro owners keep their homes and flower beds in good shape. They have continued the Christmas decorations. They keep their homes painted and in good repair. They have a great pride of ownership. They work together to protect their homes and their neighborhood. They are good citizens. I am as proud of this community as I was when it was all white.

This is in sharp contrast to another area where we built brick duplexes as rental property. Upkeep costs have been very high. The occupants as a whole pay no attention to their lawns. They never plant flowers. They have no pride as owners do. They get behind with their rent and skip out without paying, or are evicted. In some cases the damage is high and the filth they leave behind is unbelievable. The cost of repairs is high enough to make the renting very unprofitable. We are converting these duplexes into three bedroom two bath homes and offering them for sale. There is a great difference when an owner moves in.

The problem is that many would be purchasers do not have even the small cash down payment required for an FHA insured loan. These people should be allowed and encouraged to work out the down payment by making needed repairs on older buildings. There should be training schools in every city for maintenance workers. Depreciation and obsolescence are always with us. Such a program would keep older neighborhoods from becoming slums, and would help, with the cooperation of local governments, to eliminate existing slums.

In 1955 we purchased the Ambassador Hotel in downtown Dallas as a real estate investment. Shortly after we took it over we converted it into a retirement residence for elderly people. We were pioneers in this field and learned about housing for older Americans the hard way. We learned from our own experience, sometimes by the trial and error method. I have visited other housing for the elderly projects all over the United States to see what and how they were doing. I have read many books on the subject written in most cases by people who knew less than I did about the subject.

In 1960 I was appointed on the Texas Governor's Committee on Aging and was on the housing committee. In that capacity I made a trip, at my own expense, to Europe to see for myself what they were doing in taking care of the older people. I had a letter of introduction from the Governor of Texas to the American Ambassador in each country I visited. Through the Ambassadors I was accorded red carpet treatment everywhere and had no trouble getting all of the information I wanted. I made a written report to the Governor's committee on the Aging and on the Care of the Aged in Europe, in Italy, Germany, Holland and England. Copies of these reports were reproduced by the Governor's Committee for the White House Conference on Aging, and I will leave copies with you today.

I was one of the Texas representatives to the White House Conference on Aging in January 1961 and was on the Housing Committee.

One of the important things I learned in Europe was that most older people do not want to be segregated and isolated. In Amsterdam, where most of the new building is on land recovered from the ocean by the City, they were building high rise, eight to ten story apartment buildings for workers. In the immediate vicinity they were building two story duplexes for older people, mostly occupied by mothers and fathers, grandparents or other relatives of the nearby workers.

In Germany, the chief architect of the Bonn Government showed me plans for a new housing project for the Elderly at Frankfurt which I saw on a later visit. He told me frankly they were copying what was being done in Holland which he liked better than anything else they had seen. One of the striking features of this plan was that they included a children's playground and some adjoining four bedrooms apartments for families with many children. He said the older people liked to watch the children play. They do not want to be isolated.

For this reason, if for no other, I do not think that the answer to retirement housing in America is Retirement Villages restricted to older people. We have found the children's playground in City Park across St. Paul Street from the Ambassador to be a real asset.

All of the retirement housing projects in Europe, as far as I saw, provide nursing care for their occupants. In Italy, Casa Serena on the Via Cassia, 14 kilos north from Rome, which I visited, and which is one of the best retirement homes I have seen anywhere, did not appear to have any nursing facilities. I asked about this and was informed that all guests who needed nursing care were taken to a nursing home, which I visited later, located on a magnificent site overlooking a beautiful lake, between Rome and Florence. This nursing facility serves all of the homes for the elderly built and operated by the National Institute for Pensioners of Italy, which is similar to our Social Security System.

Our Ambassador Retirement Hotel, which originally followed the plan used by the retirement hotels in Miami Beach, did not provide nursing care. At the urging of our guests, we had our second floor licensed for nursing care with 42 beds available and fully qualified for skilled nursing care and Medicare. I would not, now, undertake to operate a retirement housing project without having nursing care available.

I am one of the owners of the Fairmount Retirement Residence in Dallas. It was originally built as an Apartment House. FHA foreclosed on it and we purchased it from FHA and modernized it according to the plan the Ambassador had proved to be successful with the addition of kitchen and dining room facilities and facilities for nursing care, and financed with an FHA insured loan. FHA rules limited the operation to eight rooms out of ninety-six for nursing care. However, we found that thirty beds with around the clock nursing care was the least that could be operated profitably and we put in thirty with no objection from FHA. The Fairmount is operating successfully and profitably today.

I have been employed by a large life insurance company and by U.S. Department of Defense as a consultant on Housing for the Elderly. The insurance company owned a Hotel they had foreclosed on and which they considered converting to a residence for retired persons. I advised against it on account of local conditions and they followed my advice.

The Defense Department had closed down a World War II airport at Harlingen, Texas. In addition to the airport itself the government owned a large adjoining housing development of homes built for military personnel. I advised them not to attempt to convert any part of the airport buildings to retirement purposes but to sell it for industrial uses. I advised them to offer the homes, which were all vacant, for sale on easy terms to retired people. They followed my advice. With the enthusiastic cooperation of the local realtors, the local chamber of commerce and city government and of the local chapter of the American Association of Retired Persons, of which I was, at the time, a national vice-president, every home was sold to and occupied by retired persons.

People from all over the United States, including an official of the Sheraton Hotel Chain, have come to Dallas, sometimes at the suggestion of an employee of the Federal Housing Administration in Washington, to see how we operate the Ambassador Hotel successfully as a Retirement Residence. I have told all of them the same thing: that if they go into it as a cold blooded money making proposition they are almost certain to fail; to succeed they must have people in charge who are willing to devote their entire life to the care of the elderly guests. Some housing with nursing care for old people who cannot live safely or happily in their own homes is necessary, but on a relatively small scale.

The answer to housing for the elderly is not a vast program of public housing. These are rental projects where there is no pride of ownership. Too often they become slums and dens of vice. Public housing is what you find in Russia and other communist countries.

The answer to housing for the elderly, as with houses for young workers, is *Home Ownership*. Our country was built by the hardy pioneers of all races and nationalities who kept moving westward, across a continent, looking for land which they could own, and on which they could make a living and build a home of their own for their loved ones. In that largely rural economy there was work for all, young and old. There was no problem of housing for the elderly. When it was needed another room was added to the old home place.

In the present economy, which is largely urban, the answer to housing problems is still Home Ownership. Elderly people should stay in their own homes as long as they can do so safely, until either the husband or wife dies or becomes incapacitated, and they need to move into a Home for retired persons, with nursing care available if needed. Three fourths of the residents in the Ambassador are widows.

Couples should be helped to stay in their own homes. Local charitable organizations usually provide services, like home makers, meals on wheels and visiting nurses.

Older people also need to be helped with maintenance. Depreciation and obsolescence always need to be taken into account. There is expansion and contraction with changes in the weather. New paint is needed periodically. All people, but elderly ones especially, need to be protected from fraud by unscrupulous and fly by night repair contractors. A neighborhood organization of home owners, with the cooperation of Better Business Bureaus and Government can do that.

The city should keep the streets and utilities in older neighborhoods, especially, in good repair, and enforce health and building codes. In this way the deterioration of older neighborhoods into slums can be prevented. With good maintenance homes should last for at least 100 years.

The best time for any couple to purchase a home is when they first marry and start raising a family. In this way they can pay for it when their earning power is highest. Very often, when older people retire and start drawing social security, the only asset they have is a home that is paid for.

It is ridiculous to reduce or cut off social security when a person gets a job or continues one that will lift him or her out of the poverty class. When they work they have social security taxes and income taxes withheld, so the government gets a good part of the money back. Cutting off or reducing social security was put into the law in the 1930's when there were twenty million unemployed and the government was trying to create jobs for young workers. Today there is a shortage of labor, and especially of skilled labor. I know registered skilled nurses, of whom there is a great shortage, who won't work more than one or two days a week or at all, because if they do their social security will be cut off. Yet a lazy person who does no work and has a million dollar income from investments can draw full social security benefits.

The answer to enabling every couple to become home owners can be summed up in one four letter word: Work or jobs. In fact that is the secret of success and happiness in life. With minimum wages, and long term financing now available on FHA insured loans, every worker can and should become a Home Owner.

There should be no guaranteed income. There can and should be guaranteed jobs. If able bodied people want to eat they should work. Business is doing a good thing with their JOBS program in giving employment to some of the hard core unemployed. The rest can be employed under our Free Private Enterprise system, with the cooperation of business men, an organization of home owners and our local and national governments. The program should include continuing education to qualify potential workers for better jobs and for a better life. It should include training for maintenance and beautification work and much needed services in those and other fields.

The program should, by all means, include older persons for whom medical science is making a longer life span possible. Work will give them freedom from want in their own interest and in that of the entire community. Work produces wealth. Thus the elimination of individuals who are still potentially active from the labor force results in a burden and in a loss which is particularly serious if no use is made of their accumulated experience.

In 1967 I made a trip around the world and in twenty free countries made a study of Home Ownership and particularly of Housing for the Elderly. Everywhere I found the same natural desire to own a home. One of the great needs I found was for long term financing like we have with our Federal Housing Administration insured loans.

I saw two housing projects, one in Taipai, and the other in Bangkok, conducted under the AID Program of our State Departments, which shows the way we can help. They are building substantial homes for sale to low income workers on long easy terms. The money is provided by American Life Insurance Companies on loans guaranteed by our State Department. Payments on the homes are made to a local bank which forwards the money to us. There is practically no danger of loss.

Even the squatter settlements I saw in Manila and other cities show the inborn desire of all people for a home of their own. Their huts were built with logs and scrap lumber and tin, somewhat like the log cabins of our pioneer ancestors. They had no sanitation and no modern conveniences but they were home.

Private industry is also providing homes. In Hong Kong I saw the beginning of a great housing project by Mobil Oil Company. Condominium apartments will be sold to workers on long easy terms.

Recently, Mr. W. W. Keeler, Chairman of the Board of Phillips Petroleum Company which operates around the world where ever oil is produced told me they have to provide housing for their workers. Originally they built and furnished houses which they rented to their employees. The workers did not like that. Now they purchase the land and help their employees to finance the building of a home. The workers and their wives are happy with this plan. They have pride of ownership. They can add another room or a patio if they wish. In a recent development Phillips purchased enough land to build five thousand homes.

In the United States and in every free country around the world, Home Owners are potentially the strongest part of Free Enterprise. In our country they comprise now more than one half of the entire population and potentially much more.

Home Owners are the greatest natural bulwark against Communist subversion. They have the most to lose. When the Communists take over a country they take over, without compensation, all property and all means of production, and murder those who oppose them.

To mobilize Home Owners in every community, two non-profit corporations, Home Owners of the U.S.A. and Home Owners International have been incorporated for Charitable, Educational and Scientific purposes, and dedicated to preserving Freedom, Domestic Tranquility and World Peace.

By uniting and working cooperatively on a national and international basis Home Owners can be more effective in achieving these objectives.

By landing two men on the moon and bringing back samples of its soil we proved to all the world that our free private enterprise system is superior to athiestic communist dictatorship in scientific technology, endurance and courage. Surely, we can and will prove to all the world that we can provide a better life for all of our people. This must include the opportunity for every worker, including the older Americans, to become or remain Home Owners and live under healthful and safe and pleasant conditions.

As a member of Congress, the Honorable Robert F. Sikes, recently said: "It is time to start thinking of the opportunities which are ours to render a greater service to our Country.

It is time to encourage the great overwhelming majority of the people who believe in America to speak up for it.

It is time to stand up for the great principles to which all free men should be devoted."

Senator GURNEY. Thank you very much, Mr. Tips. We certainly welcome your testimony. I am sure you have made a great contribution as the president of the homeowners of the country.

Are there any questions from the staff?

Then I will adjourn the hearing.

(Whereupon, at 11:55 a.m., the subcommittee adjourned.)

APPENDIXES

Appendix 1

ADDITIONAL MATERIAL FROM WITNESSES

ITEM 1. SUPPLEMENTARY STATEMENT OF MARIE C. McGUIRE,* ASSISTANT FOR PROBLEMS OF THE ELDERLY AND HANDICAPPED, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOMEOWNERSHIP AND HOUSING ASPECTS OF THE ECONOMICS OF AGING

INTRODUCTION

To a great extent our millions of senior citizens have been swept along in the massive movements of this 20th century. They have been part of the population movement from agricultural areas to industrial areas. They have moved from farms to cities, and some to the suburbs. They have been participants in the move from East to West. They have been part of and witnesses to our industrial, technological and scientific developments which have made it possible for so many of us to share and enjoy unprecedented affluence.

Nevertheless, many older people have been left behind. They are not sharing in this affluence. Many continue to live in old homes, often in desperate need of repair, and which lack some or all modern conveniences. Many homes are too large and too expensive to maintain on the small incomes of the average older persons or couple. Increasing taxes pose a continuing problem.

At the same time, our elders have moved toward a vast increase in leisure time, but just when their incomes, on the average, are reduced by half. For some, this has occurred when their physical abilities have waned; their mobility decreased; and their family size diminished. Their spouses and other aging relatives and friends pass on. Many are forced to accept a new status as dependents—even as in their childhood. Perhaps, most challenging and disquieting to older persons is the problem of how to use their increased leisure so as to gain personal satisfaction, including that of contributing something meaningful to their fellow citizens and community from day to day.

Our population of senior citizens is continuing to increase and, no doubt, stands at a record high today. So, this Committee's exploration of the economics of aging is of great significance and should be most helpful in our joint efforts to improve the lives of the Nation's millions of senior citizens.

Shelter certainly is a major consideration in your ongoing economic study, since a major factor influencing the living arrangements of senior citizens is their monetary income. Related to this is the decision which faces most elderly families and persons with regard to the kind of housing to live in during their later years. Should they remain in their own homes, or should they move into smaller apartments?

The benefits of home ownership vary. Under certain circumstances, living in one's own home can be achieved at a lower total cost than in a rented home or apartment. In some states, tax exemption or abatment offers real advantages to the elderly home owner. Further, an owned home represents an asset which can be used as collateral for loans, or possibly, in the future, a source of an annuity.

Among others, the benefits of home ownership relate to the condition of the house, its size and location, and how it affects the total well-being of the elderly owner. Many owners, particularly those living alone, often feel constrained to

*See statement, p. 757.

remain owners simply because they cannot afford suitable rental housing which might be more desirable or appropriate to their needs. While most older people own their homes—many mortgage free—they still may be unable to afford the financial burden associated with upkeep and operation. The physical arrangements of their home also can either facilitate or limit social activities, including family visits, and the kinds of retirement activities that older people can enjoy. Thus, we recognize that housing for older people is more than mere shelter; it may exacerbate or it may ease many of the social, physical or financial problems of old age.

We do have some information on what sort of housing senior citizens choose when they move. A HUD study of 1960 Census data revealed that of moves in the previous five years, 18 percent moved into *new* units and became owners, while four percent moved into *new* units and became renters. The vast majority, however, moved into units that had been built before 1955, 31 percent as owners and 47 percent as renters. Thus, the tenure chosen by those recent movers suggests that the high rate of home ownership among the elderly (69 percent as compared with 62 percent for the population as a whole is due mainly to adjustments made earlier in life.

We can expect differences of opinion as to whether senior citizens are better off physically in single family housing units, or in more compact apartment type units, since each offers certain advantages. Pride, memories, space, security and a sense of belonging, along with established hobbies centering about the home and garden, might be among the cherished and sustaining aspects of home ownership. However, living in a modern rented apartment or a cooperative or condominium apartment can reduce the burdens of upkeep and household chores, stimulate more friendships, and lead to participation in many activities and hobbies which are not home centered.

Clearly, no one answer as to a desirable type of home or of tenure applies to all the elderly or under all circumstances. Rather, that choice is best which helps older people to remain independent as long as feasible. For this reason, it is best to expand their effective range of choices with regard to their housing during their later years and at rates they reasonably can afford. But the final choice should be that of the individual elderly person.

We recognize that what may be suitable for one person may have little merit or appeal for another, and vice versa. Certainly, we do not want, nor should we be in a position, to tell people what kind of housing they should live in.

There follows a discussion of housing programs for the elderly.

HOME OWNERSHIP

A. FHA Home Ownership Programs

FHA has the primary responsibility in HUD for the administration of programs which assist in the financing of home ownership through ten mortgage insurance programs. Except for such special programs as housing for servicemen, there is nothing in our policies which precludes the elderly from qualifying as mortgagors. It should be emphasized that an elderly person may be determined an acceptable mortgagor, if his income appears to be sufficient to cover housing expenses and other obligations. This is true even with regard to individuals who are expected to retire within a short period of time. FHA's concern in these instances is that the applicant's income during retirement bears a reasonable relationship to his fixed obligations, including housing expenses.

Under FHA procedures for determining an applicant's acceptability, consideration is given to that portion of his income likely to prevail during the early period of the mortgage risk. If the applicant shows sufficient stable income from any source to provide for fixed obligations, there is nothing in FHA's policy which would prevent or restrict acceptance because of age.

The elderly also benefit from a special provision in most of FHA's home ownership programs which permit a mortgagor 62 or over who is the owner-occupant of the mortgaged property to borrow or otherwise acquire the required cash investment and settlement costs. This applies, among others, to section 203(b), the basic and largest FHA home mortgage program, the cooperative and condominium programs, and the new section 235 home ownership program.

While these various programs are available to the elderly, only a very small percentage of FHA insured home mortgages involve principal mortgagors who are 60 or over at the time the insurance is obtained. For example, in FHA's largest and most active program, Section 203(b), only about one percent of the mortgages (or about 800 of 79,000) included principal mortgagors 60 or over among the new units insured by FHA in 1968. For existing units insured in 1968, the figure was only 1.1 percent or about 3,400 of 311,500. Cumulative figures of both the new and existing units insured over the nine year period, 1960–1968, also show that 1.1 percent of the mortgagors were 60 or over (about 37,000 out of 3,500,000).

About the same percentages are applicable to the section 221(d)(2) moderate cost program, the second largest FHA home ownership program. However, in regard to the new section 235 program, described in more detail below, about 3.7 percent of the approximate 1,600 cases insured during the first quarter of 1969 involved household heads of 60 or over. This, of course, is a substantially higher proportion than in the other programs. Although it may be too soon to be indicative of long term trends, this early experience suggests that 235 may be of considerably more appeal to the elderly than other FHA home mortgage programs.

The Housing and Urban Development Act of 1968 authorized this new program (section 235 of the National Housing Act) to provide Federal assistance for home ownership by lower income families. The section provides for mortgage loans to be made by private lenders to lower income families at market rates of interest. The Secretary of HUD enters into contracts with the lenders to make periodic payments to the lenders in the amounts necessary to make up the difference between 20 percent of the family's monthly income and the required monthly payment under the mortgage for principal, interest, taxes, insurance and the mortgage insurance premium. In no case, however, can the payment on a mortgage exceed the difference between the required payment under the mortgage for principal, interest, and mortgage insurance premium and the payment that would be required for principal and interest if the mortgage bore an interest rate of one percent.

The family's income is required to be recertified at least every 2 years and appropriate adjustments made in the assistance payment to reflect any changes.

The assistance payment is available for a purchaser having an income, at the time of his initial occupancy, not in excess of 135 percent of the maximum income limits that can be established in the area for initial occupancy in public housing. However, up to 20 percent of the funds authorized in appropriation acts for the program can be used to assist families with incomes above these limits, but which are not in excess of 90 percent of the income limits for occupancy in a section 221(d)(3) below-market interest rate housing project designed for persons of moderate income.

The amount of a home mortgage cannot exceed $15,000 ($17,500 in high cost areas). These limits are increased to $17,500 ($20,000 in high cost areas) for families with five or more members. The same limits apply to cooperative and condominium units.

The minimum downpayment is $200 for families with incomes up to 135 percent of the maximum income limits that can be established in the area for initial occupancy in public housing and 3 percent of acquisition cost in other cases. The downpayment can be applied to closing costs.

Except for the single elderly and the handicapped, eligibility for 235 assistance is available only to families.

There is a limitation on assets in order to qualify for assistance. Assets, excluding furniture, clothing and personal property, cannot exceed $2,000 if the prospective mortgagor or cooperative member is under 62 years of age. The maximum is increased to $5,000 if the applicant is 62 or older. It is higher for the elderly, since in many instances an older person has to rely on savings to supplement social security or other retirement income to pay living expenses.

The 1968 Housing Act also included the new interstate land sales registration program designed to provide more information to prospective interstate land purchasers. This new program should be especially important to retired and older persons who often have been victims of "shady" land transactions aimed at persons who want to buy a lot on which to build a "retirement" home.

B. Home Ownership Under Public Housing

Traditionally, the low-rent program has been a rental program. Although the mutual help program was developed administratively in 1962 to assist residents of Indian Reservations to construct their own homes and thereby earn equity, section 15(9) of the United States Housing Act of 1937, which was added in 1965, was the first specific legislative provision for home ownership through public housing. However, section 15(9) has not proved effective, primarily because of the very low income status of public housing tenants generally.

Nevertheless, there are experimental efforts in the public housing program to improve its potential as a vehicle leading to home ownership. Our Housing Assistance Administration (HAA) has developed a program which enables a tenant to earn equity credit in his low-rent unit by doing all of the routine repair and maintenance work needed to keep it in good condition, while paying 20 percent of his income for rent. Among other reasons, however, since the physical ability to do this work may be beyond their capacity, and so many are single women, it is doubtful that many older people will take advantage of this plan.

Also under consideration in public housing is the potential for purchases of low-rent units under the section 23 leased housing program. This plan would include a lease with an option to purchase the unit, through a possible tie-in with FHA mortgage insurance. Again, this program's primary appeal would be to higher income public housing tenants—and of relatively less help and interest to the elderly.

HAA also is exploring the possibility of stimulating occupancy by low income tenants in middle income housing cooperatives under the section 23 leasing program, with an option to buy. Under this pilot program, the local housing authority agrees to pay a subsidy to the cooperative equal to the difference between the sum of the amortization payment and operating expenses for the unit and a rental based on about 20 percent of the tenant's income.

As their income rise, the participating tenants would no longer receive the benefits of the public housing subsidy, and if they decreased the subsidy could be re-instituted. This plan could be of interest to the elderly, because participation does not depend on rising incomes, but primarily on the ability of a local housing authority to obtain agreement from a cooperative to permit low income people to become members.

AIDS TO HOME OWNERS

The 1960 Census tells us that over *19 percent* of the 16 million housing units in which senior citizens lived may be characterized as substandard in that they lacked private bath, toilet or hot running water, or were structurally deficient. By comparison, this was the case with only 15 percent of the housing units occupied by households in which there were no senior citizens. Both with respect to the young and the old the proportions living in substandard housing were much higher among renters than owners, although much smaller in absolute numbers.

Other data (for example from the 1964 Survey of Consumer Finances, as noted in Volume One of the book *Aging and Society*, page 138—1968) show that middle age families spend substantially more for housing additions and repairs than the elderly. This again indicates that younger families, who are normally actively employed, are better able to maintain their homes in good condition. With housing costs representing 34 percent of the Bureau of Labor Statistics budget for a typical elderly couple, it is not surprising that so many older people live in substandard housing.

Among data from the 1960 Census, we can note the extent to which housing quality and income are related. For example, we find among owners in standard units the median income was $4,400, while the median for owners in substandard units was only $1,500. Thirty-six percent of the owner households with incomes of less than $1,100 lived in substandard housing, whereas at the other extreme only four percent of the households with incomes of $5,000 or more lived in such units.

With this background, reference should be made to the several HUD aids which are available to elderly (as well as others) with limited incomes to assist in home rehabilitation financing. Rehabilitation grants are made under section 115 of our basic urban renewal law (Title I of the Housing Act of 1949) and rehabilitation loans are made under section 312 of the Housing Act of 1964. Originally they were limited by statute to urban renewal or concentrated code enforcement areas. However, 1968 amendments permit their use in other areas certified by the local governing body as having a substantial number of structures in need of rehabilitation, with a workable program in effect for the area, and definite plans for rehabilitation or code enforcement within a reasonable time. This broadened use will be available after needed additional funding is obtained from the Congress.

Any family owning and occupying a one-to-four-family dwelling in federally aided urban renewal or concentrated code enforcement areas whose income is $3,000 or less is eligible for a section 115 grant of $3,000 or the cost of rehabilitation, whichever is less. Families with incomes of more than $3,000 also are eligible if their housing expense after rehabilitation exceeds 25 percent of income. These families also are eligible for direct 3 percent 20-year loans under section 312. These loans, not to exceed $10,000 per unit, or up to $14,500 in high-cost areas, are available basically for rehabilitation work. However, in special cases where the sum of the monthly payments on existing debt related to the property and the proposed rehabilitation loans would exceed 20 percent of the family's income, the rehabilitation loan also could be used to refinance the family's existing debt.

As your Committee already has noted in your recent Task Force Report "The Economics of Aging", "for most older people, the major asset—often the only asset—is the home they own." The Report then suggests the possibility of raising incomes of the elderly through the conversion of their equity in their homes into lifetime annuities. In April 1969, Professor Yung-Ping Chen, of the Department of Economics at the University of California, Los Angeles, received a HUD grant under our Low Income Demonstration Grant Program, "To Test the Willingness of Elderly Homeowners to Exchange the Equity of Their Homes for Potential Increased Income through the Purchase of Housing Annuities." That study, due in 1970, is now being conducted.

RELOCATION

Two provisions of the 1968 Housing Act relating to relocation payments are of particular interest to the elderly. One broadens HUD's authority to make "additional" payments to assist displaced families of all ages and elderly single persons in obtaining suitable replacement housing. Previously, the maximum payment was $500, payable over a five-month period. Now the payments may be made over a two-year period with a maximum of $500 for each of two years. Eligibility for these payments also was extended to handicapped individuals in this amendment.

In addition, HUD was authorized to make a "replacement housing" payment to an owner-occupant (regardless of age) of a one or two family home acquired for a HUD assisted project to enable him to purchase a replacement home. The payment may not exceed $5,000; nor may it be greater than the difference between the actual price paid for the displaced person's old home and the average price in that locality of a decent and safe dwelling of modest standards adequate in size for the displacee and his family. This payment would be made only if the displaced owner buys and occupies a replacement dwelling within one year after the date on which he is required to move, and if he elects not to receive the "additional" payment mentioned above. This "replacement housing" payment program may be particularly helpful to older people dispossessed by public action from modest homes which they own, often free of debt, but without sufficient compensation to enable them to purchase other homes suited to their needs. For many older people, these payments will permit those who wish to do so to remain homeowners for the rest of their lives.

RENTAL HOUSING

The large percentage of home owners among elderly people indicates how strong and widespread is the desire to own one's own home even where other values or comforts are sacrificed. However, home ownership is not a panacea for all older people, nor is it universally desired by them. For example, a substantial group of the elderly, particularly among nonmarried home owners, feel they have more room or rooms than they need. Also, as aging continues, the feeling that extensive space is needed, or can be maintained, appears to diminish. There are data showing that only about one-half of those 73 years old and over own their own homes, in contrast to nearly two-thirds of those aged 62 to 64. The sharpest drop in home ownership is found among nonmarried women as they age.

The Congress has given HUD authority to administer a variety of programs to help finance specially designed rental housing for the elderly. These rental programs vary primarily as to the type of financing, the sponsorship, and the income group which will occupy the housing.

The low-rent public housing program and the FHA rent supplement program provide housing for the lowest income group, including the elderly. Until the enactment of the Housing and Urban Development Act of 1968, the major HUD programs available for helping provide housing for the lower-middle income group were the program of direct loans to nonprofit sponsors under section 202 of the Housing Act of 1959 and the FHA's below-market interest rate mortgage insurance program under section 221(d)(3) of the National Housing Act. The first of these is limited to the elderly, but the second is not. Other FHA rental housing programs, including the section 231 mortgage insurance program for the elderly, have been available for the elderly and handicapped in a wider income range.

The new FHA section 236 program, added by the 1968 Act, is now available for housing for lower and moderate income groups, including the elderly. The housing may be provided by nonprofit groups, cooperatives, and limited dividend entities. The program provides interest reduction payments on market rate mortgages down to as low as one percent. The direct loan program under section 202, with its interest rate set at three percent, is being phased into it. Under section 236, rent supplements also may be used to assist low-income tenants in up to 20 percent of the units financed under section 236.

Section 236 is expected to play an important role in housing for the elderly. This will be greatly facilitated by using the existing policies and procedures of 202 to the fullest extent feasible in connection with senior citizens housing under 236, and by the transfer of the 202 staff into FHA, with operating responsibility for FHA's several senior citizens housing programs.

There is one FHA mortgage insurance program scheduled to expire on October 1, as to which the Administration has not proposed extension beyond the end of this year. This is the section 231 elderly rental housing program which involves market interest rates. It has suffered a high percentage of losses; has served only marginal purposes; and is now little used. The FHA itself, under the section 236 interest reduction program, now offers far more attractive terms to rental projects serving lower income elderly persons.

Since 1956, when the first elderly housing programs were authorized, HUD has committed well over three billion dollars to multifamily rental housing for senior citizens.

As of the end of March 1969, the cumulative number of commitments in all HUD programs for the elderly had risen to approximately 275,000 units. We also should note that other hundreds of thousands of elderly people live in HUD-assisted housing where families of all ages live, and these units are not included in the above figures.

Through the first quarter of 1969, there was a cumulative total of about 188,000 specially designed units in the public low-rent program which had annual contributions contracts approved. At that time, nearly 140,000 of these units had been placed under construction, and completions had mounted to almost 100,000.

In the direct loan section 202 program, by the end of March 1969, over 44,000 units had been approved, nearly 35,500 placed under construction and over 25,000 completed. The approved projects involved loans of nearly $550 million.

FHA's section 231 program for the elderly in a wider income range had made commitments of about 43,500 units through March 1969, and insured over 43,000. However, activity has fallen off very sharply in the past five years, from over 14,000 in 1963 to under 400 in 1968.

FHA's nursing home mortgage insurance activity, in terms of beds for which commitments were issued, amounted to a cumulative total of over 63,000 through March 1969, of which over 5,000 had been issued in the last six months.

Data available through June 1969 for the rent supplement program indicate that there were over 4,000 rent supplemented units in section 202 and section 231 projects alone, with rent supplement reservations or contracts, which had a total allocation of $2.6 million. In addition, over 2,900 dwelling units under the section 221(d)(3) market interest rate program in projects intended solely for the elderly, had received rent supplement allocations amounting to nearly $3 million. According to a survey of rent supplement project occupants, about 25 percent of the families receiving assistance through this program are elderly.

FUTURE MARKETS

A National Association of Home Builders' study of the multifamily market reveals that while single family construction has failed to show marked growth during the 1960's, the multifamily housing market has increased 2½ times. NAHB attributes the build up in the retired population as one of the factors which is responsible for the multifamily housing boom; they see the elderly as a particularly attractive market for this type of housing in the years ahead.

While the desire to retain the family home is still strong among many of today's elderly, there may be a decrease in its strength for mixed reasons. For example, rising maintenance cost may be one contributing factor. Another could be increased acceptance of professional care and service in a rental facility. Changes in our transportation systems which are likely to increase the mobility of our entire population, may encourage more older people to move to new areas. Some will become renters when they move; others will become owners of cooperative condominium apartments or of smaller free standing homes.

There is a likelihood that there will be a great demand in urban centers in the future for lower-priced rental apartments that reduce one's own responsibility for care, while providing an increased sense of security. These will be most attractive when they hold out a promise of an environment with a variety of interesting leisure hour activities. Also, as emphasis on pre-retirement planning continues, more retirees may accept changes and space reduction as a normal accompaniment to the later life cycle and probably will plan the change at an earlier age.

Since health, and not age as such, is generally the primary determinant of living arrangements, two distinct markets may emerge. One, by far the biggest, will be for the well and active. The second will be housing with an even broader range of services for the frail and ill. The frail who are not totally self-managing but are not ill, are best served in a basically residential, rather than a medical environment. This last market is not now fully served or fully defined either through conventional programs or through federally-assisted programs. These now emphasize the development of housekeeping units which provide full independent living for the well elderly. Needs of the ill are provided for by nursing home and hospital programs. Older people who cannot live independently, and who may need some daily assistance, but do not need, and cannot afford, costly nursing home or hospital care now must depend on friends and relatives for help, rather than on housing designed with them in mind. This entire area is now under study at HUD.

ITEM 2. PREPARED STATEMENT OF JOHN SHANNON,* ASSISTANT DIRECTOR, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Property Tax Relief for Low Income Families

Available evidence suggests that the average urban householder is now turning over about 4 percent of total household income to the local residential property tax collector.

*See statement, p. 768.

32-346—70——6

TABLE 1.—RESIDENTIAL PROPERTY TAX RELATED TO MARKET VALUE AND TO FAMILY INCOME

Year	Data source	Property tax as a percent of Market value	Property tax as a percent of Family income
1960	U.S. Bureau of the Census. U.S. Census of Housing, 1960, Vol. V, Residential Finance, Part 1, Homeowner Properties:		
	1. Median rate for 1-unit homeowner properties	1.25	2.54
	2. Median rate for 1-unit homeowner properties, inside SMSA's	1.40	2.95
1962	U.S. Bureau of the Census. State and Local Government Special Studies No. 47, Property Taxation in 1962. Average effective rate of local general property tax applicable to locally assessed real property	1.44	[1] 2.93
1966	U.S. Bureau of the Census, Census of Governments, 1967, Vol. 2, Taxable Property Values. Median effective rate of property tax for 122 of the 130 cities with a 1960 population of 100,000 or more	1.85	[1] 3.76
1968	ACIR survey of the largest city in each State. Estimated effective rate based on property tax liability on a $19,000 home, and family income of $10,000	2.55	4.28

Note: Estimated on basis of the ratio of family income to market value for 1-unit homeowner properties in 1960.

When viewed against this background—an average household burden of 4 percent—I believe we could muster widespread support for the general conclusion that any residential property tax payment in excess of 10 percent of total household income would represent a truly extraordinary tax burden. If we use this tough 10 percent standard—2½ times the average burden—we estimate that approximately three million householders will be found in this excessive property tax burden category.

TABLE 2.—REAL ESTATE TAX RELATED TO INCOME FOR NONFARM HOMEOWNER PROPERTIES, 1960 AND 1968 ESTIMATE

Item	1968 estimate		1960	
	Number	Percent distribution	Number	Percent distribution
Real estate tax as a percent of income: [1]				
Total	26,500,000	100.0	22,485,146	100.0
Less than 1	3,066,000	11.6	3,573,291	15.9
1 to 1.9	3,940,000	14.9	4,592,195	20.4
2 to 2.9	3,633,000	13.7	4,239,356	18.9
3 to 3.9	2,611,000	9.8	3,043,484	13.5
4 to 4.9	3,818,000	14.4	2,028,333	9.0
5 to 7.4	4,641,000	17.5	2,465,970	11.0
7.5 to 9.9	1,721,000	6.5	913,631	4.1
10 or more	3,070,000	11.6	1,628,886	7.2
Median (percent)	4.0		2.7	

[1] Income of owner and relatives living with him.

Source: U.S. Bureau of the Census, "U.S. Census of Housing, 1960," vol. V, and unpublished data; 1968 data estimated by ACIR staff.

Even this national estimate of property tax overburden badly blurs the stark picture of regressivity. Evidence gained from Wisconsin's recent property tax relief experience reveals that over 8,000 elderly householders with incomes less than $1,000 paid out in residential property taxes in 1966 about 30 percent of their total subsistence income. In fact, over 1300 elderly householders and renters with an average income of $302 a year were forced to turn over 58 percent of their meager incomes to the local residential property tax collector (see table 3).

It is a sad commentary of an affluent society when low income elderly persons are forced through the property tax wringer in order to finance public schools and local government services. There is absolutely no question in my mind that there are hundreds of thousands of elderly householders who are being forced to liquidate their assets in order to pay the local tax on shelter.

These low income elderly persons in particular—those most deserving of relief—can receive little or no comfort in the various plans for lessening their Federal income tax liability. Their incomes are so low that the relief passes right over their heads and most of the tax reduction benefit accrues to elderly householders in the middle and upper income brackets. Thus we have the rather paradoxial fact that while the Federal Government is now foregoing an estimated $2.5 billion in Federal income tax revenue in order to help elderly families, local property tax collectors are taking about $3 billion from families with incomes below $5,000—and probably half of this amount comes from households of the elderly.

TABLE 3.—WISCONSIN'S "CIRCUIT BREAKER" SYSTEM FOR PROTECTING LOW INCOME HOUSEHOLDERS FROM PROPERTY TAX OVERLOAD SITUATIONS, 1966

Household income class	Number of beneficiaries	Average household income	Average taxes before relief	Average taxes after relief	Percent of tax burden relieved	Tax burden before relief [1] (percent)	Tax burden after relief [1] (percent)
$0	146	$0	$210	$54	75		
$1 to $499	1,373	302	174	47	73	58	16
$500 to $999	7,788	790	175	50	71	22	6
$1,000 to $1,499	13,947	1,259	199	98	51	16	8
$1,500 to $1,999	14,423	1,749	221	130	41	13	8
$2,000 to $2,499	11,274	2,232	239	166	31	11	8
$2,500 to $2,999	7,021	2,728	266	216	19	10	8
$3,000 to $3,500	3,317	3,200	284	269	5	9	8

[1] Tax burden is expressed as the percent of household income allocated to pay taxes before and after the relief program. Property taxes include rent paid in lieu of taxes.

Source: Wisconsin Department of Revenue—Kenneth E. Quindry and Billy D. Cook, "The Effects on Income Redistribution and Residential Property Tax Regressivity of the Wisconsin Homestead Relief Program—Its Antipoverty Role and Possible Extensions" (manuscript to be published).

The point must also be emphasized that the steady increase in local property taxes also short-circuits any attempt to strengthen the financial position of these unfortunate families by means of higher social security benefits. Growing local property tax bills can largely offset hikes in the social security benefits. In the last year, for example, local property tax collections on a nationwide basis rose from $28.2 billion to almost $32 billion—an increase of about 13 percent. While some of this increase can be attributed to real economic growth—new construction, etc.—a substantial percentage can be traced to the decision of local authorities to increase the tax on existing improvements.

Property Tax Relief—ACIR Recommendations

The Advisory Commission has recommended State and Federal action that could go a long way toward pulling the regressive stinger from the property tax. In its report, *Fiscal Balance in the American Federal System*, the Commission called on the States to help local governments finance the cost of relieving undue local property tax burden on low income families.[1]

In support of this recommendation, the Advisory Commission noted that while the value of the family residence serves as a fairly good proxy of ability to pay taxes in a rural society, and still does in suburbia, total household income stands out as a far more precise measure of taxable capacity in our modern urban society. This point can be grasped quickly from examples of the hardship that the payment of residential property taxes imposes on low income households. With retirement, the flow of income drops sharply and a $300 a year property bill that could be taken in stride becomes a disproportionate claim on the income of an elderly couple living on a pension of $1,500. By the same token, if the flow of income falls sharply as a result of the death or physical disabiltiy of

[1] Albeit indirect, there are also far-reaching property tax relief implications in the Advisory Commission's recent recommendations calling for National Government assumption of complete responsibility for public welfare financing and State financing of most of the costs of local schools.

the breadwinner, or due to unemployment, then again payment of the residential property tax can become an extraordinary tax burden.

Wisconsin's "Circuit-Breaker" Plan

The most notable state attempt to cope with the regressive impact of the local property tax is to be found in Wisconsin's "Circuit-Breaker" plan to protect low income elderly householders and renters from property tax overload situations. This tax relief plan is financed entirely from State funds and administered by the Income Tax Division of the Wisconsin State Tax Department.

The efficiency of this approach is reflected in the remarkable transformation of a highly regressive tax into an essentially proportional levy at relatively modest cost to the State treasury. In 1966 approximately 60,000 beneficiaries were granted property tax relief at the cost of about $5 million—less than one percent of the total property tax take (table 3).

Property tax relief is granted by the State to all elderly homeowners on that part of their tax load deemed to be excessive in relation to total household income. To insure that only the truly needy persons would receive property tax relief, the applicants must list all forms of money income, including such sacrosanct items as social security and veterans benefits and railroad retirement payments. In view of this fact, the stark picture of regressivity depicted by the data in table 3 becomes even more shocking.

The elderly renter is also given relief on the assumption that 25 percent of his rental payment to the landlord is in effect payment for property taxes.

Under the Wisconsin procedure, the applicant for homestead tax relief files a statement as a supplement to the Wisconsin State income tax return. After audit by the Wisconsin State Income Tax Department, the eligible beneficiary receives compensation for that part of his property tax payment deemed extraordinary under Wisconsin law. The compensation takes the form of either a direct cash refund or a credit against his State income tax liability. The vast majority of applicants have such low income that they have no State income tax liability—a "negative" tax credit situation—necessitating direct cash refund in about 98 percent of the cases.

The reduction of tax disparities between high and low income communities within metropolitan areas can be cited as a beneficial side effect of the Wisconsin plan. Because the poor tend to cluster together, the mailman will deliver most of the property tax refund checks to households in the low income communities. Thus, the granting of tax relief to the low income elderly moves in the "right" equalization direction from both the interjurisdictional and interpersonal standpoints.

The point must be emphasized that this type of highly selective aid does no violence to the local fisc. Because this relief program is financed from State appropriations and administered by the State Tax Department, it neither erodes the local tax base nor interferes in any way with either the local assessment or tax collection process.

Wisconsin's pioneering effort conclusively demonstrates that it is not necessary to force low income households through the property tax wringer in order to finance public services and the Commission has urged all States to follow Wisconsin's lead. To hasten implementation of its recommendation, the Commission has drafted a "model" bill to provide property tax relief for low income families that draws heavily on the Wisconsin statute. (Exhibit A)

As illustrated in table 4, Minnesota (1967) and Vermont (1969) have now adopted the Wisconsin circuit-breaker approach. Less sophisticated State plans for abating part of the property tax payment to avoid extraordinary tax burdens have been enacted by Utah (1961), New Jersey (1964), Maryland (1966), and California (1968).

TABLE 4.—ABATEMENT OF PART OR ALL PROPERTY TAX PAYMENT TO AVOID EXTRAORDINARY RESIDENTIAL TAX BURDEN

States	Beneficiaries description	Income ceiling	Relief formula	Form of abatement	Date of adoption	Statutory citation
1. California	Resident-owner-occupants over 65—no abatement for renters.	$3,350	Amount of tax paid on first $5,000 of assessed value times a percentage ranging from 95 to 1 percent for households with incomes up to $3,350.	State rebate	1968	Revenue and taxation code, division E, sec. 19501 et seq.
2. Maryland	do	5,000	50 percent or $4,000 of assessed value whichever is less times county tax rate.	Locally financed property tax credit.	1966	Art. 81, sec. 12F.
3. Minnesota	Homeowners and renters 65 or over.	3,550	Percentage of property tax (up to $600) ranging from 75 percent to 10 percent depending on household income.	State income tax credit or rebate.	1967	Ch. 290, sec. 290.0601, et seq.
4. New Jersey	Resident owner-occupants over 65.	5,000	Amount of tax paid or $80 whichever is less	Locally financed credit tax	1964	Revenue cumulative supplements 54:4-8:40 et seq.
5. Utah	Indigent persons with property having a market value less than $10,000.	1,500	The lesser of $50 or 50 percent of total tax	Locally financed property tax credit.	1961	Sec. 59-7-2.
6. Wisconsin	Homeowners and renters 65 and over.[1]	3,500	Varies, based on income and amount of property tax or rental payment (up to $300).	State income tax credit or rebate.	1963	Ch. 71, sec. 71.09(7).
7. Vermont	Homeowners and renters 65 and over.	([2])	Amount in excess of 7 percent of household income times a local tax factor that varies by tax rate of local community.	do	1969	H.B. 222.

[1] About 60,000 claimants received about $6 million of property tax relief.
[2] Not explicit.

Source: ACIR staff.

The "Ideal" State Property Tax Relief Plan

Based on recent State experiences it is now possible to set forth the characteristics of an "ideal" State property tax relief plan.

1. *Broad Beneficiary Coverage.*—To insure equitable treatment for all residential property taxpayers, the tax relief plan should come to the aid of all overburdened property taxpayers—those under 65 as well as those over 65 and the renters as well as the homeowners.

2. *Adequate Safeguards Against Abuse.*—To insure that the aid goes only to the truly needy, all types of cash income should be included in the compilation of total household income and a dollar limit, say $400 or $500, should probably be set on the amount of relief granted to any taxpayer.

3. *An Efficient Tax Relief Formula.*—It is necessary both to shield the low income householders and renters from extraordinary property tax burdens while minimizing the drawdown on scarce State resources.

One way to determine extraordinary burden would be to grant relief only on that part of the property tax payment that is in excess of say 8 percent of the household's total money income. As previously noted, this approach would direct aid only to families in greatest need, bearing in mind that the average family residential burden is only 4 percent of its total household income. The cost of such a program would probably run in the neighborhood of three to four hundred million dollars for the nation as a whole.

It must be admitted that this approach fails to shield completely subsistence income from the tax collector's reach. For example, the elderly widow living on a total income of $1,000 and confronted with a property tax payment of $200 could only obtain relief on that part of the property tax bill that exceeds $80. It should also be noted that this formula does not take into account variations in the size of the family—another important tax equity consideration.

A more sophisticated formula would grant relief if the local residential property tax exceeds a certain percentage of the family's Federal or State income tax payment. For example, the average family turns over $2.50 to the Federal income tax collector for each $1.00 paid out in local property taxes. Thus, we could argue that a family should certainly be entitled to property tax relief if the tax on its residence exceeds the family's Federal income tax liability. It must be noted that before a family could receive tax relief under this approach it would first be necessary to compute their Federal income tax liability on the assumption that all cash income should be counted in the tax base.

By linking the tax relief formula to a State or Federal income tax schedule, it is possible to completely shield the incomes of low income families from the property tax collector's reach. In this case, the elderly widow would receive a complete rebate of her property tax payment of $200 because she would have no income tax liability with a total income of $1,000. This income tax linkage approach also recognizes variations in family size.

We estimate that it would cost approximately $400 to $500 million to finance this more sophisticated type of tax relief program.[2]

I would like to express a personal view with respect to the role that the National Government might play in this field. The Federal Government could hurry history along by providing a financial reward to those States that extend property tax relief to low income families. The Federal incentive might well take the form of reimbursing the State for say one-half of the cost that it incurs in taking such remedial action.

With or without Federal aid, however, corrective State action is long overdue. The wealthiest nation in the world does not have to deprive low income families of their subsistence in order to finance the education of its children and the budget demands of local governments.

[2] This approach (linking property tax relief directly to the State income tax schedule) was suggested by Carl H. Goebel in a memorandum to Mayor Terry D. Schrunk of Portland, Oregon. See also, Donald J. Curran and John Shannon, "Positive and Negative Tax Credits—A New Dimension in Intergovernmental Relations," *National Tax Journal,* March 1966.

EXHIBIT A

15–62–48

PROPERTY TAX RELIEF FOR LOW-INCOME FAMILIES

The property tax can quickly create a disproportionate claim on a family's financial resources once retirement, the death or physical disability of the breadwinner, or unemployment reduces sharply the flow of income. Local governments as a rule have neither the legal authority nor the fiscal capacity to alleviate these potential property tax over-burden situations, but States have both. Wisconsin, Minnesota and Vermont have developed an efficient tax relief mechanism designed to avoid the special hardships frequently experienced by low-income property-owners. Low-income, elderly homeowners and renters in these states either claim a credit against their State income tax liability or, if the credit exceeds their income tax liability, receive a rebate from the State for that portion of their property tax liability deemed by the legislature to be excessive in relation to their household income.

In a number of States, homestead exemption, a durable by-product of the 1930's depression, offers some protection from undue property tax burdens on low-income occupants of dwellings and farms. This method, however, bestows property tax relief to all homeowners, not just those with low incomes, and misses completely the low-income families in rented properties. The policy of granting homestead exemptions involves a substantial amount of injustice among individual taxpayers and taxing jurisdictions at a large and usually unwarranted sacrifice of local property tax revenue.[1] If the exemption privilege is restricted to low income households and the State reimburses local governments for the cost of this program, the more obvious defects of the exemption approach could be minimized. It is not, however, flexible enough to alleviate extraordinary property tax burdens that may be experienced indirectly by low income households in rented quarters.

To the extent that landlords can shift the property tax to tenants, low income households in rented quarters also feel the pinch of extraordinary property tax burdens in relation to current income. Minnesota, Vermont and Wisconsin have recognized this by establishing a percentage of gross rent as rent constituting property taxes accrued. This percentage serves as the property tax equivalent which renters may use in claiming income tax credit or rebate.

As a means of preventing fiscal overburdens, the tax credit-tax rebate technique has unique advantages. Because this tax relief program is financed from State funds and administered by a State agency, it neither erodes the local tax base nor interferes in any way with the local assessment or rate-setting processes. It can be designed to maximize the amount of aid extended to low-income homeowners and renters while minimizing loss of revenue. It operates in the "right" direction from both inter-jurisdictional and interpersonal standpoints; because the poor tend to be clustered together, the major portion of the relief will redound to the benefit of low-income households and low-income households and low-income communities.

The suggested legislation contains three alternative methods of determining an extraordinary property tax burden. One alternative uses the Vermont method of defining the extraordinary burden as the amount in excess of a specified percentage of household income. A second alternative uses the Minnesota method where the extraordinary burden is defined as a specified percentage (depending upon income size) times the property tax paid. A third alternative is designed to reflect differences in extraordinary burdens that stem from variations in size of family. Under this alternative, the claimant's extraordinary burden is the amount that exceeds a specified number times the liability the claimant would have if he calculated his State personal income tax liability using total household income as defined in this bill less personal and dependents allowances provided in the State income tax law. Two States specify $300 as the maximum amount of the property taxes or rent constituting property taxes that can be used in claiming the credit.

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[1] Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax* (Washington, D.C., 1963).

For purposes of this legislation, income means not only income as defined for income tax purposes but also social security, pension and annuity payments, nontaxable interest, workman's compensation, and the gross amount of "loss of time" insurance. To protect the State against "doubling-up" on the charge against public funds, any persons who is a recipient of public funds for the payment of taxes or rent during the period for which the claim is filed may not claim tax relief under the act.

The following suggested legislation is patterned after the Wisconsin, Minnesota, and Vermont statutes. Language has been included (alternative Section 5) that would provide an outright rebate to those who qualify in States without a personal income tax that desire to grant this type of relief.

SUGGESTED LEGISLATION

(Title should conform to state requirements. The following is a suggestion: "An Act to Reimburse Low-Income Householders for Extraordinary Property Tax Burdens)

(Be it enacted, etc.)

Section 1. Short Title. This act may be cited as the "Extraordinary Tax Relief Act."

Section 2. Purpose. The purpose of this act is to provide relief, through a system of income tax credits and refunds and appropriations from the general fund, to certain persons who own or rent their homestead.

Section 3. Definitions. As used in this act:

(1) "Income" means the sum of federal adjusted gross income as defined in the Internal Revenue Code of the United States, the amount of capital gains excluded from adjusted gross income, alimony, support money, nontaxable strike benefits, cash public assistance and relief (not including relief granted under this act), the gross amount of any pension or annuity (including railroad retirement benefits, all payments received under the federal social security act, State unemployment insurance laws, and veterans disability pensions), nontaxable interest received from the Federal Government or any of its instrumentalities, workman's compensation, and the gross amount of "loss of time" insurance. It does not include gifts from nongovernmental sources, or surplus foods or other relief in kind supplied by a governmental agency.

(2) "Household" means a claimant and spouse.

(3) "Household income" means all income received by all persons of a household in a calendar year while members of the household.

(4) "Homestead" means the dwelling, whether owned or rented, and so much of the land surrounding it, not exceeding one acre, as is reasonably necessary for use of the dwelling as a home, and may consist of a part of a multi-dwelling or multi-purpose building and a part of the land upon which it is built. ("Owned" includes a vendee in possession under a land contract and of one or more joint tenants or tenants in common.) It does not include personal property such as furniture, furnishings or appliances, but a mobile home may be a homestead.

(5) "Claimant" means a person who has filed a claim under this act and was domiciled in this state during the entire calendar year preceding the year in which he files claim for relief under this act. In the case of claim for rent constituting property taxes accrued, the claimant shall have rented property during the entire preceding calendar year in which he files for relief under this act and shall have occupied the same residence quarters for at least six months of the preceding calendar year.[1] When two individuals of a household are able to meet the qualifications for a claimant, they may determine between them as to who the claimant shall be. If they are unable to agree, the matter shall be referred to the [tax commissioner], and his decision shall be final. If a homestead is occupied by two or more individuals, and more than one individual is able to qualify as a claimant, and some or all the qualified individuals are not related, the individuals may determine among them as to who the claimant shall be. If they are unable to agree, the matter shall be referred to the [tax commissioner], and his decision shall be final. If a homestead is occupied by two or more individuals, and more than one individual is able to qualify as a claimant, and some or all the qualified individuals are not related, the individuals may determine among them as to who

[1] Twenty percent used in Minnesota and Vermont; 25 percent in Wisconsin.

the claimant shall be. If they are unable to agree, the matter shall be referred to the [tax commissioner], and his decision shall be final.

(6) "Rent constituting property taxes accrued" means [20 or 25] percent of the gross rent actually paid in cash or its equivalent in any calendar year by a claimant and his household solely for the right of occupancy of their (name of state) homestead in the calendar year, and which rent constitutes the basis, in the succeeding calendar year, of a claim for relief under this act by the claimant.

(7) "Gross rent" means rental paid solely for the right of occupancy (at arms-length) of a homestead, exclusive of charges for any utilities, services, furniture, furnishings or personal property appliances furnished by the landlord as a part of the rental agreement, whether or not expressly set out in the rental agreement. If the landlord and tenant have not dealt with each other at arms-length, and the [tax commissioner] is satisfied that the gross rent charged was excessive, he may adjust the gross rent to a reasonable amount for purposes of this act.

(8) "Property taxes accrued" means property taxes (exclusive of special assessments, delinquent interest, and charges for service) levied on a claimant's homestead in this State in [calendar year] or any calendar year thereafter. If a homestead is owned by two or more persons or entities as joint tenants or tenants in common, and one or more persons or entities are not a member of claimant's household, "property taxes accrued" is that part of property taxes levied on the homestead which reflects the ownership percentage of the claimant and his household. For purposes of this paragraph property taxes are "levied" when the tax roll is delivered to the local [treasurer] for collection. If a claimant and spouse own their homestead part of the preceding calendar year and rent it or a different homestead for part of the same year, "property taxes accrued" means only taxes levied on the homestead when both owned and occupied by the claimant at the time of the levy, multiplied by the percentage of 12 months that such property was owned and occupied by the household as its homestead during the preceding year. When a household owns and occupies two or more different homesteads in this State in the same calendar year, property taxes accrued shall relate only to that property occupied by the household as a homestead on the levy-date. If a homestead is an integral part of a larger unit such as a farm, or a multi-purpose or multi-dwelling building, property taxes accrued shall be that percentage of the total property taxes accrued as the value of the homestead is of the total value. For purposes of this paragraph "unit" refers to the parcel of property covered by a single tax statement of which the homestead is a part.

Section 4. Claim is Personal. The right to file claim under this act shall be personal to the claimant and shall not survive his death, but such right may be exercised on behalf of a claimant by his legal guardian or attorney-in-fact. If a claimant dies after having filed a timely claim, the amount thereof shall be disbursed to another member of the household as determined by the [tax commissioner]. If the claimant was the only member of his household, the claim may be paid to his executor or administrator, but if neither is appointed and qualified within 2 years of the filing of the claim, the amount of the claim shall escheat to the state.

Section 5. Claim as Income Tax Credit or Rebate. Subject to the limitations provided in this act, a claimant may claim in any year as a credit against [name of State] income taxes otherwise due on his income, property taxes accrued, or rent constituting property taxes accrued, or both in the preceding calendar year. If the allowable amount of such claim exceeds the income taxes otherwise due on claimant's income, or if there are no [state] income taxes due on claimant's income, the amount of the claim not used as an offset against income taxes, after audit [or certification] by the [tax commissioner], shall be paid to claimant from balances retained by the [treasurer] for general purposes. No interest shall be allowed on any payment made to a caimant pursuant to this act.

[Alternative Section 5 for States not imposing a personal income tax. *Claim as Rebate From State Funds.* Subject to the limitations provided in this act, a claimant may claim in any year a rebate for property taxes accrued or rent constituting property taxes accrued or both in the preceding year. The amount of the rebate, after audit or certification by the [tax commissioner] shall be paid to claimant from balances retained by the [treasurer] for general purposes.]

Section 6. Filing Date. No claim with respect to property taxes accrued or with respect to rent constituting property taxes accrued shall be paid or allowed, unless the claim is actually filed with and in the possession of the [tax department] on or before [date for filing initial claim]. Subject to the same conditions and limitations, claims may be filed on or before (income tax filing date or other specified date) with respect to property taxes accrued of the next preceding calendar year.

Section 7. Satisfaction of Outstanding Tax Liabilities. The amount of any claim otherwise payable under this act may be applied by the [tax department] against any liability outstanding on the books of the department against the claimant, or against his or her spouse who was a member of the claimant's household in the year to which the claim relates.

Section 8. One Claim Per Household. Only one claimant per household per year shall be entitled to relief under this act.

Section 9. Computation of Credit. The amount of any claim made pursuant to this act shall be determined as follows:

(1) (based on Vermont statute) For any taxable year, a claimant shall be entitled to a credit against his tax liability equal to the amount by which the property taxes or rent constituting property taxes upon the claimant's homestead for the taxable year exceeds [7] percent of the claimant's total household income for that taxable year.

or

(1) (based on Minnesota statute) For any taxable year, a claimant shall be entitled to credit in accordance with the following schedule:

Income range	*Percent-of property taxes*
0 to 499	75
500 to 999	70
1,000 to 1,499	50
1,500 to 1,999	40
2,000 to 2,499	30
2,500 to 2,999	20
3,000 to 3,499	10

or

(1) (to reflect family size) For any taxable year, a claimant shall be entitled to a credit against his State personal income tax liability equal to the amount by which property taxes or rent constituting property taxes upon the claimant's homestead for the taxable year is in excess of [2] times the amount of the claimant's "recomputed State personal income tax liability." "Recomputed State personal income tax liability" for purposes of this act means the amount obtained by applying the appropriate State income tax rates to the result obtained by subtracting the claimant's personal exemption and dependent allowances as set forth in the State personal income tax statute from the claimant's total household income as defined in Section 3.

(2) In any case in which property taxes accrued, or rent constituting property taxes accrued, or both, in any one year in respect of any household exceeds [$300 [1]], the amount thereof shall, for purposes of this act, be deemed to have been [$300 [1]].

(3) The [tax commissioner] shall prepare a table under which claims under this act shall be determined. The table shall be published in the department's official rules and shall be placed on the appropriate tax blanks. The amount of claim as shown in the table for each bracket shall be computed only to the nearest 10 cents.

(4) The claimant, at his election, shall not be required to record on his claim the amount claimed by him. The claim allowable to persons making this election shall be computed by the department, which shall notify the claimant by mail of the amount of his allowable claim.

Section 10. Administration. The [tax commissioner] shall make available suitable forms with instructions for claimants, including a form which may be included with or as a part of the individual income tax blank. The claim shall be in such form as the [tax commissioner] may prescribe.

[1] $600 in Minnesota.

Section 11. Proof of Claim. Every claimant under this act shall supply to the [department of taxation], in support of his claim, reasonable proof of rent paid, name and address of owner or managing agent of property rented, property taxes accrued, changes of homestead, household membership, household income, size and nature of property claimed as the homestead and a statement that the property taxes accrued and used for purposes of this act have been or will be paid by him and that there are no delinquent property taxes on the homestead.

Section 12. Audit of Claim. If on the audit of any claim filed under this act the [tax commissioner] determines the amount to have been incorrectly determined, he shall redetermine the claim and notify the claimant of the redetermination and his reasons for it. The redetermination shall be final unless appealed within 30 days of notice.

Section 13. Denial of Claim. If it is determined that a claim is excessive and was filed with fraudulent intent, the claim shall be disallowed in full, and, if the claim has been paid or a credit has been allowed against income taxes otherwise payable, the credit shall be canceled and the amount paid may be recovered by assessment (as income taxes are assessed), and the assessment shall bear interest from the date of payment or credit of the claim, until refunded or paid, at the rate of one percent per month. The claimant in such case, and any person who assisted in the preparation of filing of such excessive claim or supplied information upon which such excessive claim was prepared, with fraudulent intent, is guilty of a misdemeanor. If it is determined that a claim is excessive and was negligently prepared, 10 percent of the corrected claim shall be disallowed, and if the claim has been paid or credited against income taxes otherwise payable, the credit shall be reduced or canceled, and the proper portion of any amount paid shall be similarly recovered by assessment (as income taxes are assessed), and the assessment shall bear interest at one percent per month from the date of payment until refunded or paid.

Section 14. Rental Determination. If a homestead is rented by a person from another person under circumstances deemed by the [tax commission] to be not at arms-length, he may determine rent constituting property taxes accrued as at arms-length, and, for purposes of this act, such determination shall be final.

Section 15. Appeals. Any person aggrieved by the denial in whole or in part of relief claimed under this act, except when the denial is based upon late filing of claim for relief [or is based upon a redetermination of rent constituting property taxes accrued as a arms-length] may appeal the denial to the [appropriate state agency] by filing a petition within 30 days after such denial.

Section 16. Public Welfare Recipients Excluded. No claim for relief under this act shall be allowed to any person who is a recipient of public funds for the payment of the taxes or rent during the period for which the claim is filed.

Section 17. Disallowance of Certain Claims. A claim shall be disallowed, if the department finds that the claimant received title to his homestead primarily for the purpose of receiving benefits under this act.

Section 18. Extension of Time for Filing Claims. In case of sickness, absence, or other disability, or if, in his judgment, good cause exists, the [tax commissioner] may extend for a period not to exceed six months the time for filing a claim.

Section 19. Separability. [Insert separability clause].

Section 20. Effective date. [Insert effective date].

ITEM 3. MATERIAL SUBMITTED BY YUNG-PING CHEN,* PH. D., ASSOCIATE PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF CALIFORNIA, LOS ANGELES

HOW TO HAVE YOUR CAKE AND EAT IT TOO; THE CASE OF HOMEOWNERSHIP BY THE ELDERLY

PREVALENCE OF HOMEOWNERSHIP AND PREFERENCE FOR INDEPENDENT LIVING

Nearly 70 percent of the aged (age 65 and over) own and occupy their own houses. More than 80 percent of them own their homes free of mortgage. Although

*See statement, p. 792.

some older persons would desire other types of housing accommodations, very large numbers of them apparently prefer independent living and hold on to their homes despite advancing age.

TAX PROBLEMS WITH HOMEOWNERSHIP AND THE POLICY OF TAX-CONCESSION

While other problems exist, one major and growing difficulty with owning a home relates to residential property taxes. These taxes create a financial problem for the aged because many of them receive low incomes. As a response, property tax laws in nearly one-half of the States now provide means (thru exemptions, credits, or deferrals) to reduce their taxes. There are definite limits to such a preferential treatment, and we may be near them. Basically, the policy of tax-concession is vulnerable to objection in view of the economic circumstances of the aged relative to those of the non-aged.

THEORETICAL MEASURE OF ECONOMIC STATUS

Measured by income they receive currently, many aged persons are in low-income and poverty categories. But their economic status, when the measurement includes asset-holdings (less debts) as well as current income, may be considerably improved. Theoretically, a comprehensive measure should combine the current *flow* of money receipt and a portion of the *stock* of net worth (assets less debts, inclusive of liquid and nonliquid assets) as determined by life expectancy. The aged face a set of problems under this measurement since homeownership represents a significant portion of their net worth. There is a dilemma. If home equity is not converted into current income, homeownership's contribution would consist solely of the imputed rental income which is not subject to current allocation as is money income. Yet, conversion of home equity into cash normally requires its sale which would create, for some, psychological adjustment problems. In addition, they would become renters paying the rent from sale proceeds. Moreover, existing modes of financing homeownership would, for the most part, preclude borrowing by older persons against their homes as collateral. Even if funds became available from either sale or loan, the stream of future income thus created may not be dependable or certain with the prospect of exhaustion.

MAKING THE THEORY WORK THROUGH A HOUSING-ANNUITY UNDER ACTUARIAL MORTGAGE

A combination of home sale and annuity purchase may be possible. Under the actuarial mortgage plan I propose, an older homeowner, assured of *life-time tenure* in the house, would create an irrevocable escrow to convey the property title to a financial intermediary (possibly an insurance company or a pension fund) at the death of the owner or of his spouse if later, in exchange for a monthly annuity income, which I call a housing-annuity. The amount of the annuity would be based on the appraised value of the property, the amount of home equity, the life expectancy, and the generally expected rate of price inflation. If the owner wanted to change his residence after such a contract is entered into, he would have the option of selling his home to a third party (thus paying back to the financial intermediary the sum of total annuity payments to date plus interest) or the option of conveying title to the financial intermediary (thus receiving additional annuity payments). Any outstanding mortgage on the house would be deducted from the house value and the annunity computed on the net equity value. The problem of property value changes (appreciation and depreciation) would be solved by a variable annuity arrangement or a re-negotiation clause for adjusting annuity payments. To prevent frequent reappraisals, a plan might be created whereby FHA, for example, could guarantee the property's value over its economic life in return for an appropriate insurance premium. The homeowner-annuitant would not face the prospect of reduced annuity payments.

ADVANTAGES OF A HOUSING-ANNUITY

The suggested plan would be a completely voluntary agreement, which is in full accord with the freedom of choice and which serves to widen the range of options to older people. Widening possibilities of option in the field of housing appears highly desirable, since there exist a variety of tastes and preferences among the elderly concerning housing accommodations. If the creation of a housing-annuity would enable homeowners to remain in their homes when they otherwise might have to be forced by financial considerations to live somewhere else, this additional option would be a very substantial one, because it would remove the painful adjustment problems which are often attendant upon the outright sale of the house for cash. This plan has more advantages to offer. It would provide assurance of retaining the house for residence as long as the person wishes. It would represent another source of current income in addition to social security, private pensions, and other forms of receipts. It would reduce the dependency on public transfer payments by those older persons who, in the absence of a program of the sort suggested here, might require and actually receive such payments. It would avoid tax revenue reductions for those governmental units offering tax-concessions to older persons because of the generally inadequate current income status as measured under the yardstick and institutional arrangement now prevail. As a supplementary source of income, the plan suggested would offer a degree of flexibility in planning income for old age. Finally, since I regard low income as a more important problem than high taxes when the aged are financially embarrassed, I believe that increment in income instead of decrement in taxes should be a preferred approach. Although tax reductions result in income increment, the increase is usually rather small. By contrast, my proposal would bring forth larger increments of income.

PROBLEMS WITH A HOUSING-ANNUITY

I anticipate certain problems in setting up such an annuity program, but none of them appear insurmountable. Since the exhaustion of home equity at life's end is clearly the consequence of this plan, objection may arise on grounds of bequest and inheritance. However, the plan is wholly voluntary. Moreover, there are several motives for saving, and I would not expect the desire to bequeath to take precedence over the need for income, under normal circumstances, before the estate passes on. In addition, people in general feel these days little moral obligation to conserve inheritances for bequests and rather consider as more desirable passing on a "heritage" through providing educational opportunity for their children. The problems associated with appreciation and depreciation of property values would create additional reservations about the plan. However, measures such as those indicated earlier (variable annuity approach, re-negotiation clause, FHA guarantee) or other methods could attend to these difficulties. Technical issues relating to house value appraisal, mortality rate assumption, interest rate assumption and the like would obviously arise. I continue to believe that differing opinions on these questions among actuaries and economists could be resolved once interested professionals are drawn together for the task.

ROLE OF THE SECOND WHITE HOUSE CONFERENCE ON AGING AND THE PROPOSED AGING RESEARCH COMMISSION

Because of the merits I see in the proposal and for the technical questions involved, I strongly recommend that the Actuarial Mortgage Plan be made a topic for study under the auspices of the Conference and the Commission.

EXHIBIT 1. MAKING A THEORY WORK: THE CASE OF HOMEOWNERSHIP BY THE AGED

(By Yung-Ping Chen*)

This paper discusses an actuarial mortgage plan in the form of a housing-annuity. It is intended to be a financial mechanism for gradual conversion of an aged homeowner's *stock* of capital (as embodied in the equity of his home) into a *flow* of monthly *income for life*, while maintaining *life-time tenure* in the home. Viewed in the customary way of accumulating equity in homeownership, the housing-annuity is a suggested method of utilizing home equity during old age. It is thus a reverse process based on actuarial considerations; hence, it is called the actuarial mortgage plan. The income under this plan, which is based on home equity, is analogous to a conventional annuity which is purchased with cash; hence, the term housing-annuity.

*See statement, p. 792.

The plan is proposed to accomplish these two primary obectives: (1) increasing currently spendable incomes by converting home equity into cash; and (2) widening the options of housing accommodations that would be available to aged persons. The theoretical basis of the plan is the comprehensive measure of economic circumstances, a measure which combines the current flow of money receipt and a portion of the stock of net worth (assets less debts, inclusive of liquid and nonliquid assets) as determined by life expectancy. The practical consideration of the plan relates to the prevalence of homeownership among the aged (with the seeming preference by many for independent living in their homes) and their generally low (and often inadequate) levels of current income.

This paper is divided into the following parts. (1) A theoretical measure of economic status; (2) homeownership and income circumstances among the aged; (3) advantages and disadvantages of homeownership by the aged; (4) questions concerning the feasibility of a housing-annuity; and (5) suggestions for additional research.

I. A THEORETICAL MEASURE OF ECONOMIC STATUS

All too often the economic welfare of aged persons is measured by the amount of money income they currently receive. Thus, many of the aged are found to be in low-income and poverty categories. On the other hand, the aged as a group have a higher ratio of net worth to current money income when compared with other age groups.(1) In other words, even though the current money income of the aged may be low, their economic circumstances, when the measurement includes asset-holdings (less debts), may be considerably improved.(2)

Theoretically, a comprehensive assessment of the economic welfare of an aged person (indeed of a person of any age) in a given year should combine the current *flow* of money income receipt (which contains current yields of income from assets) and a portion of the *stock* of net worth (all assets less debts, inclusive of liquid and nonliquid assets) as determined by his life expectancy. The total income of an aged person in a given year, according to the comprehensive measure of economic welfare (incorporating current money income and potential income from net worth), *as it applies to homeownership*, may be expressed mathematically as follows:

$$TY_t = CY_t + PY_t \quad \text{(1)}$$

$$PY_t = PY_x = \frac{HE_x}{\sum_{t=1}^{w} \left(\frac{1}{1+i}\right)^t \cdot {}_tP_x} \quad \text{(2)(3)}$$

Where:

TY=total income

CY=current money income

PY=potential income from home equity

HE=present value of home equity to the insurance company as discounted for mortality and interest

t=index of years: 1, . . . , w

w=infinity

v=age of retirement or age at issue of housing-annuity

i=rate of interest (or discount rate)

${}_tp_x$=probability that the annuitant life age x survives to t^{th} year (or age x+t)

This theoretically sound concept would have little practical significance, however, if the net worth cannot or will not be converted into currently spendable income, because the contribution by net worth to the economic welfare of the asset-holder is only limited to the imputed income. (4) When this "income plus net worth" measurement is applied to the aged, a particular set of considerations arises since a significant portion of the asset-holding of older persons consists of homeownership. The advantages and disadvantages of homeownership by the aged will be discussed in Section III. In Section II homeownership and income circumstances of the aged will be described.

II. HOMEOWNERSHIP AND INCOME CIRCUMSTANCES AMONG THE AGED

According to the latest U.S. Census information, in 1960 there were more than 9.2 million dwelling units with households (defined to include either families or individuals) headed by a person age 65 or over. Of these units, some 6.4 millions or 68.8% were owner-occupied. (5)

In this paper attention will be focused on nonfarm 1-unit structures owned and occupied by the aged. As shown in Table 1, there were in 1960 more than 4.7 million nonfarm, single-unit dwellings. Of these dwellings, approximately one out of five (21.04%) belonged to households with incomes less than $1,000; another one out of five (20.51%) to those with incomes between $1,000 and $1,999; one out of seven (14.38%) to those with incomes between $2,000 and $2,999; one out of six (16.84%) to those with incomes between $3,000 and $4,999; and more than one out of four (27.23%) to those with incomes $5,000 or more. These proportions serve to suggest that dwellings headed by the aged were fairly evenly distributed among the five income classes.

In terms of the estimated market value of these dwellings, slightly over one-fifth (20.45%) were valued at less than $5,000; more than one-half (53.17%) at less than $10,000; and almost one-tenth (9.94%) at more than $25,000, as demonstrated in Table 2.

It would be instructive to look at the relationship between the value of these dwellings and the income of these households.

Tables 3 and 4 are presented for such a purpose. While households with higher incomes tended to own homes worth over $10,000 more often than those with lower incomes, it is nonetheless significant that of the households with income less than $1,000, more than one-fourth (27.45%) had homes valued at over $10,000; over 10% owned homes worth more than $15,000; and more than 4% had homes worth $25,000 or higher.

One interesting aspect of homeownership and income of the aged relates to the mortgage debt status. In 1960, more than 80% of the nonfarm, single-unit dwellings owned by the aged were free of mortgage. To the extent they were mortgaged, the average outstanding debt (first and junior mortgages) per homeowner property was in the neighborhood of $4,400. (6)

III. ADVANTAGES AND DISADVANTAGES OF HOMEOWNERSHIP

Housing is one of chief amenities of life. The high incidence of homeownership among the aged is often used as a measure of their economic and psychological welfare. Homeownership gives rise to a degree of security and pride in old age. Economic security stems from "rent-free" shelter in the case of mortgage-free homes or "low-rent" shelter when the home carries a small mortgage. From the statistics analyzed in the previous Section, a majority of aged homeowners apparently do enjoy this type of security (imputed rental income). Economic security of a different sort relates to treating home equity as reserve funds for emergency use. Psychological pride in homeownership arises out of the visible sign of a lifetime accumulation. There is often strong sentimental attachment to the home. Attachment to the home also may be due to convenience and inertia.

While such advantages as the above exist, there may be disadvantages as well. Aged homeowners may find the task of maintaining their home a burden. The burden may be physical or financial. Physical burden is associated with declining strength as age advances. Financial burden is felt when income is reduced or insufficient. A recent analysis shows that older homeowners have low expenditures for maintenance, repairs, and improvements, even though one would expect them to spend more considering the age of their homes. (7) They may find that their homes are in a substandard condition.

Another problem may be that their homes are too spacious for their needs after families have grown and left. Still another difficulty with owning a home relates to residential property taxes.

Many of these problems would be removed if incomes of the aged could be increased. What is the income potential from homeownership?

The ability and willingness of an older homeowner to make use of his home equity to augument his regular current income poses a dilemma under existing circumstances. If home equity is not converted into current income, homeownership's contribution to the economic well-being of the older person would consist entirely of the imputed rental income which is *not* subject to current allocation as is money income. Yet, coversion of a home into cash normally requires its sale. This solution may not be agreeable to some, for there are often psychological adjustment problems when older persons move into a new physical as well as a new social setting. In addition, when they sell their homes, they become renters paying rent with the proceeds from the sale of their home. (Doubling-up with young members of the family—thus avoiding rental payments—is becoming more the exception than the rule.) Another solution would be to borrow against home equity. But conventional modes of financing homeownership would, for the most part, preclude borrowing by older persons against their homes as collateral. (8)

Even if funds become available from either sale of the house or through a loan, the stream of future income thus made available may not be dependable or certain, relying on the changing fortune of their investment incomes. Or if the proceeds were deposited in the banks or savings and loan associations subject to periodic withdrawls, the possibility of exhausting the funds looms greater as life spans on. Old age is already a period full of uncertainty, to heighten the degree of uncertainty is hardly advisable. In order to provide the kind of security or certainty that older individuals need, the proceeds had best be put into an annuity purchase. Under the institutional arrangements now prevailing, in order to purchase an annuity with his home equity, the aged homeowner would be required to sell the home. However, there exists a strong resistance to this financial move. The force of resistance may be substantiated from causal empirical observations as to how older persons view this proposition. It also may be inferred from the very high incidence of homeownership by the aged.

What, then, could be done so an older person may utilize his lifetime saving in the form of home equity without sacrificing his preference to live in his owned home? As an attempt to resolve the disadvantages and advantages associated with homeownership, a combination of home sale and annuity purchase may be possible if a housing-annuity program were adopted.

IV. A PLAN TO MAKE THE THEORY WORK: IS IT FEASIBLE?

The theory of a comprehensive measure of economic status (current income plus net worth as described in Section I) would have little significance if there is no practical plan to implement it. The housing-annuity is such a plan. When a young person purchases a home, he is mortgaging his future income to acquire an asset; when an old person buys a housing-annuity, he is mortgaging his home to acquire currently spendable income. To paraphrase (half in ject) a popular saying (in a reverse context), a housing-annuity makes it possible for elderly householders "to have their house and 'eat' it too."

A housing annuity program combines home sale and annuity purchase. Assured of *lifetime* occupancy of the house, an older homeowner would put his home in escrow to convey the property title to a financial intermediary (possibly an insurance company or a pension fund or some other source of funds; referred to as the insurer) at his death or that of his spouse if later in exchange for a monthly annuity income for life (9). The amount of the annuity would be based on a number of economic, actuarial, and cost accounting considerations, such as rate of interest, rate of appreciation of property value, rate of depreciation of the house, percentage of property value attributable to the lot, the homeowner's sex, age, and marital status, the net equity in the property, and expense loading. The effects on annuity income of all these factors (except expense loading) have been discussed elsewhere (10).

Once the *voluntary* contract is entered into, the homeowner (called housing-annuitant) will receive income for life. If he is married, annuity income will continue until the second death. If the owner wanted to change his residence after entering into such a contract, he would have the option of selling his home to a third part (thus paying back to the insurer the sum of total annuity payments received to date plus interest) or the option of conveying title to the insurer (thus receiving additional annuity payments). Any outstanding mortgage on the house would be deducted from the house value and the annuity computed on the net equity. The problem of property value changes (appreciation and depreciation) would be solved by a variable annuity arrangement or a re-negotiation clause for adjusting annuity payments (11). To prevent frequent reappraisals, a plan might be created whereby FHA, for example, could guarantee the property's value over its economic life in return for an appropriate insurance premium. The housing-annuitant would not face the prospect of reduced annuity incomes.

Briefly stated, a housing-annuity has these merits. The plan would be a completely voluntary agreement, which is in full accord with the freedom of choice and which serves to widen the range of options to older people regarding housing accommodations and sources of income. Widening possibilities of option in the field of housing appears highly desirable, since individuals differ in tastes and preferences. If the creation of a housing-annuity would enable homeowners to remain in their homes when they otherwise might be forced to move by financial considerations, this additional option would be a very substantial one, because it would remove the painful adjustment problems which are often attendant upon the outright sale of the house for cash (12). Widening possibilities of option in the source of income also is of critical importance. The plan would become another source of current income in addition to social security, private pensions, and other forms of receipts. It would reduce the dependancy on public transfer payments by those older persons who, in the absence of a program of the sort suggested here, might require and actually receive such payments. It would avoid tax revenue reductions for those governmental units offering tax-concessions to older persons because of the generally inadequate current income status as measured under the yardstick and institutional arrangement now prevail. As a supplementary source of income, the suggested plan would offer a degree of flexibility in planning retirement income. The flexibility extends to the choice of housing as well, since provision is made for those who wish to change residence for whatever reason. Finally, since I regard low income as a more important problem than high taxes when the aged are financially embarrassed, I believe that increment in income instead of decrement in taxes should be a preferred approach. Although tax reductions result in income increment, the increase is usually rather small. By contrast, the proposal would bring forth larger increments of income (13).

So much for the merits. There are also problems in setting up such an annuity program, but none of them appear insurmountable. Since the exhaustion of home equity at life's end is clearly the consequence of this plan, objection may arise on grounds of bequest and inheritance. However, the plan is wholly voluntary. Moreover, there are several motives for saving, and the desire to bequeath would not take precedence, under normal circumstances, over the need for income before the estate passes on. In addition, people in general feel these days little moral obligation to conserve inheritances for bequests and rather consider as more desirable passing on a "heritage" through providing educational opportunity for their children (14). The problems associated with appreciation and depreciation of property value would create additional reservations about the plan. However, measures such as those indicated earlier (variable annuity approach, re-negotiation clause, FHA guarantee) or other methods could attend to these difficulties. Technical issues relating to house value appraisal, mortality rate assumption, interest rate assumption and the like would obviously arise. Differing opinions on these questions among actuaries and economists could be resolved once interested professional are drawn together for the task.

There is an important consideration as to which financial intermediary would undertake such a program. Since the proposal is for an annuity plan, life insurance companies appear to be the logical institutions. Since the proposal involves homes, savings and loan associations may seem to be the organizations that would be concerned. Since the proposal is intended as a source of income in retirement, pension funds might be likely source of funds as well. Because the "premium" is paid at the end instead of at the beginning of the contract, the cost of this type of "lending" would be high, and it would either result in a low return to the insurer or a small monthly payment to the housing-annuitant. Neither prospect augurs well for the proposal, and this appears to be the reservations some life insurance carriers have about the proposed housing-annuity. However, if *loan funds* may be available from the government in order to start the plan, the inclination of insurance carriers and other possible insurers would be different. Once the plan gets under way, turnover in houses would occur within a reasonably short period of years, and the loan from the government would be repaid with interest. Then, the plan would be expected to carry forward on its own.

In terms of initial funding, pension funds, of the three sources mentioned earlier, appear to be in the best position to handle. Unlike the other two financial intermediaries which are restricted by investment practices and legal requirements, pension funds are relatively free of legal restrictions. In addition, pension funds usually are not concerned with liquidity and high returns as these other two possible sources. Since there is a definite social purpose implicit in the housing-annuity proposal, the use of pension funds for a socially desirable enterprise is compatible with their basic purpose of existence. Perhaps it should be said that given proper institutional arrangement, life insurance carriers and savings and loan organizations also may be very interested in programs that would further worthy social causes.

V. SUGGESTIONS FOR ADDITIONAL RESEARCH

Many lines of research seem indicated. Some of the topics directly pertain to the housing-annuity proposed here, with others broadly relating to it. These topics include:

1. What would be the best source of funds for the plan, life insurance company, savings and loan associations, pension funds, or some other intermediary?

2. What would be the necessary changes in State and Federal legislation that would make it possible for any financial intermediary to undertake such a new business venture?

3. What is the role of government, especially the Federal government, in this? (Government as a lending agency to start the program; as a guaranteeing agency much like FHA and VA activities; or as an "insuring" agency directly handling this plan.)

4. Speaking actuarially, it would be of interest to investigate the differential mortality experiences, if any, between homeowners and renters.

5. What are the experiences with market price changes of residential property over time in a variety of different parts and locations in the country?

6. The attitudes of people towards this plan need to be explored in terms of (a) their acceptance of the idea of a (conventional) annuity, (b) their feeling about inheritance, (c) their housing preferences in light of the widened range of choice provided by housing-annuity (d) ethnic and cultural backgrounds, among others.

7. The mobility experiences of older persons and their implications for the proposed plan. As a rule, the aged have the highest geographical and residential stability of all age groups. It is conceivable that the geographical and residential mobility may increase among the aged over the next several decades. Increased mobility would not, however, make the housing-annuity less applicable any more than it makes the conventional mortgage less applicable. It is known that only about one family in 10 lives in the home and pays up the full loan during the 25-year mortgage period. But the question of mobility and its implications for the proposed plan warrants exploration.

8. More studies need to be done on the difficulties with homeownership by the aged. Issues such as maintenance costs, space requirements, and property tax burdens would require added research.

9. Since housing-annuity is intended to be an additional source of retirement income, the whole array of income maintenance measures for old age needs to be examined in terms of their distributional effects on the aged.

10. It should be emphasized that research along the lines suggested above does *not* necessarily involve collection of new statistical information. Existing data

collected for a variety of studies could well be *reused* to shed light on the questions indicated. The White House Conference on Aging and the proposed Aging Research Commission would be the organizations naturally suited for sponsoring further research on questions relating to housing-annuity.

REFERENCES

The author is associate professor, Department of Economics, University of California, Los Angeles. As a summary of a larger study, this statement does not contain detailed documentation of references. It does include, however, a few detailed tables of statistical information and an appendix which are of particular interest. He wishes to acknowledge the financial assistance by the Institute of Industrial Relations, Research Committee of the Academic Senate, Bureau of Business and Economic Research (now defunct), and the Campus Computing Network, all at U.C.L.A. Some of the data were developed when he was a Brookings Research Professor in residence at the Social Systems Research Institute (SSRC) at the University of Wisconsin, acknowledgment is made of support by the Brookings Institution and SSRC at Wisconsin. Many individuals have given help in various ways, and they will be individually mentioned in the full report of the project.

(1) See Tables 4 and 4a in Appendix.
(2) See Tables 5 and 6b in Appendix. This observation does not deny the fact that there are aged persons with low current incomes who has very little or no assets. The heterogeneous nature of their economic circumstances among the aged also was emphasized in Appendix.
(3) This formula assumes a fixed amount of a straight-life annuity contract for one annuitant. Modifications will be made to this formula if other types of contract (such as joint and last survivor for a couple) are considered.
(4) See Benjamin Bridges, Jr., "Imputed Income from Owner-occupied Housing", Research and Statistics Note No. 3, Office of Research and Statistics, Social Security Administration, January 23, 1967; and also, James H. Schulz, "Some Economics of Aged Home Ownership", *The Gerontologist*, vol. 7, No. 1, March 1967, pp. 73–74 and 80.
(5) Herman B. Brotman, "A Fact Sheet" on Homeownership Aspects of the Economics of Aging", July 1969 (Administration on Aging, Department of Health, Education, and Welfare).
(6) Computed from U.S. Census of Housing, 1960, Vol. V, *Residential Finance* (Part 1, *Homeowner Properties*).
(7) Brotman, *op. cit.*
(8) There are several reasons for this. (1) The lender's requirement of periodic repayment of principal, as well as interest on the debt, would reduce or even exceed the income from the use of the borrowed funds (either annuity purchase or otherwise). (2) The homeowner usually would receive no more than eighty percent of the appraised value of the property. (3) The persons with the greatest need (i.e., those with very low current incomes) would not be served because their curtailed incomes (due to retirement, for example) might not qualify them for even an eight percent loan. And (4) many lending institutions are unwilling to make loans to the older (retired) homeowner because of (a) the possibility of the borrower's inability to properly maintain the property; (b) the financial difficulties which might be encountered when the borrower dies; (c) the problems associated with a default and the undesirable situation of having to foreclose and ultimately evict the borrower; and (d) the probability of becoming involved in the settlement of the estate to obtain the funds to repay the debt.
(9) The mechanics as well as the rationale of such a plan was expressed earlier in Yung-Ping Chen, "Potential Income from Homeownership: An Actuarial Mortgage Plan," A Compendium of Papers, Part II: The Aged Population and Retirement Income Programs, Subcommittee on Fiscal Policy, Joint Economic Committee, 90th Congress, 1st Session (Washington: U.S. Government Printing Office, 1967).

(10) Yung-Ping Chen and L. Timothy Giles, "A Note on Estimating Potential Income from a Housing-Annuity" in this volume.

(11) The *reasonable* degree of appreciation and depreciation would have been taken into account in computing the size of annuity at the start of the contract, since the computational formula has in it estimated rates of appreciation and depreciation. See *ibid.*

(12) It is not often recognized that difficulties surround a sale transaction by an older homeowner. His bargaining position is weak for various reasons, so his house may often fetch a price below its current market value. Another problem arises in inflationary times with tightened supply of loanable funds. A mortgage-free (or low-mortgage) homeowner may find it difficult to get a buyer who can borrow sufficient sums from a lending institution to supplement his downpayment because the loan would be a new one instead of an existing mortgage changing the name of the mortgagor. The author is aware of several instances of this kind in Los Angeles recently.

(13) The increments in income provided by this plan are not intended for meeting property tax obligations as such, although the plan does increase the current resources of older householders. The plan is offered independently of tax liabilities. Property tax reductions of course are to be welcomed, but such reductions must result from reasonable considerations.

(14) Harold W. Gutherie, "Intergenerational Transfers of Wealth and the Theory of Savings", the *Journal of Business of the University of Chicago*, Vol. XXXVI, No. 1, January 1963, pp. 97–108.

(15) FHA report, as quoted in *U.S. News and World Report*, August 18, 1969, p. 76.

TABLE 1.—NUMBER AND PERCENT OF NONFARM 1-UNIT DWELLINGS OWNED AND OCCUPIED BY AGE OF HEADS 65 OR OVER, BY HOUSEHOLD INCOME: 1960

Household income	Number of units: Number	Number of units: Accumulated number	Percent of units: Percent	Percent of units: Accumulated Percent
Less than $1,000	992,584		21.04	
$1,000 to $1,999	967,858	1,860,442	20.51	41.55
$2,000 to $2,999	678,473	2,638,915	14.38	55.93
$3,000 to $4,999	794,480	3,433,395	16.84	72.77
$5,000 or more	1,284,568	4,717,963	27.23	100.00
Total	4,717,963		100.00	

Source: Compiled from U.S. Census of Housing, 1960, vol. VII, Housing of Senior Citizens, table A-7, p. 52.

TABLE 2.—NUMBER AND PERCENT OF NONFARM 1-UNIT DWELLINGS OWNED AND OCCUPIED BY AGE OF HEADS 65 OR OVER, BY ESTIMATED VALUE OF DWELLINGS: 1960

Value of dwelling	Number of units: Number	Number of units: Acumulated number	Percent of units: Percent	Percent of units: Accumulated percent
Less than $5,000	964,948		20.45	
$5,000 to $7,400	803,475	1,768,423	17.03	37.48
$7,500 to $9,900	740,411	2,508,834	15.69	53.17
$10,000 to $12,400	711,641	3,220,475	15.08	68.25
$12,500 to $14,900	743,050	3,693,525	10.03	78.28
$15,000 to $17,400	349,095	4,042,620	7.40	85.68
$17,500 to $19,900	206,433	4,249,053	4.38	90.06
$20,000 to $24,900	218,026	4,467,079	4.62	94.68
$25,000 or more	250,884	4,717,963	5.32	100.00
Total units	4,717,963		100.00	

Source: Compiled from U.S. Census of Housing, 1960, vol. VII, Housing of Senior Citizens, table A-7, p. 52.

TABLE 3.—ESTIMATED MARKET VALUE OF NONFARM OWNER-OCCUPIED 1-UNIT DWELLINGS IN UNITED STATES WITH HEADS 65 OR OVER BY HOUSEHOLD INCOME 1960 (I)

Value of dwelling	Household income					
	Less than $1,000	$1,000 to $1,999	$2,000 to $2,999	$3,000 to $4,999	$5,000 or more	Total units
Less than $5,000	378,382	282,781	129,722	102,185	71,878	964,948
Simple percentages	39.21	29.31	13.44	10.59	7.45	
Accumulated percentages		68.52	81.96	92.55	100.00	
$5,000 to $7,400	199,232	205,067	135,282	134,337	129,557	803,475
Simple percentages	24.80	25.52	16.84	16.72	16.12	
Accumulated percentages		50.32	67.16	83.88	100.00	
$7,500 to $9,900	142,479	162,895	125,266	141,227	168,544	740,411
Simple percentages	19.24	22.00	16.92	19.07	22.76	
Accumulated percentages		41.24	58.16	77.23	99.99	
$10,000 to $12,400	110,778	133,584	115,654	145,637	205,988	711,641
Simple percentages	15.57	18.77	16.25	20.46	28.95	
Accumulated percentages		34.34	50.59	71.05	100.00	
$12,500 to $14,900	60,920	73,813	68,721	98,504	171,092	473,050
Simple percentages	12.88	15.60	14.53	20.82	36.17	
Accumulated percentages		28.48	43.01	63.83	100.00	
$15,000 to $17,400	39,996	47,214	44,696	70,241	146,948	349,095
Simple percentages	11.46	13.52	12.80	20.12	42.09	
Accumulated percentages		24.98	37.78	57.90	99.99	
$17,500 to $19,900	20,468	23,306	23,535	39,005	100,119	206,433
Simple percentages	9.92	11.29	11.40	18.89	48.50	
Accumulated percentages		21.21	32.61	51.50	100.00	
$20,000 to $24,900	20,198	21,502	20,081	35,793	120,452	218,026
Simple percentages	9.26	9.86	9.21	16.42	55.25	
Accumulated percentages		19.12	28.33	44.75	100.00	
$25,000 or more	20,131	17,696	15,516	27,551	169,990	250,884
Simple percentages	8.02	7.05	6.18	10.98	67.76	
Accumulated percentages		15.07	21.25	32.23	99.99	
Total units	992,584	967,858	678,473	794,480	1,284,568	4,717,963
Simple percentages	21.04	20.51	14.38	16.84	27.23	
Accumulated percentages		41.55	55.93	72.77	100.00	

Source: U.S. Census of Housing, 1960, vol. VII "Housing of Senior Citizens,". Table A-7 p. 52.

TABLE 4.—ESTIMATED MARKET VALUE OF NONFARM OWNER-OCCUPIED 1-UNIT DWELLINGS IN UNITED STATES WITH HEADS 65 OR OVER BY HOUSEHOLD INCOME 1960 (II)

Value of dwelling	Household income					
	Less than $1,000	$1,000 to $1,999	$2,000 to $2,999	$3,000 to $4,999	$5,000 or more	Total units
Less than $5,000	378,382	282,781	129,722	102,185	71,878	964,948
Simple percentages	38.12	29.22	19.12	12.86	5.60	20.45
Accumulated percentages						
$5,000 to $7,400	199,232	205,067	135,282	134,337	129,557	803,475
Simple percentages	20.07	21.19	19.94	16.91	10.09	17.03
Accumulated percentages	58.19	50.41	39.06	29.77	15.69	37.48
$7,500 to $9,900	142,479	162,895	125,266	141,227	168,544	740,411
Simple percentages	14.35	16.83	18.46	17.78	13.12	15.69
Accumulated percentages	72.54	67.24	57.52	47.55	28.81	53.17
$10,000 to $12,400	110,778	133,584	115,654	145,637	205,988	711,641
Simple percentages	11.16	13.80	17.05	18.33	16.04	15.08
Accumulated percentages	83.70	81.04	74.57	65.88	44.85	68.25
$12,500 to $14,900	60,920	73,813	68,721	98,504	171,092	473,050
Simple percentages	6.14	7.63	10.13	12.40	13.32	10.03
Accumulated percentages	89.84	88.67	84.70	78.28	58.17	78.28
$15,000 to $17,400	39,996	47,214	44,696	70,241	146,948	349,095
Simple percentages	4.03	4.88	6.59	8.84	11.44	7.40
Accumulated percentages	93.87	93.55	91.29	87.12	69.61	85.68
$17,500 to $19,900	20,468	23,306	23,535	39,005	100,119	208,433
Simple percentages	2.06	2.41	3.47	4.91	7.79	4.38
Accumulated percentages	95.93	95.96	94.76	92.03	77.40	90.06
$20,000 to $24,900	20,198	21,502	20,081	35,793	120,452	218,026
Simple percentages	2.03	2.22	2.96	4.51	9.38	4.62
Accumulated percentages	97.96	98.18	97.72	96.54	86.78	94.68
$25,000 or more	20,131	17,696	15,516	27,551	169,990	250,884
Simple percentages	2.03	1.83	2.29	3.47	13.23	5.32
Accumulated percentages	99.99	100.01	100.01	100.01	100.01	100.00
Total units	992,584	967,858	678,473	794,480	1,284,568	4,717,963

Source: U.S. Census of Housing, 1960: vol. VII, "Housing of Senior Citizens," table A-7, p. 52.

Appendix to "Making A Theory Work: The Case of Homeownership by the Aged" by Yung-Ping Chen

ECONOMIC POVERTY: THE SPECIAL CASE OF THE AGED[1]

(BY YUNG-PING CHEN, PH. D.[2])

The war on poverty is on; one of its fronts is against poverty among those age 65 or over ("aged poverty" henceforth). An effective war against poverty requires the knowledge of who are the poor. To identify the poor, one needs a concept and a definition of poverty and then a yardstick by which it may be measured. Although useful for preliminary purposes, the two current measures of poverty offer inaccurate counting of the poor, especially regarding the aged poor, because, among other things, the role of assets is not recognized in the measurement. Aged poverty represents a special case of the poor, partly due to this measurement problem, partly because of the wide diversity of economic circumstances among the aged, and partly on account of the particular difficulties associated with advancing years.

CONCEPT AND DEFINITION OF ECONOMIC POVERTY

Poverty appears in different guises. There are the spiritually poor, culturally poor, psychologically poor, economically poor, and so forth. Economists are chiefly interested in economic poverty, because these other forms of poverty are not easily reducible to monetary terms. Concern with economic poverty does not imply unconcern with other forms of poverty, however. To the extent that some of the other forms of poverty may be closely related to and affected by economic poverty, the study of the latter would contribute to knowledge about the former. Since studies of poverty are meaningless unless they lead to possible solutions, these other dimensions of life must be kept in mind when attempting to devise practical solutions to economic poverty. This reminder is nowhere more important than in considering aged poverty.

Generally speaking, economic poverty exists when the economic resources of a person or a family fall below what is necessary to meet the cost of a socially-determined minimum level of living. Thus, the minimum level of consumption socially regarded as necessary and the economic resources available for the required needs are two important elements in defining poverty. Budget needs depend upon many factors, such as the size and age composition of the family, the place of residence, the state of health, and the like. Ability to meet budget requirements, on the other hand, depends not only upon money income currently received, but also upon nonmoney income, such as compensation in kind, and upon the willingness and ability to borrow or to use savings. This last item brings up the third element in measuring poverty: the time factor. The number of the poor in a given year will tend to be misrepresented if available economic resources ought to be measured over a period of, say, three or five years. The lack of attention to the time dimension in most definitions of poverty is largely due to the lack of data for this purpose.

CURRENT POVERTY MEASURES: INCOME AND CONSUMPTION-ADJUSTED INCOME

Currently there are two most-often-used measures of poverty. (1) The Council of Economic Advisers uses $3,000 for a family and $1,500 for a single person (both in 1962 dollars) as dividing lines between poverty and nonpoverty (Council of Economic Advisers, 1964). (2) The Social Security Administration (Orshansky, 1965) recently proposed a flexible poverty line, differentiating among families of various sizes and age composition in farm or non-farm localities. The poverty line ranges from $880 for a single woman 65 or over living on a farm to $5,100 for a family of 7 or more with a male head in a non-farm locality, providing equivalent level of living to these units. These may be called CEA and SSA measures, respectively.

With respect to the proportion of poor families in the total number of families in the United States, the CEA measure shows 19% for 1963, whereas the SSA measure indicates 15% for the same year (Table 1). Two questions regarding

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[1] Originally prepared for the Interdisciplinary Seminar on Aging, School of Public Health, UCLA, April 20, 1965. The views expressed here are those of the author.

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aged poverty may be answered immediately. (1) How many of the poor families are aged families? (2) How many of the aged families are poor? Under the CEA measure in 1963, 35% of the poor families were aged and 45% of the aged families were poor. The number of the poor families was 8.8 million and that of the poor aged families, 3.1 million. According to the SSA measure, on the other hand, in 1963, 21% of the poor families were aged and 22% of the aged families were poor. In absolute terms, there were 7.2 million poor families and 1.5 million poor aged families. Table 2 summarizes these figures in a more convenient form. Moreover, there were in 1963 about 2.5 million single persons who were poor under either CEA or SSA measure (Table 3).

It can be seen from Tables 1 and 3 that the total number of poor persons under either measure is roughly the same, but the composition of the poor is notably different with respect to aged families and children under age 18. The number of aged families defined as poor under the SSA measure was, as Table 2 shows, one-half as much as that under the CEA measure (1.5 million vs. 3.1 million). The number of children in poverty, however, under the SSA measure was, as shown in Table 1, more than one third again as much as that under the CEA measure (15 million vs. 10.8 million). There are other wide differences, such as the incidence of poverty in farm and nonfarm localities.

TABLE 1.—PERSONS IN POVERTY IN UNITED STATES IN 1963 UNDER 2 MEASURES

[In millions]

		In Poverty			
		DEA measure		SSA measure	
		Number	Percent of total	Number	Percent of total
Total number of persons	187.2	33.4	18	34.6	18
Members of families	176.0	28.5	16	29.7	17
(Number of families)	(47.4)	(8.8)	(19)	(7.2)	(15)
Children under 18	68.8	10.8	16	15.0	22
Unrelated individuals	11.2	4.9	44	4.9	44

Source: Orshansky, 1965, p. 11.

TABLE 2.—FAMILIES IN POVERTY IN UNITED STATES IN 1963: TOTAL AND AGED UNDER 2 MEASURES

[In millions]

	Total families			Aged families			
Measure	Number	Number in poverty	Poor families, total families (percent)	Number	Number in poverty	Poor aged families, all aged families (percent)	Poor aged families, all poor families (percent)
CEA	47.4	8.8	19	6.7	3.1	45	35
SSA	47.4	7.2	15	6.7	1.5	22	21

Source: Orshansky, 1965, p. 12.

TABLE 3.—UNRELATED INDIVIDUALS IN POVERTY IN THE UNITED STATES IN 1963: TOTAL AND AGED UNDER 2 MEASURES

	Total unrelated individuals			Aged unrelated individuals			
Measure	Number	Number in poverty	Poor individuals total individuals (percent)	Number	Number in poverty	Poor aged individuals all aged individuals (percent)	Poor aged individuals all poor individuals (Percent)
CEA	11.2	4.9	44	4.3	2.6	60	53
SSA	11.2	4.9	44	4.3	2.5	60	52

Source: Orshansky, 1965, p. 12.

TABLE 4.—ASSET-INCOME RATIOS AND NET WORTH INCOME RATIOS, BY INCOME OF SPENDING UNITS, 1950

1949 money income before taxes	Total income: Percent	Total income: Billion dollars	Total assets: Percent	Total assets: Billion dollars	Total net worth: Percent	Total net worth: Billion dollars	Asset-income ratios	Net worth income ratios
Under $1,000	2	3.4	6	39.0	6	34.3	11.5	10.0
$1,000 to $2,000	9	15.7	8	47.0	8	42.8	3.0	2.7
$2,000 to $3,000	16	27.2	12	72.0	11	61.2	2.6	2.6
$3,000 to $4,000	19	32.3	14	84.0	13	70.6	2.6	2.2
$4,000 to $5,000	15	25.5	11	66.0	11	56.1	2.6	2.2
$5,000 to $7,500	19	32.3	17	107.0	17	94.2	3.2	2.9
$7,500 and over	20	34.0	31	188.0	33	178.6	5.5	5.3
Not ascertained	(1)		1	10.0	1	10.9		
All cases	100	170.0	100	613.0	100	548.7	3.6	3.2

1 No cases reported, or less than 0.5 percent.

Sources: Goldsmith, 1956. For asset-income ratios, cf. Lampman, 1962.

ROLE OF ASSET HOLDINGS

The CEA and SSA definitions reflect the two ingredients in defining poverty, consumption needs and available resources; absent in both is the time period over which economic resources are measured. Although this very essential element may be ignored in an initial attempt to define poverty, the removal of this deficiency is necessary, especially regarding aged poverty.

Among the possible approaches to this time period problem is one which explicitly recognizes assets as well as current money income in the consideration of poverty. In other words, asset holdings may be used as a proxy for income history. To include assets in measuring economic resources may be quite important. Even when low income persons do not possess large amounts of assets, small amounts of assets may disqualify some as poor.

Although low asset holdings tend to be associated with low incomes, this tendency is less important for the aged as a whole than for the nonaged. Even for the population as a whole, the importance of the role of assets or net worth is highlighted by the fact that the lowest income group in 1950 (under $1,000) was estimated to have an asset-income ratio of 11.5 and a net worth-income ratio of 10, whereas the highest income group ($7,500 and over) had ratios of 5.5 and 5.3, respectively (Table 4). It should be obvious that a smaller asset-income ratio of 2.6, when associated with a higher income of $5,000, will indicate a larger absolute amount of asset holdings ($13,000) than a larger asset-income ratio of 11.5 associated with a lower income of $1,000, which indicates a smaller amount of assets, $11,500. Of interest and significance, however, is that the ratio of assets to income is not constant for all income groups.

TABLE 4a.—NET WORTH BY AGE GROUPS, 1962

Age of head of spending unit or family	Median net worth: Survey of consumer finances	Median net worth: Survey of financial characteristics
Under 25	$250	$270
25 to 34	1,800	2,080
35 to 44	6,000	8,000
45 to 54	9,900	11,950
55 to 64	9,960	14,950
65 and over	8,000	10,450
All groups	4,700	7,550

Sources: Survey Research Center, 1963; and Federal Reserve Bulletin, 1964.

The above relates to the income classes for the entire population. Table 4a shows the net worth position of the aged vis-a-vis other age groups in 1962—a comparison of much interest when aged poverty is considered in the context of asset holdings. Although the two sets of estimates in the table demonstrate striking discrepancies, the important point is that the median net worth of the aged group, surpassed only by that of groups headed by people 55 to 64 and by 45 to 54, was substantially larger than the median net worth of those headed by all other age groups.

In particular reference to the role of assets in the measurements of poverty among the aged, considerable insight is provided by the 1963 Survey of the Aged recently conducted by the Social Security Administration. An article on the potential income from assets of the aged was recently published (Murray, 1964). Potential income, defined as actual money income minus the income from assets plus prorated assets, expresses for illustrative purposes the economic position of an aged unit with any combination of income and assets. Income from assets is derived from an arbitrary proration of assets, plus earned interest (less income actually received from the assets) over the average remaining years of life of the aged units with a 4% annual return. The calculation takes into account sex differentials in longevity, joint probability of the number of years remaining for couples living together and the number of years either spouse might survive alone to draw two-thirds of asset holdings previously available to the couple. It is a statistical construct which in effect assumes conversion of assets into life annuities, resulting in exhaustion of asset holdings at life's end.

Murray (1964) warns that this statistical exercise "does not in any way bear upon the question of the feasibility or the desirability of this form of asset management for individuals." Moreover, she states that "the conversion of the owned farm or other business holdings into prorated assets . . . is recognized as particularly unrealistic." She also indicates that ". . . it may be reasonable and realistic to exclude than to include the owned home from prorated assets. . . ." However, this writer is inclined to argue that a realistic and workable plan may be devised to use potential income for solving a major part of the problem of those aged persons whose current income is inadequate but whose potential income is higher (Chen, 1965).

POVERTY MEASURE: POTENTIAL INCOME

Potential income measure, as defined above, would enhance the economic position of the aged. Table 5 shows that the median potential income is about 10% greater than the median actual income when home equity is excluded and the median potential income is about one-third greater than the median actual income when home equity is included. Specifically, the median actual income of married couples in 1963 was $2,875, but their potential income excluding home equity was $3,130 and their potential income including home equity was $3,795. The median actual income of nonmarried men in 1962 was $1,365, whereas their potential income excluding home equity was $1,560 and their potential income including home equity was $1,845. The respective figures for nonmarried women were $1,015, $1,130, and $1,395.

TABLE 5.—MEDIAN INCOME FOR UNITS AGED 65 AND OVER IN 1962: ACTUAL VS. POTENTIAL INCOMES

Unit	Actual income	Potential income: Amount	Potential income: Percent improvement over actual income when home equity excluded	Potential income: Amount	Potential income: Percent improvement over actual imcone when home equity included
Married couples	$2,875	$3,130	9	$3,795	32
Nonmarried men	1,365	1,560	14	1,845	35
Nonmarried women	1,015	1,130	10	1,395	37

Source: Murray, 1964, p. 5.

TABLE 6.—INCIDENCE OF POVERTY AMONG AGED UNITS IN 1962, ACTUAL VS. POTENTIAL INCOME A LA ALTERNATIVE POVERTY LINES

	Percent of aged units in poverty								
	Married couples			Nonmarried men			Nonmarried women		
		Potential income			Potential income			Potential income	
Poverty income (A for couples) (B for single)	Actual income	Home excluded	Home included	Actual income	Home excluded	Home included	Actual income	Home excluded	Home included
1. A $2,000; B $1,500	29	25	17	57	48	43	69	66	54
2. A $1,800; B $1,500	22	19	13	57	48	43	69	66	54
3. A $1,800; B $1,200	22	19	13	45	38	34	59	55	45
4. A $1,800; B $1,000	22	19	13	32	28	25	49	45	36
5. A $1,500; B $1,000	15	13	9	32	28	25	49	35	36

Source: Percentage distributions are estimated from data in table 6b, and alternative poverty lines are based on income criteria in table 6a.

Similarly, the incidence of poverty among the aged would be reduced when potential income measure is used. For five different income levels separating the poor from the nonpoor, the author has estimated the percentage distributions of each of the three groups (married couples, nonmarried men, and nonmarried women) in poverty, according to (1) actual income, (2) potential income excluding home equity, and (3) potential income including home equity.

The five alternative poverty income lines are selected for illustrative purposes. Income levels of $2,000 for couples and $1,500 for single people exceeded the amounts indicated in Table 6a for the nonfarm aged, and the excesses are greater for the aged on the farms. On the other hand, income levels of $1,500 for couples and $1,000 for single persons, which are roughly the averages of the amounts allowed for nonfarm and farm aged, probably understate the extent of poverty. However, since the purpose here is to demonstrate the role of prorated assets, these particular income lines for poverty have at this point a secondary importance.

For example, according to the poverty income line No. 3 in Table 6 for married couples, the incidence of poverty was 22% when actual income was the measure; the rate declined to 19% when potential income excluding home equity was the measure; and the rate further dropped to 13% when home equity was included in the potential income. These comparisons indicate substantial improvements in their economic circumstances, in the sense of reduction in the incidence of poverty, when prorated assets are considered. Though not as substantial, improvements are still important for nonmarried men and nonmarried women as well.

TABLE 6A.—WEIGHTED AVERAGE OF POVERTY INCOMES AT ECONOMY LEVEL FOR FAMILIES BY SIZE, SEX OF HEAD, AND RESIDENCE FOR THE UNITED STATES IN 1963

	Nonfarm			Farm		
Number of family members	Total	Male head	Female head	Total	Male head	Female head
1 (under age 65)	$1,580	$1,650	$1,525	$960	$990	$920
1 (aged 65 or over)	1,470	1,480	1,465	885	890	880
2 (under age 65)	2,050	2,065	1,975	1,240	1,240	1,180
2 (aged 65 or over)	1,850	1,855	1,845	1,110	1,110	1,120
3	2,440	2,455	2,350	1,410	1,410	1,395
4	3,130	3,130	3,115	1,925	1,925	1,865
5	3,685	3,685	3,660	2,210	2,210	2,220
6	4,135	4,135	4,110	2,500	2,495	2,530
7 or more	5,090	5,100	5,000	3,055	3,065	2,985

Source: Orshansky, 1965, p. 28. These different amounts of income are estimated to provide for the equivalent "economy" level of living to all categories of persons. Poverty exists when a person or a family does not have the indicated amount of income.

TABLE 6b.—SIZE OF INCOME, ACTUAL,[1] AND WITH PRORATED ASSETS EXCLUDING AND INCLUDING EQUITY IN NONFARM HOME[2] FOR UNITS AGED 65 AND OVER: PERCENTAGE DISTRIBUTION BY INCOME INTERVAL, 1962

	Married couples			Nonmarried men			Nonmarried women		
		Income with prorated assets			Income with prorated assets			Income with prorated assets	
	Actual income	Excluding equity in home	Including equity in home	Actual income	Excluding equity in home	Including equity in home	Actual income	Excluding equity in home	Including equity in home
Number (in thousands): Total	5,445	5,445	5,445	2,402	2,402	2,402	6,329	6,329	6,329
Reporting on specified income[3]	4,719	4,337	4,337	2,173	2,063	2,063	5,536	5,085	5,085
Total percent	100	100	100	100	100	100	100	100	100
Less than $1,000	5	4	3	32	28	25	49	45	36
$1,000 to $1,499	10	9	6	25	20	18	21	21	18
$1,500 to $1,999	14	12	8	12	12	11	13	13	13
$2,000 to $2,499	13	11	9	11	12	11	7	6	8
$2,500 to $2,999	12	12	9	5	6	7	3	4	6
$3,000 to $3,999	16	18	18	6	6	8	3	4	7
$4,000 to $4,999	11	10	11	3	5	6	1	2	4
$5,000 to $9,999	15	18	26	6	8	11	3	3	5
$10,000 and over	5	7	9	1	3	5	(4)	2	2
Median:[5]									
All units	$2,875	$3,130	$3,795	$1,365	$1,560	$1,845	$1,015	$1,130	$1,395
OASDI beneficiaries	2,800	3,020	3,685	1,405	1,640	1,960	1,225	1,330	1,630
Nonbeneficiaries	3,580	3,835	4,585	1,145	1,325	1,560	815	755	960

Source: Murray, 1964, p. 5.

[1] Total money income in 1962.

[2] Actual income less income from assets, plus the portion of asset holdings that would have been available for spending annually if all assets were prorated over the average remaining years of life of the unit, with a 4 percent annual return. Sex differentials in longevity included in computation. For couples, proration based on joint probability of number of years remaining for husband and wife together and number either spouse might survive alone to draw two-thirds of asset holdings available to couple annually.

[3] Data on actual income based on information for those survey units reporting amount of money income received in 1962. Data on income with prorated assets based on information for those survey units reporting both amount of money income in 1962 and amount of assets at the end of 1962. Median actual income of those reporting on both income and assets would probably be about the same for married couples, slightly higher for nonmarried men, and slightly lower for nonmarried women.

[4] Less than 0.5 percent.

[5] Computing from $500 income groupings.

TABLE 7.—ASSETS, TOTAL AMOUNT, AND AMOUNT LESS EQUITY IN NONFARM HOME, FOR UNITS AGED 65 AND OVER: PERCENTAGE DISTRIBUTION, BY AMOUNT OF ASSETS, 1962

	Total assets			Total assets less equity in nonfarm home		
Amount of assets	Married couples	Nonmarried Men	Nonmarried women	Married couples	Nonmarried men	Nonmarried women
Number (in thousands):						
Total	5,445	2,402	6,329	5,445	2,402	6,329
Reporting on assets[1]	5,217	2,086	5,489	5,048	2,058	5,339
Total percent reporting	100	100	100	100	100	100
Zero	10	28	26	23	37	37
$1-$999	5	11	10	14	14	17
$1,000-$1,999	4	5	4	7	5	7
$2,000-$2,999	3	4	4	5	6	5
$3,000-$4,999	6	7	7	7	5	6
$5,000-$9,999	14	12	13	10	11	8
$10,000-$14,999	12	8	8	7	5	4
$15,000 or more	35	18	16	21	11	10
Amount not reported	12	7	11	8	5	7
Median:						
For units reporting	$11,180	$2,900	$3,285	$2,950	$790	$610
For units with assets	13,000	6,920	6,820	6,180	4,270	2,950

Source: Social Security Bulletin, 1964.

[1] Excludes persons in institutions, who were not asked to provide information on assets and debts, as well as those unable or unwilling to report.

TABLE 8.—INCOME, ACTUAL[1] AND WITH PRORATED ASSETS EXCLUDING AND INCLUDING EQUITY IN NONFARM HOMES,[2] FOR UNITS AGED 62 AND OVER—MEDIANS BY AGE, 1962

Age	Married couples			Nonmarried men			Nonmarried women		
	Total	OASDI beneficiaries	Nonbeneficiaries	Total	OASDI beneficiaries	Nonbeneficiaries	Total	OASDI beneficiaries	Nonbeneficiaries
Median:[3]									
Actual income:									
62 to 64	$5,200	$2,950	$5,900	$1,775	$1,375	$2,685	$1,610	$1,395	$2,205
65 to 72	3,340	3,050	4,750	1,765	1,720	1,980	1,280	1,400	855
73 and over	2,325	2,425	1,680	1,165	1,260	860	885	1,035	720
Income with prorated assets excluding equity in owned home:									
62 to 64	5,395	2,920	6,155	1,900	1,410	2,925	1,643	1,385	2,330
65 to 72	3,480	3,260	4,890	1,925	1,855	2,250	1,335	1,475	890
73 and over	2,640	2,745	1,850	1,335	1,450	920	975	1,200	795
Income with prorated assets including equity in owned home:									
62 to 64	5,930	3,310	6,705	2,000	1,510	2,940	2,080	1,755	2,805
65 to 72	4,105	3,865	5,785	2,120	2,035	2,420	1,575	1,750	1,055
73 and over	3,300	3,380	2,355	1,550	1,855	980	1,250	1,485	930

Source: Murray, 1964, p. 10.

[1] Total money income in 1962.

[2] Actual income less income from assets, plus the portion of asset holdings that would have been available for spending annually if all assets were prorated over the average remaining years of life of the unit with a 4-percent annual return. Sex differentials in longevity included in computation. For couples, proration based on joint probability of number of years remaining for husband and wife together and number either spouse might survive alone to draw ⅔ of asset holdings available to couple annually.

[3] For actual income, based on information for those survey units reporting amount of money income received in 1962. For income with prorated assets, based on information for those survey units reporting both amount of money income in 1962 and amount of their assets at the end of 1962. Median actual income of those reporting on both money income and asset holdings would probably vary slightly from the amount estimated from the larger base, particularly for units aged 62–64.

HETEROGENEITY OF THE AGED

While the preceding discussions stressed the importance of asset holdings, it should be observed that large percentages of married couples and nonmarried persons had in 1962 either no assets or very low assets. For example, 10% of aged couples had no assets even when home equity was included; the percentages was 28 and 26 for aged single men and women, respectively. When home equity was excluded, moreover, 23% of aged couples had no assets; the percentage was 37 for aged single people of either sex. On the other hand, when homes were included, 47% of aged couples had assets over $10,000 in 1962, whereas the respective percentages were 26 and 24 for aged single men and women. Even when homes were excluded, it is of interest to note, 28% of aged couples had assets over $10,000, whereas the percentages were 16 and 14 for aged single men and women, respectively (Table 7). These distributional statistics point to the wide diversity of the economic position of the aged.

The heterogeneity of their economic circumstances can also be observed with respect to age groups among the aged. For example, among married couples, the median actual income of those 62 to 64 in 1962 was $5,200: that of those 65 to 72, $3,340; and that of those 73 and over, $2,325. Further divergences may be noted regarding the aged by social security (OASDI) beneficiary status. In illustration, among nonmarried men 62 to 64 years of age who where OASDI beneficiaries in 1962, the median actual income was $1,375, whereas nonbeneficiaries of the same age group had a median actual income of $2,685 (Table 8).

There are other aspects of this heterogeneity such as mental and physical health status which are not discussed here.

SUMMARY

This brief paper stresses the following points: (1) although poverty is defined in economic terms, suggested solutions to poverty must take into account dimensions of life other than money; (2) measurement of poverty in terms of a fixed income figure tends to distort the composition of the poor when poverty is defined as inability to satisfy needs—the use of a flexible poverty lines is a definite improvement; (3) the time period over which economic resources are measured is a highly essential ingredient in defining and measuring poverty; (4) asset holdings may be used as a proxy for income history, for income history reflects the "time period" factor which is of concern; (5) on the basis of potential income, the economic circumstances of the aged units, in terms of the incidence of poverty, are in some cases markedly, and in other cases still noticeably, improved; (6) an appreciable heterogeneity exists in the economic circumstances among the aged, probably more so than in any other age groups; (7) aged poverty is a special case for several reasons, not all of which have been commented on it the paper—when the aged are considered poor according to a fixed income level (such as the CEA measure), many of them should not be so regarded because their consumption requirements tend to decline with age. When the aged are considered poor in accordance with a flexible income level (such as the SSA standard), some of them should not be so regarded because asset holdings have not been taken into account. However, when the aged are "poor" (that is, not only income-poor but, also asset-poor) their predicament is perhaps one of the harshest when compared with the income-poor and asset-poor younger persons, for many of the latter have the "prospect" of income and health and hope which are often denied to the aged.

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EXHIBIT 2. A NOTE ON ESTIMATING POTENTIAL INCOME FROM A HOUSING ANNUITY

(By Yung-Ping Chen and L. Timothy Giles [1])

An annuity contract based on home equity of aged homeowners has been proposed elsewhere.[2] Such a contract is called a housing-annuity and the person who purchases it is a housing-annuitant. The organization that provides this type of annuity might be a life insurance company, a pension fund, or some other financial intermediary, and we will call it an insurer or issuer. The basic idea of a housing-annuity is quite simple. An aged homeowner (or a couple) would put his home in escrow to convey the property title to the insurer at the death of the owner or of his spouse if later, in exchange for a monthly annuity income for life, *plus the assurance of lifetime tenure* in the house as long as the housing-annuitant wishes to reside there.

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[2] Yung-Ping Chen, "Potential Income From Homeownership: An Actuarial-Mortgage Plan," A Compendium of Papers, Part II: The Aged Population and Retirement Income Programs, Subcommittee on Fiscal Policy, Joint Economic Committee, 90th Congress, 1st Session (Washington: U.S. Government Printing Office, 1967).

We present in this note a few sets of estimates of the probable amounts of annuity income which might be expected for elderly homeowners with different age, sex, and marital status characteristics under various actuarial assumptions. This note should be regarded as a preliminary report. More work is in progress and details of the study will be presented in the near future.

The annuity income which might be expected from a housing-annuity would be determined by the following factors: interest rate (or discount rate); rate of appreciation of property value (including the rate of price inflation); rate of depreciation of the house (or the reciprocal of the estimated future life of the house in years); percentage of the property value attributable to the lot; housing-annuitant's sex, age, and marital status (or mortality assumptions); the net equity in the property; expense loading (for acquisition costs, contingency funds, general overhead costs, etc.). These variables relate to economic, actuarial, and cost accounting considerations.

The first six factors have been taken into account in the estimated amounts of annuity income recorded in Tables 1 and 2. The general formula for computing monthly income under a joint and last survivor housing annuity is:

$$\text{Monthly income} = \frac{(1-l)E\left[A^{i_1}_{xy:n} - \frac{1}{n}(IA)^{i_1}_{xy:n}\right] + lEA^{j}_{xy}}{12\ddot{a}^{(12)}_{xy}}$$

where: i = rate of interest (or discount rate)

p = rate of appreciation of the lot (including rate of price inflation)

$j = \frac{i-p}{l+p}$

n = remaining life of house in years (or reciprocal of the rate of depreciation)

l = percentage of equity attributable to the lot

E = total net equity of house and lot

x = male life age at issue

y = female life age at issue

The first term in the numerator indicates the present value of the house upon the second death of x and y. The second term in the numerator shows the present value of the value of the lot upon the second death of x and y. The denominator means the value of one dollar a month as long as either x or y remains alive.

For the purpose of illustrating the probable amounts of annuity income to a homeowner who purchases the proposed housing-annuity, we have condensed the many factors into a meaningful few. We have chosen to present estimates for four combinations of age, sex, and marital status. Table 1 is constructed for single male or single female homeowners, age 65 at issue of housing-annuity, with Table 2 for two couples—one both at age 65 and the other, huband 70 and wife 67. As for net equity, we use $10,000. For easier comprehension, we have presented *annual* instead of monthly annuity income. In case a homeowner's equity is greater than $10,000, the annuity income may be proportionally increased.

With reference to the four variables, i, p, n, l (rate of interest; rate of appreciation of the lot; remaining years of life of the house, and the percentage of equity in the lot), we have used the device of ordered pairs so as to present them on a two-dimensional table. There are a great number of possible combinations between these two ordered pairs (i and p; n and l). However, we have selected six pairs of i and p and five combinations of n and l.

We believe there is a historical and reasonable direct relationship between interest rates (i) and rates of property value appreciation price inflation (p). It appears unrealistic, for example, to assume 6% interest and 1% appreciation. We provide for six sets of i and p. The least probable combination is (3,2) with (6,7) probably too high, but they are shown to suggest outside limits. In the tables, we have (4,3) and (5,3) in order that the reader may isolate the effect on annuity income of a difference in the interest rate. We have also (5,5) and (5,6) so as to single out the effect of a difference in the rate of appreciation and price inflation.

As for the remaining years of life of the house (n) and the percentage of property value attributable to the lot (l), there seems to exist a logical relationship. Properties with a high proportion of the equity in the lot will generally be associated with older homes and hence shorter remaining life. We show five sets of n and l. The two combinations (20,35) and (20,25) are provided so that the effect of different proportion of the equity in the lot may be isolated.

Because of longer life expectancy by the female, for the same amount of equity, $10,000, Table 1 shows that in all cases, the female (of the same age) may expect smaller sums of annuity income, when all other factors affecting annuity payments are unchanged. The difference ranges from approximately $75 to $120 per year, under various combinations of i, p, n, and l.

Because of shorter life expectancy by a couple with husband 70 and wife 67, Table 2 shows that, in all cases, this couple receives more annuity than a couple of younger age (both 65) for an equity of $10,000, when all other factors are the same. The difference ranges between $25 and $50 under different variations of i, p, n, and l. Incidentally, the variations in Table 2 are the same as those in Table 1.

For mortality assumptions, we use the 1951 Group Annuity Table, scale c projected to 1966. There certainly may be honest disagreements as to mortality experiences. Some actuaries may feel that the transaction is subject to individual selection and therefore a group annuity mortality table may be inappropriate. They may choose to use, for example, some modification of the Individual Annuity Table for 1949. Under this alternative assumption, somewhat lower incomes would emerge.

In order to observe the effect of different mortality assumptions on annuity income, let us assume no depreciation and no appreciation (or inflation), a $10,000 home equity would provide the following alternative amounts of annual income to a couple both 65 years of age until the second death.

1. (Group annuity) 1966 GAT 4% interest........................ $325.56
2. (Individual annuity) 1949 modified 4% interest............... 309.72

The difference at $15.84 a year appears minor. Moreover, we believe that the use of individual annuity table may be too cautious, since the annuitant is not sacrificing cash at the time of purchase as would be the case with the purchase of a conventional annuity. Therefore he may not be engaged in as much anti-selection as he is assumed to do by those who would prefer to use the individual annuity table.

Rates of depreciation and appreciation (including inflation) are important issues. Suppose we introduce these factors in the following way. Assume the house carried 75% of the total value when it was built. The house depreciates at 4% per year linearly and the lot appreciates 2% a year. As time elapses, the lot bears a greater percentage of the total value. After 15 years of 4% depreciation and 2% appreciation, the house will be worth only 47% of the total equity. If we use these assumptions and the 1966 Group Annuity Table with 6% interest, the annual income to a couple both at 65 would be $283.44 from a total equity of $10,000. The annual annuity would be $270.36 for the same couple with equity of $10,000 if we assume no depreciation nor appreciation.

The influence of interest rate assumption on annuity income is another significant issue. We can see its effect by comparing the annual annuity to a male and female each age 65 under two rates of interest when no depreciation nor appreciation is assumed:

1. 1966 Group Annuity Table with 4% interest=$325.56
2. 1966 Group Annuity Table with 6% interest= 270.36

We note that the higher the interest rate, the low is the income to the housing-annuitant. The fact that smaller annuity payment is associated with higher interest rate may be puzzling. If the insurer receives premium payments in advance, which would be the case with traditional insurance and annuity contracts, then larger incomes would emerge with higher interest rates, because earnings from the premiums would be greater as a result. However, under the proposed housing-annuity contract, the insurer or issuer is receiving a deferred payment of the "premium" upon the future sale of the property when the housing-annuitant leaves. In this case, the interest rate is the rate of discount. The higher the discount rate, the lower would be the present value of a given asset in the future; the lower the present value of the asset, the smaller would be the income provided by that asset.

In Table 1 we observe that the amount of annuity income per year based on $10,000 equity which a single male housing-annuitant at 65 might expect ranges from a low of $322 to a high of $711 under various actuarial assumptions. For a single female housing-annuitant under the same conditions, the probable range of expected annual income runs between $233 and $607. These differences reflect the effect of mortality experiences. The higher the mortality rates, the higher would be the annuity payments. The sooner death occurs, the sooner the insurer takes title of the property and ceases payments. Males have higher mortality rates than do females of the same age. The effect of mortality experiences can also be seen in Table 2 where the older couple receives higher annuities in all cases. The younger couple's income ranges from $155 to $516 a year, as compared with $193 to $557 for the older couple, under various combinations of actuarial assumptions applicable to *both* couples.

The influence of the rate of interest (i) can be appreciated by reference to the second and third rows in the first column in Table 1, for example. With the same p, n, l, and E, a single male 65 could expect $401 with a 4% interest but only $380 with a 5% interest. The explanation, as given earlier, is that lower payments are associated with higher discount rates.

The rate of appreciation (p) has a different effect on annuity payments. We will compare the fourth and fifth rows in column 1 in Table 1 as an illustration. With the same i, n, l, and E, a single male 65 might expect $482 when p is 5% and $548 when p is 6%.

Turning to the variable n (the remaining life of the house in years), let us examine columns 3 and 4 with respect to the first row for the single male age 65 (Table 1). His annual income would be $407 if n is 30 years, and this sum is reduced to $332 if n is 20 years. As a rule incomes increase with longer n.

Lastly, we look at how l (proportion of equity in the lot) affects the payments. This we can determine by referring to columns 2 and 4 as they relate to the first row in Table 1. The single male 65 would be provided with $384 a year when l is 35 but only $332 when l is 25, with identical i, p, n, and E. The general rule is that lower incomes are associated with smaller l.

The above observations on the influences of i, p, n, and l are borne out by the figures recorded in Table 2 for couples.

In this note we have attempted (1) to provide a number of estimated annuity payments associated with various actuarial and economic factors, and (2) to explain the effects of these factors upon the size of such an income. Tables 1 and 2 only record 120 probable amounts of annuity relating to the combinations of various assumptions that are chosen for illustrative presentation. We have computer printouts containing more than 330,000 estimated annuity incomes for different combinations of ages with alternative i, p, n, and l. Since there will be some time before the full report will be available, comments and queries from interested readers will be most welcome.

TABLE 1.—ESTIMATED ANNUAL ANNUITY INCOME PROVIDED BY A $10,000 HOME EQUITY IN HYPOTHETICAL CASES (BY AGE, SEX, AND MARITAL STATUS) UNDER VARIOUS ACTUARIAL ASSUMPTIONS

(n, l)	(10, 45)		(20, 35)		(30, 25)		(20, 25)		(25, 50)	
(i, p)	SM 65	SF 65	SM 65	SF 65	SM 65	SF 65	SM 65	SF 65	SM 65	SF 65
(3, 2)	$375	$292	$384	$281	$407	$289	$332	$233	$491	$372
(4, 3)	401	317	404	301	417	300	346	248	517	398
(5, 3)	380	294	387	283	400	284	334	236	491	371
(5, 5)	482	401	467	366	457	343	391	295	604	490
(5, 6)	548	474	518	423	494	384	428	336	678	571
(6, 7)	581	508	543	449	507	400	446	355	711	607

Notes: i=interest rate (discount rate).
p=rate of appreciation (including price inflation).
n=future life of house in years (=1/d where d is the rate of depreciation of house).
l=percentage of home equity attributable to the lot.
SM 65=single male 65 years of age at issue.
SF 65=single female 65 years of age at issue.
Mortality assumptions=1951 Group Annuity Table, scale c projected to 1966.

TABLE 2.—ESTIMATED ANNUAL ANNUITY INCOME PROVIDED BY A $10,000 HOME EQUITY IN HYPOTHETICAL CASES (BY AGE, SEX, AND MARITAL STATUS) UNDER VARIOUS ACTUARIAL ASSUMPTIONS

(n, l)	(10, 45)		(20, 35)		(30, 25)		(20, 25)		(25, 50)	
(i, p)	M65, F65	M70, F67	M65, F65	M70, F67	M65, F65	M70, F67	M65, F65	M70, F67	M65, F65	M70, F67
(3, 2)	$228	$259	$201	$242	$202	$253	$155	$193	$285	$336
(4, 3)	250	281	217	258	210	260	166	204	307	358
(5, 3)	223	255	196	237	191	240	151	189	276	327
(5, 5)	332	362	281	320	252	299	212	248	398	445
(5, 6)	408	433	340	375	294	339	254	288	482	525
(6, 7)	440	464	364	398	308	351	271	304	516	557

Notes.—i=interest rate (discount rate).
p=rate of appreciation (including price inflation).
n=future life of house in years (=1/d where d is the rate of depreciation of house).
l=percentage of home equity attributable to the lot.
M65, F65=husband and wife same age 65 at issue.
M70, F67=husband age 70 with wife age 67 at issue.
Mortality assumptions=1951 Group Annuity Table, scale c projected to 1966.

EXHIBIT 3. BURDEN AND RELIEF OF PROPERTY TAXES ON THE AGED: SOME NOTES

(By Yung-Ping Chen[1])

Reported here are certain findings from an ongoing study of the property tax burden of the aged and the measures designed to cope with this problem. Section I contains my estimates of the property tax burden of all aged homeowners in California, Florida, and Michigan. Section II presents the property tax burden on low-income aged homeowners as observed from the statistics reported by state agencies. In Section III, I briefly analyze tax relief measures in California, Minnesota, Oregon, and Wisconsin. In the concluding Section (IV) I raise several issues that arise from the discussion of property tax burden on the aged and the policy of tax-concession.

I. ESTIMATED TAX BURDENS OF ALL AGED HOMEOWNERS

My estimates of the tax burden on all aged homeowners in California, Florida, and Michigan are based on specially tabulated 1960 U.S. Census data for those states. Property tax burden is defined as the ratio of taxes liable or paid to the household income of the aged homeowner. In terms of current income, the well-known regressivity of property taxes is once again shown without fail. Regressivity pervades in all three groups among the aged and in all three states for which estimates are presented in Table 1. This phenomenon would not be worthy of report if it were not for the fact that they are based on data from the Census on Housing in 1960 which had a 25 percent sample. These estimates are confined to three states (for which I had access to data) and admittedly are of limited scope. However, I believe the general pattern of tax burden distributions as characterized above would mirror the situations in other states as well.

II. REPORTED TAX BURDENS ON LOW-INCOME AGED HOMEOWNERS

The above estimates are well corroborated by the distributions of tax-income ratios among household income groups in all four states for which data are

[1] The author is an Associate Professor, Department of Economics, University of California, Los Angeles. For data used in Section I, he wishes to acknowledge financial assistance by the California Assembly Interim Committee on Revenue and Taxation, Bureau of Business and Economic Research (now defunct), UCLA and the Research Committee of the Academic Senate, UCLA. In performing the estimates he has been assisted by Dr. Ronald B. Welch, Dr. Raleigh Barlowe, Mr. Leonard D. Bronder, Mr. J. N. Aycocke. He is particularly grateful to Dr. Welch who always gave expeditious and meticulous statistical interpretations. For the data used in Section II and III, the author is thankful to Dr. Waldo E. Carlson, Messrs. John B. Marshall, Ray T. Mills, Jerome F. Silkey, Billy Dee Cook and Bruce Biermeir. The overall project was begun several years ago when the author held a Brookings Research Professorship, Brookings Institution, and has been continued with support by the Institute of Industrial Relations, Institute of Government and Public Affairs, and the Research Committee of the Academic Senate, the Campus Computing Network, all at UCLA. This project has also been given encouragement and assistance by a number of colleagues and research assistants. Their names will be individually recorded in a later, full report.

presented in Table 2. These data, reported by the various state agencies, are presently available only for the low-income aged homeowners as they are statistics from those states that offer tax concessions to elderly homeowners with low incomes. There are many other states that grant tax concessions of one kind or another to older homeowners, but I do not as yet have statistical information for all of them.

The regressiveness of property taxes (in terms of income) is unambiguously borne out by the reported data. Using Wisconsin as an example, tax-income ratio declines from 58% to 9% as income class rises from $1–499 to $3,000–3,499. Although tax burdens are less ominous in other states covered in Table 2, they still are inordinately heavy. Minnesota's ratios range 49% to 5% as income moves upwards with the same brackets as in Wisconsin. Relatively speaking, California and Oregon show a milder and similar tax burden (or a lower tax-income ratio) at the lowest income bracket, but it is still exceedingly high, with property taxes absorbing about one-third of the average income in this bracket.

III. FEATURES AND EFFECTS OF TAX-CONCESSION LAWS

From the data available to me so far, some of the features and the effects of tax-concession laws for elderly homeowners begin to emerge.

The policy of tax-concession differs in the four states included in this analysis, Exhibits A, B, C, D show basic elements of the law in California, Minnesota, Oregon, and Wisconsin respectively. These forms indicate who is eligible, what constitutes household income, how the tax relief is calculated, among other stipulations.

All of these states utilize vanishing type of exemption or credit, except Oregon. Under a vanishing exemption or credit, the amount of tax reduction declines as household income increases and there is no reduction in taxes when income rises beyond a prescribed level. This sliding concept exists in the Oregon law under which the true cash value exempt from taxation is allowed according to age of the taxpayer (10% for 65 to 68, 30% for 69 to 71 and so on to 100% for 80 and over).

Both California and Oregon grant tax concessions to homeowners only, while Minnesota and Wisconsin offer tax relief to renters as well as owners. Minnesota and Wisconsin allow no tax reductions for those with income more than $3,500; Oregon has the lowest income cutoff point, $2,500; and California's limit is $3,350.[1]

Insofar as tax reductions are concerned, they do not amount to large sums in absolute terms. The largest amount of average tax saving among four states is $229 in California (1968), with the smallest, $15 in Wisconsin (1966). As shown in Tables 3 through 6, the average tax reductions range from $27 to $229 in California; from $23 to $117 in Minnesota (1967); from $65 to $133 in Oregon (1966); and from $15 to $156 in Wisconsin (1966).

These comparatively minor sums of reduction in tax liabilties turn out to be highly significant when they are compared with the average income of low-income homeowners. For the lowest income group, the average reduction in taxes represents between 30% and 40% of the average income in California, Minnesota, and Wisconsin, whereas it still constitutes about 17% of the average income in Oregon.

Moreover, the percentage reduction in taxes as occasioned by these relief measures is very significant. As also shown in Tables 3 through 6, the reduction ranges from 95% to 9% in California; from 69% to 13% in Minnesota; from 75% to 5% in Wisconsin, with Oregon's at approximately 50%.

The tax-concession policy has been a powerful instrument in removing or reducing the regressiveness of property taxes as they relate to the *low-income* aged. In Table 3, we see in California, the after-concession tax burden takes on a progressive feature in terms of income. For the six income classes, from the lowest (less than $1,000) to the highest ($3,000–3,350), the tax-income ratio climbs steadily from 1.6% to 3.3%; 5.3%; 6.8%; 7.8%; and finally to 8.9%. This pattern is dramatically different from the regressive before-concession distribution as recorded in Table 2.

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[1] These stipulations are for the years (different for the states) for which data are reported below.

In the case of Minnesota, the after-concession tax burden distribution exhibits a mildly regressive pattern (Table 4) which still differs drastically from the before-concession manner of distribution. This experience is shared by Oregon, if we confine our attention at the moment only to the income range up to $2,500 in Table 5.

Finally as for Wisconsin, the tax relief measure there nearly transforms a highly regressive tax into a proportional one, save for the lowest two income levels.

IV. QUESTIONS CONCERNING POLICY AND EFFECTS OF TAX CONCESSIONS

The policy of tax-concession to aged homeowners and its effects raise a number of interesting and fundamental issues concerning property taxation and taxpaying ability. The purpose here is to raise certain questions with some discussion, leaving extensive analysis for a later occasion.

With reference to taxpaying ability, property taxation implicitly assumes either that (1) there is a positive correlation between the value of owner-occupier residential property and the current income of the owner-occupier, or that (2) the ability to pay is to be based on property value or wealth consideration.

Regarding the first assumption, it is well known that there exists no *necessary* positive correlation between property value and current income of the owner-occupier. The situation appears particularly true for aged homeowners since often they receive low or inadequate (relatively fixed) incomes and their income positions are adversely affected during inflationary times.

As for the alternative assumption, property taxation fails in that it offers no consideration to mortgage liabilities. Indeed, property tax has been called a "debtor's tax" for this reason. A tax on wealth logically would aim at net worth (assets less liabilities) rather than at gross value of the asset. From a practical point of view, current income still is required to pay the tax on net worth.

Property tax concessions now in effect in many states are a public policy produced by the combined factors of generally high incidence of homeownership and generally low income position among the aged population. This policy invites many searching questions concerning its effectiveness as a means of financial assistance to the aged and its consequences on other taxpayers.

From the data analyzed in Section III we note that the average amount of financial assistance (tax saving) to elderly householders is relatively minor even though it represents a sizeable portion of their average income. Since I regard low income as a more important problem than high taxes when the aged are in financial difficulty, I believe that increment in income instead of decrement in taxes should be a preferred approach. Although tax reductions result in income increment, the increase is usually rather small.

Further, tax favor to the aged means tax disfavor to the nonaged. We observe from the analysis in Section III that the regressive effect of property taxes on the aged is substantially moderated or even completely removed. This seemingly laudable result carries with it certain unfavorable consequences. Table 1 shows that the 60–64 age group (near-aged) shares with their older brethren (the aged) the high, and regressive, burden of property taxes. However, the near-aged are made relatively worse off vis-a-vis the aged after tax concessions to the latter. Moreover, what of homeowners of other ages, the nonaged?

Insofar as residential property tax is intended as a burden on wealth, the tax base logically, as mentioned earlier, should be the net value of the asset, not the gross value. On this score, preferential treatment of the aged results in further property tax inequity among homeowners. The reason is that aged homeowners are the only age group which has the highest incidence of *mortgage-free* homeownership. With the same amount of current money income, a person that owns his home free and clear is financially better off than a homeowner with outstanding mortgage. To the extent that aged homeowners have mortgage debt, on the average their liabilities are less than those on homes owned by younger persons. With preferential treatment for the aged, even a younger homeowner with the same amount of debt as an aged homeowner will be made relatively worse off, let alone those with larger mortgages.

In view of these and other problems, the fundamental solution to the tax burden on the aged should be found either in reducing tax liabilities on all homeowners or in raising the income of the aged. In addition, a basic reconstruction of the way in which residential property is taxed should also be seriously considered.

TABLE 1.—ESTIMATED AVERAGE TAX BURDEN IN CALIFORNIA, FLORIDA, AND MICHIGAN, BY HOUSEHOLD INCOME AND BY VARIOUS AGE GROUPS, 1960

Household income	Tax burden: Average tax-income ratios (percent)								
	60–64			65–74			75+		
	California	Florida	Michigan	California	Florida	Michigan	California	Florida	Michigan
Less than $1,000	36.5	28.0	22.8	34.3	25.9	20.9	32.1	23.1	18.6
$1,000 to $1,999	16.9	13.0	11.5	15.6	13.5	10.8	14.5	12.3	10.2
$2,000 to $2,999	10.7	8.5	7.1	10.1	8.5	7.1	9.8	8.5	6.9
$3,000 to $4,999	6.9	5.8	4.5	7.2	6.0	4.9	7.5	6.0	4.9
$5,000 or more	4.1	3.7	2.8	4.3	3.9	2.8	4.4	3.9	2.8

Source: Calculated from data specially tabulated for California, Florida, and Michigan by the U.S. Bureau of the Census

Note: For methodology in developing these estimates, see appendix B in "Homestead Tax Exemptions For the Aged with Special Reference to the Revenue Effects of Alternative Exemption Laws in California," Taxation of Property in California (Sacramento: California State Office of Printing, 1964), pp. 197–199.

TABLE 2.—REPORTED AVERAGE TAX BURDEN IN CALIFORNIA, MINNESOTA, OREGON, AND WISCONSIN, BY HOUSEHOLD INCOME FOR THE AGED (56 AND OVER), 1966–68

Household income	Tax burden, average tax-income ratios (percent)			
	California (1968)	Minnesota [1] (1967)	Oregon (1966)	Wisconsin (1966)
$0 to $499	[2] 32.4	49.0	[2] 33.2	[3] 58
$500 to $999		21.1		22
$1,000 to $1,499	19.8	15.3	[2] 14.1	16
$1,500 to $1,999	14.8	11.6		13
$2,000 to $2,499	12.2	8.8	[2] 9.6	11
$2,500 to $2,999	10.4	6.7		10
$3,000 to $3,499	[4] 9.8	5.3	[5] 8.6	9

[1] Minnesota also has these ratios for owners and renter combined. They are not shown here but they show similar tendency as do the ones in this column.
[2] These ratios are available only for larger income intervals, and are therefore shown with braces.
[3] Wisconsin also shows an average tax of $210 for households with zero income.
[4] This ratio covers the income bracket from $3,000 to $3,350, the income limit for exemption.
[5] This ratio suggests the tax burden for $3,000 to $4,000 interval. Oregon's law did not give concession to households with income over $2,500.

Sources: Taken or computed from data provided by various State agencies. The tax burden reported here relates to taxes as percent of income before tax concessions.

TABLE 3.—REPORTED AVERAGE TAXES (BEFORE AND AFTER CONCESSIONS), AVERAGE TAX REDUCTIONS, AND TAX BURDEN AFTER CONCESSIONS BY HOUSEHOLD INCOME CLASSES: CALIFORNIA, 1968

Household income class	Average household income	Average taxes before concessions	Average tax reduction	Average taxes after concessions	Percent of reduction in taxes	Tax burden after concessions (percent)
Less than $1,000	$743	$241	$229	$12	95	1.6
$1,000 to $1,499	1,279	253	211	42	83	3.3
$1,500 to $1,999	1,760	261	167	94	64	5.3
$2,000 to $2,499	2,247	273	121	152	44	6.8
$2,500 to $2,999	2,741	286	71	215	25	7.8
$3,000 to $3,350	3,142	308	27	281	9	8.9

Source and notation: See table 2.

TABLE 4.—REPORTED AVERAGE TAXES (BEFORE AND AFTER CONCESSIONS) AVERAGE TAX REDUCTIONS· AND TAX BURDEN AFTER CONCESSIONS BY HOUSEHOLD INCOME CLASSES· MINNESOTA 1967

Household income class	Average household income	Average taxes before concessions	Average tax reduction	Average taxes after concessions	Percent of reduction in taxes	Tax burden after concessions (percent)
$0 to $499	$347	$170	$117	$53	68.82	15.27
$500 to $999	801	169	113	56	66.86	6.99
$1,000 to $1,499	1,268	194	93	101	47.94	7.97
$1,500 to $1,999	1,756	203	79	124	38.92	7.06
$2,000 to $2,499	2,228	196	58	138	29.58	6.19
$2,500 to $2,999	2,783	187	39	148	20.86	5.32
$3,000 to $3,499	3,214	171	23	148	13.45	4.60

Source and notation: See table 2.

TABLE 5.—REPORTED AVERAGE TAXES (BEFORE AND AFTER CONCESSIONS), AVERAGE TAX REDUCTIONS, AND TAX BURDEN AFTER CONCESSIONS BY HOUSEHOLD INCOME CLASSES, OREGON 1966

Household income class	Average household income	Average taxes before concessions	Average tax reduction	Average taxes after concessions	Percent of reduction in taxes	Tax burden after concessions (percent)
$0 to $1,000	$795	$265	$133	$132	51.0	16.6
$1,000 to $1,999	1,602	226	115	111	50.8	6.9
$2,000 to $2,499	2,565	245	125	120	51.0	4.7
$2,500 to $2,999		245	0	245	0	9.6
$3,000 to $3,999	3,517	305	0	305	0	8.6

Source and notation—See table 2.

TABLE 6.—REPORTED AVERAGE TAXES (BEFORE AND AFTER CONCESSIONS): AVERAGE TAX REDUCTIONS· AND TAX BURDEN AFTER CONCESSIONS BY HOUSEHOLD INCOME CLASSES, WISCONSIN 1966

Household income class	Average household income	Average taxes before concessions	Average tax reduction	Average taxes after concessions	Percent of reduction in taxes	Tax burden after concessions (percent)
$0	$0	$210	$156	$54	75	
$1 to $499	302	174	127	47	73	16
$500 to $999	790	175	125	50	71	6
$1,000 to $1,499	1,259	199	101	98	51	8
$1,500 to $1,999	1,749	221	91	130	41	8
$2,000 to $2,499	2,232	239	73	166	31	8
$2,500 to $2,999	2,728	266	50	216	19	8
$3,000 to $3,500	3,200	284	15	269	5	8

Source and notation: See table 2.

Exhibit A (California)

. . . *A Summary of the California Senior Citizens Property Tax Assistance Law*

WHERE TO GET HELP . . .

If you need additional information, assistance or forms, telephone or call in person at any of the Franchise Tax Board offices listed below. Inquiries by correspondence should be directed to: Senior Citizens Property Tax Assistance, Post Office Box 1588, Sacramento, Calif. 95807.

32-346—70——9

A SUMMARY OF THE SENIOR CITIZENS PROPERTY TAX ASSISTANCE LAW IN CALIFORNIA

On July 29, 1967, the California State Legislature enacted a Senior Citizens Property Tax Assistance Law to provide property tax relief to certain residents of California who are 65 years of age or over. The law provides that any qualified person may apply annually for a refund of a portion of the property taxes paid on his home.

Do You Qualify? . . .

To qualify, an individual must meet each of the following requirements in the year he files:

- Must be 65 years of age or older as of January 1, and
- Must be a resident of California as of January 1, and
- Must have owned and occupied his home between July 1 and June 30 of the current fiscal year, and
- Must have paid the current property taxes assessed on the home, and
- Must have a household income not in excess of $3,350 for the previous calendar year (January 1 to December 31). See instructions on the opposite page for what constitutes household income.

If the claimant or a member of the household received cash public assistance or relief payments which contained an allowance for property taxes during the fiscal year, the claimant is not eligible for Senior Citizens Property Tax Assistance.

Who May File a Claim? . . .

Only one member of each household may file a claim. If more than one person in a household qualifies, such as both husband and wife, they must decide which one will file the claim. Only one claim may be filed for each individual home.

What to do and When . . .

If you meet all of the qualifications, you should file a Property Tax Assistance claim with the Property Tax Assistance Division between May 16 and October 15. No claims may be filed prior to May 16 or after October 15.

Claim forms will be made generally available after May 1 each year and can be obtained at any office of the Franchise Tax Board.

What Does Household Income Include? . . .

Household income includes all income received during the calendar year by all members of the household. It includes almost all cash received, such as wages, salaries, bonuses, tips, the gross amount of any pension or annuity, social security payments, disability payments, railroad retirement benefits, life insurance benefits and proceeds, interest and realized capital gains. The income of all members of the household must be included, regardless of whether they have an ownership interest in the property or contribute to the payment of the taxes. If the claimant or a member of th household received cash public assistance or relief payments which contained an allowance for proper , taxes during the fiscal year, the claimant is not eligible.

Amount of Property Tax Assistance Available

The amount of property tax assistance will be a percentage of the property taxes paid by the claimant. The percentage is determined by the amount of household income in accordance with the schedule shown on the back page. No claim for $5.00 or less will be allowed.

Property taxes paid means only those assessed on the first $5,000 of assessed value of the homestead, and currently paid. Assistance is available on the homestead and up to one acre of land surrounding the home. Property taxes DO NOT include special assessments, such as improvement bonds; interest or penalties; and charges for services such as weed burning.

You may receive Senior Citizens Property Tax Assistance even though you also claim the veteran's property tax exemption or the new homeowner's property tax exemption.

Will a Lien be Placed on my Property? . . .

Senior Citizens Property Tax Assistance does not become a lien on your property, and the law does not require this assistance to be repaid by your estate.

How to Compute Your Assistance . . .

An example of how to compute your assistance follows:

1. Total household income $1,575.00
2. Percentage of assistance available, from schedule below based upon household income 72%
3. Amount of property taxes paid $250.00
4. Amount of assistance, multiply the percent at line 2 times the amount of property taxes at line 3 .... $180.00

Property Tax Assistance Schedule

Find your household income in Column 1 and the percentage of assistance will be shown in Column 2.

Col 1	Col 2	Col 1	Col 2	Col 1	Col 2	Col 1	Col 2	Col 1	Col 2	Col 1	Col 2
1,000	95	1,400	79	1,800	63	2,200	47	2,600	31	3,000	15
1,025	94	1,425	78	1,825	62	2,225	46	2,625	30	3,025	14
1,050	93	1,450	77	1,850	61	2,250	45	2,650	29	3,050	13
1,075	92	1,475	76	1,875	60	2,275	44	2,675	28	3,075	12
1,100	91	1,500	75	1,900	59	2,300	43	2,700	27	3,100	11
1,125	90	1,525	74	1,925	58	2,325	42	2,725	26	3,125	10
1,150	89	1,550	73	1,950	57	2,350	41	2,750	25	3,150	9
1,175	88	1,575	72	1,975	56	2,375	40	2,775	24	3,175	8
1,200	87	1,600	71	2,000	55	2,400	39	2,800	23	3,200	7
1,225	86	1,625	70	2,025	54	2,425	38	2,825	22	3,225	6
1,250	85	1,650	69	2,050	53	2,450	37	2,850	21	3,250	5
1,275	84	1,675	68	2,075	52	2,475	36	2,875	20	3,275	4
1,300	83	1,700	67	2,100	51	2,500	35	2,900	19	3,300	3
1,325	82	1,725	66	2,125	50	2,525	34	2,925	18	3,325	2
1,350	81	1,750	65	2,150	49	2,550	33	2,950	17	3,350	1
1,375	80	1,775	64	2,175	48	2,575	32	2,975	16		

When Will the Refunds be Made? . . .

Refund warrants will be processed and mailed beginning July 1 of each year and most will be completed by November 30 of each year. No refunds can be made prior to July 1.

EXHIBIT B (MINNESOTA)

Instructions for schedule SC

The Senior Citizens income tax credit was enacted to provide relief to certain persons 65 years of age and over, who own or rent their ***homestead***, through a system of income tax credits and refunds, based on their ***household income***.

Who may qualify

To qualify for this homestead relief credit:

(*a*) you must have been 65 years of age or over on January 1, 1967; and
(*b*) you must have been domiciled in Minnesota for the entire calendar year year of 1967; and
(*c*) your household income must have been less than $3,500.00; and

(*d*) you must have owned the homestead you occupied during 1967; or if a renter, you must have rented the entire year and occupied the same residence for at least 6 months in 1967; and

(*e*) you must not owe any delinquent taxes on your homestead; and

(*f*) you must not have received or are going to receive: 1. Public funds for rent paid in 1967; 2. Public funds for the payment of property taxes due and payable in 1968; and

(*g*) title to the homestead must not have been received primarily for the purpose of receiving benefits.

Who may claim credit

If you meet all of the qualifications outlined above, complete Schedule SC to determine whether you are entitled to any credit.

Only one person of a household or homestead may claim the credit.

If you and one or more qualified individuals occupy a single homestead, you should agree among yourselves as to who should be the claimant, whether you own your homestead or whether you rent it.

If you cannot agree as to who should be the claimant, you should submit the facts to the Commissioner of Taxation, whose decision as to who the claimant should be will be final.

When and where to file

You must file your income taxe return (Form M-1) together with Schedule SC, not later than April 15, 1968.

The law does provide for an extension of time beyond April 15, 1968, within which to make the claim for income tax credit, but only under unusual circumstances.

If an extension of time is granted for filing the Income Tax Return (Form M-1) the same extension of time will be granted in which to file the Schedule SC, as this schedule must be filed with the individual income tax return (Form M-1) on which the credit is being claimed.

Mail your return to Minnesota Department of Taxation, Individual Section, Income Tax Division, Centennial Office Building, St. Paul, Minnesota, 55101.

Important definitions

What is meant by "Homestead?"—The term homestead means your dwelling, whether owned or rented, and so much of the land around it as is reasonably necessary for the use of the dwelling as a home, but not exceeding one acre, except that if the dwelling is a part of a larger unit covered by a single tax statement, you may use the taxes accrued for the larger unit up to 40 acres of land. It may be an apartment or a rented room, or it may be a mobile home.

When a homestead is owned by two or more persons or entities as joint tenants or tenants in common and one or more persons or entities is not a member of claimant's household, "property taxes accrued" is that part of the property taxes levied on such homestead as reflects the ownership percentage of the claimant and his household.

What is meant by "Household?"—The term "household" means only you and your spouse.

What is meant by "Household Income?"—Household income means only the income of you and your spouse, and includes all income which is ordinarily reported for Minnesota income tax purposes as well as all receipts from the sources listed under item 10 on Schedule SC.

What is meant by "Rent Paid For Occupancy Only?"—The term rent paid for occupancy only means the rent paid only for the right of occupying your homestead. If you rented furnished quarters, or if utilities were furnished, such as heat, light or telephone, then you must reduce the amount of gross rent by the reasonable rental value of the furniture and appliances and the resonable value of such utilities as were furnished.

What is meant by "Property Taxes?"—The term property tax means the tax on your real property before the reduction for the homestead property tax relief credit (exclusive of special assessments, delinquent interest and charges for services) due and payable in 1968.

What is meant by "Minnesota Gross Income?"—Minnesota gross income for individuals required to file a Federal income tax return is total Federal income with the modifications listed in the instruction sheet for Form M-1. It is the figure arrived at on Form M-1, line 5.

If claimant and spouse are required to file a Federal income tax return and elect to file separate Minnesota income tax returns, the figures on page 1, line 5 of these separate Minnesota returns should be entered on lines 8 and 9 of Schedule SC.

If no Federal return in required, lines 8 and 9 should include the following as Minnesota gross income:

All income received from salaries, wages, fees and commissions; net income or loss assignable to Minnesota from business, rents, royalties, farms, partnerships, and trust; dividends (excluding the first $100.00); interest (excluding interest received on United States obligations and from Bonds issued by the State of Minnesota or any of the State of Minnesota's subdivisions); pensions and annuities except those received from the United States government, the State of Minnesota, or any subdivision of the State of Minnesota; gains assignable to Minnesota on sales or exchanges of property (for assets held for a period of time in excess of six months such gain would only be included at 50%); losses assignable to Minnesota on the sale or exchange of property (capital losses would be limited to $1,000.00); refunds of Federal income tax received if the deduction of Federal income tax paid in the prior year resulted in a Minnesota tax benefit.

If this income is received only by the claimant, it should be entered on line 8.

MINNESOTA SENIOR CITIZENS INCOME TAX CREDIT

SCHEDULE SC for 1967

IMPORTANT INFORMATION FOR SENIOR CITIZENS

This packet contains the forms and instructions necessary to apply for the Senior Citizens' Income Tax Credit enacted by the 1967 Legislature as part of the "Tax Reform and Relief Act of 1967."

This credit is available to eligible persons over age 65, who owned or rented their places of residence in Minnesota during 1967. Read the instructions carefully under "WHO MAY QUALIFY" to see if you are eligible for this credit.

Schedule SC should be completed and filed as a part of your Minnesota Individual Income Tax Return, Form M-1, regardless of whether you would otherwise be required to file a Minnesota income tax return. This claim must be filed on or before April 15, 1968.

If you have any questions, contact the Income Tax Division of the Minnesota Department of Taxation.

Schedule SC
(to Form M-1)

STATE OF MINNESOTA-1967

Senior Citizens
Income Tax Credit Schedule

(Attach this schedule to your income tax return; Form M-1)

Do Not Write In This Space

For Departmental Use Only

PART I — ANSWER ALL QUESTIONS 1 THRU 4 AND EITHER 5 & 6, OR 7

1. Last Name (Please Print or Type) | First Name | Initial | Social Security Number
2. Date of Birth (If born after Jan. 1, 1902, you are not eligible) .... MONTH | DAY | YEAR
3. Were you a resident of Minnesota for the full year 1967? .... ☐ yes ☐ no
4. Did you receive or are you going to receive any type of public funds for rent paid in 1967 or property taxes due and payable in 1968? .... ☐ yes ☐ no
5. If you own your homestead, are there any delinquent property taxes on the homestead? .... ☐ yes ☐ no
6. If you own your homestead, have you paid or will you pay the property taxes used as the basis of this claim? .... ☐ yes ☐ no
7. If renting, did you rent the entire year and occupy the same residence quarters for at least 6 months? .... ☐ yes ☐ no

PLEASE READ THE INSTRUCTIONS IN THIS BOOKLET BEFORE COMPLETING

PART II — INCOME

Computation of Household Income — HOUSEHOLD INCOME

8. Your Minnesota Gross Income (see instructions) ....
9. Your spouse's Minnesota Gross Income (If separate Minnesota return filed) (see instructions) ....
10. All other income (include all other income received by you or your spouse from each of the sources listed below)
   a. Social Security payments of all types ....
   b. Veterans disability pensions ....
   c. Railroad retirement benefits ....
   d. Gross amount of all other pensions and annuities (Exclude amounts included in line 8 or 9 above) ....
   e. Interest received on securities of the United States, Municipalities or States not included in lines 8 or 9 ....
   f. Workmen's compensation ....
   g. Loss of time insurance ....
   h. Support money ....
   i. Cash public assistance and relief ....
   j. Net income from out-of-state business or property ....
11. Total Household income (add lines 8 thru 10)

PART III — TAXES OR RENT PAID

Property Tax Or Rent Information

(Your property tax bill (or a copy or a schedule) or proof of payment of rent must be attached to substantiate amounts on lines 12 & 13) (See instructions)

12. Amount of property tax due & payable in 1968 ....
13. Amount of rent paid in 1967 $________ X 20% ....
   (for occupancy only)
14. Amount on line 12, line 13 or $300.00, whichever is less

PART IV — CREDIT ALLOWABLE

Computation of Credit

15. Amount on line 11 ....
   If $3,500.00 or over no credit is allowed
16. Amount on line 14 ....
17. Percentage from Table (see last page of instructions) ....
18. Credit (line 16 X line 17) (Renters skip line 19 & enter this figure on line 20) ....
19. Less: Homestead property tax relief credit granted (from property tax bill) (Homeowners only) ....
20. Credit allowable (line 18 less line 19)
   (Enter this amount on page 1, line 15(c) of Form M-1) ....

Part I

Lines 1 through 7: It is necessary for you to answer all questions 1 through 4 and either 5 and 6, or 7 in this block. If you have no social security number, write "none" in the space reserved for the social security number.

Unless the information requested in this block (as well as the other information requested on the schedule and the return) is completely and accurately furnished, action on your claim will be delayed.

Part II

Lines 8 and 9: The amounts to be entered on these lines must be determined by first completing lines 1 through 5 on page 1 of your income tax return, Form M-1. (See definition of Minnesota Gross Income.)

Lines 10a through 10j: On these lines you must include, under the categories listed all amounts of such income received by you and your spouse during the year 1967.

Part III

For property taxes: If possible, enclose your property tax bill, or a copy. The tax bills submitted must remain a permanent part of your claim to substantiate the basis of your refund. If you wish to retain your original bill, please send us a copy of the original. If no copy is available, submit a schedule of total tax, local assessments, homestead property tax relief credit, and any other pertinent data on the property tax bill.

In case you have not received your real property tax bill before the due date of the claim, obtain the necessary information from your county treasurer.

For rent paid: You must attach a signed statement from your landlord, certifying the following information:

(*a*) The total rent paid for the year 1967.
(*b*) The rental value of the furnishings and appliances (if you occupied furnished quarters).
(*c*) The value of other furnished items (if such items as heat and utilities were furnished.)
(*d*) Amount of rent paid for occupancy only.
(*e*) The number of months you occupied the quarters.
(*f*) The name and address of the landlord or managing agent.
(*g*) Whether the landlord is related to you by blood or marriage.

Forms for furnishing the rent information described above will be available at the Offices of the Department of Taxation. Ask for the form "Certification of Rent Paid."

Lines 12 and 13: If your homestead is a part of a larger unit (such as a farm, or a building partly rented or used for business,) and you receive a single property tax bill covering this larger unit, you may use the total property taxes for the year as shown on this one tax bill (up to $300.00), provided that no more than 40 acres of land are included. If more than 40 acres are included, it will be necessary to exclude the taxes on the land in excess of 40 acres.

If you owned your homestead and lived in it during the entire year 1967, enter on line 12 the amount of property tax due and payable in 1968 before the homestead property tax relief credit.

If you rented your homestead during the entire year 1967 and occupied the same residence for at least six months, enter, on line 13, 20% of the annual "rent paid for occupancy only." (see definition)

If you sold your homestead during the year 1967 and rented quarters thereafter, no credit is allowable.

If you sold your homestead during the year 1967 and purchased another homestead the same year, enter on line 12 only the amount of property tax on the homestead you owned on January 2, 1968.

If you purchased your homestead during the year 1967, but rented prior to that time: Enter on line 12 the amount of property tax levied January 2, 1968, on the homestead attributable to the period when both owned and occupied by you. This can be determined by multiplying the total tax by the number of months as owned and occupied and dividing by 12.

Line 14: Enter on line 14 either the figure from line 12 or line 13, or $300.00, whichever is less. Line 14 may not exceed $300.00.

Line 15: Enter the Total Household income from line 11. If this figure is $3,500.00 or over, no further computation is necessary as no credit is allowable.

Line 16: Enter the Total from line 14. The amount cannot be more than $300.00.

Line 17: Enter the percentage from the table that appears below. Read down the first column of the table until you find the income bracket that includes your Total Household Income from line 11 or line 15. The percentage that appears opposite this income bracket is your percentage.

Line 18: Multiply the figure on line 16 by the percentage on line 17. Renters should enter this figure on line 20 and on page 1, line 15(c) of Form M–1. Renters do not use line 19.

Line 19: Homestead owners enter on this line the homestead property tax relief credit granted you as shown on your property tax bill. The amount of any Senior Citizens' Income Tax Credit must be reduced by the homestead property tax relief credit. If the property tax bill does not show the amount of this credit, obtain the figure from your county treasurer.

Line 20: Subtract line 19 from line 18 and enter the balance. Enter the resulting amount on page 1, line 15(c) of Form M–1. If line 19 is greater than line 18, enter "none."

TABLE FOR PERCENTAGE DETERMINATION TO BE USED ON LINE 17 OF SCHEDULE SC

Income total from line 11, schedule SC		Percentage to use on line 17, schedule SC
At least	But less than	Your percentage is—
0	$500	75
$500	1,000	70
1,000	1,500	50
1,500	2,000	40
2,000	2,500	30
2,500	3,000	20
3,000	3,500	10
3,500 or over		0

EXHIBIT C. (Oregon)

Application for Senior Citizen's Residence Exemption as Provided by ORS 307.350

APPLICATION MUST BE FILED ON OR BEFORE APRIL 1 OF EACH YEAR

If property is acquired after March 20 and before July 1, the claim for that year must be filed within 10 days after acquisition

Filed with the ______________ County Assessor for the ______________ Assessment Year

CODE AND ACCT. NOS. →

ENTER TAXPAYER'S NAME AND ADDRESS BELOW

TAXPAYER'S PHONE NUMBER

THIS SPACE FOR ASSESSOR'S USE ONLY

DATE RECEIVED	CLERK	APPROVED	DENIED	STC

EXEMPTION GRANTED LAST YEAR ☐	TOTAL VALUE OF PROPERTY	
TAXES ALSO DEFERRED ☐	LESS VALUE OF LAND NOT PART OF HOMESTEAD	
REMARKS	LESS VALUE OF IMPROVEMENTS NOT PART OF HOMESTEAD	
	NET VALUE OF HOMESTEAD	
	VALUE OF HOMESTEAD SUBJECT TO EXEMPTION	
	VALUE EXEMPT (____%)	

—DESCRIPTION OF PROPERTY—

☐ DEED OR ☐ CONTRACT, INST. NO.________ OR DATE RECORDED________ VOLUME________ PAGE________

LOT________ BLOCK________ ADDITION________ CITY________

SECTION________ TWP________ RANGE________ ACRES________

A. I hereby claim a tax exemption on my personal residence (homestead) as provided by ORS 307.350. I am (1) ☐ the owner of record or, (2) ☐ purchasing under a recorded instrument or sale or, (3) ☐ the owner of a life estate interest, and am actually residing on the above described real property, said property being my homestead.

B. I will be ________ years old on March 1 of this year (born: ________ Month | ____ Day | ____ Year) and submit a copy of the following as proof of my date of birth:

☐ Birth Certificate ☐ Other ________ Explain

☐ Baptismal Certificate

☐ Hospital Birth Record ☐ Proof filed with prior year's application

PROOF OF AGE ACCEPTED OR VERIFIED BY:
ASSESSOR________ DEPUTY________

C. The following is a complete listing of all of the inhabitants of this home during the last calendar year:

FULL NAME OF HOUSEHOLD MEMBER (Last Name First)	Social Security Number	Are You Filing an Oregon Income Tax Return This Year?	Relationship to Taxpayer, If Any	
(a)			Taxpayer (Applicant)	(a)
(b)			Taxpayer's Spouse	(b)
(c)				(c)
(d)				(d)
(e)				(e)

D. The following is a true and complete statement of the household income during the last calendar year:

SOURCE OF INCOME (Lines 1 through 13 are calculated the same as if completing an Ore. Inc. Tax Return)	HOUSEHOLD MEMBERS' INCOME: TAXPAYER (a)	SPOUSE (b)	MEMBER (c)	MEMBER (d)	MEMBER (e)
1. Total salaries and wages	$	$	$	$	$
2. U. S. Income Tax Refunds received last year					
3. Interest and Dividends					
4. Pensions and Annuities (taxable portion from Col. 5 of schedule below)					
5. Rents and Royalty Income					
6. Partnerships, Estates, Trusts and Miscellaneous Income*					
7. Business Income					
8. Gains from Sales or Exchanges					
9. Farm Income					
10. TOTAL INCOME					
11. Less: U. S. Income Tax withheld and/or paid last year					
12. Less: Other adjusted gross income items deductible on an Oregon return					
13. TOTAL ADJUSTED GROSS INCOME					
14. Plus: Exempt Pension Income (from Col. 5 of schedule below)					
15. Plus: Total amounts received from Social Security					
16. Plus: Monthly Medicare Premium withheld from Social Security check					
17. Plus: Total amounts received from Public Welfare					
18. Plus: Non-Taxable Interest (U. S., Oregon and Territorial Bonds)					
19. Plus: Gifts or Income in kind exceeding $300					
20. TOTAL INCOME of each household member	$	$	$	$	$
21. TOTAL HOUSEHOLD INCOME	$	*Enter name of Trust or Partnership here			

PENSION AND ANNUITY INCOME SCHEDULE (Complete if Necessary)	1 Pension or Annuity Cost	2 Total Amount of Pension or Annuity Received Prior To Last Year	3 Cost Left to Recover, if any: Col. 1 Minus Col. 2 (If none, enter 0)	4 Amount of Pension or Annuity Received Last Year	5 Amount Col. 4 is over Col. 3 (Transfer to line 4 or 14 above)
(Payor)					
(Payor)					
(Payor)					

ALL APPLICATIONS ARE SUBJECT TO REVIEW BY OREGON STATE TAX COMMISSION.

E. I will NOT receive a veteran's exemption under ORS 307.250 or 307.300 during this calendar year.

DECLARATION

I declare under the penalties for false swearing as contained in ORS 305.990(5) that this document has been examined by me and to the best of my knowledge is a true correct and complete statement.

Taxpayer's Signature: X________________ Date________________, 19____

FORM APPROVED BY OREGON STATE TAX COMMISSION (REV. 8-66)
SENIOR CITIZENS RESIDENCE EXEMPTION
STATIONERY & PRINTING CO. PORTLAND, ORE.

ASSESSOR'S COPY

EXHIBIT D.—TAX RELIEF FOR RENTERS AND HOMEOWNERS (65 AND OVER)

The New Homestead Relief Act

STATE COMMISSION ON AGING, MADISON, WIS.

You may receive this relief if—

your were 65 or older as of January 1, 1966;

your income was under $3,500 in 1966;

you live in Wisconsin all of 1966;

you do not receive County Old Age Assistance, Aid to the Blind, Aid to the Totally and Permanently Disabled at the time of filing;

you paid rent or owned a home in 1966;

you file for the refund between January 1, 1967 and April 15, 1967;

you file a copy of U.S. tax form 1040, Wisconsin tax form 1 and its schedule H. If you have no taxable income you need not file the federal form.

You do NOT have to pay income tax to be eligible.

What is Your "Income" Under this Act?

Only the income of yourself and your spouse living with you.

Income which is ordinarily reported for Wisconsin income tax purposes, PLUS receipts from social security, disability payments, retirement benefits, income from out-of-state business or property, workmen's compensation, loss-of-time insurance, cash public assistance, support money, interest on savings bonds, but not relief granted under this act.

Renters

You are a "renter" if you pay to live in an apartment, room, nursing home, hospital, mobile home, etc.

Use 25% of the rent paid in 1966 for occupancy only as the amount of your "property tax." This amount is not to exceed $300.

With your application, send a statement of rent paid, signed by your landlord.

If you rented furnished quarters, or if utilities (phone, light, heat) were furnished, reduce the amount of your yearly rent by the reasonable rental value of the furniture and/or utilities.

Your rent should not be raised as a result of filing for homestead relief.

Homeowners

Property taxes are those taxes which were assessed against your home in December of the tax year. This does not include special assessments, delinquent tax payments or the amount credited under the state property tax relief fund.

If your home is part of a larger unit (farm, building used for business etc.), and you receive a single property tax bill covering this larger unit, you may use the total property taxes for 1966 as shown on this bill (up to $300) provided no more than 40 acres are included. If more than 40 acres are included, do not use taxes on land in excess of 40 acres.

No lien or claim will be filed against your home for any legally-obtained tax relief you may receive under this act.

You may file without having paid the full amount of the taxes!

Changes have been made in the Act since last year

The new tax form is greatly simplified

An easy-to-read tax table comes with the forms

The Tax Department will compute your refund amount for you if you prefer not to do it yourself.

APPENDIX 2

LETTERS AND STATEMENTS FROM INDIVIDUALS AND ORGANIZATIONS

STATE OF INDIANA
COMMISSION ON THE AGING AND AGED,
Indianapolis, Ind., July 2, 1969

MY DEAR SENATOR MOSS: I am pleased to know that you are holding hearings on subjects related to home ownership of the elderly soon. I would like to describe what I think is a completely unfair situation in Indiana and probably in other states as well. We have in Indiana an act which makes available to any individual over 65 years of age whose property has a value not in excess of $5,000 and whose income is not in excess of $3,000 a tax exemption of $1,000 on the value of his property. But when urban renewal people force an individual out of his property he obviously has to move and he doesn't get this $1,000 exemption on the property which he acquires until he has lived in it for a year.

The individual did not elect to move, he was forced to make the move. I have not been able to find any evidence that he was paid an amount that includes an amount equal to this $1,000 exemption. Many times he finds it impossible to buy a piece of property equal in value to him as to the property he had to vacate. I know this is not a problem but I think older people are being victimized when urban renewal agencies force them out of their homes, and the state does nothing to give them their tax exemption in their new home which they had on their old one until the individual has lived in the house for a year.

I hope this will be given attention in the hearings which you are planning on holding and if nothing can be done on the state level, I hope something can be done on the federal level covering this particular situation.

Cordially yours,

DR. GEORGE E. DAVIS,
Executive Director.

LOUISIANA STATE UNIVERSITY IN NEW ORLEANS,
INTERNATIONAL MARKETING INSTITUTE,
New Orleans, La., July 30, 1969.

DEAR SENATOR WILLIAMS: Attached is a brief report of some of the findings from the 1960–61 Survey of Consumer expenditures relevant to home ownership rates for one and two person elderly units and spending for shelter and utilities.

I hope that this information will be of some interest to your committee.

Sincerely,

JOHN A. REINECKE,
Professor of Marketing.

SOME FACTS ABOUT HOMEOWNERSHIP AND COSTS OF SHELTER AMONG OLDER PERSONS AND 2-PERSON HOUSEHOLDS HEADED BY OLDER PERSONS (1960–61)

The attached tables indicate something about mean homeownership rates and expenditures for shelter and utilities by males living alone, females living and two-person families headed by persons in three age groups: 55–64 years; 65–74 years and 75 years or more. These data should be interpreted with an appreciation of the fact that all elderly persons living in households with more than one other member are excluded as are those living with one person under 55 years of age who is reported as head of the household in question. Compare, for example the information reported in the Social Security Administration Research Report 19, "The Aged Population of the United States: the 1963 Survey of the Aged," pages 166–8 and 174–5.

The BLS data shown in Exhibit 1 below indicate that of males living alone, about two-fifths of those 65 or older own their own home and one-third of those 55–64 were homeowners. Among females living alone roughly half owned their own homes at all three age levels. Among two person units seven in ten were homeowners, with no appreciable variation among the age groups. The 1963 Social Security Study (p. 167) indicates somewhat lower rates for non-married men living without relatives than shown in Exhibit 1. Both sources, however suggest that a greater incidence of home-ownership accompanies increasing age. For non-married women with no relatives present the SSA study also yields somewhat lower rates than BLS except in the age group under 65. Among couples the relationships is reversed. The 1963 study indicates slightly higher rates of homeownership in those found in BLS data and somewhat lower rates of homeownerships among the oldest couples than among those under 73 years of age.

According to the same Social Security Report, homeownership rates are slightly lower where relatives live with elderly couples and significantly lower (after age 65) where relatives live with non-married women. Among non-married men, the effect of residing with relatives upon homeownership is not clear. There is strong interaction with age. Under age 72, non-married men living with relatives are more likely to own their own homes than those living alone. For men 73 or older the opposite is true.

Returning to Exhibit 1, it is clear that the incidence of homeownership is not related to income level. The only exception is that the two person units with income below $2000 per annum and headed by persons under 75 years of age are shown to have lower homeownership rates than their counterparts with greater incomes. Inference regarding males is difficult because of small sample size.

EXHIBIT 1.—HOMEOWNERSHIP RATES, 1960–61

[In percent]

	Age of head		
	55 to 64 years	65 to 74 years	75 years or more
Male individuals:			
All	33.0	39.0	45.0
Income below $1,000	[1] .5	[1] 29.8	[1] 43.6
$1,000 to $1,999	[1] 22.6	[1] 42.1	[1] 74.9
$2,000 to $2,999	30.4	40.9	[1] 43.8
$3,000 or more	43.1	42.0	[1] 38.0
Female individuals:			
All	47.0	55.0	48.0
Income below $1,000	41.4	53.3	50.3
$1,000 to $1,999	50.0	53.1	43.9
$2,000 to $2,999	45.0	60.0	93.6
$3,000 or more	46.3	57.9	43.0
2-person families:			
All	70.0	69.0	71.0
Income below $1,000	[1] 65.7	[1] 47.4	[1] 82.1
$1,000 to $1,999	[1] 54.8	58.3	61.7
$2,000 to $2,999	62.0	70.0	[1] 74.31
$3,000 to $3,999	54.4	77.8	54.2
$4,000 to $4,999	75.8	68.8	77.7
$5,000 to $7,499	74.2	70.5	70.5
$7,500 or more	79.8	71.3	83.2

[1] Sample cells are too small for reliable influence.

Source: BLS 1960–61 survey of consumer expenditures.

Exhibit 2 gives some indication of the costs of shelter and utilities among elderly one and two person families in 1960–61. A full appreciation of this exhibit requires the understanding that this expense includes only rent and utilities (and repairs, if any) for renters and insurance, interest, and repairs for owners. Reduction in principal of mortgage is excluded. One of the outstanding features of this exhibit is the fact that shelter-utility expenditure by owners declines more sharply in old age than such expenditure on the part of non-homeowners. This is true for all three unit types. Also, the decrease in such spending occurs earlier in life for owners.

Another important phenomenon is that of the low income elasticity of such expenditures, particularly in the lower income ranges. This is especially true among single females. It is clear that elderly women must allocate a huge proportion of their income to this basic need. This is especially true of those over 65 with an income level of less than $2000 (a majority of women over 65 in 1960–61).

Shelter expenditures reported here are slightly below those reported by SSA in 1963 with respect to renters (see p. 411 of SSA study). This might be largely attributable to price increases in the time interval and to minor definitional discrepancies. There is a much larger discrepancy in the case of homeowners because SSA apparently includes reduction of mortgage principal. An examination of my Exhibit 4 allows a rough comparison of housing expenditures by homeowners as reported in the two sources. BLS data suggest somewhat lower housing expenditure by single males and couples than does the SSA report, but these data (the sum of my Exhibits 2 and 4) indicate significantly higher housing expenditure levels for single females than those found in the 1963 study by SSA (p. 411).

An appreciation of the way in which housing dominates the spending, or, more explicitly, the resource-allocation of the elderly poor, especially that of women over 65 years of age cannot be complete without an examination of the extent to which the assets of such persons are tied up in housing. Exhibit 3, derived from home value and mortgage balance data, shows what a large part of the resources (in addition to out-of-pocket housing costs) of the elderly are "locked into" the area of housing. In many cases this represents a grossly un-economic allocation of scarce resources. It makes sense to say that the owned home (often the only large asset) of an older person represents a kind of imputed income, although it has strictly limited use. At the same time homeownership by older persons represents a kind of fixed and often unnecessary expenditure. Such ownership often has far-reaching effects upon the life-style of the aged owner. It influences other expenditures, too, and renders the aged person less mobile.

Time does not permit greater elaboration of this aspect of the spending pattern of older people. I will be pleased to answer any further questions which might be of help to the Committee.

EXHIBIT 2.—MEAN EXPENDITURES FOR SHELTER AND UTILITIES BY INDIVIDUALS (MALE AND FEMALE) AND 2-PERSON FAMILIES BY INCOME CLASS, AGE OF HEAD, AND HOMEOWNERSHIP STATUS

Family type and income	Age of head, 55 to 64		Age of head, 65 to 74		Age of head, 75 and over	
	Owner	Nonowner	Owner	Nonowner	Owner	Nonowner
Single males:						
Below $1,000	[1] $492	[1] $253	[1] $158	[1] $311	$223	$297
$1,000 to $1,999	[1] 425	418	328	473	341	503
$2,000 to $2,999	[1] 453	394	[1] 514	[1] 562	[1] 344	[1] 413
$3,000 or more	[1] 744	[1] 741	449	764	[1] 697	[1] 1,219
All incomes	649	537	367	516	371	571
Single females:						
Below $1,000	344	368	[1] 347	340	348	[1] 427
$1,000 to $1,999	538	524	469	587	475	604
$2,000 to $2,999	593	682	633	690	527	670
$3,000 or more	724	932	703	1,238	[1] 951	1,000
All income	587	672	528	671	466	581
2-person families:						
Below $1,000	[1] 293	[1] 213	[1] 311	[1] 269	[1] 344	[1] 575
$1,000 to $1,999	[1] 412	528	383	530	416	464
$2,000 to $2,999	567	632	582	776	535	774
$3,000 to $3,999	621	802	652	868	614	[1] 839
$4,000 to $4,999	656	823	767	942	744	[1] 614
$5,000 to $7,499	866	944	794	1,075	852	[1] 1,089
$7,500 or more	1,120	1,343	1,316	1,242	[1] 1,132	[1] 2,598
All income	785	851	684	820	553	678

[1] Estimates have a relative error of 15 percent or more.

EXHIBIT 3.—MEAN IMPUTED INCOME FROM HOME, 1960–61 HOMEOWNERS

	Age of head		
	55 to 64 years	65 to 74 years	75 years or more
Male individuals:			
All	$331	$323	$409
Income below $1,000	[1] 361	[1] 162	[1] 285
$1,000 to $1,999	[1] 151	[1] 228	[1] 268
$2,000 to $2,999	427	398	[1] 1,341
$3,000 or more	342	514	[1] 530
Female individuals:			
All	$357	$398	$436
Income below $1,000	282	231	374
$1,000 to $1,999	302	370	371
$2,000 to $2,999	327	433	616
$3,000 or more	461	567	832
2-person families:			
All	460	466	410
Income below $1,000	[1] 207	[1] 244	[1] 244
$1,000 to $1,999	[1] 278	248	278
$2,000 to $2,999	372	323	406
$3,000 to $3,999	331	425	513
$4,000 to $4,999	417	488	505
$5,000 to $7,499	456	588	500
$7,500 or more	689	977	1,129

[1] Estimates have a relative error of 15 percent or more.

EXHIBIT 4.—MEAN REDUCTION OF MORTGAGE 1960–61 HOMEOWNERS

	Age of head		
	55 to 64 years	65 to 74 years	75 years or more
Male individuals:			
All	$105	$130	
Income below $1,000			
$1,000 to $1,999	87	23	
$2,000 to $2,999	186	19	
$3,000 or more	88	373	
Female individuals:			
All	81	53	96
Income below $1,000	5	2	
$1,000 to $1,999	46	25	71
$2,000 to $2,999	105	155	255
$3,000 or more	129	46	10
2-person families:			
All	196	89	31
Income below $1,000			
$1,000 to $1,999	108	48	22
$2,000 to $2,999	70	48	32
$3,000 to $3,999	159	159	39
$4,000 to $4.999	133	49	13
$5,000 to $,7499	264	115	17
$7,500 or more	254	102	126

Source: BLS Survey of Consumer Expenditures 1960–61.